

INTERPUBLIC GROUP OF COMPANIES, INC.  
Form 10-Q  
October 26, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2012

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 13-1024020  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

1114 Avenue of the Americas, New York, New York 10036  
(Address of principal executive offices) (Zip Code)  
(212) 704-1200

(Registrant's telephone number, including area code)  
(Former name, former address and former fiscal year, if changed since last report)

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

Yes  No

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

Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

The number of shares of the registrant's common stock outstanding as of October 15, 2012 was 431,388,142.

## INDEX

Page No.

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (Unaudited)</u>	
	<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2012 and 2011</u>	<u>2</u>
	<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011</u>	<u>3</u>
	<u>Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011</u>	<u>4</u>
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011</u>	<u>5</u>
	<u>Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2012 and 2011</u>	<u>6</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>33</u>
Item 4.	<u>Controls and Procedures</u>	<u>33</u>

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>34</u>
Item 1A.	<u>Risk Factors</u>	<u>34</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>34</u>
Item 6.	<u>Exhibits</u>	<u>35</u>
	<u>SIGNATURES</u>	<u>36</u>
	<u>INDEX TO EXHIBITS</u>	<u>37</u>

## 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 intended to identify 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.

1

---

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,		Nine months ended September 30,	
	2012	2011	2012	2011
REVENUE	\$1,670.4	\$1,726.5	\$4,892.9	\$4,942.0
OPERATING EXPENSES:				
Salaries and related expenses	1,064.3	1,088.0	3,258.1	3,263.8
Office and general expenses	474.7	465.3	1,366.4	1,376.3
Total operating expenses	1,539.0	1,553.3	4,624.5	4,640.1
OPERATING INCOME	131.4	173.2	268.4	301.9
EXPENSES AND OTHER INCOME:				
Interest expense	(31.6 )	(32.9 )	(96.9 )	(97.9 )
Interest income	6.7	9.7	21.4	27.7
Other income, net	1.7	137.1	5.1	136.3
Total (expenses) and other income	(23.2 )	113.9	(70.4 )	66.1
Income before income taxes	108.2	287.1	198.0	368.0
Provision for income taxes	41.9	70.4	72.8	96.5
Income of consolidated companies	66.3	216.7	125.2	271.5
Equity in net income of unconsolidated affiliates	1.4	0.8	2.3	1.7
NET INCOME	67.7	217.5	127.5	273.2
Net loss (income) attributable to noncontrolling interests	3.9	(6.5 )	3.0	(2.8 )
NET INCOME ATTRIBUTABLE TO IPG	71.6	211.0	130.5	270.4
Dividends on preferred stock	(2.9 )	(2.9 )	(8.7 )	(8.7 )
NET INCOME AVAILABLE TO IPG COMMON STOCKHOLDERS	\$68.7	\$208.1	\$121.8	\$261.7
Earnings per share available to IPG common stockholders:				
Basic	\$0.16	\$0.45	\$0.28	\$0.56
Diluted	\$0.15	\$0.40	\$0.27	\$0.50
Weighted-average number of common shares outstanding:				
Basic	431.3	464.7	435.5	471.3
Diluted	456.1	537.6	469.7	527.8
Dividends declared per common share	\$0.06	\$0.06	\$0.18	\$0.18

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

Table of ContentsTHE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Millions)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
NET INCOME	\$67.7	\$217.5	\$127.5	\$273.2
<b>OTHER COMPREHENSIVE INCOME</b>				
Foreign currency translation adjustments	37.3	(137.8 )	16.1	(71.8 )
Available-for-sale securities:				
Changes in market value of available-for-sale securities	(40.8 )	(0.6 )	94.7	0.1
Less: recognition of previously unrealized losses included in net income	0.0	0.1	0.6	0.3
Income tax effect	15.8	0.0	(34.8 )	(0.1 )
	(25.0 )	(0.5 )	60.5	0.3
Derivative instruments:				
Changes in fair value of derivative instruments	(3.6 )	0.0	(22.2 )	0.0
Income tax effect	1.5	0.0	9.2	0.0
	(2.1 )	0.0	(13.0 )	0.0
Defined benefit pension and other postretirement plans:				
Net actuarial gains for the period	0.0	0.0	1.0	3.7
Less: amortization of unrecognized losses, transition obligation and prior service cost included in net income	2.0	1.9	5.7	5.7
Other	(0.3 )	(0.1 )	(0.4 )	(0.2 )
Income tax effect	(0.6 )	(0.6 )	(2.3 )	(2.0 )
	1.1	1.2	4.0	7.2
Other comprehensive income (loss), net of tax	11.3	(137.1 )	67.6	(64.3 )
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>79.0</b>	<b>80.4</b>	<b>195.1</b>	<b>208.9</b>
Less: comprehensive (loss) income attributable to noncontrolling interest	(3.3 )	4.4	(3.5 )	1.1
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO IPG</b>	<b>\$82.3</b>	<b>\$76.0</b>	<b>\$198.6</b>	<b>\$207.8</b>

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



Table of ContentsTHE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Amounts in Millions)

(Unaudited)

	September 30, 2012	December 31, 2011
<b>ASSETS:</b>		
Cash and cash equivalents	\$1,187.3	\$2,302.7
Marketable securities	14.3	12.9
Restricted marketable securities (see Note 6)	94.7	0.0
Accounts receivable, net of allowance of \$59.4 and \$55.4	3,839.9	4,425.4
Expenditures billable to clients	1,513.6	1,247.2
Other current assets	324.7	298.6
Total current assets	6,974.5	8,286.8
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$1,139.4 and \$1,126.3	466.7	459.8
Deferred income taxes	182.7	214.5
Goodwill	3,574.3	3,444.3
Other non-current assets	530.5	471.2
<b>TOTAL ASSETS</b>	<b>\$11,728.7</b>	<b>\$12,876.6</b>
<b>LIABILITIES:</b>		
Accounts payable	\$5,846.8	\$6,647.2
Accrued liabilities	650.0	827.1
Short-term borrowings	200.5	153.5
Current portion of long-term debt	217.1	404.8
Total current liabilities	6,914.4	8,032.6
Long-term debt	1,263.1	1,210.9
Deferred compensation	430.5	440.3
Other non-current liabilities	473.9	452.1
<b>TOTAL LIABILITIES</b>	<b>9,081.9</b>	<b>10,135.9</b>
Redeemable noncontrolling interests (see Note 5)	220.3	243.4
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock	221.5	221.5
Common stock	48.8	48.2
Additional paid-in capital	2,448.5	2,427.5
Retained earnings	450.9	405.1
Accumulated other comprehensive loss, net of tax	(157.6	) (225.7
	3,012.1	2,876.6
Less: Treasury stock	(616.3	) (414.9
Total IPG stockholders' equity	2,395.8	2,461.7
Noncontrolling interests	30.7	35.6
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>2,426.5</b>	<b>2,497.3</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$11,728.7</b>	<b>\$12,876.6</b>

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





Table of ContentsTHE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

(Unaudited)

	Nine months ended September 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$127.5	\$273.2
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets and intangible assets	108.8	109.5
Provision for uncollectible receivables	11.8	7.7
Amortization of restricted stock and other non-cash compensation	37.7	42.1
Net amortization of bond discounts (premiums) and deferred financing costs	0.3	(6.3)
Deferred income tax (benefit) provision	(31.5)	) 24.7
Gain on sale of an investment	0.0	(132.2)
Other	10.0	15.9
Changes in assets and liabilities, net of acquisitions and dispositions, providing (using) cash:		
Accounts receivable	610.2	565.8
Expenditures billable to clients	(268.4)	) (315.2)
Other current assets	(17.8)	) (36.9)
Accounts payable	(852.7)	) (817.4)
Accrued liabilities	(172.0)	) (99.2)
Other non-current assets and liabilities	(9.2)	) (75.6)
Net cash used in operating activities	(445.3)	) (443.9)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions, including deferred payments, net of cash acquired	(140.6)	) (50.3)
Capital expenditures	(99.3)	) (83.3)
Proceeds from the sale of an investment	0.0	133.5
Other investing activities	10.6	9.2
Net cash (used in) provided by investing activities	(229.3)	) 9.1
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Purchase of long-term debt	(401.0)	) (38.3)
Proceeds from issuance of 4.00% Senior Notes due 2022	246.8	0.0
Repurchase of common stock	(201.4)	) (269.0)
Common stock dividends	(78.1)	) (84.4)
Net increase in short-term bank borrowings	45.5	48.0
Acquisition related payments	(36.1)	) (70.4)
Distributions to noncontrolling interests	(12.2)	) (17.4)
Preferred stock dividends	(8.7)	) (8.7)
Exercise of stock options	8.5	11.9
Other financing activities	(3.0)	) 5.6
Net cash used in financing activities	(439.7)	) (422.7)
Effect of foreign exchange rate changes on cash and cash equivalents	(1.1)	) (33.2)
Net decrease in cash and cash equivalents	(1,115.4)	) (890.7)
Cash and cash equivalents at beginning of period	2,302.7	2,675.7
Cash and cash equivalents at end of period	\$1,187.3	\$1,785.0

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



Table of ContentsTHE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in Millions)

(Unaudited)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Treasury Stock	Total IPG Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance at December 31, 2011	\$ 221.5	491.4	\$ 48.2	\$ 2,427.5	\$ 405.1	\$ (225.7 )	\$ (414.9)	\$ 2,461.7	\$ 35.6	\$ 2,497.3
Net income					130.5			130.5	(3.0 )	127.5
Other comprehensive income						68.1		68.1	(0.5 )	67.6
Reclassifications related to redeemable noncontrolling interests				12.0				12.0	8.3	20.3
Noncontrolling interest transactions									(1.3 )	(1.3 )
Distributions to noncontrolling interests									(12.2 )	(12.2 )
Change in redemption value of redeemable noncontrolling interests					3.1			3.1		3.1
Repurchase of common stock							(201.4 )	(201.4 )		(201.4 )
Common stock dividends					(78.1 )			(78.1 )		(78.1 )
Preferred stock dividends					(8.7 )			(8.7 )		(8.7 )
Stock-based compensation		1.8	0.7	25.8				26.5		26.5
Exercise of stock options		0.9	0.1	8.5				8.6		8.6
Shares withheld for taxes		(2.1 )	(0.2 )	(23.3 )				(23.5 )		(23.5 )
Other				(2.0 )	(1.0 )			(3.0 )	3.8	0.8
Balance at September 30, 2012	\$ 221.5	492.0	\$ 48.8	\$ 2,448.5	\$ 450.9	\$ (157.6 )	\$ (616.3)	\$ 2,395.8	\$ 30.7	\$ 2,426.5

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

6

---

Table of ContentsTHE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY – (CONTINUED)

(Amounts in Millions)

(Unaudited)

