

OMNICOM GROUP INC  
Form 10-Q  
October 20, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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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, 2011

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Commission File Number: 1-10551

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OMNICOM GROUP INC.  
(Exact name of registrant as specified in its charter)

New York 13-1514814  
(State or other jurisdiction of incorporation or (IRS Employer Identification No.)  
organization)

437 Madison Avenue, New York, New York 10022  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (212) 415-3600

Not Applicable

(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 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 the definitions 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of October 10, 2011, there were 275,874,000 shares of Omnicom Group Inc. Common Stock outstanding.



OMNICOM GROUP INC. AND SUBSIDIARIES  
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Forward-Looking Statements

Certain of the statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, from time to time, we or our representatives have made or may make forward-looking statements, orally or in writing. These statements relate to future events or future financial performance and involve known and unknown risks and other factors that may cause our actual or our industry's results, levels of activity or achievement to be materially different from those expressed or implied by any forward-looking statements. These risks and uncertainties, including those that are described in our 2010 Annual Report on Form 10-K under Item 1A - Risk Factors and Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, include, but are not limited to, our future financial position and results of operations, future global economic conditions and conditions in the credit markets, losses on media purchases and production costs incurred on behalf of clients, reductions in client spending and/or a slowdown in client payments, competitive factors, changes in client communication requirements, managing conflicts of interest, the hiring and retention of personnel, maintaining a highly skilled workforce, our ability to attract new clients and retain existing clients, reliance on information technology systems, changes in government regulations impacting our advertising and marketing strategies, risks associated with assumptions we make in connection with our critical accounting estimates and legal proceedings, and our international operations, which are subject to the risks of currency fluctuations and foreign exchange controls. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "potential" or "continue" or the negative of those terms or other comparable terminology. These statements are our present expectations. Actual events or results may differ. We undertake no obligation to update or revise any forward-looking statement, except as required by law.

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

OMNICOM GROUP INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	September 30, 2011	December 31, 2010
	(Unaudited)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$900.6	\$2,288.7
Short-term investments, at cost	11.4	11.3
Accounts receivable, net of allowance for doubtful accounts of \$41.1 and \$46.7	5,971.4	5,977.2
Work in process	799.1	707.6
Other current assets	1,292.2	1,209.3
 Total Current Assets	 8,974.7	 10,194.1
 Property, Plant and Equipment at cost, less accumulated depreciation of \$1,201.3 and \$1,168.3	 632.1	 653.3
Investments In Affiliates	199.0	299.1
Goodwill	8,397.5	7,809.1
Intangible Assets, net of accumulated amortization of \$400.3 and \$354.8	436.0	278.2
Deferred Tax Assets	—	14.2
Other Assets	296.7	318.1
 TOTAL ASSETS	 \$18,936.0	 \$19,566.1
 <b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts payable	\$6,948.1	\$7,726.9
Customer advances	1,224.4	1,187.1
Current portion of debt	1.0	1.4
Short-term borrowings	16.4	50.2
Taxes payable	159.7	176.3
Other current liabilities	1,851.3	1,881.2
 Total Current Liabilities	 10,200.9	 11,023.1

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Long-Term Notes Payable	2,524.8	2,465.1
Convertible Debt	659.4	659.5
Long-Term Liabilities	611.3	576.5
Long-Term Deferred Tax liabilities	833.3	747.7
Commitments and Contingent Liabilities (See Note 12)		
Temporary Equity - Redeemable Noncontrolling Interests	193.6	201.1
Equity:		
Shareholders' Equity:		
Preferred stock	—	—
Common stock	59.6	59.6
Additional paid-in capital	1,201.4	1,271.9
Retained earnings	7,522.0	7,052.5
Accumulated other comprehensive income (loss)	(164.6	) (106.4
Treasury stock, at cost	(5,171.6	) (4,697.1
		)
Total Shareholders' Equity	3,446.8	3,580.5
Noncontrolling interests	465.9	312.6
Total Equity	3,912.7	3,893.1
TOTAL LIABILITIES AND EQUITY	\$18,936.0	\$19,566.1

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

OMNICOM GROUP INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Dollars in millions, except per share data)  
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue	\$3,380.9	\$2,994.6	\$10,019.6	\$8,955.7
Operating Expenses	3,007.5	2,680.5	8,835.9	7,935.1
Operating Income	373.4	314.1	1,183.7	1,020.6
Interest Expense	39.8	36.1	118.6	95.9
Interest Income	7.9	6.3	26.8	18.2
Income Before Income Taxes and Income From Equity Method Investments	341.5	284.3	1,091.9	942.9
Income Tax Expense	117.1	96.9	349.0	320.8
Income From Equity Method Investments	4.5	8.2	10.3	23.1
Net Income	228.9	195.6	753.2	645.2
Less: Net Income Attributed To Noncontrolling Interests	25.2	21.0	72.5	64.0
Net Income - Omnicom Group Inc.	\$203.7	\$174.6	\$680.7	\$581.2
Net Income Per Share - Omnicom Group Inc.:				
Basic	\$0.73	\$0.58	\$2.41	\$1.90
Diluted	\$0.72	\$0.57	\$2.37	\$1.88
Dividends Declared Per Common Share	\$0.25	\$0.20	\$0.75	\$0.60

