

OMNICOM GROUP INC  
Form 10-Q  
October 22, 2010

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, 2010

Commission File Number: 1-10551

**OMNICOM GROUP INC.**

(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of incorporation or  
organization)

13-1514814

(IRS Employer Identification No.)

437 Madison Avenue, New York, New York  
(Address of principal executive offices)

10022  
(Zip Code)

(212) 415-3600  
(Registrant's telephone number, including area code)

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  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  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  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Edgar Filing: OMNICOM GROUP INC - Form 10-Q

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

YES

NO

As of October 14, 2010, 301,239,000 shares of Omnicom Common Stock, \$0.15 par value, were outstanding.

---

**OMNICOM GROUP INC. AND SUBSIDIARIES  
INDEX**

**PART**

**I. FINANCIAL INFORMATION**

		Page No.
<u>Item</u>		
1.	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets -</u> <u>September 30, 2010 and December 31, 2009</u>	1
	<u>Condensed Consolidated Statements of Income - Three Months</u> <u>and Nine Months Ended September 30, 2010 and 2009</u>	2
	<u>Condensed Consolidated Statements of Cash Flows -</u> <u>Nine Months Ended September 30, 2010 and 2009</u>	3
	<u>Notes to Condensed Consolidated Financial Statements</u>	4
<u>Item</u>		
2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item</u>		
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item</u>		
4.	<u>Controls and Procedures</u>	36

**PART**

**II. OTHER INFORMATION**

<u>Item</u>		
1.	<u>Legal Proceedings</u>	37
<u>Item</u>		
1A.	<u>Risk Factors</u>	37
<u>Item</u>		
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
<u>Item</u>		
6.	<u>Exhibits</u>	37
	<u>Signatures</u>	39
	Certifications	

**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, which are described in our 2009 Annual Report on Form 10-K under Item 1A - Risk Factors and Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations include, but are not limited to, our future financial condition and results of operations, global economic conditions and renewed turmoil in the credit markets, losses on media purchases on behalf of clients, reductions in client spending and/or a slowdown in client payments, competitive factors, changes in client communication requirements, the hiring and retention of personnel, our ability to attract new clients and retain existing clients, changes in government regulations impacting our advertising and marketing strategies, risks associated with assumptions we make in connection with our critical accounting estimates, and our international operations, which are subject to the risks of currency fluctuations and exchange controls. In some cases, forward-looking statements can be identified by terminology such as may, will, could, would, should, expect, anticipate, intend, believe, estimate, predict, potential or continue or the negative of those terms or other terminology. These statements are present expectations. 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**  
(Dollars in millions)

	<b>(Unaudited)</b> <b>September 30,</b> <b>2010</b>	<b>December 31,</b> <b>2009</b>
	<hr/>	<hr/>
<b><u>ASSETS</u></b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,689.3	\$ 1,587.0
Short-term investments, at cost	9.0	7.8
Accounts receivable, net of allowance for doubtful accounts of \$48.8 and \$59.5	5,516.9	5,574.1
Work in process	750.6	607.6
Other current assets	1,166.5	1,012.0
	<hr/>	<hr/>
Total Current Assets	9,132.3	8,788.5
	<hr/>	<hr/>
PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation of \$1,178.7 and \$1,146.7	637.4	677.3
INVESTMENTS IN AFFILIATES	280.0	299.4
GOODWILL	7,726.6	7,641.2
INTANGIBLE ASSETS, net of accumulated amortization of \$344.1 and \$316.1	256.3	220.8
DEFERRED TAX ASSETS	12.0	40.0
OTHER ASSETS	238.1	253.5
	<hr/>	<hr/>
TOTAL ASSETS	\$ 18,282.7	\$ 17,920.7
	<hr/>	<hr/>
<b><u>LIABILITIES AND EQUITY</u></b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 6,592.6	\$ 7,143.9
Customer advances	1,101.5	1,059.3
Current portion of debt	254.6	17.8
Short-term borrowings	61.5	19.3
Taxes payable	179.9	156.7
Other current liabilities	1,594.1	1,685.5
	<hr/>	<hr/>
Total Current Liabilities	9,784.2	10,082.5
	<hr/>	<hr/>
LONG-TERM NOTES PAYABLE	2,497.9	1,494.6
CONVERTIBLE DEBT	406.7	726.0
OTHER LONG-TERM LIABILITIES	433.7	462.0

