OMNICOM GROUP INC
Form 10-Q
October 18, 2012

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

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

Commission File Number: 1-10551

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

New York	13-1514814
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
437 Madison Avenue, New York, New York	10022
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (212) 415-3600
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

As of October 12, 2012, there were 264,180,600 shares of Omnicom Group Inc. Common Stock outstanding.

OMNICOM GROUP INC. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

		Page
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets - September 30, 2012 and December 31, 2011	1
	Condensed Consolidated Statements of Income - Three and Nine Months Ended September 30, 2012 and 2011	2
	Condensed Consolidated Statements of Comprehensive Income - Three and Nine Months Ended September 30, 2012 and 2011	3
	Condensed Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2012 and 2011	4
	Notes to Condensed Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	27
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 6.	Exhibits	29
SIGNATURES		30

Forward-Looking Statements

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

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

OMNICOM GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)

	September 30, 2012	December 31, 2011
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$1,956.3	$1,781.2
Short-term investments, at cost	16.5	23.8
Accounts receivable, net of allowance for doubtful accounts of $37.8 and $40.6	6,260.2	6,632.0
Work in process	700.2	640.3
Other current assets	1,463.9	1,344.2
Total Current Assets	10,397.1	10,421.5
Property, Plant and Equipment at cost, less accumulated depreciation of $1,235.4 and $1,186.1	700.0	682.9
Investments In Affiliates	192.5	184.2
Goodwill	8,728.6	8,456.3
Intangible Assets, net of accumulated amortization of $477.4 and $416.9	446.8	468.4
Other Assets	333.0	292.1
TOTAL ASSETS	$20,798.0	$20,505.4
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$7,430.2	$8,060.0
Customer advances	1,191.5	1,225.3
Current portion of debt	0.4	0.7
Short-term borrowings	11.1	9.5
Taxes payable	128.5	237.0
Other current liabilities	1,940.5	2,138.5
Total Current Liabilities	10,702.2	11,671.0
Long-Term Notes Payable	3,791.2	2,523.5

Convertible Debt	659.4	659.4
Long-Term Liabilities	653.4	602.0
Long-Term Deferred Tax Liabilities	948.4	867.6
Commitments and Contingent Liabilities (See Note 11)		
Temporary Equity - Redeemable Noncontrolling Interests	196.7	202.1
Equity:		
Shareholders’ Equity:		
Preferred stock	—	—
Common stock	59.6	59.6
Additional paid-in capital	919.0	1,043.5
Retained earnings	8,168.1	7,724.1
Accumulated other comprehensive income (loss)	(120.7)	(191.7)
Treasury stock, at cost	(5,667.4)	(5,131.2)
Total Shareholders’ Equity	3,358.6	3,504.3
Noncontrolling interests	488.1	475.5
Total Equity	3,846.7	3,979.8
TOTAL LIABILITIES AND EQUITY	$20,798.0	$20,505.4

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

1

OMNICOM GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	$3,406.6	$3,380.9	$10,274.8	$10,019.6
Operating Expenses	3,019.3	3,007.5	9,018.6	8,835.9
Operating Income	387.3	373.4	1,256.2	1,183.7
Interest Expense	47.8	39.8	130.3	118.6
Interest Income	7.5	7.9	26.0	26.8
Income Before Income Taxes and Income From Equity Method Investments	347.0	341.5	1,151.9	1,091.9
Income Tax Expense	118.7	117.1	389.9	349.0
Income From Equity Method Investments	5.3	4.5	11.9	10.3
Net Income	233.6	228.9	773.9	753.2
Less: Net Income Attributed To Noncontrolling Interests	29.7	25.2	82.7	72.5
Net Income - Omnicom Group Inc.	$203.9	$203.7	$691.2	$680.7
Net Income Per Share - Omnicom Group Inc.:				
Basic	$0.75	$0.73	$2.51	$2.41
Diluted	$0.74	$0.72	$2.49	$2.37
Dividends Declared Per Common Share	$0.30	$0.25	$0.90	$0.75

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

OMNICOM GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$233.6	$228.9	$773.9	$753.2
Foreign currency transactions and translation adjustments, net of income taxes of $53.2 and ($136.7) for the three months and $36.9 and ($38.5) for the nine months ended September 30, 2012 and 2011, respectively	103.2	(265.1)	71.3	(74.4)
Defined benefit plans adjustment, net of income taxes of $0.9 and $0.6 for the three months and $2.5 and $1.8 for the nine months ended September 30, 2012 and 2011, respectively	1.3	0.9	3.7	2.7
Other Comprehensive Income	104.5	(264.2)	75.0	(71.7)
Comprehensive Income	338.1	(35.3)	848.9	681.5
Less: Comprehensive Income attributed to noncontrolling interests	38.7	(0.5)	86.7	59.1
Comprehensive Income - Omnicom Group Inc.	$299.4	$(34.8)	$762.2	$622.4

