

INTERPUBLIC GROUP OF COMPANIES, INC.

Form 10-Q

October 22, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2015

or

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

Commission file number: 1-6686

THE INTERPUBLIC GROUP OF COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of

incorporation or organization)

13-1024020

(I.R.S. Employer

Identification No.)

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

(Address of principal executive offices) (Zip Code)

(212) 704-1200

(Registrant's telephone number, including area code)

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

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

The number of shares of the registrant's common stock outstanding as of October 15, 2015 was 406,348,017.

## INDEX

Page No.

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (Unaudited)</u>	
	<u>Consolidated Statements of Operations for the</u> Three and Nine Months Ended September 30, 2015 and 2014	<u>2</u>
	<u>Consolidated Statements of Comprehensive</u> (Loss) Income for the Three and Nine Months Ended September 30, 2015 and 2014	<u>3</u>
	<u>Consolidated Balance Sheets as of</u> September 30, 2015 and December 31, 2014	<u>4</u>
	<u>Consolidated Statements of Cash Flows for the</u> Nine Months Ended September 30, 2015 and 2014	<u>5</u>
	<u>Consolidated Statements of Stockholders' Equity for the</u> Nine Months Ended September 30, 2015 and 2014	<u>6</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>33</u>
Item 4.	<u>Controls and Procedures</u>	<u>33</u>

PART II. OTHER INFORMATION

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

## INFORMATION REGARDING FORWARD-LOOKING DISCLOSURE

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

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

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

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

1

---

Table of Contents

## Part I – FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
REVENUE	\$1,865.5	\$1,841.1	\$5,417.6	\$5,330.0
OPERATING EXPENSES:				
Salaries and related expenses	1,202.2	1,195.2	3,622.6	3,554.0
Office and general expenses	471.4	474.6	1,379.5	1,420.6
Total operating expenses	1,673.6	1,669.8	5,002.1	4,974.6
OPERATING INCOME	191.9	171.3	415.5	355.4
EXPENSES AND OTHER INCOME:				
Interest expense	(21.3 )	(20.7 )	(62.5 )	(63.5 )
Interest income	5.6	7.5	17.8	20.3
Other expense, net	(37.2 )	(0.6 )	(36.4 )	(10.1 )
Total (expenses) and other income	(52.9 )	(13.8 )	(81.1 )	(53.3 )
Income before income taxes	139.0	157.5	334.4	302.1
Provision for income taxes	61.1	65.0	137.4	128.6
Income of consolidated companies	77.9	92.5	197.0	173.5
Equity in net income of unconsolidated affiliates	0.1	0.3	0.6	0.6
NET INCOME	78.0	92.8	197.6	174.1
Net income attributable to noncontrolling interests	(3.1 )	(3.1 )	(3.3 )	(5.9 )
NET INCOME AVAILABLE TO IPG COMMON STOCKHOLDERS	\$74.9	\$89.7	\$194.3	\$168.2
Earnings per share available to IPG common stockholders:				
Basic	\$0.18	\$0.21	\$0.47	\$0.40
Diluted	\$0.18	\$0.21	\$0.47	\$0.39
Weighted-average number of common shares outstanding:				
Basic	407.6	419.2	409.7	421.0
Diluted	415.5	426.4	417.0	427.2
Dividends declared per common share	\$0.120	\$0.095	\$0.360	\$0.285

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

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

(Amounts in Millions)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
NET INCOME	\$78.0	\$92.8	\$197.6	\$174.1
OTHER COMPREHENSIVE LOSS				
Foreign currency translation:				
Foreign currency translation adjustments	(109.0	) (113.5	) (218.0	) (89.0
Less: reclassification adjustments recognized in net income	14.9	0.0	13.7	(0.9
	(94.1	) (113.5	) (204.3	) (89.9
Available-for-sale securities:				
Changes in fair value of available-for-sale securities	0.2	0.2	0.4	0.4
Income tax effect	0.0	(0.3	) (0.1	) (0.3
	0.2	(0.1	) 0.3	0.1
Derivative instruments:				
Changes in fair value of derivative instruments	0.0	0.0	0.0	(0.6
Less: recognition of previously unrealized losses included in net income	0.5	0.5	1.5	1.4
Income tax effect	(0.7	) (0.2	) (1.1	) (0.3
	(0.2	) 0.3	0.4	0.5
Defined benefit pension and other postretirement plans:				
Net actuarial gains (losses) for the period	2.8	0.0	8.5	(0.3
Less: amortization of unrecognized losses, transition obligation and prior service cost included in net income	1.3	2.6	7.5	7.6
Less: settlement and curtailment losses included in net income	(0.2	) 0.0	0.0	0.0
Other	0.1	(0.1	) (0.1	) (0.3
Income tax effect	(2.6	) (1.0	) (4.8	) (2.3
	1.4	1.5	11.1	4.7
Other comprehensive loss, net of tax	(92.7	) (111.8	) (192.5	) (84.6
TOTAL COMPREHENSIVE (LOSS) INCOME	(14.7	) (19.0	) 5.1	89.5
Less: comprehensive income attributable to noncontrolling interests	0.8	3.4	0.3	5.3
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO IPG	\$(15.5	) \$(22.4	) \$4.8	\$84.2

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

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

(Amounts in Millions)

(Unaudited)

	September 30, 2015	December 31, 2014
<b>ASSETS:</b>		
Cash and cash equivalents	\$874.3	\$1,660.6
Marketable securities	6.9	6.6
Accounts receivable, net of allowance of \$61.7 and \$59.5, respectively	3,848.3	4,376.6
Expenditures billable to clients	1,590.2	1,424.2
Other current assets	349.1	342.2
Total current assets	6,668.8	7,810.2
Property and equipment, net of accumulated depreciation of \$987.2 and \$1,070.0, respectively	519.2	548.2
Deferred income taxes	203.9	192.9
Goodwill	3,591.3	3,669.2
Other non-current assets	490.9	526.7
<b>TOTAL ASSETS</b>	<b>\$11,474.1</b>	<b>\$12,747.2</b>
<b>LIABILITIES:</b>		
Accounts payable	\$5,753.4	\$6,558.0
Accrued liabilities	688.9	796.0
Short-term borrowings	128.3	107.2
Current portion of long-term debt	2.0	2.1
Total current liabilities	6,572.6	7,463.3
Long-term debt	1,621.3	1,623.5
Deferred compensation	462.9	527.9
Other non-current liabilities	699.2	723.9
<b>TOTAL LIABILITIES</b>	<b>9,356.0</b>	<b>10,338.6</b>
Redeemable noncontrolling interests	226.5	257.4
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock	41.5	41.2
Additional paid-in capital	1,613.6	1,547.5
Retained earnings	1,226.2	1,183.3
Accumulated other comprehensive loss, net of tax	(826.2)	(636.7)
	2,055.1	2,135.3
Less: Treasury stock	(191.3)	(19.0)
Total IPG stockholders' equity	1,863.8	2,116.3
Noncontrolling interests	27.8	34.9
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>1,891.6</b>	<b>2,151.2</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$11,474.1</b>	<b>\$12,747.2</b>

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

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

(Amounts in Millions)

(Unaudited)

	Nine months ended September 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 197.6	\$ 174.1
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets and intangible assets	116.3	121.7
Provision for uncollectible receivables	12.2	9.0
Amortization of restricted stock and other non-cash compensation	49.7	37.9
Net amortization of bond discounts and deferred financing costs	4.2	3.7
Deferred income tax (benefit) provision	(33.7	) 49.1
Losses (gains) on sales of businesses	38.1	(0.5
Other	13.0	17.1
Changes in assets and liabilities, net of acquisitions and dispositions, providing (using) cash:		
Accounts receivable	308.0	623.0
Expenditures billable to clients	(235.1	) (193.2
Other current assets	(12.1	) (65.0
Accounts payable	(556.1	) (1,015.7
Accrued liabilities	(110.3	) (107.2
Other non-current assets and liabilities	(47.5	) (35.0
Net cash used in operating activities	(255.7	) (381.0
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(80.7	) (94.4
Acquisitions, net of cash acquired	(5.9	) (62.9
Proceeds from sales of businesses, investments and fixed assets, net of cash sold	(3.8	) 15.9
Net purchases and maturities of short-term marketable securities	(0.1	) (0.5
Net cash used in investing activities	(90.5	) (141.9
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of common stock	(172.3	) (148.1
Common stock dividends	(147.2	) (119.9
Acquisition-related payments	(31.8	) (12.7
Distributions to noncontrolling interests	(13.1	) (13.9
Purchase of long-term debt	(1.0	) (350.1
Proceeds from issuance of long-term debt	0.0	499.1
Excess tax benefit on share-based compensation	9.0	4.9
Exercise of stock options	11.8	11.9
Net increase (decrease) in short term bank borrowings	29.4	(44.4
Other financing activities	3.6	(1.6
Net cash used in financing activities	(311.6	) (174.8
Effect of foreign exchange rate changes on cash and cash equivalents	(128.5	) (43.1
Net decrease in cash and cash equivalents	(786.3	) (740.8
Cash and cash equivalents at beginning of period	1,660.6	1,636.8
Cash and cash equivalents at end of period	\$ 874.3	\$ 896.0

