

INTERPUBLIC GROUP OF COMPANIES, INC.

Form 10-Q

July 25, 2018

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 June 30, 2018

or

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

Commission file number: 1-6686

THE INTERPUBLIC GROUP OF COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Delaware 13-1024020

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

909 Third Avenue, New York, New York 10022

(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, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 16, 2018 was 383,785,420.

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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 and this quarterly report on Form 10-Q. 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 and this quarterly report on Form 10-Q.

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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		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
REVENUE:				
Net revenue	\$1,948.2	\$1,834.6	\$3,722.2	\$3,509.9
Billable expenses	443.6	351.2	838.7	739.7
Total revenue	2,391.8	2,185.8	4,560.9	4,249.6
OPERATING EXPENSES:				
Salaries and related expenses	1,292.9	1,228.9	2,623.2	2,480.6
Office and other direct expenses	333.3	318.4	657.1	631.1
Billable expenses	443.6	351.2	838.7	739.7
Cost of services	2,069.8	1,898.5	4,119.0	3,851.4
Selling, general and administrative expenses	28.8	20.3	63.9	55.5
Depreciation and amortization	44.0	41.3	90.0	82.3
Total operating expenses	2,142.6	1,960.1	4,272.9	3,989.2
OPERATING INCOME	249.2	225.7	288.0	260.4
EXPENSES AND OTHER INCOME:				
Interest expense	(26.1)	(25.7)	(46.0)	(46.6)
Interest income	4.7	4.7	8.7	9.9
Other expense, net	(16.3)	(15.4)	(40.7)	(14.6)
Total (expenses) and other income	(37.7)	(36.4)	(78.0)	(51.3)
Income before income taxes	211.5	189.3	210.0	209.1
Provision for income taxes	63.6	81.6	76.3	81.3
Income of consolidated companies	147.9	107.7	133.7	127.8
Equity in net (loss) income of unconsolidated affiliates	(0.1)	(0.1)	(2.0)	1.1
NET INCOME	147.8	107.6	131.7	128.9
Net (income) loss attributable to noncontrolling interests	(2.0)	0.1	0.0	3.5
NET INCOME AVAILABLE TO IPG COMMON STOCKHOLDERS	\$145.8	\$107.7	\$131.7	\$132.4
Earnings per share available to IPG common stockholders:				
Basic	\$0.38	\$0.27	\$0.34	\$0.34
Diluted	\$0.37	\$0.27	\$0.34	\$0.33
Weighted-average number of common shares outstanding:				
Basic	383.6	392.3	383.5	392.0
Diluted	389.5	400.3	388.9	399.6
Dividends declared per common share	\$0.21	\$0.18	\$0.42	\$0.36

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Millions)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
NET INCOME	\$147.8	\$107.6	\$131.7	\$128.9
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation:				
Foreign currency translation adjustments	(116.4)	33.0	(94.0)	85.9
Reclassification adjustments recognized in net income	0.9	0.7	13.4	0.3
	(115.5)	33.7	(80.6)	86.2
Available-for-sale securities:				
Changes in fair value of available-for-sale securities	0.0	0.0	0.0	0.1
	0.0	0.0	0.0	0.1
Derivative instruments:				
Recognition of previously unrealized losses in net income	0.6	0.6	1.1	1.1
Income tax effect	(0.1)	(0.2)	(0.3)	(0.4)
	0.5	0.4	0.8	0.7
Defined benefit pension and other postretirement plans:				
Net actuarial (losses) gains for the period	(1.4)	0.8	(1.4)	0.8
Amortization of unrecognized losses, transition obligation and prior service cost included in net income	2.0	1.8	3.9	3.5
Settlement and curtailment losses included in net income	0.0	0.0	0.2	0.0
Other	(0.5)	(0.4)	(0.4)	(0.6)
Income tax effect	0.2	(0.5)	0.1	(0.6)
	0.3	1.7	2.4	3.1
Other comprehensive (loss) income, net of tax	(114.7)	35.8	(77.4)	90.1
TOTAL COMPREHENSIVE INCOME	33.1	143.4	54.3	219.0
Less: comprehensive (loss) income attributable to noncontrolling interests	(0.1)	0.1	(1.8)	(2.8)
COMPREHENSIVE INCOME ATTRIBUTABLE TO IPG	\$33.2	\$143.3	\$56.1	\$221.8

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

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CONSOLIDATED BALANCE SHEETS

(Amounts in Millions)

(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS:		
Cash and cash equivalents	\$493.2	\$ 790.9
Accounts receivable, net of allowance of \$44.5 and \$42.7, respectively	4,247.7	4,585.0
Accounts receivable, billable to clients	1,945.8	1,747.4
Assets held for sale	19.6	5.7
Other current assets	439.3	346.5
Total current assets	7,145.6	7,475.5
Property and equipment, net of accumulated depreciation of \$1,014.7 and \$1,036.2, respectively	602.0	650.4
Deferred income taxes	261.0	234.0
Goodwill	3,788.1	3,820.4
Other non-current assets	560.9	524.4
TOTAL ASSETS	\$12,357.6	\$ 12,704.7
LIABILITIES:		
Accounts payable	\$5,738.8	\$ 6,420.2
Accrued liabilities	551.5	674.7
Contract liabilities	510.8	484.7
Short-term borrowings	757.6	84.9
Current portion of long-term debt	0.1	2.0
Liabilities held for sale	26.5	8.8
Total current liabilities	7,585.3	7,675.3
Long-term debt	1,282.7	1,285.6
Deferred compensation	445.4	476.6
Other non-current liabilities	786.8	768.8
TOTAL LIABILITIES	10,100.2	10,206.3
Redeemable noncontrolling interests (see Note 5)	165.8	252.1
STOCKHOLDERS' EQUITY:		
Common stock	39.0	38.6
Additional paid-in capital	1,022.9	955.2
Retained earnings	2,076.7	2,104.5
Accumulated other comprehensive loss, net of tax	(903.4)	(827.8)
	2,235.2	2,270.5
Less: Treasury stock	(173.5)	(59.0)
Total IPG stockholders' equity	2,061.7	2,211.5
Noncontrolling interests	29.9	34.8
TOTAL STOCKHOLDERS' EQUITY	2,091.6	2,246.3
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$12,357.6	\$ 12,704.7

