INTERPUBLIC GROUP OF COMPANIES, INC.
Form 10-Q
August 07, 2007

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

**Form 10-Q**

| | |
|---|---|
| **þ** | **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the quarterly period ended June 30, 2007** |
| | **or** |
| **o** | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |

**Commission file number: 1-6686**

**THE INTERPUBLIC GROUP OF COMPANIES, INC.**
*(Exact name of registrant as specified in its charter)*

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The number of shares of the registrant s common stock outstanding as of July 31, 2007 was 471,463,748.

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## INDEX



## INFORMATION REGARDING FORWARD-LOOKING DISCLOSURE

This quarterly report on Form 10-Q contains forward-looking statements. Statements in this report that are not historical facts, including statements about management s beliefs and expectations, constitute forward-looking statements. These statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined under Item 1A, Risk Factors, in our 2006 Annual Report on Form 10-K and 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:

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

our ability to attract new clients and retain existing clients;

our ability to retain and attract key employees;

risks associated with assumptions we make in connection with our critical accounting estimates;

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

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

potential downgrades in the credit ratings of our securities;

risks associated with the effects of global, national and regional economic and political conditions, including fluctuations in economic growth rates, interest rates and currency exchange rates; and

developments from changes in the regulatory and legal environment for advertising and marketing and communications services companies around the world.

Investors should carefully consider these factors and the additional risk factors outlined in more detail under Item 1A, Risk Factors, in our 2006 Annual Report on Form 10-K and in this report.

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## Part I FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

**THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES**
**Consolidated Statements of Operations**
**(Amounts in Millions, Except Per Share Amounts)**
**(Unaudited)**

| | Three Months Ended June 30, 2007 | Three Months Ended June 30, 2006 | Six Months Ended June 30, 2007 | Six Months Ended June 30, 2006 |
|---|---|---|---|---|
| **REVENUE** | $ 1,652.7 | $ 1,532.9 | $ 3,011.8 | $ 2,859.9 |
| **OPERATING EXPENSES:** | | | | |
| Salaries and related expenses | 1,009.7 | 945.1 | 1,998.5 | 1,895.8 |
| Office and general expenses | 502.6 | 504.6 | 997.7 | 1,040.1 |
| Restructuring and other reorganization-related (reversals) charges | (5.2) | 6.3 | (5.8) | 6.7 |
| Total operating expenses | 1,507.1 | 1,456.0 | 2,990.4 | 2,942.6 |
| **OPERATING INCOME (LOSS)** | 145.6 | 76.9 | 21.4 | (82.7) |
| **EXPENSES AND OTHER INCOME:** | | | | |
| Interest expense | (56.9) | (52.0) | (111.9) | (98.1) |
| Interest income | 28.1 | 26.4 | 56.6 | 52.3 |
| Other income | 8.0 | 24.3 | 6.5 | 24.9 |
| Total (expenses) and other income | (20.8) | (1.3) | (48.8) | (20.9) |
| **Income (loss) before income taxes** | 124.8 | 75.6 | (27.4) | (103.6) |
| (Benefit of) provision for income taxes | (11.4) | 5.0 | (37.1) | (3.8) |
| **Income (loss) of consolidated companies** | 136.2 | 70.6 | 9.7 | (99.8) |
| Income applicable to minority interests, net of tax | (2.4) | (6.2) | (2.0) | (6.0) |
| Equity in net income of unconsolidated affiliates, net of tax | 3.2 | 1.3 | 3.4 | 1.3 |
| **NET INCOME (LOSS)** | 137.0 | 65.7 | 11.1 | (104.5) |
| Dividends on preferred stock | 6.9 | 11.9 | 13.8 | 23.8 |
| Allocation to participating securities | 8.6 | 9.6 | | |
| **NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS** | $ 121.5 | $ 44.2 | $ (2.7) | $ (128.3) |

| | | | | |
|---|---|---|---|---|
| Earnings (loss) per share of common stock: | | | | |
| Basic | $ 0.27 | $ 0.10 | $ (0.01) | $ (0.30) |
| Diluted | $ 0.24 | $ 0.10 | $ (0.01) | $ (0.30) |
| Weighted-average number of common shares outstanding: | | | | |
| Basic | 457.3 | 426.6 | 456.7 | 426.3 |
| Diluted | 541.3 | 429.9 | 456.7 | 426.3 |

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

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

**Condensed Consolidated Balance Sheets**
**(Amounts in Millions)**
**(Unaudited)**

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| **ASSETS:** | | |
| Cash and cash equivalents | $ 1,220.5 | $ 1,955.7 |
| Marketable securities | 260.2 | 1.4 |
| Accounts receivable, net of allowance of $79.7 and $81.3 | 3,881.2 | 3,934.9 |
| Expenditures billable to clients | 1,103.5 | 1,021.4 |
| Other current assets | 339.6 | 295.4 |
| Total current assets | 6,805.0 | 7,208.8 |
| Land, buildings and equipment, net of accumulated depreciation of $1,072.0 and $1,017.0 | 618.8 | 624.0 |
| Deferred income taxes | 534.5 | 476.5 |
| Goodwill | 3,140.6 | 3,067.8 |
| Other assets | 467.2 | 487.0 |
| **TOTAL ASSETS** | $ 11,566.1 | $ 11,864.1 |
| **LIABILITIES:** | | |
| Accounts payable | $ 4,010.4 | $ 4,124.1 |
| Accrued liabilities | 2,220.8 | 2,426.7 |
| Short-term debt | 490.3 | 82.9 |
| Total current liabilities | 6,721.5 | 6,633.7 |
| Long-term debt | 1,843.0 | 2,248.6 |
| Deferred compensation and employee benefits | 605.6 | 606.3 |
| Other non-current liabilities | 400.2 | 434.9 |
| **TOTAL LIABILITIES** | 9,570.3 | 9,923.5 |
| Commitments and contingencies (Note 10) | | |
| **TOTAL STOCKHOLDERS EQUITY** | 1,995.8 | 1,940.6 |
| **TOTAL LIABILITIES AND STOCKHOLDERS EQUITY** | $ 11,566.1 | $ 11,864.1 |

