INTERPUBLIC GROUP OF COMPANIES, INC.
Form 10-K
February 29, 2008

Table of Contents

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

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 þ No o

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 o No þ

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 þ No o

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. o

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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

As of June 29, 2007, the aggregate market value of the shares of registrant s common stock held by non-affiliates was $5,372,567,216. The number of shares of the registrant s common stock outstanding as of February 15, 2008 was 471,152,044.

DOCUMENTS INCORPORATED BY REFERENCE

The following sections of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 22, 2008 are incorporated by reference in Part III: Election of Directors, Director Selection Process, Code of Conduct, Princip 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, Review and Approval of Transactions with Related Persons, Director Independence and Appointment of Independent Registered Public Accounting Firm.

TABLE OF CONTENTS

		Page
	PART I.	
Item 1.	Business	4
Item 1A.	Risk Factors	8
Item 1B.	Unresolved Staff Comments	10
Item 2.	Properties	11
Item 3.	Legal Proceedings	11
Item 4.	Submission of Matters to a Vote of Security Holders	11
	PART II.	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	13
Item 6.	Selected Financial Data	15
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	40
Item 8.	Financial Statements and Supplementary Data	41
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	98
Item 9A.	Controls and Procedures	98
Item 9B.	Other Information	101
	PART III.	
Item 10.	Directors, Executive Officers and Corporate Governance	102
Item 11.	Executive Compensation	102
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	102
Item 13.	Certain Relationships and Related Transactions, and Director Independence	103
Item 14.	Principal Accountant Fees and Services	103
	PART IV.	
Item 15.	Exhibits, Financial Statements Schedules	104

EX-12: SUPPLEMENTAL CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES
EX-21: SUBSIDIARIES OF THE REGISTRANT
EX-23: CONSENT OF PRICEWATERHOUSECOOPERS LLP
EX-24: POWER OF ATTORNEY
EX-31.1: CERTIFICATION
EX-31.2: CERTIFICATION
EX-32: CERTIFICATION

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. These statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined in this report under Item 1A, Risk Factors. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

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

- 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;
- risks associated with the effects of global, national and regional economic and political conditions, including fluctuations in economic growth rates, interest rates and currency exchange rates; and
- developments from changes in the regulatory and legal environment for advertising and marketing and communications services companies around the world.

Investors should carefully consider these factors and the additional risk factors outlined in more detail in Item 1A, Risk Factors, in this report.

PART I

Item 1. *Business*

The Interpublic Group of Companies, Inc. 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 deliver custom marketing solutions to many of the world s largest marketers. Our companies cover the spectrum of marketing disciplines and specialties, from consumer advertising and direct marketing to 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 the holding company is to provide resources and support to ensure that our agencies can best meet our clients needs. Based in New York City, Interpublic 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 initiates, manages and approves 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 aid, employee benefits and executive compensation management.

To keep our company well-positioned, we support our agencies initiatives to expand their high-growth capabilities and build their 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 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 over the last few years. Media markets continue to fragment and clients face an increasingly complex consumer culture.

To stay ahead of these challenges and to achieve our objectives, we have invested in creative talent in high-growth areas and have realigned a number of our capabilities to meet market demand. At our McCann Worldgroup unit, we have continued to invest in talent and in upgrading 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 Draftfcb. 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 aligning our largest media assets with global brand agencies. This approach ensures that the ideas we develop for clients work across new media as well as traditional channels. In 2007, this differentiated media strategy gained significant traction in the marketplace.

The digital component of our business continues to evolve and is increasingly vital to all of our agencies. In order to grow with our clients, we have accelerated our investment in talent, professional training and technology throughout the organization. This reflects our strongly held belief that digital marketing is not a silo. Instead, digital capabilities must reside in all of our assets. For example, our public relations companies increasingly use blogs and social networking sites to influence consumer opinion, while our special events companies use digital kiosks and website surveys to gauge audience response. Recruiting and developing digitally conversant talent at all our agencies and in all marketing disciplines is therefore a priority and an area where we must be willing to invest. Strong, multi-channel talent is vital if we are to continue building long-term relationships with our clients.

Where necessary, we have acquired or built specialty digital assets, such as Reprise Media (search engine marketing), The Interpublic Emerging Media Lab, and Ansible (mobile marketing), to meet the changing needs of our clients. R/GA, a stand-alone digital agency, is an industry leader in the development of award-winning interactive campaigns for global clients. All of these specialty assets have unique capabilities and serve as key digital partners to many of our agencies within the group.

Likewise, we continue to look for strategic investments that give us a leadership position in emerging markets. Recent investments in India, where we operate three leading agency networks, and Brazil give our clients a strong foot-hold in these high-growth developing markets. Our partner in Russia is the acknowledged advertising leader in the country. In China, we continue to invest in our existing companies in the market, building on our decades-long commercial history.

We believe that our market strategy and offerings can improve our organic revenue growth and operating income margin, with our ultimate objective to be fully competitive with our industry peer group on both measures. To further improve our operating margin we continue to focus on actively managing staff costs in non-revenue supporting roles; improving financial systems and back-office processing; reducing organizational complexity and rationalizing our portfolio by divesting non-core and underperforming businesses; and improving our real estate utilization.

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 domestic integrated agencies and media agencies.

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 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 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.

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 global creative rankings and its standing in major markets. By partnering with

Interpublic s marketing services companies, Lowe generates and executes ideas that are frequently recognized for effectiveness, amplified by 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 also have two global media agencies, 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 work alongside 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.

Interpublic lists 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. Information on our website is not part of this report.

Financial Reporting Segments

We have two reportable segments: Integrated Agency Network (IAN), which is comprised of McCann, Draftfcb and Lowe, our media agencies 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. See Note 15 to the Consolidated Financial Statements for further discussion.

Principal Markets

Our agencies are located in over 100 countries, including every significant world market. We provide services for clients whose businesses are broadly international in scope, as well as for clients whose businesses are limited to a single country or a small number of countries. The U.S., Europe (excluding the U.K.), the U.K., Asia Pacific and Latin America represented 55.7%, 16.5%, 9.0%, 8.9% and 4.8% of our total revenue, respectively, in 2007. For further discussion concerning revenues and long-lived assets on a geographical basis for each of the last three years, see Note 15 to the Consolidated Financial Statements.

Sources of Revenue

Our revenues are primarily derived from the planning and execution of advertising programs in various media and the planning and execution of other marketing and communications programs. 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 various agencies. In arranging for such services to be provided, we may enter into global, regional and local agreements.

Revenues for 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 pay the media charges with respect to contracts for advertising time or space that we place on behalf of our clients. To reduce our risk from a client s non-payment, we typically pay media charges only 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 media provider that we will only be liable to pay the media after the client has paid us for the media charges.

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.

Our revenue is directly dependent upon the advertising, marketing and corporate communications requirements of our clients and 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.

	Consolidated Revenues for the Three Months Ended					
	2007		**2006**		**2005**	
March 31	$ 1,359.1	20.7%	$ 1,327.0	21.4%	$ 1,328.2	21.2%
June 30	1,652.7	25.2%	1,532.9	24.8%	1,610.7	25.7%
September 30	1,559.9	23.8%	1,453.8	23.5%	1,439.7	22.9%
December 31	1,982.5	30.3%	1,877.1	30.3%	1,895.7	30.2%
	$ 6,554.2		$ 6,190.8		$ 6,274.3	

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.