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

(Unaudited)

	Six months ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$131.7	\$128.9
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	90.0	82.3
Provision for uncollectible receivables	6.1	8.6
Amortization of restricted stock and other non-cash compensation	46.0	46.0
Net amortization of bond discounts and deferred financing costs	2.7	2.8
Deferred income tax (benefit) provision	(31.0)	9.5
Net losses on sales of businesses	44.2	12.2
Other	1.9	10.2
Changes in assets and liabilities, net of acquisitions and divestitures, providing (using) cash:		
Accounts receivable	238.0	769.7
Accounts receivable, billable to clients	(233.7)	(165.5)
Other current assets	(124.6)	(84.5)
Accounts payable	(579.3)	(651.3)
Accrued liabilities	(175.9)	(313.9)
Contract liabilities	38.0	6.9
Other non-current assets and liabilities	(11.8)	(15.0)
Net cash used in operating activities	(557.7)	(153.1)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(61.5)	(68.9)
Acquisitions, net of cash acquired	(8.5)	(12.6)
Other investing activities	12.4	(14.5)
Net cash used in investing activities	(57.6)	(96.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in short-term borrowings	669.3	153.5
Exercise of stock options	7.0	11.8
Common stock dividends	(161.2)	(141.4)
Repurchases of common stock	(114.5)	(115.0)
Tax payments for employee shares withheld	(28.0)	(37.8)
Acquisition-related payments	(16.0)	(36.3)
Distributions to noncontrolling interests	(10.6)	(10.9)
Repayment of long-term debt	(4.7)	(23.6)
Other financing activities	(0.3)	0.3
Net cash provided by (used in) financing activities	341.0	(199.4)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(27.5)	8.2
Net decrease in cash, cash equivalents and restricted cash	(301.8)	(440.3)
Cash, cash equivalents and restricted cash at beginning of period	797.7	1,100.2
Cash, cash equivalents and restricted cash at end of period	\$495.9	\$659.9
The accompanying notes are an integral part of these unaudited financial statements.		

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in Millions)

(Unaudited)

	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, 2017	386.2	\$ 38.6	\$ 955.2	\$ 2,104.5	\$ (827.8)	\$ (59.0)	\$ 2,211.5	\$ 34.8	\$ 2,246.3
Net income				131.7			131.7		131.7
Other comprehensive loss					(75.6)		(75.6)	(1.8)	(77.4)
Reclassifications related to redeemable noncontrolling interests								6.3	6.3
Distributions to noncontrolling interests								(10.6)	(10.6)
Change in redemption value of redeemable noncontrolling interests			41.8	2.9			44.7		44.7
Repurchases of common stock						(114.5)	(114.5)		(114.5)
Common stock dividends				(161.2)			(161.2)		(161.2)
Stock-based compensation	4.6	0.5	48.0				48.5		48.5
Exercise of stock options	0.9		7.0				7.0		7.0
Shares withheld for taxes	(1.2)	(0.1)	(28.5)				(28.6)		(28.6)
Other			(0.6)	(1.2)			(1.8)	1.2	(0.6)
Balance at June 30, 2018	390.5	\$ 39.0	\$ 1,022.9	\$ 2,076.7	\$ (903.4)	\$ (173.5)	\$ 2,061.7	\$ 29.9	\$ 2,091.6

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

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY – (CONTINUED)

(Amounts in Millions)

(Unaudited)

	Common Stock Shares	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, 2016	394.3	\$ 39.4	\$ 1,199.2	\$ 1,839.9	\$ (964.4)	\$ (63.3)	\$ 2,050.8	\$ 39.6	\$ 2,090.4
Net income				132.4			132.4	(3.5)	128.9
Other comprehensive income					89.4		89.4	0.7	90.1
Reclassifications related to redeemable noncontrolling interests								5.0	5.0
Distributions to noncontrolling interests								(11.4)	(11.4)
Change in redemption value of redeemable noncontrolling interests				(3.4)			(3.4)		(3.4)
Repurchases of common stock						(115.0)	(115.0)		(115.0)
Common stock dividends				(141.4)			(141.4)		(141.4)
Stock-based compensation	5.5	0.6	47.3				47.9		47.9
Exercise of stock options	1.1	0.1	11.8				11.9		11.9
Shares withheld for taxes	(1.6)	(0.2)	(38.2)				(38.4)		(38.4)
Other			0.1	(0.8)			(0.7)	(0.6)	(1.3)
Balance at June 30, 2017	399.3	\$ 39.9	\$ 1,220.2	\$ 1,826.7	\$ (875.0)	\$ (178.3)	\$ 2,033.5	\$ 29.8	\$ 2,063.3

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

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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 2017 Annual Report on Form 10-K.