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

5

---



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

(Amounts in Millions)

(Unaudited)

	Common Shares	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, 2014	414.6	\$41.2	\$1,547.5	\$1,183.3	\$ (636.7 )	\$(19.0 )	\$ 2,116.3	\$ 34.9	\$ 2,151.2
Net income				194.3			194.3	3.3	197.6
Other comprehensive loss					(189.5 )		(189.5 )	(3.0 )	(192.5 )
Reclassifications related to redeemable noncontrolling interests								4.3	4.3
Distributions to noncontrolling interests								(13.1 )	(13.1 )
Change in redemption value of redeemable noncontrolling interests				(3.6 )			(3.6 )		(3.6 )
Repurchase of common stock						(172.3 )	(172.3 )		(172.3 )
Common stock dividends				(147.2 )			(147.2 )		(147.2 )
Stock-based compensation	2.4	0.3	63.1				63.4		63.4
Exercise of stock options	1.2	0.1	11.8				11.9		11.9
Shares withheld for taxes	(0.8 )	(0.1 )	(17.4 )				(17.5 )		(17.5 )
Excess tax benefit from stock-based compensation			9.0				9.0		9.0
Other			(0.4 )	(0.6 )			(1.0 )	1.4	0.4
Balance at September 30, 2015	417.4	\$41.5	\$1,613.6	\$1,226.2	\$ (826.2 )	\$(191.3)	\$ 1,863.8	\$ 27.8	\$ 1,891.6

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

Table of Contents

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF 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, 2013	532.3	\$ 53.0	\$ 2,975.2	\$ 864.5	\$ (411.2 )	\$(1,266.3)	\$ 2,215.2	\$ 35.6	\$ 2,250.8
Net income				168.2			168.2	5.9	174.1
Other comprehensive loss					(84.0 )		(84.0 )	(0.6 )	(84.6 )
Reclassifications related to redeemable noncontrolling interests								6.7	6.7
Distributions to noncontrolling interests								(13.9 )	(13.9 )
Change in redemption value of redeemable noncontrolling interests				3.0			3.0		3.0
Repurchase of common stock						(148.1 )	(148.1 )		(148.1 )
Common stock dividends				(119.9 )			(119.9 )		(119.9 )
Stock-based compensation	3.3	0.3	50.8				51.1		51.1
Exercise of stock options	1.0	0.1	11.9				12.0		12.0
Shares withheld for taxes	(0.8 )	(0.1 )	(14.7 )				(14.8 )		(14.8 )
Excess tax benefit from stock-based compensation			4.9				4.9		4.9
Other			(3.7 )	(0.6 )			(4.3 )	(1.1 )	(5.4 )
Balance at September 30, 2014	535.8	\$ 53.3	\$ 3,024.4	\$ 915.2	\$ (495.2 )	\$(1,414.4)	\$ 2,083.3	\$ 32.6	\$ 2,115.9

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

Table of Contents

Notes to Consolidated Financial Statements  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

## Note 1: Basis of Presentation

The unaudited Consolidated Financial Statements have been prepared by The Interpublic Group of Companies, Inc. 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 2014 Annual Report on Form 10-K.

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

## Note 2: 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 Interest Rate	September 30, 2015 Book Value	Fair Value <sup>1</sup>	December 31, 2014 Book Value	Fair Value <sup>1</sup>
2.25% Senior Notes due 2017 (less unamortized discount of \$0.3)	2.30%	\$299.7	\$302.0	\$299.6	\$301.2
4.00% Senior Notes due 2022 (less unamortized discount of \$2.0)	4.13%	248.0	252.6	247.7	255.2
3.75% Senior Notes due 2023 (less unamortized discount of \$1.1)	4.32%	498.9	493.1	498.8	499.8
4.20% Senior Notes due 2024 (less unamortized discount of \$0.8)	4.24%	499.2	498.6	499.1	509.8
Other notes payable and capitalized leases		77.5	77.5	80.4	80.4
Total long-term debt		1,623.3		1,625.6	
Less: current portion		2.0		2.1	
Long-term debt, excluding current portion		\$1,621.3		\$1,623.5	

<sup>1</sup> See Note 12 for information on the fair value measurement of our long-term debt.

## Credit Agreements

We maintain a committed corporate credit facility (the "Credit Agreement") and uncommitted lines of credit to increase our financial flexibility. The Credit Agreement is a revolving facility, expiring in December 2018, 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 \$1,000.0 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 \$200.0 or the equivalent in other currencies. Our obligations under the Credit Agreement are unsecured. We were in compliance with all of our covenants in the Credit Agreement as of September 30, 2015.

Refer to Note 15 for further discussion related to the Credit Agreement.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## Note 3: Earnings Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income available to IPG common stockholders - basic and diluted	\$74.9	\$89.7	\$194.3	\$168.2
Weighted-average number of common shares outstanding - basic	407.6	419.2	409.7	421.0
Add: Effect of dilutive securities				
Restricted stock, stock options and other equity awards	7.9	7.2	7.3	6.2
Weighted-average number of common shares outstanding - diluted	415.5	426.4	417.0	427.2
Earnings per share available to IPG common stockholders - basic	\$0.18	\$0.21	\$0.47	\$0.40
Earnings per share available to IPG common stockholders - diluted	\$0.18	\$0.21	\$0.47	\$0.39

## Note 4: 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 technological capabilities and improve 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 nine months of 2015, we completed two acquisitions, including a full-service digital agency in the UK. Of our two acquisitions, one was included in the Integrated Agency Networks ("IAN") operating segment, and one was included in the Constituency Management Group ("CMG") operating segment. During the first nine months of 2015, we recorded approximately \$14.0 of goodwill and intangible assets related to our acquisitions.

During the first nine months of 2014, we completed six acquisitions, consisting of a global digital agency, a full-service digital agency in the United States, a healthcare agency in the United Kingdom, a digital public relations agency based in Sweden, a digital and traditional creative agency in Germany and a search marketing agency based in the Netherlands. Of our six acquisitions, four were included in the IAN operating segment, and two were included in the CMG operating segment. During the first nine months of 2014, we recorded approximately \$137.0 of goodwill and intangible assets related to these 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.

	Nine months ended September 30,	
	2015	2014
Cost of investment: current-year acquisitions	\$8.3	\$87.2
Cost of investment: prior-year acquisitions	31.8	13.3
Less: net cash acquired	(2.4	) (24.9
Total cost of investment	37.7	75.6
Operating expense <sup>1</sup>	17.6	1.8

Total cash paid for acquisitions <sup>2</sup>	\$55.3	\$77.4
---	--------	--------

Represents cash payments made that were either in excess of the initial value of contingent payments or contingent upon the future employment of the former owners of the acquired companies and are recorded in the operating section of the Consolidated Statements of Cash Flows.

Of the total cash paid for acquisitions, \$31.8 and \$12.7 for the nine months ended September 30, 2015, and 2014, 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. \$5.9 and \$62.9 for the nine months ended September 30, 2015, and 2014, respectively, are

9

---

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

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.

Many of our acquisitions also include provisions under which the noncontrolling equity owners may require us to purchase additional interests in a subsidiary at their discretion. The following table presents changes in our redeemable noncontrolling interests.

	Nine months ended September 30,	
	2015	2014
Balance at beginning of period	\$257.4	\$249.1
Change in related noncontrolling interests balance	(9.4	) (6.7
Changes in redemption value of redeemable noncontrolling interests:		
Additions	0.5	22.0
Redemptions and other	(24.4	) (4.5
Redemption value adjustments <sup>1</sup>	2.4	(4.6
Balance at end of period	\$226.5	\$255.3

In each reporting period, redeemable noncontrolling interests are reported at their estimated redemption value, but I not less than their initial fair value. Any adjustment to the redemption value above initial value prior to exercise will also impact retained earnings or additional paid-in capital, except adjustments as a result of currency translation.

## Note 5: Supplementary Data

## Accrued Liabilities

The following table presents the components of accrued liabilities.

	September 30, 2015	December 31, 2014
Salaries, benefits and related expenses	\$433.2	\$510.6
Office and related expenses	47.4	51.5
Acquisition obligations	62.5	88.1
Interest	17.5	18.3
Restructuring and other reorganization-related	3.6	5.5
Other	124.7	122.0
Total accrued liabilities	\$688.9	\$796.0

## Other Expense, Net

Results of operations for the three and nine months ended September 30, 2015 and 2014, include certain items that are not directly associated with our revenue-producing operations.

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Loss on early extinguishment of debt	\$0.0	\$0.0	\$0.0	\$(10.4
(Losses) gains on sales of businesses and investments	(37.6	) 0.1	(37.8	) 1.2
Vendor discounts and credit adjustments	0.1	0.3	0.4	2.0
Other income (expense), net	0.3	(1.0	) 1.0	(2.9
Total other expense, net	\$(37.2	) \$(0.6	) \$(36.4	) \$(10.1

Loss on Early Extinguishment of Debt - During the nine months ended September 30, 2014, we recorded a charge of \$10.4 related to the redemption of our 6.25% Senior Unsecured Notes.