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

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**THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES**
**Consolidated Statements of Cash Flows**
**(Amounts in Millions)**
**(Unaudited)**

| | Six Months Ended June 30, 2007 | Six Months Ended June 30, 2006 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income (loss) | $ 11.1 | $ (104.5) |
| **Adjustments to reconcile net income (loss) to net cash used in operating activities:** | | |
| Depreciation and amortization of fixed assets and intangible assets | 83.9 | 85.1 |
| Provision for bad debt | 5.2 | 6.0 |
| Amortization of restricted stock and other non-cash compensation | 32.7 | 20.7 |
| Amortization of bond discounts and deferred financing costs | 15.6 | 10.9 |
| Deferred income tax benefit | (65.7) | (68.8) |
| Gain on sales of investments | (1.8) | (23.4) |
| Income applicable to minority interests, net of tax | 2.0 | 6.0 |
| Other | 2.3 | 9.2 |
| **Change in assets and liabilities, net of acquisitions and dispositions:** | | |
| Accounts receivable | 147.8 | 405.4 |
| Expenditures billable to clients | (38.9) | (129.5) |
| Prepaid expenses and other current assets | (16.0) | (30.5) |
| Accounts payable | (214.1) | (439.9) |
| Accrued liabilities | (294.4) | (303.3) |
| Other non-current assets and liabilities | (8.4) | 45.2 |
| Net cash used in operating activities | (338.7) | (511.4) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Acquisitions, including deferred payments, net of cash acquired | (80.3) | (10.2) |
| Capital expenditures | (66.5) | (40.5) |
| Maturities of short-term marketable securities | 317.5 | 361.8 |
| Purchases of short-term marketable securities | (575.8) | (690.4) |
| Proceeds from sales of businesses and fixed assets, net of cash sold | 5.1 | 4.5 |
| Proceeds from sales of investments | 22.8 | 67.8 |
| Purchases of investments | (15.6) | (23.7) |
| Other investing activities | 3.7 | |
| Net cash used in investing activities | (389.1) | (330.7) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Net increase in short-term bank borrowings | 7.1 | 1.8 |
| Consent fees | | (40.9) |
| Call spread transactions in connection with ELF Financing | | (29.2) |
| Distributions to minority interests | (10.4) | (15.2) |
| Preferred stock dividends | (13.8) | (23.1) |

| | | |
|---|---|---|
| Other financing activities | 0.6 | (2.3) |
| Net cash used in financing activities | (16.5) | (108.9) |
| Effect of exchange rate changes on cash and cash equivalents | 9.1 | 10.7 |
| Net decrease in cash and cash equivalents | (735.2) | (940.3) |
| Cash and cash equivalents at beginning of year | 1,955.7 | 2,075.9 |
| Cash and cash equivalents at end of period | $ 1,220.5 | $ 1,135.6 |

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

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**THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES**
**Consolidated Statements of Comprehensive Income (Loss)**
**(Amounts in Millions)**
**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| **NET INCOME (LOSS)** | $ 137.0 | $ 65.7 | $ 11.1 | $ (104.5) |
| Foreign currency translation adjustment | 25.0 | 3.5 | 38.7 | 16.3 |
| Adjustments to pension and other postretirement plans, net of tax | 1.4 | | 1.2 | |
| Net adjustment for minimum pension liability | | 0.2 | | 0.2 |
| Unrealized holding gains (losses) on securities, net of tax: | | | | |
| Unrealized holding gain | 2.2 | | 2.2 | 6.5 |
| Unrealized holding loss | | (8.1) | | (8.1) |
| Reclassification of gain to net earnings | (0.6) | (7.9) | (1.3) | (8.7) |
| Net unrealized holding gains (losses) on securities, net of tax | 1.6 | (16.0) | 0.9 | (10.3) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | $ 165.0 | $ 53.4 | $ 51.9 | $ (98.3) |

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

**Notes to Consolidated Financial Statements**

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

## Note 1: Basis of Presentation

The unaudited consolidated financial statements have been prepared by The Interpublic Group of Companies, Inc. (together with its subsidiaries, the Company , Interpublic , we , us or our ) pursuant to the rules and regulations of t Securities and Exchange Commission (the SEC or the Commission ) and, in the opinion of management, include all adjustments of a normal and recurring nature necessary for a fair statement of the Consolidated Statements of Operations, Condensed Consolidated Balance Sheets, Consolidated Statements of Cash Flows and Consolidated Statements of Comprehensive Income (Loss) for each period presented. Certain reclassifications have been made to prior periods to conform to the current period presentation. The consolidated results for interim periods are not necessarily indicative of results for the full year, as historically our consolidated revenue is lower in the first half of the year than in the second half. These financial results should be read in conjunction with our 2006 Annual Report on Form 10-K.

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

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Other reorganization-related charges (reversals) | $ | $ 6.3 | $ (0.2) | $ 6.3 |
| Restructuring (reversals) charges: | | | | |
| Lease termination and other exit costs | (5.1) | | (5.0) | 0.4 |
| Severance and termination costs | (0.1) | | (0.6) | |
| | (5.2) | | (5.6) | 0.4 |
| Total | $ (5.2) | $ 6.3 | $ (5.8) | $ 6.7 |

Restructuring (reversals) charges relate to the 2003 and 2001 restructuring programs. For the three and six months ended June 30, 2007, net reversals primarily consist of reversals due to the utilization of previously vacated property by an agency at Draftfcb and adjustments to estimates primarily relating to our severance and lease termination costs. Net restructuring reversals for the three months ended June 30, 2007 was comprised of net reversals of $5.1 at Integrated Agency Networks ( IAN ) and $0.1 at Constituency Management Group ( CMG ). For the six months ended June 30, 2007, net restructuring reversals was comprised of $4.9 at IAN and $0.7 at CMG.

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

| | 2003 Program | 2001 Program | Total |
|---|---|---|---|
| Liability at December 31, 2006 | $ 12.6 | $ 19.2 | $ 31.8 |
| Net reversals and adjustments | (0.8) | (4.8) | (5.6) |
| Payments and other | (1.6) | (2.8) | (4.4) |
| Liability at June 30, 2007 | $ 10.2 | $ 11.6 | $ 21.8 |

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

## Note 3: Acquisitions

During the six months ended June 30, 2007, we made three acquisitions: a) a full-service advertising agency in Latin America, b) Reprise Media, which is a full-service search engine marketing firm in North America, and c) the remaining interests in a full-service advertising agency in India in which we previously held a 49% interest. Total cash consideration for these acquisitions was $80.2. There is a contingent purchase obligation for the remaining equity interests in Reprise Media, which is based on future financial performance. If the contingent obligation is met and consideration for these interests is determinable and distributable, we will record the fair value of this consideration as additional goodwill.

For companies acquired during the first half of 2007, we made estimates of the fair values of the assets and liabilities for consolidation. The purchase price in excess of the estimated fair value of the tangible net assets acquired was allocated to goodwill and identifiable intangible assets. These acquisitions do not have significant amounts of tangible assets, therefore a substantial portion of the total consideration has been allocated to goodwill and identifiable intangible assets (approximately $65.0). We are in the process of obtaining final third-party valuations for the intangible assets acquired in India, and adjustments could be made to the preliminary values assigned to the assets and liabilities acquired that would primarily be offset by a change in goodwill. All acquisitions during the first half of 2007 are included in the IAN operating segment. Pro forma information, as required by Statement of Financial Accounting Standards ( SFAS ) No. 141, *Business Combinations*, related to these acquisitions is not presented because the impact of these acquisitions, either individually or in the aggregate, on the Company s consolidated results of operations is not significant.