Edgar Filing: OMNICOM GROUP INC - Form 10-Q

LONG-TERM DEFERRED TAX LIABILITIES	560.3	488.1
COMMITMENTS AND CONTINGENCIES (see Note 10)		
TEMPORARY EQUITY - REDEEMABLE NONCONTROLLING INTERESTS	198.3	214.7
EQUITY:		
Shareholders' Equity:		
Preferred stock		
Common stock	59.6	59.6
Additional paid-in capital	1,364.4	1,408.2
Retained earnings	6,863.9	6,465.4
Accumulated other comprehensive income (loss)	(58.3)	(8.0)
Treasury stock, at cost	(4,112.4)	(3,730.4)
	<hr/>	<hr/>
Total shareholders' equity	4,117.2	4,194.8
Noncontrolling Interests	284.4	258.0
	<hr/>	<hr/>
Total Equity	4,401.6	4,452.8
	<hr/>	<hr/>
TOTAL LIABILITIES AND EQUITY	\$ 18,282.7	\$ 17,920.7
	<hr/>	<hr/>

**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 INCOME**  
(Dollars in millions, except per share data)  
(Unaudited)

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2010	2009	2010	2009
REVENUE	\$ 2,994.6	\$ 2,837.6	\$ 8,955.7	\$ 8,454.9
OPERATING EXPENSES	2,680.5	2,542.8	7,935.1	7,479.6
OPERATING INCOME	314.1	294.8	1,020.6	975.3
INTEREST EXPENSE	36.1	33.8	95.9	88.0
INTEREST INCOME	6.3	4.9	18.2	15.9
INCOME BEFORE INCOME TAXES AND INCOME FROM EQUITY METHOD INVESTMENTS	284.3	265.9	942.9	903.2
INCOME TAX EXPENSE	96.9	90.5	320.8	308.9
INCOME FROM EQUITY METHOD INVESTMENTS	8.2	7.3	23.1	20.5
NET INCOME	195.6	182.7	645.2	614.8
LESS: NET INCOME ATTRIBUTED TO NONCONTROLLING INTERESTS	21.0	17.1	64.0	51.3
NET INCOME - OMNICOM GROUP INC.	\$ 174.6	\$ 165.6	\$ 581.2	\$ 563.5
NET INCOME PER COMMON SHARE - OMNICOM GROUP INC.:				
Basic	\$0.58	\$0.53	\$1.90	\$1.81
Diluted	\$0.57	\$0.53	\$1.88	\$1.80
DIVIDENDS DECLARED PER COMMON SHARE	\$0.20	\$0.15	\$0.60	\$0.45

**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 CASH FLOWS**  
(Dollars in millions)  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Net income	\$ 645.2	\$ 614.8
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	134.9	132.6
Amortization of intangible assets	50.7	41.2
Income from equity method investments, net of dividends received	(8.8)	(8.9)
Remeasurement gain, equity interest in acquiree	(14.0)	
Provision for doubtful accounts	(0.7)	13.8
Share-based compensation	51.9	56.7
Excess tax benefit on share-based compensation	(16.4)	
Change in operating capital	(799.3)	(397.1)
	43.5	453.1
Cash flows from investing activities:		
Payments to acquire property, plant and equipment	(98.1)	(93.4)
Payments to acquire businesses and interests in affiliates, net of cash acquired	(115.4)	(112.6)
Payments to acquire short-term investments	(2.5)	(9.5)
Proceeds from sale of short-term investments	6.8	38.0
	(209.2)	(177.5)
Cash flows from financing activities:		
Proceeds from short-term debt	33.1	157.9
Proceeds from borrowings	990.4	497.8
Repayments of convertible debt	(66.5)	(1,316.7)
Payments of dividends	(169.2)	(140.3)
Payments for repurchase of common stock	(567.0)	(13.3)
Proceeds from stock plans	105.2	10.1
Excess tax benefit on share-based compensation	16.4	
Payments to noncontrolling interests	(26.5)	(12.3)
Other, net	(58.6)	(53.9)
	257.3	(870.7)
Effect of exchange rate changes on cash and cash equivalents	10.7	95.2