Clients

One of the benefits of the holding company structure is that our agencies can work with a variety of clients from competing sectors. In the aggregate, our top ten clients based on revenue accounted for approximately 26% of revenue in 2007 and 2006. Based on revenue for the year ended December 31, 2007, our largest clients were General Motors Corporation, Microsoft, Johnson & Johnson, Unilever and Verizon. While the loss of the entire business of any one of our largest clients might have a material adverse effect upon our business, we believe that it is unlikely that the entire business of any of these clients would be lost at the same time. This is because 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 a competing agency, and a client may reduce its marketing budget at any time.

Personnel

As of December 31, 2007, we employed approximately 43,000 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.

Table of Contents

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, at 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 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.

Ongoing SEC investigations regarding our accounting restatements could adversely affect us.

Since January 2003 the SEC has been conducting a formal investigation in response to the restatement we first announced in August 2002, and in 2005 the investigation expanded to encompass 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. 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 or, failing a settlement, to litigate an action charging the Company with various violations of the federal securities laws. In that connection, and as previously disclosed in our current report on Form 8-K filed June 14, 2007, the staff sent us a Wells notice, which invited 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.

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, 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.

Table of Contents

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 2007. While we believe it unlikely that we would lose the entire business of any one of our largest clients at the same time, a substantial decline in such a 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.

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

Employees, including creative, research, media, account and practice group 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 recent financial or market performance.

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

Economic downturns often more severely affect the marketing services industry than other industries. In the past, some clients have responded to weak economic performance in any region where we operate by reducing their marketing budgets, which are generally discretionary in nature and easier to reduce in the short-term than other expenses related to operations. This pattern may recur in the future.

Downgrades of our credit ratings could adversely affect us.

Our long-term debt is currently rated Ba3 with stable outlook by Moody s, B with positive outlook by Standard and Poor s, and BB- with stable outlook by Fitch. Any ratings downgrades or comparatively weak ratings 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.

Our liquidity profile could be adversely affected.

In previous years, we have experienced operating losses and weak operating cash flow. Until our margins consistently improve in connection with our turnaround, cash generation from operations could be challenged in certain periods. This could have a negative impact on our liquidity in future years and could lead us to seek new or additional sources of liquidity to fund our working capital needs. There can be no guarantee that we would be able to access any new sources of liquidity on commercially reasonable terms or at all. If we were unable to do so, our liquidity position could be adversely affected.

If some of 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 distress, file for bankruptcy protection or go out of business. If any client with whom we have a substantial amount of business experiences financial difficulty, it could delay or jeopardize the collection of accounts receivable, may result in significant reductions in services provided by us and may have a material adverse effect on our financial position, results of operations and liquidity. For a description of our client base, see Item 1, Business Clients.

Table of Contents

International business risks could adversely affect our operations.

International revenues represent a significant portion of our revenues, approximately 44% in 2007. 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, Canadian Dollar, Brazilian Real, Japanese Yen and South African Rand, fluctuations in exchange rates between the U.S. dollar and such currencies may materially affect our financial results.

In 2006 and prior years, we recognized impairment charges and increased our deferred tax valuation allowances, and we may be required to record additional charges in the future related to these matters.

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 the past, 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, 2007, we have substantial amounts of long-lived assets, investments and deferred tax assets on our Consolidated Balance Sheet. Future events, including our financial performance and strategic decisions, could cause us to conclude that further impairment indicators exist and that the asset values associated with long-lived assets, investments and deferred tax assets may have become impaired. Any resulting impairment loss would have an adverse impact on our reported earnings in the period in which the charge is recognized.

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 including, but not limited to, the areas of revenue and operating margin growth. These targets and milestones are intended to provide metrics against which to evaluate our performance, but they should not be understood as predictions or guidance about our expected performance. Our ability to meet any 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.

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.

Table of Contents

Item 2. *Properties*

Substantially all of our office space is leased from third parties. Several of our leases will be expiring within the next few months, while the remainder will be expiring within the next 17 years. 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 17 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 17 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]	62	Chairman of the Board and Chief Executive Officer
Nicholas J. Camera	61	Senior Vice President, General Counsel and Secretary
Christopher F. Carroll	41	Senior Vice President, Controller and Chief Accounting Officer
John J. Dooner, Jr.	59	Chairman and CEO of McCann Worldgroup
Thomas A. Dowling	56	Senior Vice President, Chief Risk Officer
Philippe Krakowsky	45	Executive Vice President, Strategy and Corporate Relations
Frank Mergenthaler	47	Executive Vice President and Chief Financial Officer
Timothy A. Sompolski	55	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

Table of Contents

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. Mergenthale*r 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 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.

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. At February 15, 2008, there were 24,025 registered holders of our common stock.

Period	NYSE Sale Price High	NYSE Sale Price Low
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
2006:		
Fourth Quarter	$ 12.35	$ 9.79
Third Quarter	$ 9.98	$ 7.86
Second Quarter	$ 10.04	$ 8.35
First Quarter	$ 10.56	$ 9.51

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 certain of our outstanding securities. 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 contemporaneously are 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 10, 11 and 12 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 2007:

	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	34,750	$ 10.08		
November 1-30	38,075	$ 9.35		
December 1-31	29,293	$ 8.79		
Total[1]	102,118	$ 9.44		

(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 2007 (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.

14

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,				
	2007	**2006**	**2005**	**2004**	**2003**
Revenue	$ 6,554.2	$ 6,190.8	$ 6,274.3	$ 6,387.0	$ 6,161.7
Salaries and related expenses	4,139.2	3,944.1	3,999.1	3,733.0	3,501.4
Office and general expenses	2,044.8	2,079.0	2,288.1	2,250.4	2,225.3
Restructuring and other reorganization-related charges (reversals)	25.9	34.5	(7.3)	62.2	172.9
Long-lived asset impairment and other charges		27.2	98.6	322.2	294.0
Motorsports contract termination costs				113.6	
Operating income (loss)	344.3	106.0	(104.2)	(94.4)	(31.9)
Total (expenses) and other income	(108.6)	(111.0)	(82.4)	(172.6)	(340.9)
Provision for income taxes	58.9	18.7	81.9	262.2	242.7
Income (loss) from continuing operations	167.6	(36.7)	(271.9)	(544.9)	(640.1)
Income from discontinued operations, net of tax		5.0	9.0	6.5	101.0
Net income (loss) applicable to common stockholders	$ 131.3	$ (79.3)	$ (289.2)	$ (558.2)	$ (539.1)
Earnings (loss) per share of common stock					
Basic:					
Continuing operations	$ 0.29	$ (0.20)	$ (0.70)	$ (1.36)	$ (1.66)
Discontinued operations		0.01	0.02	0.02	0.26
Total	$ 0.29	$ (0.19)	$ (0.68)	$ (1.34)	$ (1.40)
Diluted:					
Continuing operations	$ 0.26	$ (0.20)	$ (0.70)	$ (1.36)	$ (1.66)
Discontinued operations		0.01	0.02	0.02	0.26
Total	$ 0.26	$ (0.19)	$ (0.68)	$ (1.34)	$ (1.40)
Weighted average shares:					
Basic	457.7	428.1	424.8	415.3	385.5
Diluted	503.1	428.1	424.8	415.3	385.5
OTHER DATA					
As of December 31,					
Cash and cash equivalents and marketable securities	$ 2,037.4	$ 1,957.1	$ 2,191.5	$ 1,970.4	$ 2,067.0
Total assets	12,458.1	11,864.1	11,945.2	12,253.7	12,467.9

Long-term debt	2,044.1	2,248.6	2,183.0	1,936.0	2,198.7
Total liabilities	10,125.9	9,923.5	9,999.9	10,535.4	10,349.1
Preferred stock Series A			373.7	373.7	373.7
Preferred stock Series B	525.0	525.0	525.0		
Total stockholders equity	2,332.2	1,940.6	1,945.3	1,718.3	2,118.8
Ratios of earnings to fixed charges[1]	1.6	N/A	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, 2004 and 2003. To provide a 1:1 coverage ratio for the deficient periods, results as reported would have required additional earnings of $5.0, $186.6, $267.0 and $372.8 in 2006, 2005, 2004 and 2003, respectively.