As of January 1, 2018, the Company has revised the presentation of its Consolidated Statements of Operations, which disaggregates net revenue and billable expenses within total revenue and separately presents cost of services; selling, general and administrative expenses; and depreciation and amortization within operating expenses. The revised presentation does not impact total revenue, operating expenses or operating income.

Cost of services is comprised of the expenses of our revenue-producing operating segments, Integrated Agency Networks ("IAN") and Constituency Management Group ("CMG"), including salaries and related expenses, office and other direct expenses and billable expenses, and includes an allocation of the centrally managed expenses of our Corporate and other group. Office and other direct expenses include rent expense, professional fees, certain expenses incurred by our staff in servicing our clients and other costs directly attributable to client engagements.

Selling, general and administrative expenses are primarily the unallocated expenses of our Corporate and other group, as disclosed further in Note 12, excluding depreciation and amortization.

Depreciation and amortization of the fixed assets and intangible assets of the Company is disclosed as a separate operating expense.

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 and immaterial revisions have been made to prior-period financial statements to conform to the current-period presentation.

Note 2: Summary of Significant Accounting Policies

Effective January 1, 2018, IPG adopted Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, ("ASC 606") using the full retrospective transition method. Under this method, the Company will revise its consolidated financial statements for the years ended December 31, 2016 and 2017, and applicable interim periods within the year ended December 31, 2017, as if ASC 606 had been effective for those periods. ASC 606 applies to all contracts with customers, except for contracts that are within the scope of other standards. Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. We only apply the five-step model to contracts when it is probable that IPG will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are distinct performance obligations. We then assess whether IPG acts as an agent or a principal for each identified performance obligation and include revenue within the transaction price for third-party costs when we determine that we act as principal.

Revenue Recognition

We recognize revenue when the control to promised goods or services transfers to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods and services. Our revenues are primarily derived from the planning and execution of multi-channel advertising and communications and marketing services, including public relations, meeting and event production, sports and entertainment marketing, corporate and brand identity, and strategic marketing consulting around the world. Our revenues are directly dependent upon the advertising, marketing and corporate communications requirements of our existing clients and our ability to win new clients. Depending on the terms of the client contract, revenue is derived from

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

diverse arrangements involving fees for services performed, commissions, performance incentive provisions and combinations of the three.

Net revenue, primarily consisting of fees, commissions and performance incentives, represents the amount of our gross billings excluding pass-through expenses charged to a client. Revenues for the creation, planning and placement of advertising are determined primarily on a negotiated fee basis and, to a lesser extent, on a commission basis. Fees are usually calculated to reflect hourly rates plus proportional overhead and a mark-up. Contractual arrangements with clients may also include performance incentive provisions designed to link a portion of our revenue to our performance relative to mutually agreed-upon qualitative or quantitative metrics, or both. Commissions are earned based on services provided and are usually derived from a percentage or fee over the total cost to complete the assignment. Commissions can also be derived when clients pay us the gross rate billed by media and we pay for media at a lower net rate; the difference is the commission that we earn, which we either retain in full or share with the client depending on the nature of the applicable services agreement. We also generate revenue in negotiated fees from our public relations, sales promotion, event marketing, sports and entertainment marketing, and corporate and brand identity services.

Billable expenses include pass-through expenses related to event and advertising production costs for performance obligations where we have determined that we are acting as principal that are rebilled to our clients, as well as out-of-pocket costs. Out-of-pocket costs often include expenses related to airfare, mileage, hotel stays, out-of-town meals and telecommunication charges for client service staff. We record these billable expenses within total revenue with a corresponding offset to operating expenses.

Most of our client contracts are individually negotiated and, accordingly, the terms of client engagements and the basis on which we earn fees and commissions vary significantly. As is customary in the industry, our contracts generally provide for termination by either party on relatively short notice, usually 30 to 90 days. Our payment terms vary by client, and the time between invoicing date and due date is typically not significant. We generally have right to payment for all services provided through the end of the contract or termination date.

Our client contracts may include provisions for incentive compensation and vendor rebates and credits. Our largest clients are multinational entities and, as such, we often provide services to these clients out of multiple offices and across many of our agencies. In arranging for such services, it is possible that we will enter into global, regional and local agreements. Agreements of this nature are reviewed by legal counsel to determine the governing terms to be followed by the offices and agencies involved.

When we receive credits from our vendors and media outlets for transactions entered into on behalf of our clients, they are generally remitted back to our clients; however, they may be retained by us based on specific terms of our contracts and local laws. If amounts are to be passed through to clients, they are recorded as liabilities until settlement or, if retained by us, are recorded as revenue when earned.

For media contracts that can be canceled by the customer at any time without compensation, the contract does not exist until media airs, at which point revenue is recognized.

Timing of Recognition

We have determined that we generally satisfy our performance obligations over time, except for certain commission-based contracts, which are recognized at a point in time, typically the date of broadcast or publication. Fees are generally recognized based on proportional performance utilizing periodically updated estimates to complete.

Performance Obligations

Our client contracts may include various goods and services that are capable of being distinct, are distinct within the context of the contract and are therefore accounted for as separate performance obligations. We allocate revenue to each performance obligation in the contract at inception based on its relative standalone selling price.