Net increase (decrease) in cash and cash equivalents	102.3	(499.9)
Cash and cash equivalents at beginning of period	1,587.0	1,097.3
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$ 1,689.3	\$ 597.4
	<hr/>	<hr/>

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

**OMNICOM GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**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 were prepared in accordance with Article 10 of Regulation S-X of the Securities and Exchange Commission ( SEC ). Accordingly, certain information and footnote disclosure required in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ( U.S. GAAP or GAAP ) have been condensed or omitted pursuant to this regulation.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normally recurring accruals, considered necessary for a fair presentation, in all material respects, of the information contained herein. Results of operations for the interim period are not necessarily indicative of results that may be expected for the year. These unaudited condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009 ( 2009 10-K ).

**2. New Accounting Pronouncements**

On January 1, 2010, we adopted Accounting Standards Update ( ASU ) 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities ( ASU 2009-17 ). ASU 2009-17 revised factors that should be considered by a reporting entity when determining whether an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. ASU 2009-17 also includes revised financial statement disclosures regarding the reporting entity 's involvement and risk exposure. The adoption of ASU 2009-17 did not have a significant impact on our results of operations or financial position.

**3. Net Income per Common Share - Omnicom Group Inc.**

Basic net income per common share - Omnicom Group Inc. is based upon the weighted average number of common shares outstanding during the period. Diluted net income per common share - Omnicom Group Inc. is computed on the same basis, including, if dilutive, common share equivalents which include outstanding options and restricted shares. In addition, our restricted stock awards are considered participating securities because they contain rights to non-forfeitable dividends at the same rate as our common stock and therefore are assumed to participate in the undistributed earnings with our common shareholders. The computation of basic and diluted net income per common share is

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

reduced for a presumed hypothetical distribution of earnings to the holders of our unvested restricted stock.

The computations of basic and diluted net income per common share - Omnicom Group Inc. for the three and nine months ended September 30, 2010 and 2009 were (in millions, except per share amounts):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Net Income Available for Common Shares:</b>				
Net income - Omnicom Group Inc.	\$ 174.6	\$ 165.6	\$ 581.2	\$ 563.5
Net income allocated to participating securities	(1.7)	(1.8)	(5.6)	(6.6)
Net income available for common shares	<u>\$ 172.9</u>	<u>\$ 163.8</u>	<u>\$ 575.6</u>	<u>\$ 556.9</u>
<b>Weighted Average Shares:</b>				
Basic	299.3	308.6	302.7	308.0
Dilutive stock options and restricted shares	4.2	3.0	4.2	1.5
Diluted	<u>303.5</u>	<u>311.6</u>	<u>306.9</u>	<u>309.5</u>
Anti-dilutive stock options and restricted shares	<u>9.1</u>	<u>16.5</u>	<u>9.0</u>	<u>21.9</u>
<b>Net Income per Common Share - Omnicom Group Inc.:</b>				
Basic	\$ 0.58	\$ 0.53	\$ 1.90	\$ 1.81
Diluted	0.57	0.53	1.88	1.80

