INTERPUBLIC GROUP OF COMPANIES, INC.
Form 10-K
February 27, 2009
**Table of Contents**

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2008**

**Commission file number 1-6686**

# THE INTERPUBLIC GROUP OF COMPANIES, INC.

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Delaware** | **13-1024020** |
| *State or other jurisdiction of incorporation or organization* | *(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)*

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Common Stock, $0.10 par value** | **New York Stock Exchange** |

**Securities Registered Pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 the filing requirements for at least the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 30, 2008, the aggregate market value of the shares of registrant s common stock held by non-affiliates was $4,097,496,952. The number of shares of the registrant s common stock outstanding as of February 17, 2009 was 476,421,138.

**DOCUMENTS INCORPORATED BY REFERENCE**

The following sections of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 28, 2009 are incorporated by reference in Part III: Election of Directors, Director Selection Process, Code of Conduct, Principal Committees of the Board of Directors, Audit Committee, Section 16(a) Beneficial Ownership Reporting Compliance, Compensation of Executive Officers, Non-Management Director Compensation, Compensation Discussion and Analysis, Compensation Committee Report, Outstanding Shares, Securities Authorized for Issuance under Equity Compensation Plans , Review and Approval of Transactions with Related Persons, Director Independence and Appointment of Independent Registered Public Accounting Firm.

Table of Contents

## TABLE OF CONTENTS

**Table of Contents**

### STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE

This annual report on Form 10-K 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, or continue or the negative, or other variations o 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 this report. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

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

- potential effects of a weakening economy, for example, on the demand for our advertising and marketing services, on our clients financial condition and on our business or financial condition;
- our ability to attract new clients and retain existing clients;
- our ability to retain and attract key employees;
- 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 this report.

Table of Contents

# PART I

## Item 1. *Business*

The Interpublic Group of Companies, Inc. (IPG) was incorporated in Delaware in September 1930 under the name of McCann-Erickson Incorporated as the successor to the advertising agency businesses founded in 1902 by A.W. Erickson and in 1911 by Harrison K. McCann. The Company has operated under the Interpublic name since January 1961.

### About Us

We are one of the world s premier advertising and marketing services companies. Our agency brands create marketing solutions on behalf of clients in every major world market. Our companies cover the spectrum of marketing disciplines and specialties, from traditional services such as consumer advertising and public relations to emerging services such as mobile and search engine marketing.

The work we produce for our clients is specific to their unique needs. Our solutions vary from project-based activity involving one agency and its client to long-term, fully-integrated campaigns created by a group of our companies working together on behalf of a client. With offices in over 100 countries, we can operate in a single region or align work globally across all major world markets.

The role of our holding company is to provide resources and support to ensure that our agencies can best meet clients needs. Based in New York City, our holding company also sets company-wide financial objectives and corporate strategy, directs collaborative inter-agency programs, establishes financial management and operational controls, guides personnel policy, conducts investor relations and oversees mergers and acquisitions. In addition, we provide limited centralized functional services that offer our companies operational efficiencies, including accounting and finance, marketing information retrieval and analysis, legal services, real estate expertise, travel services, recruitment assistance, employee benefits and executive compensation management.

To keep our company well-positioned in an evolving industry, we support our agencies talent and operational initiatives to expand high-growth capabilities and build offerings in key developing markets. When appropriate, we also develop relationships with companies that are building leading-edge marketing tools that complement our agencies and the programs they are developing for clients. In addition, we look for opportunities within our company to modernize operations through mergers, strategic alliances and the development of internal programs that encourage intra-company collaboration.

### Market Strategy

We have taken several major strategic steps in recent years to position our agencies as leaders in the global advertising and communications market.

We operate in a media landscape that has vastly changed since the start of the decade. Media markets continue to fragment and clients face an increasingly complex consumer environment. To stay ahead of these challenges and to achieve our objectives, we have invested in creative and strategic talent in high-growth areas and have realigned a number of our capabilities to meet market demand. At our McCann Worldgroup unit, a premier global integrated network, we have continued to invest in talent so as to upgrade the group s integrated marketing services offering at MRM, Momentum and McCann Healthcare. We combined accountable marketing and consumer advertising agencies to form the unique global offering of Draftfcb. We have taken significant actions to realign resources behind a more focused and strategic offering at Lowe in recent years. And at our marketing services group, Constituency Management Group ( CMG ), we continue to strengthen our public relations and events marketing specialists. We have also taken a unique approach to our media offering by installing a single management structure (Mediabrands) to oversee all media operations, while concurrently aligning our global media networks with our global brand agencies. This approach ensures that the ideas we develop for clients work across new and traditional media channels. Starting at the end of 2007 and continuing through 2008, this differentiated media strategy has begun to gain significant traction in the marketplace.

Strong, multi-channel talent is vital to our long-term success as a marketing partner to our clients. The aspects of our business addressing digital media continue to evolve rapidly. In order to grow with our clients, we have accelerated our investment in digital talent, professional training and technology throughout the organization. This reflects our belief that digital marketing should not be treated as a silo, but instead, should be incorporated within all of our assets. Recruiting and developing digitally conversant talent at all our agencies and in all marketing disciplines is therefore an area where we continue to invest.

To meet these changing needs of the marketplace, it is at times necessary to acquire or build specialty digital assets, such as Reprise Media (search engine marketing), The Interpublic Emerging Media Lab, HUGE (e-commerce solutions) or Ansible (mobile marketing). R/GA, a stand-alone digital agency, is an industry leader in the development of award-winning interactive campaigns for global clients. These specialty assets have unique capabilities and service their own client rosters, while also serving as key digital partners to many of the agencies within IPG.

Likewise, we continue to look for strategic investments that will position us to capitalize on emerging markets. In 2007, we made investments in India and Brazil, further strengthening our presence in these high-growth, developing markets. In 2008, we built on this strategy and completed an important transaction that increased our stake in the Middle East Communication Networks (MCN) to a majority position. Headquartered in Dubai, MCN is the region s premier marketing services management company, with 60 offices across 14 countries. Our partner in Russia is the acknowledged advertising leader in that country. In China, where we operate with all of our global networks and across the full spectrum of marketing services, we continue to invest behind our companies.

In the latter part of 2008, the economy and financial markets throughout the world deteriorated rapidly, and are expected to remain weak for much of 2009. These conditions present potentially significant challenges to the revenue growth of our company and others in the advertising and marketing sector during the upcoming year. The demand for our services, as well as the financial condition of some of our clients, has been adversely affected. While it is unclear how long these conditions will persist, we believe that our broad range of service offerings, our diversified client base, our geographic diversification, our strong talent, our liquidity position and our enhanced expense management capabilities provide a measure of protection in a harsh economic climate.

**Our Offering**

Interpublic is home to some of the world s best known and most innovative communications specialists. We have three global brands that provide integrated, large-scale solutions for clients, McCann Worldgroup ( McCann ), Draftfcb, and Lowe Worldwide ( Lowe ), as well as our premier domestic integrated agencies and global media networks.

McCann offers best-in-class communications tools and resources to many of the world s top companies and most famous brands. We believe McCann is exceptionally qualified to meet client demands in all regions of the world and in all marketing disciplines through its operating units: McCann Erickson Advertising, with operations in over 100 countries; MRM Worldwide for relationship marketing and digital expertise; Momentum Worldwide for experiential marketing and promotions; and McCann Healthcare Worldwide for healthcare communications.

Launched in 2006, Draftfcb is a modern agency model for clients seeking creative and accountable marketing programs. With more than 130 years of combined expertise, the company has its roots in both consumer advertising and behavioral, data-driven direct marketing. We believe the agency is the first global, behavior-based, creative and accountable marketing communications organization operating as a financially and structurally integrated business unit.

Table of Contents

Lowe is a premier creative agency that operates in the world s largest advertising markets. Lowe is focused on delivering and sustaining high-value ideas for some of the world s largest clients. The quality of the agency s product is evident in its high global creative rankings and its standing in major markets. By partnering with Interpublic s marketing services companies, Lowe amplifies the effectiveness of its creativity through smart communication channel planning.

Our domestic independent agencies include some of the larger full-service agency brands, Campbell-Ewald, Campbell Mithun, Deutsch, Hill Holliday, The Martin Agency and Mullen. The integrated marketing programs created by this group have helped build some of the most powerful brands in the U.S., across all sectors and industries.

We have exceptional marketing specialists across a range of channels. These include FutureBrand (corporate branding), Jack Morton (experiential marketing), Octagon (sports marketing), public relations specialists like WeberShandwick and Golin Harris, and best-in-class digital agencies, led by R/GA. Our healthcare communications specialists reside within our three global brands, McCann, Draftfcb and Lowe.

We created a management entity called Mediabrands in 2008 to oversee our two global media networks, Initiative and Universal McCann, which provide specialized services in media planning and buying, market intelligence and return-on-marketing investment analysis for clients. Initiative and Universal McCann operate independently but often work closely with Draftfcb and McCann Erickson, respectively. Aligning the efforts of our major media and our integrated communications networks improves cross-media communications and our ability to deliver integrated marketing programs.

We list approximately 90 companies on our website s Company Finder tool, with descriptions and office locations for each. To learn more about our broad range of capabilities, visit www.interpublic.com.

**Financial Reporting Segments**

We have two reportable segments: Integrated Agency Network ( IAN ), which is comprised of McCann, Draftfcb, Lowe, Mediabrands and our domestic integrated agencies; and Constituency Management Group ( CMG ), which is comprised of the bulk of our specialist marketing service offerings. We also report results for the Corporate and other group. See Note 14 to the Consolidated Financial Statements for further discussion.

