

INTERPUBLIC GROUP OF COMPANIES, INC.  
Form 10-Q  
October 24, 2013

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, 2013

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

Commission file number: 1-6686

THE INTERPUBLIC GROUP OF COMPANIES, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-1024020  
(I.R.S. Employer  
Identification No.)

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

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

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

Yes  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, 2013 was 416,241,739.

## 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, 2013 and 2012</u>	<u>3</u>
	<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2013 and 2012</u>	<u>4</u>
	<u>Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012</u>	<u>5</u>
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012</u>	<u>6</u>
	<u>Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2013 and 2012</u>	<u>7</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>9</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>34</u>
Item 4.	<u>Controls and Procedures</u>	<u>34</u>

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>35</u>
Item 1A.	<u>Risk Factors</u>	<u>35</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>35</u>
Item 5.	<u>Other Information</u>	<u>35</u>
Item 6.	<u>Exhibits</u>	<u>36</u>
	<u>SIGNATURES</u>	<u>37</u>
	<u>INDEX TO EXHIBITS</u>	<u>38</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



Table of Contents

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.

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

Table of Contents

## Part I – FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
REVENUE	\$1,700.4	\$1,670.4	\$4,999.6	\$4,892.9
OPERATING EXPENSES:				
Salaries and related expenses	1,093.6	1,064.3	3,345.9	3,258.1
Office and general expenses	465.3	474.7	1,379.8	1,366.4
Total operating expenses	1,558.9	1,539.0	4,725.7	4,624.5
OPERATING INCOME	141.5	131.4	273.9	268.4
EXPENSES AND OTHER INCOME:				
Interest expense	(23.7 )	(31.6 )	(98.0 )	(96.9 )
Interest income	5.8	6.7	18.0	21.4
Other (expense) income, net	(46.6 )	1.7	(40.0 )	5.1
Total (expenses) and other income	(64.5 )	(23.2 )	(120.0 )	(70.4 )
Income before income taxes	77.0	108.2	153.9	198.0
Provision for income taxes	28.4	41.9	78.0	72.8
Income of consolidated companies	48.6	66.3	75.9	125.2
Equity in net income of unconsolidated affiliates	0.6	1.4	0.9	2.3
NET INCOME	49.2	67.7	76.8	127.5
Net (income) loss attributable to noncontrolling interests	(0.9 )	3.9	(2.0 )	3.0
NET INCOME ATTRIBUTABLE TO IPG	48.3	71.6	74.8	130.5
Dividends on preferred stock	(2.9 )	(2.9 )	(8.7 )	(8.7 )
NET INCOME AVAILABLE TO IPG COMMON STOCKHOLDERS	\$45.4	\$68.7	\$66.1	\$121.8
Earnings per share available to IPG common stockholders:				
Basic	\$0.11	\$0.16	\$0.16	\$0.28
Diluted	\$0.11	\$0.15	\$0.16	\$0.27
Weighted-average number of common shares outstanding:				
Basic	419.7	431.3	419.7	435.5
Diluted	426.1	456.1	424.8	469.7
Dividends declared per common share	\$0.075	\$0.060	\$0.225	\$0.180

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 (LOSS)

(Amounts in Millions)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
NET INCOME	\$49.2	\$67.7	\$76.8	\$127.5
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Foreign currency translation adjustments	24.0	37.3	(89.3	) 16.1
Available-for-sale securities:				
Changes in market value of available-for-sale securities	(0.1	) (40.8	) 0.7	94.7
Less: recognition of previously unrealized (gains) losses included in net income	0.0	0.0	(1.4	) 0.6
Income tax effect	0.0	15.8	0.2	(34.8
	(0.1	) (25.0	) (0.5	) 60.5
Derivative instruments:				
Changes in fair value of derivative instruments	0.0	(3.6	) 0.0	(22.2
Less: recognition of previously unrealized losses in net income	0.4	0.0	1.3	0.0
Income tax effect	(0.1	) 1.5	(0.5	) 9.2
	0.3	(2.1	) 0.8	(13.0
Defined benefit pension and other postretirement plans:				
Net actuarial gains for the period	0.0	0.0	0.0	1.0
Less: amortization of unrecognized losses, transition obligation and prior service cost included in net income	2.7	2.0	8.2	5.7
Other	(0.2	) (0.3	) (0.9	) (0.4
Income tax effect	(0.8	) (0.6	) (2.8	) (2.3
	1.7	1.1	4.5	4.0
Other comprehensive income (loss), net of tax	25.9	11.3	(84.5	) 67.6
TOTAL COMPREHENSIVE INCOME (LOSS)	75.1	79.0	(7.7	) 195.1
Less: comprehensive income (loss) attributable to noncontrolling interests	0.7	(3.3	) (1.2	) (3.5
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO IPG	\$74.4	\$82.3	\$(6.5	) \$198.6

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, 2013	December 31, 2012
<b>ASSETS:</b>		
Cash and cash equivalents	\$999.3	\$2,574.8
Marketable securities	5.2	16.0
Accounts receivable, net of allowance of \$65.7 and \$59.0, respectively	3,830.2	4,496.6
Expenditures billable to clients	1,551.0	1,318.8
Other current assets	377.1	332.1
Total current assets	6,762.8	8,738.3
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$1,160.2 and \$1,134.9, respectively	490.5	504.8
Deferred income taxes	171.3	160.5
Goodwill	3,609.3	3,580.6
Other non-current assets	498.1	509.7
<b>TOTAL ASSETS</b>	<b>\$11,532.0</b>	<b>\$13,493.9</b>
<b>LIABILITIES:</b>		
Accounts payable	\$5,705.6	\$6,584.8
Accrued liabilities	553.3	728.2
Short-term borrowings	186.3	172.1
Current portion of long-term debt	2.2	216.6
Total current liabilities	6,447.4	7,701.7
Long-term debt	1,481.0	2,060.8
Deferred compensation	483.3	489.0
Other non-current liabilities	557.2	558.6
<b>TOTAL LIABILITIES</b>	<b>8,968.9</b>	<b>10,810.1</b>
Redeemable noncontrolling interests (see Note 5)	229.6	227.2
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock	221.5	221.5
Common stock	51.2	48.8
Additional paid-in capital	2,754.1	2,465.4
Retained earnings	710.4	738.3
Accumulated other comprehensive loss, net of tax	(369.3	) (288.0
	3,367.9	3,186.0
Less: Treasury stock	(1,065.3	) (765.4
Total IPG stockholders' equity	2,302.6	2,420.6
Noncontrolling interests	30.9	36.0
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>2,333.5</b>	<b>2,456.6</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$11,532.0</b>	<b>\$13,493.9</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
	2013	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$76.8	\$127.5
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets and intangible assets	117.9	108.8
Provision for uncollectible receivables	11.4	11.8
Amortization of restricted stock and other non-cash compensation	32.9	37.7
Net amortization of bond discounts and deferred financing costs	5.4	0.3
Non-cash loss related to early extinguishment of debt	15.2	Loss on early extinguishment of debt 0.0
Deferred income tax provision (benefit)	28.5	(31.5)
Other	(7.4)	10.0
Changes in assets and liabilities, net of acquisitions and dispositions, providing (using) cash:		
Accounts receivable	586.9	610.2
Expenditures billable to clients	(250.9)	(268.4)
Other current assets	(38.8)	(17.8)
Accounts payable	(811.5)	(852.7)
Accrued liabilities	(152.9)	(172.0)
Other non-current assets and liabilities	(43.9)	(9.2)
Net cash used in operating activities	(430.4)	(445.3)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(91.6)	(99.3)
Acquisitions, including deferred payments, net of cash acquired	(48.2)	(140.6)
Net sales (purchases) and maturities of short-term marketable securities	10.8	(0.8)
Proceeds from sales of businesses and investments, net of cash sold	3.3	12.1
Other investing activities	(2.4)	(0.7)
Net cash used in investing activities	(128.1)	(229.3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Purchase of long-term debt	(601.2)	(401.0)
Proceeds from issuance of long-term debt	0.0	246.8
Repurchase of common stock	(280.8)	(201.4)
Common stock dividends	(94.1)	(78.1)
Exercise of stock options	43.6	8.5
Acquisition-related payments	(27.5)	(36.1)
Net increase in short-term bank borrowings	13.3	45.5
Distributions to noncontrolling interests	(10.4)	(12.2)
Preferred stock dividends	(8.7)	(8.7)
Excess tax benefit on share-based compensation	9.2	0.0
Other financing activities	1.0	(3.0)
Net cash used in financing activities	(955.6)	(439.7)