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

3

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

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net income	$773.9	$753.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	135.4	135.9
Amortization of intangible assets	75.2	67.7
Amortization of deferred gain from termination of interest rate swaps	(5.5)	(0.9)
Income from equity method investments, net of dividends received	(1.6)	3.8
Remeasurement gain, equity interest in Clemenger Group	—	(123.4)
Provision for doubtful accounts	5.3	4.0
Share-based compensation	63.1	52.7
Excess tax benefit from share-based compensation	(79.8)	(27.4)
Proceeds from discontinuation of interest rate swaps	—	38.8
Change in operating capital	(665.9)	(903.9)
Net Cash Provided By Operating Activities	300.1	0.5
Cash Flows from Investing Activities:		
Payments to acquire property, plant and equipment	(158.7)	(114.2)
Payments to acquire businesses and interests in affiliates, net of cash acquired	(117.3)	(314.8)
Payments to acquire investments	—	(11.6)
Proceeds from sales of investments	8.4	27.9
Net Cash Used In Investing Activities	(267.6)	(412.7)
Cash Flows from Financing Activities:		
Proceeds from (repayments of) short-term debt	1.4	(35.7)
Proceeds from borrowings	1,273.2	0.3
Repayments of convertible debt	—	(0.1)
Payments of dividends	(235.4)	(199.0)
Payments for repurchase of common stock	(1,001.6)	(717.9)
Proceeds from stock plans	207.6	104.7
Payments for acquisition of additional noncontrolling interests	(19.2)	(28.0)
Payments of dividends to noncontrolling interest shareholders	(78.9)	(69.8)
Payments of contingent purchase price obligations	(30.6)	(8.9)

Excess tax benefit on share-based compensation	79.8	27.4
Other, net	(86.9)	(17.7)
Net Cash Provided By (Used In) Financing Activities	109.4	(944.7)
Effect of exchange rate changes on cash and cash equivalents	33.2	(31.2)
Net Increase (Decrease) in Cash and Cash Equivalents	175.1	(1,388.1)
Cash and Cash Equivalents at the Beginning of the Period	1,781.2	2,288.7
Cash and Cash Equivalents at the End of the Period	$1,956.3	$900.6

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

4

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

1. Presentation of Financial Statements

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

In our opinion, the accompanying unaudited condensed financial statements reflect all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation, in all material respects, of the information contained herein. Certain reclassifications have been made to prior year balances to conform to the current year presentation. These unaudited condensed financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011 (“2011 Form 10-K”). Results for the interim periods are not necessarily indicative of results that may be expected for the year.

2. New Accounting Standards

On January 1, 2012, FASB Accounting Standards Update No. 2011-08, Testing Goodwill for Impairment ("ASU 2011-08") became effective. This standard gives an entity the option of either performing step 1 of the goodwill impairment test or performing a qualitative assessment to determine whether performing step 1 of the goodwill impairment test is necessary. An entity may choose to perform the qualitative assessment for some or all of its reporting units or an entity may bypass the qualitative assessment for any reporting unit in any period and proceed directly to step 1 of the impairment test. We performed our annual impairment test at the end of the second quarter (see Note 5).

3. Net Income per Common Share

The computations of basic and diluted net income per common share - Omnicom Group Inc. for the three and nine months ended September 30, 2012 and 2011 were (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Income Available for Common Shares:				
Net income - Omnicom Group Inc.	$203.9	$203.7	$691.2	$680.7
Net income allocated to participating securities	(4.5)	(2.3)	(15.4)	(7.3)
Net income available for common shares	$199.4	$201.4	$675.8	$673.4
Weighted Average Shares:				
Basic	266.6	277.1	269.6	279.8
Dilutive stock options and restricted shares	1.9	4.3	1.9	4.5
Diluted	268.5	281.4	271.5	284.3
Anti-dilutive stock options and restricted shares	0.2	2.1	0.2	1.6

Net Income per Common Share - Omnicom Group Inc.:				
Basic	$0.75	$0.73	$2.51	$2.41
Diluted	$0.74	$0.72	$2.49	$2.37

5

4. Debt

Lines of Credit

We have committed and uncommitted lines of credit. We have a $2.5 billion committed line of credit ("Credit Agreement") with a consortium of banks expiring on October 12, 2016. We have the ability to classify borrowings under the Credit Agreement as long-term. The Credit Agreement provides support for up to $1.5 billion of commercial paper issuances, as well as back-up liquidity in the event that any of our convertible notes are put back to us. The issuance of commercial paper reduces the amount available under the Credit Agreement. At September 30, 2012, there were no outstanding commercial paper issuances or borrowings under the Credit Agreement. At September 30, 2012 and December 31, 2011, we had various uncommitted lines of credit aggregating $878.2 million and $758.3 million, respectively.