**Principal Markets**

Our agencies are located in over 100 countries, including every significant world market. For 2008, our geographic revenue breakdown is as follows:

| | 2008 % of Total Revenue |
|---|---|
| U.S. | 54.4% |
| United Kingdom | 8.8% |
| Continental Europe | 16.5% |
| Asia Pacific | 9.4% |
| Latin America | 5.1% |
| Other | 5.8% |

For further information concerning revenues and long-lived assets on a geographical basis for each of the last three years, see Note 14 to the Consolidated Financial Statements.

Table of Contents

**Sources of Revenue**

Our revenues are primarily derived from the planning and execution of advertising, marketing and communications programs in various media around the world. Most of our client contracts are individually negotiated and, accordingly, the terms of client engagements and the basis on which we earn commissions and fees vary significantly. Our client contracts are complex arrangements that may include provisions for incentive compensation and govern vendor rebates and credits. Our largest clients are multinational entities and, as such, we often provide services to these clients out of multiple offices and across many of our agencies. In arranging for such services to be provided, we may enter into global, regional and local agreements.

Revenues for the creation, planning and placement of advertising are determined primarily on a negotiated fee basis and, to a lesser extent, on a commission basis. Fees are usually calculated to reflect hourly rates plus proportional overhead and a mark-up. Many clients include an incentive compensation component in their total compensation package. This provides added revenue based on achieving mutually agreed-upon qualitative and/or quantitative metrics within specified time periods. Commissions are earned based on services provided and are usually derived from a percentage or fee over the total cost to complete the assignment. Commissions can also be derived when clients pay us the gross rate billed by media and we pay for media at a lower net rate; the difference is the commission that we earn, which is either retained in total or shared with the client depending on the nature of the services agreement.

We also generate revenue in negotiated fees from our public relations, sales promotion, event marketing, sports and entertainment marketing and corporate and brand identity services.

In most of our businesses, our agencies enter into commitments to pay production and media costs on behalf of clients. To the extent possible, we pay production and media charges after we have received funds from our clients. Generally, we act as the client s agent rather than the primary obligor. In some instances we agree with the provider that we will only be liable to pay the production and media costs after the client has paid us for the charges.

Our revenue is directly dependent upon the advertising, marketing and corporate communications requirements of our clients. Our revenue tends to be higher in the second half of the calendar year as a result of the holiday season and lower in the first half as a result of the post-holiday slow-down in client activity.

| (Amounts in Millions) | Consolidated Revenues for the Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | 2007 | | 2006 | |
| March 31 | $ 1,485.2 | 21.3% | $ 1,359.1 | 20.7% | $ 1,327.0 | 21.4% |
| June 30 | 1,835.7 | 26.4% | 1,652.7 | 25.2% | 1,532.9 | 24.8% |
| September 30 | 1,740.0 | 25.0% | 1,559.9 | 23.8% | 1,453.8 | 23.5% |
| December 31 | 1,901.8 | 27.3% | 1,982.5 | 30.3% | 1,877.1 | 30.3% |
| | $ 6,962.7 | | $ 6,554.2 | | $ 6,190.8 | |

Depending on the terms of the client contract, fees for services performed can be recognized in three principal ways: proportional performance, straight-line (or monthly basis) or completed contract. Fee revenue recognized on a completed contract basis also contributes to the higher seasonal revenues experienced in the fourth quarter because the majority of our contracts end at December 31. As is customary in the industry, our contracts generally provide for termination by either party on relatively short notice, usually 90 days. See Note 1 to the Consolidated Financial Statements for further discussion of our revenue recognition accounting policies.

**Table of Contents**

**Clients**

Our holding company structure allows us to work with clients within the same business sector through our different agencies, as well as maintain a diversified client base by sector. In the aggregate, our top ten clients based on revenue accounted for approximately 26% of revenue in 2008 and 2007. However, our largest client accounted for approximately 5% and 6% of revenue for 2008 and 2007, respectively. Based on revenue for the year ended December 31, 2008, our largest clients (in alphabetical order) were General Motors Corporation, Johnson & Johnson, Microsoft, Unilever and Verizon. We represent several different brands or divisions of each of these clients in a number of geographic markets, as well as provide services across multiple advertising and marketing disciplines, in each case through more than one of our agency systems. Representation of a client rarely means that we handle advertising for all brands or product lines of the client in all geographical locations. Any client may transfer its business from one of our agencies to another one of our agencies or to a competing agency, and a client may reduce its marketing budget at any time.

**Personnel**

As of December 31, 2008, we employed approximately 45,000 persons, of whom approximately 19,000 were employed in the U.S. Because of the service character of the advertising and marketing communications business, the quality of personnel is of crucial importance to our continuing success. There is keen competition for qualified employees.

**Available Information**

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports will be made available free of charge on our website at http://www.interpublic.com as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the SEC.

Our Corporate Governance Guidelines, Code of Conduct and the charters for each of the Audit Committee, Compensation Committee and the Corporate Governance Committee are available free of charge on our website at http://www.interpublic.com, or by writing to The Interpublic Group of Companies, Inc., 1114 Avenue of the Americas, New York, New York 10036, Attention: Secretary. Information on our website is not part of this report.

**Item 1A.** ***Risk Factors***

We are subject to a variety of possible risks that could adversely impact our revenues, results of operations or financial condition. Some of these risks relate to general economic and financial conditions of the industry in which we operate, while others are more specific to us. The following factors set out potential risks we have identified that could adversely affect us. The risks described below may not be the only risks we face. Additional risks that we do not yet know of, or that we currently think are immaterial, could also impair our business operations or financial condition. See also Statement Regarding Forward-Looking Disclosure.

***We operate in a highly competitive industry.***

The marketing communications business is highly competitive. Our agencies and media services must compete with other agencies, and with other providers of creative or media services, in order to maintain existing client relationships and to win new clients. Our competitors include not only other large multinational advertising and marketing communications companies, but also smaller entities that operate in local or regional markets. New market participants include systems integrators, database marketing and modeling companies, telemarketers and internet companies.

The client s perception of the quality of an agency s creative work, our reputation and the agencies reputations are important factors in determining our competitive position. An agency s ability to serve clients,

Table of Contents

particularly large international clients, on a broad geographic basis is also an important competitive consideration. On the other hand, because an agency s principal asset is its people, freedom of entry into the business is almost unlimited and a small agency is, on occasion, able to take all or some portion of a client s account from a much larger competitor.

Many companies put their advertising and marketing communications business up for competitive review from time to time. We have won and lost client accounts in the past as a result of such periodic competitions. In the aggregate, our top ten clients based on revenue accounted for approximately 26% of revenue in 2008. While we believe it unlikely that we would lose the entire business of any one of our largest clients at the same time due to competitive considerations, a substantial decline in a large client s advertising and marketing spending, or the loss of its entire business, could have a material adverse effect upon our business and results of operations.

Our ability to attract new clients and to retain existing clients may also, in some cases, be limited by clients policies or perceptions about conflicts of interest. These policies can, in some cases, prevent one agency, or even different agencies under our ownership, from performing similar services for competing products or companies.

***Deteriorating economic and financial conditions could adversely impact our financial condition and results.***

Economic and financial conditions deteriorated sharply in the latter part of 2008, and the deterioration is persisting in 2009. The effects could adversely affect our financial condition and results of operations.

*a) As a marketing services company, our revenues are highly susceptible to declines as a result of unfavorable economic conditions.*

Economic downturns could affect the marketing services industry more severely than other industries, and the recovery of the marketing services industry could lag that of the economy generally. In the past, some clients have responded to weakening economic conditions with reductions to their marketing budgets, which include discretionary components that are easier to reduce in the short term than other operating expenses. This pattern may recur in the future. A decrease in our revenue could pose a challenge to our cash generation from operations.

*b) If our clients experience financial distress, their weakened financial position could negatively affect our own financial position and results.*

We have a large and diverse client base, and at any given time, one or more of our clients may experience financial difficulty, file for bankruptcy protection or go out of business. The current unfavorable economic and financial conditions that are impacting most sectors of the economy could result in an increase in client financial difficulties that affect us. The direct impact on us could include reduced revenues and write-offs of accounts receivable and expenditures billable to clients, and if these effects were severe, the indirect impact could include impairments of goodwill, credit facility covenant violations or reduced liquidity. Our largest single client accounted for approximately 5% of revenue in 2008 and approximately 4% of accounts receivable at December 31, 2008. For a description of our client base, see Item 1, Business Clients.

*c) Our financial condition could be adversely affected if our available liquidity is insufficient.*

We maintain committed credit facilities to increase our financial flexibility. The $335 million credit facility we entered into in July 2008 includes commitments from a syndicate of financial institutions, and if any of them were unable to perform and no other bank assumed that institution s commitment, the availability of credit under that agreement would be correspondingly reduced. Furthermore, that agreement contains financial covenants, and the current economic difficulties could adversely affect our ability to comply with them, for example, if we experience substantially lower revenues, a substantial increase in client defaults or sizable asset impairment charges. If we were to fail to comply with any of the financial covenants contained in that agreement, we could

Table of Contents

be required to seek an amendment or waiver, and our costs under the agreement could increase. If we were unable to obtain a necessary amendment or waiver, the agreement could be terminated. The $750 million credit facility we entered into in June 2006 expires in June 2009, and we do not plan on replacing the full amount of that facility. If credit under our credit facilities were unavailable or insufficient, our liquidity could be adversely affected.