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

Effect of foreign exchange rate changes on cash and cash equivalents	(61.4 )	(1.1 )
Net decrease in cash and cash equivalents	(1,575.5 )	(1,115.4 )
Cash and cash equivalents at beginning of period	2,574.8	2,302.7
Cash and cash equivalents at end of period	\$999.3	\$1,187.3

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

(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, 2012	\$221.5	492.0	\$48.8	\$2,465.4	\$738.3	\$(288.0)	\$(765.4)	\$2,420.6	\$36.0	\$2,456.6
Net income					74.8			74.8	2.0	76.8
Other comprehensive loss						(81.3)		(81.3)	(3.2)	(84.5)
Reclassifications related to redeemable noncontrolling interests									4.9	4.9
Distributions to noncontrolling interests									(10.4)	(10.4)
Change in redemption value of redeemable noncontrolling interests					0.6			0.6		0.6
Repurchase of common stock							(280.8)	(280.8)		(280.8)
Common stock dividends					(94.1)			(94.1)		(94.1)
Preferred stock dividends					(8.7)			(8.7)		(8.7)
Conversion of convertible notes to common stock		16.9	1.7	198.3				200.0		200.0
Capped call transaction				19.1			(19.1)	0.0		0.0
Stock-based compensation		2.4	0.4	37.2				37.6		37.6
Exercise of stock options		4.7	0.5	43.6				44.1		44.1
Shares withheld for taxes		(1.5)	(0.2)	(19.8)				(20.0)		(20.0)
Excess tax benefit from stock-based				8.5				8.5		8.5

compensation										
Other				1.8	(0.5 )			1.3	1.6	2.9
Balance at										
September 30,	\$221.5	514.5	\$51.2	\$2,754.1	\$710.4	\$(369.3 )	\$(1,065.3)	\$2,302.6	\$ 30.9	\$2,333.5
2013										

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

7

---

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	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.

8

---

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 2012 Annual Report on Form 10-K.

In the opinion of management, these unaudited Consolidated Financial Statements include all adjustments, consisting only of normal and recurring adjustments 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, 2013 Book Value	Fair Value <sup>1</sup>	December 31, 2012 Book Value	Fair Value <sup>1</sup>
6.25% Senior Unsecured Notes due 2014 (less unamortized discount of \$0.1)	6.29%	\$351.6	\$369.4	\$352.8	\$372.6
2.25% Senior Notes due 2017 (less unamortized discount of \$0.6)	2.30%	299.4	296.7	299.3	297.8
4.00% Senior Notes due 2022 (less unamortized discount of \$2.7)	4.13%	247.3	242.0	247.1	258.7
3.75% Senior Notes due 2023 (less unamortized discount of \$1.4)	4.32%	498.6	469.3	498.5	499.7
10.00% Senior Unsecured Notes due 2017		0.0	0.0	591.9	660.8
4.75% Convertible Senior Notes due 2023		0.0	0.0	200.5	202.8
Other notes payable and capitalized leases		86.3	85.8	87.3	90.8
Total long-term debt		1,483.2		2,277.4	
Less: current portion <sup>2</sup>		2.2		216.6	
Long-term debt, excluding current portion		\$1,481.0		\$2,060.8	

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

We included our 4.75% Convertible Senior Notes due 2023 (the "4.75% Notes") in the current portion of long-term debt on our December 31, 2012 Consolidated Balance Sheet because holders of the 4.75% Notes had an option to require us to repurchase their Notes for cash, stock or a combination, at our election, at par on March 15, 2013. The 4.75% Notes were retired in the first quarter of 2013.

## Debt Transactions

## 10.00% Senior Unsecured Notes due 2017



In July 2013, we redeemed all \$600.0 in aggregate principal amount of the 10.00% Senior Unsecured Notes due 2017 (the "10.00% Notes"). Total cash paid to redeem the 10.00% Notes was \$630.0. In connection with the redemption of the 10.00% Notes, we recognized a loss on early extinguishment of debt of \$45.2, which included a redemption premium of \$30.0, the write-off of the remaining unamortized discount of \$7.3 and unamortized debt issuance costs of \$7.9. The loss on early extinguishment of debt was recorded in other (expense) income, net within our unaudited Consolidated Statement of Operations.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

4.75% Convertible Senior Notes due 2023

In March 2013, we retired all \$200.0 in aggregate principal amount of our 4.75% Notes. Of the amount retired, \$199.997 in aggregate principal amount of the 4.75% Notes was converted, at the election of the holders, into Interpublic common stock at a conversion rate of 84.3402 shares (actual number) per \$1,000 (actual number) principal amount, or approximately 16.9 shares.

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 were convertible. In March 2013, we exercised our capped call options and elected net share settlement. We received a total of 1.5 settlement shares from the option counterparties as a result of exercising these options.

Interest Rate Swaps

We enter into interest rate swaps to manage our exposure to changes in interest rates. In March and April 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 qualified for hedge accounting as cash flow hedges, and, as such, the effective portion of the losses on the swaps was recorded in other comprehensive income and the ineffective portion of the losses on the swaps was recorded in other (expense) income, net. In November 2012, we terminated these swaps when we issued our 3.75% Senior Notes due 2022 (the "3.75% Notes"). The deferred losses on the swaps, recorded in accumulated other comprehensive loss, are amortized as an increase to interest expense over the term of the 3.75% Notes.

During the first nine months of 2013, we reclassified \$1.3 from accumulated other comprehensive loss into interest expense. Over the next twelve months, we expect to reclassify \$1.8 from accumulated other comprehensive loss into interest expense in our unaudited Consolidated Statements of Operations.

Credit Agreement

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, 2013.

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 2013, the conversion rate per share for our Series B Preferred Stock was adjusted from 77.1251 to 77.8966 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 2013, resulting in a corresponding adjustment of the conversion price from \$12.97 to \$12.84. See Note 14 for further information regarding subsequent events.



Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## Note 4: Earnings Per Share

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income available to IPG common stockholders - basic	\$45.4	\$68.7	\$66.1	\$121.8
Adjustments: Effect of dilutive securities				
Interest on 4.75% Notes <sup>1</sup>	0.0	1.0	0.0	3.1
Interest on 4.25% Notes <sup>1</sup>	0.0	0.0	0.0	0.3
Net income available to IPG common stockholders - diluted	\$45.4	\$69.7	\$66.1	\$125.2
Weighted-average number of common shares outstanding - basic	419.7	431.3	419.7	435.5
Add: Effect of dilutive securities				
Restricted stock, stock options and other equity awards	6.4	8.1	5.1	7.1
4.75% Notes <sup>1</sup>	0.0	16.7	0.0	16.7
4.25% Notes <sup>1</sup>	0.0	0.0	0.0	10.4
Weighted-average number of common shares outstanding - diluted	426.1	456.1	424.8	469.7
Earnings per share available to IPG common stockholders - basic	\$0.11	\$0.16	\$0.16	\$0.28
Earnings per share available to IPG common stockholders - diluted	\$0.11	\$0.15	\$0.16	\$0.27

We retired all of our outstanding 4.75% Notes and 4.25% Convertible Senior Notes due 2023 (the “4.25% Notes”) in <sup>1</sup> March 2013 and March 2012, respectively. See Note 2 for further information on our 4.75% Notes. For purposes of calculating diluted earnings per share, the potentially dilutive shares are pro-rated based on the period they were outstanding.

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,	
	2013	2012	2013	2012
4.75% Notes <sup>1</sup>	0.0	0.0	4.4	0.0
Preferred stock outstanding	17.3	16.9	17.3	16.9
Total	17.3	16.9	21.7	16.9

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

Stock options <sup>2</sup>	0.0	7.1	0.2	7.1
----------------------------	-----	-----	-----	-----

<sup>1</sup> We retired all of our outstanding 4.75% Notes in March 2013. See Note 2 for further information on our 4.75% Notes. For purposes of calculating diluted earnings per share, the potentially dilutive shares are pro-rated based on

the period they were outstanding.

These options are outstanding at the end of the respective periods. In any period in which the exercise price is less<sup>2</sup> 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 expand our industry expertise, strengthen our position in high-growth and key strategic geographical markets and industry sectors, advance technological capabilities and improve operational efficiency through both acquisitions and increased ownership interests in current investments. 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. In addition, we have entered into agreements that may require us to purchase additional equity interests in certain consolidated and unconsolidated subsidiaries. The amounts at which we record these transactions in our financial statements are based on estimates of the future financial performance of the acquired entity, the timing of the exercise of these rights, changes in foreign currency exchange rates and other factors.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

During the first nine months of 2013, we completed eight acquisitions, including a full-service digital agency in India, a public relations consultancy in India and a mobile marketing agency in Australia. Of our eight acquisitions, seven were included in the Integrated Agency Networks (“IAN”) operating segment and one was included in the Constituency Management Group (“CMG”) operating segment. During the first nine months of 2013, we recorded approximately \$67.0 of goodwill and intangible assets related to these acquisitions.