Principal vs. Agent

For each identified performance obligation in the contract with the customer, we assess whether our agency or the third-party supplier is the principal or agent. We control the specified services before transferring those services to the

customer and act as the principal if we are primarily responsible for the integration of products and services into the deliverable to our customer, have inventory risk, or discretion in establishing pricing. For performance obligations in which we act as principal, we record the gross amount billed to the customer within total revenue and the related incremental direct costs incurred as billable expenses. We have determined that we primarily act as principal for creative, media planning, in-house production, event, public relations and branding services, where we control the specified services before transferring those services to the customer because we are primarily responsible for the integration of products and services into the deliverable to our customer. We generally do not have inventory risk or discretion in establishing pricing in our contracts with customers.

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

If the third-party supplier, rather than IPG, is primarily responsible for the integration of products and services into the deliverable to our customer, then we generally act as the agent and solely arrange for the third-party supplier to provide services to the customer. For performance obligations for which we act as the agent (primarily production and media buying), we record our revenue as the net amount of our gross billings less pass-through expenses charged to a customer.

Variable Consideration

Revenue for our services is measured based on the consideration specified in a contract with a customer. Contractual arrangements with clients may also include performance incentive provisions designed to link a portion of our revenue to our performance relative to either qualitative or quantitative metrics, or both.

Incentive compensation is estimated using the most likely amount and is included in revenue up to the amount that is not expected to result in a reversal of a significant amount of cumulative revenue recognized. We recognize revenue related to performance incentives as we satisfy the performance obligation to which performance incentives are related.

Practical Expedients

As part of our adoption of ASC 606, we apply the practical expedient and do not disclose information about remaining performance obligations that have original expected durations of one year or less. Amounts related to those performance obligations with expected durations of greater than one year are immaterial.

We apply the practical expedient and do not capitalize costs to obtain a contract as these amounts would generally be recognized over less than one year and are not material.

Additionally, we report revenue net of taxes assessed by governmental authorities that are directly imposed on our revenue-producing transactions.

Note 3: Revenue

Adoption of ASC 606

Effective with the adoption of ASC 606 on January 1, 2018 using the full retrospective transition method, the Company will revise its consolidated financial statements for the years ended December 31, 2016 and 2017, and applicable interim periods within the year ended December 31, 2017, as if ASC 606 had been effective for those periods. ASC 606, which accelerates the recognition of revenue primarily as a result of estimating variable consideration, mostly impacts the timing of revenue recognition between quarters, but also can affect, to a lesser extent, the amount of annual revenue recognized. Although ASC 606 results in an increase in the number of performance obligations within certain of our contractual arrangements, the amount or timing of revenue recognized is not materially impacted. ASC 606 also results in an increase in third-party costs being included in revenue and costs, primarily in connection with our events businesses, which has no impact on operating income, net income or cash flows. The increases to retained earnings as of December 31, 2017 and 2016 as a result of adopting ASC 606 were not material. The following tables summarize the effects of adopting ASC 606.

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

CONSOLIDATED STATEMENT OF OPERATIONS

	Three months ended			Six months ended		
	June 30, 2017			June 30, 2017		
	As	ASC 606	As	As	ASC 606	As
	Revised ¹	Adjustments	Adjusted	Revised ¹	Adjustments	Adjusted
REVENUE:						
Net revenue	\$1,815.4	\$ 19.2	\$1,834.6	\$3,485.7	\$ 24.2	\$3,509.9
Billable expenses	69.5	281.7	351.2	153.1	586.6	739.7
Total revenue	1,884.9	300.9	2,185.8	3,638.8	610.8	4,249.6
OPERATING EXPENSES:						
Salaries and related expenses	1,228.9	—	1,228.9	2,480.6	—	2,480.6
Office and other direct expenses	318.4	—	318.4	631.1	—	631.1
Billable expenses	69.5	281.7	351.2	153.1	586.6	739.7
Cost of services	1,616.8	281.7	1,898.5	3,264.8	586.6	3,851.4
Selling, general and administrative expenses	20.3	—	20.3	55.5	—	55.5
Depreciation and amortization	41.3	—	41.3	82.3	—	82.3
Total operating expenses	1,678.4	281.7	1,960.1	3,402.6	586.6	3,989.2
OPERATING INCOME	206.5	19.2	225.7	236.2	24.2	260.4
EXPENSES AND OTHER INCOME:						
Interest expense	(25.7)	—	(25.7)	(46.6)	—	(46.6)
Interest income	4.7	—	4.7	9.9	—	9.9
Other income, net	(15.4)	—	(15.4)	(14.6)	—	(14.6)
Total (expenses) and other income	(36.4)	—	(36.4)	(51.3)	—	(51.3)
Income before income taxes	170.1	19.2	189.3	184.9	24.2	209.1
Benefit of income taxes	75.4	6.2	81.6	73.3	8.0	81.3
Income of consolidated companies	94.7	13.0	107.7	111.6	16.2	127.8
Equity in net (loss) income of unconsolidated affiliates	(0.1)	—	(0.1)	1.1	—	1.1
NET INCOME	94.6	13.0	107.6	112.7	16.2	128.9
Net loss attributable to noncontrolling interests	0.1	—	0.1	3.5	—	3.5
NET INCOME AVAILABLE TO IPG COMMON STOCKHOLDERS	\$94.7	\$ 13.0	\$107.7	\$116.2	\$ 16.2	\$132.4
Earnings per share available to IPG common stockholders:						
Basic	\$0.24	\$ 0.03	\$0.27	\$0.30	\$ 0.04	\$0.34
Diluted	\$0.24	\$ 0.03	\$0.27	\$0.29	\$ 0.04	\$0.33
Weighted-average number of common shares outstanding:						
Basic	392.3	—	392.3	392.0	—	392.0
Diluted	400.3	—	400.3	399.6	—	399.6

Dividends declared per common share	\$0.18	\$0.18	\$0.36	\$0.36
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1 These amounts have been revised for the new presentation as described in Note 1.