Our available and unused lines of credit at September 30, 2012 and December 31, 2011 were (in millions):

	2012	2011
Credit Agreement	$2,500.0	$2,500.0
Uncommitted lines of credit	878.2	758.3
Available and unused lines of credit	$3,378.2	$3,258.3

Short-Term Borrowings

Short-term borrowings of $11.1 million and $9.5 million at September 30, 2012 and December 31, 2011, respectively, primarily consist of bank overdrafts and credit lines of our international subsidiaries. The bank overdrafts and credit lines are treated as unsecured loans pursuant to the bank agreements supporting the facilities.

Long-Term Notes Payable

Long-term notes payable at September 30, 2012 and December 31, 2011 were (in millions):

	2012	2011
5.90% Senior Notes due April 15, 2016	$1,000.0	$1,000.0
6.25% Senior Notes due July 15, 2019	500.0	500.0
4.45% Senior Notes due August 15, 2020	1,000.0	1,000.0
3.625% Senior Notes due May 1, 2022	1,250.0	—
Other notes and loans	0.4	1.3
	3,750.4	2,501.3
Unamortized premium (discount) on Senior Notes, net	16.2	(7.6)
Deferred gain from termination of interest rate swaps on Senior Notes due 2016	25.0	30.5
	3,791.6	2,524.2
Less current portion	0.4	0.7
Long-term notes payable	$3,791.2	$2,523.5

In April 2012, we issued $750 million aggregate principal amount of 3.625% Senior Notes due May 1, 2022 ("2022 Notes") at an issue price of 99.567%. In August 2012, we issued an additional $500 million of our 2022 Notes at an issue price of 105.287%. The August 2012 issuance is fully fungible with and forms a single series with the 2022 Notes issued in April 2012. As a result, the total outstanding principal amount of the 2022 Notes is $1,250.0 million. The proceeds from these issuances, before deducting the underwriting discount and offering expenses, were $1,273.2 million.

Convertible Debt

Convertible debt at September 30, 2012 and December 31, 2011 was (in millions):

	2012	2011
Convertible Notes - due July 31, 2032	$252.7	$252.7
Convertible Notes - due June 15, 2033	0.1	0.1
Convertible Notes - due July 1, 2038	406.6	406.6
	659.4	659.4
Less current portion	—	—
Convertible debt	$659.4	$659.4

The next date on which holders of our 2032 Notes can put their notes back to us for cash is July 31, 2013. The next date on which holders of our 2038 Notes can put their notes back to us for cash is June 15, 2013.

5. Intangible Assets

Intangible assets at September 30, 2012 and December 31, 2011 were (in millions):

	2012			2011		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets subject to impairment tests:						
Goodwill	$9,304.0	$575.4	$8,728.6	$9,026.6	$570.3	$8,456.3
Other identifiable intangible assets subject to amortization:						
Purchased and internally developed software	$280.3	$217.5	$62.8	$270.0	$210.3	$59.7
Customer related and other	643.9	259.9	384.0	615.3	206.6	408.7
	$924.2	$477.4	$446.8	$885.3	$416.9	$468.4

We review the carrying value of goodwill for impairment annually at the end of the second quarter or whenever events or circumstances indicate the carrying value of goodwill may not be recoverable. Although not required, as in prior years we performed step 1 of the annual impairment test and compared the fair value of each of our reporting units to its respective carrying value, including goodwill. Based on the results of our impairment tests, we concluded that our goodwill was not impaired at June 30, 2012 and 2011 because the fair value of our reporting units was substantially in excess of their respective net book values.

Changes in goodwill for the nine months ended September 30, 2012 and 2011 were (in millions):

	2012	2011
Balance January 1	$8,456.3	$7,809.1
Acquisitions	225.6	640.8
Dispositions	(2.5)	(10.0)
Foreign currency translation	49.2	(42.4)
Balance September 30	$8,728.6	$8,397.5

7

There were no goodwill impairment losses recorded in the first nine months of 2012 or 2011 and there are no accumulated goodwill impairment losses as of September 30, 2012. Goodwill resulting from acquisitions completed during 2012 and 2011 includes $16.2 million and $129.7 million, respectively, of goodwill attributed to noncontrolling interests in the acquired businesses.