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

OMNICOM GROUP INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Dollars in millions)  
 (Unaudited)

	Nine Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$753.2	\$645.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	135.9	134.9
Amortization of intangible assets	67.7	50.7
Amortization of deferred gain from termination of interest rate swaps	(0.9	) —
Remeasurement gain, equity interest in Clemenger Group	(123.4	) —
Share-based compensation	52.7	51.9
Excess tax benefit from share-based compensation	(27.4	) (16.4
Other, net	7.8	(23.5
Proceeds from termination of interest rate swaps	38.8	—
Change in operating capital	(903.9	) (799.3
 Net Cash Provided By Operating Activities	 0.5	 43.5
Cash Flows from Investing Activities:		
Payments to acquire property, plant and equipment	(114.2	) (98.1
Payments to acquire businesses and interests in affiliates, net of cash acquired	(314.8	) (115.4
Payments to acquire investments	(11.6	) (2.5
Proceeds from sales of investments	27.9	6.8
 Net Cash Used In Investing Activities	 (412.7	 ) (209.2
Cash Flows from Financing Activities:		
Repayments of short-term debt	(35.7	) —
Proceeds from short-term debt	—	33.1
Proceeds from borrowings	—	990.4
Repayments of convertible debt	(0.1	) (66.5
Payments of dividends	(199.0	) (169.2
Payments for repurchase of common stock	(717.9	) (567.0
Proceeds from stock plans	104.7	105.2
Payments for acquisition of additional noncontrolling interests	(28.0	) (26.5

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Payments of dividends to noncontrolling interest shareholders	(69.8	) (64.6	)
Excess tax benefit on share-based compensation	27.4	16.4	
Other, net	(26.3	) 6.0	
Net Cash (Used In) Provided By Financing Activities	(944.7	) 257.3	
Effect of exchange rate changes on cash and cash equivalents	(31.2	) 10.7	
Net (Decrease) Increase in Cash and Cash Equivalents	(1,388.1	) 102.3	
Cash and Cash Equivalents at the Beginning of the Period	2,288.7	1,587.0	
Cash and Cash Equivalents at the End of the Period	\$900.6	\$1,689.3	

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.



OMNICOM GROUP INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Presentation of Financial Statements

The terms “Omnicom,” “we,” “our” and “us” each refer to Omnicom Group Inc. and our subsidiaries, unless the context indicates otherwise. The accompanying unaudited condensed consolidated financial statements were prepared in accordance with Article 10 of Regulation S-X of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosure required in financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP” or “GAAP”) have been condensed or omitted pursuant to this regulation.

In our opinion, the accompanying unaudited condensed financial statements reflect all adjustments, consisting of normally recurring accruals, considered necessary for a fair presentation, in all material respects, of the information contained herein. Results of operations for the interim periods are not necessarily indicative of results that may be expected for the year. These unaudited condensed financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010 (“2010 Form 10-K”).

2. New Accounting Standards

On January 1, 2011, we adopted Accounting Standards Update (“ASU”) 2010-28, Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (“ASU 2010-28”). ASU 2010-28 provides that an entity with reporting units that have carrying amounts that are zero or less than zero is required to assess the likelihood of the reporting units’ goodwill impairment as part of the annual goodwill impairment test. The adoption of ASU 2010-28 did not have a significant impact on our annual impairment test or on our results of operations and financial position.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (“ASU 2011-05”). Under ASU 2011-05, an entity will have the option to present comprehensive income on the income statement or as a separate financial statement. ASU 2011-05 is effective January 1, 2012 and requires retrospective adoption. ASU 2011-05 affects financial statement presentation only and has no effect on results of operations or financial position.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment (“ASU 2011-08”) that gives an entity the option of performing a qualitative assessment to determine whether it is necessary to perform step 1 of the annual goodwill impairment test. An entity is required to perform step 1 only if it concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount. An entity may choose to perform the qualitative assessment on none, some or all of its reporting units or an entity may bypass the qualitative assessment for any reporting unit in any period and proceed directly to step 1 of the impairment test. ASU 2011-08 is effective January 1, 2012 and we do not believe that the adoption of ASU 2011-08 will have a significant effect on our results of operations or financial position.

3. Net Income per Common Share

Net income per common share - Omnicom Group Inc. is based on the weighted average number of common shares outstanding during the periods. Diluted net income per common share - Omnicom Group Inc. is based on the weighted average number of common shares outstanding, plus, if dilutive, common share equivalents that include outstanding stock options and restricted shares.

Net income per common share is calculated using the two-class method, which is an earnings allocation method for computing net income per common share when an entity’s capital structure includes common stock and participating securities. The application of the two-class method is required because our unvested restricted stock awards receive non-forfeitable dividends at the same rate as our common stock and therefore are considered participating securities. Under the two-class method, basic and diluted net income per common share is reduced for a presumed hypothetical distribution of earnings to holders of our unvested restricted stock.