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 in conjunction with our consolidated financial statements and th accompanying notes. Our MD&A includes the following sections:

EXECUTIVE SUMMARY provides 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 2007 compared to 2006 and 2006 compared to 2005.

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

OTHER MATTERS provides a discussion of other significant items which may impact our financial statements.

RECENT ACCOUNTING STANDARDS, by reference to Note 18 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 advertising and marketing services companies. Our agency brands deliver custom marketing solutions to many of the world s largest marketers. Our companies cover the spectrum of marketing disciplines and specialties, from consumer advertising and direct marketing to mobile and search engine marketing. Major global brands include Draftfcb, FutureBrand, GolinHarris International, Initiative, Jack Morton Worldwide, Lowe Worldwide (Lowe), MAGNA Global, McCann Erickson, Momentum, MRM, Octagon, Universal McCann and Weber Shandwick. Leading domestic brands include Campbell-Ewald, Carmichael Lynch, Deutsch, Hill Holliday, Mullen and The Martin Agency.

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. Our revenue is directly dependent upon the advertising, marketing and corporate communications requirements of our clients and 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.

Our strategy is focused on improving our organic revenue growth and operating income. We are working to achieve significant improvements in our organic revenue growth and operating margins, with our ultimate objective to be fully competitive with our industry peer group on both measures.

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.

We have strategically realigned a number of our capabilities to promote revenue growth. For example, we have combined accountable marketing and consumer advertising to form the global offering Draftfcb and

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

implemented a differentiated approach to media by aligning our largest media assets with our global brand agencies. We continue to develop our capacity in strategically critical areas, notably digital, marketing services and media, that we expect will drive future revenue growth. The digital component of our business continues to evolve and is increasingly vital to all of our agencies. In order to grow with our clients, we have accelerated our investment in talent, professional development and technology throughout the organization.

To further improve our operating margin we continue to focus on the following areas:

- Actively managing staff costs in non-revenue supporting roles;
- Improving financial systems and back-office processing;
- Reducing organizational complexity and divesting non-core and underperforming businesses; and
- Improving our real estate utilization.

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. The weakening of the U.S. Dollar against the currencies of many countries in which we operate contributed to higher revenues and operating expenses. In particular, during 2007 and 2006, the U.S. Dollar was weaker against the Euro, Pound Sterling, Brazilian Real and Canadian Dollar compared to 2006 and 2005, respectively. The 2007 impact was also due to the strength of the Australian Dollar compared to 2006. The average value of the Euro and Pound Sterling, currencies in which the majority of our international operations are conducted, each strengthened approximately 9% against the U.S. Dollar during 2007. Foreign currency variations resulted in increases of approximately 3% in revenues, salaries and related expenses and office and general expenses in 2007 compared to 2006.

As discussed in more detail in this MD&A, for 2007 compared to 2006:

- Total revenue increased by 5.9%.
- Organic revenue increase was 3.8%, primarily due to higher revenue from existing clients.
- Operating margin was 5.3% in 2007, compared to 1.7% in 2006. Salaries and related expenses as a percentage of revenue was 63.2% in 2007 compared to 63.7% in 2006. Office and general expenses as a percentage of revenue was 31.2% in 2007, compared to 33.6% in 2006.
- Operating expenses increased $125.1.
- Total salaries and related expenses increased 4.9%, primarily to support the growth of our business. The organic increase was 2.7%.
- Total office and general expenses decreased 1.6% mainly due to improvements in our financial systems, back-office processes and internal controls, which resulted in lower professional fees. The organic decrease

was 2.7%.

Restructuring and other reorganization-related charges reduced operating income by $25.9 in 2007 and $34.5 in 2006. The majority of charges in 2007 related to a restructuring plan at Lowe and the reorganization of our media businesses.

As of December 31, 2007, cash and cash equivalents and marketable securities increased $80.3 primarily due to improved operating results and proceeds from the sale of businesses and investments, partially offset by working capital usage, acquisitions, including deferred payments, and capital expenditures.

We have successfully completed our 18-month plan to remediate the remainder of our previous material weaknesses as of December 31, 2007. See Item 9A, Controls and Procedures, for further discussion.

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

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 programs in various media and the planning and execution of other marketing and communications programs. 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 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 various agencies. In arranging for such services to be provided, it is possible for a global, regional and local agreement to be initiated. 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.

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 the 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

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

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 generally 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 and corporate and brand identity services) 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. See Notes 1 and 4 to the Consolidated Financial Statements for further discussion.

Stock-Based Compensation

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R requires compensation costs related to share-based transactions, including employee stock options, to be recognized in the financial statements based on fair value. Compensation cost is generally recognized ratably over the requisite service period, net of estimated forfeitures.

We use the Black-Scholes option-pricing model to estimate the fair value of options granted, which requires the input of subjective assumptions including the option s expected term and the price volatility of the underlying stock. Changes in the assumptions can materially affect the estimate of fair value and our results of operations could be materially impacted. The expected volatility factor is based on a blend of historical volatility of our common stock and implied volatility of our tradable forward put and call options to purchase and sell shares of our common stock. The

expected term is based on the average of an assumption that outstanding options are exercised upon achieving their full vesting date and will be exercised at the midpoint between the current date (i.e., the date awards have been ratably vested through) and their full contractual term. Additionally, we calculate an estimated forfeiture rate which impacts our recorded expense. See Note 14 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)

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 it is more likely than not that all or a portion of deferred tax assets will not be realized. In circumstances where there is significant negative evidence, establishment of 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 to reverse a valuation allowance. Accordingly, the increase and decrease of valuation allowances has had and could have a significant negative or positive impact on our future earnings.

On January 1, 2007 we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which 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 9 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 market values and the remainder allocated to goodwill and other intangible assets. Determining the fair market 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.

We review goodwill and other intangible assets with indefinite lives not subject to amortization during the fourth quarter of each year or 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 15 reporting units

subject to the 2007 annual impairment testing that are either the entities at the operating segment level or one level below the operating segment level. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), we did not test certain reporting units in 2007 as we determined we could carry forward the fair value of the reporting unit from the previous year.

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

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 subject to amortization 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, or a significant adverse change in business climate or regulations.

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. 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. The second step 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 is estimated using traditional valuation techniques such as the income approach, which incorporates the use of the discounted cash flow method and the market approach, which incorporates the use of earning and revenue multiples. These techniques use projections which require the use of significant estimates and assumptions as to matters such as future revenue growth, profit margins, capital expenditures, assumed tax rates and discount rates. We believe that the estimates and assumptions made are reasonable but they are susceptible to change from period to period. For example, our strategic decisions or changes in market valuation multiples could lead to impairment charges. Actual results of operations, cash flows and other factors used in a discounted cash flow valuation will likely differ from the estimates used and it is possible that differences and changes could be material.

Our annual impairment reviews as of October 1, 2007 did not result in an impairment charge at any of our reporting units. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test, we applied a hypothetical 10% decrease to the fair values of each reporting unit at the low end of the valuation range. The following tables show the number of reporting units we tested in our 2007 and 2006 annual impairment reviews, together with the range of values we obtained for the excess of fair value over carrying value of each non-impaired reporting unit determined by using fair values for each unit (a) at the low end of our valuation range, (b) at the high end of our valuation range and (c) 10% below the low end of our valuation range.