6. Segment Reporting

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

Revenue and long-lived assets and goodwill by geographic area for the periods ended and as of September 30, 2012 and 2011 were (in millions):

		Americas	EMEA	Asia / Australia
2012				
	Revenue - Three months ended	$2,003.1	$1,007.2	$396.3
	Revenue - Nine months ended	6,073.8	3,072.8	1,128.2
	Long-lived assets and goodwill	6,088.5	2,738.1	602.0
2011				
	Revenue - Three months ended	$1,934.1	$1,092.8	$354.0
	Revenue - Nine months ended	5,815.9	3,243.6	960.1
	Long-lived assets and goodwill	5,953.4	2,625.5	450.7

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

7. Pension and Other Postemployment Benefits

Defined Benefit Pension Plans

The components of net periodic benefit cost for the nine months ended September 30, 2012 and 2011 were (in millions):

	2012	2011
Service cost	$4.6	$4.1
Interest cost	4.6	3.8
Expected return on plan assets	(1.9)	(1.8)
Amortization of prior service cost	2.4	2.4
Amortization of actuarial (gains) losses	1.1	0.4
	$10.8	$8.9

During the nine months ended September 30, 2012 and 2011, we contributed approximately $5.3 million and $4.9 million, respectively, to the defined benefit pension plans.

Postemployment Arrangements

The components of net periodic benefit cost for the nine months ended September 30, 2012 and 2011 were (in millions):

	2012	2011
Service cost	$3.0	$2.9
Interest cost	3.5	3.5
Amortization of prior service cost	1.5	1.6
Amortization of actuarial (gains) losses	0.6	0.5
	$8.6	$8.5

8. Operating Expenses

The components of operating expenses for the three and nine months ended September 30, 2012 and 2011 were (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Salary and service costs	$2,515.8	$2,504.7	$7,491.5	$7,395.8
Office and general expenses	503.5	502.8	1,527.1	1,440.1
Operating expenses	$3,019.3	$3,007.5	$9,018.6	$8,835.9

9. Supplemental Cash Flow Data

Changes in operating capital for the nine months ended September 30, 2012 and 2011 were (in millions):

	2012	2011
Decrease in accounts receivable	$438.1	$85.1
Increase in work in process and other current assets	(205.6)	(208.2)
Decrease in accounts payable	(697.4)	(780.7)
Decrease in customer advances and other current liabilities	(314.5)	(266.4)
Change in other assets and liabilities, net	113.5	266.3
Change in operating capital	$(665.9)	$(903.9)
Income taxes paid	$287.5	$246.9
Interest paid	$114.8	$101.5

9

10. Income Taxes

Our effective tax rate for the nine months ended September 30, 2012 and 2011 was 33.8% and 32.0%, respectively. The effective tax rate for the nine months ended September 30, 2011 was impacted by the following items. In connection with the acquisition of a controlling interest in the Clemenger Group, increasing our equity ownership to 73.7% from 46.7%, effective February 1, 2011, we recorded a remeasurement gain of $123.4 million and a related tax provision of $2.8 million. In addition, in the first quarter of 2011, in connection with a continuing review of our businesses focused on enhancing our strategic position, improving our operations and rebalancing our workforce, we recorded $131.3 million of charges and a related tax benefit of $39.5 million related to repositioning actions for severance, real estate lease terminations and asset and goodwill write-offs related to disposals and other costs. Income tax expense for the nine months ended September 30, 2011 also included a provision of $9.0 million for agreed upon adjustments to income tax returns that were under examination in the first quarter of 2011. Excluding the effect of these items, our effective tax rate for the nine months ended September 30, 2011 would have been 34.5%.

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

At September 30, 2012, our unrecognized tax benefits were $156.1 million. Of this amount, approximately $59.4 million would affect our effective tax rate upon resolution of the uncertain tax positions.

11. Commitments and Contingent Liabilities

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

12. Fair Value

Financial assets and liabilities measured at fair value on a recurring basis were (in millions):

September 30, 2012	Level 1	Level 2	Level 3	Total	Balance Sheet Classification
Assets:					
Cash and cash equivalents	$1,956.3			$1,956.3	
Short-term investments	16.5			16.5	
Forward foreign exchange contracts		$0.7		0.7	Other Current Assets
Available-for-sale securities	3.9			3.9	Other Assets

December 31, 2011	Level 1	Level 2	Level 3	Total	Balance Sheet Classification
Assets:					
Cash and cash equivalents	$1,781.2			$1,781.2	
Short-term investments	23.8			23.8	
Available-for-sale securities	3.8			3.8	Other Assets
Liabilities:					
Forward foreign exchange contracts		$0.1		$0.1	Other Current Liabilities

The carrying amount and fair value of our financial instruments at September 30, 2012 and December 31, 2011 were (in millions):