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

**4. Comprehensive Income**

Total comprehensive income and its components were (dollars in millions):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income	\$ 195.6	\$ 182.7	\$ 645.2	\$ 614.8
Foreign currency transaction and translation adjustments, net of income taxes of \$126.2 and \$31.2 for the three months and \$(23.7) and \$144.6 for the nine months ended September 30, 2010 and 2009, respectively	234.5	58.0	(43.9)	268.6
Unrealized gain (loss) on securities, net of income taxes of \$0.3 and (3.7) for the three months and \$0.4 and \$(0.2) for the nine months ended September 30, 2010 and 2009, respectively	0.5	(5.6)	0.6	(0.4)
Defined benefit plans adjustment, net of income taxes of \$0.5 and \$0.5 for the three months and \$1.6 and \$1.4 for the nine months ended September 30, 2010 and 2009, respectively	0.7	0.7	2.3	2.2
Comprehensive income	431.3	235.8	604.2	885.2
Less: Comprehensive income attributed to noncontrolling interests	36.0	28.5	73.2	65.6
Comprehensive income - Omnicom Group Inc.	\$ 395.3	\$ 207.3	\$ 531.0	\$ 819.6

**5. Debt**

*Lines of Credit:*

## Edgar Filing: OMNICOM GROUP INC - Form 10-Q

Our \$2.5 billion credit facility expires on June 23, 2011. Our credit facility provides back-up liquidity in the event that any of our convertible notes are put back to us, as well as support for our commercial paper issuances. Because our credit facility expires in less than one year, our outstanding Convertible Notes due 2031 ( 2031 Notes ) and our Convertible Notes due 2032 ( 2032 Notes ) are classified as current liabilities in our unaudited condensed consolidated balance sheet at September 30, 2010. The next put dates for our

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

2031 Notes and 2032 Notes are February 7, 2011 and July 31, 2011, respectively. At September 30, 2010, we had no borrowings outstanding under our credit facility.

During the first nine months of 2010, the gross amount of commercial paper issued and redeemed under our commercial paper program was approximately \$10.4 billion, with an average term of approximately 13.6 days. The maximum amount outstanding for our commercial paper issuances at any time during 2010 was \$1.05 billion. The weighted average interest rate for the nine months ended September 30, 2010 was 0.41%. The average commercial paper issuances during the quarter ended September 30, 2010 were \$418.8 million. Commercial paper issuances were significantly reduced in the third quarter following the issuance in August 2010 of our 2020 Notes. There were no commercial paper borrowings outstanding at September 30, 2010.

Depending on market conditions at the time, we either issue commercial paper or borrow under our credit facility or on our uncommitted lines of credit to manage short-term cash requirements primarily related to changes in our day-to-day working capital requirements.

***Short-Term Borrowings:***

Short-term borrowings of \$61.5 million at September 30, 2010 are primarily composed of bank overdrafts of our international subsidiaries. These bank overdrafts are treated as unsecured loans pursuant to our bank agreements.

***Long-Term Notes Payable:***

Long-term notes payable at September 30, 2010 and December 31, 2009 consisted of the following (dollars in millions):

	<b>2010</b>	<b>2009</b>
5.90% Senior Notes due April 15, 2016	\$ 1,003.7	\$ 996.9
6.25% Senior Notes due July 15, 2019	497.1	496.9
4.45% Senior Notes due August 15, 2020	996.6	
Other notes and loans	2.3	18.6
	<u>2,499.7</u>	<u>1,512.4</u>
Less current portion	1.8	17.8
	<u>\$ 2,497.9</u>	<u>\$ 1,494.6</u>

On August 5, 2010, we issued \$1.0 billion principal amount of 4.45% Senior Notes due August 15, 2020 ( 2020 Notes ). The proceeds from the issuance before deducting underwriting commissions and offering expenses were \$996.5 million. The 2020 Notes were co-issued by Omnicom Group Inc. and two of its wholly owned finance subsidiaries, Omnicom Capital Inc. and Omnicom Finance Inc., as co-obligors. The 2020 Notes are senior unsecured notes that rank in equal right of payment with all existing and future unsecured indebtedness as a joint and several liability of the issuer and the co-obligors.