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 IAN operating segment and four were included in the CMG operating segment. During the first nine months of 2012, we recorded approximately \$205.0 of goodwill and intangible assets related to these acquisitions.

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,	
	2013	2012
Cost of investment: current-year acquisitions	\$51.9	\$154.3
Cost of investment: prior-year acquisitions	28.5	37.0
Less: net cash acquired	(4.7	) (14.6
Total cost of investment	75.7	176.7
Operating expense <sup>1</sup>	1.6	3.2
Total cash paid for acquisitions <sup>2</sup>	\$77.3	\$179.9

<sup>1</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.

Of the total cash paid, \$27.5 and \$36.1 for the nine months ended September 30, 2013, and 2012, 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, \$48.2 and \$140.6 for the nine months ended September 30, 2013, and 2012, 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.

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,	
	2013	2012
Balance at beginning of period	\$227.2	\$243.4
Change in related noncontrolling interests balance	(4.9	) (8.3
Changes in redemption value of redeemable noncontrolling interests:		
Additions	12.5	3.0

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

Redemptions and other	(2.1	)	(14.2	)
Redemption value adjustments <sup>1</sup>	(3.1	)	(3.6	)
Balance at end of period	\$229.6		\$220.3	

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.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## Note 6: Supplementary Data

## Accrued Liabilities

The following table presents the components of accrued liabilities.

	September 30, 2013	December 31, 2012
Salaries, benefits and related expenses	\$370.9	\$478.2
Office and related expenses	52.9	51.6
Acquisition obligations	9.2	29.5
Interest	15.9	42.4
Professional fees	17.6	21.7
Other	86.8	104.8
Total accrued liabilities	\$553.3	\$728.2

## Other (Expense) Income, Net

Results of operations for the three and nine months ended September 30, 2013 and 2012 include certain items that are not directly associated with our revenue-producing operations.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Loss on early extinguishment of debt	\$(45.2	) \$0.0	\$(45.2	) \$0.0
(Losses) gains on sales of businesses and investments	(0.8	) (3.4	) 1.9	(5.2
Vendor discounts and credit adjustments	0.1	5.0	0.6	9.9
Other (expense) income, net	(0.7	) 0.1	2.7	0.4
Total other (expense) income, net	\$(46.6	) \$1.7	\$(40.0	) \$5.1

Loss on Early Extinguishment of Debt – During the third quarter of 2013, we recorded a charge of \$45.2 related to the redemption of our 10.00% Notes. See Note 2 to the unaudited Consolidated Financial Statements for further information.

Sales of Businesses and Investments – During the first nine months of 2013, we recognized gains from the sale of marketable securities in the Asia Pacific region within our IAN segment and the sale of investments in our Rabbi Trusts, which was partially offset by a loss recognized in the third quarter of 2013 from the sale of a business in the United Kingdom within our IAN segment. During the first nine months of 2012, we recognized losses from the sale of businesses within our IAN segment, 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.

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

Other (Expense) Income, net – During the first nine months of 2013, other (expense) income, net primarily included a non-cash gain on re-measurement to fair value of an equity interest in an affiliate, located in the Asia Pacific region within our CMG segment, upon acquiring a controlling interest.





Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## Accumulated Other Comprehensive Loss, Net of Tax

The following table presents the changes in accumulated other comprehensive loss, net of tax by component.

	Foreign Currency Translation Adjustments	Available-for-Sale Securities	Derivative Instruments	Defined Benefit Pension and Other Postretirement Plans	Total
Balance as of December 31, 2012	\$(130.1 )	\$ 0.8	\$(12.7 )	\$(146.0 )	\$(288.0 )
Other comprehensive (loss) income before reclassifications	(86.1 )	0.7	0.0	(0.9 )	(86.3 )
Amount reclassified from accumulated other comprehensive loss, net of tax	0.0	(1.2 )	0.8	5.4	5.0
Total change for the period	(86.1 )	(0.5 )	0.8	4.5	(81.3 )
Balance as of September 30, 2013	\$(216.2 )	\$ 0.3	\$(11.9 )	\$(141.5 )	\$(369.3 )

Amounts reclassified from accumulated other comprehensive loss, net of tax for the three and nine months ended September 30, 2013 are as follows:

	Three months ended September 30, 2013	Nine months ended September 30, 2013	Affected Line Item in the Consolidated Statement of Operations
Foreign currency translation adjustments	\$0.0	\$0.0	
Gains on available-for-sale securities	0.0	(1.4 )	Other (expense) income, net
Losses on derivative instruments	0.4	1.3	Interest expense
Amortization of defined benefit pension and postretirement plans items <sup>1</sup>	2.7	8.2	
Tax effect	(0.9 )	(3.1 )	Provision for income taxes
Total amount reclassified from accumulated other comprehensive loss, net of tax	\$2.2	\$5.0	

<sup>1</sup> These accumulated other comprehensive loss components are included in the computation of net periodic cost. See Note 9 for further information.

## Share Repurchase Program

In February 2013, 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 "2013 share repurchase program"). In March 2013, the Board authorized an increase in the amount available under our 2013 share repurchase program up to \$500.0, excluding fees, of our common stock to be used towards the repurchase of shares resulting from the conversion to common stock of the 4.75% Notes. In February 2012, the Board authorized a 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 November 2012, the Board authorized an increase in the amount available under our 2012 share repurchase program up to \$400.0, excluding fees, of our common stock, as a result of the sale of our remaining holdings in Facebook. 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,	
	2013	2012
Number of shares repurchased	19.9	18.6
Aggregate cost, including fees	\$ 280.8	\$ 201.4
Average price per share, including fees	\$ 14.12	\$ 10.85

As of September 30, 2013, \$319.4 remains available for repurchase under the 2013 share repurchase program. The 2013 share repurchase program has no expiration date. We fully utilized the 2012 share repurchase program as of the second quarter of 2013.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## Note 7: Income Taxes

For the three months ended September 30, 2013, our effective income tax rate of 36.9% was negatively impacted primarily by losses in certain foreign jurisdictions where we receive no tax benefit due to 100% valuation allowances and the net establishment of valuation allowances, primarily in the Continental Europe region. Our effective income tax rate was positively impacted by the recognition of previously unrecognized tax benefits as a result of the settlement of the 2002-2006 NYS audit cycles. For the nine months ended September 30, 2013, our effective income tax rate of 50.7% was negatively impacted primarily by losses in certain foreign jurisdictions where we receive no tax benefit due to 100% valuation allowances.

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 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 \$10.0 and \$20.0 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.

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, 2013.

	Awards	Weighted-average grant-date fair value (per award)
Stock options	0.7	\$4.14
Stock-settled awards	1.0	\$13.17
Performance-based awards	1.5	\$11.97
Total stock-based compensation awards	3.2	

During the nine months ended September 30, 2013, the Compensation Committee granted performance cash awards under the 2009 PIP with a total target value of \$86.0. Of this amount, awards with a total target value of \$35.6 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, 2013, the Compensation Committee granted cash awards under the Interpublic Restricted Cash Plan with a total target value of \$4.2. 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 Limited 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.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

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	
	2013	2012	2013	2012	2013	2012
Three months ended September 30,						
Service cost	\$0.0	\$0.0	\$2.6	\$3.0	\$0.1	\$0.1
Interest cost	1.4	1.6	5.3	5.3	0.4	0.5
Expected return on plan assets	(1.9 )	(2.0 )	(4.7 )	(4.5 )	0.0	0.0
Settlement and curtailment losses	0.0	0.0	0.0	0.1	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	0.1	(0.1 )	0.0
Unrecognized actuarial losses	2.0	1.6	0.7	0.3	0.0	0.0
Net periodic cost	\$1.5	\$1.2	\$4.0	\$4.3	\$0.4	\$0.6
	Domestic Pension Plan		Foreign Pension Plans		Domestic Postretirement Benefit Plan	
	2013	2012	2013	2012	2013	2012
Nine months ended September 30,						
Service cost	\$0.0	\$0.0	\$7.7	\$8.3	\$0.1	\$0.2
Interest cost	4.1	4.7	15.9	16.3	1.2	1.7
Expected return on plan assets	(5.8 )	(5.8 )	(14.3 )	(13.6 )	0.0	0.0
Settlement and curtailment losses	0.0	0.0	0.0	0.1	0.0	0.0
Amortization of:						
Transition obligation	0.0	0.0	0.0	0.0	0.0	0.1
Prior service cost (credit)	0.0	0.0	0.2	0.1	(0.1 )	(0.1 )
Unrecognized actuarial losses	6.0	4.8	2.1	0.8	0.0	0.0
Net periodic cost	\$4.3	\$3.7	\$11.6	\$12.0	\$1.2	\$1.9

During the nine months ended September 30, 2013, we contributed \$0.5 and \$13.5 of cash to our domestic and foreign pension plans, respectively. For the remainder of 2013, we do not expect to make any additional cash contributions to our domestic pension plan and we expect to contribute approximately \$6.0 of cash to our foreign pension plans.