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$1,956.3	$1,956.3	$1,781.2	$1,781.2
Short-term investments	16.5	16.5	23.8	23.8
Forward foreign exchange contracts	0.7	0.7	—	—
Available-for-sale securities	3.9	3.9	3.8	3.8
Cost method investments	24.2	24.2	23.6	23.6
Liabilities:				
Short-term borrowings	$11.1	$11.1	$9.5	$9.5
Forward foreign exchange contracts	—	—	0.1	0.1
Debt	4,451.0	4,907.0	3,183.6	3,370.5

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

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

Forward foreign exchange contracts. The estimated fair value of derivative positions in forward foreign exchange contracts is determined using model-derived valuations, taking into consideration market rates and counterparty credit risk.

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

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

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

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

13. Subsequent Events

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

Item2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations
Executive Summary
We are a strategic holding company. We provide professional services to clients through multiple agencies around the world. On a global, pan-regional and local basis, our agencies provide these services in the following disciplines: advertising, customer relationship management, or CRM, public relations and specialty communications. Our business model was built and continues to evolve around our clients. While our agencies operate under different names and frame their ideas in different disciplines, we organize our services around our clients. The fundamental premise of our business is that our clients' specific requirements should be the central focus in how we deliver our services and allocate our resources. This client-centric business model results in multiple agencies collaborating in formal and informal virtual networks that cut across internal organizational structures to deliver consistent brand messages for a specific client and execute against each of our clients' specific marketing requirements. We continually seek to grow our business with our existing clients by maintaining our client-centric approach, as well as expanding our existing business relationships into new markets and with new clients. In addition, we pursue selective acquisitions of complementary companies with strong entrepreneurial management teams that typically serve or have the ability to serve our existing client base.
As a leading global advertising, marketing and corporate communications company, we operate in all major markets around the world. We have a large and diverse client base. Our largest client accounted for 2.7% of our revenue for the nine months ended September 30, 2012 and no other client accounted for more than 2.5% of our revenue. Our top 100 clients accounted for approximately 50% of our revenue for the nine months ended September 30, 2012. Our business is spread across a number of industry sectors with no one industry comprising more than 14% of our revenue for the nine months ended September 30, 2012. Although our revenue is generally balanced between the United States and international markets and we have a large and diverse client base, we are not immune to general economic downturns.
In the first nine months of 2012, our revenue increased 2.5% compared to the first nine months of 2011. The increase reflects strong operating performance by our agencies, partially offset by the negative impact from foreign exchange rates. On-going weakness in the Euro Zone was offset by increased revenue in the United States and continued growth in the emerging markets of Asia and Latin America.
Our business and financial performance are impacted by global economic conditions. In the first nine months of 2012, the United States experienced modest economic growth and the major economies of Asia and Latin America continued to expand. However, the European economies continued to experience uncertainty, as well as economic difficulty in certain markets. If the economic conditions worsen, the downturn may expand beyond Europe and could cause reductions in client revenue levels and adversely affect our results of operations and financial position. We will continue to closely monitor economic conditions, client revenue and other factors, and, in response to reductions in client revenue, if necessary, we will take actions available to us to align our cost structure and manage working capital. There can be no assurance whether, or to what extent, our efforts to mitigate any impact of future economic conditions, reductions in client revenue patterns, changes in client creditworthiness and other developments will be effective.
In the near term, barring unforeseen events and excluding foreign exchange impacts, as a result of increases in client spending and new business activities, we expect our revenue to increase modestly in excess of the weighted average nominal GDP growth in our major markets. We also expect to continue to identify acquisition opportunities that will build on the core capabilities of our strategic business platforms, expand our operations in the emerging markets and enhance our capabilities to leverage new technologies that are being used by marketers today.
Certain business trends have had a positive impact on our business and industry. These trends include our clients increasingly expanding the focus of their brand strategies from national markets to pan-regional and global markets and integrating traditional and non-traditional marketing channels, as well as utilizing new communications technologies and emerging digital platforms. Additionally, in an effort to gain greater efficiency and effectiveness from their total marketing budgets, clients are increasingly requiring greater coordination of marketing activities and concentrating these activities with a smaller number of service providers. We believe these trends have benefited our business in the past and over the medium and long term will continue to provide a competitive advantage to us.

Effective February 1, 2011, we acquired a controlling interest in the Clemenger Group, our affiliate in Australia and New Zealand, increasing our equity ownership to 73.7% from 46.7%. In connection with this transaction, we recorded a non-cash gain of $123.4 million in the first quarter of 2011 resulting from the remeasurement of the carrying value of our equity interest to the acquisition date fair value. This acquisition has and will continue to help us to further develop our combined businesses throughout the Asia Pacific region and further enhance our global capabilities.