10

---



Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

(Losses) Gains on Sales of Businesses and Investments – During the three months ended September 30, 2015, we recognized losses on the sales of businesses on completed dispositions within both our IAN and CMG segments and the classification of certain assets as held for sale within our IAN segment.

As of September 30, 2015, assets held for sale, included in other current assets, was \$6.9, primarily consisting of cash and accounts receivable, and liabilities held for sale, included in accrued liabilities, was \$17.6, primarily consisting of accounts payable and accrued liabilities, related to sales of businesses expected to be completed within the next twelve months.

Vendor Discounts and Credit Adjustments – In connection with the liabilities related to vendor discounts and credits established as part of the restatement we presented in our 2004 Annual Report on Form 10-K, these adjustments reflect the reversal of certain of these liabilities primarily where the statute of limitations has lapsed, or as a result of differences resulting from settlements with clients or vendors.

Other Income (Expense), net – During the nine months ended September 30, 2015, we recorded a gain related to swap contracts within our Corporate and other segment. During the nine months ended September 30, 2014, we recorded a loss related to an other-than-temporary impairment of an investment in the Asia Pacific region within our IAN segment.

## Share Repurchase Program

In February 2015, 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 (the "2015 Share Repurchase Program"), which was in addition to the remaining amount available to be repurchased from the \$300.0 authorization made by the Board in February 2014 (the "2014 Share Repurchase Program").

We may effect such repurchases through open market purchases, trading plans established in accordance with SEC rules, derivative transactions or other means. We expect to continue to repurchase our common stock in future periods, although the timing and amount of the repurchases will depend on market conditions and other funding requirements.

The following table presents our share repurchase activity under our share repurchase programs for the nine months ended September 30, 2015 and 2014.

	Nine months ended September 30,	
	2015	2014
Number of shares repurchased	8.5	8.3
Aggregate cost, including fees	\$172.3	\$148.1
Average price per share, including fees	\$20.36	\$17.91

We fully utilized the 2014 Share Repurchase Program during the third quarter of 2015. As of September 30, 2015, \$271.3 remains available for repurchase under the 2015 Share Repurchase Program. The 2015 Share Repurchase Program has no expiration date.

## Note 6: Income Taxes

For the three and nine months ended September 30, 2015, our effective income tax rates of 44.0% and 41.1%, respectively, were negatively impacted primarily by losses in certain foreign jurisdictions where we receive no tax benefit due to 100% valuation allowances and from the losses on sales of businesses for which we did not receive a full tax benefit. The negative impacts to our tax rates were partially offset by the reversal of a valuation allowance in Continental Europe. For the nine months ended September 30, 2015, our effective income tax rate of 41.1% was also positively impacted by the recognition of previously unrecognized tax benefits as a result of the settlement of the 2010 U.S. federal income tax audit.

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 \$25.0 and \$35.0 in the next twelve 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.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

We are effectively settled with respect to U.S. federal income tax audits for 2010 and years prior to 2009. With limited exceptions, we are no longer subject to state and local income tax audits for years prior to 2004 or non-U.S. income tax audits for years prior to 2006.

## Note 7: 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 nine months ended September 30, 2015.

	Awards	Weighted-average grant-date fair value (per award)
Stock-settled awards	0.8	\$22.04
Performance-based awards	2.9	\$20.88
Total stock-based compensation awards	3.7	

During the nine months ended September 30, 2015, the Compensation Committee granted performance cash awards and restricted cash awards, which are adjusted for performance, under the 2014 PIP with a total target value of \$32.9 and \$1.2, respectively. Cash and equity awards are expensed over the vesting period, which is typically three years.

## Note 8: Restructuring and Other Reorganization-Related Liabilities

## 2013 Restructuring Plan

In the fourth quarter of 2013, we implemented a cost savings initiative (the "2013 Plan") to better align our cost structure with our revenue, primarily in Continental Europe. All restructuring actions were substantially completed by the end of the first quarter of 2014, with remaining payments expected to be made through 2021.

A summary of the 2013 Plan restructuring liability activity for the nine months ended September 30, 2015 is listed below.

	December 31, 2014	Net Restructuring Reversals	Cash Payments	Foreign Currency Translation Adjustments	September 30, 2015
Severance and termination costs	\$ 4.4	\$ 0.0	\$(1.8 )	\$(0.1 )	\$ 2.5
Lease termination costs	2.6	(0.1 )	(0.7 )	(0.1 )	1.7
Total	\$ 7.0	\$ (0.1 )	\$(2.5 )	\$(0.2 )	\$ 4.2

## Prior Restructuring Plans

During the nine months ended September 30, 2015, we recorded \$0.7 of net reversals for the 2003 and 2001 restructuring plans (the "Prior Restructuring Plans") within the IAN segment related to changes in the estimate of lease termination costs. As of September 30, 2015, the remaining liability for the Prior Restructuring Plans was \$0.5.

## Note 9: 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	Available-for-Sale Derivative Securities	Defined Benefit Pension and Other Postretirement	Total
	Instruments		

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

				Plans	
Balance as of December 31, 2014	\$(436.3	) \$ 0.8	\$(10.9	) \$(190.3	) \$(636.7 )
Other comprehensive (loss) income before reclassifications	(215.0	) 0.4	0.0	8.4	(206.2 )
Amount reclassified from accumulated other comprehensive loss, net of tax	13.7	(0.1 )	0.4	2.7	16.7
Balance as of September 30, 2015	\$(637.6	) \$ 1.1	\$(10.5	) \$(179.2	) \$(826.2 )

12

---

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

	Foreign Currency Translation Adjustments	Available-for-Sale Securities	Derivative Instruments	Defined Benefit Pension and Other Postretirement Plans	Total
Balance as of December 31, 2013	\$(243.7 )	\$ 0.4	\$(11.7 )	\$(156.2 )	\$(411.2 )
Other comprehensive (loss) income before reclassifications	(88.4 )	0.4	(0.6 )	(0.6 )	(89.2 )
Amount reclassified from accumulated other comprehensive loss, net of tax	(0.9 )	(0.3 )	1.1	5.3	5.2
Balance as of September 30, 2014	\$(333.0 )	\$ 0.5	\$(11.2 )	\$(151.5 )	\$(495.2 )

Amounts reclassified from accumulated other comprehensive loss, net of tax, for the three and nine months ended September 30, 2015 and 2014 are as follows:

	Three months ended September 30,		Nine months ended September 30,		Affected Line Item in the Consolidated Statements of Operations
	2015	2014	2015	2014	
Foreign currency translation adjustments	\$14.9	\$0.0	\$13.7	\$(0.9 )	Other expense, net
Losses on derivative instruments	0.5	0.5	1.5	1.4	Interest expense
Amortization of defined benefit pension and postretirement plans items <sup>1</sup>	1.1	2.6	7.5	7.6	
Tax effect	(3.3 )	(1.5 )	(6.0 )	(2.9 )	Provision for income taxes
Total amount reclassified from accumulated other comprehensive loss, net of tax	\$13.2	\$1.6	\$16.7	\$5.2	

<sup>1</sup> These accumulated other comprehensive loss components are included in the computation of net periodic cost. See Note 10 for further information.

## Note 10: Employee Benefits

We have a defined benefit pension plan that covers certain U.S. employees (the “Domestic Pension Plan”). We also have numerous funded and unfunded plans outside the U.S. The Interpublic Limited Pension Plan in the U.K. is a defined benefit plan and is our most material foreign pension plan in terms of the benefit obligation and plan assets. Some of our domestic and foreign subsidiaries provide postretirement health benefits and life insurance to eligible employees and, in certain cases, their dependents. The domestic postretirement benefit plan is our most material postretirement benefit plan in terms of the benefit obligation. Certain immaterial foreign pension and postretirement benefit plans have been excluded from the tables below.

The components of net periodic cost for the Domestic Pension Plan, the significant foreign pension plans and the domestic postretirement benefit plan are listed below.