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The computations of basic and diluted net income per common share - Omnicom Group Inc. for the three and nine months ended September 30, 2011 and 2010 were (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Net Income Available for Common Shares:</b>				
Net income - Omnicom Group Inc.	\$203.7	\$174.6	\$680.7	\$581.2
Net income allocated to participating securities	(2.3	) (1.7	) (7.3	) (5.6
Net income available for common shares	\$201.4	\$172.9	\$673.4	\$575.6
<b>Weighted Average Shares:</b>				
Basic	277.1	299.3	279.8	302.7
Dilutive stock options and restricted shares	4.3	4.2	4.5	4.2
Diluted	281.4	303.5	284.3	306.9
Anti-dilutive stock options and restricted shares	2.1	9.1	1.6	9.0
<b>Net Income per Common Share - Omnicom Group Inc.:</b>				
Basic	\$0.73	\$0.58	\$2.41	\$1.90
Diluted	0.72	0.57	2.37	1.88

4. Comprehensive Income (Loss)

Comprehensive income (loss) and its components for the three and nine months ended September 30, 2011 and 2010 were (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$228.9	\$195.6	\$753.2	\$645.2
Foreign currency transaction and translation adjustments, net of income taxes of \$(136.7) and \$126.2 for the three months and \$(38.5) and \$(23.7) for the nine months ended September 30, 2011 and 2010, respectively	(265.1	) 235.0	(74.4	) (43.3
	0.9	0.7	2.7	2.3

Defined benefit plans adjustment, net of income taxes  
of \$0.6 and \$0.5 for the three months and \$1.8 and \$1.6  
for the nine months ended September 30, 2011 and  
2010, respectively

Comprehensive income (loss)	(35.3	)	431.3	681.5	604.2
Less: Comprehensive income (loss) attributed to noncontrolling interests	(0.5	)	36.0	59.1	73.2
Comprehensive income (loss) - Omnicom Group Inc.	\$(34.8	)	\$395.3	\$622.4	\$531.0

## 5. Debt

## Lines of Credit

At September 30, 2011, we maintained a credit facility with a consortium of banks, providing borrowing capacity of up to \$2.0 billion. This facility expires on December 9, 2013. We have the ability to classify borrowings under this facility as long-term. The credit facility provides support for up to \$1.5 billion of commercial paper issuances, as well as back-up liquidity in the event that any of our convertible notes are put back to us. At September 30, 2011, there were no commercial paper issuances or borrowings outstanding under the facility.

At September 30, 2011 and December 31, 2010, we had various uncommitted lines of credit aggregating \$1,031.5 million and \$610.4 million, respectively.

Our available and unused lines of credit at September 30, 2011 and December 31, 2010 were (dollars in millions):

	2011	2010
Credit facility	\$2,000.0	\$2,000.0
Uncommitted lines of credit	1,031.5	610.4
Available and unused lines of credit	\$3,031.5	\$2,610.4

On October 12, 2011, we amended our credit facility to increase the borrowing capacity to \$2.5 billion and to extend the term to October 12, 2016. There were no changes to the financial covenants in the credit facility.

## Short-Term Borrowings

Short-term borrowings of \$16.4 million at September 30, 2011 are primarily comprised of bank overdrafts and credit lines of our international subsidiaries. The bank overdrafts and credit lines are treated as unsecured loans pursuant to the bank agreements supporting the facilities.

## Long-Term Notes Payable

Long-term notes payable at September 30, 2011 and December 31, 2010 were (dollars in millions):

	2011	2010	
5.90% Senior Notes due April 15, 2016	\$1,000.0	\$1,000.0	
6.25% Senior Notes due July 15, 2019	500.0	500.0	
4.45% Senior Notes due August 15, 2020	1,000.0	1,000.0	
Other notes and loans	1.4	1.5	
	2,501.4	2,501.5	
Unamortized discount on Senior Notes	(7.9	) (8.7	)
Deferred gain from termination of interest rate swaps on Senior Notes due 2016	32.3	—	
Fair value hedge adjustment on Senior Notes due 2016	—	(26.3	)
	2,525.8	2,466.5	
Less current portion	1.0	1.4	
Long-term notes payable	\$2,524.8	\$2,465.1	



In August 2010, we entered into a series of interest rate swap agreements to hedge the risk of changes in fair value of the \$1.0 billion aggregate principal amount of our 5.90% Senior Notes due April 15, 2016 (“2016 Notes”) attributable to changes in the benchmark interest rate. Under the terms of the swaps, we received fixed interest rate payments and paid a variable interest rate on the total principal amount of the 2016 Notes. The swaps effectively converted the 2016 Notes from fixed rate debt to floating rate debt. The swaps qualified as a hedge for accounting purposes and were designated as a fair value hedge on the 2016 Notes. The swaps were recorded in our balance sheet at fair value and the change in the fair value of the swaps and the change in the fair value of the 2016 Notes (the hedged item) were recorded in earnings as an adjustment to interest expense.

On August 18, 2011, we terminated and settled the swaps and received a payment of \$38.8 million that included accrued interest from the counterparties. On termination of the swaps, we discontinued hedge accounting and recorded a deferred gain of \$33.2 million as an increase in the carrying value of 2016 Notes. The deferred gain is being amortized through the maturity of the 2016 Notes as a reduction of interest expense.