	Preferred Stock	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss, Net of Tax	Treasury Stock	Total IPG Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance at December 31, 2010	\$221.5	489.5	\$47.5	\$2,456.8	\$ (63.7 )	\$ (119.0 )	\$ (14.1 )	\$2,529.0	\$ 37.9	\$2,566.9
Net income					270.4			270.4	2.8	273.2
Other comprehensive loss						(62.6 )		(62.6 )	(1.7 )	(64.3 )
Reclassifications related to redeemable noncontrolling interests									15.8	15.8
Noncontrolling interest transactions				0.2				0.2	(2.9 )	(2.7 )
Distributions to noncontrolling interests									(17.4 )	(17.4 )
Change in redemption value of redeemable noncontrolling interests				(20.7 )				(20.7 )		(20.7 )
Repurchase of common stock							(269.0 )	(269.0 )		(269.0 )
Common stock dividends				(56.8 )	(27.6 )			(84.4 )		(84.4 )
Preferred stock dividends				(5.8 )	(2.9 )			(8.7 )		(8.7 )
Stock-based compensation		2.9	0.8	37.9				38.7		38.7
Exercise of stock options		1.3	0.1	11.9				12.0		12.0
Shares withheld for taxes		(2.3 )	(0.2 )	(26.2 )				(26.4 )		(26.4 )
Other				0.1				0.1	0.4	0.5
Balance at September 30, 2011	\$221.5	491.4	\$48.2	\$2,397.4	\$ 176.2	\$ (181.6 )	\$ (283.1 )	\$2,378.6	\$ 34.9	\$2,413.5

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

7

---

Table of Contents

Notes to Consolidated Financial Statements  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

## Note 1: Basis of Presentation

The unaudited Consolidated Financial Statements have been prepared by The Interpublic Group of Companies, Inc. and its subsidiaries (the “Company,” “IPG,” “we,” “us” or “our”) in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for reporting interim financial information on Form 10-Q. Accordingly, they do not include certain information and disclosures required for complete financial statements. The preparation of financial statements in conformity with U.S. GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported and disclosed. Actual results could differ from these estimates and assumptions. The consolidated results for interim periods are not necessarily indicative of results for the full year and should be read in conjunction with our 2011 Annual Report on Form 10-K.

In the opinion of management, these unaudited Consolidated Financial Statements include all adjustments of a normal and recurring nature necessary for a fair statement of the information for each period contained therein. Certain reclassifications have been made to prior-period financial statements 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 listed below.

	Effective Interest Rate	September 30, 2012	December 31, 2011	Fair Value <sup>1</sup>	Fair Value <sup>1</sup>
		Book Value	Book Value	Fair Value <sup>1</sup>	Fair Value <sup>1</sup>
6.25% Senior Unsecured Notes due 2014 (less unamortized discount of \$0.2)	6.29%	\$353.1	\$379.8	\$354.3	\$374.5
10.00% Senior Unsecured Notes due 2017 (less unamortized discount of \$8.4)	10.38%	591.6	672.0	590.6	690.0
4.00% Senior Notes due 2022 (less unamortized discount of \$3.0)	4.13%	247.0	261.0	0.0	0.0
4.75% Convertible Senior Notes due 2023 (plus unamortized premium of \$1.0)	3.50%	201.0	220.7	202.7	220.5
4.25% Convertible Senior Notes due 2023		0.0	0.0	403.0	405.5
Other notes payable and capitalized leases		87.5	84.0	65.1	
Total long-term debt		1,480.2		1,615.7	
Less: current portion <sup>2</sup>		217.1		404.8	
Long-term debt, excluding current portion		\$1,263.1		\$1,210.9	

<sup>1</sup> See Note 11 for information on the fair value measurement of our long-term debt.

On March 15, 2013, holders of our 4.75% Convertible Senior Notes due 2023 (the “4.75% Notes”) may require us to repurchase their notes for cash at par, and accordingly, we included these notes in the current portion of long-term debt on our September 30, 2012 unaudited Consolidated Balance Sheet. The 4.75% Notes are also redeemable in whole or in part at our option beginning March 15, 2013. Any 4.75% Notes neither repurchased on March 15, 2013 nor called for redemption by us will be reclassified to long-term debt. We included our 4.25% Convertible Senior Notes due 2023 (the “4.25% Notes”) in the current portion of long-term debt on our December 31, 2011 Consolidated Balance Sheet because holders of the 4.25% Notes had a repurchase option on March 15, 2012 for cash at par. The 4.25% Notes were retired in the first quarter of 2012.

Debt Transactions

4.00% Senior Notes due 2022

In March 2012, we issued \$250.0 in aggregate principal amount of 4.00% Senior Notes due 2022 (the "4.00% Notes") at a discount to par. As a result, the 4.00% Notes were reflected on our unaudited Consolidated Balance Sheet at a fair value of \$246.8 at issuance. The discount of \$3.2 is amortized through the maturity date of March 15, 2022. Interest is payable semi-annually in arrears on March 15<sup>th</sup> and September 15<sup>th</sup> of each year, commencing on September 15, 2012. Capitalized direct fees, including commissions and offering expenses, of \$2.5 related to the issuance of the 4.00% Notes are amortized in interest expense through the maturity date. Consistent with our other debt securities, the 4.00% Notes include covenants that, among other things, limit our liens and the liens of certain of our consolidated subsidiaries, but do not require us to maintain any financial ratios or specified levels of net worth or liquidity. We applied the proceeds towards the repurchase and redemption of our 4.25% Notes as described below.



Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

At any time, at our option, we may redeem all or some of the 4.00% Notes at the greater of the principal amount and a "make-whole" amount, plus, in either case, accrued and unpaid interest to the date of redemption. If we experience a change of control event, we must offer to repurchase the 4.00% Notes in cash at a price equal to not less than 101% of the aggregate principal amount of the 4.00% Notes, plus accrued and unpaid interest to the date of repurchase.

4.25% Convertible Senior Notes due 2023

In March 2012, we retired \$400.0 in aggregate principal amount of our 4.25% Notes through redemption, repurchases and conversions into Interpublic common stock. Of the amount retired, \$399.6 in aggregate principal amount was redeemed or repurchased for cash at par plus accrued interest of \$0.5. The remaining \$0.4 in aggregate principal amount of our 4.25% Notes was converted, at the election of the 4.25% Note holders, into Interpublic common stock at a conversion rate of 82.4612 shares (actual number) per \$1,000 (actual number) principal amount of the 4.25% Notes, or approximately 30,000 shares (actual number). The retirement of our 4.25% Notes eliminates approximately 33.0 shares of common stock from our eligible diluted share count annually.

Convertible Senior Notes

The conversion rate of our 4.75% Notes is subject to adjustment in specified circumstances, including any payment of cash dividends on our common stock. During the second quarter of 2012, the conversion rate for our 4.75% Notes was adjusted from 82.4612 (actual number) to 83.3669 (actual number) as a result of the cumulative effect of the cash dividends declared and paid on our common stock during the first half of 2012, resulting in a corresponding adjustment of the conversion price from \$12.13 to \$12.00. There was no adjustment required to the conversion rate in the third quarter of 2012.

Capped Call

In November 2010, we purchased capped call options to hedge the risk of price appreciation on the shares of our common stock into which our 4.75% Notes are convertible. During the second quarter of 2012, the strike price and cap price related to the capped call options were adjusted due to the payment of cash dividends on our common stock. There was no adjustment required to the strike price and cap price in the third quarter of 2012. As of September 30, 2012, the options give us the right to purchase up to 16.7 shares of our common stock at a strike price of \$12.00 per share (previously \$12.13), except that the economic benefit to us of exercising the options will not exceed the difference between the strike price and the adjusted cap price of \$17.64 per share (previously \$17.83).

Interest Rate Swaps

We enter into interest rate swaps to manage our exposure to changes in interest rates. During the first nine months of 2012, we entered into forward-starting interest rate swap agreements with an aggregate notional amount of \$300.0 to effectively lock in the benchmark rate for a forecasted issuance of debt to occur prior to December 31, 2013. These swaps qualify for hedge accounting as cash flow hedges, and, as such, the effective portion of gains or losses on the swaps are recorded in other comprehensive income and recognized in earnings over the life of the related debt issuance or when the hedged transaction is determined to be ineffective.

The following table presents the fair value of our interest rate swap agreements on our unaudited Consolidated Balance Sheets.

Derivative liabilities	Classification	September 30, 2012	December 31, 2011
Interest rate swap agreements	Accrued liabilities	\$22.3	\$0.0

The following table presents the effect of our interest rate swap agreements on our unaudited Consolidated Statements of Comprehensive Income and our unaudited Consolidated Statements of Operations.

	Classification	Three months ended		Nine months ended	
		September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Loss recognized in other comprehensive income (effective portion)	Other comprehensive income	\$ (3.6 )	\$ 0.0	\$ (22.2 )	\$ 0.0
Loss recognized in earnings (ineffective portion)	Other income, net	0.0	0.0	(0.1 )	0.0
Amount reclassified from accumulated other comprehensive loss into earnings <sup>1</sup>		0.0	0.0	0.0	0.0

As of September 30, 2012, the estimated amount of deferred net losses that is reported in accumulated other comprehensive loss that is expected to be reclassified into earnings within the next twelve months is \$0.7. This expectation is based on the anticipated timing of the hedged transactions.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## Credit Facilities

We maintain a committed corporate credit facility to increase our financial flexibility (the "Credit Agreement"). The Credit Agreement is a revolving facility expiring in May 2016, under which amounts borrowed by us or any of our subsidiaries designated under the Credit Agreement may be repaid and reborrowed, subject to an aggregate lending limit of \$1,000.0 or the equivalent in other currencies. The aggregate available amount of letters of credit outstanding may decrease or increase, subject to a sublimit on letters of credit of \$200.0 or the equivalent in other currencies. Our obligations under the Credit Agreement are unsecured.

We were in compliance with all of our covenants in the Credit Agreement as of September 30, 2012.

## Note 3: Convertible Preferred Stock

The conversion rate of our 5 1/4% Series B Cumulative Convertible Perpetual Preferred Stock (the "Series B Preferred Stock") is subject to adjustment upon the occurrence of certain events, including the payment of cash dividends on our common stock. During the third quarter of 2012, the conversion rate per share for our Series B Preferred Stock was adjusted from 75.3568 to 76.2197 as a result of the cumulative effect of the cash dividends declared and paid on our common stock during the second and third quarters of 2012, resulting in a corresponding adjustment of the conversion price from \$13.27 to \$13.12.

## Note 4: Earnings Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net income available to IPG common stockholders - basic	\$68.7	\$208.1	\$121.8	\$261.7
Adjustments: Effect of dilutive securities				
Interest on 4.25% Notes <sup>1</sup>	0.0	0.4	0.3	1.0
Interest on 4.75% Notes	1.0	1.0	3.1	3.1
Preferred stock dividends	0.0	2.9	0.0	0.0
Net income available to IPG common stockholders - diluted	\$69.7	\$212.4	\$125.2	\$265.8
Weighted-average number of common shares outstanding - basic	431.3	464.7	435.5	471.3
Add: Effect of dilutive securities				
Restricted stock, stock options and other equity awards	8.1	7.6	7.1	7.7
4.25% Notes <sup>1</sup>	0.0	32.5	10.4	32.5
4.75% Notes	16.7	16.3	16.7	16.3
Preferred stock outstanding	0.0	16.5	0.0	0.0
Weighted-average number of common shares outstanding - diluted	456.1	537.6	469.7	527.8
Earnings per share available to IPG common stockholders - basic	\$0.16	\$0.45	\$0.28	\$0.56
Earnings per share available to IPG common stockholders - diluted	\$0.15	\$0.40	\$0.27	\$0.50

<sup>1</sup> We retired all of our outstanding 4.25% Notes in March 2012. For purposes of calculating diluted earnings per share for the first nine months of 2012, the potentially dilutive shares are pro-rated based on the period they were

outstanding.

