

INTERPUBLIC GROUP OF COMPANIES, INC.

Form 10-Q

May 10, 2007

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, 2007
- 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer

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 30, 2007 was 468,887,871.

INDEX

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	2
<u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2007 and 2006</u>	2
<u>Condensed Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006</u>	3
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2007 and 2006</u>	4
<u>Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2007 and 2006</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2.</u>	14
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	24
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
<u>Item 4.</u>	24
<u>Controls and Procedures</u>	
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	25
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	25
<u>Risk Factors</u>	
<u>Item 2.</u>	25
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 6.</u>	26
<u>Exhibits</u>	
<u>SIGNATURES</u>	27
<u>INDEX TO EXHIBITS</u>	28
<u>EX-10.III.A: DESCRIPTION OF PERFORMANCE OBJECTIVES TO BE USED TO DETERMINE 2007 MANAGEMENT INCENTIVE COMPENSATION AWARDS</u>	
<u>EX-12.1: SUPPLEMENTAL COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES</u>	
<u>EX-12.2: SUPPLEMENTAL COMPUTATION OF RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS</u>	
<u>EX-31.1: CERTIFICATION</u>	
<u>EX-31.2: CERTIFICATION</u>	
<u>EX-32: CERTIFICATION</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. These statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined in our 2006 Annual Report on Form 10-K under Item 1A, Risk Factors. 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:

risks arising from material weaknesses in our internal control over financial reporting, including material weaknesses in our control environment;

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;

potential adverse effects if we are required to recognize impairment charges or other adverse accounting-related developments;

potential adverse developments in connection with the ongoing Securities and Exchange Commission (SEC) investigation;

potential downgrades in the credit ratings of our securities;

risks associated with the effects of global, national and regional economic and political conditions, including 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 in our 2006 Annual Report on Form 10-K under Item 1A, Risk Factors.

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,	
	2007	2006
REVENUE	\$ 1,359.1	\$ 1,327.0
OPERATING EXPENSES:		
Salaries and related expenses	988.8	950.7
Office and general expenses	495.1	535.5
Restructuring and other reorganization-related (reversals) charges	(0.6)	0.4
Total operating expenses	1,483.3	1,486.6
OPERATING LOSS	(124.2)	(159.6)
EXPENSES AND OTHER INCOME:		
Interest expense	(55.0)	(46.1)
Interest income	28.5	25.9
Other (expense) income	(1.5)	0.6
Total (expenses) and other income	(28.0)	(19.6)
Loss before benefit of income taxes	(152.2)	(179.2)
Benefit of income taxes	(25.7)	(8.8)
Loss of consolidated companies	(126.5)	(170.4)
Loss applicable to minority interests, net of tax	0.4	0.2
Equity in net income of unconsolidated affiliates, net of tax	0.2	
NET LOSS	(125.9)	(170.2)
Dividends on preferred stock	6.9	11.9
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	\$ (132.8)	\$ (182.1)
Loss per share of common stock basic and diluted	\$ (0.29)	\$ (0.43)

Weighted-average number of common shares outstanding	basic and diluted	456.0	426.0
--	-------------------	-------	-------

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

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

(Amounts in Millions)

(Unaudited)

	March 31, 2007	December 31, 2006
ASSETS:		
Cash and cash equivalents	\$ 1,466.9	\$ 1,955.7
Marketable securities	51.5	1.4
Accounts receivable, net of allowance of \$79.5 and \$81.3	3,459.7	3,934.9
Expenditures billable to clients	1,118.2	1,021.4
Deferred income taxes	70.9	70.9
Prepaid expenses and other current assets	246.4	224.5
Total current assets	6,413.6	7,208.8
Land, buildings and equipment, net of accumulated depreciation of \$1,032.6 and \$1,017.0	605.6	624.0
Deferred income taxes	522.2	476.5
Investments	127.9	128.1
Goodwill	3,077.1	3,067.8
Other assets	348.2	358.9
TOTAL ASSETS	\$ 11,094.6	\$ 11,864.1
LIABILITIES:		
Accounts payable	\$ 3,801.0	\$ 4,124.1
Accrued liabilities	2,127.9	2,426.7
Short-term debt	464.2	82.9
Total current liabilities	6,393.1	6,633.7
Long-term debt	1,846.1	2,248.6
Deferred compensation and employee benefits	599.9	606.3
Other non-current liabilities	384.9	388.4
Minority interests in consolidated subsidiaries	41.6	46.5
TOTAL LIABILITIES	9,265.6	9,923.5
Commitments and contingencies (Note 9)		
TOTAL STOCKHOLDERS EQUITY	1,829.0	1,940.6
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 11,094.6	\$ 11,864.1