During the three months ended June 30, 2007 and 2006, we made payments in the form of our common stock related to acquisitions initiated in prior years of $0.3 and $5.0, respectively. During the six months ended June 30, 2007 and 2006, we made payments in the form of our common stock related to acquisitions initiated in prior years of $0.3 and $5.1, respectively.

Details of cash paid for current and prior years acquisitions are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Cash paid for current year acquisitions | $ 74.3 | $ | $ 80.2 | $ |
| Cash paid for prior year acquisitions: | | | | |
| Cost of investment | 4.3 | 8.5 | 11.9 | 10.2 |
| Compensation expense related payments | 1.4 | 2.6 | 1.4 | 2.7 |
| Less: cash acquired | (11.8) | | (11.8) | |
| Total cash paid for acquisitions | $ 68.2 | $ 11.1 | $ 81.7 | $ 12.9 |

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

## Note 4: Supplementary Data

*Accrued Liabilities*

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Media and production expenses | $ 1,667.9 | $ 1,690.7 |
| Salaries, benefits and related expenses | 324.5 | 460.6 |
| Office and related expenses | 74.9 | 99.2 |
| Professional fees | 23.2 | 46.1 |
| Restructuring and other reorganization-related | 13.7 | 18.0 |
| Interest | 34.7 | 30.0 |
| Taxes | 6.1 | 7.3 |
| Other | 75.8 | 74.8 |
| Total | $ 2,220.8 | $ 2,426.7 |

***2004 Restatement Liabilities***

As part of the restatement set forth in the 2004 Annual Report on Form 10-K filed in September 2005 (the 2004 Restatement ), we recognized liabilities related to vendor discounts and credits where we had a contractual or legal obligation to rebate such amounts to our clients or vendors. Reductions to these liabilities are primarily achieved through settlements with clients and vendors, but also may occur if the applicable statute of limitations has lapsed. For the six months ended June 30, 2007, we satisfied $16.9 of these liabilities through cash payments of $5.3 and reductions of certain client receivables of $11.6. Also, as part of the 2004 Restatement, we recognized liabilities related to internal investigations and international compensation arrangements. A summary of these and the vendor discounts and credits liabilities, which are primarily included in accounts payable, is as follows:

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Vendor discounts and credits | $ 189.6 | $ 211.2 |
| Internal investigations (includes asset reserves) | 16.5 | 19.5 |
| International compensation arrangements | 26.3 | 32.3 |
| Total | $ 232.4 | $ 263.0 |

***Other Income***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| (Losses) gains on sales of businesses and investments | $ (7.3) | $ 19.8 | $ (8.3) | $ 20.1 |
| Vendor discounts and credit adjustments | 9.8 | 3.8 | 8.0 | 3.8 |
| Other income | 5.5 | 0.7 | 6.8 | 1.0 |
| Total | $ 8.0 | $ 24.3 | $ 6.5 | $ 24.9 |

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

*Sale of businesses and investments* During the three months ended June 30, 2007, we sold several businesses within Draftfcb and Lowe Worldwide for a loss of approximately $10.0, partially offset by the sale of our remaining ownership interests in two agencies for a gain of $2.8.

During the three months ended June 30, 2006, we sold an investment located in Asia Pacific for a gain of $18.4. In addition, during the six months ended June 30, 2006 we sold our remaining ownership interest in an agency within Lowe Worldwide, for a gain of $2.5.

*Vendor discounts and credit adjustments* We are in the process of settling our liabilities related to vendor discounts and credits primarily established as part of the 2004 Restatement. These adjustments reflect the reversal of certain liabilities as a result of settlements with clients and vendors or where the statute of limitations has lapsed.

## Note 5: Earnings (Loss) Per Share

Earnings (loss) per basic common share equals net income (loss) applicable to common stockholders divided by the weighted average number of common shares outstanding for the applicable period. Earnings (loss) per diluted common share reflects the assumed conversion of all dilutive securities.

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

The following sets forth basic and diluted earnings (loss) per common share applicable to common stock:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net income (loss) | $ 137.0 | $ 65.7 | $ 11.1 | $ (104.5) |
| Preferred stock dividends | 6.9 | 11.9 | 13.8 | 23.8 |
| Allocation to participating securities[a] | 8.6 | 9.6 | | |
| **Net income (loss) applicable to common stockholders** | $ 121.5 | $ 44.2 | $ (2.7) | $ (128.3) |
| Weighted-average number of common shares outstanding basic | 457.3 | 426.6 | 456.7 | 426.3 |
| **Earnings (loss) per share basic** | $ 0.27 | $ 0.10 | $ (0.01) | $ (0.30) |
| Net income (loss) applicable to common stockholders | $ 121.5 | $ 44.2 | $ (2.7) | $ (128.3) |
| Effect of dilutive securities: | | | | |
| Interest on 4.25% Convertible Senior Notes | 0.3 | | | |
| Series B Preferred Stock Dividends | 6.9 | | | |
| **Diluted net income (loss) applicable to common stockholders** | $ 128.7 | $ 44.2 | $ (2.7) | $ (128.3) |
| Weighted-average number of common shares outstanding basic | 457.3 | 426.6 | 456.7 | 426.3 |
| Effect of dilutive securities: | | | | |
| Restricted stock and stock options | 7.5 | 3.3 | | |
| 4.25% Convertible Senior Notes | 32.2 | | | |
| Capped Warrants | 5.3 | | | |
| Uncapped Warrants | 0.6 | | | |
| Series B Preferred Stock | 38.4 | | | |
| Weighted-average number of common shares outstanding diluted | 541.3 | 429.9 | 456.7 | 426.3 |
| **Earnings (loss) per share diluted** | $ 0.24 | $ 0.10 | $ (0.01) | $ (0.30) |

[a] Pursuant to Emerging Issues Task Force ( EITF ) Issue No. 03-6, *Participating Securities and the Two-Class Method Under FASB Statement No. 128* ( EITF 03-6 ), net income for purposes of calculating basic

earnings per share is adjusted based on an earnings allocation formula that attributes earnings to participating securities and common stock according to dividends declared and participation rights in undistributed earnings. For 2007, participating securities consist of the 4.50% Convertible Senior Notes and for 2006 participating securities consist of the 4.50% Convertible Senior Notes and the Series A Mandatory Convertible Preferred Stock. Our participating securities have no impact on our net loss applicable to common stockholders for the six months ended June 30, 2007 and 2006 as there are no earnings distributable to common stockholders after deducting preferred stock dividends.