10

---

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Preferred stock outstanding	16.9	0.0	16.9	16.5

Securities excluded from the diluted earnings per share calculation because the exercise price was greater than the average market price:

Stock options <sup>1</sup>	7.1	12.6	7.1	9.1
----------------------------	-----	------	-----	-----

<sup>1</sup> 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.

## Note 5: Acquisitions

We continue to evaluate strategic opportunities to grow and to increase our ownership interests in current investments, particularly in our digital and marketing services offerings, and to expand our presence in high-growth and key strategic markets. Our acquisitions typically provide for an initial payment at the time of closing and additional contingent purchase price payments based on the future performance of the acquired entity. Due to the characteristics of advertising, specialized marketing and communication services companies, our acquisitions typically do not have significant amounts of tangible assets, as the principal asset we typically acquire is talent. As a result, a substantial portion of the purchase price of these acquisitions is allocated to identifiable intangible assets, primarily customer lists and trade names, and goodwill. Intangible assets, which have definitive lives, are subject to amortization on a straight-line basis with estimated useful lives generally between 7 and 15 years.

During the first nine months of 2012, we completed eleven acquisitions, including a healthcare market research and consulting agency and a search marketing agency in the United Kingdom, and, in the United States, a digital healthcare-marketing specialist and a designer of in-store shopping experiences. Of our eleven acquisitions, seven were included in the Integrated Agency Networks (“IAN”) operating segment and four were included in the Constituency Management Group (“CMG”) operating segment. During the first nine months of 2012, we recorded approximately \$205.0 of goodwill and intangible assets related to these acquisitions.

During the first nine months of 2011, we completed fifteen acquisitions, which included a public relations company in Brazil, digital marketing agencies in Australia and the United Kingdom, and a social media agency in the United States. Of our fifteen acquisitions, thirteen were included in the IAN operating segment and two were included in the CMG operating segment. During the first nine months of 2011, we recorded approximately \$75.0 of goodwill and intangible assets related to these acquisitions.

All acquired agencies have been integrated into one of our global networks or existing agencies. The results of operations of our acquired companies were included in our consolidated results from the closing date of each acquisition. Details of cash paid for current and prior years' acquisitions are listed below.

	Nine months ended	
	September 30,	
	2012	2011
Cost of investment: current-year acquisitions	\$154.3	\$23.0
Cost of investment: prior-year acquisitions	37.0	103.6
Less: net cash acquired	(14.6	) (5.9

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

Total cost of investment <sup>1</sup>	176.7	120.7
Operating expense <sup>2</sup>	3.2	0.2
Total cash paid for acquisitions	\$179.9	\$120.9

Of the total cash paid, \$36.1 and \$70.4 for the nine months ended September 30, 2012, and 2011, respectively, are classified under the financing section of the unaudited Consolidated Statements of Cash Flows within acquisition-related payments. These amounts relate to increases in our ownership interests in our consolidated subsidiaries, as well as deferred payments for acquisitions that closed on or after January 1, 2009. Of the total cash paid, \$140.6 and \$50.3 for the nine months ended September 30, 2012, and 2011, respectively, are classified under the investing section of the unaudited Consolidated Statements of Cash Flows within acquisitions, including deferred payments, net of cash acquired. These amounts relate to initial payments for new transactions and deferred payments for acquisitions that closed prior to January 1, 2009.

<sup>2</sup> Represents cash payments made that were either in excess of the contractual value or contingent upon the future employment of the former owners of acquired companies.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

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

	Nine months ended September 30,	
	2012	2011
Balance at beginning of period	\$243.4	\$291.2
Change in related noncontrolling interest balance	(8.3	) (15.8
Changes in redemption value of redeemable noncontrolling interests:		
Additions	3.0	5.8
Redemptions and other	(14.2	) (43.5
Redemption value adjustments <sup>1</sup>	(3.6	) 20.0
Balance at end of period	\$220.3	\$257.7

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

## Note 6: Supplementary Data

## Accrued Liabilities

The following table presents the components of accrued liabilities.

	September 30, 2012	December 31, 2011
Salaries, benefits and related expenses	\$397.4	\$520.6
Office and related expenses	46.7	57.9
Acquisition obligations	19.4	43.7
Interest	24.3	40.3
Professional fees	20.6	25.3
Other	141.6	139.3
Total accrued liabilities	\$650.0	\$827.1

## Restricted Marketable Securities

In the second quarter of 2012, Facebook completed an initial public offering. Prior to the public offering, our investment in Facebook was recorded on our Consolidated Balance Sheet at cost of \$1.2. As a result of the public offering, our investment in Facebook was transferred from non-current assets to restricted marketable securities, designated as available-for-sale securities, and carried at fair value. Unrealized gains and losses from available-for-sale securities are reported as a component of accumulated other comprehensive loss, net of tax, in stockholders' equity. While the Facebook investment is classified as marketable, available-for-sale securities, we are restricted from selling these shares until the fourth quarter of 2012.

As of September 30, 2012, we owned 4.4 shares of Facebook and the fair value of this investment was \$94.7. For the three and nine months ended September 30, 2012, we recorded an unrealized loss of \$41.3 and an unrealized gain of \$93.5, respectively, in other comprehensive income.

## 2004 Restatement Liabilities

As part of the restatement we presented in our 2004 Annual Report on Form 10-K (the "2004 Restatement"), we recognized liabilities related to vendor discounts and credits where we had a contractual or legal obligation to rebate

such amounts to our clients or vendors. Reductions to these liabilities are achieved through settlements with clients and vendors, but also may occur if the applicable statute of limitations in a jurisdiction has lapsed. As of September 30, 2012 and December 31, 2011, we had vendor discounts and credit liabilities of \$33.1 and \$55.5, respectively, related to the 2004 Restatement.



Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## Other Income, net

Results of operations for the three and nine months ended September 30, 2012 and 2011 include certain items that are not directly associated with our revenue-producing operations.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
(Losses) gains on sales of businesses and investments	\$(3.4	) \$132.0	\$(5.2	) \$125.8
Vendor discounts and credit adjustments	5.0	4.8	9.9	7.7
Other income, net	0.1	0.3	0.4	2.8
Total other income, net	\$1.7	\$137.1	\$5.1	\$136.3

**Sales of Businesses and Investments** – During the third quarter of 2012, we recognized losses relating to the sale of a business in an international market within our IAN segment during the quarter, as well as an adjustment relating to a reserve for a change in estimate in connection with a business disposed of in a prior year. Additionally, during the first nine months of 2012, we recognized a loss relating to the sale of a business in the domestic market within our IAN segment, which was partially offset by a gain recognized relating to the sale of a business in an international market within our CMG segment. During the third quarter of 2011, we received net proceeds of \$133.5 from the sale of approximately half of our holdings in Facebook and recorded a pre-tax gain of \$132.2. Additionally, during the first nine months of 2011, we recognized a loss relating to the sale of a business in the domestic market within our IAN segment.

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

## Share Repurchase Program

In February 2012, our Board of Directors (the “Board”) authorized a new share repurchase program to repurchase from time to time up to \$300.0, excluding fees, of our common stock (the “2012 share repurchase program”). In 2011, the Board authorized a share repurchase program to repurchase from time to time up to \$450.0, excluding fees, of our common stock (the “2011 share repurchase program”). We may effect such repurchases through open market purchases, trading plans established in accordance with SEC rules, derivative transactions or other means.

The following table presents our share repurchase activity under our share repurchase programs.

	Nine months ended	
	September 30,	
	2012	2011
Number of shares repurchased	18.6	27.0
Aggregate cost, including fees	\$201.4	\$269.0
Average price per share, including fees	\$10.85	\$9.97

As of September 30, 2012, \$148.9 remains available for repurchase under the 2012 share repurchase program. The 2012 share repurchase program has no expiration date. We completed the 2011 share repurchase program in the first quarter of 2012.

## Note 7: Income Taxes

For the three months ended September 30, 2012, our effective income tax rate of 38.7% was negatively impacted by losses in certain foreign locations for which we receive no tax benefit due to 100% valuation allowances.

Additionally, our effective income tax rate was positively impacted by a provision true-up relating to the filing of our 2011 U.S. federal income tax return, including an adjustment for an unrecorded tax deduction.

In addition to the factors noted above, for the nine months ended September 30, 2012, our effective income tax rate of 36.8% was positively impacted by the reversal of a \$26.2 valuation allowance associated with the Asia Pacific region, and by a benefit derived from the deduction of foreign tax credits that were previously fully valued. Additionally, our effective income tax rate was negatively impacted by an adjustment of \$19.5 associated with the establishment of a previously unrecorded reserve for a tax contingency for the years 2007 through 2010.

We have various tax years under examination by tax authorities in various countries, 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

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

our paying additional taxes. We believe our tax reserves are adequate in relation to the potential for additional assessments in each of the jurisdictions in which we are subject to taxation. We regularly assess the likelihood of additional tax assessments in those jurisdictions and, if necessary, adjust our reserves as additional information or events require.

With respect to all tax years open to examination by U.S. federal, various state and local, and non-U.S. tax authorities, we currently anticipate that total unrecognized tax benefits will decrease by an amount between \$5.0 and \$15.0 in the next twelve months, a portion of which will affect our effective income 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, primarily transfer pricing adjustments.

We are effectively settled with respect to U.S. income tax audits for years prior to 2009. With limited exceptions, we are no longer subject to state and local income tax audits for years prior to 1999, or non-U.S. income tax audits for years prior to 2005.

## Note 8: Incentive Compensation Plans

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

We issued the following stock-based awards under the 2009 Performance Incentive Plan (the “2009 PIP”) during the nine months ended September 30, 2012.

	Awards	Weighted-average grant-date fair value (per award)
Stock options	0.6	\$4.24
Stock-settled awards	0.9	\$11.43
Performance-based awards	1.8	\$10.61
Total stock-based compensation awards	3.3	

During the nine months ended September 30, 2012, the Compensation Committee granted performance cash awards under the 2009 PIP with a total target value of \$71.0. Of this amount, awards with a total target value of \$33.6 will be settled in shares upon vesting. The number of shares to be settled on the vesting date will be calculated as the cash value adjusted for performance divided by our stock price on the vesting date. Additionally, during the nine months ended September 30, 2012, the Compensation Committee granted cash awards under the Interpublic Restricted Cash Plan with a total target value of \$2.6. Cash awards are amortized over the vesting period, typically three years.