If our business is significantly adversely affected by further deterioration in the economic environment or otherwise, it could lead us to seek new or additional sources of liquidity to fund our needs. Currently, for a non-investment-grade company such as ours, the capital markets are challenging, with limited available financing and at higher costs than in recent years. There can be no guarantee that we would be able to access any new sources of liquidity on commercially reasonable terms or at all. For further discussion of our liquidity profile and outlook, see Liquidity and Capital Resources in Part II, Item 7.

***Our earnings would be adversely affected if we were required to recognize asset impairment charges or increase our deferred tax valuation allowances.***

We evaluate all of our long-lived assets (including goodwill, other intangible assets and fixed assets), investments and deferred tax assets for possible impairment or realizability at least annually and whenever there is an indication of impairment or lack of realizability. If certain criteria are met, we are required to record an impairment charge or valuation allowance. In 2006 and prior years, we have recorded substantial amounts of goodwill, investment and other impairment charges, and have been required to establish substantial valuation allowances with respect to deferred tax assets and loss carry-forwards.

As of December 31, 2008, we have substantial amounts of long-lived assets, investments and deferred tax assets on our Consolidated Balance Sheet, including approximately $3.2 billion of goodwill. Future events, including our financial performance, market valuation of us or comparable companies, loss of a significant client s business or strategic decisions, could cause us to conclude that impairment indicators exist and that the asset values associated with long-lived assets, investments and deferred tax assets may have become impaired. We discuss our policies related to goodwill and other intangible assets, and our sensitivity analysis of our valuation of these assets, below under Critical Accounting Estimates in Part II, Item 7. Any resulting impairment loss would have an adverse impact on our reported earnings in the period in which the charge is recognized.

***We may lose or fail to attract and retain key employees and management personnel.***

Our employees, including creative, research, media and account specialists, and their skills and relationships with clients, are among our most important assets. An important aspect of our competitiveness is our ability to attract and retain key employees and management personnel. Our ability to do so is influenced by a variety of factors, including the compensation we award, and could be adversely affected by our financial or market performance.

***Downgrades of our credit ratings could adversely affect us.***

Our long-term debt is currently rated Ba3 with positive outlook by Moody s, B+ with positive outlook by Standard and Poor s, and BB+ with positive outlook by Fitch. Any ratings downgrades or ratings weaker than those of our competitors can adversely affect us, because ratings are an important factor influencing our ability to access capital and the terms of any new indebtedness, including covenants and interest rates. Our clients and vendors may also consider our credit profile when negotiating contract terms, and if they were to change the terms on which they deal with us, it could have an adverse effect on our liquidity.

***We may not be able to meet our performance targets and milestones.***

From time to time, we communicate to the public certain targets and milestones for our financial and operating performance that are intended to provide metrics against which to evaluate our performance. They should not be understood as predictions or guidance about our expected performance. Our ability to meet any

8

**Table of Contents**

target or milestone is subject to inherent risks and uncertainties, and we caution investors against placing undue reliance on them. See Statement Regarding Forward-Looking Disclosure.

***International business risks could adversely affect our operations.***

International revenues represent a significant portion of our revenues, approximately 45% in 2008. Our international operations are exposed to risks that affect foreign operations of all kinds, including local legislation, monetary devaluation, exchange control restrictions and unstable political conditions. These risks may limit our ability to grow our business and effectively manage our operations in those countries. In addition, because a significant portion of our business is denominated in currencies other than the U.S. dollar, such as the Euro, Pound Sterling, Brazilian Real, Japanese Yen, Canadian Dollar and South African Rand, fluctuations in exchange rates between the U.S. dollar and such currencies may materially affect our financial results.

***We are subject to regulations and other governmental scrutiny that could restrict our activities or negatively impact our revenues.***

Our industry is subject to government regulation and other governmental action, both domestic and foreign. There has been an increasing tendency on the part of advertisers and consumer groups to challenge advertising through legislation, regulation, the courts or otherwise, for example on the grounds that the advertising is false and deceptive or injurious to public welfare. Through the years, there has been a continuing expansion of specific rules, prohibitions, media restrictions, labeling disclosures and warning requirements with respect to the advertising for certain products. Representatives within government bodies, both domestic and foreign, continue to initiate proposals to ban the advertising of specific products and to impose taxes on or deny deductions for advertising, which, if successful, may have an adverse effect on advertising expenditures and consequently our revenues.

## Item 1B. *Unresolved Staff Comments*

None.

## Item 2. *Properties*

Substantially all of our office space is leased from third parties. Certain leases are subject to rent reviews or contain escalation clauses, and certain of our leases require the payment of various operating expenses, which may also be subject to escalation. Physical properties include leasehold improvements, furniture, fixtures and equipment located in our offices. We believe that facilities leased or owned by us are adequate for the purposes for which they are currently used and are well maintained. See Note 16 to the Consolidated Financial Statements for a discussion of our lease commitments.

## Item 3. *Legal Proceedings*

Information about our legal proceedings is set forth in Note 16 to the Consolidated Financial Statements included in this report.

**Item 4.** ***Submission of Matters to a Vote of Security Holders***
Not applicable.

**Executive Officers of Interpublic**

| Name | Age | Office |
|---|---|---|
| Michael I. Roth[1] | 63 | Chairman of the Board and Chief Executive Officer |
| Nicholas J. Camera | 62 | Senior Vice President, General Counsel and Secretary |
| Christopher F. Carroll | 42 | Senior Vice President, Controller and Chief Accounting Officer |
| John J. Dooner, Jr. | 60 | Chairman and CEO of McCann Worldgroup |
| Thomas A. Dowling | 57 | Senior Vice President, Chief Risk Officer |
| Philippe Krakowsky | 46 | Executive Vice President, Strategy and Corporate Relations |
| Frank Mergenthaler | 48 | Executive Vice President and Chief Financial Officer |
| Timothy A. Sompolski | 56 | Executive Vice President, Chief Human Resources Officer |

1 Also a Director

There is no family relationship among any of the executive officers.

*Mr. Roth* became our Chairman of the Board and Chief Executive Officer, effective January 19, 2005. Prior to that time, Mr. Roth served as our Chairman of the Board from July 13, 2004 to January 2005. Mr. Roth served as Chairman and Chief Executive Officer of The MONY Group Inc. from February 1994 to June 2004. Mr. Roth has been a member of the Board of Directors of Interpublic since February 2002. He is also a director of Pitney Bowes Inc. and Gaylord Entertainment Company.

*Mr. Camera* was hired in May 1993. He was elected Vice President, Assistant General Counsel and Assistant Secretary in June 1994, Vice President, General Counsel and Secretary in December 1995, and Senior Vice President, General Counsel and Secretary in February 2000.

*Mr. Carroll* was named Senior Vice President, Controller and Chief Accounting Officer in April 2006. Prior to joining us, Mr. Carroll served as Senior Vice President and Controller of McCann Worldgroup from November 2005 to March 2006. Mr. Carroll served as Chief Accounting Officer and Controller at Eyetech Pharmaceuticals from June 2004 to October 2005. Prior to that time, Mr. Carroll served as Chief Accounting Officer and Controller at MIM Corporation from January 2003 to June 2004 and served as a Financial Vice President at Lucent Technologies, Inc. from July 2001 to January 2003.

*Mr. Dooner* became Chairman and Chief Executive Officer of the McCann Worldgroup, effective February 27, 2003. Prior to that time, Mr. Dooner served as Chairman of the Board, President and Chief Executive Officer of Interpublic from December 2000 to February 2003, and as President and Chief Operating Officer of Interpublic from April 2000 to December 14, 2000.

*Mr. Dowling* was hired in January 2000 as Vice President and General Auditor. He was elected Senior Vice President, Financial Administration of Interpublic in February 2001, and Senior Vice President, Chief Risk Officer in November 2002. Prior to joining us, Mr. Dowling served as Vice President and General Auditor for Avon Products, Inc. from April 1992 to December 1999.

*Mr. Krakowsky* was hired in January 2002 as Senior Vice President, Director of Corporate Communications. He was elected Executive Vice President, Strategy and Corporate Relations in December 2005. Prior to joining us, he served as Senior Vice President, Communications Director for Young & Rubicam from August 1996 to December 2000. During 2001, Mr. Krakowsky was complying with the terms of a non-competition agreement entered into with Young & Rubicam.

*Mr. Mergenthaler* was hired in August 2005 as Executive Vice President and Chief Financial Officer. Prior to joining us, he served as Executive Vice President and Chief Financial Officer for Columbia House Company

**Table of Contents**

from July 2002 to July 2005. Mr. Mergenthaler served as Senior Vice President and Deputy Chief Financial Officer for Vivendi Universal from December 2001 to March 2002. Prior to that time Mr. Mergenthaler was an executive at Seagram Company Ltd. from November 1996 to December 2001.

*Mr. Sompolski* was hired in July 2004 as Executive Vice President, Chief Human Resources Officer. Prior to joining us, he served as Senior Vice President of Human Resources and Administration for Altria Group from November 1996 to January 2003.