We have an objective of improving EBITA margins to 2007 levels for the full year 2012. In connection with this objective, during 2011 we reviewed our businesses with a focus on enhancing our strategic position, improving our operations and rebalancing our workforce. As part of this process, we disposed of certain non-core and underperforming businesses and repositioned others. As a result of these actions, we incurred charges of $131.3 million in the first quarter of 2011 for severance, real estate lease terminations and asset and goodwill write-offs related to disposals and other costs. While the bulk of this process is behind us, we continue to review of all our businesses and we will take actions, where appropriate, to reposition underperforming businesses. We will also continue to pursue operational consolidations to further drive efficiencies in our back office functions.

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

We analyze revenue growth by reviewing the components and mix of the growth, including growth by major geographic location, growth by major marketing discipline, impact from currency fluctuations, growth from acquisitions and growth from our largest clients. In recent years, our revenue has been divided almost evenly between our domestic and international operations.

For the quarter ended September 30, 2012, our revenue increased 0.8% compared to the quarter ended September 30, 2011, of which 3.5% was organic growth and 0.7% was related to acquisitions, net of dispositions. The impact of foreign exchange rates reduced revenue by 3.4%. Across our geographic markets, revenue increased 3.2% in the United States and 8.0% in our other markets, primarily Asia and Latin America, while revenue decreased 14.4% in our Euro markets and was flat in the United Kingdom. The change in revenue in the third quarter of 2012 compared to the third quarter of 2011 in our four fundamental disciplines was as follows: advertising increased 2.4%, CRM decreased 0.9%, public relations increased 0.5% and specialty communications decreased 0.9%.

For the nine months ended September 30, 2012, our revenue increased 2.5% compared to the nine months ended September 30, 2011, of which 4.5% was organic growth and 0.8% was related to acquisitions, net of dispositions. The impact of foreign exchange rates reduced revenue by 2.8%. Across our geographic markets, revenue increased 4.2% in the United States, 1.5% in the United Kingdom and 10.7% in our other markets, primarily Asia and Latin America, while revenue decreased 11.0% in our Euro markets. The change in revenue in the first nine months of 2012 compared to the first nine months of 2011 in our four fundamental disciplines was as follows: advertising increased 4.6%, CRM increased 1.2%, public relations increased 3.0% and specialty communications decreased 3.6%.

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

Salary and service costs tend to fluctuate in conjunction with changes in revenue. Salary and service costs increased $11.1 million in the third quarter of 2012 compared to the third quarter of 2011. Salary and service costs increased $95.7 million in the first nine months of 2012 compared to the first nine months of 2011. Salary and service costs for the first nine months of 2011 reflect $92.8 million of severance charges associated with our repositioning actions.

Office and general expenses are less directly linked to changes in our revenue than salary and service costs. Office and general expenses increased $0.7 million in the third quarter of 2012 compared to the third quarter of 2011. Office and general expenses increased $87.0 million in the first nine months of 2012 compared to the first nine months of 2011. Office and general expenses for the first nine months of 2011 includes a reduction of $84.9 million, which reflects the $123.4 million non-cash remeasurement gain recorded in connection with the acquisition of the controlling interest in the Clemenger Group and $38.5 million of charges related to our repositioning actions.

Operating margins increased to 12.2% in the first nine months of 2012 from 11.8% in the first nine months of 2011 and EBITA margins increased to 13.0% in the first nine months of 2012 from 12.5% in the first nine months of 2011. The year-over-year margin improvement was driven by our revenue growth, as well as lower operating costs resulting from actions taken in 2011 to improve our operations, rebalance our workforce and drive efficiencies in our back office functions.

Our effective tax rate for the third quarter of 2012 decreased slightly to 34.2%, compared to the third quarter of 2011. Our effective tax rate for the first nine months of 2012 increased to 33.8%, compared to 32.0% for the first nine months of 2011 Income tax expense for the nine months ended September 30, 2011 reflects a number of items that were recorded in the first quarter of 2011. These items include a $39.5 million tax benefit related to charges incurred in connection with our repositioning actions, a provision of $2.8 million related to the remeasurement gain and a provision of $9.0 million for agreed upon adjustments to income tax returns that were under examination in 2011.
Net income - Omnicom Group Inc. in the third quarter of 2012 increased $0.2 million, or 0.1%, to $203.9 million from $203.7 million in the third quarter of 2011. Net income - Omnicom Group Inc. in the first nine months of 2012 increased $10.5 million, or 1.5%, to $691.2 million from $680.7 million in the first nine months of 2011. The period-over-period increase in net income - Omnicom Group Inc. is due to the factors described above. Diluted net income per common share - Omnicom Group Inc. increased 2.8% to $0.74 in the third quarter of 2012, compared to $0.72 in the third quarter of 2011 due to the factors described above, as well as the reduction in our weighted average common shares outstanding. Diluted net income per common share - Omnicom Group Inc. increased 5.1% to $2.49 in the first nine months of 2012, compared to $2.37 in the first nine months of 2011 due to the factors described above, as well as the reduction in our weighted average common shares outstanding. The reduction in our weighted average common shares outstanding was the result of repurchases of our common stock during 2011 through the third quarter of 2012, net of stock option exercises and shares issued under our employee stock purchase plan.
Results of Operations: Third Quarter 2012 Compared to Third Quarter 2011