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

In August 2010, we entered into a series of interest rate swap agreements to hedge the risk of changes in fair value of the \$1 billion principal amount of our 5.90% Senior Notes due April 15, 2016 ( 2016 Notes ). Under the terms of these agreements, we will receive fixed interest rate payments and will make variable interest rate payments on the total principal value of the 2016 Notes. These agreements effectively convert the 2016 Notes from fixed rate debt to floating rate debt from the date of the swaps through the maturity of the 2016 Notes. The swap agreements qualify as a hedge for accounting purposes at inception and at September 30, 2010 and are designated as a fair value hedge on the 2016 Notes. The variable interest rate we pay is based on the one month and three month U.S. LIBOR rate, flat. The fixed rate we receive is 1.766%. The swaps mature on April 15, 2016, the maturity date of the 2016 Notes. In accordance with Codification Topic 815, the swaps are recorded in our balance sheet at fair value and the change in the fair value of the swaps and the change in the fair value of the debt, the hedged item, are recorded in earnings as an adjustment to interest expense. We will continue to evaluate these arrangements for hedge accounting treatment. At September 30, 2010, we recorded an asset of \$6.9 million representing the fair value of the swaps and recorded an increase in the carrying value of the 2016 Notes of \$6.5 million reflecting the change in fair value of the 2016 Notes from the inception of the fair value hedge.

**Convertible Debt:**

Convertible debt outstanding at September 30, 2010 and December 31, 2009 consisted of the following (dollars in millions):

	<u>2010</u>	<u>2009</u>
Convertible Notes - due February 7, 2031	\$ 0.1	\$ 5.8
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	467.4
	<u>659.5</u>	<u>726.0</u>
Less current portion	252.8	
	<u>\$ 406.7</u>	<u>\$ 726.0</u>

On February 9, 2010, holders of \$5.7 million aggregate principal amount of our 2031 Notes put their notes to us for purchase at par.

On June 8, 2010, we amended the indenture relating to our Convertible Notes due July 1, 2038 ( 2038 Notes ). Prior to the amendment, we had the right to redeem our 2038 Notes beginning on June 15, 2010 and at any time thereafter. The amendment permits us to redeem our 2038 Notes only on the following dates between 2010 and 2018: June 15, 2010, June 17, 2013, and June 15, 2018. On or after June 15, 2018, we will revert back to our right to redeem the 2038 Notes at any time.

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

In June 2010, we offered to pay a supplemental interest payment to holders of our 2038 Notes who did not put their notes back to us for repurchase and who consented to amend the indenture relating to the 2038 Notes to, among other things, waive their right to contingent cash interest, if payable, from December 15, 2010 through and including December 15, 2013, and eliminate our right to redeem the 2038 Notes prior to June 17, 2013. Holders of \$403.2 million aggregate principal amount of our 2038 Notes consented to the amendments and were paid a supplemental interest payment of \$20.2 million. The supplemental interest payment is being amortized through to the next put date, June 17, 2013. Holders of \$60.8 million aggregate principal amount of our 2038 Notes put their notes to us for purchase at par. Accordingly, we purchased and retired these notes. Holders of the remaining \$3.4 million of our 2038 Notes did not put their notes to us for purchase and did not consent to the amendments and were not paid a supplemental interest payment.

On August 6, 2010, we paid a supplemental interest payment of \$5.7 million to holders of our Zero Coupon Zero Yield Convertible Notes due July 31, 2032 ( 2032 Notes ) who did not put their notes back to us. None of our 2032 Notes were put back to us for repurchase and \$252.7 million of our 2032 Notes remain outstanding. The supplemental interest payment is being amortized ratably over a twelve-month period to the next put date.