At December 31, 2010, we recorded a liability of \$24.2 million, representing the fair value of the swaps, and we recorded a decrease in the carrying value of the 2016 Notes of \$26.3 million, reflecting the change in fair value of the 2016 Notes from the inception of the fair value hedge.

#### Convertible Debt

Convertible debt at September 30, 2011 and December 31, 2010 was (dollars in millions):

	2011	2010
Convertible Notes - due February 7, 2031	\$—	\$0.1
Convertible Notes - due July 31, 2032	252.7	252.7
Convertible Notes - due June 15, 2033	0.1	0.1
Convertible Notes - due July 1, 2038	406.6	406.6
	659.4	659.5
Less current portion	—	—
Convertible debt	\$659.4	\$659.5

The next date on which holders of our 2032 Notes can put their notes back to us for cash is July 31, 2012. The next date on which holders of our 2038 Notes can put their notes back to us for cash is June 17, 2013.

#### 6. Segment Reporting

Our wholly and partially owned agencies operate within the advertising, marketing and corporate communications services industry. These agencies are organized into agency networks, virtual client networks, regional reporting units and operating groups. Consistent with our fundamental business strategy, our agencies serve similar clients, in similar industries and, in many cases, the same clients across a variety of geographic regions. In addition, our agency networks have similar economic characteristics and similar long-term operating margins, as the main economic components of each agency are employee compensation and related costs and direct service costs associated with providing professional services and office and general costs which include rent and occupancy costs, technology costs and other overhead expenses.

Therefore, given these similarities, we aggregate our operating segments, which are our five agency networks, into one reporting segment.

Revenue and long-lived assets and goodwill by geographic area as of and for the periods ended September 30, 2011 and 2010 are (dollars in millions):

	Americas	EMEA	Asia / Australia
2011			
Revenue - three months ended	\$1,934.1	\$1,092.8	\$354.0
Revenue - nine months ended	5,815.9	3,243.6	960.1
Long-lived assets and goodwill	5,953.4	2,625.5	450.7
2010			
Revenue - three months ended	\$1,801.1	\$958.5	\$235.0
Revenue - nine months ended	5,405.9	2,894.6	655.2
Long-lived assets and goodwill	5,705.8	2,533.4	124.8

The Americas is composed of the United States, Canada and Latin American countries. EMEA is composed of various Euro currency countries, the United Kingdom, the Middle-East and Africa and other European countries that have not adopted the European Union Monetary standard. Asia/Australia is composed of China, India, Japan, Korea, Singapore, Australia and other Asian countries.

#### 7. Pension and Other Postemployment Benefits

##### Defined Benefit Pension Plans

The components of net periodic benefit cost for the nine months ended September 30, 2011 and 2010 were (dollars in millions):

	2011	2010
Service cost	\$4.1	\$2.8
Interest cost	3.8	3.8
Expected return on plan assets	(1.8	) (1.8
Amortization of prior service cost	2.4	2.0
Amortization of actuarial (gains) losses	0.4	0.2
Curtailments and settlements	—	1.3
	\$8.9	\$8.3

We contributed approximately \$4.9 million and \$4.1 million to our defined benefit pension plans for the nine months ended September 30, 2011 and 2010, respectively.



## Postemployment Arrangements

The components of net periodic benefit cost for the nine months ended September 30, 2011 and 2010 were (dollars in millions):

	2011	2010
Service cost	\$2.9	\$1.4
Interest cost	3.5	2.9
Expected return on plan assets	N/A	N/A
Amortization of prior service cost	1.6	0.5
Amortization of actuarial (gains) losses	0.5	0.7
	\$8.5	\$5.5

## 8. Acquisition of Controlling Interest in Equity Method Investment

Effective February 1, 2011, we acquired a controlling interest in the Clemenger Group, our affiliate in Australia and New Zealand, increasing our equity ownership from 46.7% to 73.7%. In connection with this transaction as required by FASB Accounting Standards Codification Topic 805 - Business Combinations, in the first quarter of 2011, we recorded a non-cash gain of \$123.4 million resulting from the remeasurement of the carrying value of our equity interest to the acquisition date fair value. The difference between the fair value of our shares at the acquisition date and the carrying value of our investment held prior to the acquisition resulted in the remeasurement gain.

## 9. Repositioning Actions and Supplemental Data

## Repositioning Actions

In connection with a continuing review of our businesses focused on enhancing our strategic position, improving our operations and rebalancing our workforce, in the first quarter of 2011, we recorded \$131.3 million of charges related to repositioning actions for severance, real estate lease terminations and asset and goodwill write-offs related to disposals and other costs.

A summary of our repositioning actions for the nine months ended September 30, 2011 is (dollars in millions):

Severance	\$92.8
Real estate lease terminations	15.3
Asset and goodwill write-offs related to disposals and other costs	23.2
	\$131.3

At September 30, 2011, the liability for severance related to our repositioning actions, net of payments through September 30, 2011 of \$83.3 million, was \$9.5 million. Substantially all payments related to real estate lease terminations were made as of September 30, 2011. The remaining \$23.2 million of charges recorded is primarily comprised of non-cash items.