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

CONSOLIDATED BALANCE SHEET

	December 31, 2017		
	As Reported	ASC 606 Adjustments	As Adjusted
ASSETS:			
Cash and cash equivalents	\$ 790.9	\$ —	\$ 790.9
Accounts receivable, net of allowance of \$42.7	4,585.0	—	4,585.0
Expenditures billable to clients	1,747.4	(1,747.4)	—
Accounts receivable, billable to clients	—	1,747.4	1,747.4
Assets held for sale	5.7	—	5.7
Other current assets	335.1	11.4	346.5
Total current assets	7,464.1	11.4	7,475.5
Property and equipment, net of accumulated depreciation of \$1,036.2	650.4	—	650.4
Deferred income taxes	236.0	(2.0)	234.0
Goodwill	3,820.4	—	3,820.4
Other non-current assets	524.3	0.1	524.4
TOTAL ASSETS	\$ 12,695.2	\$ 9.5	\$ 12,704.7
LIABILITIES:			
Accounts payable	\$ 6,907.8	\$ (487.6)	\$ 6,420.2
Accrued liabilities	674.7	—	674.7
Contract liabilities	—	484.7	484.7
Short-term borrowings	84.9	—	84.9
Current portion of long-term debt	2.0	—	2.0
Liabilities held for sale	8.8	—	8.8
Total current liabilities	7,678.2	(2.9)	7,675.3
Long-term debt	1,285.6	—	1,285.6
Deferred compensation	476.6	—	476.6
Other non-current liabilities	766.9	1.9	768.8
TOTAL LIABILITIES	10,207.3	(1.0)	10,206.3
Redeemable noncontrolling interests	252.1	—	252.1
STOCKHOLDERS' EQUITY:			
Common stock	38.6	—	38.6
Additional paid-in capital	955.2	—	955.2
Retained earnings	2,093.6	10.9	2,104.5
Accumulated other comprehensive loss, net of tax	(827.4)	(0.4)	(827.8)
	2,260.0	10.5	2,270.5
Less: Treasury stock	(59.0)	—	(59.0)
Total IPG stockholders' equity	2,201.0	10.5	2,211.5
Noncontrolling interests	34.8	—	34.8
TOTAL STOCKHOLDERS' EQUITY	2,235.8	10.5	2,246.3
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 12,695.2	\$ 9.5	\$ 12,704.7

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended June 30, 2017		
	As	ASC 606	As
	Reported	Adjustments	Adjusted
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 112.7	\$ 16.2	\$ 128.9
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	82.3	—	82.3
Provision for uncollectible receivables	8.6	—	8.6
Amortization of restricted stock and other non-cash compensation	46.0	—	46.0
Net amortization of bond discounts and deferred financing costs	2.8	—	2.8
Deferred income tax provision	1.5	8.0	9.5
Net losses on sales of businesses	12.2	—	12.2
Other	10.2	—	10.2
Changes in assets and liabilities, net of acquisitions and divestitures, providing (using) cash:			
Accounts receivable	769.7	—	769.7
Expenditures billable to clients	(165.3)	165.3	—
Accounts receivable, billable to clients	—	(165.5)	(165.5)
Other current assets	(82.0)	(2.5)	(84.5)
Accounts payable	(622.9)	(28.4)	(651.3)
Accrued liabilities	(313.9)	—	(313.9)
Contract liabilities	—	6.9	6.9
Other non-current assets and liabilities	(15.0)	—	(15.0)
Net cash used in operating activities	(153.1)	—	(153.1)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash used in investing activities	(96.0)	—	(96.0)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net cash used in financing activities	(199.4)	—	(199.4)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	8.2	—	8.2
Net decrease in cash, cash equivalents and restricted cash	(440.3)	—	(440.3)
Cash, cash equivalents and restricted cash at beginning of period	1,100.2	—	1,100.2
Cash, cash equivalents and restricted cash at end of period	\$ 659.9	\$ —	\$ 659.9

Retained earnings as of December 31, 2016 and June 30, 2017 increased by \$35.6 and \$51.8, respectively, as a result of the adoption of ASC 606. Accumulated other comprehensive loss, net of tax, as of December 31, 2016 and June 30, 2017 decreased by \$1.9 and \$0.8, respectively, as a result of the adoption of the ASC 606.

Disaggregation of Revenue

The following is a description of the principal activities, by reportable segment, from which we generate revenue. For more detailed information about reportable segments, see Note 12.

Integrated Agency Networks

The IAN segment of IPG principally generates revenue from providing advertising and media services as well as a comprehensive array of global communications and marketing services. Within IAN's advertising business, we typically identify two performance obligations for creative and production services. Depending on the arrangement, we typically act as the principal for our creative services and as the agent for our production services. Within our media business, we also identify two performance obligations for media planning and media buying services. We typically act as the principal for our media planning services and

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Notes to Consolidated Financial Statements – (continued)

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as the agent for media buying services. Generally, our branding arrangements consist of two performance obligations, and we act as the principal for both performance obligations.