## Note 10: Segment Information

We have two reportable segments, IAN and CMG. IAN is comprised of McCann Worldgroup, Draftfcb, Lowe & Partners, IPG 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. The segment information is presented consistently with the basis described in our 2012 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		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Revenue:				
IAN	\$1,370.9	\$1,332.5	\$4,047.7	\$3,999.7
CMG	329.5	337.9	951.9	893.2
Total	\$1,700.4	\$1,670.4	\$4,999.6	\$4,892.9
Segment operating income:				
IAN	\$119.9	\$116.6	\$266.5	\$278.6
CMG	39.7	34.4	88.3	73.1
Corporate and other	(18.1	) (19.6	) (80.9	) (83.3
Total	141.5	131.4	273.9	268.4
Interest expense	(23.7	) (31.6	) (98.0	) (96.9
Interest income	5.8	6.7	18.0	21.4
Other (expense) income, net	(46.6	) 1.7	(40.0	) 5.1
Income before income taxes	\$77.0	\$108.2	\$153.9	\$198.0
Depreciation and amortization of fixed assets and intangible assets:				
IAN	\$32.9	\$30.1	\$95.4	\$88.4
CMG	3.9	3.9	11.6	10.6
Corporate and other	3.7	3.4	10.9	9.8
Total	\$40.5	\$37.4	\$117.9	\$108.8
Capital expenditures:				
IAN	\$24.5	\$19.9	\$48.0	\$52.6
CMG	2.4	11.9	6.5	17.5
Corporate and other	17.9	9.3	37.1	29.2
Total	\$44.8	\$41.1	\$91.6	\$99.3
			September 30, December 31,	
			2013	2012
Total assets:				
IAN	\$10,368.3	\$11,035.3		
CMG	1,182.8	1,073.1		
Corporate and other	(19.1	) 1,385.5		
Total	\$11,532.0	\$13,493.9		



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, 2013. The following tables present information about our financial instruments measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	September 30, 2013			Total	Balance Sheet Classification
	Level 1	Level 2	Level 3		
Assets					
Cash equivalents	\$511.0	\$0.0	\$0.0	\$511.0	Cash and cash equivalents
Short-term marketable securities	5.2	0.0	0.0	5.2	Marketable securities
Long-term investments	1.5	0.0	0.0	1.5	Other assets
Total	\$517.7	\$0.0	\$0.0	\$517.7	

As a percentage of total assets	4.5	% 0.0	% 0.0	% 4.5	%
---------------------------------	-----	-------	-------	-------	---

## Liabilities

Mandatorily redeemable noncontrolling interests <sup>1</sup>	\$0.0	\$0.0	\$26.0	\$26.0	
--	-------	-------	--------	--------	--

	December 31, 2012			Total	Balance Sheet Classification
	Level 1	Level 2	Level 3		
Assets					
Cash equivalents	\$1,806.6	\$0.0	\$0.0	\$1,806.6	Cash and cash equivalents
Short-term marketable securities	16.0	0.0	0.0	16.0	Marketable securities
Long-term investments	1.5	0.0	0.0	1.5	Other assets
Total	\$1,824.1	\$0.0	\$0.0	\$1,824.1	

As a percentage of total assets	13.5	% 0.0	% 0.0	% 13.5	%
---------------------------------	------	-------	-------	--------	---

Liabilities

Mandatorily redeemable noncontrolling interests <sup>1</sup>	\$0.0	\$0.0	\$25.3	\$25.3
--	-------	-------	--------	--------

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

<sup>1</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.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

The following table presents 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 for the nine months ended September 30, 2013.

Liabilities	Mandatorily Redeemable Noncontrolling Interests
Balance at December 31, 2012	\$25.3
Level 3 additions	1.0
Level 3 reductions	(0.9
Realized losses included in net income	0.6
Balance at September 30, 2013	\$26.0

Realized 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, 2013 and December 31, 2012, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	September 30, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Total long-term debt	\$0.0	\$1,377.4	\$85.8	\$1,463.2	\$0.0	\$2,292.4	\$90.8	\$2,383.2

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 ContingenciesLegal 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.

Guarantees

As discussed in our 2012 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 \$420.7 and \$410.3 as of September 30, 2013 and December 31, 2012, respectively, and the amount of parent company guarantees primarily relating to credit facilities was \$257.6 and \$283.4 as of September 30, 2013 and December 31, 2012, respectively.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Note 13: Recent Accounting Standards

Comprehensive Income

In February 2013, the Financial Accounting Standards Board ("FASB") issued amended guidance for presenting comprehensive income, which is effective for us January 1, 2013, and applied prospectively. This amended guidance requires an entity to disclose significant amounts reclassified out of accumulated other comprehensive income by component and their corresponding effect on the respective line items in net income. The adoption of this amended guidance required us to include additional disclosures in our unaudited Consolidated Financial Statements. See Note 6 for further information.

Unrecognized Tax Benefits

In July 2013, the FASB issued amended guidance on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists at the reporting date. The amended guidance requires an entity to present unrecognized tax benefits as a reduction to the deferred tax assets created by net operating losses, similar tax losses or tax credits that occur in the same taxing jurisdiction. To the extent that the unrecognized tax benefit exceeds these losses or credits, it shall be presented as a liability. The guidance is effective for us January 1, 2014, and applied prospectively. We do not expect the adoption of this amended guidance to have a significant impact on our Consolidated Financial Statements.

Note 14: Subsequent Events

On October 17, 2013, we converted all outstanding shares of our Series B Preferred Stock into approximately 17.3 shares of our common stock at a conversion rate of 77.8966 shares of common stock per share of Series B Preferred Stock. The Company also paid a nominal cash amount in lieu of fractional shares. The shares of Series B Preferred Stock were previously included as eligible dilutive securities in our calculation of diluted share count, and the approximately 17.3 newly issued common shares will now be included in our basic share count. See Note 3 for further information on the Series B Preferred Stock.

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 2012 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 2012 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 2013 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, communications planning and media buying, public relations and specialized communications disciplines. Our agencies create customized marketing programs for clients that range in scale from large global marketers to regional and local clients. 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 continues to evolve 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 investments in creative and strategic talent in fast-growth digital marketing channels, high-growth geographic regions and strategic 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 competitive organic revenue growth and operating margin expansion, 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. Our disciplined approach to 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, 2013, as compared with the same periods in 2012.

% Increase/(Decrease)	Three months ended September 30, 2013		Nine months ended September 30, 2013		
	Total	Organic	Total	Organic	
Revenue	1.8	% 2.8	% 2.2	% 2.4	%
Salaries and related expenses	2.8	% 3.5	% 2.7	% 2.8	%
Office and general expenses	(2.0)	)% (0.7)	)% 1.0	% 1.8	%
	Three months ended September 30, 2013		Nine months ended September 30, 2013		
	2012	2012	2012	2012	
Operating margin	8.3	% 7.9	% 5.5	% 5.5	%
Expenses as % of revenue:					
Salaries and related expenses	64.3	% 63.7	% 66.9	% 66.6	%
Office and general expenses	27.4	% 28.4	% 27.6	% 27.9	%
Net income available to IPG common stockholders <sup>1</sup>	\$45.4	\$68.7	\$66.1	\$121.8	
Earnings per share available to IPG common stockholders:					
Basic <sup>1</sup>	\$0.11	\$0.16	\$0.16	\$0.28	
Diluted <sup>1</sup>	\$0.11	\$0.15	\$0.16	\$0.27	

For the three and nine months ended September 30, 2013, net income available to IPG common stockholders includes a loss on early extinguishment of debt of \$28.3, net of tax. As a result, for the three months ended <sup>1</sup> September 30, 2013, basic and diluted earnings per share were impacted by \$0.07 and \$0.06 per share, respectively. For the nine months ended September 30, 2013, basic and diluted earnings per share were both impacted by \$0.06 per share.