Domestic Pension Plan	Foreign Pension Plans	Domestic Postretirement Benefit Plan
-----------------------	-----------------------	---

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

Three months ended September 30,	2015	2014	2015	2014	2015	2014
Service cost	\$0.0	\$0.0	\$2.7	\$3.0	\$0.0	\$0.0
Interest cost	(4.1	) 1.5	4.9	6.0	0.5	0.4
Expected return on plan assets	(1.8	) (1.8	) (5.3	) (6.4	) 0.0	0.0
Settlements and curtailments	0.0	0.0	(0.2	) 0.1	0.0	0.0
Amortization of:						
Prior service credit	0.0	0.0	0.0	0.0	(0.1	) 0.0
Unrecognized actuarial losses	0.3	1.7	1.1	0.9	0.0	0.0
Net periodic cost	\$(5.6	) \$1.4	\$3.2	\$3.6	\$0.4	\$0.4

13

---

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

	Domestic Pension Plan		Foreign Pension Plans		Domestic Postretirement Benefit Plan	
	2015	2014	2015	2014	2015	2014
Nine months ended September 30,						
Service cost	\$0.0	\$0.0	\$7.6	\$7.9	\$0.0	\$0.0
Interest cost	(1.1 )	4.6	14.3	17.8	1.2	1.3
Expected return on plan assets	(5.6 )	(5.5 )	(15.6 )	(18.8 )	0.0	0.0
Settlements and curtailments	0.0	0.0	0.0	0.1	0.0	0.0
Amortization of:						
Prior service cost (credit)	0.0	0.0	0.1	0.1	(0.1 )	(0.1 )
Unrecognized actuarial losses	4.4	5.0	3.1	2.6	0.0	0.0
Net periodic cost	\$(2.3 )	\$4.1	\$9.5	\$9.7	\$1.1	\$1.2

During the nine months ended September 30, 2015, we contributed \$2.6 and \$15.9 of cash to our domestic and foreign pension plans, respectively. For the remainder of 2015, we do not expect to make any additional cash contributions to our Domestic Pension Plan and we expect to contribute approximately \$7.0 of cash to our foreign pension plans.

## Note 11: Segment Information

As of September 30, 2015, we have two reportable segments: IAN and CMG. IAN is comprised of McCann Worldgroup, Foote, Cone & Belding ("FCB"), Mullen Lowe Group, IPG Mediabrands, our digital specialist agencies and our domestic integrated agencies. CMG is comprised of a number of our specialist marketing services offerings. We also report results for the "Corporate and other" group. The profitability measure employed by our chief operating decision maker for allocating resources to operating divisions and assessing operating division performance is segment operating income (loss). Segment information is presented consistently with the basis described in our 2014 Annual Report on Form 10-K, except that segment operating income (loss) for the three and nine months ended September 30, 2015 and 2014, respectively, includes a minimal impact of net restructuring and other reorganization-related reversals.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Summarized financial information concerning our reportable segments for the three and nine months ended September 30, 2015 and 2014 is shown in the following table.

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue:				
IAN	\$1,484.1	\$1,459.3	\$4,351.3	\$4,260.3
CMG	381.4	381.8	1,066.3	1,069.7
Total	\$1,865.5	\$1,841.1	\$5,417.6	\$5,330.0
Segment operating income (loss):				
IAN	\$182.9	\$164.7	\$419.2	\$359.1
CMG	48.2	47.8	109.5	107.7
Corporate and other	(39.2)	) (41.2)	) (113.2)	) (111.4)
Total	\$191.9	\$171.3	\$415.5	\$355.4
Interest expense	(21.3)	) (20.7)	) (62.5)	) (63.5)
Interest income	5.6	7.5	17.8	20.3
Other expense, net	(37.2)	) (0.6)	) (36.4)	) (10.1)
Income before income taxes	\$139.0	\$157.5	\$334.4	\$302.1
Depreciation and amortization of property and equipment and intangible assets:				
IAN	\$27.9	\$31.0	\$87.5	\$92.6
CMG	4.9	4.9	13.9	13.8
Corporate and other	5.3	5.1	14.9	15.3
Total	\$38.1	\$41.0	\$116.3	\$121.7
Capital expenditures:				
IAN	\$23.0	\$20.8	\$55.4	\$51.9
CMG	2.3	2.7	5.8	8.3
Corporate and other	5.6	12.2	19.5	34.2
Total	\$30.9	\$35.7	\$80.7	\$94.4
	September 30,	December 31,		
	2015	2014		
Total assets:				
IAN	\$9,998.3	\$11,080.9		
CMG	1,350.6	1,346.8		
Corporate and other	125.2	319.5		
Total	\$11,474.1	\$12,747.2		





Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

## Note 12: Fair Value Measurements

Authoritative guidance for fair value measurements establishes a fair value hierarchy which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

## Financial Instruments that are Measured at Fair Value on a Recurring Basis

We primarily apply the market approach to determine the fair value of financial instruments that are measured at fair value on a recurring basis. There were no changes to our valuation techniques used to determine the fair value of financial instruments during the nine months ended September 30, 2015. The following tables present information about our financial instruments measured at fair value on a recurring basis as of September 30, 2015, and December 31, 2014, and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	September 30, 2015			Total	Balance Sheet Classification
	Level 1	Level 2	Level 3		
<b>Assets</b>					
Cash equivalents	\$133.2	\$0.0	\$0.0	\$133.2	Cash and cash equivalents
Short-term marketable securities	6.9	0.0	0.0	6.9	Marketable securities
Long-term investments	0.5	0.0	0.0	0.5	Other non-current assets
<b>Total</b>	<b>\$140.6</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$140.6</b>	
As a percentage of total assets	1.2	% 0.0	% 0.0	% 1.2	%

**Liabilities**

Mandatorily redeemable noncontrolling interests <sup>1</sup>	\$0.0	\$0.0	\$44.1	\$44.1	
--	-------	-------	--------	--------	--

	December 31, 2014			Total	Balance Sheet Classification
	Level 1	Level 2	Level 3		
<b>Assets</b>					
Cash equivalents	\$901.4	\$0.0	\$0.0	\$901.4	Cash and cash equivalents
Short-term marketable securities	6.6	0.0	0.0	6.6	Marketable securities
Long-term investments	0.5	0.0	0.0	0.5	Other non-current assets
<b>Total</b>	<b>\$908.5</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$908.5</b>	
As a percentage of total assets	7.1	% 0.0	% 0.0	% 7.1	%

Liabilities

Mandatorily redeemable noncontrolling interests <sup>1</sup>	\$0.0	\$0.0	\$32.8	\$32.8
--	-------	-------	--------	--------

Relates to unconditional obligations to purchase additional noncontrolling equity shares of consolidated subsidiaries.

<sup>1</sup> Fair value measurement of the obligations was based upon the amounts payable as if the forward contracts were settled. The amounts redeemable within the next twelve months are classified in accrued liabilities; any interests redeemable thereafter are classified in other non-current liabilities.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

The following table presents additional information about financial instruments measured at fair value on a recurring basis and for which we utilized Level 3 inputs to determine fair value for the three and nine months ended September 30, 2015 and 2014.

Liabilities	Three months ended		Nine months ended	
	September 30, 2015	2014	September 30, 2015	2014
Mandatorily redeemable noncontrolling interests -				
Balance at beginning of period	\$44.9	\$28.7	\$32.8	\$27.0
Level 3 additions	1.9	0.0	23.7	2.5
Level 3 reductions	(3.9	) 0.0	(15.3	) (0.6
Realized losses/(gains) included in net income	1.4	0.1	2.3	(0.1
Foreign currency translation	(0.2	) 0.0	0.6	0.0
Mandatorily redeemable noncontrolling interests -				
Balance at end of period	\$44.1	\$28.8	\$44.1	\$28.8

Realized losses/(gains) included in net income for mandatorily redeemable noncontrolling interests are reported as a component of interest expense in the unaudited Consolidated Statements of Operations.

Financial Instruments that are not Measured at Fair Value on a Recurring Basis

The following table presents information about our financial instruments that are not measured at fair value on a recurring basis as of September 30, 2015, and December 31, 2014, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	September 30, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Total long-term debt	\$0.0	\$1,546.3	\$77.5	\$1,623.8	\$0.0	\$1,566.0	\$80.4	\$1,646.4

Our long-term debt is comprised of senior notes and other notes payable. The fair value of our senior notes traded over-the-counter is based on quoted prices for such securities, but for which fair value can also be derived from inputs that are readily observable. Therefore, these senior notes are classified as Level 2 within the fair value hierarchy. Our other notes payable are not actively traded, and their fair value is not solely derived from readily observable inputs.

Thus, the fair value of our other notes payable is determined based on proprietary valuation methods and therefore are classified as Level 3 within the fair value hierarchy. See Note 2 for further information on our long-term debt.

Non-financial Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

Certain non-financial assets and liabilities are measured at fair value on a recurring basis, primarily accrued restructuring charges.

Non-financial Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Certain non-financial assets and liabilities are measured at fair value on a nonrecurring basis, primarily goodwill, intangible assets, and property and equipment. Accordingly, these assets are not measured and adjusted to fair value on an ongoing basis but are subject to periodic evaluations for potential impairment.

Note 13: Commitments and ContingenciesLegal Matters

We are involved in various legal proceedings and subject to investigations, inspections, audits, inquiries and similar actions by governmental authorities, arising in the normal course of business. The types of allegations that arise in connection with such legal proceedings may vary in nature but can include claims related to contract, employment, tax and intellectual property matters. We evaluate all cases each reporting period and record liabilities for losses from legal proceedings when we determine that it is probable that the outcome in a legal proceeding will be unfavorable and the amount, or potential range, of loss can be reasonably estimated. In certain cases, we cannot reasonably

estimate the potential loss because, for example, the litigation is in its early stages. While any outcome related to litigation or such governmental proceedings in which we are involved cannot be predicted with certainty, management believes that the outcome of these matters, individually and in the aggregate, will not have a material adverse effect on our financial condition, results of operations or cash flows.