Table of Contents

## PART II

**Item 5.** ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

**Price Range of Common Stock**

Our common stock is listed and traded on the New York Stock Exchange ( NYSE ) under the symbol IPG. The following table provides the high and low closing sales prices per share for the periods shown below as reported on the NYSE. As of February 17, 2009, there were approximately 24,100 registered holders of our common stock.

| | NYSE Sale Price | |
|---|---|---|
| **Period** | **High** | **Low** |
| **2008:** | | |
| Fourth Quarter | $ 7.70 | $ 2.61 |
| Third Quarter | $ 9.57 | $ 7.21 |
| Second Quarter | $ 10.39 | $ 7.90 |
| First Quarter | $ 8.98 | $ 7.40 |
| **2007:** | | |
| Fourth Quarter | $ 10.55 | $ 8.10 |
| Third Quarter | $ 11.61 | $ 9.75 |
| Second Quarter | $ 12.97 | $ 11.31 |
| First Quarter | $ 13.81 | $ 12.17 |

**Dividend Policy**

No dividend has been paid on our common stock since the fourth quarter of 2002. Our future dividend policy will be determined on a quarter-by-quarter basis and will depend on earnings, financial condition, capital requirements and other factors. Our future dividend policy may also be influenced by the terms of the 2008 Credit Agreement and certain of our outstanding securities. The 2008 Credit Agreement places certain limitations on the amount of common stock dividends that we may pay in any year. The terms of our outstanding series of preferred stock do not permit us to pay dividends on our common stock unless all accumulated and unpaid dividends have been or are contemporaneously declared and paid or provision for the payment thereof has been made. In the event we pay dividends on our common stock, holders of our 4.50% Convertible Senior Notes will be entitled to additional interest and the conversion terms of our 4.75% Convertible Senior Notes, 4.25% Convertible Senior Notes and our Series B Convertible Preferred Stock, and the exercise prices of our outstanding warrants, will be adjusted (see Notes 8, 9 and 10 to the Consolidated Financial Statements).

**Transfer Agent and Registrar for Common Stock**

The transfer agent and registrar for our common stock is:

BNY Mellon Shareowner Services, Inc.

480 Washington Boulevard

29th Floor

Jersey City, NJ 07310

Tel: (877) 363-6398

**Sales of Unregistered Securities**

Not applicable

Table of Contents

**Repurchase of Equity Securities**

The following table provides information regarding our purchases of equity securities during the fourth quarter of 2008:

| | Total Number of Shares Purchased | Average Price Paid per Share[2] | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1-31 | 29,704 | $ 5.99 | | |
| November 1-30 | 4,468 | $ 3.24 | | |
| December 1-31 | 12,850 | $ 3.98 | | |
| Total[1] | 47,022 | $ 5.18 | | |

1 Consists of restricted shares of our common stock withheld under the terms of grants under employee stock compensation plans to offset tax withholding obligations that occurred upon vesting and release of restricted shares during each month of the fourth quarter of 2008 (the Withheld Shares ).

2 The average price per month of the Withheld Shares was calculated by dividing the aggregate value of the tax withholding obligations for each month by the aggregate number of shares of our common stock withheld each month.

**Table of Contents**

**Item 6.** ***Selected Financial Data***

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

**Selected Financial Data**

**(Amounts in Millions, Except Per Share Amounts and Ratios)**

**(Unaudited)**

| | Years ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2008** | **2007** | **2006** | **2005** | **2004** |
| Revenue | $ 6,962.7 | $ 6,554.2 | $ 6,190.8 | $ 6,274.3 | $ 6,387.0 |
| Salaries and related expenses | 4,342.6 | 4,139.2 | 3,944.1 | 3,999.1 | 3,733.0 |
| Office and general expenses | 2,013.3 | 2,044.8 | 2,079.0 | 2,288.1 | 2,250.4 |
| Restructuring and other reorganization-related charges (reversals) | 17.1 | 25.9 | 34.5 | (7.3) | 62.2 |
| Long-lived asset impairment and other charges | | | 27.2 | 98.6 | 322.2 |
| Motorsports contract termination costs | | | | | 113.6 |
| Operating income (loss) | 589.7 | 344.3 | 106.0 | (104.2) | (94.4) |
| Total (expenses) and other income | (118.2) | (108.6) | (111.0) | (82.4) | (172.6) |
| Provision for income taxes | 156.6 | 58.9 | 18.7 | 81.9 | 262.2 |
| Income (loss) from continuing operations | 295.0 | 167.6 | (36.7) | (271.9) | (544.9) |
| Income from discontinued operations, net of tax | | | 5.0 | 9.0 | 6.5 |
| Net income (loss) applicable to common stockholders | $ 265.2 | $ 131.3 | $ (79.3) | $ (289.2) | $ (558.2) |
| Earnings (loss) per share of common stock | | | | | |
| Basic: | | | | | |
| Continuing operations | $ 0.57 | $ 0.29 | $ (0.20) | $ (0.70) | $ (1.36) |
| Discontinued operations | | | 0.01 | 0.02 | 0.02 |
| Total | $ 0.57 | $ 0.29 | $ (0.19) | $ (0.68) | $ (1.34) |
| Diluted: | | | | | |
| Continuing operations | $ 0.52 | $ 0.26 | $ (0.20) | $ (0.70) | $ (1.36) |
| Discontinued operations | | | 0.01 | 0.02 | 0.02 |
| Total | $ 0.52 | $ 0.26 | $ (0.19) | $ (0.68) | $ (1.34) |
| Weighted average shares | | | | | |
| Basic | 461.5 | 457.7 | 428.1 | 424.8 | 415.3 |
| Diluted | 518.3 | 503.1 | 428.1 | 424.8 | 415.3 |
| **OTHER DATA** | | | | | |
| As of December 31, | | | | | |
| Cash and cash equivalents and marketable securities | $ 2,274.9 | $ 2,037.4 | $ 1,957.1 | $ 2,191.5 | $ 1,970.4 |
| Total assets | 12,125.2 | 12,458.1 | 11,864.1 | 11,945.2 | 12,253.7 |
| Long-term debt | 1,786.9 | 2,044.1 | 2,248.6 | 2,183.0 | 1,936.0 |
| Total liabilities | 9,649.6 | 10,125.9 | 9,923.5 | 9,999.9 | 10,535.4 |
| Preferred stock Series A | | | | 373.7 | 373.7 |
| Preferred stock Series B | 525.0 | 525.0 | 525.0 | 525.0 | |
| Total stockholders equity | 2,475.6 | 2,332.2 | 1,940.6 | 1,945.3 | 1,718.3 |
| Ratios of earnings to fixed charges[1] | 2.2 | 1.6 | N/A | N/A | N/A |

[1] We had a less than 1:1 ratio of earnings to fixed charges due to our losses in the years ended December 31, 2006, 2005 and 2004. To provide a 1:1 coverage ratio for the deficient periods results as reported would have required additional earnings of $5.0, $186.6 and $267.0 in 2006, 2005 and 2004, respectively.

Table of Contents

**Management s Discussion and Analysis of Financial Condition and Results of Operations**

**(Amounts in Millions, Except Per Share Amounts)**

**Item 7.** ***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 (the Company , Interpublic , we , us or our ). MD&A should be read conjunction with our Consolidated Financial Statements and the accompanying notes. Our MD&A includes the following sections:

EXECUTIVE SUMMARY provides a description of our business strategy as well as an overview of our results of operations and liquidity.

CRITICAL ACCOUNTING ESTIMATES provides a discussion of our accounting policies that require critical judgment, assumptions and estimates.

RESULTS OF OPERATIONS provides an analysis of the consolidated and segment results of operations for 2008 compared to 2007 and 2007 compared to 2006.

LIQUIDITY AND CAPITAL RESOURCES provides an overview of our cash flows, funding requirements, contractual obligations, financing and sources of funds.

RECENT ACCOUNTING STANDARDS, by reference to Note 17 to the Consolidated Financial Statements, provides a description of accounting standards which we have not yet been required to implement 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 agencies create marketing programs for clients to improve business results for them and generate sales, earnings and cash flow for us. Our agencies deliver services across the full spectrum of marketing disciplines and specialties, including advertising, direct marketing, public relations, mobile marketing, internet and search engine marketing, social media marketing, and media buying and planning. Major global brands in our portfolio of companies include Draftfcb, FutureBrand, GolinHarris, Initiative, Jack Morton, Lowe, McCann Erickson, Momentum, MRM, Octagon, Universal McCann and Weber Shandwick. Leading domestic brands include Campbell-Ewald, Carmichael Lynch, Deutsch, Hill Holliday, The Martin Agency, Mullen and R/GA.

In early 2006, the senior management team of Interpublic announced a three-year strategic plan to return the company to competitive growth and significantly enhance profitability, while concurrently addressing a range of legacy issues stemming largely from previous under-investment in talent and shortcomings in our financial control environment. The first two years of this plan saw us invest to strengthen leadership and talent at the parent company and across our agencies, including programs to foster diversity and inclusion throughout our organization, and we strategically realigned and refocused certain key operating units. We also enhanced the company s financial strength, liquidity and flexibility and succeeded in remediating the weaknesses in our internal control structure. Progress in all of these areas led to significantly improved financial performance. During 2008, the third year of our program, we continued to build on our momentum, achieving organic revenue growth that was fully competitive with that of our global peer group, and operating margins significantly higher than we reported in 2005, preceding the implementation of our strategic plan.

The global economic environment in which we operate deteriorated significantly over the course of 2008, at first relatively slowly, then accelerating in the latter part of the year. We believe that our performance in this challenging environment further reflects the success of our turnaround strategies. For 2009 and beyond, our strategic outlook is for a media landscape that continues to grow more complex, and that our high-quality,

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

comprehensive global services will remain critical to the competitiveness of our clients. Our objectives are to continue to build our talent across the full range of marketing competencies, while focusing our investment on the fastest growing markets and disciplines. Our financial objectives include furthering our margin progress to achieve peer-level operating margin over the long term. Accordingly, we remain focused on cost control and resource utilization, including the productivity of our employees, real estate and information technology.