**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 the fundamentals of our 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 and similar long-term operating margins, as the main economic components of each agency are the salary and service costs associated with providing professional services, the office and general costs associated with office space and occupancy, and the provision of technology requirements which are generally limited to personal computers, servers and off-the-shelf software. Therefore, given these similarities, we aggregate our operating segments, which are our five agency networks, into one reporting segment.

A summary of our revenue and long-lived assets and goodwill by geographic area as of September 30, 2010 and 2009, is as follows (dollars in millions):

	<u>Americas</u>	<u>EMEA</u>	<u>Asia / Australia</u>
<b>2010</b>			
Revenue - three months ended	\$ 1,801.1	\$ 958.5	\$ 235.0
Revenue - nine months ended	5,405.9	2,894.6	655.2
Long-lived assets and goodwill	5,705.8	2,533.4	124.8



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

	<u>Americas</u>	<u>EMEA</u>	<u>Asia / Australia</u>
<b>2009</b> Revenue - three months ended	\$ 1,656.4	\$ 976.5	\$ 204.7
Revenue - nine months ended	5,022.5	2,882.9	549.5
Long-lived assets and goodwill	5,559.6	2,569.3	129.2

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

**7. Income Taxes**

At September 30, 2010, our unrecognized tax benefits were \$190.7 million. Of this amount, approximately \$69.8 million would affect our effective tax rate upon resolution of the uncertain tax positions.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides an election where qualifying cancellation of indebtedness income can be deferred and included in taxable income ratably over the five taxable years beginning in 2014 and ending in 2018. During the second quarter of 2010, we retired \$60.8 million of our 2038 Notes. The retirement of these notes resulted in a tax liability of approximately \$7.2 million. This liability, which was previously recorded, is included in our balance sheet in our deferred tax liabilities. In accordance with the ARRA, we expect to pay them during the deferral period beginning in 2014 and continuing through 2018.

In August 2010, the Education Jobs and Medicaid Assistance Act was enacted. The act contains changes to international tax rules. We do not expect that the act will have a significant impact on our annual effective tax rate.

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

**8. Pension and Other Postemployment Plans***Defined Benefit Plans*

The components of net periodic benefit cost for the nine months ended September 30, 2010 and 2009 were (dollars in millions):

	<u>2010</u>	<u>2009</u>
Service cost	\$ 2.8	\$ 3.8
Interest cost	3.8	4.4
Expected return on plan assets	(1.8)	(2.2)
Amortization of prior service cost	2.0	1.9
Amortization of actuarial (gains) losses	0.2	0.8
Curtailments and settlements	1.3	1.4
	<u>\$ 8.3</u>	<u>\$ 10.1</u>

We contributed approximately \$4.1 million and \$3.0 million to our defined benefit plans for the nine months ended September 30, 2010 and 2009, respectively.

*Postemployment Arrangements*

The components of net periodic benefit cost for the nine months ended September 30, 2010 and 2009 were (dollars in millions):

	<u>2010</u>	<u>2009</u>
Service cost	\$ 1.4	\$ 1.3
Interest cost	2.9	3.0
Expected return on plan assets	N/A	N/A
Amortization of prior service cost	0.5	0.4
Amortization of actuarial (gains) losses	0.7	0.6
	<u>\$ 5.5</u>	<u>\$ 5.3</u>

**9. Supplemental Data**

The components of operating expenses for the three and nine months ended September 30, 2010 and 2009 were (dollars in millions):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Salary and service costs	\$ 2,210.8	\$ 2,052.3	\$ 6,526.5	\$ 6,077.8
Office and general expenses	469.7	490.5	1,408.6	1,401.8

Edgar Filing: OMNICOM GROUP INC - Form 10-Q

Total operating expenses	<u>\$ 2,680.5</u>	<u>\$ 2,542.8</u>	<u>\$ 7,935.1</u>	<u>\$ 7,479.6</u>
--------------------------	-------------------	-------------------	-------------------	-------------------

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

Supplemental cash flow data for the nine months ended September 30, 2010 and 2009 were (dollars in millions):