Salary and Service Costs and Office and General Expenses

The components of operating expenses for the three months and nine months ended September 30, 2011 and 2010 were (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Salary and service costs	\$2,504.7	\$2,210.8	\$7,395.8	\$6,526.5
Office and general expenses	502.8	469.7	1,440.1	1,408.6
Operating expenses	\$3,007.5	\$2,680.5	\$8,835.9	\$7,935.1

The impact of the repositioning actions and the remeasurement gain, which were recorded in the first quarter of 2011 as described in Notes 8 and 9, on operating expenses for the nine months ended September 30, 2011 was (dollars in millions):

	Increase (Decrease)	
	Repositioning Actions	Remeasurement Gain
Salary and service costs	\$92.8	
Office and general expenses	38.5	\$(123.4)
	\$131.3	\$(123.4)

Cash Flow

Supplemental cash flow data for the nine months ended September 30, 2011 and 2010 were (dollars in millions):

	2011	2010
Decrease in accounts receivable	\$85.1	\$143.4
Increase in work in progress and other current assets	(208.2)	(267.1)
Decrease in accounts payable	(780.7)	(646.2)
Decrease in customer advances and other current liabilities	(266.4)	(112.1)
Change in other assets and liabilities, net	266.3	82.7
Change in operating capital	\$(903.9)	\$(799.3)
Income taxes paid	\$246.9	\$223.6
Interest paid	\$101.5	\$103.8



### 10. Income Taxes

Income tax expense for the nine months ended September 30, 2011 reflects a number of items that were recorded in the first quarter of 2011. These items include a \$39.5 million tax benefit related to charges incurred in connection with our repositioning actions, a provision of \$2.8 million related to the remeasurement gain and a provision of \$9.0 million for an accrual for agreed upon adjustments to income tax returns that were under examination in the first quarter of 2011.

The tax benefit on the repositioning actions was calculated based on the jurisdictions where the charges were incurred and reflects the likelihood that we will be unable to obtain a tax benefit for all charges incurred. The remeasurement gain resulting from the acquisition of the controlling interest in Clemenger created a difference between the book basis and tax basis of our investment. Because this basis difference is not expected to reverse, no deferred taxes were provided and the tax provision recorded represents the incremental U.S. tax on acquired historical unremitted earnings. The \$9.0 million accrual resulted from adjustments to U.S. income tax returns for calendar years 2005, 2006 and 2007, that were agreed upon and recorded in the first quarter of 2011. The examination of those returns is closed. At September 30, 2011, our unrecognized tax benefits were \$157.6 million. Of this amount, approximately \$59.4 million would affect our effective tax rate upon resolution of the uncertain tax positions.

### 11. Intangible Assets

Intangible assets at September 30, 2011 and December 31, 2010 were (dollars in millions):

	2011			2010		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets subject to impairment tests:						
Goodwill	\$8,974.2	\$576.7	\$8,397.5	\$8,386.7	\$577.6	\$7,809.1
Other identifiable intangible assets subject to amortization:						
Purchased and internally developed software	\$267.7	\$209.2	\$58.5	\$260.5	\$205.3	\$55.2
Customer related and other	568.6	191.1	377.5	372.5	149.5	223.0
	\$836.3	\$400.3	\$436.0	\$633.0	\$354.8	\$278.2

We review the carrying value of goodwill for impairment at least annually at the end of the second quarter or whenever events or circumstances indicate that the carrying value may not be recoverable. Based on the results of our annual review, we concluded that our goodwill was not impaired at June 30, 2011 and 2010, because the fair value of each of our reporting units was substantially in excess of their book value.

Changes in goodwill for the nine months ended September 30, 2011 and 2010 were (dollars in millions):

	2011	2010
Balance January 1	\$7,809.1	\$7,641.2
Acquisitions	640.8	168.5
Dispositions	(10.0	) (3.8
Foreign currency translation	(42.4	) (79.4
		)
Balance September 30	\$8,397.5	\$7,726.5

There were no goodwill impairment losses recorded in the first nine months of 2011 or 2010 and there are no accumulated goodwill impairment losses. Goodwill related to acquisitions completed during 2011 included \$129.7 million related to goodwill associated with noncontrolling interests.

#### 12. Commitments and Contingent Liabilities

We are involved from time to time in various legal proceedings in the ordinary course of business. We do not presently expect that these proceedings will have a material adverse effect on our results of operations or financial position.