We begin 2009 with the global economy in recession and widespread uncertainty in financial markets, which has made business conditions more challenging for nearly all companies. It is apparent that these conditions will adversely affect the demand for advertising and marketing services in 2009, and, as a result, present a challenge to the revenue and profit growth of our company and our sector. While we cannot predict the magnitude and duration of the economic downturn or its impact on the demand for our services, we believe that we will continue to derive benefits from our diversified client base, global presence and broad range of services. Recent improvements in our financial reporting and business information systems provide us with timely and actionable insights from our businesses around the world. Our extensive operating improvements over the past three years have greatly strengthened our cash flow generation, and our balance sheet and liquidity are important sources of financial flexibility. These should provide a measure of protection in a harsh business environment.

**Highlights**

| | **Years ended December 31,** | | | |
|---|---|---|---|---|
| | **2008** | | **2007** | |
| *% increase/(decrease) vs. prior year* | **Total** | **Organic** | **Total** | **Organic** |
| **Revenue** | 6.2% | 3.8% | 5.9% | 3.8% |
| **Salaries and related expenses** | 4.9% | 2.5% | 4.9% | 2.7% |
| **Office and general expenses** | (1.5%) | (2.6%) | (1.6%) | (2.7%) |

| | **Years ended December 31,** | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| **Operating margin** | 8.5% | 5.3% | 1.7% |
| **Expenses as % of revenue** | | | |
| Salaries and related expenses | 62.4% | 63.2% | 63.7% |
| Office and general expenses | 28.9% | 31.2% | 33.6% |
| **Net income (loss) applicable to common stockholders** | $ 265.2 | $ 131.3 | $ (79.3) |
| **Diluted earnings (loss) per share** | $ 0.52 | $ 0.26 | $ (0.19) |
| **Operating Cash Flow** | $ 865.3 | $ 298.1 | $ 9.0 |

We analyze period-to-period changes in our operating performance by determining the portion of the change that is attributable to foreign currency rates and the change attributable to the net effect of acquisitions and divestitures, and consider the remainder to be the organic change. For purposes of analyzing this change, acquisitions and divestitures 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 offering and disposed of businesses that are not consistent with our strategic plan. For additional information on our acquisitions, see Note 4 to the Consolidated Financial Statements. An analysis of 2008 compared to 2007 shows net acquisitions increased revenue and operating expenses, while an analysis of 2007 compared to 2006 shows net divestitures decreased revenue and operating expenses. Additionally, in certain of our discussions we analyze revenue by business sector and geographic region. In our business sector analysis, we focused on our top 100 clients, which represent over 50% of our consolidated revenue.

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

On July 9, 2008 we announced the creation of a management entity called Mediabrands to oversee our media assets that are included in our Integrated Agency Networks ( IAN ) segment. The new entity provides oversight to ensure operational efficiency and increased collaboration across our media units. Our global media networks, Initiative and Universal McCann, continue to operate as independent entities, each aligned where appropriate with a full-service marketing network partner. The businesses that comprise Mediabrands remain in the IAN segment. The financial results for these units are analyzed together in the MD&A for 2008 compared to 2007 and 2007 compared to 2006.

Although the U.S. Dollar is our reporting currency, a substantial portion of our revenues is 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. As a result, both positive and negative currency fluctuations against the U.S. Dollar will continue to affect our results of operations. Foreign currency fluctuations resulted in increases of approximately 1% in revenues and operating expenses which resulted in an increase of approximately 4% in operating income for 2008 as compared to 2007. In the second half of the year the U.S. Dollar strengthened against several foreign currencies, and if this trend continues, it could have a negative impact on our consolidated results of operations.

## CRITICAL ACCOUNTING ESTIMATES

Our Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America. Preparation of the Consolidated Financial Statements and related disclosures requires us to make judgments, assumptions and estimates that affect the amounts reported and disclosed in the accompanying financial statements and notes. We believe that of our significant accounting policies, the following critical accounting estimates involve management s most difficult, subjective or complex judgments. We consider these accounting estimates to be critical because changes in the underlying assumptions or estimates have the potential to materially impact our financial statements. Management has discussed with our Audit Committee the development, selection, application and disclosure of these critical accounting estimates. We regularly evaluate our judgments, assumptions and estimates based on historical experience and various other factors that we believe to be relevant under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

### *Revenue Recognition*

Our revenues are primarily derived from the planning and execution of advertising, marketing and communications programs in various media around the world. Most of our client contracts are individually negotiated and accordingly, the terms of client engagements and the bases on which we earn commissions and fees vary significantly. Our client contracts are complex arrangements that may include provisions for incentive compensation and vendor rebates and credits. Our largest clients are multinational entities and, as such, we often provide services to these clients out of multiple offices and across many of our agencies. In arranging for such services, it is possible that we will enter into global, regional and local agreements. Multiple agreements of this nature are reviewed by legal counsel to determine the governing terms to be followed by the offices and agencies involved. Critical judgments and estimates are involved in determining both the amount and timing of revenue recognition under these arrangements.

Revenue for our services is recognized when all of the following criteria are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectibility is reasonably assured; and (iv) services have been performed. Depending on the terms of a client contract, fees for services performed can be recognized in three principal ways: proportional performance, straight-line (or monthly basis) or completed contract. See Note 1 to the Consolidated Financial Statements for further discussion.

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

Depending on the terms of the client contract, revenue is derived from diverse arrangements involving fees for services performed, commissions, performance incentive provisions and combinations of the three. Commissions are generally earned on the date of the broadcast or publication. Contractual arrangements with clients may also include performance incentive provisions designed to link a portion of our revenue to our performance relative to both qualitative and quantitative goals. Performance incentives are recognized as revenue for quantitative targets when the target has been achieved and for qualitative targets when confirmation of the incentive is received from the client. The classification of client arrangements to determine the appropriate revenue recognition involves judgments. If the judgments change there can be a material impact on our financial statements, and particularly on the allocation of revenues between periods. Incremental direct costs incurred related to contracts where revenue is accounted for on a completed contract basis are generally expensed as incurred. There are certain exceptions made for significant contracts or for certain agencies where the majority of the contracts are project-based and systems are in place to properly capture appropriate direct costs.

Substantially all of our revenue is recorded as the net amount of our gross billings less pass-through expenses charged to a client. In most cases, the amount that is billed to clients significantly exceeds the amount of revenue that is earned and reflected in our financial statements, because of various pass-through expenses such as production and media costs. In compliance with Emerging Issues Task Force ( EITF ) Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, we assess whether our agency or the third-party supplier is the primary obligor. We evaluate the terms of our client agreements as part of this assessment. In addition, we give appropriate consideration to other key indicators such as latitude in establishing price, discretion in supplier selection and credit risk to the vendor. Because we operate broadly as an advertising agency, based on our primary lines of business and given the industry practice to generally record revenue on a net versus gross basis, we believe that there must be strong evidence in place to overcome the presumption of net revenue accounting. Accordingly, we generally record revenue net of pass-through charges as we believe the key indicators of the business suggest we act as an agent on behalf of our clients in our primary lines of business. In those businesses (primarily sales promotion, event, sports and entertainment marketing) where the key indicators suggest we act as a principal, we record the gross amount billed to the client as revenue and the related costs incurred as office and general expenses. Revenue is reported net of taxes assessed by governmental authorities that are directly imposed on our revenue-producing transactions.

The determination as to whether revenue in a particular line of business should be recognized net or gross involves complex judgments. If we make these judgments differently it could significantly affect our financial performance. If it were determined that we must recognize a significant portion of revenues on a gross basis rather than a net basis it would positively impact revenues, have no impact on our operating income and have an adverse impact on operating margin.

We receive credits from our vendors and media outlets for transactions entered into on behalf of our clients that, based on the terms of our contracts and local law, are either remitted to our clients or retained by us. If amounts are to be passed through to clients they are recorded as liabilities until settlement or, if retained by us, are recorded as revenue when earned. Negotiations with a client at the close of a current engagement could result in either payments to the client in excess of the contractual liability or in payments less than the contractual liability. These items, referred to as concessions, relate directly to the operations of the period and are recorded as operating expense or income. Concession income or expense may also be realized in connection with settling vendor discount or credit liabilities that were established as part of the restatement we presented in our Annual Report on Form 10-K for the year ended December 31, 2004 that we filed in September 2005 (the 2004 Restatement ). In these situations, and given the historical nature of these liabilities, we have recorded such items as other income or expense in order to prevent distortion of current operating results.

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

***Income Taxes***

The provision for income taxes includes federal, state, local and foreign taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences between the financial statement carrying amounts and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which the temporary differences are expected to be reversed. Changes to enacted tax rates would result in either increases or decreases in the provision for income taxes in the period of changes.