When we analyze period-to-period changes in our operating performance we determine the portion of the change that is attributable to changes in 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 evaluate 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 changes in 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 2013 include the Brazilian Real, Euro, Japanese Yen and the South African Rand. During the first nine months of 2013, 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 and first nine months of 2013, foreign currency fluctuations resulted in net decreases of approximately 1% in revenues and salaries and related expenses and net decreases of approximately 2% in office and general expenses, which had a minimal 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. During the past few years we have acquired companies that we believe will enhance our offerings and disposed of businesses that are not consistent with our strategic plan. For the third quarter and first nine months of 2013, 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, 2013 Compared to Three and Nine Months Ended September 30, 2012

## REVENUE

	Three months ended September 30, 2012	Components of Change			Three months ended September 30, 2013	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$1,670.4	\$(23.5)	\$6.9	\$46.6	\$1,700.4	2.8	%	1.8	%
Domestic	940.5	0.0	0.9	35.2	976.6	3.7	%	3.8	%
International	729.9	(23.5)	6.0	11.4	723.8	1.6	%	(0.8)	)%
United Kingdom	148.8	(2.6)	0.0	(13.8)	132.4	(9.3)	)%	(11.0)	)%
Continental Europe	165.3	8.8	0.2	(9.7)	164.6	(5.9)	)%	(0.4)	)%
Asia Pacific	202.9	(14.3)	5.6	23.0	217.2	11.3	%	7.0	%
Latin America	107.5	(9.6)	0.2	8.6	106.7	8.0	%	(0.7)	)%
Other	105.4	(5.8)	0.0	3.3	102.9	3.1	%	(2.4)	)%

During the third quarter of 2013, our revenue increased by \$30.0, or 1.8%, compared to the third quarter of 2012, primarily due to an organic revenue increase of \$46.6, or 2.8%, partially offset by an adverse foreign currency rate impact of \$23.5. The organic revenue increase in our domestic market was primarily attributable to net client wins, most notably in the auto and transportation sector, and net higher spending from existing clients, primarily in the health care sector, partially offset by a decline in the retail sector. In our international markets, the organic revenue increase was primarily in the Asia Pacific region, primarily in Australia, India, China and Japan, and in the Latin America region, predominantly in Brazil. Partially offsetting the international organic revenue increase was an organic revenue decrease in the United Kingdom due to a decrease in our events marketing business which in the prior-year included work performed for the Olympics and a decline in the Continental Europe region, across most countries in the market, due to a continued challenging economic climate. The organic revenue increase in our international markets was primarily due to net higher spending from existing clients, primarily in the auto and transportation, food and beverage and consumer goods sectors, partially offset by decreases in the financial services and technology and telecom sectors.

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, 2012	Components of Change			Nine months ended September 30, 2013	Change	
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total

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

Consolidated	\$4,892.9	\$(53.1	) \$40.1	\$119.7	\$4,999.6	2.4	%	2.2	%
Domestic	2,771.1	0.0	25.5	71.0	2,867.6	2.6	%	3.5	%
International	2,121.8	(53.1	) 14.6	48.7	2,132.0	2.3	%	0.5	%
United Kingdom	400.7	(7.5	) (0.2	) (2.8	) 390.2	(0.7	)%	(2.6	)%
Continental Europe	543.3	13.6	(0.3	) (36.2	) 520.4	(6.7	)%	(4.2	)%
Asia Pacific	584.8	(25.3	) 14.6	40.0	614.1	6.8	%	5.0	%
Latin America	294.3	(20.7	) 0.5	38.7	312.8	13.1	%	6.3	%
Other	298.7	(13.2	) 0.0	9.0	294.5	3.0	%	(1.4	)%

During the first nine months of 2013, our revenue increased by \$106.7, or 2.2%, compared to the first nine months of 2012, due to an organic revenue increase of \$119.7, or 2.4%, and the effect of net acquisitions of \$40.1, partially offset by an adverse

Table of Contents

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

foreign currency rate impact of \$53.1. Our organic revenue increase in the domestic market was primarily driven by factors similar to those noted above for the third quarter of 2013. The international organic increase was primarily in the Asia Pacific region, led by Australia and in the Latin America region, primarily in Brazil. Partially offsetting these increases were organic revenue decreases in the Continental Europe region due to a continued challenging economic climate, and to a lesser extent, in the United Kingdom. The international organic revenue increase was primarily due to net higher spending from existing clients, primarily the technology and telecom, auto and transportation, and health care sectors.

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,	
	2013	2012	2013	2012
Salaries and related expenses	\$1,093.6	\$1,064.3	\$3,345.9	\$3,258.1
Office and general expenses	465.3	474.7	1,379.8	1,366.4
Total operating expenses	\$1,558.9	\$1,539.0	\$4,725.7	\$4,624.5
Operating income	\$141.5	\$131.4	\$273.9	\$268.4

## Salaries and Related Expenses

	2012	Components of Change			2013	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Three months ended September 30,	\$1,064.3	\$(11.5)	\$3.8	\$37.0	\$1,093.6	3.5	%	2.8	%
Nine months ended September 30,	3,258.1	(28.1)	23.9	92.0	3,345.9	2.8	%	2.7	%

Our staff cost ratio, defined as salaries and related expenses as a percentage of total consolidated revenue, increased in the third quarter of 2013 to 64.3% from 63.7% when compared to the prior-year period. Salaries and related expenses in the third quarter of 2013 increased by \$29.3 compared to the third quarter of 2012, primarily due to an organic increase of \$37.0, partially offset by a favorable foreign currency rate impact of \$11.5. The organic increase was primarily attributable to an increase in base salaries, benefits and temporary help of \$38.6, primarily due to increases in our workforce at businesses where we had revenue growth or new business wins during 2013. The increases were primarily in the domestic market and in the Asia Pacific and Latin America regions.

Our staff cost ratio increased in the first nine months of 2013 to 66.9% from 66.6% when compared to the prior-year period. Salaries and related expenses in the first nine months of 2013 increased by \$87.8 compared to the first nine months of 2012, due to an organic increase of \$92.0 and the effect of net acquisitions of \$23.9, partially offset by a favorable foreign currency rate impact of \$28.1. The organic increase was primarily attributable to an increase in base salaries, benefits and temporary help of \$98.0, primarily due to increases in our workforce in our international markets, predominantly in the Asia Pacific and Latin America regions, as well as in our domestic market at businesses where we had revenue growth or new business wins. Partially offsetting the organic increase was a reduction in incentive award expense of \$13.1, primarily attributable to lower long-term incentive award expense due to our performance relative to certain targets in 2012.

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

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

	Three months ended		Nine months ended		
	September 30, 2013	2012	September 30, 2013	2012	
Salaries and related expenses	64.3	% 63.7	% 66.9	% 66.6	%
Base salaries, benefits and tax	54.6	% 53.8	% 56.3	% 55.5	%
Incentive expense	2.2	% 2.3	% 3.0	% 3.3	%
Severance expense	1.2	% 1.0	% 1.4	% 1.2	%
Temporary help	3.8	% 3.8	% 3.7	% 3.8	%
All other salaries and related expenses	2.5	% 2.8	% 2.5	% 2.8	%

24

---

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

	2012	Components of Change			2013	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Three months ended September 30,	\$474.7	\$(8.5 )	\$ 2.2	\$(3.1 )	\$465.3	(0.7 )	%	(2.0 )	%
Nine months ended September 30,	1,366.4	(18.6 )	7.6	24.4	1,379.8	1.8	%	1.0	%

Our office and general expense ratio, defined as office and general expenses as a percentage of total consolidated revenue, decreased in the third quarter of 2013 to 27.4% from 28.4% when compared to the prior-year period. Office and general expenses in the third quarter of 2013 decreased by \$9.4 compared to the third quarter of 2012, primarily due to a favorable foreign currency rate impact of \$8.5 and an organic decrease of \$3.1. The organic decrease was primarily attributable to lower production expenses related to pass-through costs in the United Kingdom, which are also reflected in revenue, partially offset by an increase in occupancy costs.

Our office and general expense ratio decreased in the first nine months of 2013 to 27.6% from 27.9% when compared to the prior-year period. Office and general expenses in the first nine months of 2013 increased by \$13.4 compared to the first nine months of 2012, primarily due to an organic increase of \$24.4, partially offset by a favorable foreign currency rate impact of \$18.6. The organic increase was primarily attributable to an increase in occupancy costs and higher production expenses related to pass-through costs in the domestic market, which are also reflected in revenue, partially offset by certain adjustments to contingent acquisition obligations.

The following table details our office and general expenses as a percentage of total consolidated revenue.

	Three months ended September 30,		Nine months ended September 30,		
	2013	2012	2013	2012	
Office and general expenses	27.4	% 28.4	% 27.6	% 27.9	%
Professional fees	1.5	% 1.5	% 1.7	% 1.7	%
Occupancy expense (excluding depreciation and amortization)	7.3	% 7.2	% 7.4	% 7.4	%
Travel & entertainment, office supplies and telecommunications	3.5	% 3.6	% 3.7	% 3.9	%
All other office and general expenses	15.1	% 16.1	% 14.8	% 14.9	%

All other office and general expenses primarily include production expenses, and, to a lesser extent, depreciation and amortization, bad debt expense, adjustments for contingent acquisition obligations, foreign currency gains (losses), restructuring and other reorganization-related charges (reversals), long-lived asset impairments and other expenses.