## Note 9: Employee Benefits

We have a defined benefit pension plan (the “Domestic Pension Plan”) that covers certain U.S. employees. We also have numerous funded and unfunded plans outside the U.S. The Interpublic Pension Plan in the U.K. is a defined benefit plan and is our most material foreign pension plan in terms of the benefit obligation and plan assets. Some of our domestic and foreign subsidiaries provide postretirement health benefits and life insurance to eligible employees and, in certain cases, their dependents. The domestic postretirement benefit plan is our most material postretirement benefit plan in terms of the benefit obligation. Certain immaterial foreign pension and postretirement benefit plans have been excluded from the table below.

The components of net periodic cost for the Domestic Pension Plan, the significant foreign pension plans and the domestic postretirement benefit plan are listed below.

Domestic Pension Plan	Foreign Pension Plans	Domestic Postretirement Benefit Plan
-----------------------	-----------------------	--------------------------------------

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

Three months ended September 30,	2012	2011	2012	2011	2012	2011
Service cost	\$0.0	\$0.0	\$3.0	\$2.8	\$0.1	\$0.1
Interest cost	1.6	1.7	5.3	5.9	0.5	0.7
Expected return on plan assets	(2.0	) (1.9	) (4.5	) (4.8	) 0.0	0.0
Settlement and curtailment losses	0.0	0.0	0.1	0.0	0.0	0.0
Amortization of:						
Transition obligation	0.0	0.0	0.0	0.0	0.0	0.0
Prior service cost (credit)	0.0	0.0	0.1	0.0	0.0	(0.1
Unrecognized actuarial losses	1.6	1.7	0.3	0.3	0.0	0.0
Net periodic cost	\$1.2	\$1.5	\$4.3	\$4.2	\$0.6	\$0.7

14

---

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

	Domestic Pension Plan		Foreign Pension Plans		Domestic Postretirement Benefit Plan	
Nine months ended September 30,	2012	2011	2012	2011	2012	2011
Service cost	\$0.0	\$0.0	\$8.3	\$7.9	\$0.2	\$0.2
Interest cost	4.7	5.1	16.3	17.6	1.7	2.0
Expected return on plan assets	(5.8	) (5.6	) (13.6	) (14.3	) 0.0	0.0
Settlement and curtailment losses	0.0	0.0	0.1	0.0	0.0	0.0
Amortization of:						
Transition obligation	0.0	0.0	0.0	0.0	0.1	0.1
Prior service cost (credit)	0.0	0.0	0.1	0.1	(0.1	) (0.1
Unrecognized actuarial losses	4.8	5.0	0.8	0.6	0.0	0.0
Net periodic cost	\$3.7	\$4.5	\$12.0	\$11.9	\$1.9	\$2.2

During the nine months ended September 30, 2012, we contributed \$4.5 and \$13.5 of cash to our domestic and foreign pension plans, respectively. In the fourth quarter of 2012, we expect to contribute approximately \$1.0 and \$3.0 of cash to our domestic and foreign pension plans, respectively.

## Note 10: Segment Information

We have two reportable segments, IAN and CMG. IAN is comprised of McCann Worldgroup, Draftfcb, Lowe & Partners, Mediabrands and our domestic integrated agencies. CMG is comprised of a number of our specialist marketing services offerings. We also report results for the “Corporate and other” group. The profitability measure employed by our chief operating decision maker for allocating resources to operating divisions and assessing operating division performance is operating income, excluding the impact of restructuring and other reorganization-related reversals (charges), net and long-lived asset impairment and other charges, if applicable. Other than certain reclassifications, the segment information is presented consistently with the basis described in our 2011 Annual Report on Form 10-K.



Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Summarized financial information concerning our reportable segments is shown in the following table.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenue:				
IAN	\$1,332.5	\$1,432.7	\$3,999.7	\$4,140.3
CMG	337.9	293.8	893.2	801.7
Total	\$1,670.4	\$1,726.5	\$4,892.9	\$4,942.0
Segment operating income:				
IAN	\$116.6	\$180.8	\$278.6	\$343.3
CMG	34.4	27.9	73.1	66.4
Corporate and other	(19.6	) (35.5	) (83.3	) (107.8
Total	131.4	173.2	268.4	301.9
Interest expense	(31.6	) (32.9	) (96.9	) (97.9
Interest income	6.7	9.7	21.4	27.7
Other income, net	1.7	137.1	5.1	136.3
Income before income taxes	\$108.2	\$287.1	\$198.0	\$368.0
Depreciation and amortization of fixed assets and intangible assets:				
IAN	\$30.1	\$29.9	\$88.4	\$90.6
CMG	3.9	3.1	10.6	9.5
Corporate and other	3.4	3.2	9.8	9.4
Total	\$37.4	\$36.2	\$108.8	\$109.5
Capital expenditures:				
IAN	\$19.9	\$19.3	\$52.6	\$56.1
CMG	11.9	3.3	17.5	7.5
Corporate and other	9.3	7.6	29.2	19.7
Total	\$41.1	\$30.2	\$99.3	\$83.3
			September 30,	December 31,
			2012	2011
Total assets:				
IAN	\$10,276.9	\$10,589.2		
CMG	1,091.7	1,019.9		
Corporate and other	360.1	1,267.5		
Total	\$11,728.7	\$12,876.6		





Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## Note 11: Fair Value Measurements

Authoritative guidance for fair value measurements establishes a fair value hierarchy which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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.

## Financial Instruments that are Measured at Fair Value on a Recurring Basis

We primarily apply the market approach to determine the fair value of financial instruments that are measured at fair value on a recurring basis. There were no changes to our valuation techniques used to determine the fair value of financial instruments during the nine months ended September 30, 2012. The following tables present information about our financial instruments measured at fair value on a recurring basis as of September 30, 2012 and September 30, 2011, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	September 30, 2012			Total	Balance Sheet Classification
	Level 1	Level 2	Level 3		
<b>Assets</b>					
Cash equivalents	\$692.3	\$0.0	\$0.0	\$692.3	Cash and cash equivalents
Short-term marketable securities	14.3	0.0	0.0	14.3	Marketable securities
Restricted marketable securities <sup>1</sup>	0.0	94.7	0.0	94.7	Restricted marketable securities
Long-term investments	1.4	0.0	0.0	1.4	Other assets
Total	\$708.0	\$94.7	\$0.0	\$802.7	
As a percentage of total assets	6.0	% 0.8	% 0.0	% 6.8	%
<b>Liabilities</b>					
Interest rate swap agreements <sup>2</sup>	\$0.0	\$22.3	\$0.0	\$22.3	Accrued liabilities
Mandatorily redeemable noncontrolling interests <sup>3</sup>	0.0	0.0	24.5	24.5	

	September 30, 2011			Total	Balance Sheet Classification
	Level 1	Level 2	Level 3		
<b>Assets</b>					
Cash equivalents	\$1,226.5	\$0.0	\$0.0	\$1,226.5	Cash and cash equivalents
Short-term marketable securities	13.8	0.0	0.0	13.8	Marketable securities
Long-term investments	1.4	9.1	0.0	10.5	Other assets
Total	\$1,241.7	\$9.1	\$0.0	\$1,250.8	

As a percentage of total assets    10.5        % 0.1        % 0.0        % 10.6        %

Liabilities

Mandatorily redeemable noncontrolling interests <sup>3</sup>	\$0.0	\$0.0	\$25.4	\$25.4
---	-------	-------	--------	--------

The fair value of our restricted marketable securities is based on observable market prices, however, since we are <sup>1</sup> restricted from selling these securities, they are classified as Level 2 within the fair value hierarchy. See Note 6 for further information on our restricted marketable securities.

Our interest rate swap agreements are cash flow hedges whose fair value was derived from the present value of <sup>2</sup> future cash flows using valuation models that were based on readily observable market data such as interest rates and yield curves.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Relates to unconditional obligations to purchase additional noncontrolling equity shares of consolidated subsidiaries.

<sup>3</sup> Fair value measurement of the obligation was based upon the amount payable as if the forward contracts were settled. The amount redeemable within the next twelve months is classified in accrued liabilities; any interests redeemable thereafter are classified in other non-current liabilities.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
Liabilities	2012	2011	2012	2011
Mandatorily redeemable noncontrolling interests -				
Balance at beginning of period	\$25.7	\$27.0	\$58.9	\$52.0
Level 3 additions	0.0	0.3	0.0	0.8
Level 3 reductions	(1.0	) (2.0	) (34.9	) (28.0
Realized gains (losses) included in net income	0.2	(0.1	) (0.6	) (0.5
Foreign currency translation	0.0	0.0	(0.1	) 0.1
Mandatorily redeemable noncontrolling interests -				
Balance at end of period	\$24.5	\$25.4	\$24.5	\$25.4

Level 3 reductions primarily consist of cash payments made related to unconditional obligations to purchase additional equity interests in previous acquisitions, which are classified within the financing section of the unaudited Consolidated Statements of Cash Flows. Level 3 additions relate to new unconditional obligations to purchase additional equity interests in previous acquisitions for cash in future periods. Realized gains (losses) included in net income for mandatorily redeemable noncontrolling interests are reported as a component of interest expense in the unaudited Consolidated Statements of Operations.

## Financial Instruments that are not Measured at Fair Value on a Recurring Basis

The following table presents information about our financial instruments that are not measured at fair value on a recurring basis as of September 30, 2012, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Total long-term debt	\$0.0	\$1,533.5	\$84.0	\$1,617.5

Our long-term debt comprises senior notes and other notes payable. The fair value of our senior notes traded over-the-counter is based on quoted prices for such securities, but which fair value can also be derived from inputs that are readily observable. Therefore, these senior notes are classified as Level 2 within the fair value hierarchy. Our other notes payable are not actively traded and their fair value is not solely derived from readily observable inputs. Thus, the fair value of our other notes payable is determined based on a discounted cash flow model and other proprietary valuation methods, and therefore is classified as Level 3 within the fair value hierarchy. See Note 2 for further information on our long-term debt.

## Non-financial Instruments that are Measured at Fair Value on a Nonrecurring Basis

Certain non-financial instruments are measured at fair value on a nonrecurring basis, primarily goodwill, intangible assets, and property, plant and equipment. Accordingly, these assets are not measured and adjusted to fair value on an ongoing basis but are subject to periodic evaluations for potential impairment.

Note 12: Commitments and Contingencies

Legal Matters

We are involved in various legal proceedings, and subject to investigations, inspections, audits, inquiries and similar actions by governmental authorities, arising in the normal course of business. We evaluate all cases each reporting period and record liabilities for losses from legal proceedings when we determine that it is probable that the outcome in a legal proceeding will be unfavorable and the amount, or potential range, of loss can be reasonably estimated. In certain cases, we cannot reasonably estimate the potential loss because, for example, the litigation is in its early stages. While any outcome related to litigation or such governmental proceedings in which we are involved cannot be predicted with certainty, management believes that the outcome of these matters, individually and in the aggregate, will not have a material adverse effect on our financial condition, results of operations or cash flows.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Guarantees

As discussed in our 2011 Annual Report on Form 10-K, we have guaranteed certain obligations of our subsidiaries relating principally to operating leases and credit facilities of certain subsidiaries. The amount of parent company guarantees on lease obligations was \$423.5 and \$385.1 as of September 30, 2012 and December 31, 2011, respectively, and the amount of parent company guarantees primarily relating to credit facilities was \$280.4 and \$327.5 as of September 30, 2012 and December 31, 2011, respectively.