	Units	Excess of Fair Value Over Carrying Value (Lowest - Highest)					
	Tested	**Low End**		**High End**		**90% of Low End**	
2007	9	$5.3	$250.6	$13.4	$380.6	$(42.7)	$124.6
2006	13	$0.2	$1,990.2	$2.4	$2,400.2	$(46.8)	$1,330.2

Applying the hypothetical 10% decrease in 2007 to the fair values would result in 3 reporting units failing step one of the goodwill impairment test.

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. Changes in the related pension and postretirement benefit costs may occur in the future due to changes in the assumptions.

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

The discount rate is one of the significant assumptions that impact our net pension and postretirement costs and obligations. 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. The discount rates are determined at the beginning of the year based on prevailing interest rates as of the measurement date and are adjusted to match the duration of the underlying obligation. For 2008, we plan to use weighted average discount rates of 5.89%, 5.33% and 6.00% for the domestic pension plans, foreign plans and the postretirement plan, respectively. A 25 basis point increase or decrease in the discount rate would have decreased or increased the 2007 net pension and postretirement cost by $2.4 and $2.5, respectively. In addition, a 25 basis point increase or decrease in the discount rate would have decreased or increased the December 31, 2007 benefit obligation by $22.5 and $23.8, 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. Changes in the rates are due to lower or higher expected future returns based on the mix of assets held. For 2008, we plan to use weighted average expected rates of return of 8.15% and 7.02% for the domestic and foreign pension plans, respectively. 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 2007 net pension cost by $1.0. See Note 13 to the Consolidated Financial Statements for further discussion.

RESULTS OF OPERATIONS

Consolidated Results of Operations

REVENUE

2007 Compared to 2006

	Year Ended December 31, 2006	Components of Change: Foreign Currency	Net Acquisitions/ (Divestitures)	Organic	Year Ended December 31, 2007	Change: Organic	Total
Consolidated	$ 6,190.8	197.5	(70.7)	236.6	$ 6,554.2	3.8%	5.9%
Domestic	3,441.2		(9.3)	218.1	3,650.0	6.3%	6.1%
International	2,749.6	197.5	(61.4)	18.5	2,904.2	0.7%	5.6%
United Kingdom	565.6	50.3	(35.5)	8.7	589.1	1.5%	4.2%
Continental Europe	1,043.0	95.1	(24.0)	(29.4)	1,084.7	(2.8)%	4.0%
Latin America	303.4	18.4	(10.6)	2.9	314.1	1.0%	3.5%
Asia Pacific	512.0	25.7	12.5	31.1	581.3	6.1%	13.5%
Other	325.6	8.0	(3.8)	5.2	335.0	1.6%	2.9%

Our revenue increased by $363.4, which consisted of a favorable foreign currency rate impact of $197.5, net divestitures of $70.7 and organic revenue growth of $236.6. The change in revenues was negatively affected by net

divestitures of non-strategic businesses, primarily at Draftfcb and Lowe, and a sports marketing business at the Constituency Management Group (CMG). This was partially offset by businesses acquired during 2007, primarily in the U.S. and India. The organic revenue growth was primarily driven by domestic markets 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 at the Integrated Agency Network (IAN).

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

2006 Compared to 2005

		Components of Change					
	Year Ended December 31, 2005	Foreign Currency	Net Acquisitions/ (Divestitures)	Organic	Year Ended December 31, 2006	Change Organic	Change Total
Consolidated	$ 6,274.3	20.6	(165.4)	61.3	$ 6,190.8	1.0%	(1.3)%
Domestic	3,461.1		(38.3)	18.4	3,441.2	0.5%	(0.6)%
International	2,813.2	20.6	(127.1)	42.9	2,749.6	1.5%	(2.3)%
United Kingdom	619.9	3.8	(18.4)	(39.7)	565.6	(6.4)%	(8.8)%
Continental Europe	1,135.5	2.4	(110.1)	15.2	1,043.0	1.3%	(8.1)%
Latin America	259.7	11.6	1.6	30.5	303.4	11.7%	16.8%
Asia Pacific	473.5	(3.6)	(2.8)	44.9	512.0	9.5%	8.1%
Other	324.6	6.4	2.6	(8.0)	325.6	(2.5)%	0.3%

Revenue decreased due to net divestitures, partially offset by organic revenue increases and changes in foreign currency exchange rates. Net divestitures primarily impacted IAN, largely from Draftfcb and McCann Worldgroup (McCann) during 2005. There were net organic revenue increases in both our international and domestic locations. The international organic increase was driven by higher revenue from existing clients, primarily in the Asia Pacific and Latin America regions, partially offset by net client losses, primarily in 2005, at IAN as well as decreases in the events marketing businesses at CMG in the U.K. The domestic organic increase was primarily driven by growth in the public relations and branding businesses at CMG as well as higher revenue from existing clients, partially offset by net client losses and decreased client spending at IAN.

OPERATING EXPENSES

	Years Ended December 31,					
	2007		2006		2005	
	$	% of Revenue	$	% of Revenue	$	% of Revenue
Salaries and related expenses	$ 4,139.2	63.2%	$ 3,944.1	63.7%	$ 3,999.1	63.7%
Office and general expenses	2,044.8	31.2%	2,079.0	33.6%	2,288.1	36.5%
Restructuring and other reorganization- related charges (reversals)	25.9		34.5		(7.3)	
Long-lived asset impairment and other charges			27.2		98.6	
Total operating expenses	$ 6,209.9		$ 6,084.8		$ 6,378.5	

Operating income (loss)	$	344.3	5.3%	$	106.0	1.7%	$	(104.2)	(1.7)%

Salaries and Related Expenses

Salaries and related expenses is the largest component of operating expenses and 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 funding levels of employee performance incentives, changes in foreign currency exchange rates and acquisitions and dispositions of businesses. Changes can occur in employee performance incentives based on

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

projected results and could affect trends between various periods in the future. In addition, long-term incentive stock awards may fluctuate as they are tied to our financial performance, generally for three-year periods beginning with the grant year, with the achievement of performance targets required for these awards. Our financial performance over the past few years has lagged behind that of our peers, primarily due to lower revenue and operating margin growth. As a result, salaries and related expenses reflect significant severance charges and investments in hiring creative talent to realign the business for revenue growth and improved operating margins. Also, salaries and related expenses reflect the hiring of additional finance professionals and information technology staff to upgrade system infrastructure and to address weaknesses in our accounting and control environment, as well as to develop shared services.

		Components of Change During the Year				Change	
	Prior Year Amount	Foreign Currency	Net Acquisitions/ (Divestitures)	Organic	Reported Amount	Organic	Total
2007	$ 3,944.1	122.2	(32.5)	105.4	$ 4,139.2	2.7%	4.9%
2006	3,999.1	11.7	(85.0)	18.3	3,944.1	0.5%	(1.4)%

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

	Years Ended December 31,		
	2007	2006	2005
Base salaries, benefits and tax	51.9%	52.3%	51.8%
Incentive expense	3.6%	3.3%	2.2%
Severance expense	1.2%	1.6%	2.6%
Temporary help	3.5%	3.6%	3.7%
All other salaries and related expenses	3.0%	2.9%	3.4%

2007 Compared to 2006

Salaries and related expenses increased by $195.1, which consisted of a negative foreign currency rate impact of $122.2, net divestitures of $32.5 and an organic salary increase of $105.4. Net divestitures related primarily to the disposition of non-strategic businesses offset in part by acquisitions of businesses, primarily in the U.S. and India. The organic increase was primarily due to the following:

Base salaries, benefits and temporary help grew by $99.1, primarily to support business growth in IAN, predominantly at our largest network, McCann, and to support growth in the public relations businesses in CMG.