	<u>2010</u>	<u>2009</u>
Decrease in accounts receivable	\$ 143.4	\$ 1,122.8
(Increase) decrease in work in progress and other current assets	(267.1)	12.9
Decrease in accounts payable	(646.2)	(1,198.7)
Decrease in customer advances and other current liabilities	(112.1)	(363.7)
Change in other assets and liabilities, net	82.7	29.6
	<u>          </u>	<u>          </u>
Change in operating capital	\$ (799.3)	\$ (397.1)
	<u>          </u>	<u>          </u>
Income taxes paid	\$ 223.6	\$ 194.6
Interest paid	\$ 103.8	\$ 53.8

Goodwill:

At September 30, 2010, goodwill, compared to the balance at December 31, 2009, increased \$85.4 million. Acquisition transactions increased goodwill \$164.8 million and foreign exchange effects reduced goodwill by \$79.4 million.

Based on the results of our annual impairment review, we concluded that our goodwill was not impaired as of June 30, 2010, because the fair values of each of our reporting units were substantially in excess of their respective net book values.

**10. Commitments and Contingencies**

As previously disclosed, in June 2002, Omnicom and certain of our senior executives were named in a securities case filed in the United States District Court for the Southern District of New York, captioned *In re Omnicom Group Inc. Securities Litigation*, No. 02-CV-4483 (WHP). The case purported to challenge certain disclosures regarding our internet investments, organic growth and contingent liabilities. On March 28, 2005, the court dismissed the portions of plaintiffs' complaint relating to organic growth and contingent liabilities. On January 28, 2008, the court granted defendants' motion for summary judgment in its entirety, dismissing all remaining claims and directing the court to close the case. On February 4, 2008, the plaintiffs filed a notice of intent to appeal that decision to the United States Court of Appeals for the Second Circuit. On March 9, 2010, the Second Circuit issued a decision affirming the district court's decision granting summary judgment and dismissing plaintiffs' claims. The matter therefore is concluded.

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

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

**11. Fair Value**

The following tables present certain information for our financial assets and liabilities that are measured at fair value on a recurring basis at September 30, 2010 and 2009 (dollars in millions):

	<b>2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Available-for-sale securities	\$ 4.1			\$ 4.1
Forward foreign exchange contracts		\$ 15.2		15.2
Interest rate swap agreements		6.9		6.9

At September 30, 2010, available-for-sale securities, forward foreign exchange contracts and interest rate swap agreements are included in other assets in our unaudited condensed consolidated balance sheet.

	<b>2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Available-for-sale securities	\$ 9.5			\$ 9.5
Forward foreign exchange contracts		\$ 3.5		3.5

At September 30, 2009, available-for-sale securities and forward foreign exchange contracts were included in other assets in our unaudited condensed consolidated balance sheet.

The following table presents the carrying amounts and fair values of our financial instruments at September 30, 2010 (dollars in millions):

	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 1,689.3	\$ 1,689.3
Short-term investments	9.0	9.0
Available-for-sale securities	4.1	4.1
Forward foreign exchange contracts	15.2	15.2
Interest rate swap agreements	6.9	6.9
Cost method investments	24.4	24.4
<b>Liabilities:</b>		
Short-term borrowings	61.5	61.5
Debt	3,159.2	3,409.9

Financial commitments:

Guarantees

0.2

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

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

***Available-for-sale securities***

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

***Forward foreign exchange contracts***

The estimated fair values of derivative positions in forward foreign exchange contracts are based upon quotations received from third party banks and represent the net amount required to terminate the positions, taking into consideration market rates and counterparty credit risk.

***Interest rate swap agreements***

Our interest rate swap agreements are fair value hedges where the fair value is derived from the present value of future cash flows using valuation models that are based on readily observable market data such as interest rates and yield curves, taking into consideration counterparty credit risk.