## EXPENSES AND OTHER INCOME

	Three months ended September 30,		Nine months ended September 30,		
	2013	2012	2013	2012	
Cash interest on debt obligations	\$(21.7 )	\$(30.7 )	\$(91.4 )	\$(96.0 )	)
Non-cash interest	(2.0 )	(0.9 )	(6.6 )	(0.9 )	)
Interest expense	(23.7 )	(31.6 )	(98.0 )	(96.9 )	)
Interest income	5.8	6.7	18.0	21.4	)
Net interest expense	(17.9 )	(24.9 )	(80.0 )	(75.5 )	)
Other (expense) income, net	(46.6 )	1.7	(40.0 )	5.1	)

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

Total (expenses) and other income	\$ (64.5 )	\$ (23.2 )	\$ (120.0 )	\$ (70.4 )
Net Interest Expense				

For the three and nine months ended September 30, 2013, net interest expense decreased by \$7.0 and increased by \$4.5, respectively, as compared to the same periods in 2012. Cash interest expense decreased primarily due to the retirement of our 4.75% Convertible Senior Notes due 2023 (the "4.75% Notes") in the first quarter of 2013 and the redemption of our 10.00% Senior Unsecured Notes due 2017 (the "10.00% Notes") in July 2013, which were refinanced with debt issued at lower rates in 2012. Non-cash interest expense increased primarily as a result of the retirement of our 4.75% Notes and our 4.25% Convertible

Table of Contents

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

Senior Notes due 2023 in the first quarter of 2013 and first quarter of 2012, respectively. At retirement, the premiums associated with these Notes, which had reduced interest expense in prior periods, were fully amortized.

## Other (Expense) Income, Net

Results of operations for the three and nine months ended September 30, 2013 and 2012 include certain items that are not directly associated with our revenue-producing operations.

	Three months ended		Nine months ended		
	September 30,		September 30,		
	2013	2012	2013	2012	
Loss on early extinguishment of debt	\$ (45.2	) \$ 0.0	\$ (45.2	) \$ 0.0	
(Losses) gains on sales of businesses and investments	(0.8	) (3.4	) 1.9	(5.2	)
Vendor discounts and credit adjustments	0.1	5.0	0.6	9.9	
Other (expense) income, net	(0.7	) 0.1	2.7	0.4	
Total other (expense) income, net	\$ (46.6	) \$ 1.7	\$ (40.0	) \$ 5.1	

Loss on Early Extinguishment of Debt – During the third quarter of 2013, we recorded a charge of \$45.2 related to the redemption of our 10.00% Notes. See Note 2 to the unaudited Consolidated Financial Statements for further information.

Sales of Businesses and Investments – During the first nine months of 2013, we recognized gains from the sale of marketable securities in the Asia Pacific region within our Integrated Agency Networks (“IAN”) segment and the sale of investments in our Rabbi Trusts, which was partially offset by a loss recognized in the third quarter of 2013 from the sale of a business in the United Kingdom within our IAN segment. During the first nine months of 2012, we recognized losses from the sale of businesses within our IAN segment, 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.

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

Other (Expense) Income, net – During the first nine months of 2013, other (expense) income, net primarily included a non-cash gain on re-measurement to fair value of an equity interest in an affiliate, located in the Asia Pacific region within our Constituency Management Group (“CMG”) segment, upon acquiring a controlling interest.

## INCOME TAXES

	Three months ended		Nine months ended		
	September 30,		September 30,		
	2013	2012	2013	2012	
Income before income taxes	\$ 77.0	\$ 108.2	\$ 153.9	\$ 198.0	
Provision for income taxes	\$ 28.4	\$ 41.9	\$ 78.0	\$ 72.8	
Effective income tax rate	36.9	% 38.7	% 50.7	% 36.8	%

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, 2013, our effective income tax rate of 36.9% was negatively impacted primarily by losses in certain foreign jurisdictions where we receive no tax benefit due to 100% valuation allowances and the net establishment of valuation allowances, primarily in the Continental Europe region. Our effective income tax rate was positively impacted by the recognition of previously unrecognized tax benefits as a result of the settlement of the 2002-2006 NYS audit cycles. For the nine



months ended September 30, 2013, our effective income tax rate of 50.7% was negatively impacted primarily by losses in certain foreign jurisdictions where we receive no tax benefit due to 100% valuation allowances. For the three months ended September 30, 2012, our effective income tax rate of 38.7% was negatively impacted by losses in certain foreign jurisdictions 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 these factors, 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 fully valued. Additionally,

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 effective income tax rate was negatively impacted by an adjustment of \$19.5 associated with the establishment of a reserve for a tax contingency for the years 2007 through 2010.

**EARNINGS PER SHARE**

Basic earnings per share available to IPG common stockholders for the three and nine months ended September 30, 2013 was \$0.11 and \$0.16 per share, respectively, compared to \$0.16 and \$0.28 per share for the three and nine months ended September 30, 2012, respectively. Diluted earnings per share was \$0.11 and \$0.16 per share for the three and nine months ended September 30, 2013, respectively, compared to \$0.15 and \$0.27 per share for the three and nine months ended September 30, 2012, respectively.

For the three months ended September 30, 2013, basic and diluted earnings per share included \$0.07 and \$0.06 per share, respectively, as a result of the loss on early extinguishment of debt. For the nine months ended September 30, 2013, basic and diluted earnings per share included \$0.06 per share as a result of the loss on early extinguishment of debt.

**Segment Results of Operations – Three and Nine Months Ended September 30, 2013 Compared to Three and Nine Months Ended September 30, 2012**

As discussed in Note 10 to the unaudited Consolidated Financial Statements, we have two reportable segments as of September 30, 2013: IAN and CMG. We also report results for the "Corporate and other" group.

	Three months ended September 30, 2012	Components of Change			Three months ended September 30, 2013	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$1,332.5	\$(20.9)	\$5.8	\$53.5	\$1,370.9	4.0	%	2.9	%
Domestic	721.0	0.0	0.9	28.6	750.5	4.0	%	4.1	%
International	611.5	(20.9)	4.9	24.9	620.4	4.1	%	1.5	%

During the third quarter of 2013, IAN revenue increased by \$38.4 compared to the third quarter of 2012, primarily due to an organic revenue increase of \$53.5, partially offset by an adverse foreign currency rate impact of \$20.9. The organic revenue increase in the domestic market was primarily attributable to net client wins, most notably in the auto and transportation sector, and net higher spending from existing clients, primarily in the health care sector, partially offset by a decline in the retail sector. In our international markets, the organic revenue increase was primarily in the Asia Pacific region, primarily in Australia, India, China and Japan, and in the Latin America region, primarily in Brazil, partially offset by a decline in the Continental Europe region, across most countries in the market, due to a continued challenging economic climate. The organic revenue increase in our international markets was primarily due to net higher spending from existing clients across most client sectors.

	Nine months ended September 30, 2012	Components of change			Nine months ended September 30, 2013	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$3,999.7	\$(47.9)	\$33.3	\$62.6	\$4,047.7	1.6	%	1.2	%

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

Domestic	2,188.6	0.0	25.5	15.2	2,229.3	0.7	%	1.9	%
International	1,811.1	(47.9	) 7.8	47.4	1,818.4	2.6	%	0.4	%

During the first nine months of 2013, IAN revenue increased by \$48.0 compared to the first nine months of 2012, due to an organic revenue increase of \$62.6 and the effect of net acquisitions of \$33.3, partially offset by an adverse foreign currency rate impact of \$47.9. The organic revenue increase in our domestic market was primarily attributable to net client wins, most notably in the auto and transportation sector, and net higher spending from existing clients, primarily in the health care sector, partially offset by decreases in the technology and telecom and retail sectors. The organic revenue increase in our international markets was primarily in the Asia Pacific region, predominantly in Australia, and in the Latin America region, primarily in Brazil, partially offset by a decline in the Continental Europe region due to a continued challenging economic climate. The organic revenue increase in our international market was primarily attributable to net higher spending from existing clients, most notably in the technology and telecom and auto and transportation sectors.

Table of Contents

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

## SEGMENT OPERATING INCOME

	Three months ended			Nine months ended		
	September 30,		Change	September 30,		Change
	2013	2012		2013	2012	
Segment operating income	\$ 119.9	\$ 116.6	2.8	% \$ 266.5	\$ 278.6	(4.3 )%
Operating margin	8.7	% 8.8	%	6.6	% 7.0	%

Operating income increased during the third quarter of 2013 when compared to the third quarter of 2012 due to an increase in revenue of \$38.4, partially offset by an increase in salaries and related expenses of \$27.1 and an increase in office and general expenses of \$8.0. The increase in salaries and related expenses was primarily due to an increase in base salaries, benefits and temporary help, primarily attributable to an increase in our workforce at certain businesses where we had revenue growth or new business wins during 2013. The increase in office and general expenses was primarily attributable to an increase in occupancy costs and higher production expenses related to pass-through costs, which are also reflected in revenue, that increased in size or were new during the third quarter of 2013.