Cash bonus accruals and long-term incentive stock expense increased by $31.7, primarily due to improved operating performance versus financial targets at certain operating units, higher long-term incentive stock

expense 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 during 2007, primarily in IAN.

2006 Compared to 2005

Salaries and related expenses decreased during 2006 due to net divestitures, primarily from the sale of several businesses at IAN during 2005, partially offset by changes in foreign currency exchange rates and an organic increase. Total salaries and related expenses as a percentage of revenue remained flat as a result of the decline in revenue. Key factors behind the organic increase in salaries and related expenses from the prior year

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

were an increase in long-term incentive awards and bonus awards of $67.6 offset by a significant reduction in severance expense of $63.6. Expenses related to incentive awards increased in 2006 due to long-term equity based awards granted in June 2006 and the full year impact of awards granted in August 2005, while expenses related to bonus awards increased primarily due to performance.

Office and General Expenses

Office and general expenses primarily include rent expense, professional fees, expenses attributable to the support of client service professional staff, depreciation and amortization costs, bad debt expense relating to accounts receivable, the costs associated with the development of a shared services center and implementation costs associated with upgrading our information technology infrastructure. Office and general expenses also include costs directly attributable to client engagements. These costs include out-of-pocket costs such as travel for client service professional staff, production costs and other direct costs that are rebilled to our clients.

		Components of Change During the Year				Change	
	Prior Year Amount	Foreign Currency	Net Acquisitions/ (Divestitures)	Organic	Reported Amount	Organic	Total
2007	$ 2,079.0	66.0	(43.8)	(56.4)	$ 2,044.8	(2.7)%	(1.6)%
2006	2,288.1	6.5	(95.8)	(119.8)	2,079.0	(5.2)%	(9.1)%

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

	Years Ended December 31,		
	2007	2006	2005
Professional fees	2.5%	3.9%	5.3%
Occupancy expense (excluding depreciation and amortization)	8.1%	8.6%	8.4%
Travel & entertainment, office supplies and telecom	4.7%	4.8%	5.0%
All other office and general expenses	15.9%	16.3%	17.8%

2007 Compared to 2006

Office and general expenses decreased by $34.2, which consisted of a negative foreign currency rate impact of $66.0, net divestitures of $43.8 and an organic decrease of $56.4. Net divestitures related primarily to the disposition of non-strategic businesses offset in part by acquisitions of businesses, primarily in the U.S. and India. The organic decrease was primarily due to the following:

Improvements in our financial systems, back-office processes and internal controls resulted in a reduction in professional fees of $75.8. We expect professional fees to continue to decline in 2008.

Occupancy costs, including depreciation and amortization, declined by $13.6.

These decreases were partially offset by an increase in production expenses of $34.2, primarily related to increased business at the events marketing business at CMG.

2006 Compared to 2005

Office and general expenses for 2006 declined as a result of significant reductions in professional fees, which decreased by $93.7, primarily for projects related to our restatement activities and internal control compliance that occurred in 2005, lower production expenses, lower bad debt expenses and net divestitures, primarily due to the sale of several businesses at IAN during 2005. Partially offsetting this decrease were

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

higher rent expense and a reduction in foreign exchange gains on certain balance sheet items. The above items resulted in an organic decline which was primarily reflected at Corporate and IAN.

Restructuring and Other Reorganization-Related Charges (Reversals)

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

	Years Ended December 31,		
	2007	**2006**	**2005**
Restructuring charges (reversals):			
Lease termination and other exit costs	$ (0.4)	$ 1.5	$ (5.9)
Severance and termination costs	13.8		(1.4)
	13.4	1.5	(7.3)
Other reorganization-related charges	12.5	33.0	
Total	$ 25.9	$ 34.5	$ (7.3)

Restructuring Charges (Reversals)

Restructuring charges (reversals) related to the 2003 and 2001 restructuring programs and a restructuring program entered into at Lowe during the third quarter of 2007. Due to changes in the business environment that have occurred during the year, we committed to and began implementing a restructuring program to realign resources with our strategic business objectives within Lowe. This plan includes reducing and restructuring Lowe s workforce both domestically and internationally, and terminating certain lease agreements. For this plan, we recognized charges related to severance and termination costs of $14.5 and expense related to lease termination and other exit costs of $4.6 during the year ended December 31, 2007. We expect to incur additional charges related to this program of approximately $4.0 in the first half of 2008. Cash payments are expected to be made through December 31, 2009.

Offsetting the severance and termination costs incurred at Lowe were adjustments to estimates relating to our prior severance and termination related actions. Offsetting the lease termination and other exit costs incurred at Lowe were reversals related to the utilization of previously vacated property by a Draftfcb agency and adjustments to estimates relating to our prior year plans.

During the years ended December 31, 2006 and 2005 net lease termination and other exit costs were primarily related to adjustments to management s estimates as a result of changes in sublease rental income assumptions and utilization of previously vacated properties relating to the 2003 program by certain of our agencies due to improved economic conditions in certain markets.

Other Reorganization-Related Charges

Other reorganization-related charges relate to strategic business decisions made during 2007 and 2006: our realignment of our media businesses and the 2006 merger of Draft Worldwide and Foote, Cone and Belding Worldwide to create Draftfcb. Charges in 2007 and 2006 primarily related to severance and terminations costs and lease termination and other exit costs. We expect charges associated with the realignment of our media businesses in 2007 to be completed during 2008. Charges related to the creation of Draftfcb in 2006 are complete. The charges were separated from our operating expenses within the Consolidated Statements of Operations as they did not result from charges that occurred in the normal course of business.

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

Long-Lived Asset Impairment and Other Charges

Long-lived assets include furniture, equipment, leasehold improvements, goodwill and other intangible assets. Long-lived assets with finite lives are generally depreciated or amortized on a straight-line basis over their respective estimated useful lives. When necessary, we record an impairment charge for the amount by which the carrying value of the asset exceeds the implied fair value. No impairment charges were recorded for 2007.

The following table summarizes long-lived asset impairment and other charges in previous years:

	Years Ended December 31,			
	2006		2005	
	IAN	IAN	CMG	Total
Goodwill impairment	$ 27.2	$ 97.0	$	$ 97.0
Other		1.5	0.1	1.6
Total	$ 27.2	$ 98.5	$ 0.1	$ 98.6

2006

Our long-term projections, which were updated in the fourth quarter of 2006, showed previously unanticipated declines in discounted future operating cash flows due primarily to client losses at one of our domestic advertising reporting units. These discounted future operating cash flow projections indicated that the implied fair value of goodwill at this reporting unit was less than its book value, resulting in a goodwill impairment charge of $27.2.

2005

A triggering event occurred subsequent to our 2005 annual impairment test when a major client was lost by Lowe s London agency and the possibility of losing other clients was considered a higher risk due to management defections and changes in the competitive landscape. This caused projected revenue growth to decline. As a result of these changes, our long-term projections showed declines in discounted future operating cash flows. These revised cash flows indicated that the implied fair value of Lowe s goodwill was less than the related book value resulting in a goodwill impairment charge of $91.0 at our Lowe reporting unit.

During our annual impairment test in the third quarter of 2005, we recorded a goodwill impairment charge of $5.8 at a reporting unit within our sports and entertainment marketing business. The long-term projections showed previously unanticipated declines in discounted future operating cash flows and, as a result, these discounted future operating cash flows indicated that the implied fair value of goodwill was less than the related book value.