13. Fair Value

Financial assets and liabilities that are measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010 were (dollars in millions):

September 30, 2011	Level 1	Level 2	Level 3	Total	Balance Sheet Classification
<b>Assets:</b>					
Cash and cash equivalents	\$900.6			\$900.6	
Short-term investments	11.4			11.4	
Available-for-sale securities	3.5			3.5	Other Assets
<b>Liabilities:</b>					
Forward foreign exchange contracts		\$18.4		\$18.4	Other Current Liabilities
<b>December 31, 2010</b>					
December 31, 2010	Level 1	Level 2	Level 3	Total	Balance Sheet Classification
<b>Assets:</b>					
Cash and cash equivalents	\$2,288.7			\$2,288.7	
Short-term investments	11.3			11.3	
Forward foreign exchange contracts		\$7.2		7.2	Other Current Assets
Available-for-sale securities	3.4			3.4	Other Assets
<b>Liabilities:</b>					
Interest rate swaps		\$24.2		\$24.2	Long-Term Liabilities

The carrying amounts and fair values of our financial instruments at September 30, 2011 and December 31, 2010 were (dollars in millions):

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$900.6	\$900.6	\$2,288.7	\$2,288.7
Short-term investments	11.4	11.4	11.3	11.3
Forward foreign exchange contracts	—	—	7.2	7.2
Available-for-sale securities	3.5	3.5	3.4	3.4
Cost method investments	23.8	23.8	24.8	24.8
<b>Liabilities:</b>				
Short-term borrowings	\$16.4	\$16.4	\$50.2	\$50.2
Forward foreign exchange contracts	18.4	18.4	—	—
Interest rate swaps	—	—	24.2	24.2
Debt	3,185.2	3,367.7	3,126.0	3,328.0



The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Short-term investments

Short-term investments primarily consist of time deposits with financial institutions that we expect to convert into cash in our current operating cycle, generally within one year. Short-term investments are carried at cost, which approximates fair value.

Available-for-sale securities

Available-for-sale securities are carried at quoted market prices.

Forward foreign exchange contracts

The estimated fair values of derivative positions in forward foreign exchange contracts are based on quotations received from third party banks and represent the net amount required to terminate the positions, taking into consideration market rates and counterparty credit risk.

Cost method investments

Cost method investments are carried at cost, which approximates or is less than fair value.

Short-term borrowings

Short-term borrowings consist of bank overdrafts and credit lines of our international subsidiaries. Due to the short-term nature of these instruments, carrying value approximates fair value.

Interest rate swaps

Interest rate swaps are fair value hedges where the fair value is derived from the present value of future cash flows using valuation models that are based on readily observable market data such as interest rates and yield curves, taking into consideration counterparty credit risk.

Debt

Debt includes fixed rate debt and convertible debt. The fair value of these instruments is based on quoted market prices.

14. Subsequent Events

We have evaluated events subsequent to the balance sheet date and determined there have not been any events that have occurred that would require adjustment to or additional disclosure in our unaudited condensed consolidated financial statements.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Executive Summary

We are a strategic holding company. We provide professional services to clients through multiple agencies around the world. On a global, pan-regional and local basis, our agencies provide these services in the following disciplines: advertising, customer relationship management ("CRM"), public relations and specialty communications. Our business model was built and continues to evolve around our clients. While our agencies operate under different names and frame their ideas in different disciplines, we organize our services around our clients. The fundamental premise of our business is that our clients' specific requirements should be the central focus in how we deliver our services and allocate our resources. This client-centric business model results in multiple agencies collaborating in formal and informal virtual networks that cut across internal organizational structures to deliver consistent brand messages for a specific client and execute against each of our clients' specific marketing requirements. We continually seek to grow our business with our existing clients by maintaining our client-centric approach, as well as expanding our existing business relationships into new markets and with new clients. In addition, we pursue selective acquisitions of complementary companies with strong entrepreneurial management teams that typically currently serve or have the ability to serve our existing client base.

As one of the world's leading advertising, marketing and corporate communications companies, we operate in all major markets of the global economy. We have a large and diverse client base. Our largest client represented 2.9% of our revenue for the nine months ended September 30, 2011 and no other client accounted for more than 2.2% of our revenue. Our top 100 clients accounted for approximately 50.2% of our revenue for the nine months ended September 30, 2011. Our business is spread across a significant number of industry sectors with no one industry comprising more than 16% of our revenue for the nine months ended September 30, 2011. Although our revenue is generally balanced between the United States and international markets and we have a large and diverse client base, we are not immune to general economic downturns.

In the first nine months of 2011, our revenue increased 11.9% compared to the first nine months of 2010. The increase reflects an improvement in business conditions in our industry over 2010, strong operating performance by our agencies, as well as positive impact from foreign currency translation. Revenue increased across all our disciplines and geographic areas driven by strong operating performance in most of the developed markets in which we operate and continued growth in the emerging markets in Asia and Latin America.

We will continue to closely monitor economic conditions, client spending and other factors and in response, take actions available to us to improve our cost structure and manage working capital. In the current environment, there can be no assurance as to the effects on us of future economic conditions, client spending patterns, client creditworthiness and other developments and whether and to what extent our efforts to respond to them will be effective.

Certain business trends have had a positive impact on our business and industry. These trends include our clients increasingly expanding the focus of their brand strategies from national markets to pan-regional and global markets and integrating traditional and non-traditional marketing channels, as well as utilizing new communications technologies and emerging digital platforms. Additionally, in an effort to gain greater efficiency and effectiveness from their total marketing budgets, clients are increasingly requiring greater coordination of marketing activities and concentrating these activities with a smaller number of service providers. We believe these trends have benefited our business in the past and over the medium and long term will continue to provide a competitive advantage to us.