Constituency Management Group

The CMG segment generates revenue from providing events and public relations services as well as sports and entertainment marketing, corporate and brand identity, and strategic marketing consulting. In CMG's events and public relations arrangements, we typically identify one performance obligation, for which we act as the principal in most arrangements. Generally, our branding arrangements consist of two performance obligations, and we act as the principal for both performance obligations.

Principal Geographic Markets

Our agencies are located in over 100 countries, including every significant world market. Our geographic revenue breakdown is listed below.

	Three months ended		Six months ended	
	June 30,		June 30,	
Total revenue:	2018	2017	2018	2017
United States	\$1,445.7	\$1,350.8	\$2,796.4	\$2,666.0
International:				
United Kingdom	201.6	166.0	406.0	341.0
Continental Europe	205.1	176.3	386.8	334.5
Asia Pacific	304.2	260.5	535.7	480.8
Latin America	92.5	94.5	172.5	170.3
Other	142.7	137.7	263.5	257.0
Total International	946.1	835.0	1,764.5	1,583.6
Total Consolidated	\$2,391.8	\$2,185.8	\$4,560.9	\$4,249.6

	Three months ended		Six months ended	
	June 30,		June 30,	
Net revenue:	2018	2017	2018	2017
United States	\$1,171.5	\$1,127.6	\$2,263.8	\$2,184.7
International:				
United Kingdom	175.7	141.7	339.2	276.9
Continental Europe	178.7	154.6	337.4	295.5
Asia Pacific	214.2	205.3	393.0	379.0
Latin America	82.0	85.7	155.9	154.7
Other	126.1	119.7	232.9	219.1
Total International	776.7	707.0	1,458.4	1,325.2
Total Consolidated	\$1,948.2	\$1,834.6	\$3,722.2	\$3,509.9

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

IAN	Three months ended		Six months ended	
	June 30,		June 30,	
Total revenue:	2018	2017	2018	2017
United States	\$1,063.2	\$1,022.3	\$2,086.4	\$1,992.2
International	749.3	689.0	1,411.6	1,286.9
Total IAN	\$1,812.5	\$1,711.3	\$3,498.0	\$3,279.1

Net revenue:

United States	\$963.3	\$926.3	\$1,861.3	\$1,788.3
International	665.8	607.7	1,249.1	1,136.8
Total IAN	\$1,629.1	\$1,534.0	\$3,110.4	\$2,925.1

CMG	Three months ended		Six months ended	
	June 30,		June 30,	
Total revenue:	2018	2017	2018	2017
United States	\$382.5	\$328.5	\$710.0	\$673.8
International	196.8	146.0	352.9	296.7
Total CMG	\$579.3	\$474.5	\$1,062.9	\$970.5

Net revenue:

United States	\$208.2	\$201.3	\$402.5	\$396.4
International	110.9	99.3	209.3	188.4
Total CMG	\$319.1	\$300.6	\$611.8	\$584.8

Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	June 30,	December 31,
	2018	2017
Accounts receivable, net of allowance of \$44.5 and \$42.7, respectively	\$4,247.7	\$ 4,585.0
Accounts receivable, billable to clients	1,945.8	1,747.4
Contract assets	44.9	11.5
Contract liabilities (deferred revenue)	510.8	484.7

Contract assets are primarily comprised of contract incentives that are generally satisfied annually under the terms of our contracts and are transferred to accounts receivable when the rights to payment becomes unconditional. Contract liabilities relate to advance consideration received from customers under the terms of our contracts primarily related to reimbursements of third party expenses, whether we act as principal or agent, and to a lesser extent, periodic retainer fees, both of which are generally recognized shortly after billing.

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Note 4: 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	June 30,	Fair	December 31,	Fair
	Interest Rate	2018	Value	2017	Value
		Book	₁	Book	₁
		Value		Value	
4.00% Senior Notes due 2022 (less unamortized discount and issuance costs of \$1.2 and \$0.9, respectively)	4.13%	\$247.9	\$251.6	\$247.6	\$259.0
3.75% Senior Notes due 2023 (less unamortized discount and issuance costs of \$0.7 and \$1.9, respectively)	4.32%	497.4	495.6	497.1	513.2
4.20% Senior Notes due 2024 (less unamortized discount and issuance costs of \$0.6 and \$2.4, respectively)	4.24%	497.0	503.3	496.7	524.2
Other notes payable and capitalized leases		40.5	40.5	46.2	46.2
Total long-term debt		1,282.8		1,287.6	
Less: current portion		0.1		2.0	
Long-term debt, excluding current portion		\$1,282.7		\$1,285.6	

¹ See Note 13 for information on the fair value measurement of our long-term debt.

Credit Agreements

We maintain a committed corporate credit facility, which has been amended and restated from time to time (the "Credit Agreement"). We use our Credit Agreement to increase our financial flexibility, to provide letters of credit primarily to support obligations of our subsidiaries and to support our commercial paper program. The Credit Agreement is a revolving facility, expiring in October 2022, 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 \$1,500.0, or the equivalent in other currencies. The Company has the ability to increase the commitments under the Credit Agreement from time to time by an additional amount of up to \$250.0, provided the Company receives commitments for such increases and satisfies certain other conditions. The aggregate available amount of letters of credit outstanding may decrease or increase, subject to a sublimit on letters of credit of \$50.0, or the equivalent in other currencies. Our obligations under the Credit Agreement are unsecured. As of June 30, 2018, there were no borrowings under the Credit Agreement; however, we had \$8.5 of letters of credit under the Credit Agreement, which reduced our total availability to \$1,491.5. We were in compliance with all of our covenants in the Credit Agreement as of June 30, 2018.