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

EXPENSES AND OTHER INCOME

	Years Ended December 31,		
	2007	2006	2005
Cash interest on debt obligations	$ (205.9)	$ (186.8)	$ (177.3)
Non-cash amortization	(30.8)	(31.9)	(4.6)
Interest expense	(236.7)	(218.7)	(181.9)
Interest income	119.6	113.3	80.0
Net interest expense	(117.1)	(105.4)	(101.9)
Other income (expense)	8.5	(5.6)	19.5
Total	$ (108.6)	$ (111.0)	$ (82.4)

Net Interest Expense

The increase in net interest expense during 2007 is primarily attributable to higher cash interest expense on increased short-term debt, partially offset by increased interest income due to higher average cash balances and higher interest rates at some of our international agencies. The change in non-cash amortization from the prior year was minimal. Non-cash amortization primarily consists of amortization of debt issuance costs and deferred warrant costs from a transaction in 2006, which we refer to as the ELF Financing, in connection with entering into our current committed credit agreement, partially offset by reduced expense related to the amortization of the loss on extinguishment of $400.0 of our 4.50% Convertible Senior Notes. For additional information, see Note 10 to the Consolidated Financial Statements.

The increase in net interest expense during 2006 was primarily due to increases in non-cash amortization of $27.3, offset by interest income due to an increase in interest rates and higher average cash balances compared to the prior year. Non-cash amortization was primarily from the amortization of fees and deferred warrant costs incurred as a result of the ELF Financing transaction, prior year benefit from the amortization of gains on terminated swaps and the amortization of the remaining costs associated with our previous committed credit agreement. Additionally, the increase was due to one-time fees associated with the exchange of our Floating Rate Notes in 2006. The 2006 year-over-year comparison benefited from the fact that we did not incur waiver and consent fees similar to those incurred in 2005 for the amendment of the indentures governing our debt securities and our prior credit facility.

Other Income (Expense)

Years Ended December 31,		
2007	2006	2005

Loss on early extinguishment of debt	$ (12.5)	$ (80.8)	$
Net (losses) gains on sales of businesses	(16.7)	8.1	10.1
Vendor discount and credit adjustments	24.3	28.2	2.6
Net gains on sales of available-for-sale securities and miscellaneous investment income	7.3	36.1	16.3
Investment impairments	(6.2)	(0.3)	(12.2)
Other income	12.3	3.1	2.7
Total	$ 8.5	$ (5.6)	$ 19.5

28

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

Loss on Early Extinguishment of Debt

2007 In November, we retired $200.0 of our 4.50% Convertible Senior Notes due 2023 in connection with the issuance of $200.0 aggregate principal amount of 4.75% Convertible Senior Notes due 2023 and as a result we recorded non-cash charges relating to the debt extinguishment.

2006 In November, we retired $400.0 of our 4.50% Convertible Senior Notes due 2023 in connection with the issuance of $400.0 aggregate principal amount of 4.25% Convertible Senior Notes due 2023 and as a result we recorded non-cash charges relating to the debt extinguishment.

For additional information, see Note 10 to the Consolidated Financial Statements.

Net (Losses) Gains on Sales of Businesses

2007 In the second quarter we sold several businesses within Draftfcb for a loss of $9.3 and in the third quarter incurred charges at Lowe of $7.8 as a result of the realization of cumulative translation adjustment balances from the liquidation of several businesses, as well as charges from the partial disposition of a business in South Africa.

2006 In connection with the 2005 sale of a European FCB agency, we released $11.1 into income primarily related to certain contingent liabilities that we retained subsequent to the sale, which were resolved in the fourth quarter of 2006.

2005 We had net gains related to the sale of a McCann agency of $18.6, partially offset by a loss of $13.0 from the sale of a European FCB agency.

Vendor Discount and Credit Adjustments

We are in the process of settling our liabilities related to vendor discounts and credits primarily established during the 2004 Restatement. Amounts included in other income (expense) reflect the reversal of certain liabilities as a result of settlements with clients or vendors or where the statute of limitations has lapsed. For further information on vendor discounts and credits see Note 4 to the Consolidated Financial Statements and the Liquidity and Capital Resources section.

Net Gains on Sales of Available-for-Sale Securities and Miscellaneous Investment Income

2007 In the fourth quarter we realized a gain of $3.0 related to the sale of certain available-for-sale securities.

2006 In the second quarter, we had net gains of $20.9 related to the sale of an investment located in Asia Pacific and the sale of our remaining ownership interest in an agency within Lowe. In addition, during the third quarter, we 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.

2005 We had net gains of $8.3 related to the sale of our remaining equity ownership interest in an agency within FCB, and net gains on sales of certain available-for-sale securities of $7.9.

Investment Impairments

2007 During the fourth quarter 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.

2005 We recorded charges of $12.2, primarily related to a $7.1 adjustment of the carrying amount of our remaining unconsolidated investment in Latin America to fair value as a result of our intent to sell

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

and $3.7 related to a decline in value of certain available-for-sale investments that were determined to be other-than-temporary.

For additional information, see Note 16 to the Consolidated Financial Statements.

Other Income

2007 Primarily includes dividend income from our cost investments.

INCOME TAXES

	Years Ended December 31,		
	2007	2006	2005
Income (loss) from continuing operations before provision for income taxes	$ 235.7	$ (5.0)	$ (186.6)
Provision for income taxes continuing operations	$ 58.9	$ 18.7	$ 81.9
Benefit of income taxes discontinued operations		(5.0)	(9.0)
Total provision for income taxes	$ 58.9	$ 13.7	$ 72.9

In 2007, our effective tax rate was negatively impacted by foreign profits subject to tax at different rates and by losses in certain foreign locations where we receive no tax benefit due to 100% valuation allowances. Our effective tax rate was positively impacted in 2007 by the release of tax reserves resulting from the effective settlement of the IRS examination for 2003-2004 and by the net reversal of valuation allowances. Certain tax law changes also impacted the effective tax rate, which resulted in the write-down of net deferred tax assets of $16.2, primarily in certain non-U.S. jurisdictions and, to a lesser extent, certain U.S. states.

The effective settlement of the IRS examination referred to above resulted in the realization of previously unrecognized tax benefits, of which approximately $80.0 was attributable to certain worthless securities deductions. The favorable impact of this item and other net reserve releases are primary reasons for the change in the effective tax rate compared to 2006.

The tax provision for 2006 was primarily impacted by domestic losses, foreign profits subject to tax at different rates and losses in certain foreign locations where we receive no tax benefit due to 100% valuation allowances.

The tax provision for 2005 was primarily impacted by an increase in valuation allowances, a non-deductible asset impairment, state and local taxes and the resolution of various income tax audits and issues.

During 2007, we had a net reversal of valuation allowances of $49.0, of which $30.5 relates to the write-down of deferred tax assets due to tax law changes in jurisdictions with existing valuation allowances and $18.5 relates to reversals of valuation allowances in various countries where we believe that it is now more likely than not that the

corresponding tax loss carryforwards will be utilized. During 2006 and 2005, we had net provisions for valuation allowances of $63.6 and $69.9, respectively, recorded in continuing operations on existing deferred tax assets, current year tax losses and temporary differences. The total valuation allowance as of December 31, 2007, 2006 and 2005 was $481.6, $504.0 and $501.0, respectively.

For additional information, see Note 9 to the Consolidated Financial Statements.

Segment Results of Operations

As discussed in Note 15 to the Consolidated Financial Statements, we have two reportable segments as of December 31, 2007: IAN and CMG. We also report results for the Corporate and other group. As of

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

December 31, 2005, we had an additional segment, Motorsports, which was sold during 2004 and had immaterial residual operating results in 2005.