Note 13: Recent Accounting Standards

Impairment of Indefinite-Lived Intangible Assets

In July 2012, the Financial Accounting Standards Board ("FASB") issued amended guidance to simplify impairment testing of indefinite-lived intangible assets other than goodwill, which is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, and we adopted this guidance for our 2012 annual impairment test, which is performed as of October 1, 2012. The amended guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing qualitative factors, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no additional testing is required. The adoption of this amended guidance did not have a significant impact on our unaudited Consolidated Financial Statements.

Comprehensive Income

In June 2011, the FASB issued amended guidance for presenting comprehensive income, which was effective for us January 1, 2012, and applied retrospectively. This amended guidance provides the option to present the items of net income and other comprehensive income in a single continuous statement of comprehensive income or in two separate, but consecutive, statements, and eliminates the option to present other comprehensive income and its components in the statement of stockholders' equity. The adoption of this amended guidance did not have a significant impact on our unaudited Consolidated Financial Statements.

Fair Value Measurements

In May 2011, the FASB issued amended guidance for measuring fair value and required disclosure information about such measures, which was effective for us January 1, 2012, and applied prospectively. The amended guidance requires an entity to disclose all transfers between Level 1 and Level 2 of the fair value hierarchy, as well as provide quantitative and qualitative disclosures related to Level 3 fair value measurements. Additionally, the amended guidance requires an entity to disclose the fair value hierarchy level which was used to determine the fair value of financial instruments that are not measured at fair value, but for which fair value information must be disclosed. The adoption of this amended guidance did not have a significant impact on our unaudited Consolidated Financial Statements.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help you understand The Interpublic Group of Companies, Inc. and its subsidiaries ("IPG," "we," "us" or "our").

MD&A should be read in conjunction with our unaudited Consolidated Financial Statements and the accompanying notes included in this report and our 2011 Annual Report on Form 10-K, as well as our other reports and filings with the Securities and Exchange Commission ("SEC"). 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 and debt credit ratings.

CRITICAL ACCOUNTING ESTIMATES provides an update to the discussion in our 2011 Annual Report on Form 10-K of our accounting policies that require critical judgment, assumptions and estimates.

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 2012 or that have not yet been required to be implemented 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 companies specialize in consumer advertising, digital marketing, communication planning and media buying, public relations and specialized communications disciplines. Our agencies create customized marketing programs for many of the world's largest companies. Comprehensive global services are critical to effectively serve our multinational and local clients in markets throughout the world, as they seek to build brands, increase sales of their products and services and gain market share.

We operate in a media landscape that is evolving at a rapid pace. Media channels continue to fragment, and clients face an increasingly complex consumer environment. To stay ahead of these challenges and to achieve our objectives, we have made and continue to make significant investments in creative and strategic talent in fast-growth digital marketing channels and high-growth geographic regions and world markets. In addition, we consistently review opportunities within our company to enhance our operations through mergers and strategic alliances, as well as the development of internal programs that encourage intra-company collaboration. As appropriate, we also develop relationships with technology and emerging media companies that are building leading-edge marketing tools that complement our agencies' skill sets and capabilities.

Our long-term financial goals include maintaining competitive organic revenue growth and continuing to improve our operating margins, which we expect will further strengthen our liquidity and increase value to our shareholders. Accordingly, we remain focused on meeting the evolving needs of our clients while concurrently managing our cost structure. We continually seek greater efficiency in the delivery of our services, focusing on more effective resource utilization, including the productivity of our employees, real estate, information technology and shared services, such as finance, human resources and legal. The improvements we have made in our financial reporting and business information systems in recent years, and which continue, allow us more timely and actionable insights from our global operations, while our disciplined approach to managing our balance sheet and liquidity provides us with a solid financial foundation and financial flexibility to manage our business.



Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

The following tables present a summary of financial performance for the three and nine months ended September 30, 2012, as compared with the same periods in 2011.

% Increase/(Decrease)	Three months ended September 30, 2012		Nine months ended September 30, 2012			
	Total	Organic	Total	Organic		
Revenue	(3.2)	)% (0.9	)% (1.0	)% 0.8	%	
Salaries and related expenses	(2.2)	)% (0.3	)% (0.2	)% 1.3	%	
Office and general expenses	2.0	% 4.8	% (0.7	)% 1.0	%	
	Three months ended September 30, 2012		Nine months ended September 30, 2011			
Operating margin	7.9	% 10.0	% 5.5	% 6.1	%	
Expenses as % of revenue:						
Salaries and related expenses	63.7	% 63.0	% 66.6	% 66.0	%	
Office and general expenses	28.4	% 27.0	% 27.9	% 27.8	%	
Net income available to IPG common stockholders	\$68.7	\$208.1	\$121.8	\$261.7		
Earnings per share available to IPG common stockholders:						
Basic	\$0.16	\$0.45	\$0.28	\$0.56		
Diluted	\$0.15	\$0.40	\$0.27	\$0.50		

When we analyze period-to-period changes in our operating performance we determine the portion of the change that is attributable to foreign currency rates and the net effect of acquisitions and divestitures, and the remainder we call organic change, which indicates how our underlying business performed. The performance metrics that we use to analyze our results include the organic change in revenue, salaries and related expenses and office and general expenses, and the components of operating expenses, expressed as a percentage of total consolidated revenue. Additionally, in certain of our discussions we analyze revenue by business sector, where we focus on our top 100 clients, which typically constitute approximately 55% to 60% of our annual consolidated revenues. We also analyze revenue by geographic region.

The change in our operating performance attributable to foreign currency rates is determined by converting the prior-period reported results using the current-period exchange rates and comparing these prior-period adjusted amounts to the prior-period reported results. Although the U.S. Dollar is our reporting currency, a substantial portion of our revenues and expenses are generated in foreign currencies. Therefore, our reported results are affected by fluctuations in the currencies in which we conduct our international businesses. We do not use derivative financial instruments to manage this translation risk. Our exposure is mitigated as the majority of our revenues and expenses in any given market are generally denominated in the same currency. Both positive and negative currency fluctuations against the U.S. Dollar affect our consolidated results of operations, and the magnitude of the foreign currency impact on us related to each geographic region depends on the significance and operating performance of the region. The primary foreign currencies that impacted our results during the first nine months of 2012 include the Brazilian Real, Euro, Indian Rupee and the South African Rand. During the first nine months of 2012, the U.S. Dollar was stronger relative to several foreign currencies in regions where we primarily conduct our business as compared to the prior-year period, which had a negative impact on our consolidated results of operations. For the third quarter of 2012, foreign currency fluctuations resulted in net decreases of approximately 3% in revenues, salaries and related expenses



and office and general expenses, which had no net impact on our operating margin percentage. For the first nine months of 2012, foreign currency fluctuations resulted in net decreases of approximately 2% in revenues and salaries and related expenses and approximately 3% in office and general expenses, which had no net impact on our operating margin percentage.

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. In recent 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 and first nine months of 2012, the net effect of acquisitions and divestitures was an increase to revenue and operating expenses compared to the prior-year periods.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

## RESULTS OF OPERATIONS

Consolidated Results of Operations – Three and Nine Months Ended September 30, 2012 Compared to Three and Nine Months Ended September 30, 2011

## REVENUE

	Three months ended September 30, 2011	Components of Change			Three months ended September 30, 2012	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$1,726.5	\$(54.6 )	\$ 14.3	\$(15.8 )	\$1,670.4	(0.9 )%	(3.2 )%		
Domestic	995.5	0.0	(1.0 )	(54.0 )	940.5	(5.4 )%	(5.5 )%		
International	731.0	(54.6 )	15.3	38.2	729.9	5.2 %	(0.2 )%		
United Kingdom	120.0	(3.2 )	1.7	30.3	148.8	25.3 %	24.0 %		
Continental Europe	187.2	(22.3 )	0.6	(0.2 )	165.3	(0.1 )%	(11.7 )%		
Asia Pacific	191.4	(7.0 )	8.3	10.2	202.9	5.3 %	6.0 %		
Latin America	119.9	(15.3 )	3.0	(0.1 )	107.5	(0.1 )%	(10.3 )%		
Other	112.5	(6.8 )	1.7	(2.0 )	105.4	(1.8 )%	(6.3 )%		

During the third quarter of 2012, our revenue decreased by \$56.1, or 3.2%, compared to the third quarter of 2011, due to an adverse foreign currency rate impact of \$54.6 and an organic revenue decrease of \$15.8, or 0.9%, partially offset by the effect of net acquisitions of \$14.3. Our organic revenue decrease was primarily attributable to a decrease in our domestic market due to net client losses in the prior year, most notably in the consumer goods sector, and a decline in spending from existing clients, primarily in the technology and telecom, health care and retail sectors. Partially offsetting this decline in the domestic market was an organic revenue increase in the auto and transportation sector. In our international markets, the organic revenue increase was primarily due to new client wins and net higher spending from existing clients, most notably in the United Kingdom, predominately due to our events marketing business related to work performed for the Olympics, and in the Asia Pacific region, predominantly in Australia, as well as several other key markets. The sectors primarily contributing to the international organic revenue increase were the technology and telecom and retail sectors, partially offset by a decrease in the consumer goods sector.

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

	Nine months ended September 30, 2011	Components of Change			Nine months ended September 30, 2012	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$4,942.0	\$(120.4 )	\$32.4	\$38.9	\$4,892.9	0.8 %	(1.0 )%		
Domestic	2,848.6	0.0	(15.6 )	(61.9 )	2,771.1	(2.2 )%	(2.7 )%		
International	2,093.4	(120.4 )	48.0	100.8	2,121.8	4.8 %	1.4 %		

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

United Kingdom	359.1	(8.7	) 11.9	38.4	400.7	10.7	% 11.6	%
Continental Europe	609.2	(52.6	) 2.9	(16.2	) 543.3	(2.7	)% (10.8	)%
Asia Pacific	515.8	(12.1	) 20.9	60.2	584.8	11.7	% 13.4	%
Latin America	287.5	(28.7	) 7.6	27.9	294.3	9.7	% 2.4	%
Other	321.8	(18.3	) 4.7	(9.5	) 298.7	(3.0	)% (7.2	)%

During the first nine months of 2012, our revenue decreased by \$49.1, or 1.0%, compared to the first nine months of 2011, due to adverse foreign currency rate impact of \$120.4, partially offset by an organic revenue increase of \$38.9, or 0.8%, and the effect of net acquisitions of \$32.4. Our organic revenue increase was primarily attributable to an increase in our international markets throughout most client sectors and was primarily driven by factors similar to those noted above for the third quarter of 2012. Also contributing to our international organic revenue increase was an increase in the Latin America region, predominantly

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

in Brazil. In our domestic market, the organic revenue decrease was primarily driven by factors similar to those noted above.