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

As previously disclosed, on April 10, 2015, a federal judge in Brazil authorized the search of the records of an agency's offices in São Paulo and Brasília, in connection with an ongoing investigation by Brazilian authorities involving payments potentially connected to local government contracts. The Company had previously investigated the matter and taken a number of remedial and disciplinary actions. The company is in the process of concluding a settlement related to these matters with government agencies.

**Guarantees**

We have guaranteed certain obligations of our subsidiaries relating principally to operating leases and credit facilities of certain subsidiaries. The amount of parent company guarantees on lease obligations was \$624.4 and \$580.4 as of September 30, 2015, and December 31, 2014, respectively, and the amount of parent company guarantees primarily relating to credit facilities was \$316.7 and \$329.2 as of September 30, 2015, and December 31, 2014, respectively. In the event of nonpayment by the applicable subsidiary of the obligations covered by a guarantee, we would be obligated to pay the amounts covered by that guarantee.

**Note 14: Recent Accounting Standards**

**Business Combinations**

In September 2015, the Financial Accounting Standards Board (the “FASB”) issued amended guidance which requires measurement period adjustments to be recorded in the reporting period in which the adjustment amounts are determined. Previously, such adjustments were required to be retrospectively recorded in prior period financial information. This amended guidance will be effective for us beginning January 1, 2016, and applied prospectively, with early adoption permitted. We have early adopted this amended guidance as of the quarter ended September 30, 2015, and the adoption did not have a significant impact on our Consolidated Financial Statements.

**Revenue Recognition**

In May 2014, the FASB issued amended guidance on revenue recognition which requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB affirmed its proposal to delay the effective date of the new revenue standard by one year to January 1, 2018, with early adoption to be permitted as of the original effective date of January 1, 2017. We are currently assessing the impact the adoption of the amended guidance will have on our Consolidated Financial Statements.

**Debt Issuance Costs**

In April 2015, the FASB issued amended guidance which requires debt issuance costs to be presented as a direct deduction from the carrying value of the associated debt liability rather than as separate assets on the balance sheet. The FASB later issued guidance in August 2015 stating that debt issuance costs related to line-of-credit arrangements may be presented as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The recognition and measurement guidance for debt issuance costs are not affected by this amendment. This amended guidance will be effective for us beginning January 1, 2016. Early adoption is permitted, and the new guidance will be applied on a retrospective basis. We plan to early adopt this amended guidance as of the quarter ended December 31, 2015. We do not expect the adoption of this amended guidance to have a significant impact on our Consolidated Financial Statements.

**Consolidation**

In February 2015, the FASB issued amended guidance to the consolidation standard which updates the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendment modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, among other provisions. This

amended guidance will be effective for us beginning January 1, 2016. Early adoption is permitted. We do not expect the adoption of this amended guidance to have a significant impact on our Consolidated Financial Statements.

Extraordinary and Unusual Items

In January 2015, the FASB issued amended guidance which eliminates the concept of extraordinary items from generally accepted accounting principles. Prior to this amendment, an entity was required to separately classify and present an event or transaction that was determined to be both unusual in nature and infrequent in occurrence as an extraordinary item, net of tax, after income from continuing operations in the income statement. Upon adopting this amended guidance, a material event or transaction

Table of Contents

Notes to Consolidated Financial Statements – (continued)

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

that an entity considers to be unusual or infrequent, or both, may still be presented separately but will now be presented on a pre-tax basis within income from continuing operations or disclosed in the notes to the financial statements. This amended guidance will be effective for us beginning January 1, 2016 and may be applied retrospectively or prospectively, with early adoption permitted. We have early adopted this amended guidance as of the quarter ended March 31, 2015, and the adoption did not have a significant impact on our Consolidated Financial Statements.

Going Concern

In August 2014, the FASB issued amended guidance which defines management's responsibility to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern and to provide related disclosures. Currently, this evaluation has only been an auditor requirement. Specifically, the amendments (1) provide a definition of the term "substantial doubt," (2) require an evaluation every reporting period, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of the consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that financial statements are issued. This amended guidance will be effective for us beginning January 1, 2016. We do not expect the adoption of this amended guidance to have a significant impact on our Consolidated Financial Statements.

Share-Based Payments with Performance Targets

In June 2014, the FASB issued amended guidance which requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This amended guidance will be effective for us beginning January 1, 2016 and can be either applied prospectively or retrospectively. We do not expect the adoption of this amended guidance to have a significant impact on our Consolidated Financial Statements.

Note 15: Subsequent Event

On October 20, 2015, we amended and restated our Credit Agreement, which was most recently amended and restated on December 12, 2013. The amendment extends the Credit Agreement's expiration to October 20, 2020, and provides additional flexibility with respect to certain covenants. The Credit Agreement is a revolving facility, under which amounts borrowed by us or any of our subsidiaries designated under the Credit Agreement may be repaid and reborrowed. The aggregate lending limit of \$1,000.0, or the equivalent in other currencies, and the ability to increase the commitments from time to time by an additional amount of up to \$250.0 remain unchanged by the amendment.



Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help you understand The Interpublic Group of Companies, Inc. and its subsidiaries ("IPG," "we," "us" or "our").

MD&A should be read in conjunction with our unaudited Consolidated Financial Statements and the accompanying notes included in this report and our 2014 Annual Report on Form 10-K, as well as our other reports and filings with the Securities and Exchange Commission ("SEC"). Our Annual Report includes additional information about our significant accounting policies and practices as well as details about our most significant risks and uncertainties associated with our financial and operating results. Our MD&A includes the following sections:

EXECUTIVE SUMMARY provides a discussion about our strategic outlook, factors influencing our business and an overview of our results of operations.

RESULTS OF OPERATIONS provides an analysis of the consolidated and segment results of operations for the periods presented.

LIQUIDITY AND CAPITAL RESOURCES provides an overview of our cash flows, funding requirements, financing and sources of funds, and debt credit ratings.

CRITICAL ACCOUNTING ESTIMATES provides an update to the discussion in our 2014 Annual Report on Form 10-K of our accounting policies that require critical judgment, assumptions and estimates.

RECENT ACCOUNTING STANDARDS, by reference to Note 14 to the unaudited Consolidated Financial Statements, provides a discussion of certain accounting standards that have been recently adopted or that have not yet been required to be implemented and may be applicable to our future operations.

EXECUTIVE SUMMARY

We are one of the world's premier global advertising and marketing services companies. Our companies specialize in consumer advertising, digital marketing, communications planning and media buying, public relations and specialized communications disciplines. Our agencies create customized marketing programs for clients that range in scale from large global marketers to regional and local clients. Comprehensive global services are critical to effectively serve our multinational and local clients in markets throughout the world as they seek to build brands, increase sales of their products and services, and gain market share.

We operate in a media landscape that continues to evolve at a rapid pace. Media channels continue to fragment, and clients face an increasingly complex consumer environment. To stay ahead of these challenges and to achieve our objectives, we have made and continue to make investments in creative and strategic talent in areas including fast-growth digital marketing channels, high-growth geographic regions and strategic world markets. In addition, we consistently review opportunities within our company to enhance our operations through mergers and strategic alliances as well as the development of internal programs that encourage intra-company collaboration. As appropriate, we also develop relationships with technology and emerging media companies that are building leading-edge marketing tools that complement our agencies' skill sets and capabilities.

Our financial goals include competitive organic revenue growth and operating margin expansion, which we expect will further strengthen our balance sheet and total liquidity and increase value to our shareholders. Accordingly, we remain focused on meeting the evolving needs of our clients while concurrently managing our cost structure. We continually seek greater efficiency in the delivery of our services, focusing on more effective resource utilization, including the productivity of our employees, real estate, information technology and shared services, such as finance, human resources and legal. The improvements we have made and continue to make in our financial reporting and business information systems in recent years allow us more timely and actionable insights into our global operations. Our disciplined approach to our balance sheet and liquidity provides us with a solid financial foundation and financial flexibility to manage and grow our business.



Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

The following tables present a summary of financial performance for the three and nine months ended September 30, 2015, as compared with the same periods in 2014.

% Increase	Three months ended September 30, 2015		Nine months ended September 30, 2015		
	Total	Organic	Total	Organic	
Revenue	1.3	% 7.1	% 1.6	% 6.5	%
Salaries and related expenses	0.6	% 6.2	% 1.9	% 6.8	%
Office and general expenses	(0.7)	)% 5.2	% (2.9)	)% 2.1	%
	Three months ended September 30, 2015		Nine months ended September 30, 2015		
	2014	2014	2014	2014	
Operating margin	10.3	% 9.3	% 7.7	% 6.7	%
Expenses as % of revenue:					
Salaries and related expenses	64.4	% 64.9	% 66.9	% 66.7	%
Office and general expenses	25.3	% 25.8	% 25.5	% 26.7	%
Net income available to IPG common stockholders <sup>1</sup>	\$74.9	\$89.7	\$194.3	\$168.2	
Earnings per share available to IPG common stockholders:					
Basic <sup>1</sup>	\$0.18	\$0.21	\$0.47	\$0.40	
Diluted <sup>1</sup>	\$0.18	\$0.21	\$0.47	\$0.39	

For the three and nine months ended September 30, 2015, net income available to IPG common stockholders includes losses of \$35.3, net of tax, on sales of businesses due to completed dispositions and the classification of certain assets as held for sale. As a result, for the three months ended September 30, 2015, basic and diluted earnings <sup>1</sup> per share were both negatively impacted by \$0.09 per share. For the nine months ended September 30, 2015, basic and diluted earnings per share were negatively impacted by \$0.09 and \$0.08 per share, respectively. For the nine months ended September 30, 2014, net income available to IPG common stockholders included a loss on early extinguishment of debt of \$6.6, net of tax. As a result, for the nine months ended September 30, 2014, basic and diluted earnings per share included a loss of \$0.02 per share.