	(In millions)			
	2012		2011	
Revenue	$3,406.6		$3,380.9	
Operating Expenses:				
Salary and service costs	2,515.8		2,504.7	
Office and general expenses	503.5		502.8	
Total Operating Expenses	3,019.3		3,007.5	
Add back: Amortization of intangible assets	27.3		23.7	
	2,992.0		2,983.8	
Earnings before interest, taxes and amortization of intangible assets (“EBITA”)	414.6		397.1	
EBITA Margin - %	12.2	%	11.7	%
Deduct: Amortization of intangible assets	27.3		23.7	
Operating Income	387.3		373.4	
Operating Margin - %	11.4	%	11.0	%
Interest Expense	47.8		39.8	
Interest Income	7.5		7.9	
Income Before Income Taxes and Income From Equity Method Investments	347.0		341.5	
Income Tax Expense	118.7		117.1	
Income From Equity Method Investments	5.3		4.5	
Net Income	233.6		228.9	
Less: Net Income Attributed To Noncontrolling Interests	29.7		25.2	

Net Income - Omnicom Group Inc.	$203.9	$203.7

EBITA, which we define as earnings before interest, taxes and amortization of intangible assets, and EBITA Margin, which we define as EBITA divided by Revenue, are Non-GAAP measures. We use EBITA and EBITA Margin as additional operating performance measures, which exclude the non-cash amortization expense of acquired intangible assets. The table above reconciles EBITA and EBITA Margin to the U.S. GAAP financial measure of Operating Income for the periods presented. We believe that EBITA and EBITA Margin are useful measures to evaluate the performance of our businesses. Non-GAAP financial measures should not be considered in isolation from or as a substitute for financial information presented in compliance with U.S. GAAP. Non-GAAP financial measures reported by us may not be comparable to similarly titled amounts reported by other companies.

Revenue: Revenue for the third quarter of 2012 increased $25.7 million, or 0.8%, to $3,406.6 million from $3,380.9 million in the third quarter of 2011. Organic growth increased revenue by $117.5 million and acquisitions, net of dispositions, increased revenue by $23.5 million. The impact of foreign exchange rates reduced revenue by $115.3 million.

The components of the third quarter of 2012 revenue change in the United States ("Domestic") and the remainder of the world ("International") were (in millions):

	Total		Domestic		International	
	$	%	$	%	$	%
Quarter ended September 30, 2011	$3,380.9		$1,703.2		$1,677.7	
Components of revenue change:						
Foreign exchange impact	(115.3)	(3.4)%	—	—%	(115.3)	(6.9)%
Acquisitions, net of dispositions	23.5	0.7%	1.5	0.1%	22.0	1.3%
Organic growth	117.5	3.5%	53.4	3.1%	64.1	3.8%
Quarter ended September 30, 2012	$3,406.6	0.8%	$1,758.1	3.2%	$1,648.5	(1.7)%

The components and percentages are calculated as follows:

- The foreign exchange impact is calculated by first converting the current period's local currency revenue using the average exchange rates from the equivalent prior period to arrive at a constant currency revenue (in this case $3,521.9 million for the Total column in the table). The foreign exchange impact equals the difference between the current period revenue in U.S. dollars and the current period revenue in constant currency (in this case $3,406.6 million less $3,521.9 million for the Total column in the table).
- The acquisition component is calculated by aggregating the applicable prior period revenue of the acquired businesses, less revenue of any business included in the prior period revenue that was disposed of subsequent to the period.
- Organic growth is calculated by subtracting both the foreign exchange and acquisition revenue components from total revenue growth.
- The percentage change is calculated by dividing the individual component amount by the prior period revenue base of that component (in the case $3,380.9 million for the Total column in the table).