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,		September 30,	
	2012	2011	2012	2011
Salaries and related expenses	\$1,064.3	\$1,088.0	\$3,258.1	\$3,263.8
Office and general expenses	474.7	465.3	1,366.4	1,376.3
Total operating expenses	\$1,539.0	\$1,553.3	\$4,624.5	\$4,640.1
Operating income	\$131.4	\$173.2	\$268.4	\$301.9

## Salaries and Related Expenses

	2011	Components of Change			2012	Change	
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total
Three months ended September 30,	\$1,088.0	\$(33.8)	\$13.7	\$(3.6)	\$1,064.3	(0.3)%	(2.2)%
Nine months ended September 30,	3,263.8	(77.3)	28.5	43.1	3,258.1	1.3%	(0.2)%

Our staff cost ratio, defined as salaries and related expenses as a percentage of total consolidated revenue, increased in the third quarter of 2012 to 63.7% from 63.0% in the prior-year period. Salaries and related expenses in the third quarter of 2012 decreased by \$23.7 compared to the third quarter of 2011, due to a favorable foreign currency rate impact of \$33.8, and an organic decrease of \$3.6, partially offset by the effect of net acquisitions of \$13.7. The organic decrease was primarily attributable to a reduction in incentive award expense of \$31.0, resulting from lower financial performance compared to targets, partially offset by an increase in base salaries, benefits and temporary help of \$24.2. The increase in base salaries, benefits and temporary help was primarily attributable to increases in our workforce, primarily across regions and businesses where we had revenue growth, as well as modest wage increases.

Our staff cost ratio increased in the first nine months of 2012 to 66.6% from 66.0% in the prior-year period. Salaries and related expenses in the first nine months of 2012 decreased by \$5.7 compared to the first nine months of 2011, due to a favorable foreign currency rate impact of \$77.3, partially offset by an organic increase of \$43.1 and the effect of net acquisitions of \$28.5. The organic increase was primarily attributable to an increase in base salaries, benefits and temporary help of \$64.9, partially offset by a reduction in incentive award expense of \$31.2 due to the factors noted above for the third quarter of 2012.

The following table details our staff cost ratio.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Salaries and related expenses	63.7%	63.0%	66.6%	66.0%
Base salaries, benefits and tax	53.8%	51.5%	55.5%	54.3%
Incentive expense	2.3%	4.1%	3.3%	4.0%
Severance expense	1.0%	1.1%	1.2%	1.3%

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

Temporary help	3.8	% 3.7	% 3.8	% 3.9	%
All other salaries and related expenses	2.8	% 2.6	% 2.8	% 2.5	%

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

## Office and General Expenses

	2011	Components of Change			2012	Change		
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total	
Three months ended September 30,	\$465.3	\$(15.2 )	\$2.4	\$22.2	\$474.7	4.8	% 2.0	%
Nine months ended September 30,	1,376.3	(34.9 )	11.2	13.8	1,366.4	1.0	% (0.7 )	%

Our office and general expense ratio, defined as office and general expenses as a percentage of total consolidated revenue, increased in the third quarter of 2012 to 28.4% from 27.0% in the prior-year period. Office and general expenses in the third quarter of 2012 increased by \$9.4 compared to the third quarter of 2011, primarily due to an organic increase of \$22.2, partially offset by a favorable foreign currency rate impact of \$15.2. The organic increase was primarily attributable to higher production expenses related to pass-through costs, which are also reflected in revenue, for certain projects where we acted as principal that increased in size or were new during the third quarter of 2012 in our international markets, notably in the United Kingdom, partially offset by lower production expenses in the domestic market, and, to a lesser extent, lower occupancy costs.

Our office and general expense ratio increased slightly in the first nine months of 2012 to 27.9% from 27.8% in the prior-year period. Office and general expenses in the first nine months of 2012 decreased by \$9.9 compared to the first nine months of 2011, due to a favorable foreign currency rate impact of \$34.9, partially offset by an organic increase of \$13.8 and the effect of net acquisitions of \$11.2. The organic increase was due to the factors noted above for the third quarter of 2012.

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

	Three months ended September 30,		Nine months ended September 30,		
	2012	2011	2012	2011	
Office and general expenses	28.4	% 27.0	% 27.9	% 27.8	%
Professional fees	1.5	% 1.5	% 1.7	% 1.7	%
Occupancy expense (excluding depreciation and amortization)	7.2	% 7.4	% 7.4	% 7.7	%
Travel & entertainment, office supplies and telecommunications	3.6	% 3.5	% 3.9	% 3.8	%
All other office and general expenses	16.1	% 14.6	% 14.9	% 14.6	%

## EXPENSES AND OTHER INCOME

	Three months ended September 30,		Nine months ended September 30,		
	2012	2011	2012	2011	
Cash interest on debt obligations	\$(30.7 )	\$(35.2 )	\$(96.0 )	\$(103.8 )	)
Non-cash interest	(0.9 )	2.3	(0.9 )	5.9	)
Interest expense	(31.6 )	(32.9 )	(96.9 )	(97.9 )	)
Interest income	6.7	9.7	21.4	27.7	)
Net interest expense	(24.9 )	(23.2 )	(75.5 )	(70.2 )	)
Other income, net	1.7	137.1	5.1	136.3	)

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

Total (expenses) and other income	\$ (23.2 )	\$ 113.9	\$ (70.4 )	\$ 66.1
Net Interest Expense				

For the three and nine months ended September 30, 2012, net interest expense increased by \$1.7 and \$5.3 compared to the respective prior-year periods.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

## Other Income, net

Results of operations for the three and nine months ended September 30, 2012 and 2011 include certain items that are not directly associated with our revenue-producing operations.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
(Losses) gains on sales of businesses and investments	\$(3.4 )	\$132.0	\$(5.2 )	\$125.8
Vendor discounts and credit adjustments	5.0	4.8	9.9	7.7
Other income, net	0.1	0.3	0.4	2.8
Total other income, net	\$1.7	\$137.1	\$5.1	\$136.3

Sales of Businesses and Investments – During the third quarter of 2012, we recognized losses relating to the sale of a business in an international market within our Integrated Agency Networks ("IAN") segment during the quarter, as well as an adjustment relating to a reserve for a change in estimate in connection with a business disposed of in a prior year. Additionally, during the first nine months of 2012, we recognized a loss relating to the sale of a business in the domestic market within our IAN segment, which was partially offset by a gain recognized relating to the sale of a business in an international market within our Constituency Management Group ("CMG") segment. During the third quarter of 2011, we received net proceeds of \$133.5 from the sale of approximately half of our holdings in Facebook and recorded a pre-tax gain of \$132.2. Additionally, during the first nine months of 2011, we recognized a loss relating to the sale of a business in the domestic market within our IAN segment.

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

## INCOME TAXES

	Three months ended		Nine months ended		
	September 30,		September 30,		
	2012	2011	2012	2011	
Income before income taxes	\$108.2	\$287.1	\$198.0	\$368.0	
Provision for income taxes	\$41.9	\$70.4	\$72.8	\$96.5	
Effective income tax rate	38.7	% 24.5	% 36.8	% 26.2	%

Our tax rates are affected by many factors, including our worldwide earnings from various countries, changes in legislation and tax characteristics of our income. For the three months ended September 30, 2012, our effective income tax rate of 38.7% was negatively impacted by losses in certain foreign locations for which we receive no tax benefit due to 100% valuation allowances. Additionally, our effective income tax rate was positively impacted by a provision true-up relating to the filing of our 2011 U.S. federal income tax return, including an adjustment for an unrecorded tax deduction.

In addition to the factors noted above, for the nine months ended September 30, 2012, our effective income tax rate of 36.8% was positively impacted by the reversal of a \$26.2 valuation allowance associated with the Asia Pacific region, and by a benefit derived from the deduction of foreign tax credits that were previously fully valued. Additionally, the effective income tax rate was negatively impacted by an adjustment of \$19.5 associated with the establishment of a previously unrecorded reserve for a tax contingency for the years 2007 through 2010.

For the three months ended September 30, 2011, our effective income tax rate of 24.5% was positively impacted primarily by the ability to utilize capital losses to offset nearly all of the \$132.2 capital gain realized from the sale of



approximately half of our holdings in Facebook. The capital gain enabled us to utilize capital loss carryforwards, on which a 100% valuation allowance has been previously established, and capital losses attributable to worthless securities in a consolidated subsidiary. In addition to the positive factors noted above, the effective income tax rate for the nine months ended September 30, 2011 of 26.2% was positively impacted primarily by the recognition of previously unrecognized tax benefits as a result of the settlement of the 2007-2008 IRS audit cycle, tax efficiencies from entity consolidated in the Asia Pacific region and the loss relating to the sale of a business in the domestic market. The effective income tax rate was negatively impacted by state and local taxes, losses in certain foreign locations where we receive no tax benefit due to 100% valuation allowances and the net establishment of valuation allowances, primarily in Europe.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

**EARNINGS PER SHARE**

Basic earnings per share available to IPG common stockholders for the three and nine months ended September 30, 2012 was \$0.16 and \$0.28 per share, respectively, compared to \$0.45 and \$0.56 per share for the three and nine months ended September 30, 2011, respectively. Diluted earnings per share was \$0.15 and \$0.27 per share for the three and nine months ended September 30, 2012, respectively, compared to \$0.40 and \$0.50 per share for the three and nine months ended September 30, 2011, respectively.

For the three and nine months ended September 30, 2011, basic and diluted earnings per share includes \$0.28 and \$0.24 per share, respectively, as a result of the gain recorded from the sale of approximately half of our holdings in Facebook.

**Segment Results of Operations – Three and Nine Months Ended September 30, 2012 Compared to Three and Nine Months Ended September 30, 2011**

As discussed in Note 10 to the unaudited Consolidated Financial Statements, we have two reportable segments as of September 30, 2012: IAN and CMG. We also report results for the "Corporate and other" group.

	Three months ended September 30, 2011	Components of Change			Three months ended September 30, 2012	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$1,432.7	\$(50.6)	\$7.3	\$(56.9)	\$1,332.5	(4.0)	%	(7.0)	%
Domestic	783.0	0.0	(1.0)	(61.0)	721.0	(7.8)	%	(7.9)	%
International	649.7	(50.6)	8.3	4.1	611.5	0.6	%	(5.9)	%

During the third quarter of 2012, IAN revenue decreased by \$100.2 compared to the third quarter of 2011, primarily consisting of an organic revenue decrease of \$56.9 and an adverse foreign currency rate impact of \$50.6. The organic revenue decrease was primarily attributable to a decrease in our domestic market due to net client losses in the prior year, most notably in the consumer goods sector, and a decline in spending from existing clients, primarily in the technology and telecom, health care and retail sectors. Partially offsetting this decline in the domestic market was an increase in the auto and transportation sector. The organic revenue increase in our international markets was primarily attributable to new client wins, most notably in the United Kingdom. Impacting our international organic revenue increase was an increase in the retail sector, which was partially offset by a decrease in the consumer goods sector.