Basic and diluted shares outstanding and loss per share are equal for the six months ended June 30, 2007 and 2006 because our potentially dilutive securities are antidilutive as a result of the net loss applicable to common stockholders in each period.

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

The following table presents the potential shares excluded from diluted earnings (loss) per share because the effect of including these potential shares would be antidilutive:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Stock Options and Non-vested Restricted Stock Awards | | | 7.3 | 2.8 |
| Capped Warrants | | | 5.8 | |
| Uncapped Warrants | | | 1.6 | |
| 4.25% Convertible Senior Notes | | | 32.2 | |
| 4.50% Convertible Senior Notes | 32.2 | 64.4 | 32.2 | 64.4 |
| Series A Mandatory Convertible Preferred Stock | | 27.7 | | 27.7 |
| Series B Cumulative Convertible Perpetual Preferred Stock | | 38.4 | 38.4 | 38.4 |
| Total | 32.2 | 130.5 | 117.5 | 133.3 |
| Securities excluded from the diluted earnings (loss) per share calculation because the exercise price was greater than the average market price: | | | | |
| Stock Options(1) | 20.9 | 34.4 | 18.3 | 34.4 |
| Warrants(2) | | 12.8 | | 6.4 |

(1) These options are outstanding at the end of the respective periods. In any period in which the exercise price is less than the average market price, these options have the potential to be dilutive and application of the treasury stock method would reduce this amount.

(2) The potential dilutive impact of the warrants is based upon the difference between the market price of one share of our common stock and the stated exercise prices of the warrants.

There were an additional 8.1 and 10.6 of outstanding stock options to purchase common shares for the three and six months ended June 30, 2007, respectively, with exercise prices less than the average market price for the respective period. However, these options are not included in the table above presenting the potential shares excluded from diluted earnings (loss) per share due to the application of the treasury stock method and the rules related to stock-based compensation arrangements.

**Note 6: Taxes**

For the three and six months ended June 30, 2007, the difference between the effective tax rate and the statutory rate of 35% is primarily due to state and local taxes, losses incurred in non-U.S. jurisdictions that receive no corresponding tax benefit and the recognition of previously unrecognized tax benefits. The improvement in the effective tax rate as compared to the six months ended June 30, 2006 is primarily attributable to the recognition of previously unrecognized tax benefits and a reduction in the losses incurred in non-U.S. jurisdictions that receive no benefit.

We adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ( FIN 48 ) on January 1, 2007. As a result of the implementation of FIN 48, we recorded a $9.5 increase in the net liability for unrecognized tax positions, which was recorded as an adjustment to retained earnings effective January 1, 2007. The total amount of

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

unrecognized tax benefits at January 1, 2007 was $271.8, including $242.6 of tax benefits that, if recognized, would impact the effective tax rate and $29.2 of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred taxes. The total amount of accrued interest and penalties at January 1, 2007 was $30.2. In accordance with our accounting policy, interest and penalties accrued on unrecognized tax benefits are classified as income taxes in the statement of operations. We have not elected to change this classification with the adoption of FIN 48.

The total unrecognized tax benefits at June 30, 2007 were $185.4, including $145.0 of tax benefits that, if recognized, would impact the effective tax rate. The gross amount of increases in unrecognized tax benefits during the three and six months ended June 30, 2007 was $5.0 and $18.2, respectively, primarily attributable to current-period international tax exposures. The gross amount of decreases in unrecognized tax benefits during the three and six months ended June 30, 2007 was $102.6 and $104.6, respectively, primarily attributable to settlements of prior-year tax examinations.

With respect to all tax years open to examination by U.S. federal and various state, local, and non-U.S. tax authorities, we currently anticipate that the total unrecognized tax benefits will decrease by an amount between $80.0 and $90.0 in the next twelve months, a portion of which will affect the effective tax rate, primarily as a result of the settlement of tax examinations and the lapsing of statutes of limitation. This net decrease is related to various items of income and expense, including transfer pricing adjustments, restatement adjustments and thin capitalization adjustments. In 2006, the IRS completed its field audit of the years 1997 through 2002 and has proposed additions to our taxable income. We have appealed a number of these proposed additions and expect to complete our discussions with the IRS in the next twelve months.

On May 1, 2007, the IRS completed its examination of our 2003 and 2004 income tax returns and proposed a number of adjustments to our taxable income. We have appealed a number of these items. In addition, during the second quarter of 2007, there were net reversals of tax reserves, primarily related to previously unrecognized tax benefits related to various items of income and expense, including approximately $80.0 for certain worthless securities deductions associated with investments in consolidated subsidiaries, which was a result of the completion of a tax examination.

We have various tax years under examination by tax authorities in various countries, such as the United Kingdom, and in various states, such as New York, in which we have significant business operations. It is not yet known whether these examinations will, in the aggregate, result in our paying additional taxes. We 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.

With limited exceptions, we are no longer subject to U.S. income tax audits for years prior to 1997, state and local income tax audits for years prior to 1999, or non-U.S. income tax audits for years prior to 2000.

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

## Note 7: Employee Benefits

The components of net periodic cost for the domestic pension plans, the principal foreign pension plans and the postretirement benefit plans are as follows:

| | Domestic Pension Plans | | Foreign Pension Plans | | Postretirement Benefit Plans | |
|---|---|---|---|---|---|---|
| **Three Months Ended June 30,** | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** |
| Service cost | $ | $ 0.2 | $ 4.6 | $ 4.3 | $ 0.2 | $ 0.2 |
| Interest cost | 2.0 | 2.2 | 5.9 | 5.5 | 0.9 | 1.0 |
| Expected return on plan assets | (2.6) | (2.3) | (6.1) | (4.4) | | |
| Amortization of: | | | | | | |
| Transition obligation | | | | | | 0.1 |
| Prior service cost (credit) | | | 0.2 | | | (0.1) |
| Unrecognized actuarial losses | 2.2 | 1.6 | 0.8 | 1.6 | 0.1 | 0.2 |
| Net periodic cost | $ 1.6 | $ 1.7 | $ 5.4 | $ 7.0 | $ 1.2 | $ 1.4 |

| | Domestic Pension Plans | | Foreign Pension Plans | | Postretirement Benefit Plans | |
|---|---|---|---|---|---|---|
| **Six Months Ended June 30,** | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** |
| Service cost | $ | $ 0.4 | $ 8.1 | $ 8.4 | $ 0.3 | $ 0.3 |
| Interest cost | 4.1 | 4.4 | 12.0 | 10.9 | 1.8 | 2.0 |
| Expected return on plan assets | (5.1) | (4.5) | (12.0) | (8.7) | | |
| Amortization of: | | | | | | |
| Transition obligation | | | | 0.1 | | 0.1 |
| Prior service cost (credit) | | | 0.3 | | | (0.1) |
| Unrecognized actuarial losses | 3.4 | 3.1 | 1.6 | 3.1 | 0.4 | 0.5 |
| Net periodic cost | $ 2.4 | $ 3.4 | $ 10.0 | $ 13.8 | $ 2.5 | $ 2.8 |

During the three and six months ended June 30, 2007, we made contributions of $11.3 and $16.6, respectively, to our foreign pension plans. For the remainder of 2007, we expect to contribute an additional $12.0 to our foreign pension plans. We do not anticipate making contributions to our domestic pension plans.