Operating income decreased during the first nine months of 2013 when compared to the first nine months of 2012 due to an increase in salaries and related expenses of \$70.0, partially offset by an increase in revenue of \$48.0 and a decrease in office and general expenses of \$9.9. The increase in salaries and related expenses was primarily due to an increase in base salaries, benefits and temporary help, primarily attributable to an increase in our workforce in certain businesses where we had revenue growth or new business wins and, to a lesser extent, higher severance expense. Partially offsetting the increase in salaries and related expenses was a reduction in incentive award expense primarily attributable to lower long-term incentive award expense due to our performance relative to certain targets in 2012. The decrease in office and general expenses was primarily attributable to certain adjustments to contingent acquisition obligations and lower discretionary spending, partially offset by an increase in occupancy costs.

## CMG

## REVENUE

	Three months ended September 30, 2012	Components of Change			Three months ended September 30, 2013	Change	
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total
Consolidated	\$337.9	\$(2.6 )	\$ 1.1	\$(6.9 )	\$329.5	(2.0 )%	(2.5 )%
Domestic	219.5	0.0	0.0	6.7	226.2	3.1 %	3.1 %
International	118.4	(2.6 )	1.1	(13.6 )	103.3	(11.5 )%	(12.8 )%

During the third quarter of 2013, CMG revenue decreased by \$8.4 compared to the third quarter of 2012, primarily due to an organic revenue decrease of \$6.9. The organic revenue decrease was primarily attributable to a decrease in our international markets, primarily in the United Kingdom, due to a decrease in our events marketing business which in the prior-year included work performed for the Olympics. The organic revenue increase in our domestic market was primarily due to net higher spending from existing clients and net client wins, most notably in our public relations business. 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.

	Nine months ended September 30, 2012	Components of change			Nine months ended September 30, 2013	Change	
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total

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

Consolidated	\$893.2	\$(5.2	) \$6.8	\$57.1	\$951.9	6.4	% 6.6	%
Domestic	582.5	0.0	0.0	55.9	638.4	9.6	% 9.6	%
International	310.7	(5.2	) 6.8	1.2	313.5	0.4	% 0.9	%

During the first nine months of 2013, CMG revenue increased by \$58.7 compared to the first nine months of 2012, primarily due to an organic revenue increase of \$57.1. The organic revenue increase was primarily due to net client wins and net higher spending from existing clients across all disciplines, most notably in our events marketing and public relations businesses, primarily in the domestic market. The international organic revenue increase occurred primarily in our public relations business and was

Table of Contents

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

predominantly in the Latin America region, most notably in Brazil. Mostly offsetting the international organic revenue increase was an organic revenue decrease in the United Kingdom, due to a decrease in our events marketing business which in the prior-year included work performed for the Olympics.

## SEGMENT OPERATING INCOME

	Three months ended			Nine months ended		
	September 30,		Change	September 30,		Change
	2013	2012		2013	2012	
Segment operating income	\$39.7	\$34.4	15.4 %	\$88.3	\$73.1	20.8 %
Operating margin	12.0	% 10.2	%	9.3	% 8.2	%

Operating income increased during the third quarter of 2013 when compared to the third quarter of 2012 due to a decrease in office and general expenses of \$16.2, partially offset by a decrease in revenue of \$8.4 and an increase in salaries and related expenses of \$2.5. Office and general expenses decreased primarily due 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 2013. The increase in salaries and related expenses was primarily attributable to increases in our workforce, primarily at our public relations business to support business growth.

Operating income increased during the first nine months of 2013 when compared to the first nine months of 2012 due to an increase in revenue of \$58.7, partially offset by increases in office and general expenses of \$22.1 and salaries and related expenses of \$21.4. 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 first nine months of 2013. The increase in salaries and related expenses was driven by factors similar to those noted above for the third quarter of 2013.

## 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, as well as 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 centrally managed 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 2013 by \$1.5 to \$18.1 compared to the third quarter of 2012, primarily due to a decrease in office and general expenses. Corporate and other expenses decreased by \$2.4 to \$80.9 during the first nine months of 2013 compared to the first nine months of 2012, primarily due to a decrease in salaries and related expenses, primarily due to lower incentive award and severance expenses, partially offset by higher base salaries, benefits and temporary help.

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,	
	2013	2012
Net income, adjusted to reconcile net income to net cash used in operating activities <sup>1</sup>	\$280.7	\$264.6
Net cash used in working capital <sup>2</sup>	(667.2	) (700.7
Changes in other non-current assets and liabilities using cash	(43.9	) (9.2
Net cash used in operating activities	\$(430.4	) \$(445.3
Net cash used in investing activities	(128.1	) (229.3
Net cash used in financing activities	(955.6	) (439.7

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, non-cash loss related to early extinguishment of debt, and deferred income taxes.

<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, 2013	December 31, 2012	September 30, 2012
Cash, cash equivalents and marketable securities	\$1,004.5	\$2,590.8	\$1,201.6
Short-term borrowings	\$186.3	\$172.1	\$200.5
Current portion of long-term debt	2.2	216.6	217.1
Long-term debt	1,481.0	2,060.8	1,263.1
Total debt	\$1,669.5	\$2,449.5	\$1,680.7

## Operating Activities

Net cash used in operating activities during the first nine months of 2013 was \$430.4, which was a decrease of \$14.9 as compared to the first nine months of 2012. 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 2013 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, accounts payable and accrued liabilities. Our assets include both cash received and accounts receivable from clients for these pass-through arrangements, while our liabilities include amounts owed on behalf of clients to media and production suppliers.

Our accrued liabilities are also affected by the timing of certain other payments. For example, while 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 2013 primarily reflects capital expenditures and payments for acquisitions. Capital expenditures of \$91.6 relate primarily to computer hardware and software, and leasehold improvements. We made payments of \$48.2 related to acquisitions completed in the first nine months of 2013.

#### Financing Activities

Net cash used in financing activities during the first nine months of 2013 is primarily related to the purchase of long-term debt, the repurchase of our common stock, and payment of dividends. During the third quarter of 2013, we redeemed all \$600.0 in aggregate principal amount of the 10.00% Senior Unsecured Notes due 2017 (the "10.00% Notes"). During the first nine months

30

---



Table of Contents

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

of 2013, we repurchased 19.9 shares of our common stock for an aggregate cost of \$280.8, including fees, and made dividend payments of \$94.1 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 resulted in a decrease of \$61.4 during the first nine months of 2013. The decrease was a result of the U.S. Dollar being stronger than several foreign currencies, including the Australian Dollar, Brazilian Real, and Japanese Yen, as of September 30, 2013 as compared to December 31, 2012.

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 funds 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 – We retired all of our 4.75% Notes in March 2013 and redeemed all of our 10.00% Notes in July 2013. Our \$350.0 in aggregate principal amount of the 6.25% Senior Unsecured Notes due 2014 mature on November 15, 2014. The remainder of our debt is primarily long-term, with maturities scheduled through 2031.

Acquisitions – We paid cash of \$47.2, which was net of cash acquired of \$4.7, for acquisitions completed in the first nine months of 2013. We also paid cash of \$30.1 related to acquisitions made in prior years. In addition to potential cash expenditures for new acquisitions, we expect to pay approximately \$1.0 for the remainder of 2013 and approximately \$6.0 in 2014 related to prior acquisitions. We may also be required to pay approximately \$15.0 over the next 12 months related to put options held by minority share holders if exercised. We will continue to evaluate strategic opportunities to grow and continue to strengthen our position, particularly in our digital and marketing services offerings, and to expand our presence in high-growth and key strategic world markets.

Dividends – In the first nine months of 2013, we paid three quarterly cash dividends of \$0.075 per share on our common stock, which corresponded to an aggregate dividend payment of \$94.1. Assuming we continue to pay a quarterly dividend of \$0.075 per share and there is no significant change in the number of outstanding shares as of September 30, 2013, we would pay approximately \$126.0 over the next twelve months. On October 17, 2013, we converted all of our Series B Cumulative Convertible Perpetual Preferred Stock and we will no longer be required to pay annual preferred stock dividends of \$11.6. Assuming we continue to pay common stock dividends at our current

rate, we would pay an additional approximately \$5.0 common stock dividends over the next twelve months related to the common shares issued as a result of the conversion.