In the near term, barring unforeseen events and excluding foreign exchange impacts, we expect our revenue to increase modestly in excess of average nominal GDP growth for 2011 in the major markets where we do business as a result of increases in client spending and new business activities. We expect to continue to identify acquisition opportunities that will build on the core capabilities of our strategic business platforms, expand our operations in the emerging markets and enhance our capabilities to leverage new technologies that are being used by marketers today. Effective February 1, 2011, we acquired a controlling interest in the Clemenger Group, our affiliate in Australia and New Zealand increasing our equity ownership from 46.7% to 73.7%. In connection with this transaction, we recorded a non-cash gain of \$123.4 million in the first quarter of 2011 resulting from the remeasurement of the carrying value

of our equity interest to the acquisition date fair value. We believe that this acquisition will help us to further develop our combined businesses throughout the Asia Pacific region and further enhance our global capabilities.

We have an objective of improving margins to 2007 levels by the end of 2012. In connection with achieving this goal, we continue to review our businesses focused on enhancing our strategic position, improving our operations and rebalancing our workforce. As part of this process, we are evaluating our agencies to identify non-core and underperforming businesses that need to be repositioned or considered for disposal. We expect that revenue from the acquisitions completed through September 30, 2011 will more than offset the loss of revenue from dispositions. We are also pursuing numerous operational consolidations to further drive efficiencies in our back office functions. As a result of the actions taken, we incurred charges of \$131.3 million in the first quarter of 2011 for severance, real estate lease terminations and asset and goodwill write-offs related to dispositions and other costs.

Given our size and breadth, we manage our business by monitoring several financial indicators. The key indicators that we review focus on revenue and operating expenses.

We analyze revenue growth by reviewing the components and mix of the growth, including growth by major geographic location, growth by major marketing discipline, growth from currency fluctuations, growth from acquisitions and growth from our largest clients. In recent years, our revenue has been divided almost evenly between domestic and international operations. For the quarter ended September 30, 2011, our revenue increased 12.9% compared to the quarter ended September 30, 2010, of which 7.2% was organic growth, 3.9% was related to changes in foreign exchange rates and 1.8% was related to acquisitions, net of dispositions. Across our geographic markets revenue increased 5.3% in the United States, 16.2% in the United Kingdom, 11.8% in our Euro markets and 34.4% in our other markets, primarily Asia and Latin America. The change in revenue in the third quarter of 2011 compared to the third quarter of 2010 in our four fundamental disciplines was as follows: advertising increased 15.3%, CRM increased 14.0%, public relations increased 9.7% and specialty communications decreased 0.1%.

For the nine months ended September 30, 2011, our revenue increased 11.9% compared to the nine months ended September 30, 2010, of which 6.5% was organic growth, 3.6% was related to changes in foreign exchange rates and 1.8% was related to acquisitions, net of dispositions. Across our geographic markets revenue increased 5.6% in the United States, 15.2% in the United Kingdom, 8.2% in our Euro markets and 32.9% in our other markets, primarily Asia and Latin America. The increase in revenue in the first nine months of 2011 compared to the first nine months of 2010 in our four fundamental disciplines was as follows: advertising 14.0%, CRM 12.7%, public relations 6.9% and specialty communications 3.8%.

We measure operating expenses in two distinct cost categories: salary and service costs, and office and general expenses. Salary and service costs are primarily comprised of employee compensation and related costs and direct service costs. Office and general expenses are primarily comprised of rent and occupancy costs, technology costs, depreciation and amortization and other overhead expenses. Each of our agencies requires service professionals with a skill set that is common across our disciplines. At the core of this skill set is the ability to understand a client's brand and its selling proposition, and the ability to develop a unique message to communicate the value of the brand to the client's target audience. The facility requirements of our agencies are also similar across geographic regions and disciplines, and their technology requirements are generally limited to personal computers, servers and off-the-shelf software. Because we are a service business, we monitor salary and service costs and office and general costs in relation to revenue.

Salary and service costs tend to fluctuate in conjunction with changes in revenue. Salary and service costs increased 13.3% in the third quarter of 2011 compared to the third quarter of 2010. Salary and service costs increased 13.3% in the first nine months of 2011 compared to the first nine months of 2010, reflecting \$92.8 million of severance charges taken in the first quarter of 2011 associated with our repositioning actions. Excluding the impact of the severance costs associated with our repositioning actions, salary and service costs increased by 11.9% in the first nine months of 2011.

Office and general expenses are less directly linked to changes in our revenue than salary and service costs. Office and general expenses increased 7.0% in the third quarter of 2011 compared to the third quarter of 2010. Office and general expenses increased 2.2% in the first nine months of 2011 compared to the first nine months of 2010, reflecting a decrease of \$123.4 million related to the non-cash remeasurement gain recorded in the first quarter of 2011 in connection with the acquisition of the controlling interest in the Clemenger Group partially offset by \$38.5 million of charges taken in the first quarter of 2011 related to our repositioning actions. Excluding the impact of the

remeasurement gain and the impact of the repositioning actions, office and general expenses increased by 8.3% in the first nine months of 2011.