When we analyze period-to-period changes in our operating performance, we determine the portion of the change that is attributable to changes in foreign currency rates, the net effect of acquisitions and divestitures, and the remainder we call organic change, which indicates how our underlying business performed. The performance metrics that we use to evaluate our results include the organic change in revenue, salaries and related expenses, and office and general expenses, and the components of operating expenses expressed as a percentage of total consolidated revenue. Additionally, in certain of our discussions, we analyze revenue by business sector, focusing on our top 100 clients which typically constitute approximately 55% to 60% of our annual consolidated revenues. We also analyze revenue by geographic region.

The change in our operating performance attributable to changes in foreign currency rates is determined by converting the prior-period reported results using the current-period exchange rates and comparing these prior-period adjusted amounts to the prior-period reported results. Although the U.S. Dollar is our reporting currency, a substantial portion of our revenues and expenses are generated in foreign currencies. Therefore, our reported results are affected by

fluctuations in the currencies in which we conduct our international businesses. We do not use derivative financial instruments to manage this translation risk. Our exposure is mitigated as the majority of our revenues and expenses in any given market are generally denominated in the same currency. Both positive and negative currency fluctuations against the U.S. Dollar affect our consolidated results of operations, and the magnitude of the foreign currency impact to our operations related to each geographic region depends on the significance and operating performance of the region. The primary foreign currencies that impacted our results during the first nine months of 2015 include the Australian Dollar, Brazilian Real, British Pound Sterling and Euro.

For purposes of analyzing changes in our operating performance attributable to the net effect of acquisitions and divestitures, transactions are treated as if they occurred on the first day of the quarter during which the transaction occurred. During the past few years, we have acquired companies that we believe will enhance our offerings and disposed of businesses that are not consistent with our strategic plan. For the third quarter and first nine months of 2015, the net effect of acquisitions and divestitures resulted in an increase to revenue and operating expenses compared to the prior-year period.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

## RESULTS OF OPERATIONS

Consolidated Results of Operations – Three and Nine Months Ended September 30, 2015 Compared to Three and Nine Months Ended September 30, 2014

## REVENUE

	Three months ended September 30, 2014	Components of Change			Three months ended September 30, 2015	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$1,841.1	\$(109.1)	\$2.6	\$130.9	\$1,865.5	7.1	%	1.3	%
Domestic	1,061.8	0.0	1.2	75.5	1,138.5	7.1	%	7.2	%
International	779.3	(109.1)	1.4	55.4	727.0	7.1	%	(6.7)	%
United Kingdom	167.7	(12.4)	1.3	8.8	165.4	5.2	%	(1.4)	%
Continental Europe	169.9	(28.1)	0.1	0.4	142.3	0.2	%	(16.2)	%
Asia Pacific	227.6	(27.2)	0.2	16.3	216.9	7.2	%	(4.7)	%
Latin America	112.5	(30.8)	(0.2)	16.2	97.7	14.4	%	(13.2)	%
Other	101.6	(10.6)	0.0	13.7	104.7	13.5	%	3.1	%

During the third quarter of 2015, our revenue increased by \$24.4, or 1.3%, compared to the third quarter of 2014, comprised of an organic revenue increase of \$130.9, or 7.1%, and the effect of net acquisitions of \$2.6, partially offset by an adverse foreign currency rate impact of \$109.1. Our organic revenue increase was throughout all geographic regions, attributable to net higher spending in all client sectors, most notably in the technology and telecom and healthcare sectors, as well as the food and beverage sector, and from net client wins. The organic revenue increase in our domestic market was driven by growth across most disciplines, most notably at our advertising and media businesses, as well as our digital specialist agencies. In our international markets, the organic revenue increase was driven by our advertising and media businesses, primarily in the Asia Pacific region, notably in China and India, in the Latin America region, and in the Middle East. Also contributing to the international organic revenue increase was growth at our digital specialist agencies.

Our revenue is directly impacted by our ability to win new clients, as well as the retention and spending levels of existing clients. Most of our expenses are recognized ratably throughout the year and are therefore less seasonal than revenue. Our revenue is typically lowest in the first quarter and highest in the fourth quarter. This reflects the seasonal spending of our clients, incentives earned at year end on various contracts and project work completed that is typically recognized during the fourth quarter. In the events and direct marketing businesses, revenues can fluctuate due to the timing of completed projects, as revenue is typically recognized when the project is complete. When we act as principal for these projects, we record the gross amount billed to the client as revenue, and the related costs incurred for third-party services are recorded as pass-through costs in office and general expenses.

	Nine months ended September 30, 2014	Components of Change			Nine months ended September 30, 2015	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$5,330.0	\$(286.9)	\$27.1	\$347.4	\$5,417.6	6.5	%	1.6	%
Domestic	3,031.7	0.0	10.2	212.5	3,254.4	7.0	%	7.3	%
International	2,298.3	(286.9)	16.9	134.9	2,163.2	5.9	%	(5.9)	%

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

United Kingdom	494.3	(40.6	) 1.3	32.0	487.0	6.5	% (1.5	)%
Continental Europe	541.4	(96.0	) 15.8	13.6	474.8	2.5	% (12.3	)%
Asia Pacific	640.3	(58.0	) 0.1	54.0	636.4	8.4	% (0.6	)%
Latin America	319.4	(67.1	) (0.3	) 13.7	265.7	4.3	% (16.8	)%
Other	302.9	(25.2	) 0.0	21.6	299.3	7.1	% (1.2	)%

During the first nine months of 2015, our revenue increased by \$87.6, or 1.6%, compared to the first nine months of 2014, comprised of an organic revenue increase of \$347.4, or 6.5%, and the effect of net acquisitions of \$27.1, partially offset by an adverse foreign currency rate impact of \$286.9. Our organic revenue increase was throughout all geographic regions, driven by factors similar to those noted above for the third quarter of 2015, partially offset by a decline in the auto and transportation sector.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

The domestic organic revenue increase was also driven by factors similar to those noted above for the third quarter of 2015. In our international markets, the organic revenue increase was driven by growth across most disciplines, notably at our advertising business in the Asia Pacific region, predominantly in China, Singapore, and India, in the United Kingdom, and in the Middle East. Also contributing to our international organic revenue increase were our digital specialist agencies and public relations businesses across all regions, partially offset by a modest decline at our events marketing business in the United Kingdom for certain projects that did not occur in the first nine months as compared to the prior year period.

Refer to the segment discussion later in this MD&A for information on changes in revenue by segment.

## OPERATING EXPENSES

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Salaries and related expenses	\$1,202.2	\$1,195.2	\$3,622.6	\$3,554.0
Office and general expenses	471.4	474.6	1,379.5	1,420.6
Total operating expenses	\$1,673.6	\$1,669.8	\$5,002.1	\$4,974.6
Operating income	\$191.9	\$171.3	\$415.5	\$355.4

## Salaries and Related Expenses

	2014	Components of Change			2015	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Three months ended September 30,	\$1,195.2	\$(68.8)	\$1.7	\$74.1	\$1,202.2	6.2	%	0.6	%
Nine months ended September 30,	3,554.0	(191.1)	18.9	240.8	3,622.6	6.8	%	1.9	%

In the third quarter, our total operating expenses increased 0.2% from a year ago, compared with our reported revenue growth of 1.3%, resulting in expansion of our operating margin of 1.0%, to 10.3% from 9.3%.

Salaries and related expenses in the third quarter of 2015 increased by \$7.0 compared to the third quarter of 2014, comprised of an organic increase of \$74.1 and the effect of net acquisitions of \$1.7, partially offset by a favorable foreign currency rate impact of \$68.8. The organic increase was primarily due to increases in our workforce at businesses and in regions where we had revenue growth and net new business wins, and higher overall incentive awards expense due to improved financial performance. Our staff cost ratio, defined as salaries and related expenses as a percentage of total consolidated revenue, decreased in the third quarter of 2015 to 64.4% from 64.9% when compared to the prior-year period. The decrease of our salaries and related expenses as a percentage of total consolidated revenue was primarily attributable to a decrease of 0.5% in our base salaries, benefits and tax to 53.3% and a decrease of 0.2% in our temporary help to 3.7%, partially offset by an increase of 0.4% in our incentive expense to 3.9%.