## Note 8: Stock-Based Compensation

During the six months ended June 30, 2007 we granted the following stock-based compensation awards under our 2006 performance incentive plan:

| | Six Months Ended June 30, 2007 | |
|---|---|---|
| | **Awards** | **Weighted-Average Grant-Date Fair Value (per award)** |
| Stock Options | 2.5 | $ 4.90 |
| Stock-Settled Awards | 4.6 | $ 11.82 |
| Cash-Settled Awards | 0.8 | $ 11.70 |
| Performance-Based Awards | 2.9 | $ 11.71 |

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

Stock-settled awards include restricted stock and restricted stock units ( RSUs ) expected to be settled in stock. Cash-settled awards include RSUs expected to be settled in cash. As of December 31, 2006, all of our RSUs granted were expected to be settled in cash. During the six months ended June 30, 2007, we granted RSUs that we expect to settle in stock in addition to RSUs that we expect to settle in cash. We adjust our fair value measurement for RSUs that are expected to be settled in cash quarterly based on our share price and we amortize stock-based compensation expense related to these awards over the vesting period based upon the quarterly-adjusted fair value. RSUs that are expected to be settled in stock and restricted stock are amortized over the vesting period based on the grant date fair value of the awards.

See Note 14 to the consolidated financial statements in our 2006 Annual Report on Form 10-K for additional information regarding general terms and methods of valuation for stock options, restricted stock awards, performance-based awards, and restricted stock units.

The Interpublic Group of Companies Employee Stock Purchase Plan (2006) (the 2006 Plan ) became active April 1, 2007. Under the 2006 Plan, eligible employees may purchase our common stock through payroll deductions not exceeding 10% of their base compensation or 900 (actual amount) shares each offering period. The price an employee pays for a share of common stock under the 2006 Plan is 90% of the lesser of the average market price of a share on the first business day of the offering period or the average market price of a share on the last business day of the offering period of three months. An aggregate of 15.0 shares are reserved for issuance under the 2006 Plan, of which 0.1 shares were issued for the three months ended June 30, 2007. Total compensation expense associated with the issued shares was $0.2 for the three months ended June 30, 2007.

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

**Note 9: Segment Information**

We have two reportable segments: IAN, which is comprised of Draftfcb, Lowe, McCann, our media services and our leading stand-alone agencies, and CMG, which is comprised of the bulk of our specialist marketing service offerings. We also report results for the Corporate and other group. Segment information is presented consistently with the basis described in our 2006 Annual Report on Form 10-K. Summarized financial information concerning our reportable segments is shown in the following table:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Revenue:** | | | | |
| IAN | $ 1,379.4 | $ 1,295.1 | $ 2,510.6 | $ 2,403.9 |
| CMG | 273.3 | 237.8 | 501.2 | 456.0 |
| Total | $ 1,652.7 | $ 1,532.9 | $ 3,011.8 | $ 2,859.9 |
| **Segment operating income (loss):** | | | | |
| IAN | $ 168.3 | $ 119.5 | $ 103.5 | $ 46.8 |
| CMG | 18.6 | 12.4 | 17.2 | 16.6 |
| Corporate and other | (46.5) | (48.7) | (105.1) | (139.4) |
| Total | 140.4 | 83.2 | 15.6 | (76.0) |
| Restructuring and other reorganization-related reversals (charges) | 5.2 | (6.3) | 5.8 | (6.7) |
| Interest expense | (56.9) | (52.0) | (111.9) | (98.1) |
| Interest income | 28.1 | 26.4 | 56.6 | 52.3 |
| Other income | 8.0 | 24.3 | 6.5 | 24.9 |
| **Income (loss) before income taxes** | $ 124.8 | $ 75.6 | $ (27.4) | $ (103.6) |
| **Depreciation and amortization of fixed assets and tangible assets:** | | | | |
| IAN | $ 29.9 | $ 30.6 | $ 61.1 | $ 61.7 |
| CMG | 4.5 | 4.7 | 9.2 | 9.7 |
| Corporate and other | 6.5 | 6.9 | 13.6 | 13.7 |
| Total | $ 40.9 | $ 42.2 | $ 83.9 | $ 85.1 |
| **Capital expenditures:** | | | | |
| IAN | $ 33.9 | $ 15.7 | $ 53.6 | $ 29.1 |

| | | | | |
|---|---|---|---|---|
| CMG | 1.8 | 2.3 | 3.8 | 4.1 |
| Corporate and other | 2.8 | 3.8 | 9.1 | 7.3 |
| Total | $ 38.5 | $ 21.8 | $ 66.5 | $ 40.5 |

| **Total assets:** | **June 30, 2007** | **December 31, 2006** |
|---|---|---|
| IAN | $ 9,499.8 | $ 9,359.5 |
| CMG | 949.8 | 908.3 |
| Corporate and other | 1,116.5 | 1,596.3 |
| Total | $ 11,566.1 | $ 11,864.1 |

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

The following expenses are included in Corporate and other:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Salaries and related expenses | $ 56.8 | $ 43.9 | $ 114.8 | $ 94.2 |
| Professional fees | 11.6 | 22.7 | 37.0 | 83.4 |
| Rent, depreciation and amortization | 17.0 | 16.8 | 34.3 | 32.1 |
| Corporate insurance | 4.7 | 5.2 | 10.7 | 10.1 |
| Other | 11.9 | 6.1 | 19.6 | 12.4 |
| Expenses allocated to operating divisions | (55.5) | (46.0) | (111.3) | (92.8) |
| Total | $ 46.5 | $ 48.7 | $ 105.1 | $ 139.4 |

## Note 10: Commitments and Contingencies

***SEC Investigation***

The SEC opened a formal investigation in response to the restatement we first announced in August 2002, and the investigation expanded to encompass the 2004 Restatement. We have also responded to inquiries from the SEC staff concerning the restatement of the first three quarters of 2005 that we made in our 2005 Annual Report on Form 10-K. We continue to cooperate with the investigation. We expect that the investigation will result in monetary liability, but as settlement discussions have not yet commenced, we cannot reasonably estimate the amount, range of amounts or timing of a resolution. Accordingly, we have not yet established any provision relating to these matters.