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Net income - Omnicom Group Inc. in the third quarter of 2011 increased \$29.1 million, or 16.7%, to \$203.7 million from \$174.6 million in the third quarter of 2010. Net income - Omnicom Group Inc. in the first nine months of 2011 increased \$99.5 million, or 17.1%, to \$680.7 million from \$581.2 million in the first nine months of 2010. The period-over-period increase in net income - Omnicom Group Inc. is due to the factors described above. Diluted net income per common share - Omnicom Group Inc. increased 26.3% to \$0.72 in the third quarter of 2011, compared to \$0.57 in the third quarter of 2010 due to the factors described above, as well as the reduction in our weighted average common shares outstanding. Diluted net income per common share - Omnicom Group Inc. increased 26.1% to \$2.37 in the first nine months of 2011, compared to \$1.88 in the first nine months of 2010 due to the factors described above, as well as the reduction in our weighted average common shares outstanding. This reduction was the result of repurchases of our common stock during the fourth quarter of 2010 through the third quarter of 2011, net of stock option exercises and shares issued under our employee stock purchase plan.

## Results of Operations: Third Quarter 2011 Compared to Third Quarter 2010

(Dollars in millions)

	2011	2010		
Revenue	\$3,380.9	\$2,994.6		
Operating Expenses:				
Salary and service costs	2,504.7	2,210.8		
Office and general expenses	502.8	469.7		
Total Operating Expenses	3,007.5	2,680.5		
Add back: Amortization of intangible assets	23.7	18.0		
	2,983.8	2,662.5		
Earnings before interest, income taxes and amortization of intangible assets ("EBITA")	397.1	332.1		
EBITA Margin - %	11.7	% 11.1		%
Deduct: Amortization of intangible assets	23.7	18.0		
Operating Income	373.4	314.1		
Operating Margin - %	11.0	% 10.5		%
Interest Expense	39.8	36.1		
Interest Income	7.9	6.3		
Income Before Income Taxes and Income From Equity Method Investments	341.5	284.3		
Income Tax Expense	117.1	96.9		
Income From Equity Method Investments	4.5	8.2		
Net Income	228.9	195.6		
Less: Net Income Attributed To Noncontrolling Interests	25.2	21.0		
Net Income - Omnicom Group Inc.	\$203.7	\$174.6		

EBITA, which we define as earnings before interest, income taxes and amortization of intangible assets, and EBITA Margin, which we define as EBITA divided by Revenue, are Non-GAAP measures. We use EBITA and EBITA Margin as additional performance measures which exclude amortization expense of acquired intangible assets. We

believe that EBITA and EBITA Margin are useful measures to evaluate the performance of our businesses. Non-GAAP financial measures should not be considered in isolation from or as a substitute for financial information presented in compliance with GAAP. Non-GAAP financial measures reported by us may not be comparable to similarly titled amounts reported by other companies. The table above reconciles EBITA and EBITA Margin to the GAAP financial measure for the periods presented.

Revenue: Revenue for the third quarter of 2011 increased \$386.3 million, or 12.9%, to \$3,380.9 million from \$2,994.6 million in the third quarter of 2010. Organic growth increased revenue by \$215.0 million and foreign exchange impacts increased revenue by \$117.6 million. Acquisitions, net of dispositions, increased revenue by \$53.7 million. The components of the third quarter of 2011 revenue changes in the United States (“Domestic”) and the remainder of the world (“International”) were (dollars in millions):

	Total		Domestic		International			
	\$	%	\$	%	\$	%		
Quarter ended September 30, 2010	\$2,994.6	—	\$1,617.1	—	\$1,377.5	—		
Components of revenue change:								
Foreign exchange impact	117.6	3.9	% —	—	% 117.6	8.5	%	
Acquisitions, net of dispositions	53.7	1.8	% (7.1	) (0.4	)% 60.8	4.4	%	
Organic growth	215.0	7.2	% 93.2	5.8	% 121.8	8.8	%	
Quarter ended September 30, 2011	\$3,380.9	12.9	% \$1,703.2	5.3	% \$1,677.7	21.8	%	

The components and percentages are calculated as follows:

The foreign exchange impact is calculated by first converting the current period’s local currency revenue using the average exchange rates from the equivalent prior period to arrive at a constant currency revenue (in this case \$3,263.3 million for the Total column in the table). The foreign exchange impact equals the difference between the current period revenue in U.S. dollars and the current period revenue in constant currency (in this case \$3,380.9 million less \$3,263.3 million for the Total column in the table).

The acquisition component is calculated by aggregating the applicable prior period revenue of the acquired businesses, less revenue of any business included in the prior period reported revenue that was disposed of subsequent to the period.

Organic growth is calculated by subtracting both the foreign exchange and acquisition revenue components from total revenue growth.

The percentage change is calculated by dividing the individual component amount by the prior period revenue base of that component (in the case \$2,994.6 million for the Total column in the table).



Revenue for the third quarter of 2011 and the percentage changes from 2010 in our primary geographic markets were (dollars in millions):

	Revenue	% Change
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