We also have uncommitted lines of credit with various banks, which permit borrowings at variable interest rates and which are primarily used to fund working capital needs. We have guaranteed the repayment of some of these borrowings made by certain subsidiaries. If we lose access to these credit lines, we would have to provide funding directly to some of our operations. As of June 30, 2018, the Company had uncommitted lines of credit in an aggregate amount of \$1,127.0, under which we had outstanding borrowings of \$81.6 classified as short-term borrowings on our Consolidated Balance Sheet. The average amount outstanding during the second quarter of 2018 was \$94.0, with a weighted-average interest rate of approximately 4.8%.

Commercial Paper

We have a commercial paper program under which the Company is authorized to issue unsecured commercial paper up to a maximum aggregate amount outstanding at any time of \$1,500.0. Borrowings under the program are supported by the Credit Agreement described above. Proceeds of the commercial paper are used for working capital and general corporate purposes, including the repayment of maturing indebtedness and other short-term liquidity needs. The

maturities of the commercial paper vary but may not exceed 397 days from the date of issue. As of June 30, 2018, there was \$676.0 commercial paper outstanding. The average amount outstanding under the program during the second quarter of 2018 was \$988.0, with a weighted-average interest rate of 2.5% and a weighted-average maturity of thirty days.

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Notes to Consolidated Financial Statements – (continued)

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(Unaudited)

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 our technological capabilities and improve our 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. 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, foreign currency exchange rates and other factors.

During the first half of 2018, we completed two acquisitions, including a full-service digital agency based in Brazil and an entertainment marketing and brand licensing agency in the fashion and lifestyle sector based in the U.K. Both of our acquisitions were included in the CMG operating segment. During the first half of 2018, we recorded \$14.2 of goodwill and intangible assets related to our acquisitions.

During the first half of 2017, we completed three acquisitions, including a content creation and marketing agency based in the Netherlands, an independent media agency and digital consultancy based in Finland, and an integrated marketing communications agency based in Canada. All three of our acquisitions were included in the IAN operating segment. During the first half of 2017, we recorded \$22.9 of goodwill and intangible assets related to our 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.

	Six months ended June 30,	
	2018	2017
Cost of investment: current-year acquisitions	\$8.7	\$14.8
Cost of investment: prior-year acquisitions	16.2	37.1
Less: net cash acquired	(0.4)	(3.0)
Total cost of investment	24.5	48.9
Operating payments ¹	18.2	34.7
Total cash paid for acquisitions ²	\$42.7	\$83.6

¹ Represents cash payments for amounts that have been recognized in operating expenses since the date of acquisition either relating to adjustments to estimates in excess of the initial value of contingent payments recorded or were contingent upon the future employment of the former owners of the acquired companies. Amounts are reflected in the operating section of the unaudited Consolidated Statements of Cash Flows.

² Of the total cash paid for acquisitions, \$8.5 and \$12.6 for the six months ended June 30, 2018 and 2017, respectively, are classified under the investing section of the unaudited Consolidated Statements of Cash Flows, as acquisitions, net of cash acquired. These amounts relate to initial payments for new transactions. Of the total cash paid for acquisitions, \$16.0 and \$36.3 for the six months ended June 30, 2018 and 2017, respectively, are classified under the financing section of the unaudited Consolidated Statements of Cash Flows as acquisition-related payments. These amounts relate to deferred payments and increases in our ownership interest for prior acquisitions.

Many of our acquisitions include provisions under which the noncontrolling equity owners may require us to purchase additional interests in a subsidiary at their discretion. Redeemable noncontrolling interests are adjusted quarterly to their estimated redemption value, but not less than their initial fair value. Any adjustments to the redemption value impact retained earnings, except for foreign currency translation adjustments.

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Notes to Consolidated Financial Statements – (continued)

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The following table presents changes in our redeemable noncontrolling interests.

	Six months ended June 30,	
	2018	2017
Balance at beginning of period	\$252.1	\$252.8
Change in related noncontrolling interests balance	(14.6)	(6.5)
Changes in redemption value of redeemable noncontrolling interests:		
Additions	0.0	3.0
Redemptions	(32.2)	(13.2)
Redemption value adjustments	(39.5)	7.3
Balance at end of period	\$165.8	\$243.4

Note 6: Earnings Per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income available to IPG common stockholders	\$145.8	\$107.7	\$131.7	\$132.4
Weighted-average number of common shares outstanding - basic	383.6	392.3	383.5	392.0
Dilutive effect of stock options and restricted shares	5.9	8.0	5.4	7.6
Weighted-average number of common shares outstanding - diluted	389.5	400.3	388.9	399.6
Earnings per share available to IPG common stockholders:				
Basic	\$0.38	\$0.27	\$0.34	\$0.34
Diluted	\$0.37	\$0.27	\$0.34	\$0.33

Note 7: Supplementary Data

Accrued Liabilities

The following table presents the components of accrued liabilities.