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, 2013, we contributed \$0.5 and \$13.5 of cash to our domestic and foreign pension plans, respectively. For the remainder of 2013, we do not expect to make any additional cash contributions to our domestic pension plan and we expect to contribute approximately \$6.0 of cash to our foreign pension plans.

Table of Contents

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

## Share Repurchase Program

In February 2013, 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 "2013 share repurchase program"). In March 2013, the Board authorized an increase in the amount available under our 2013 share repurchase program up to \$500.0, excluding fees, of our common stock to be used towards the repurchase of shares resulting from the conversion to common stock of the 4.75% Notes. In February 2012, the Board authorized a 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 November 2012, the Board authorized an increase in the amount available under our 2012 share repurchase program up to \$400.0, excluding fees, of our common stock, as a result of the sale of our remaining holdings in Facebook. 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, 2013, \$319.4 remains available for repurchase under the 2013 share repurchase program. The 2013 share repurchase program has no expiration date. We fully utilized the 2012 share repurchase program as of the second quarter of 2013.

## 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, 2013			
	Total Facility	Amount Outstanding	Letters of Credit <sup>1</sup>	Total Available
Cash, cash equivalents and marketable securities				\$1,004.5
Committed credit agreement	\$1,000.0	\$0.0	\$14.5	\$985.5
Uncommitted credit arrangements	\$693.2	\$186.3	\$4.1	\$502.8

<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 Agreements

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, 2013. 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, 2013.

Four Quarters Ended

Four Quarters Ended

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

Financial Covenants	September 30, 2013	EBITDA Reconciliation	September 30, 2013
Interest coverage ratio (not less than)	5.00x	Operating income	\$683.8
Actual interest coverage ratio	8.48x	Add:	
		Depreciation and amortization	196.5
Leverage ratio (not greater than)	2.75x	Other non-cash amounts	0.5
Actual leverage ratio	1.90x	EBITDA <sup>1</sup>	\$880.8

<sup>1</sup> EBITDA 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 our various funding requirements. We have guaranteed the repayment of some of these borrowings

32

---

Table of Contents

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

made by certain subsidiaries. If we lose access to the credit lines at certain of our subsidiaries, we would have to provide funding directly to those operations. As of September 30, 2013, the weighted-average interest rate on outstanding balances under the uncommitted credit arrangements was approximately 4.0%.

**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, 2013 the amount netted was \$1,295.9.

**DEBT CREDIT RATINGS**

Our long-term debt credit ratings as of October 15, 2013 are listed below.

	Moody’s Investor Service	Standard and Poor’s	Fitch Ratings
Rating	Baa3	BB+	BBB
Outlook	Stable	Stable	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 2013 when Standard and Poor's changed our outlook from positive to stable. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning credit rating agency. The rating of each credit rating agency should be evaluated independently of any other rating. 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, 2012, included in our 2012 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, 2012. 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 2013 or that have not yet been required to be implemented and may be

applicable to our future operations.

33

---

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, we are exposed to market risks related to interest rates, foreign currency rates and certain balance sheet items. There has been no significant change in our exposure to market risk during the first nine months of 2013. Our exposure to market risk for changes in interest rates primarily relates to the fair market value and cash flows of our debt obligations. As of September 30, 2013 and December 31, 2012, approximately 88% and 93%, respectively, of our debt obligations bore fixed interest rates. We have used interest rate swaps for risk management purposes to manage our exposure to changes in interest rates. We do not have any interest rate swaps outstanding as of September 30, 2013. See Note 2 to the unaudited Consolidated Financial Statements for further information on our interest rate swaps. For a further discussion of our exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our 2012 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, 2013, 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, 2013, 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 2013, there have been no material changes in the risk factors we have previously disclosed in Item 1A, Risk Factors, in our 2012 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, 2013 to September 30, 2013:

	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	1,499,145	\$ 15.30	1,492,349	\$ 396,717,259
August 1 - 31	2,150,819	\$ 15.96	2,148,652	\$ 362,430,177
September 1 - 30	2,599,596	\$ 16.67	2,580,200	\$ 319,425,085
Total	6,249,560	\$ 16.10	6,221,201	

Includes shares of our common stock, par value \$0.10 per share, withheld under the terms of grants under employee stock-based compensation plans to offset tax withholding obligations that arose upon vesting and release of <sup>1</sup> restricted shares (the "Withheld Shares"). We repurchased 6,796 Withheld Shares in July 2013, 2,167 Withheld Shares in August 2013 and 19,396 Withheld Shares in September 2013, for a total of 28,359 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 (a) 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 stock repurchase program, described in Note 6 to the unaudited Consolidated Financial Statements by (b) the sum of the number of Withheld Shares and the number of shares acquired in our stock repurchase program.

On February 22, 2013, we announced that our Board of Directors (the "Board") had approved a new share repurchase program to repurchase from time to time up to \$300.0 million of our common stock, in addition to <sup>3</sup> amounts available on existing authorizations. On April 1, 2013, we announced that our Board had approved an increase in that share repurchase program from \$300.0 million to \$500.0 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 24, 2013, there were no accumulated and unpaid preferred stock dividends, and no outstanding shares of preferred stock.

## Item 5. Other Information

Changes to the Certificate of Incorporation



On October 24, 2013, acting pursuant to authorization granted by our Board of Directors (the “Board”), we simplified the presentation of our Certificate of Incorporation (the “Certificate of Incorporation”) by filing a Certificate of Elimination to remove all references to our 5¼ % Series B Cumulative Convertible Perpetual Preferred Stock (the “Series B Preferred Stock”) from the Certificate of Incorporation and by restating and integrating without further amendment the Certificate of Incorporation to reflect the elimination of the Series B Preferred Stock. All shares of the Series B Preferred Stock were mandatorily converted by us into common stock on October 17, 2013 in accordance with their terms. No shares of Series B Preferred Stock have been outstanding since that date, and the Board has determined that no further shares of Series B Preferred Stock will be issued.

No substantive amendments to the Certificate of Incorporation were effected by these actions.

A copy of the Certificate of Elimination with respect to the Series B Preferred Stock and the restated Certificate of Incorporation are attached hereto as Exhibits 3(i)(1), and 3(i)(2), respectively, and incorporated herein by reference.

Table of Contents

By-Law Amendments

On October 24, 2013, the Board adopted and approved amendments to our By-Laws (the “Amended By-Laws”), effective immediately.

The Amended By-Laws modified Article VI (Indemnification) to update our obligations with respect to indemnification of our directors, officers, employees and agents to reflect current practices, by amending Section 6.05 (Payment of Expenses in Advance of Final Disposition) and adding a new Section 6.06 (Contract Rights) and Section 6.09 (Amendments/Repeals).

A copy of the Amended By-Laws is attached hereto as Exhibit 3(ii) and incorporated herein by reference. The foregoing description of the Amended By-Laws is qualified in its entirety by reference to the full text of the Amended By-Laws.

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 24, 2013

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

Date: October 24, 2013

Table of Contents

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
3(i)(1)	Certificate of Elimination, dated as of October 24, 2013.
3(i)(2)	Restated Certificate of Incorporation of The Interpublic Group of Companies Inc. (“Interpublic”), dated as of October 24, 2013.
3(ii)	By-Laws of Interpublic as amended through October 24, 2013.
10(iii)(A)(1)	Extension of Existing Executive Change of Control Agreement between Interpublic and Michael I. Roth, dated August 29, 2013, is incorporated by reference to Exhibit 10.1 to Interpublic’s Current Report on Form 8-K, filed with the Securities and Exchange Commission (the “SEC”) on August 30, 2013.
10(iii)(A)(2)	Extension of Existing Executive Change of Control Agreement between Interpublic and Frank Mergenthaler, dated August 29, 2013, is incorporated by reference to Exhibit 10.2 to Interpublic’s Current Report on Form 8-K, filed with the SEC on August 30, 2013.
10(iii)(A)(3)	Extension of Existing Executive Change of Control Agreement between Interpublic and Andrew Bonzani, dated August 29, 2013, is incorporated by reference to Exhibit 10.3 to Interpublic’s Current Report on Form 8-K, filed with the SEC on August 30, 2013.
10(iii)(A)(4)	Extension of Existing Executive Change of Control Agreement between Interpublic and Christopher Carroll, dated August 29, 2013, is incorporated by reference to Exhibit 10.4 to Interpublic’s Current Report on Form 8-K, filed with the SEC on August 30, 2013.
10(iii)(A)(5)	Extension of Existing Executive Change of Control Agreement between Interpublic and Philippe Krakowsky, dated August 29, 2013, is incorporated by reference to Exhibit 10.5 to Interpublic’s Current Report on Form 8-K, filed with the SEC on August 30, 2013.
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, 2013.
38	