Salaries and related expenses in the first nine months of 2015 increased by \$68.6 compared to the first nine months of 2014, comprised of an organic increase of \$240.8 and the effect of net acquisitions of \$18.9, partially offset by a favorable foreign currency rate impact of \$191.1. The organic increase was primarily driven by factors similar to those noted above for the third quarter of 2015. Our staff cost ratio increased in the first nine months of 2015 to 66.9% from 66.7% when compared to the prior-year period.

The following table details our salaries and related expenses as a percentage of total consolidated revenue.

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

	Three months ended		Nine months ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
Salaries and related expenses	64.4	% 64.9	% 66.9	% 66.7	%
Base salaries, benefits and tax	53.3	% 53.8	% 55.5	% 55.8	%
Incentive expense	3.9	% 3.5	% 3.8	% 3.4	%
Severance expense	0.8	% 0.6	% 0.9	% 0.9	%
Temporary help	3.7	% 3.9	% 3.8	% 3.8	%
All other salaries and related expenses	2.7	% 3.1	% 2.9	% 2.8	%

23

---



Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

## Office and General Expenses

	2014	Components of Change			2015	Change	
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total
Three months ended September 30,	\$474.6	\$(28.5 )	\$0.5	\$24.8	\$471.4	5.2	% (0.7 )%
Nine months ended September 30,	1,420.6	(75.6 )	5.1	29.4	1,379.5	2.1	% (2.9 )%

Office and general expenses in the third quarter of 2015 decreased by \$3.2 compared to the third quarter of 2014, due to a favorable foreign currency rate impact of \$28.5, partially offset by an organic increase of \$24.8. The organic increase was due to increased general expenses and reserves for certain contingencies, as well as higher professional fees. The organic increase was partially offset by lower production expenses related to pass-through costs, which are also reflected in revenue, for certain projects in which we acted as principal that decreased in size or did not recur during the third quarter of 2015. Our office and general expense ratio, defined as office and general expenses as a percentage of total consolidated revenue, decreased in the third quarter of 2015 to 25.3% from 25.8% when compared to the prior-year period.

Office and general expenses in the first nine months of 2015 decreased by \$41.1 compared to the first nine months of 2014, due to a favorable foreign currency rate impact of \$75.6, partially offset by an organic increase of \$29.4 and the effect of net acquisitions of \$5.1. The organic increase was primarily driven by factors similar to those noted above for the third quarter of 2015, as well as lower occupancy costs. Our office and general expense ratio decreased in the first nine months of 2015 to 25.5% from 26.7% when compared to the prior-year period.

The following table details our office and general expenses as a percentage of total consolidated revenue.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Office and general expenses	25.3	% 25.8	% 25.5	% 26.7
Professional fees	1.6	% 1.4	% 1.6	% 1.6
Occupancy expense (excluding depreciation and amortization)	6.6	% 6.8	% 6.5	% 7.1
Travel & entertainment, office supplies and telecommunications	3.2	% 3.3	% 3.5	% 3.6
All other office and general expenses <sup>1</sup>	13.9	% 14.3	% 13.9	% 14.4

All other office and general expenses primarily include production expenses and, to a lesser extent, depreciation and amortization, bad debt expense, adjustments for contingent acquisition obligations, foreign currency (gains) losses, net restructuring and other reorganization-related reversals, long-lived asset impairments and other expenses.

## EXPENSES AND OTHER INCOME

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Cash interest on debt obligations	\$(18.4 )	\$(19.1 )	\$(55.9 )	\$(59.6 )
Non-cash interest	(2.9 )	(1.6 )	(6.6 )	(3.9 )
Interest expense	(21.3 )	(20.7 )	(62.5 )	(63.5 )
Interest income	5.6	7.5	17.8	20.3

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

Net interest expense	(15.7	)	(13.2	)	(44.7	)	(43.2	)
Other expense, net	(37.2	)	(0.6	)	(36.4	)	(10.1	)
Total (expenses) and other income	\$(52.9	)	\$(13.8	)	\$(81.1	)	\$(53.3	)

24

---

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

## Net Interest Expense

For the three and nine months ended September 30, 2015, net interest expense increased by \$2.5 and \$1.5 as compared to the respective prior-year periods, primarily due to lower interest income. During the nine months ended September 30, 2015, interest expense decreased as a result of the retirement of our 6.25% Senior Unsecured Notes in May 2014, partially offset by revaluations of mandatorily redeemable noncontrolling interests within our Integrated Agency Networks ("IAN") segment and the issuance of the 4.20% Senior Notes due 2024 in April 2014.

## Other Expense, Net

Results of operations for the three and nine months ended September 30, 2015 and 2014 include certain items that are not directly associated with our revenue-producing operations.

	Three months ended September 30,		Nine months ended September 30,		
	2015	2014	2015	2014	
Loss on early extinguishment of debt	\$0.0	\$0.0	\$0.0	\$(10.4)	)
(Losses) gains on sales of businesses and investments	(37.6	) 0.1	(37.8	) 1.2	)
Vendor discounts and credit adjustments	0.1	0.3	0.4	2.0	)
Other income (expense), net	0.3	(1.0	) 1.0	(2.9	)
Total other expense, net	\$(37.2	) \$(0.6	) \$(36.4	) \$(10.1	)

Loss on Early Extinguishment of Debt - During the nine months ended September 30, 2014, we recorded a charge of \$10.4 related to the redemption of our 6.25% Senior Unsecured Notes.

(Losses) Gains on Sales of Businesses and Investments – During the three months ended September 30, 2015, we recognized losses on sales of businesses on completed dispositions within both our IAN and Constituency Management Group ("CMG") segments and the classification of certain assets as held for sale within our IAN segment.

Vendor Discounts and Credit Adjustments – In connection with the liabilities related to vendor discounts and credits established as part of the restatement we presented in our 2004 Annual Report on Form 10-K, these adjustments reflect the reversal of certain of these liabilities primarily where the statute of limitations has lapsed, or as a result of differences resulting from settlements with clients or vendors.

Other Income (Expense), net – During the nine months ended September 30, 2015, we recorded a gain related to swap contracts within our Corporate and other segment. During the nine months ended September 30, 2014, we recorded a loss related to an other-than-temporary impairment of an investment in the Asia Pacific region within our IAN segment.

## INCOME TAXES

	Three months ended September 30,		Nine months ended September 30,		
	2015	2014	2015	2014	
Income before income taxes	\$139.0	\$157.5	\$334.4	\$302.1	
Provision for income taxes	\$61.1	\$65.0	\$137.4	\$128.6	
Effective income tax rate	44.0	% 41.3	% 41.1	% 42.6	%

Our tax rates are affected by many factors, including our worldwide earnings from various countries, changes in legislation and tax characteristics of our income. For the three and nine months ended September 30, 2015, our effective income tax rates of 44.0% and 41.1%, respectively, were negatively impacted primarily by losses in certain foreign jurisdictions where we receive no tax benefit due to 100% valuation allowances and from the losses on sales of businesses for which we did not receive a full tax benefit. The negative impacts to our tax rates were partially offset

by the reversal of a valuation allowance in Continental Europe. For the nine months ended September 30, 2015, our effective income tax rate of 41.1% was also positively impacted by the recognition of previously unrecognized tax benefits as a result of the settlement of the 2010 U.S. federal income tax audit.

For the three and nine months ended September 30, 2014, our effective income tax rates of 41.3% and 42.6%, respectively, were negatively impacted primarily by losses in certain foreign jurisdictions where we receive no tax benefit due to 100% valuation allowances.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

**EARNINGS PER SHARE**

Basic earnings per share available to IPG common stockholders for the three and nine months ended September 30, 2015, were \$0.18 and \$0.47 per share, respectively, compared to \$0.21 and \$0.40 per share for the three and nine months ended September 30, 2014, respectively. Diluted earnings per share were \$0.18 and \$0.47 per share for the three and nine months ended September 30, 2015, respectively, compared to \$0.21 and \$0.39 per share for the three and nine months ended September 30, 2014, respectively.

For the three and nine months ended September 30, 2015, net income available to IPG common stockholders included losses of \$35.3, net of tax, on sales of businesses due to completed dispositions and the classification of certain assets as held for sale. As a result, for the three months ended September 30, 2015, basic and diluted earnings per share were both negatively impacted by \$0.09 per share. For the nine months ended September 30, 2015, basic and diluted earnings per share were negatively impacted by \$0.09 and \$0.08 per share, respectively. For the nine months ended September 30, 2014, basic and diluted earnings per share included a loss of \$0.02 per share, respectively, as a result of an early extinguishment of debt.

**Segment Results of Operations – Three and Nine Months Ended September 30, 2015 Compared to Three and Nine Months Ended September 30, 2014**

As discussed in Note 11 to the unaudited Consolidated Financial Statements, we have two reportable segments as of September 30, 2015: IAN and CMG. We also report results for the Corporate and other group.