The SEC staff has informed us that it intends to seek approval from the Commission to enter into settlement discussions with us and, failing a settlement, to commence an action charging the Company with various violations of the federal securities laws. In that connection, and as previously disclosed by the Company in a current report on Form 8-K filed June 14, 2007, the staff has sent the Company a Wells notice, which invites us to make a responsive submission before the staff makes a final determination concerning its recommendation to the Commission. We expect to discuss settlement with the staff once the Commission authorizes the staff to engage in such discussions. We cannot at this time predict what the Commission will authorize or the outcome of any settlement negotiations.

***Other Legal Matters***

We are or have been involved in other legal and administrative proceedings of various types. While any litigation contains an element of uncertainty, we do not believe that the outcome of such proceedings or claims will have a material adverse effect on our financial condition.

***Guarantees***

As discussed in our 2006 Annual Report on Form 10-K, we have contingent obligations under guarantees of certain obligations of our subsidiaries relating principally to credit facilities, guarantees of certain media payables and operating leases of certain subsidiaries. As of June 30, 2007 there have been no material changes to these guarantees.

**Note 11: Recent Accounting Standards**

In June 2007, the EITF ratified EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* ( EITF 06-11 ). Under EITF 06-11 a realized tax benefit from dividends or

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**Notes to Consolidated Financial Statements (Continued)**
**(Amounts in Millions, Except Per Share Amounts)**
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dividend equivalents that are charged to retained earnings and paid to employees for equity classified non-vested equity shares, non-vested equity share units, and outstanding share options should be recognized as an increase to additional paid-in-capital. EITF 06-11 is effective, prospectively, for fiscal years beginning after December 15, 2007. We do not expect the adoption of EITF 06-11 to have a material impact on our Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS No. 159 ), which permits an entity to measure certain financial assets and financial liabilities at fair value. Under SFAS No. 159, entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the potential impact of SFAS No. 159 on our Consolidated Financial Statements.

In January 2007 we adopted FIN 48. See Note 6 for further information.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), which defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity s own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the potential impact of SFAS No. 157 on our Consolidated Financial Statements.

The adoption of the following accounting pronouncements during 2007 did not have a material impact on our Consolidated Financial Statements:

SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*

EITF Issue No. 05-1, *Accounting for the Conversion of an Instrument That Becomes Convertible Upon the Issuer s Exercise of a Call Option*

EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation)*

EITF Issue No. 06-5, *Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance*

EITF Issue No. 06-6, *Debtor s Accounting for a Modification (or Exchange) of Convertible Debt Instruments*

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

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

The following Management s Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to help you understand The Interpublic Group of Companies, Inc. and subsidiaries (the Company , Interpublic , we , us or our ). MD&A should be read in conjunction with our financial statements and the accompany notes. Our MD&A includes the following sections:

EXECUTIVE SUMMARY provides an overview of our results of operations and liquidity.

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

LIQUIDITY AND CAPITAL RESOURCES provides an overview of our cash flows and financing activities.

INTERNAL CONTROL OVER FINANCIAL REPORTING, by reference to our 2006 Annual Report on Form 10-K, provides a description of the status of our compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

CRITICAL ACCOUNTING ESTIMATES provides an update to the discussion of our accounting policies that require critical judgment, assumptions and estimates in our 2006 Annual Report on Form 10-K.

RECENT ACCOUNTING STANDARDS, by reference to Note 11 to the unaudited Consolidated Financial Statements, provides a discussion of accounting standards that we have not yet been required to implement, but which may affect us in the future, as well as those accounting standards that have been adopted during 2007.

**EXECUTIVE SUMMARY**

We are one of the world s largest advertising and marketing services companies, comprised of communication agencies around the world that deliver custom marketing solutions on behalf of our clients. These agencies cover the spectrum of marketing disciplines and specialties, from traditional services such as consumer advertising and direct marketing, to emerging services such as mobile and search engine marketing. To meet the challenge of an increasingly complex consumer culture, we create customized marketing solutions for each of our clients. These solutions vary from project-based work between one agency and its client to long-term, fully-integrated campaigns involving several of our companies working on behalf of a client. Furthermore, our agencies cover all major markets geographically and can operate in a single region or align work globally across many markets.

Our strategy is focused on improving our organic revenue growth and operating income. We are working to achieve a level of organic revenue growth comparable to industry peers and double-digit operating margins by 2008. 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, with the remainder considered 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.

Although the U.S. Dollar is our functional currency for reporting purposes, a substantial portion of our revenues is generated in foreign currencies. Therefore, our reported results are affected by fluctuations in the currencies our international businesses are conducted in, principally the Euro and Pound Sterling. During the three and six months ended June 30, 2007, the U.S. Dollar was weaker against both of these currencies as

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

compared to the respective periods in 2006. As a result, the net effect of foreign currency changes from the comparable prior-year periods was an increase in revenues and operating expenses in 2007.

As discussed in more detail in this MD&A:

- Total revenue increased 7.8% and 5.3% for the three and six months ended June 30, 2007, respectively.

- Organic revenue increase was 6.6% and 4.3% for the three and six months ended June 30, 2007, respectively, due to higher revenue from existing clients and net client wins.

- Operating margin was 8.8% and 0.7% for the three and six months ended June 30, 2007, compared to 5.0% and (2.9%) for the three and six months ended June 30, 2006. Salaries and related expenses as a percentage of revenue was 61.1% and 66.4% for the three and six months ended June 30, 2007, compared with 61.7% and 66.3% for the three and six months ended June 30, 2006. Office and general expenses as a percentage of revenue was 30.4% and 33.1% for the three and six months ended June 30, 2007, compared with 32.9% and 36.4% for the three and six months ended June 30, 2006.

- Operating expenses increased by $51.1 and $47.8 for the three and six months ended June 30, 2007, primarily due to higher salaries and related expenses.

- Total salaries and related expenses increased 6.8% and 5.4% for the three and six months ended June 30, 2007. The organic increase was 5.5% and 4.2% for the three and six months ended June 30, 2007.

- Total office and general expenses decreased 0.4% and 4.1% for the three and six months ended June 30, 2007. The organic decrease was 0.7% and 4.4% for the three and six months ended June 30, 2007.

- During the second quarter of 2007, there were net reversals of tax reserves, primarily related to previously unrecognized tax benefits related to various items of income and expense, including approximately $80.0 for certain worthless securities deductions, which was a result of the completion of a tax examination.