Revenue for the third quarter of 2012 and the percentage change in revenue and organic growth from the third quarter of 2011 in our primary geographic markets were (in millions):

	Revenue	% Change	% Organic Growth
United States	$1,758.1	3.2%	3.1%
Euro Markets	528.1	(14.4)%	(1.8)%
United Kingdom	314.3	(0.1)%	(0.1)%
Other	806.1	8.0%	10.2%
	$3,406.6	0.8%	3.5%

For the third quarter of 2012, foreign exchange rate impacts reduced revenue by 3.4%, or $115.3 million, compared to the third quarter of 2011. The most significant impacts resulted from the strengthening of the U.S. Dollar against the

Euro, Brazilian Real and British Pound.

Assuming exchange rates at October 12, 2012 remain unchanged, we expect foreign exchange impacts to decrease revenue by approximately 2.5% for the full year 2012.

Due to a variety of factors, in the normal course, our agencies both gain and lose business from clients each year. The net result through the first half of 2012 has been an overall gain in new business. Under our client-centric approach, we seek to broaden our relationships with all of our clients. Revenue from our largest client accounted for 2.5% and 2.6% of our revenue for the third quarter of 2012 and 2011, respectively. No other client represented more than 2.5% and 2.1% of revenue for the third quarter of 2012 and 2011, respectively. Our ten largest and 100 largest clients represented 19.3% and 51.5% of our revenue for the third quarter of 2012, respectively and 18.4% and 49.7% of our revenue for the third quarter of 2011, respectively.

Driven by our clients' continuous demand for more effective and efficient marketing activities, we strive to provide an extensive range of advertising, marketing and corporate communications services through various client-centric networks that are organized to meet specific client objectives. These services include advertising, brand consultancy, corporate social responsibility consulting, crisis communications, custom publishing, data analytics, database management, direct marketing, entertainment marketing, environmental design, experiential marketing, field marketing, financial/corporate business-to-business advertising, interactive marketing, marketing research, media planning and buying, mobile marketing, multi-cultural marketing, non-profit marketing, public affairs, public relations, recruitment communications, reputation consulting, retail marketing, search engine marketing, social media marketing and sports and event marketing. In an effort to monitor the changing needs of our clients and to further expand the scope of our services to key clients, we monitor revenue across a broad range of disciplines and group them into the following four categories: advertising, CRM, public relations and specialty communications.

Revenue for the third quarter of 2012 and 2011 and the percentage change in revenue and organic growth from the third quarter of 2011 by discipline was (in millions):

	Three Months Ended September 30,						
	2012		2011		2012 vs 2011		
	$	% of Revenue	$	% of Revenue	$	% Change	% Organic Growth
Advertising	$1,587.0	46.6 %	$1,549.2	45.8 %	$37.8	2.4 %	5.7 %
CRM	1,264.6	37.1 %	1,276.2	37.8 %	(11.6)	(0.9)%	2.4 %
Public relations	313.8	9.2 %	312.1	9.2 %	1.7	0.5 %	(0.3)%
Specialty communications	241.2	7.1 %	243.4	7.2 %	(2.2)	(0.9)%	(0.3)%
	$3,406.6		$3,380.9		$25.7	0.8 %	3.5 %

Our business is spread across a number of industry sectors. The percentage of revenue by industry sector for the third quarter of 2012 and 2011 was:

Industry	2012	2011
Food and Beverage	13.4 %	13.5 %
Consumer Products	9.3 %	9.1 %
Pharmaceuticals and Health Care	9.6 %	10.0 %
Financial Services	8.5 %	8.7 %

Technology	9.4	%	9.0	%
Auto	8.7	%	7.7	%
Travel and Entertainment	6.1	%	6.4	%
Telecommunications	6.5	%	7.3	%
Retail	6.9	%	6.4	%
Other	21.6	%	21.9	%

Looking ahead to the remainder of the year, barring unforeseen events and excluding foreign rate exchange impacts, we expect our revenue to increase in excess of the weighted average nominal GDP growth as a result of increases in client spending and new business activities.
Operating Expenses: Operating expenses for the third quarter of 2012 compared to operating expenses for the third quarter of 2011 were (in millions):

	Three Months Ended September 30,												
	2012					2011					2012 vs 2011		
	$	% of Revenue		% of Total Operating Expenses		$	% of Revenue		% of Total Operating Expenses		$ Change	% Change	
Revenue	$3,406.6					$3,380.9					$25.7	0.8	%
Operating Expenses:													
Salary and service costs	2,515.8	73.9	%	83.3	%	2,504.7	74.1	%	83.3	%	11.1	0.4	%
Office and general expenses	503.5	14.8	%	16.7	%	502.8	14.9	%	16.7	%	0.7	0.1	%
Operating Expenses	3,019.3	88.6	%			3,007.5	89.0	%			11.8	0.4	%