Under SFAS No. 109, *Accounting for Income Taxes* ( SFAS 109 ), we are required to evaluate the realizability of our deferred tax assets. The realization of our deferred tax assets is primarily dependent on future earnings. SFAS 109 requires that a valuation allowance be recognized when, based on available evidence, it is more likely than not that all or a portion of deferred tax assets will not be realized due to the inability to generate sufficient taxable income in future periods. In circumstances where there is significant negative evidence, establishment of a valuation allowance must be considered. We believe that cumulative losses in the most recent three-year period represent significant negative evidence under the provisions of SFAS 109. A pattern of sustained profitability is considered significant positive evidence when evaluating a decision to reverse a valuation allowance. Further, in those cases where a pattern of sustained profitability exists, projected future taxable income may also represent positive evidence, to the extent that such projections are determined to be reliable given the current economic environment. Accordingly, the increase and decrease of valuation allowances has had and could have a significant negative or positive impact on our current and future earnings. In 2008, 2007 and 2006 we recorded a net reversal of valuation allowances of $48.0, $22.3 and $29.6, respectively.

Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The assessment of recognition and measurement requires critical estimates and the use of complex judgments. We evaluate our tax positions using a more likely than not recognition threshold and then we apply a measurement assessment to those positions that meet the recognition threshold. We have established tax reserves that we believe to be 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 adjust our reserves as additional information or events require. See Note 7 to the Consolidated Financial Statements for further information.

***Goodwill and Other Intangible Assets***

We account for our business combinations using the purchase accounting method. The total costs of the acquisitions are allocated to the underlying net assets, based on their respective estimated fair values and the remainder allocated to goodwill and other intangible assets. Determining the fair value of assets acquired and liabilities assumed requires management s judgment and involves the use of significant estimates, including future cash inflows and outflows, discount rates, asset lives and market multiples. Considering the characteristics of advertising, specialized marketing and communication services companies, our acquisitions usually do not have significant amounts of tangible assets as the principal asset we typically acquire is creative talent. As a result, a substantial portion of the purchase price is allocated to goodwill and other intangible assets.

We review goodwill and other intangible assets with indefinite lives not subject to amortization as of October 1$^{st}$ of each year and whenever events or significant changes in circumstances indicate that the carrying value may not be recoverable. We evaluate the recoverability of goodwill at a reporting unit level. We have 16

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

reporting units subject to the 2008 annual impairment testing that are either entities at the operating segment level or one level below the operating segment level. Our annual impairment reviews as of October 1, 2008 did not result in an impairment charge at any of our reporting units. During 2008, we added a reporting unit due to a recent acquisition and changed the structure of certain reporting units due to the creation of Mediabrands. Besides the aforementioned changes, our reporting unit structure has not changed from 2007.

We review intangible assets with definite lives subject to amortization whenever events or circumstances indicate that a carrying amount of an asset may not be recoverable. Intangible assets with definite lives are amortized on a straight-line basis with estimated useful lives generally between 7 and 15 years. Events or circumstances that might require impairment testing include the loss of a significant client, the identification of other impaired assets within a reporting unit, loss of key personnel, the disposition of a significant portion of a reporting unit, significant decline in stock price or a significant adverse change in business climate or regulations.

SFAS No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ), specifies a two-step process for goodwill impairment testing and measuring the magnitude of any impairment. The first step of the impairment test is a comparison of the fair value of a reporting unit to its carrying value, including goodwill. The sum of the fair values of all our reporting units is reconciled to our current market capitalization plus an estimated control premium. Goodwill allocated to a reporting unit whose fair value is equal to or greater than its carrying value is not impaired, and no further testing is required. Should the carrying amount for a reporting unit exceed its fair value, then the first step of the impairment test is failed and the magnitude of any goodwill impairment is determined under the second step, which is a comparison of the implied fair value of a reporting unit s goodwill to its carrying value. Goodwill of a reporting unit is impaired when its carrying value exceeds its implied fair value. Impaired goodwill is written down to its implied fair value with a charge to expense in the period the impairment is identified.

The fair value of a reporting unit for 2008 was estimated using the income approach, which incorporates the use of the discounted cash flow method. In prior years, we have used a combination of the income approach and the market approach, which incorporates the use of earnings and revenue multiples based on market data. However, due to the deterioration and extreme volatility of the credit markets in the latter part of 2008, we determined that the market approach was not appropriate. Therefore, we used only the income approach to determine the fair value of our reporting units in 2008. This approach uses projections which require the use of significant estimates and assumptions for each reporting unit as to matters such as revenue growth, profit margins, terminal value growth rates, capital expenditures, assumed tax rates and discount rates. These estimates and assumptions will vary between each reporting unit depending on the facts and circumstances specific to that unit. The discount rate for each reporting unit is influenced by general market conditions as well as factors specific to the reporting unit. Our discount rates used for our reporting units for our 2008 annual impairment review were between 11% and 15.5%. We believe that the estimates and assumptions made are reasonable, but they are susceptible to change from period to period. Actual results of operations, cash flows and other factors will likely differ from the estimates used in a discounted cash flow valuation and it is possible that differences and changes could be material.

We have performed a sensitivity analysis to detail the impact that changes in assumptions may have on the outcome of the first step of the impairment test. Our sensitivity analysis provides a range of value for each reporting unit where the low end of the range reduces growth rates by 0.5% and increases discount rates by 0.5% and the high end of the range increases growth rates by 0.5% and decreases discount rates by 0.5%. For purposes of our comparison between carrying value and fair value for the first step of the impairment test we use the average of our range of values.

The following table shows the number of reporting units we tested in our 2008 and 2007 annual impairment reviews and the related goodwill value associated with the reporting units at the low end, average and high end of

Table of Contents

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

the valuation range for a) fair values exceeding carrying values by less than 10%, b) fair values between 10% and 20% above carrying value, c) fair values more than 20% above carrying value and d) carrying values that exceed fair value.

| **2008 Impairment Test Low End** | | | **2007 Impairment Test[2] Low End** | | |
|---|---|---|---|---|---|
| **Fair value exceeds carrying value by:** | **# of reporting units** | **Total goodwill at the reporting units** | **Fair value exceeds carrying value by:** | **# of reporting units** | **Total goodwill at the reporting units** |
| Less than 10% | 3 | $ 231.1 | Less than 10% | 3 | $ 362.8 |
| 10% 20% | 3 | 759.9 | 10% 20% | 2 | 941.1 |
| Greater than 20% | 7 | 1,899.1 | Greater than 20% | 4 | 485.4 |
| Carrying value exceeds fair value | 3 | 330.8 [1] | | | |

| **Average** | | | **Average** | | |
|---|---|---|---|---|---|
| **Fair value exceeds carrying value by:** | **# of reporting units** | **Total goodwill at the reporting units** | **Fair value exceeds carrying value by:** | **# of reporting units** | **Total goodwill at the reporting units** |
| Less than 10% | 5 | $ 541.9 | Less than 10% | 2 | $ 321.9 |
| 10% 20% | 1 | 20.0 | 10% 20% | 3 | 982.0 |
| Greater than 20% | 10 | 2,659.0 | Greater than 20% | 4 | 485.4 |

| **High End** | | | **High End** | | |
|---|---|---|---|---|---|
| **Fair value exceeds carrying value by:** | **# of reporting units** | **Total goodwill at the reporting units** | **Fair value exceeds carrying value by:** | **# of reporting units** | **Total goodwill at the reporting units** |
| Less than 10% | 4 | $ 535.7 | Less than 10% | 1 | $ 139.9 |
| 10% 20% | 2 | 26.2 | 10% 20% | 3 | 1,014.1 |
| Greater than 20% | 10 | 2,659.0 | Greater than 20% | 5 | 635.3 |

1 For purposes of our comparison between carrying value and fair value for the first step of the impairment test we used the average of our range of values.

2 In accordance with SFAS 142, we did not test certain reporting units in 2007 because we determined we could carry forward the fair value of the reporting unit from the last test, as the fair value significantly exceeded the book value.

During the latter part of the fourth quarter of 2008 our stock price declined significantly after our annual impairment review date, and our market capitalization was less than our book value as of December 31, 2008. We considered whether there were any events or circumstances indicative of a triggering event and determined that the decline in our stock price during the fourth quarter was an event that would more likely than not reduce the fair value of our individual reporting units below their book value, requiring us to perform an interim impairment test for goodwill at the reporting unit level. Based on the interim impairment test conducted, we concluded that there was no impairment of our goodwill as of December 31, 2008. However, current economic conditions could continue or worsen in 2009 and could alter the assumptions we made with respect to our discounted cash flow models as of December 31, 2008. Therefore, we will continue to monitor our market capitalization and the fair values of our individual reporting units throughout 2009.

21

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

***Pension and Postretirement Benefits***

We use various actuarial assumptions in determining our net pension and postretirement benefit costs and obligations. These assumptions include discount rates and expected returns on plan assets and are updated annually or more frequently with the occurrence of significant events.

The discount rate is one of the significant assumptions that impacts our net pension and postretirement costs and obligations. For the domestic pension and postretirement benefit plans, we determine our discount rate based on the estimated rate at which annuity contracts could be purchased to effectively settle the respective benefit obligations. To assist in this we utilize a yield curve based on Moody s Aa-rated corporate non-callable bonds. Each plan s projected cash flow is matched to this yield curve and a present value is developed, which is then used to develop a single equivalent discount rate. For the foreign pension plans, we determine a discount rate by referencing market yields on high quality corporate bonds in the local markets with the appropriate term as of December 31, 2008. For 2009, we plan to use weighted average discount rates of 6.01%, 5.38% and 6.00% for the domestic pension plans, foreign plans and the postretirement plan, respectively. Changes in the discount rates are generally due to increases or decreases in long-term interest rates. A higher discount rate will decrease our pension cost. A 25 basis point increase or decrease in the discount rate would have decreased or increased the 2008 net pension and postretirement cost by $2.1 and $2.2, respectively. In addition, a 25 basis point increase or decrease in the discount rate would have decreased or increased the December 31, 2008 benefit obligation by $17.3 and $18.0, respectively.