INTEGRATED AGENCY NETWORKS (IAN)

REVENUE

2007 Compared to 2006

	Year Ended December 31, 2006	Components of Change: Foreign Currency	Components of Change: Net Acquisitions/ (Divestitures)	Components of Change: Organic	Year Ended December 31, 2007	Change: Organic	Change: Total
Consolidated	$ 5,230.6	170.3	(45.5)	150.3	$ 5,505.7	2.9%	5.3%
Domestic	2,840.0		(9.3)	140.1	2,970.8	4.9%	4.6%
International	2,390.6	170.3	(36.2)	10.2	2,534.9	0.4%	6.0%

The revenue increase in 2007 was a result of net changes in foreign currency exchange rates and organic revenue increases, partially offset by net divestitures. The domestic organic increase was a result of higher revenue from existing clients and net client wins, primarily at McCann and Hill Holliday. Partially offsetting this domestic organic increase was decreased revenue from existing clients at Lowe and net client losses at Draftfcb. The international organic increase was due to increases in client spending at McCann in the U.K. and Asia Pacific, partially offset by net client losses at Draftfcb and Lowe across most international regions. Net divestitures negatively affected revenue, due to the sale of non-strategic businesses in 2007 and 2006, primarily at Draftfcb and Lowe, partially offset by businesses acquired, primarily at Lowe.

2006 Compared to 2005

	Year Ended December 31, 2005	Components of Change: Foreign Currency	Components of Change: Net Acquisitions/ (Divestitures)	Components of Change: Organic	Year Ended December 31, 2006	Change: Organic	Change: Total
Consolidated	$ 5,327.8	19.7	(151.9)	35.0	$ 5,230.6	0.7%	(1.8)%
Domestic	2,904.6		(37.8)	(26.8)	2,840.0	(0.9)%	(2.2)%
International	2,423.2	19.7	(114.1)	61.8	2,390.6	2.6%	(1.3)%

The revenue decline in 2006 was a result of net divestitures, primarily from the sale of several businesses at Draftfcb and McCann in 2005, partially offset by an organic increase and changes in foreign currency exchange rates. The organic increase was driven primarily by McCann and Draftfcb, partially offset by decreases at Lowe and The Works,

one of our independent agencies. The organic increase at McCann was the result of higher revenue from existing clients across domestic and international regions, primarily Asia Pacific and Latin America. McCann s increase was primarily driven by digital, direct and event marketing services. The increase at Draftfcb was primarily the result of increased spending from existing clients, partially offset by net client losses, primarily in 2005, across domestic and most international regions, primarily Europe, Asia Pacific and Latin America. The decrease at Lowe was primarily due to reduced spending by existing clients and net client losses, primarily in domestic locations in 2005. The revenue decrease at The Works, a dedicated General Motors resource, was primarily due to the loss of the General Motors U.S. media buying business in 2005.

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

SEGMENT OPERATING INCOME

	Years Ended December 31,			Change	
	2007	2006	2005	07 vs 06	06 vs 05
Segment operating income	$ 528.2	$ 391.4	$ 249.7	35.0%	56.7%
Operating margin	9.6%	7.5%	4.7%		

2007 Compared to 2006

Operating income increased due to an increase in revenue of $275.1, partially offset by increases in salaries and related expenses of $122.9 and office and general expenses of $15.4. Higher salaries and related expenses were primarily due to an increase in base salaries, benefits and temporary help of $131.2 to support growth, primarily at McCann. The increase in office and general expenses was due to shared service expenses which were not allocated in prior years and the increased allocation of technology expenses from Corporate, partially offset by lower occupancy costs, primarily due to lease termination and other exit costs related to facilities exited in 2006.

2006 Compared to 2005

Operating income increased during 2006 due to a decrease in office and general expenses of $139.7, a decrease in salaries and related expenses of $99.2, partially offset by a decrease in revenue of $97.2. The reduction in office and general expenses primarily related to a decrease in production expenses of $46.4, a reduction in professional fees of $26.3 in connection with accounting projects, such as those related to our restatement activities, and a decrease in bad debt expense of $22.2. The reduction in salaries and related expenses primarily related to a reduction in severance expense of $63.1 for headcount reductions that occurred in international locations in 2005 and a decrease in salaries of $42.0.

CONSTITUENCY MANAGEMENT GROUP (CMG)

REVENUE

2007 Compared to 2006

	Year Ended	Components of Change			Year Ended	Change	
	December 31, 2006	Foreign Currency	Net Acquisitions/ (Divestitures)	Organic	December 31, 2007	Organic	Total
Consolidated	$ 960.2	27.2	(25.2)	86.3	$ 1,048.5	9.0%	9.2%
Domestic	601.2			78.0	679.2	13.0%	13.0%

International	359.0	27.2	(25.2)	8.3	369.3	2.3%	2.9%

Revenue growth was a result of organic increases and net changes in foreign currency exchange rates, partially offset by net divestitures. The domestic organic revenue increase was primarily due to client wins and expanding business with existing clients in the public relations business, the completion of several projects with existing clients in the events marketing business and expanding business with existing clients in the sports marketing business. Revenues in the events marketing business can fluctuate due to timing of completed projects, as revenue is typically recognized when the 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. The international organic revenue increase was primarily from existing clients in the public relations business in Europe and the Asia Pacific Region. The international revenue increase was partially offset by decreased revenues from existing clients in Europe primarily due to project-based events in 2006 that did not recur in 2007 related to the sports marketing business. Net divestitures primarily relate to a sports marketing business sold 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)

2006 Compared to 2005

	Year Ended December 31, 2005	Components of Change: Foreign Currency	Net Acquisitions/ (Divestitures)	Organic	Year Ended December 31, 2006	Change: Organic	Total
Consolidated	$ 944.2	0.9	(11.2)	26.3	$ 960.2	2.8%	1.7%
Domestic	556.5		(0.5)	45.2	601.2	8.1%	8.0%
International	387.7	0.9	(10.7)	(18.9)	359.0	(4.9)%	(7.4)%

Revenue growth was a result of domestic organic revenue increases in the public relations and branding businesses, which was due to higher revenue from existing clients. Additionally, there were organic revenue increases domestically in the sports marketing and events marketing businesses due to higher revenue from existing clients and client wins. The domestic increase was partially offset by declines at some CMG agencies due to client losses. Internationally, the decline related primarily to a decrease in the events marketing and sports marketing businesses caused by client losses. The international decrease was partially offset by increases in the public relations and branding businesses due to higher revenue from existing clients.

SEGMENT OPERATING INCOME

	Years Ended December 31, 2007	2006	2005	Change 07 vs 06	06 vs 05
Segment operating income	$ 57.9	$ 51.6	$ 53.0	12.2%	(2.6)%
Operating margin	5.5%	5.4%	5.6%		

2007 Compared to 2006

Operating income increased primarily due to an increase in revenue of $88.3, partially offset by increases in office and general expenses of $46.1 and salaries and related expenses of $35.9. Salaries and related expenses increased primarily due to an increase in salaries of $28.4 related to the hiring of additional staff in the public relations business to support revenue growth. Office and general expenses increased primarily due to higher production expenses of $32.0 related to the completion of several projects in the events marketing business and higher occupancy costs, primarily due to lease termination charges and accelerated depreciation and amortization related to certain leasehold improvements in facilities exited in 2007.

2006 Compared to 2005

Operating income decreased slightly, primarily as a result of an increase in salaries and related expenses of $32.0, partially offset by a decrease in office and general expenses of $14.6 and an increase in revenue of $16.0. The increase in salaries and related expenses primarily related to an increase in base salaries expense of $22.3 and the decrease in office and general expenses primarily related to a decrease in production expenses of $19.8.