IAN

**REVENUE**

	Three months ended September 30, 2014	Components of Change			Three months ended September 30, 2015	Change		
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total	
Consolidated	\$1,459.3	\$(93.3)	\$ 1.5	\$116.6	\$1,484.1	8.0	% 1.7	%
Domestic	807.4	0.0	1.2	70.7	879.3	8.8	% 8.9	%
International	651.9	(93.3)	0.3	45.9	604.8	7.0	% (7.2)	)%

During the third quarter of 2015, IAN revenue increased by \$24.8 compared to the third quarter of 2014, comprised of an organic revenue increase of \$116.6 and the effect of net acquisitions of \$1.5, partially offset by an adverse foreign currency rate impact of \$93.3. The organic revenue increase was primarily attributable to net higher spending in most client sectors, most notably in the technology and telecom and healthcare sectors, as well as the food and beverage sector, and from net client wins. The organic revenue increase in our domestic market was driven by growth across all disciplines, most notably at our advertising business. In our international markets, the organic revenue increase was driven by growth across all disciplines, primarily in the Latin America region across our largest national markets, in the Asia Pacific region, notably in China and India, and in the Middle East.

	Nine months ended September 30, 2014	Components of Change			Nine months ended September 30, 2015	Change		
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total	
Consolidated	\$4,260.3	\$(245.6)	\$ 15.5	\$321.1	\$4,351.3	7.5	% 2.1	%
Domestic	2,344.6	0.0	4.1	194.8	2,543.5	8.3	% 8.5	%

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

International 1,915.7 (245.6 ) 11.4 126.3 1,807.8 6.6 % (5.6 )%

During the first nine months of 2015, IAN revenue increased by \$91.0 compared to the first nine months of 2014, comprised of an organic revenue increase of \$321.1 and the effect of net acquisitions of \$15.5, partially offset by an adverse foreign currency impact of \$245.6. The organic revenue increase in our domestic market was primarily driven by factors similar to those noted above for the third quarter of 2015. The international organic revenue increase was driven by our advertising businesses and digital specialist agencies, most notably in the Asia Pacific region, in the United Kingdom, and in the Middle East.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

## SEGMENT OPERATING INCOME

	Three months ended			Nine months ended				
	September 30,		Change	September 30,		Change		
	2015	2014			2015	2014		
Segment operating income	\$182.9	\$164.7	11.1	%	\$419.2	\$359.1	16.7	%
Operating margin	12.3	% 11.3	%		9.6	% 8.4	%	

Operating income increased during the third quarter of 2015 compared to the third quarter of 2014 due to an increase in revenue of \$24.8, partially offset by an increase in office and general expenses of \$4.1 and an increase in salaries and related expenses of \$2.5. The increase in salaries and related expenses was due to increases in our workforce at businesses and in regions where we had revenue growth from existing clients and net new business wins. Also contributing to the increase in salaries and related expenses were higher incentive awards, as well as the timing of certain agency-related bonus accruals resulting from improved financial performance. Our operating expenses were partially offset by a favorable foreign currency rate impact for the quarter.

Operating income increased during the first nine months of 2015 compared to the first nine months of 2014 due to an increase in revenue of \$91.0 and a decrease in office and general expenses of \$5.4, partially offset by an increase in salaries and related expenses of \$36.3. The decrease in office and general expenses was attributable to lower occupancy costs, including an incentive from a lease buyout and lower adjustments to contingent acquisition obligations as compared to the prior year. Partially offsetting the decrease in office and general expenses was a net increase in reserves for contingencies. The increase in salaries and related expenses was primarily driven by factors similar to those noted above for the third quarter of 2015. Our operating expenses were partially offset by a favorable foreign currency rate impact for the first nine months.

## CMG

## REVENUE

	Three months ended September 30, 2014	Components of Change			Three months ended September 30, 2015	Change			
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total		
Consolidated	\$381.8	\$(15.8)	) \$ 1.1	\$14.3	\$381.4	3.7	%	(0.1)	)%
Domestic	254.5	0.0	0.0	4.8	259.3	1.9	%	1.9	)%
International	127.3	(15.8)	) 1.1	9.5	122.1	7.5	%	(4.1)	)%

During the third quarter of 2015, CMG revenue decreased by \$0.4 compared to the third quarter of 2014, primarily due to an adverse foreign currency rate impact of \$15.8, partially offset by an organic revenue increase of \$14.3. In our international markets, the organic revenue increase was driven by our public relations and events marketing businesses, predominantly in the Asia Pacific region, most notably in China and Singapore. The domestic organic revenue increase was primarily attributable to growth at our public relations business, partially offset by a decline at our events marketing business mainly attributable to certain projects that did not occur in the year as compared to the prior year period.

	Nine months ended September 30, 2014	Components of Change			Nine months ended September 30, 2015	Change	
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total

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

Consolidated	\$1,069.7	\$(41.3 )	\$ 11.6	\$26.3	\$1,066.3	2.5	%	(0.3 )%
Domestic	687.2	0.0	6.1	17.7	711.0	2.6	%	3.5 %
International	382.5	(41.3 )	5.5	8.6	355.3	2.2	%	(7.1 )%

During the first nine months of 2015, CMG revenue decreased by \$3.4 compared to the first nine months of 2014 due to an adverse foreign currency rate impact of \$41.3, partially offset by an organic revenue increase of \$26.3 and the effect of net acquisitions of \$11.6. The domestic organic revenue increase was primarily driven by factors similar to those noted above for the third quarter of 2015. In our international markets, the organic revenue increase was primarily attributable to growth at our public relations business across all regions, partially offset by a decline at our events marketing business, primarily in the United Kingdom.



Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
(Amounts in Millions, Except Per Share Amounts)  
(Unaudited)

## SEGMENT OPERATING INCOME

	Three months ended			Nine months ended			
	September 30,			September 30,			
	2015	2014	Change	2015	2014	Change	
Segment operating income	\$48.2	\$47.8	0.8	% \$109.5	\$107.7	1.7	%
Operating margin	12.6	% 12.5	%	10.3	% 10.1	%	

Operating income increased during the third quarter of 2015 compared to the third quarter of 2014 due to a decrease in office and general expenses of \$6.7, partially offset by an increase in salaries and related expenses of \$5.9 and a decrease in revenue of \$0.4. The decrease in office and general expenses was primarily due to lower production expenses related to pass-through costs, which are also reflected in revenue, for certain projects where we acted as principal that decreased in size or did not occur during the quarter, and lower adjustments to contingent acquisition obligations as compared to the prior year. The increase in salaries and related expenses was due to an increase in base salaries and temporary help, primarily due to increases in our workforce, most notably at our public relations business, to support business growth. Also contributing to the increase in salaries and related expenses were the timing of certain agency-related bonus accruals and increases attributable to acquisitions. Our operating expenses were partially offset by a favorable foreign currency rate impact for the quarter.

Operating income increased during the first nine months of 2015 compared to the first nine months of 2014 due to a decrease in office and general expenses of \$25.4, partially offset by an increase in salaries and related expenses of \$20.2 and a decrease in revenue of \$3.4. The decrease in office and general expenses was primarily due to lower production expenses related to pass-through costs, which are also reflected in revenue, for certain projects where we acted as principal that decreased in size or did not occur during the first nine months. The increase in salaries and related expenses was primarily driven by factors similar to those noted above for the third quarter of 2015. Our operating expenses were partially offset by a favorable foreign currency rate impact for the first nine months.

## CORPORATE AND OTHER

Certain corporate and other charges are reported as separate line items within total segment operating income (loss) and include corporate office expenses as well as shared service center and certain other centrally managed expenses that are not fully allocated to operating divisions. Salaries and related expenses include salaries, long-term incentives, annual bonuses and other miscellaneous benefits for corporate office employees. Office and general expenses primarily include professional fees related to internal control compliance, financial statement audits and legal, information technology and other consulting services that are engaged and managed through the corporate office. In addition, office and general expenses also include rental expense and depreciation of leasehold improvements for properties occupied by corporate office employees. A portion of centrally managed expenses are allocated to operating divisions based on a formula which incorporates the planned revenues of each of the operating units. Amounts allocated also include specific charges for information technology-related projects, which are allocated based on utilization.

Corporate and other expenses decreased during the third quarter of 2015 by \$2.0 to \$39.2 compared to the third quarter of 2014 primarily related to lower shared service and system-related implementation costs.

Corporate and other expenses increased during the first nine months of 2015 by \$1.8 to \$113.2 compared to the first nine months of 2014 primarily due to increases in salaries and related expenses, attributable to higher incentive awards expense resulting from improved financial performance, offset by lower shared service and system-related implementation costs and increased allocation of centrally managed expenses to operating divisions.

## LIQUIDITY AND CAPITAL RESOURCES

## CASH FLOW OVERVIEW

The following tables summarize key financial data relating to our liquidity, capital resources and uses of capital.



Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations - (continued)  
 (Amounts in Millions, Except Per Share Amounts)  
 (Unaudited)

Cash Flow Data	Nine months ended	
	September 30, 2015	2014
Net income, adjusted to reconcile net income to net cash used in operating activities <sup>1</sup>	\$397.4	\$412.1
Net cash used in working capital <sup>2</sup>	(605.6	) (758.1
Changes in other non-current assets and liabilities using cash	(47.5	)