	Nine months ended September 30, 2011	Components of Change			Nine months ended September 30, 2012	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$4,140.3	\$(112.3)	\$16.0	\$(44.3)	\$3,999.7	(1.1)	%	(3.4)	%
Domestic	2,288.1	0.0	(15.6)	(83.9)	2,188.6	(3.7)	%	(4.3)	%
International	1,852.2	(112.3)	31.6	39.6	1,811.1	2.1	%	(2.2)	%

During the first nine months of 2012, IAN revenue decreased by \$140.6 compared to the first nine months of 2011, primarily consisting of an adverse foreign currency rate impact of \$112.3 and an organic revenue decrease of \$44.3. The organic revenue decrease in our domestic market was primarily driven by factors similar to those noted above. In

our international markets, our organic revenue increase was primarily attributable to net higher spending from existing clients throughout most client sectors and was primarily driven by factors similar to those noted above for the third quarter of 2012. Also contributing to our international organic revenue increase was an increase in the Asia Pacific region, predominantly in Australia, and in the Latin America region, primarily in Brazil.

SEGMENT OPERATING INCOME

	Three months ended			Nine months ended		
	September 30,			September 30,		
	2012	2011	Change	2012	2011	Change
Segment operating income	\$ 116.6	\$ 180.8	(35.5 )%	\$ 278.6	\$ 343.3	(18.8 )%
Operating margin	8.8	% 12.6	%	7.0	% 8.3	%

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

Operating income decreased during the third quarter of 2012 when compared to the third quarter of 2011 due to a decrease in revenue of \$100.2, partially offset by decreases in salaries and related expenses of \$18.2 and office and general expenses of \$17.8. The decrease in salaries and related expenses was primarily due to a reduction in incentive award expense consistent with the explanation provided in the consolidated Salaries and Related Expenses section. Also contributing to the decrease in salaries and related expenses was lower base salaries, benefits and temporary help at certain advertising businesses within IAN and, to a lesser extent, lower severance expense. The decrease in office and general expenses was primarily attributable to lower production expenses related to pass-through costs for certain projects where we acted as principal that decreased in size or did not occur during the third quarter of 2012 and lower occupancy costs.

Operating income decreased during the first nine months of 2012 when compared to the first nine months of 2011 due to a decrease in revenue of \$140.6, partially offset by decreases in office and general expenses of \$39.9 and salaries and related expenses of \$36.0, driven by factors similar to those noted above for the third quarter of 2012.

## CMG

## REVENUE

	Three months ended September 30, 2011	Components of Change			Three months ended September 30, 2012	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$293.8	\$(4.0)	) \$7.0	\$41.1	\$337.9	14.0	%	15.0	%
Domestic	212.5	0.0	0.0	7.0	219.5	3.3	%	3.3	%
International	81.3	(4.0)	) 7.0	34.1	118.4	41.9	%	45.6	%

During the third quarter of 2012, CMG revenue increased by \$44.1 compared to the third quarter of 2011, primarily consisting of an organic revenue increase of \$41.1. The organic revenue increase was primarily due to net client wins and higher spending from existing clients across all disciplines. The international organic revenue increase occurred throughout most regions, primarily in the United Kingdom, predominantly due to our events marketing business, related to work performed for the Olympics, and in the Asia Pacific region, most notably in China, Australia and Singapore. 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. The domestic organic revenue increase was primarily due to growth in our public relations and sports marketing businesses.

	Nine months ended September 30, 2011	Components of Change			Nine months ended September 30, 2012	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$801.7	\$(8.1)	) \$16.4	\$83.2	\$893.2	10.4	%	11.4	%
Domestic	560.5	0.0	0.0	22.0	582.5	3.9	%	3.9	%
International	241.2	(8.1)	) 16.4	61.2	310.7	25.4	%	28.8	%

During the first nine months of 2012, CMG revenue increased by \$91.5 compared to the first nine months of 2011, primarily consisting of an organic revenue increase of \$83.2. The organic revenue increase was primarily driven by factors similar to those noted above for the third quarter of 2012.

## SEGMENT OPERATING INCOME

Three months ended  
September 30,

Nine months ended  
September 30,

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

	2012	2011	Change	2012	2011	Change	
Segment operating income	\$34.4	\$27.9	23.3	% \$73.1	\$66.4	10.1	%
Operating margin	10.2	% 9.5	%	8.2	% 8.3	%	

Operating income increased during the third quarter of 2012 when compared to the third quarter of 2011 due to an increase in revenue of \$44.1, partially offset by increases in office and general expenses of \$27.0 and salaries and related expenses of \$10.6. Office and general expenses increased primarily due to higher production expenses related to pass-through costs for certain projects where we acted as principal that increased in size or were new during the third quarter of 2012. The increase in salaries and related expenses was primarily attributable to increases in our workforce across all disciplines to support business growth, which resulted in an increase in base salaries and benefits.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

Operating income increased during the first nine months of 2012 when compared to the first nine months of 2011 due to an increase in revenue of \$91.5, partially offset by increases in office and general expenses of \$42.9 and salaries and related expenses of \$41.9, driven by factors similar to those noted above for the third quarter of 2012.

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

Corporate and other expenses decreased during the third quarter of 2012 by \$15.9 to \$19.6 compared to the third quarter of 2011, and decreased by \$24.5 to \$83.3 during the first nine months of 2012 compared to the first nine months of 2011, primarily due to a reduction in incentive award expense resulting from lower financial performance compared to targets. For the first nine months of 2012, also contributing to the decrease in corporate and other expenses was lower office and general expenses, partially offset by an increase in temporary help due to our information-technology system-upgrade initiatives.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

## LIQUIDITY AND CAPITAL RESOURCES

## CASH FLOW OVERVIEW

The following tables summarize key financial data relating to our liquidity, capital resources and uses of capital.

Cash Flow Data	Nine months ended	
	September 30,	
	2012	2011
Net income, adjusted to reconcile net income to net cash used in operating activities <sup>1</sup>	\$264.6	\$334.6
Net cash used in working capital <sup>2</sup>	(700.7	) (702.9
Changes in other non-current assets and liabilities using cash	(9.2	) (75.6
Net cash used in operating activities	\$(445.3	) \$(443.9
Net cash (used in) provided by investing activities	(229.3	) 9.1
Net cash used in financing activities	(439.7	) (422.7

Reflects net income adjusted primarily for depreciation and amortization of fixed assets and intangible assets,  
<sup>1</sup> amortization of restricted stock and other non-cash compensation, deferred income taxes and gain on sale of an investment.

<sup>2</sup> Reflects changes in accounts receivable, expenditures billable to clients, other current assets, accounts payable and accrued liabilities.

Balance Sheet Data	September 30, 2012	December 31, 2011	September 30, 2011
Cash, cash equivalents and marketable securities <sup>1</sup>	\$1,201.6	\$2,315.6	\$1,798.8
Short-term borrowings	\$200.5	\$153.5	\$149.9
Current portion of long-term debt	217.1	404.8	408.5
Long-term debt	1,263.1	1,210.9	1,166.2
Total debt	\$1,680.7	\$1,769.2	\$1,724.6

<sup>1</sup> Does not include restricted marketable securities. See Note 6 to the unaudited Consolidated Financial Statements for further information.

## Operating Activities

Net cash used in operating activities during the first nine months of 2012 was \$445.3, which was an increase of \$1.4 as compared to the first nine months of 2011. Due to the seasonality of our business, we typically generate cash from working capital in the second half of a year and use cash from working capital in the first half of a year, with the largest impacts in the first and fourth quarters. The working capital use in the first nine months of 2012 was primarily impacted by our media businesses.

The timing of media buying on behalf of our clients affects our working capital and operating cash flow. In most of our businesses, our agencies enter into commitments to pay production and media costs on behalf of clients. To the extent possible we pay production and media charges after we have received funds from our clients. The amounts involved substantially exceed our revenues, and primarily affect the level of accounts receivable, expenditures billable to clients and accounts payable. 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 annual cash incentive awards are accrued throughout the year, they are generally paid during the first quarter of the subsequent year.

#### Investing Activities

Net cash used in investing activities during the first nine months of 2012 primarily reflects payments for acquisitions and capital expenditures. Payments for acquisitions of \$140.6 relate to new acquisitions and deferred payments on prior acquisitions. Capital expenditures of \$99.3 relate primarily to computer hardware and software, and leasehold improvements.



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 Activities

Net cash used in financing activities during the first nine months of 2012 is primarily related to the repurchase of our common stock and our debt transactions. In the first nine months of 2012, we issued \$250.0 in aggregate principal amount of 4.00% Senior Notes due 2022 (the "4.00% Notes") at a discount to par for \$246.8. The proceeds from the issuance of the 4.00% Notes were applied towards the repurchase and redemption of \$399.6 in aggregate principal amount of our 4.25% Convertible Senior Notes due 2023 (the "4.25% Notes"). Additionally, in the first nine months of 2012, we repurchased 18.6 shares of our common stock for an aggregate cost of \$201.4, including fees, and made dividend payments of \$78.1 on our common 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 was minimal during the first nine months of 2012 as a result of the U.S. Dollar being stronger than several foreign currencies, including the Brazilian Real and South African Rand, offset by the U.S. Dollar being weaker than other foreign currencies, including the Australian Dollar and Indian Rupee as of September 30, 2012, as compared to December 31, 2011.

LIQUIDITY OUTLOOK

We expect our cash flow from operations, cash and cash equivalents to be sufficient to meet our anticipated operating requirements at a minimum for the next twelve months. We also have a committed corporate credit facility available to support our operating needs. We continue to maintain a disciplined approach to managing liquidity, with flexibility over significant uses of cash, including our capital expenditures, cash used for new acquisitions, our common stock repurchase program and our common stock dividends.

From time to time we evaluate market conditions and financing alternatives for opportunities to raise additional financing or otherwise improve our liquidity profile, enhance our financial flexibility and manage market risk. Our ability to access the capital markets depends on a number of factors, which include those specific to us, such as our credit rating, and those related to the financial markets, such as the amount or terms of available credit.

Funding Requirements

Our most significant funding requirements include: our operations, non-cancelable operating lease obligations, capital expenditures, acquisitions, dividends, taxes, debt service and contributions to pension and postretirement plans. Additionally, we may be required to make payments to minority shareholders in certain subsidiaries if they exercise their options to sell us their equity interests. Notable funding requirements include:

Debt service – In March 2012, we retired \$400.0 in aggregate principal amount of our 4.25% Notes. On March 15, 2013, holders of our \$200.0 4.75% Convertible Senior Notes due 2023 may require us to repurchase their notes for cash at par, and on or after that date we have the right to redeem all or part of these notes at our option. The remainder of our debt is primarily long-term, with maturities scheduled through 2031.