CORPORATE AND OTHER

Certain corporate and other charges are reported as a separate line item within total segment operating income (loss) and include corporate office expenses and shared service center expenses, as well as certain other centrally managed expenses that are not fully allocated to operating divisions. Salaries and related expenses include salaries, long-term incentives, bonus, and other miscellaneous benefits for corporate office employees. Office and general expenses primarily includes professional fees related to internal control compliance, financial statement audits, legal, information technology and other consulting services, which are

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

engaged and managed through the corporate office. In addition, office and general expenses also includes rental expense and depreciation of leasehold improvements for properties occupied by corporate office employees. Offsetting these expenses are amounts we allocate to operating divisions based on a formula that uses the revenues of each of the operating units. Amounts allocated also include specific charges for information technology-related projects, which are allocated based on utilization.

2007 Compared to 2006

Corporate and other expenses decreased by $59.4 to $215.9 for the year ended December 31, 2007. This was primarily driven by improvements in our financial systems, back-office processes and internal controls, which resulted in a reduction in professional fees. Partially offsetting this reduction were higher salaries and related expenses, primarily related to long-term incentive award accruals for a one-time performance-based equity award granted in 2006 to a limited number of senior executives across the Company and the transfer of resources into a global finance organization as part of a regional monitoring program. In addition, amounts allocated to operating divisions increased primarily due to the charging of shared services expenses that were not previously allocated as well as for costs relating to the consolidation of certain global processes into our shared service center.

2006 Compared to 2005

Corporate and other expenses decreased by $41.0 to $275.3 for the year ended December 31, 2006. Expenses decreased primarily due to reduced professional fees and higher amounts allocated to operating divisions, partially offset by higher rent, depreciation and amortization and increased salaries and related expenses. We incurred lower professional fees for accounting projects, which included those related to our prior-year restatement activities. Amounts allocated to operating divisions increased primarily due to the implementation of new information technology-related projects, the consolidation of information technology support staff, and the allocation of audit fees, which are now being allocated back to operating divisions. Higher rent, depreciation and amortization were due to software-related costs from our ongoing initiatives to consolidate and upgrade our financial systems, as well as to further develop our shared services. Salaries and related expenses increased due to higher headcount, primarily related to our technology initiatives, and for larger incentive compensation and bonus awards related to performance.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW OVERVIEW

	Years Ended December 31,		
	2007	**2006**	**2005**
Net cash provided by (used in) operating activities	$ 298.1	$ 9.0	$ (20.2)
Net cash (used in) provided by investing activities	(267.8)	11.6	166.4
Net cash (used in) provided by financing activities	(37.3)	(129.7)	410.1
Working capital usage (included in operating activities)	$ (171.0)	$ (250.6)	$ (173.7)

	December 31,	
	2007	**2006**
Cash, cash equivalents and marketable securities	$ 2,037.4	$ 1,957.1

Cash, cash equivalents and marketable securities increased by $80.3 during 2007, primarily due to improved operating results and proceeds from the sale of businesses and investments, partially offset by

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

working capital usage, acquisitions, including deferred payments, and capital expenditures. Of this change, marketable securities increased by $21.1.

Operating Activities

Cash provided by operating activities of $298.1 reflects a significant improvement compared to both 2006 and 2005. The increase was primarily due to net income of $167.6, which includes net non-cash expense items of $316.1, partially offset by working capital usage of $171.0. Net non-cash expense items primarily include depreciation of fixed assets, the amortization of intangible assets, restricted stock awards, non-cash compensation, bond discounts and deferred financing costs, and deferred taxes.

During 2007 working capital improved to a use of working capital of $171.0 compared to the use of working capital of $250.6 during 2006. Working capital usage reflects changes in accounts receivable, expenditures billable to clients, prepaid expenses and other current assets, accounts payable and accrued liabilities. The working capital usage was impacted by the timing of certain vendor payments and cash collections from clients, the reversal, payment or settlement of various prior period liabilities that were established during the 2004 Restatement and the resolution of various tax matters. As we continue to strengthen our business operations we anticipate that working capital will improve.

The timing of media buying on behalf of our clients affects our working capital and operating cash flow. In most of our businesses, we collect funds from our clients that we use, on their behalf, to pay production costs and media costs. The amounts involved substantially exceed our revenues, and primarily affect the level of accounts receivable, expenditures billable to clients, accounts payable and accrued media and production liabilities. Our assets include both cash received and accounts receivable from clients for these pass-through arrangements, while our liabilities include amounts owed on behalf of clients to media and production suppliers. Generally, we pay production and media charges after we have received funds from our clients, and our risk from client nonpayment has historically not been significant.

In addition to the timing of accrued media and production, accrued liabilities are also affected by the timing of certain payments. For example, while cash incentive awards are accrued throughout the year, they are generally paid during the first quarter of the subsequent year.

Investing Activities

Cash used in investing activities during 2007 primarily reflects acquisitions and capital expenditures, partially offset by proceeds from sales of investments. Payments for acquisitions relate to purchases of agencies and deferred payments on prior acquisitions. During 2007, we made a number of acquisitions for total cash consideration of $140.4. Under the contractual terms of certain of our prior acquisitions we made cash payments of $17.5 for the year ended December 31, 2007. For additional information, see Note 3 to the Consolidated Financial Statements. Capital expenditures of $147.6 primarily related to costs associated with leasehold improvements and computer hardware.

Financing Activities

Cash used in financing activities during 2007 primarily reflects dividend payments of $27.6 on our Series B Preferred Stock and distributions to our minority interests.

LIQUIDITY OUTLOOK

We expect our operating cash flow, cash and cash equivalents to be sufficient to meet our anticipated operating requirements at a minimum for the next twelve months. We believe that a conservative approach to liquidity is appropriate for our Company, in view of the cash requirements resulting from, among other things,

Table of Contents

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

liabilities to our clients for vendor discounts and credits, any potential penalties or fines that may have to be paid in connection with the ongoing SEC investigation, the normal cash variability inherent in our operations, other unanticipated requirements and our funding requirements noted below. In addition, until our margins consistently improve in connection with our turnaround, cash generation from operations could be challenged in certain periods.

A reduction in our liquidity in future periods could lead us to seek new or additional sources of liquidity to fund our working capital needs. From time to time we evaluate market conditions and financing alternatives for opportunities to raise additional financing or otherwise improve our liquidity profile and enhance our financial flexibility. There can be no guarantee that we would be able to access new sources of liquidity on commercially reasonable terms, or at all.

Funding Requirements

Our most significant funding requirements include: our operations, non-cancelable operating lease obligations, acquisitions, capital expenditures, payments related to vendor discounts and credits, debt service, preferred stock dividends, contributions to pension and postretirement plans, and taxes.

Acquisitions We continue to evaluate strategic opportunities to grow and to increase our ownership interests in current investments, particularly to develop the digital and marketing services components of our business and to expand our presence in high-growth markets, including Brazil, Russia, India and China.

Payments related to vendor discounts and credits Of the liabilities recognized as part of the 2004 Restatement, we estimate that we will pay approximately $65.0 related to vendor discounts and credits, internal investigations and international compensation arrangements over the next 12 months. As of December 31, 2007 our liability balance was $184.6.

Debt Service On March 15, 2008 holders of our $200.0 4.50% Convertible Senior Notes due 2023 may require us to repurchase these Notes for cash at par. Based on current market conditions, we believe that most or all holders will require us to repurchase their Notes. The remainder of our debt profile is primarily long-term, with maturities scheduled from 2009 to 2023.

Contractual Obligations

The following summarizes our estimated contractual obligations as of December 31, 2007, and their effect on our liquidity and cash flow in future periods: