

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

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

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

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

Commission file number: 1-6686

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

Delaware
(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, 2012 was 431,388,142.

INDEX

Page No.

PART I. FINANCIAL INFORMATION

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

PART II. OTHER INFORMATION

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

INFORMATION REGARDING FORWARD-LOOKING DISCLOSURE

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

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

- potential effects of a challenging economy, for example, on the demand for our advertising and marketing services, on our clients' financial condition and on our business or financial condition;
- our ability to attract new clients and retain existing clients;
- our ability to retain and attract key employees;
- risks associated with assumptions we make in connection with our critical accounting estimates, including changes in assumptions associated with any effects of a weakened economy;
- potential adverse effects if we are required to recognize impairment charges or other adverse accounting-related developments;
- risks associated with the effects of global, national and regional economic and political conditions, including counterparty risks and fluctuations in economic growth rates, interest rates and currency exchange rates; and
- developments from changes in the regulatory and legal environment for advertising and marketing and communications services companies around the world.

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

1

Table of Contents

Part I – FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

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

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

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

(Amounts in Millions)

(Unaudited)

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

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

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

(Amounts in Millions)

(Unaudited)

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

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

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

(Amounts in Millions)

(Unaudited)

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

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

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

(Amounts in Millions)

(Unaudited)

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

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

6

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

(Amounts in Millions)

(Unaudited)

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