

INTERPUBLIC GROUP OF COMPANIES, INC.

Form 10-Q

April 28, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2009

or

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

Commission file number: 1-6686

THE INTERPUBLIC GROUP OF COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(Address of principal executive offices) (Zip Code)

(212) 704-1200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Yes No

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

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

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 April 17, 2009 was 478,389,940.

Table of Contents**INDEX**

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2009 and 2008</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2009 and December 31, 2008</u>	4
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2009 and 2008</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 6. <u>Exhibits</u>	31
<u>SIGNATURES</u>	32
<u>INDEX TO EXHIBITS</u>	33

INFORMATION REGARDING FORWARD-LOOKING DISCLOSURE

This quarterly report on Form 10-Q contains forward-looking statements and when used in this discussion and the financial statements, the words "expect(s)", "will", "may", "could", and similar expressions are intended to identify forward-looking statements. Statements in this report that are not historical facts, including statements about management's beliefs and expectations, constitute 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 weakening 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;

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

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 2008 Annual Report on Form 10-K.

Table of Contents**Part I FINANCIAL INFORMATION****Item 1. Financial Statements****THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

	Three months ended March 31,	
	2009	2008 As adjusted (Note 1)
REVENUE	\$ 1,325.3	\$ 1,485.2
OPERATING EXPENSES:		
Salaries and related expenses	996.5	1,064.8
Office and general expenses	410.9	475.0
Restructuring and other reorganization-related (reversals) charges	(0.2)	3.2
Total operating expenses	1,407.2	1,543.0
OPERATING LOSS	(81.9)	(57.8)
EXPENSES AND OTHER INCOME:		
Interest expense	(34.8)	(57.7)
Interest income	12.3	28.7
Other income (expense), net	4.9	(1.4)
Total (expenses) and other income	(17.6)	(30.4)
Loss before income taxes	(99.5)	(88.2)
Benefit of income taxes	(25.4)	(23.7)
Loss of consolidated companies	(74.1)	(64.5)
Equity in net income of unconsolidated affiliates	0.5	1.1
NET LOSS	(73.6)	(63.4)
Net loss attributable to noncontrolling interests	6.6	0.6
NET LOSS ATTRIBUTABLE TO IPG	(67.0)	(62.8)
Dividends on preferred stock	(6.9)	(6.9)
NET LOSS AVAILABLE TO IPG COMMON STOCKHOLDERS	\$ (73.9)	\$ (69.7)

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

Loss per share available to IPG common stockholders	basic and diluted	\$ (0.16)	\$ (0.15)
Weighted-average number of common shares outstanding	basic and diluted	464.0	459.2

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

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

(Amounts in Millions)

(Unaudited)

	March 31, 2009	December 31, 2008 As Adjusted (Note 1)
ASSETS:		
Cash and cash equivalents	\$ 1,642.0	\$ 2,107.2
Marketable securities	16.5	167.7
Accounts receivable, net of allowance of \$62.2 and \$63.9	3,159.1	3,746.5
Expenditures billable to clients	1,072.5	1,099.5
Other current assets	379.2	366.7
Total current assets	6,269.3	7,487.6
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$1,073.4 and \$1,055.8	529.5	561.5
Deferred income taxes	453.1	416.8
Goodwill	3,243.0	3,220.9
Other assets	434.8	438.4
TOTAL ASSETS	\$ 10,929.7	\$ 12,125.2
LIABILITIES:		
Accounts payable	\$ 3,350.7	\$ 4,022.6
Accrued liabilities	2,111.2	2,521.6
Short-term debt	327.2	332.8
Total current liabilities	5,789.1	6,877.0
Long-term debt	1,781.9	1,786.9
Deferred compensation and employee benefits	536.7	549.8
Other non-current liabilities	395.0	378.9
TOTAL LIABILITIES	8,502.7	9,592.6
Redeemable noncontrolling interests (see Notes 1 and 2)	278.9	288.4
STOCKHOLDERS EQUITY:		
IPG stockholders equity:		
Preferred stock	525.0	525.0
Common stock	46.6	46.4
Additional paid-in capital	2,415.9	2,413.5
Accumulated deficit	(513.1)	(446.1)
Accumulated other comprehensive loss, net of tax	(343.0)	(318.5)
	2,131.4	2,220.3
Less: Treasury stock	(14.0)	(14.0)

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

Total IPG stockholders' equity	2,117.4	2,206.3
Noncontrolling interests	30.7	37.9
TOTAL STOCKHOLDERS' EQUITY	2,148.1	2,244.2
TOTAL LIABILITIES AND EQUITY	\$ 10,929.7	\$ 12,125.2

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

Table of Contents**THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in Millions)

(Unaudited)

	Three months ended March 31,	
	2009	2008 As Adjusted (Note 1)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (73.6)	\$ (63.4)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of fixed assets and intangible assets	41.8	43.1
Provision for (reversal of) bad debt	3.9	(1.3)
Amortization of restricted stock and other non-cash compensation	9.3	19.8
Amortization of bond discounts and deferred financing costs	7.6	7.0
Deferred income tax benefit	(48.2)	(54.1)
Other	(7.3)	1.9
Change in assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	520.9	499.1
Expenditures billable to clients	17.2	(88.3)
Prepaid expenses and other current assets	(22.0)	(31.7)
Accounts payable	(612.5)	(256.0)
Accrued liabilities	(388.6)	(363.7)
Other non-current assets and liabilities	(5.8)	(0.4)
Net cash used in operating activities	(557.3)	(288.0)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, including deferred payments, net of cash acquired	(13.6)	(17.1)
Capital expenditures	(11.7)	(31.9)
Net sales and maturities of short-term marketable securities	150.7	0.5
Other investing activities	0.4	1.5
Net cash provided by (used in) investing activities	125.8	(47.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of 4.50% Convertible Senior Notes		(190.8)
Distributions to noncontrolling interests	(6.5)	(3.0)
Preferred stock dividends	(6.9)	(6.9)
Other financing activities	(2.5)	(6.4)
Net cash used in financing activities	(15.9)	(207.1)
Effect of exchange rate changes on cash and cash equivalents	(17.8)	18.4
Net decrease in cash and cash equivalents	(465.2)	(523.7)
Cash and cash equivalents at beginning of year	2,107.2	2,014.9