The expected rate of return on pension plan assets is another significant assumption that impacts our net pension cost and is determined at the beginning of the year. For the domestic pension plans, our expected rate of return considers the historical trends of asset class index returns over various market cycles and economic conditions, current market conditions, risk premiums associated with asset classes and long-term inflation rates. We determine both a short-term and long-term view and then attempt to select a long-term rate of return assumption that matches the duration of our liabilities. For the foreign pension plans, primarily the U.K. Pension Plan, we determine the expected rate of return by utilizing a weighted average approach based on the current long-term expected rates of return for each asset category. The long-term expected rate of return for the equity category is based on the current long-term rates of return available on government bonds and applying suitable risk premiums that consider historical market returns and current market expectations. For 2009, we plan to use weighted average expected rates of return of 8.16% and 5.05% for the domestic and foreign pension plans, respectively. Changes in the rates are due to lower or higher expected future returns based on the mix of assets held. A lower expected rate of return will increase our net pension cost. A 25 basis point increase or decrease in the expected return on plan assets would have decreased or increased the 2008 net pension cost by $1.0.

## RESULTS OF OPERATIONS

***Consolidated Results of Operations***

***REVENUE***

Our revenue is directly impacted by our ability to win new clients and retain existing ones, and spending levels of all our clients. Our revenue is also subject to fluctuations related to seasonal spending by our clients. Most of our expenses are recognized ratably throughout the year and are less seasonal than revenue. Our revenue is typically lowest in the first quarter and highest in the fourth quarter. This reflects the seasonal holiday spending of our clients, incentives earned at year-end on various contracts and project work completed that is typically recognized during the fourth quarter. Additionally, revenues can fluctuate throughout the year due to the timing of completed projects in the events marketing business, as revenue is typically recognized when the

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

project is complete. Furthermore, we generally act as principal for these projects and as such record the gross amount billed to the client as revenue and the related costs incurred as pass-through costs in office and general expenses.

| | | Components of change | | | | Change | |
|---|---|---|---|---|---|---|---|
| | Year ended December 31, 2007 | Foreign currency | Net acquisitions/ (divestitures) | Organic | Year ended December 31, 2008 | Organic | Total |
| **Consolidated** | $ 6,554.2 | 71.5 | 87.6 | 249.4 | $ 6,962.7 | 3.8% | 6.2% |
| **Domestic** | 3,651.3 | | 18.8 | 116.2 | 3,786.3 | 3.2% | 3.7% |
| **International** | 2,902.9 | 71.5 | 68.8 | 133.2 | 3,176.4 | 4.6% | 9.4% |
| United Kingdom | 603.6 | (41.9) | 8.1 | 43.1 | 612.9 | 7.1% | 1.5% |
| Continental Europe | 1,070.2 | 81.4 | (19.5) | 18.3 | 1,150.4 | 1.7% | 7.5% |
| Asia Pacific | 581.3 | 22.3 | 21.3 | 32.4 | 657.3 | 5.6% | 13.1% |
| Latin America | 314.1 | 12.4 | (2.8) | 29.7 | 353.4 | 9.5% | 12.5% |
| Other | 333.7 | (2.7) | 61.7 | 9.7 | 402.4 | 2.9% | 20.6% |

During 2008 our revenue increased by $408.5, consisting of organic revenue growth of $249.4, led by the technology and telecommunications sector and the retail sector. The domestic organic growth was primarily driven by expanding business with existing clients and winning new clients in the advertising, media and public relations businesses. The international organic increase occurred throughout all regions. The increase in the United Kingdom was primarily due to the completion of several projects with existing clients and net client wins in the events marketing business and winning new clients in the advertising business. The international growth was also driven by increased client spending and net client wins primarily in Brazil, China and Spain.

The deteriorating economic conditions in the latter part of 2008 negatively impacted our revenue in the fourth quarter of 2008. Our revenue decreased by 4.1% in the fourth quarter of 2008 compared to the fourth quarter of 2007, which reflects an organic revenue decrease for the quarter of 2.2%. If weak global economic conditions persist in 2009, our revenues may remain under pressure across many of our service offerings and client sectors.

| | | Components of change | | | | Change | |
|---|---|---|---|---|---|---|---|
| | Year ended December 31, 2006 | Foreign currency | Net acquisitions/ (divestitures) | Organic | Year ended December 31, 2007 | Organic | Total |
| **Consolidated** | $ 6,190.8 | 197.5 | (70.7) | 236.6 | $ 6,554.2 | 3.8% | 5.9% |
| **Domestic** | 3,443.4 | | (9.3) | 217.2 | 3,651.3 | 6.3% | 6.0% |
| **International** | 2,747.4 | 197.5 | (61.4) | 19.4 | 2,902.9 | 0.7% | 5.7% |
| United Kingdom | 574.5 | 51.1 | (35.5) | 13.5 | 603.6 | 2.3% | 5.1% |
| Continental Europe | 1,034.1 | 94.4 | (24.0) | (34.3) | 1,070.2 | (3.3%) | 3.5% |
| Asia Pacific | 512.0 | 25.7 | 12.5 | 31.1 | 581.3 | 6.1% | 13.5% |
| Latin America | 303.4 | 18.4 | (10.6) | 2.9 | 314.1 | 1.0% | 3.5% |
| Other | 323.4 | 7.9 | (3.8) | 6.2 | 333.7 | 1.9% | 3.2% |

During 2007 our revenue increased by $363.4, consisting of organic revenue growth of $236.6 and favorable foreign currency rate impact of $197.5. The domestic organic growth was primarily driven through expanding business with existing clients, winning new clients in advertising and public relations and completing several projects within the events marketing business. The international organic revenue increase was primarily driven by increases in spending by existing clients in the Asia Pacific region, partially offset by net client losses in Continental Europe, primarily in France.

Table of Contents

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

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

***OPERATING EXPENSES***

| | Years ended December 31, 2008 $ | 2008 % of Revenue | 2007 $ | 2007 % of Revenue | 2006 $ | 2006 % of Revenue |
|---|---|---|---|---|---|---|
| Salaries and related expenses | $ 4,342.6 | 62.4% | $ 4,139.2 | 63.2% | $ 3,944.1 | 63.7% |
| Office and general expenses | 2,013.3 | 28.9% | 2,044.8 | 31.2% | 2,079.0 | 33.6% |
| Restructuring and other reorganization- related charges | 17.1 | | 25.9 | | 34.5 | |
| Long-lived asset impairment and other charges | | | | | 27.2 | |
| Total operating expenses | $ 6,373.0 | | $ 6,209.9 | | $ 6,084.8 | |

Total operating expenses decreased as a percentage of revenue in 2008 when compared to 2007. We consider the change in operating expenses as a percentage of revenue, which we refer to as operating expense leverage, to be a key performance metric.

Our staff cost ratio, defined as salaries and related expenses as a percentage of revenue, declined to 62.4% in 2008 from 63.2% in 2007. The improvement was driven by higher revenues and better utilization of base salaries and benefits expenses. Our office and general expense ratio, defined as office and general expenses as a percentage of revenue, declined to 28.9% in 2008 from 31.2% in 2007. This improvement was also driven by higher revenue and by a reduction in key expense categories, primarily professional fees.

***Salaries and Related Expenses***

Salaries and related expenses consist of payroll costs, employee performance incentives, including cash bonus and long-term incentive stock awards, and other benefits associated with client service professional staff and administrative staff. Salaries and related expenses do not vary significantly with short-term changes in revenue levels. However, salaries may fluctuate due to the timing of hiring freelance contractors who are utilized to support business development, changes in the performance levels and types of employee incentive awards, changes in foreign currency exchange rates and acquisitions and dispositions of businesses. Changes in our incentive awards mix can impact future period expense as bonus awards are expensed during the year they are earned and long-term incentive stock awards are expensed over the performance period, generally three years. Other factors impacting the expense associated with long-term incentive awards are the actual number of awards vesting and the change in our stock price. Additionally, changes can occur based on projected results and could impact trends between periods in the future.

| | Prior year amount | Components of change during the year: Foreign currency | Net acquisitions/ (divestitures) | Organic | Total amount | Change: Organic | Total |
|---|---|---|---|---|---|---|---|
| **2008** | $ 4,139.2 | 40.8 | 59.4 | 103.2 | $ 4,342.6 | 2.5% | 4.9% |
| **2007** | 3,944.1 | 122.2 | (32.5) | 105.4 | 4,139.2 | 2.7% | 4.9% |

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

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

| | Years ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Base salaries, benefits and tax | 51.6% | 51.9% | 52.3% |
| Incentive expense | 3.4% | 3.7% | 3.3% |
| Severance expense | 1.3% | 1.2% | 1.6% |
| Temporary help | 3.1% | 3.5% | 3.6% |
| All other salaries and related expenses | 3.0% | 2.9% | 2.9% |

Salaries and related expenses in 2008 increased by $203.4, compared to 2007, consisting of an organic salary increase of $103.2, net acquisitions of $59.4 and an adverse foreign currency rate impact of $40.8. The organic increase was primarily to support business growth (an organic revenue increase of $249.4) during 2008, resulting in higher base salaries, benefits and temporary help of $100.4, predominantly at our largest networks. There was no significant change in incentive award expense compared to the prior year as stock-based compensation expense was unchanged, and annual bonus award expense decreased by $15.1.