The accompanying notes are an integral part of these 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,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (125.9)	\$ (170.2)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of fixed assets and intangible assets	43.0	42.9
Provision for bad debt	3.8	4.2
Amortization of restricted stock and other non-cash compensation	19.6	9.3
Amortization of bond discounts and deferred financing costs	7.8	3.2
Deferred income tax benefit	(48.5)	(32.4)
Gain on sales of investments	(0.8)	(4.5)
Loss applicable to minority interests, net of tax	(0.4)	(0.2)
Other	7.3	4.6
Change in assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	489.6	450.2
Expenditures billable to clients	(91.9)	(23.9)
Prepaid expenses and other current assets	(22.4)	(38.0)
Accounts payable	(347.4)	(494.3)
Accrued liabilities	(311.2)	(287.0)
Other non-current assets and liabilities	(5.1)	8.0
Net cash used in operating activities	(382.5)	(528.1)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, including deferred payments, net of cash acquired	(13.5)	(1.7)
Capital expenditures	(28.0)	(18.7)
Maturities of short-term marketable securities	238.4	77.4
Purchases of short-term marketable securities	(288.4)	(381.7)
Proceeds from sales of businesses and fixed assets, net of cash sold	3.9	0.9
Proceeds from sales of investments	13.1	6.5
Purchases of investments	(9.6)	(4.7)
Net cash used in investing activities	(84.1)	(322.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in short-term bank borrowings	(20.0)	(8.9)
Payments of long-term debt	(1.2)	(0.2)
Proceeds from long-term debt	0.6	0.1
Consent fees		(0.7)
Issuance of common stock, net of issuance costs	1.4	

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

Distributions to minority interests, net	(4.6)	(6.3)
Preferred stock dividends	(6.9)	(11.2)
Net cash used in financing activities	(30.7)	(27.2)
Effect of exchange rate changes on cash and cash equivalents	8.5	8.4
Net decrease in cash and cash equivalents	(488.8)	(868.9)
Cash and cash equivalents at beginning of year	1,955.7	2,075.9
Cash and cash equivalents at end of period	\$ 1,466.9	\$ 1,207.0

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

Table of Contents

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Amounts in Millions)

(Unaudited)

	Three Months Ended	
	March 31,	
	2007	2006
Net Loss	\$ (125.9)	\$ (170.2)
Foreign currency translation adjustment	13.7	12.8
Adjustments to pension and other postretirement plans, net of tax	(0.2)	
Unrealized holding (losses) gains on securities, net of tax		
Unrealized holding gain		6.5
Reclassification of gain to net earnings	(0.7)	(0.8)
Net unrealized holding (losses) gains on securities, net of tax	(0.7)	5.7
Total Comprehensive Loss	\$ (113.1)	\$ (151.7)

The accompanying notes are an integral part of these 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) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments of a normal and recurring nature necessary for a fair statement of the Consolidated Statements of Operations, Condensed Consolidated Balance Sheets, Consolidated Statements of Cash Flows and Consolidated Statements of Comprehensive Loss for each period presented. Certain reclassifications have been made to prior periods to conform to the current period presentation. The consolidated results for interim periods are not necessarily indicative of results for the full year, as historically our consolidated revenue is lower in the first half of the fiscal year than in the second half. These financial results should be read in conjunction with our 2006 Annual Report on Form 10-K.

As of March 31, 2007 we have included our \$400.0 4.50% Convertible Senior Notes due 2023 in short-term debt because holders of this debt may require us to repurchase these Notes on March 15, 2008 for cash at par.

Note 2: Restructuring and Other Reorganization-Related (Reversals) Charges

The components of restructuring and other reorganization-related (reversals) charges were as follows:

	Three Months Ended	
	March 31,	
	2007	2006
Other reorganization-related reversals	\$ (0.2)	\$
Restructuring (reversals) charges		
Lease termination and other exit costs	0.1	0.4
Severance and termination costs	(0.5)	
	(0.4)	0.4
Total	\$ (0.6)	\$ 0.4

Restructuring (reversals) charges relate to lease termination and other exit costs and severance and termination costs for the 2003 and 2001 restructuring programs. For the first quarter of 2007, net reversals primarily consisted of adjustments to estimates primarily relating to our severance and lease termination costs offset by the amortization of the discounted liability related to lease terminations. Net restructuring reversals was comprised of net reversals of \$(0.6) at Constituency Management Group (CMG) partially offset by net charges of \$0.2 at Integrated Agency Networks (IAN).

A rollforward of the remaining liability for the 2003 and 2001 restructuring program is as follows:

	2003 Program	2001 Program	Total
Liability at December 31, 2006			