## RESULTS OF OPERATIONS

***Consolidated Results of Operations Three and Six Months Ended June 30, 2007 compared to Three and Six Months Ended June 30, 2006***

***REVENUE***

The components of the change in consolidated revenue for the second quarter of 2007 were as follows:

| | Components of Change | |
|---|---|---|
| Three Months | Net | Three Months |

| | Ended June 30, 2006 | Foreign Currency | Acquisitions/ (Divestitures) | Organic | Ended June 30, 2007 | Change Organic | Total |
|---|---|---|---|---|---|---|---|
| **Consolidated** | $ 1,532.9 | 40.6 | (22.7) | 101.9 | $ 1,652.7 | 6.6% | 7.8% |
| **Domestic** | 867.4 | | (3.4) | 92.8 | 956.8 | 10.7% | 10.3% |
| **International** | 665.5 | 40.6 | (19.3) | 9.1 | 695.9 | 1.4% | 4.6% |
| United Kingdom | 138.5 | 12.6 | (9.2) | 1.0 | 142.9 | 0.7% | 3.2% |
| Continental Europe | 258.3 | 20.5 | (5.5) | (10.1) | 263.2 | (3.9)% | 1.9% |
| Latin America | 70.8 | 3.6 | (1.7) | 0.9 | 73.6 | 1.3% | 4.0% |
| Asia Pacific | 120.5 | 4.4 | (2.0) | 16.4 | 139.3 | 13.6% | 15.6% |
| Other | 77.4 | (0.5) | (0.9) | 0.9 | 76.9 | 1.2% | (0.6)% |

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

During the second quarter of 2007, revenue increased $119.8, or $101.9 on an organic basis, due to domestic organic revenue growth and changes in foreign currency exchange rates at both the Integrated Agency Networks ( IAN ) and Constituency Management Group ( CMG ) segments. Domestic organic growth was primarily driven by expanding business with existing clients, winning new business in advertising, public relations and sports marketing disciplines, and the completion of several projects within the events marketing business. The international organic increase was driven by higher revenue from existing clients, primarily in the Asia Pacific region at IAN and CMG, partially offset by decreased spending from existing clients in Continental Europe.

The components of the change in consolidated revenue for the first half of 2007 were as follows:

| | Six Months Ended June 30, 2006 | Components of Change: Foreign Currency | Components of Change: Net Acquisitions/ (Divestitures) | Components of Change: Organic | Six Months Ended June 30, 2007 | Change: Organic | Change: Total |
|---|---|---|---|---|---|---|---|
| **Consolidated** | $ 2,859.9 | 72.3 | (43.4) | 123.0 | $ 3,011.8 | 4.3% | 5.3% |
| **Domestic** | 1,642.9 | | (5.3) | 125.2 | 1,762.8 | 7.6% | 7.3% |
| **International** | 1,217.0 | 72.3 | (38.1) | (2.2) | 1,249.0 | (0.2)% | 2.6% |
| United Kingdom | 264.3 | 27.3 | (20.4) | 6.2 | 277.4 | 2.3% | 5.0% |
| Continental Europe | 465.0 | 37.6 | (11.1) | (21.8) | 469.7 | (4.7)% | 1.0% |
| Latin America | 126.3 | 4.6 | (1.8) | 0.5 | 129.6 | 0.4% | 2.6% |
| Asia Pacific | 220.3 | 6.6 | (3.5) | 11.6 | 235.0 | 5.3% | 6.7% |
| Other | 141.1 | (3.8) | (1.3) | 1.3 | 137.3 | 0.9% | (2.7)% |

During the first half of 2007, revenue increased $151.9, or $123.0 on an organic basis, due to domestic organic revenue growth and changes in foreign currency exchange rates at both IAN and CMG, partially offset by net divestitures, primarily at IAN. Domestic organic growth was driven by factors similar to those noted above for the second quarter of 2007. The international organic decrease was driven by lower revenue from existing clients, primarily in the Continental Europe region at IAN and CMG, partially offset by increases primarily related to higher revenue from existing clients in the Asia Pacific region at IAN.

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

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

*OPERATING EXPENSES*

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2007 | | 2006 | |
| | $ | % of Revenue | $ | % of Revenue | $ | % of Revenue | $ | % of Revenue |
| Salaries and related expenses | $ 1,009.7 | 61.1% | $ 945.1 | 61.7% | $ 1,998.5 | 66.4% | $ 1,895.8 | 66.3% |
| Office and general expenses | 502.6 | 30.4% | 504.6 | 32.9% | 997.7 | 33.1% | 1,040.1 | 36.4% |
| Restructuring and other reorganization-related (reversals) charges | (5.2) | | 6.3 | | (5.8) | | 6.7 | |
| Total operating expenses | $ 1,507.1 | | $ 1,456.0 | | $ 2,990.4 | | $ 2,942.6 | |

*Salaries and Related Expenses*

| | | Components of Change | | | | Change | |
|---|---|---|---|---|---|---|---|
| | 2006 | Foreign Currency | Net Acquisitions/ (Divestitures) | Organic | 2007 | Organic | Total |
| **Three months ended June 30,** | $ 945.1 | 25.3 | (13.1) | 52.4 | $ 1,009.7 | 5.5% | 6.8% |
| **Six months ended June 30,** | 1,895.8 | 49.7 | (25.8) | 78.8 | 1,998.5 | 4.2% | 5.4% |

During the second quarter of 2007, salaries and related expenses increased $64.6, or $52.4 on an organic basis, primarily due to an increase in base salaries, benefits and temporary help of $44.8 and an increase in cash bonus accruals and long-term incentive stock compensation expense of $8.5. Changes in foreign currency rates impact our base salaries and benefits since a large portion of our workforce is located outside of the United States. Excluding the effect of foreign currency and net divestitures, base salaries, benefits and temporary help grew on an organic basis by approximately $34.0 primarily to support growth in certain of our businesses and because of normal annual merit increases. Cash bonus accruals and long-term incentive stock compensation expense increased primarily due to improved operating performance in 2007 compared to 2006. Changes can occur in both short-term and long-term compensation awards based on projected results and could impact trends between various periods in the future.

During the first half of 2007, salaries and related expenses increased $102.7, or $78.8 on an organic basis, mostly for the same reasons as noted above for the second quarter. Base salaries, benefits and temporary help increased by $72.4 and cash bonus accruals and long-term incentive stock compensation expense increased by $25.8. Excluding the effect of foreign currency and net divestitures, base salaries, benefits and temporary help grew on an organic basis by approximately $52.0. Long-term stock compensation incentive expense also increased due to the effect of equity-based awards granted in June 2006 and an accrual related to a one-time performance-based equity award granted in 2006 to certain executives that primarily affected the first quarter of 2007. This award is tied to our financial performance for the 2006-2008 period and the performance targets required for this award are significantly higher than for other grants under our current performance incentive plan.