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

Cash and cash equivalents at end of period	\$ 1,642.0	\$ 1,491.2
--	------------	------------

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

Table of Contents**Notes to Consolidated Financial Statements****(Amounts in Millions, Except Per Share Amounts)****(Unaudited)****Note 1: Basis of Presentation**

The unaudited Consolidated Financial Statements have been prepared by The Interpublic Group of Companies, Inc. (together with its subsidiaries, the Company, Interpublic, we, us or our) in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC or the Commission) for reporting interim financial information on Form 10-Q. Accordingly, they do not include certain information and disclosures required for complete financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make judgments, assumptions, and estimates that affect the amounts reported and disclosed. Actual results could differ from those estimates. The consolidated results for interim periods are not necessarily indicative of results for the full year and should be read in conjunction with our 2008 Annual Report on Form 10-K.

In the opinion of management, these unaudited Consolidated Financial Statements include all adjustments of a normal and recurring nature necessary for a fair statement of the information for each period contained therein. Certain reclassifications have been made to prior periods to conform to the current period presentation. Specifically, we have made adjustments as a result of the adoption of two recent accounting standards, SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160) and EITF Topic No. D-98, *Classification and Measurement of Redeemable Securities* (EITF D-98). As a result of the adoption of SFAS 160, we have reclassified \$57.0 of minority interest liability as of December 31, 2008 from other non-current liabilities to noncontrolling interests or redeemable noncontrolling interests within equity on our unaudited Condensed Consolidated Balance Sheets. We have also modified the format of the unaudited Consolidated Statements of Operations to conform to the disclosure requirements of the standard. In addition to the reclassification noted above, as a result of the adoption of EITF D-98, we have recorded \$269.3 of redeemable noncontrolling interests with an offset to additional paid-in capital in our stockholders' equity as of December 31, 2008. See Note 2 for further discussion on the adoption of these standards.

Note 2: Noncontrolling Interests

In December 2007, the FASB issued SFAS 160, which amends ARB No. 51, *Consolidated Financial Statements*. This standard requires a noncontrolling interest in a subsidiary to be reported as equity on our unaudited Condensed Consolidated Balance Sheets separate from the parent's equity. The standard also requires transactions that do not result in the deconsolidation of the subsidiary be recorded as equity transactions, while those transactions that do result in a change from noncontrolling to controlling ownership or a deconsolidation of the subsidiary be recorded in net income (loss) with the gain or loss measured at fair value. SFAS 160 is effective January 1, 2009 and should be applied prospectively with the exception of presentation and disclosure requirements which shall be applied retrospectively for all periods presented.

Changes in the noncontrolling interests balance are as follows:

Balance as of December 31, 2008	\$ 37.9
Purchases of noncontrolling interests	(0.7)
Total comprehensive loss attributable to noncontrolling interests	(6.6)
Distributions to noncontrolling interests	(6.5)
Other	0.6
Reclassifications to redeemable noncontrolling interests	6.0
Balance as of March 31, 2009	\$ 30.7

In March 2008, the EITF revised EITF D-98, which is effective for the Company as of January 1, 2009. This guidance clarifies the interaction between EITF D-98 and SFAS 160, because noncontrolling interests, which SFAS 160 classifies as equity, are also in the scope of EITF D-98. Many of our acquisitions include provisions under which the noncontrolling equity owners can require us to purchase additional interest in a subsidiary at their discretion. Payments for these redeemable

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

noncontrolling interests are contingent upon achieving projected operating performance targets and satisfying other conditions specified in the related agreements and are subject to revisions as the earn-out periods progress. As a result of EITF D-98, we are required to reduce additional paid-in capital in our stockholders' equity by the estimated redemption value of these redeemable noncontrolling interests and reflect these obligations as mezzanine equity in the unaudited Condensed Consolidated Balance Sheets. Retrospective application of this guidance has no impact on our previously reported net income available to IPG common stockholders or earnings per share.

In subsequent reporting periods, redeemable noncontrolling interests will continue to be reported at their estimated redemption value, but not less than their initial fair value. Any adjustment to the redemption value will also impact additional paid-in capital, but will not impact net income (loss). To the extent that the redemption value increases and exceeds the then current fair value of a redeemable noncontrolling interest, net income (loss) available to IPG common stockholders (used to calculate earnings (loss) per share) could be reduced by that increase, subject to certain limitations. The partial or full recovery of these reductions to net income (loss) available to IPG common stockholders (used to calculate earnings (loss) per share) is limited to cumulative prior period reductions. For the three months ended March 31, 2009, there has been no impact to net loss available to IPG common stockholders or our loss per share.

Changes in the additional paid-in capital balance are as follows:

Balance as of December 31, 2008	\$ 2,413.5
Preferred stock dividends	(6.9)
Share-based compensation	9.3
Restricted stock grants, net of forfeitures	(5.2)
Adjustment of redeemable noncontrolling interests	4.3
Other	