	June 30, December 31,	
	2018	2017
Salaries, benefits and related expenses	\$ 310.7	\$ 441.7
Acquisition obligations	65.7	42.0
Office and related expenses	48.8	53.2
Interest	16.9	16.4
Other	109.4	121.4
Total accrued liabilities	\$ 551.5	\$ 674.7

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Notes to Consolidated Financial Statements – (continued)

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(Unaudited)

Other Expense, Net

Results of operations for the three and six months ended June 30, 2018 and 2017 include certain items that are not directly associated with our revenue-producing operations.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net losses on sales of businesses	\$(19.8)	\$(13.1)	\$(44.2)	\$(12.2)
Other	3.5	(2.3)	3.5	(2.4)
Total other expense, net	\$(16.3)	\$(15.4)	\$(40.7)	\$(14.6)

Net losses on sales of businesses – During the three and six months ended June 30, 2018 and 2017, the amounts recognized were related to sales of businesses and the classification of certain assets and liabilities, consisting primarily of cash, accounts receivable and accounts payable, as held for sale within our IAN operating segment.

Share Repurchase Program

In February 2018, 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, which was in addition to the remaining amount available to be repurchased from the \$300.0 authorization made by the Board in February 2017.

We may effect such repurchases through open market purchases, trading plans established in accordance with SEC rules, derivative transactions or other means. The timing and amount of repurchases in future periods will depend on market conditions and other funding requirements.

The following table presents our share repurchase activity under our share repurchase programs for the six months ended June 30, 2018 and 2017.

	Six months ended June 30,	
	2018	2017
Number of shares repurchased	5.0	4.8
Aggregate cost, including fees	\$114.5	\$115.0
Average price per share, including fees	\$23.02	\$24.13

As of June 30, 2018, \$341.0, excluding fees, remains available for repurchase under the share repurchase programs.

The share repurchase programs have no expiration date.

Note 8: Income Taxes

For the three and six months ended June 30, 2018, our effective income tax rates were negatively impacted by losses in certain foreign jurisdictions where we receive no tax benefit due to 100% valuation allowances and by losses on sales of businesses, and the classification of certain assets as held for sale, for which we received a minimal tax benefit, partially offset by additional research and development credits based on the conclusion of multi-year studies.

The Tax Cuts and Jobs Act of 2017 imposed a new tax on certain foreign earnings generated in 2018 and forward. These global intangible low-taxed income ("GILTI") tax rules are complex. U.S. GAAP allows us to choose an accounting policy which treats the U.S. tax under GILTI provisions as either a current expense, as incurred, or as a component of the Company's measurement of deferred taxes. The Company has elected to account for the GILTI tax as a current expense.

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 \$30.0 and \$40.0 in the next twelve

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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. federal income tax audits through 2012, with the exception of 2009.

With limited exceptions, we are no longer subject to state and local income tax audits for years prior to 2007 or non-U.S. income tax audits for years prior to 2006.

Note 9: 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 2014 Performance Incentive Plan (the “2014 PIP”) during the six months ended June 30, 2018.

	Awards	Weighted-average grant-date fair value (per award)
Restricted stock (shares or units)	1.8	\$ 23.62
Performance-based stock (shares)	2.9	\$ 21.13
Restricted stock units (settled in cash)	0.1	\$ 23.63
Total stock-based compensation awards	4.8	

During the six months ended June 30, 2018, the Compensation Committee granted performance cash awards under the 2014 PIP and restricted cash awards under the 2009 Restricted Cash Plan with a total annual target value of \$55.7 and \$19.8, respectively. Cash awards are expensed over the vesting period, which is typically three years.

Note 10: Accumulated Other Comprehensive Loss, Net of Tax

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

	Foreign Currency Translation Adjustments	Derivative Instruments	Defined Benefit Pension and Other Postretirement Plans	Total
Balance as of December 31, 2017	\$ (585.3)	\$ (6.8)	\$ (235.7)	\$(827.8)
Other comprehensive loss before reclassifications	(92.2)	0.0	(0.9)	(93.1)
Amount reclassified from accumulated other comprehensive loss, net of tax	13.4	0.8	3.3	17.5
Balance as of June 30, 2018	\$ (664.1)	\$ (6.0)	\$ (233.3)	\$(903.4)

	Foreign Currency Translation Adjustments	Available-for-Sale Securities	Derivative Instruments	Defined Benefit Pension and Other Postretirement Plans	Total
Balance as of December 31, 2016	\$ (718.6)	\$ 0.6	\$ (8.4)	\$ (238.0)	\$(964.4)
Other comprehensive income before reclassifications	85.2	0.1	0.0	0.4	85.7
Amount reclassified from accumulated other comprehensive loss, net of tax	0.3	0.0	0.7	2.7	3.7
Balance as of June 30, 2017	\$ (633.1)	\$ 0.7	\$ (7.7)	\$ (234.9)	\$(875.0)

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Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Amounts reclassified from accumulated other comprehensive loss, net of tax, for the three and six months ended June 30, 2018 and 2017 are as follows:

	Three months ended June 30,		Six months ended June 30,		Affected Line Item in the Consolidated Statements of Operations
	2018	2017	2018	2017	
Foreign currency translation adjustments	\$0.9	\$0.7	\$13.4	\$0.3	Other expense, net
Losses on derivative instruments	0.6	0.6	1.1	1.1	Interest expense
Amortization of defined benefit pension and postretirement plan items	2.0	1.8	4.1	3.5	Other expense, net
Tax effect	(0.5)	(0.6)	(1.1)	(1.2)	Provision for income taxes