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

*Office and General Expenses*

| | | Components of Change | | | | | |
|---|---|---|---|---|---|---|---|
| | 2006 | Foreign Currency | Net Acquisitions/ (Divestitures) | Organic | 2007 | Change Organic | Change Total |
| **Three months ended June 30,** | $ 504.6 | 14.1 | (12.8) | (3.3) | $ 502.6 | (0.7)% | (0.4)% |
| **Six months ended June 30,** | 1,040.1 | 27.3 | (24.4) | (45.3) | 997.7 | (4.4)% | (4.1)% |

Office and general expenses for the second quarter of 2007 decreased slightly primarily due to net divestitures and continued reductions in professional fees, partially offset by an increase in production expenses and the net effect of foreign currency changes. The decrease in professional fees was mainly attributable to reduced costs associated with projects related to financial and compliance matters, including internal control compliance, legal consultation and certain accounting projects, primarily at Corporate. The increase in production expenses primarily related to the pass-through costs involved in the completion of several projects at CMG.

Office and general expenses for the first half of 2007 decreased for reasons similar to those noted above for the second quarter. We expect professional fees to continue to decrease in 2007 compared to 2006.

*Restructuring and Other Reorganization-Related (Reversals) Charges*

For the three and six months ended June 30, 2007, net reversals primarily consist of reversals due to the utilization of previously vacated property by an agency at Draftfcb and adjustments to estimates primarily relating to our severance and lease termination costs.

***EXPENSES AND OTHER INCOME***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Interest expense | $ (56.9) | $ (52.0) | $ (111.9) | $ (98.1) |
| Interest income | 28.1 | 26.4 | 56.6 | 52.3 |
| Other income | 8.0 | 24.3 | 6.5 | 24.9 |
| Total | $ (20.8) | $ (1.3) | $ (48.8) | $ (20.9) |

The increase in net interest expense during the second quarter of 2007 is largely due to a rise in interest rates and an increase in short term debt balances at some of our operations outside the U.S. The increase in net interest expense in the first half of 2007 is due to both cash and non-cash items. The cash portion of the increase was largely due to a rise in interest rates and increased short term debt balances at some of our operations outside the U.S., partially offset by increased interest income. The non-cash portion is largely attributable to amortization of issuance costs and deferred warrant costs incurred as a result of the ELF Financing transaction completed in June 2006 partially offset by reductions in interest expense associated with our long-term debt as a result of our debt exchanges that took place in the fourth quarter of 2006.

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

*Other Income*

| | Three Months Ended June 30, 2007 | Three Months Ended June 30, 2006 | Six Months Ended June 30, 2007 | Six Months Ended June 30, 2006 |
|---|---|---|---|---|
| (Losses) gains on sales of businesses and investments | $ (7.3) | $ 19.8 | $ (8.3) | $ 20.1 |
| Vendor discounts and credit adjustments | 9.8 | 3.8 | 8.0 | 3.8 |
| Other income | 5.5 | 0.7 | 6.8 | 1.0 |
| Total | $ 8.0 | $ 24.3 | $ 6.5 | $ 24.9 |

***Sale of businesses and investments*** During the three months ended June 30, 2007, we sold several businesses within Draftfcb and Lowe for a loss of approximately $10.0, partially offset by the sale of our remaining ownership interests in two agencies for a gain of $2.8.

During the three months ended June 30, 2006, we sold an investment located in Asia Pacific for a gain of $18.4. In addition, during the six months ended June 30, 2006 we sold our remaining ownership interest in an agency within Lowe Worldwide, for a gain of $2.5.

***Vendor discounts and credit adjustments*** We are in the process of settling our liabilities related to vendor discounts and credits primarily established as part of the 2004 Restatement. These adjustments reflect the reversal of certain liabilities as a result of settlements with clients and vendors or where the statute of limitations has lapsed.

***INCOME TAXES***

| | Three Months Ended June 30, 2007 | Three Months Ended June 30, 2006 | Six Months Ended June 30, 2007 | Six Months Ended June 30, 2006 |
|---|---|---|---|---|
| Income (loss) before income taxes | $ 124.8 | $ 75.6 | $ (27.4) | $ (103.6) |
| (Benefit of) provision for income taxes | (11.4) | 5.0 | (37.1) | (3.8) |

For the three and six months ended June 30, 2007, the difference between the effective tax rate and the statutory rate of 35% is primarily due to state and local taxes, losses incurred in non-U.S. jurisdictions that receive no corresponding tax benefit and the recognition of previously unrecognized tax benefits. During the second quarter of 2007, there were net reversals of tax reserves, primarily related to previously unrecognized tax benefits, including approximately $80.0 for certain worthless securities deductions associated with investments in consolidated subsidiaries, which was a result of the completion of a tax examination. The improvement in the effective tax rate as compared to the six months ended June 30, 2006 is primarily attributable to the recognition of previously unrecognized tax benefits and a reduction in the losses incurred in non-U.S. jurisdictions that receive no benefit.

***Segment Results of Operations Three and Six Months Ended June 30, 2007 compared to Three and Six Months Ended June 30, 2006***

As discussed in Note 9 to the unaudited Consolidated Financial Statements, we have two reportable segments as of June 30, 2007: IAN and CMG. We also report results for the Corporate and other group.

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

**IAN**

***REVENUE***

| | Three Months Ended June 30, 2006 | Components of Change: Foreign Currency | Components of Change: Net Acquisitions/ (Divestitures) | Components of Change: Organic | Three Months Ended June 30, 2007 | Change: Organic | Change: Total |
|---|---|---|---|---|---|---|---|
| **Consolidated** | $ 1,295.1 | 34.5 | (17.1) | 66.9 | $ 1,379.4 | 5.2% | 6.5% |
| **Domestic** | 715.4 | | (3.4) | 59.5 | 771.5 | 8.3% | 7.8% |
| **International** | 579.7 | 34.5 | (13.7) | 7.4 | 607.9 | 1.3% | 4.9% |

The revenue increase in the second quarter of 2007 was a result of organic increases and changes in foreign currency exchange rates, partially offset by net divestitures, primarily from the sale of several businesses at Draftfcb in the current and prior year. The domestic increase was a result of higher revenue from existing clients and net client wins, primarily at McCann Worldgroup and Draftfcb, and at two of our independent agencies, Hill Holliday and Deutsch. International revenues increased as the second quarter of 2007 benefited from the favorable effect of changes in foreign currency exchange rates and an organic increase due to higher revenue from existing clients at Lowe Worldwide in the Asia Pacific region and at Draftfcb in the Latin America region. This increase was partially offset by net divestitures of businesses, primarily at Draftfcb, and a decrease in spending by existing clients in Europe, primarily at McCann Worldgroup.

| | Six Months Ended June 30, 2006 | Components of Change: Foreign Currency | Components of Change: Net Acquisitions/ (Divestitures) | Components of Change: Organic | Six Months Ended June 30, 2007 | Change: Organic |
|---|---|---|---|---|---|---|