As economic conditions deteriorated in the latter part of 2008, we took measures to realign our businesses, resulting in severance charges of $48.4 in the fourth quarter, which was an increase of $16.4 over the comparable prior year period. These expenses were spread across multiple business units and geographic regions.

Salaries and related expenses in 2007 increased by $195.1, compared to 2006, consisting of an adverse foreign currency rate impact of $122.2 and an organic salary increase of $105.4. The organic increase was primarily to support business growth (an organic revenue increase of $236.6) resulting in higher base salaries, benefits and temporary help of $99.1, predominantly at our largest networks. Additionally, incentive awards increased by $31.7, primarily due to improved operating performance versus financial targets at certain operating units, higher stock-based compensation awards due to the effect of equity awards granted in June 2006 and a one-time performance-based equity award granted in 2006 to a limited number of senior executives across the Company. These increases were offset by a decrease in severance expense of $22.4.

***Office and General Expenses***

Office and general expenses primarily include rent expense, professional fees, certain expenses incurred by our staff in servicing our clients and depreciation and amortization costs. Office and general expenses also include costs directly attributable to client engagements, including production costs, out-of-pocket costs such as travel for client service staff, and other direct costs that are rebilled to our clients. Production expenses can vary significantly between periods depending upon the timing of completion of certain projects where we act as principal, which could impact trends between various periods in the future.

| | | Components of change during the year | | | | Change | |
|---|---|---|---|---|---|---|---|
| | **Prior year amount** | **Foreign currency** | **Net acquisitions/ (divestitures)** | **Organic** | **Total amount** | **Organic** | **Total** |
| **2008** | $ 2,044.8 | 16.5 | 5.7 | (53.7) | $ 2,013.3 | (2.6%) | (1.5%) |
| **2007** | 2,079.0 | 66.0 | (43.8) | (56.4) | 2,044.8 | (2.7%) | (1.6%) |

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

The following table details our office and general expenses as a percentage of consolidated revenue. All other office and general expenses primarily include production expenses and to a smaller extent depreciation and amortization, bad debt expense, foreign currency gains (losses) and other expenses.

| | Years ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Professional fees | 2.0% | 2.5% | 3.9% |
| Occupancy expense (excluding depreciation and amortization) | 7.6% | 8.1% | 8.6% |
| Travel & entertainment, office supplies and telecom | 4.3% | 4.7% | 4.8% |
| All other office and general expenses | 15.0% | 15.9% | 16.3% |

Office and general expenses in 2008 decreased by $31.5 compared to 2007, including an organic decrease of $53.7. The organic improvement was primarily due to reductions in professional fees, occupancy costs, depreciation and amortization as well as a higher focus on managing discretionary expenses. The organic decrease in professional fees of $29.0 was primarily due to reduced legal consultations as a result of the resolution of the SEC investigation and further improvements in our financial systems, back office processes and internal controls. Occupancy costs and depreciation and amortization declined and there were favorable foreign currency changes on certain balance sheet items in 2008 when compared to 2007. These decreases were partially offset by an increase in production expenses of $33.6 related to higher pass-through costs for certain projects where we act as principal and an increase in bad debt expense related to collection concerns for certain clients.

Office and general expenses in 2007 decreased by $34.2 compared to 2006, consisting of an organic decrease of $56.4 and net divestitures of $43.8, partially offset by an adverse foreign currency rate impact of $66.0. The organic decrease was primarily due to improvements in our financial systems, back-office processes and internal controls we made throughout 2007 that resulted in a reduction in professional fees of $75.8. Additionally, occupancy costs, including depreciation and amortization, declined by $13.6. These decreases were partially offset by an increase in production expenses of $34.2 related to pass-through costs for certain projects where we acted as principal during 2007.

***Restructuring and Other Reorganization-Related Charges***

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

| | Years ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Restructuring charges: | | | |
| Lease termination and other exit costs | $ 5.2 | $ (0.4) | $ 1.5 |
| Severance and termination costs | 0.6 | 13.8 | |
| | 5.8 | 13.4 | 1.5 |
| Other reorganization-related charges | 11.3 | 12.5 | 33.0 |
| Total | $ 17.1 | $ 25.9 | $ 34.5 |

Restructuring charges relate to the 2003 and 2001 restructuring programs and a restructuring program entered into at Lowe Worldwide ( Lowe ) during the third quarter of 2007. Included in these net charges are adjustments primarily resulting from severance and termination costs and accelerated leasehold amortization for the 2007 program at Lowe and changes in management s estimates relating to sublease rental income assumptions and prior severance and termination related actions.

Table of Contents

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

Other reorganization-related charges relate to our realignment of our media businesses into a newly created management entity called Mediabrands and the 2006 merger of Draft Worldwide and Foote, Cone and Belding Worldwide to create Draftfcb. Charges relate to severance and terminations costs and lease termination and other exit costs. We expect charges associated with Mediabrands to be completed during the first half of 2009. Charges related to the creation of Draftfcb in 2006 are complete. The charges were separated from the rest of our operating expenses within the Consolidated Statements of Operations because they did not result from charges that occurred in the normal course of business.

***Long-Lived Asset Impairment and Other Charges***

During our annual impairment review as of October 1, 2006, our discounted future operating cash flow projections at one of our domestic advertising reporting units indicated that the implied fair value of the goodwill at this reporting unit was less than its book value, primarily due to client losses. As a result, we recorded a goodwill impairment charge of $27.2 in 2006 in our IAN segment.

***EXPENSES AND OTHER INCOME***

| | Years ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Cash interest on debt obligations | $ (183.2) | $ (205.9) | $ (186.9) |
| Non-cash amortization | (28.7) | (30.8) | (31.8) |
| Interest expense | (211.9) | (236.7) | (218.7) |
| Interest income | 90.6 | 119.6 | 113.3 |
| Net interest expense | (121.3) | (117.1) | (105.4) |
| Other income (expense) | 3.1 | 8.5 | (5.6) |
| Total | $ (118.2) | $ (108.6) | $ (111.0) |

***Net Interest Expense***

For 2008 as compared to 2007, cash interest expense decreased primarily due to the repurchase of the majority of the 4.50% Convertible Senior Notes in the first quarter of 2008, lower interest rates paid on the Floating Rate Senior Unsecured Notes, lower short-term debt balances and lower interest rates at our international agencies. Interest income decreased due to more conservative investment strategies in the U.S. compared to the prior year and lower interest rates in the U.S. For 2007 as compared to 2006, cash interest expense increased due to higher short-term debt balances, and interest income increased due to higher average cash balances and higher interest rates at some of our international agencies.

Non-cash amortization expense primarily consists of amortization of debt issuance costs and deferred warrant costs in connection with our 2006 committed credit agreement that expires in June 2009, and as a result, non-cash amortization expense is expected to decrease in 2009. Additionally, non-cash amortization is offset primarily by the amortization of the loss on extinguishment of $400.0 of our 4.50% Convertible Senior Notes in 2006.

Table of Contents

**Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**(Amounts in Millions, Except Per Share Amounts)**

***Other Income (Expense)***

| | Years ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Loss on early extinguishment of debt | $ | $ (12.5) | $ (80.8) |
| (Losses) gains on sales of businesses and investments | (3.1) | (9.4) | 44.2 |
| Vendor discount and credit adjustments | 20.7 | 24.3 | 28.2 |
| Litigation settlement | (12.0) | 2.8 | |
| Investment impairments | (2.9) | (6.2) | (0.3) |
| Other income | 0.4 | 9.5 | 3.1 |
| Total | $ 3.1 | $ 8.5 | $ (5.6) |

*Loss on Early Extinguishment of Debt* Non-cash charges related to the extinguishment of $200.0 of our 4.50% Convertible Senior Notes in 2007 and $400.0 of our 4.50% Convertible Senior Notes in 2006. For additional information, see Note 8 to the Consolidated Financial Statements.

*Sale of Businesses and Investments* Primarily includes realized gains and losses relating to the sales of businesses, cumulative translation adjustment balances from the liquidation of entities, and sales of marketable securities and investments in publicly traded and privately held companies in our Rabbi Trusts. Losses in 2007 primarily related to the sale of several businesses within Draftfcb for a loss of $9.3 and charges at Lowe of $7.8 as a result of the realization of cumulative translation adjustment balances from the liquidation of several businesses. Gains in 2006 primarily related to a net gain of $20.9 from the sale of an investment located in Asia Pacific and the sale of our remaining ownership interest in an agency within Lowe. We also sold our interest in a German advertising agency and recognized its remaining cumulative translation adjustment balance, which resulted in a non-cash benefit of $17.0.

*Vendor Discount and Credit Adjustments* We are in the process of settling our liabilities related to vendor discounts and credits established during the 2004 Restatement. Amounts included in other income (expense) reflect the reversal of certain of these liabilities as a result of settlements with clients or vendors or where the statute of limitations has lapsed. For additional information see Note 5 to the Consolidated Financial Statements.

*Litigation Settlement* During May 2008, the SEC concluded its investigation that began in 2002 into our financial reporting practices, resulting in a settlement charge of $12.0.

*Investment Impairments* In 2007 we realized an other-than-temporary charge of $5.8 relating to a $12.5 investment in auction rate securities, representing our total investment in auction rate securities. For additional information, see Note 15 to the Consolidated Financial Statements.

***INCOME TAXES***

| | Years ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Income (loss) from continuing operations before provision for income taxes | $ 471.5 | $ 235.7 | |