Acquisitions – We paid cash of \$139.7, which was net of cash acquired of \$14.6, for acquisitions completed in the first nine months of 2012. We also paid cash of \$40.2 related to prior year acquisitions, of which \$3.2 was charged as operating expense. In addition to potential cash expenditures for new acquisitions, we expect to pay approximately \$5.0 in the fourth quarter of 2012 and approximately \$16.0 in 2013 related to prior-year acquisitions. We may also be required to pay approximately \$50.0 over the next twelve months related to put options held by minority shareholders if exercised. We will continue to evaluate strategic opportunities to grow and to increase our ownership interests in

current investments, particularly in our digital and marketing services offerings, and to expand our presence in high-growth and key strategic world markets. See Note 5 to the unaudited Consolidated Financial Statements for further information.

Dividends – In the first nine months of 2012, we paid three quarterly cash dividends of \$0.06 per share on our common stock, which corresponded to an aggregate dividend payment of \$78.1. Assuming we continue to pay a quarterly dividend of \$0.06 per share and there is no significant change in the number of outstanding shares, we would pay approximately \$103.0 over the next twelve months. We also pay regular quarterly dividends of \$2.9, or \$11.6 annually, on our Series B Preferred Stock.

Contributions to pension plans – Our funding policy regarding our pension plans is to make contributions necessary to satisfy minimum pension funding requirements, plus such additional contributions as we consider appropriate to improve the plans' funded status. During the nine months ended September 30, 2012, we contributed \$4.5 and \$13.5 of cash to

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

our domestic and foreign pension plans, respectively. In the fourth quarter of 2012, we expect to contribute approximately \$1.0 and \$3.0 of cash to our domestic and foreign pension plans, respectively.

**Share Repurchase Program**

In February 2012, our Board of Directors (the "Board") authorized a new share repurchase program to repurchase from time to time up to \$300.0, excluding fees, of our common stock (the "2012 share repurchase program"). In 2011, the Board authorized a share repurchase program to repurchase from time to time up to \$450.0, excluding fees, of our common stock (the "2011 share repurchase program"). We may effect such repurchases through open market purchases, trading plans established in accordance with SEC rules, derivative transactions or other means. We expect to continue to repurchase our common stock in future periods, although the timing and amount of the repurchases will depend on market conditions and our other funding requirements. As of September 30, 2012, \$148.9 remains available for repurchase under the 2012 share repurchase program. We completed the 2011 share repurchase program in the first quarter of 2012. The 2012 share repurchase program has no expiration date.

**FINANCING AND SOURCES OF FUNDS**

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

	September 30, 2012			
	Total Facility	Amount Outstanding	Letters of Credit <sup>1</sup>	Total Available
Cash, cash equivalents and marketable securities				\$1,201.6
Committed credit agreement	\$1,000.0	\$0.0	\$15.8	\$984.2
Uncommitted credit arrangements	\$305.0	\$200.5	\$3.3	\$101.2

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

**Credit Facilities**

We maintain a committed corporate credit facility to increase our financial flexibility (the "Credit Agreement"). The Credit Agreement is a revolving facility expiring May 31, 2016, under which amounts borrowed by us or any of our subsidiaries designated under the Credit Agreement may be repaid and reborrowed, subject to an aggregate lending limit of \$1,000.0 or the equivalent in other currencies. The aggregate available amount of all letters of credit outstanding may decrease or increase, subject to a sublimit on letters of credit of \$200.0 or the equivalent in other currencies. Our obligations under the Credit Agreement are unsecured.

We were in compliance with all of our covenants in the Credit Agreement as of September 30, 2012. The financial covenants in the Credit Agreement require that we maintain, as of the end of each fiscal quarter, certain financial measures for the four quarters then ended. The table below sets forth the financial covenants in effect as of September 30, 2012.

Financial Covenants	Four Quarters Ended September 30, 2012 5.00x	EBITDA Reconciliation Operating income	Four Quarters Ended September 30, 2012 \$653.6

Interest coverage ratio (not less than)

Actual interest coverage ratio	7.72x	Add:	
		Depreciation and amortization	197.6
Leverage ratio (not greater than)	2.75x	Other non-cash amounts	0.2
Actual leverage ratio	1.97x	EBITDA <sup>1</sup>	\$851.4

<sup>1</sup> EBITDA as presented here is a component of the Credit Agreement financial ratios and is calculated as defined in the Credit Agreement.

We also have uncommitted credit arrangements with various banks that permit borrowings at variable interest rates. We use our uncommitted credit lines for working capital needs at some of our operations outside the United States. 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. As of September 30, 2012, the weighted-average interest rate on outstanding balances under the uncommitted credit arrangements was approximately 5.0%.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
 (Amounts in Millions, Except Per Share Amounts)  
 (Unaudited)

**Cash Pooling**

We aggregate our domestic cash position on a daily basis. Outside the United States we use cash pooling arrangements with banks to help manage our liquidity requirements. In these pooling arrangements, several IPG agencies agree with a single bank that the cash balances of any of the agencies with the bank will be subject to a full right of set-off against amounts the other agencies owe the bank, and the bank provides for overdrafts as long as the net balance for all the agencies does not exceed an agreed-upon level. Typically, each agency pays interest on outstanding overdrafts and receives interest on cash balances. Our unaudited Consolidated Balance Sheets reflect cash, net of bank overdrafts, under all of our pooling arrangements, and as of September 30, 2012 the amount netted was \$1,224.6.

**Restricted Marketable Securities**

In the second quarter of 2012, Facebook completed an initial public offering. As of September 30, 2012, we owned 4.4 shares of Facebook and the fair value of this investment was \$94.7. We are restricted from selling these shares, which we hold as a non-strategic investment, for a period of six months from the date of the public offering. See Note 6 to the unaudited Consolidated Financial Statements for further information.

**DEBT CREDIT RATINGS**

Our long-term debt credit ratings as of October 15, 2012 are listed below.

	Moody's Investor Service	Standard and Poor's	Fitch Ratings
Rating	Baa3	BB+	BBB
Outlook	Stable	Positive	Stable

We are investment-grade rated by both Moody's Investor Services ("Moody's") and Fitch Ratings. The most recent update to our credit ratings occurred in February 2012, when Standard and Poor's placed our credit rating on positive credit watch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning credit rating agency. The rating of each credit rating agency should be evaluated independently of any other rating. Credit ratings could have an impact on liquidity, either adverse or favorable, including, among other things, because they could affect funding costs in the capital markets or otherwise. For example, our Credit Agreement fees and borrowing rates are based on a credit ratings grid.

**CRITICAL ACCOUNTING ESTIMATES**

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2011, included in our 2011 Annual Report on Form 10-K. As summarized in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report, we believe that certain of these policies are critical because they are important to the presentation of our financial condition and results of operations, and they require management's most difficult, subjective or complex judgments, often as a result of the need to estimate the effect of matters that are inherently uncertain. These critical estimates relate to revenue recognition, income taxes, goodwill and other intangible assets, and pension and postretirement benefits. We base our estimates on historical experience and various other factors that we believe to be relevant under the circumstances. Estimation methodologies are applied consistently from year to year, and there have been no significant changes in the application of critical accounting estimates since December 31, 2011. Actual results may differ from these estimates under different assumptions or conditions.

**RECENT ACCOUNTING STANDARDS**

See Note 13 to the unaudited Consolidated Financial Statements for further information on certain accounting standards that have been adopted during 2012 or that have not yet been required to be implemented and may be applicable to our future operations.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, we are exposed to market risks related to interest rates, foreign currency rates and certain balance sheet items. During the first nine months of 2012, we entered into interest rate swap agreements. We use interest rate swaps to manage our exposure to changes in interest rates. We do not expect these swap agreements to materially alter our exposure to market risk. See Note 2 to the unaudited Consolidated Financial Statements for further information on our interest rate swap agreements. For a further discussion of our exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our 2011 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2012, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Changes in Internal Control Over Financial Reporting

There has been no change in internal control over financial reporting in the quarter ended September 30, 2012, 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 legal proceedings is set forth in Note 12 to the unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

## Item 1A. Risk Factors

In the third quarter of 2012, there have been no material changes in the risk factors we have previously disclosed in Item 1A, Risk Factors, in our 2011 Annual Report on Form 10-K.

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

(c) The following table provides information regarding our purchases of our equity securities during the period from July 1, 2012 to September 30, 2012.

	Total Number of Shares (or Units) Purchased <sup>1</sup>	Average Price Paid per Share (or Unit) <sup>2</sup>	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs <sup>3</sup>	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>3</sup>
July 1 - 31	2,334,077	\$10.87	2,296,697	\$ 206,992,836
August 1 - 31	2,816,709	\$10.54	2,816,709	\$ 177,305,758
September 1 - 30	2,499,632	\$11.39	2,496,788	\$ 148,858,924
Total	7,650,418	\$10.92	7,610,194	

Includes shares of our common stock, par value \$.10 per share, withheld under the terms of grants under employee stock-based compensation plans to offset tax withholding obligations that arose upon vesting and release of <sup>1</sup> restricted shares (the “Withheld Shares”). We repurchased 37,380 Withheld Shares in July 2012, no Withheld Shares in August 2012 and 2,844 Withheld Shares in September 2012, for a total of 40,224 Withheld Shares during the three-month period.

The average price per share for each of the months in the fiscal quarter and for the three-month period was calculated by dividing the sum for the applicable period of the aggregate value of the tax withholding obligations <sup>2</sup> and the aggregate amount we paid for shares acquired under our common stock repurchase program, described in Note 6 to the unaudited Consolidated Financial Statements, by the sum of the number of Withheld Shares and the number of shares acquired in our stock repurchase program.

On February 24, 2012, we announced that our Board of Directors had approved a new share repurchase program to <sup>3</sup> repurchase from time to time up to \$300.0 million of our common stock. There is no expiration date associated with the share repurchase program.

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

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. As of October 26, 2012, there were no accumulated and unpaid preferred stock dividends.



Table of Contents

Item 6.

Exhibits

All exhibits required pursuant to Item 601 of Regulation S-K to be filed as part of this report or incorporated herein by reference to other documents, are listed in the Index to Exhibits that immediately precedes the exhibits filed with this Report on Form 10-Q and the exhibits transmitted to the Securities and Exchange Commission as part of the electronic filing of this report.

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 26, 2012

By /s/ Christopher F. Carroll  
Christopher F. Carroll  
Senior Vice President, Controller and  
Chief Accounting Officer  
(Principal Accounting Officer)

Date: October 26, 2012

Table of Contents

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
10(iii)(A)(1)	Description of the Changes to the Compensation of Non-Management Directors and the Corporate Governance Committee Chair.
10(iii)(A)(2)	Amendment to the 2009 Non-Management Directors' Stock Incentive Plan (the "2009 Plan").
10(iii)(A)(3)	The 2009 Plan Restricted Stock Award Agreement (updated).
12.1	Computation of Ratios of Earnings to Fixed Charges.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
32	Certification of the Chief Executive Officer and the Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended.
101	Interactive Data File, for the period ended September 30, 2012.
37	