***Cost method investments***

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

***Short-term borrowings***

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

***Debt***

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

***Financial commitments***

The fair values of guarantees are based on the contractual amount of the underlying instruments. The guarantees, which relate to equipment leases, were issued by us for affiliated companies.

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

**12. 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.

15

---



**ITEM 2. 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: traditional media advertising, customer relationship management ( CRM ), public relations and specialty communications. Our business model was built and evolves 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 structure our business offerings 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 either currently serve or have the ability to serve our existing client base.

As one of the world's leading advertising, marketing and corporate communications companies, we operate in all major markets of the global economy. We have a large and diverse client base. Our largest client represented 3.2% of our revenue for the nine months ended September 30, 2010 and no other client accounted for more than 2.4% of our revenue. Our top 100 clients accounted for approximately 50.7% of our revenue for the nine months ended September 30, 2010. Our business is spread across a significant number of industry sectors with no one industry comprising more than 17% of revenue from our 1,000 largest clients for the nine months ended September 30, 2010. Although our revenues are balanced between the U.S. and international markets and we have a large and diverse client base, we are not immune to general economic downturns.

During the first nine months of 2010, our revenue increased 5.9% compared to the first nine months of last year. The increase reflects an improvement in business prospects in our industry. However, the pace of the global economic recovery is not certain and renewed reductions in client spending levels could adversely affect our results of operations and financial condition in subsequent periods. We have and will continue to closely monitor economic conditions, client spending and other factors and in response, will take actions available to us to reduce costs and manage working capital. In the current environment, there can be no assurance as to the effects of future economic conditions, client spending patterns, client credit worthiness and other developments on us and whether and to what extent our efforts to respond to them will be effective.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

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 interactive 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 benefitted our business in the past and over the medium and long term will continue to provide a competitive advantage to us.

Looking ahead to the remainder of the year, barring unforeseen events and excluding foreign exchange impacts, we expect our revenues to increase modestly as a result of continuing increases in client spending in the United States and Asia, as well as easier comparisons to prior year revenues that we expect will more than offset the impact of the loss announced last year of a large client in the automotive sector which we estimate will reduce our revenues for the remainder of 2010 by 1.5% compared to prior year amounts.

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, growth from currency fluctuations, growth from acquisitions and growth from our largest clients.

In recent years, our revenue has been divided almost evenly between domestic and international operations. For the three months ended September 30, 2010, our revenue increased 5.5% compared to the three months ended September 30, 2009, of which 6.7% was an increase in organic growth. Changes in foreign exchange rates decreased revenue by 1.9% and acquisition of entities, net of entities disposed, increased revenue by 0.7% compared to the prior year period. For the nine months ended September 30, 2010, our revenue increased 5.9% compared to the nine months ended September 30, 2009, of which 5.0% was an increase in organic growth and 0.7% was related to changes in foreign exchange rates. Acquisition of entities, net of entities disposed, increased revenue by 0.2% from the prior year period. The change in revenue in the third quarter of 2010 compared to the third quarter of 2009 in our four fundamental disciplines was as follows: traditional media advertising increased 6.1%; CRM increased 4.7%; public relations increased 5.1%; and specialty communications increased 6.3%.

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 related costs. Office and general expenses are primarily comprised of rent and occupancy costs, technology related costs and depreciation and amortization. Each of our agencies requires service 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 and its selling proposition, and the ability to develop a unique message to communicate the value of the brand to the client's target audience. The facility requirements of our agencies are also similar across geographic

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

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 as a percentage of revenue. Salary and service costs tend to fluctuate in conjunction with changes in revenue. Salary and service costs as a percentage of revenue increased 1.5% to 73.8% in the third quarter of 2010 compared to the third quarter of 2009. Salary and service costs as a percentage of revenue increased 1.0% to 72.9% in the first nine months of 2010 as compared to the first nine months of 2009. These increases resulted from a change in our business mix and growth in our events and sports marketing businesses and reflect increased compensation costs, primarily related to freelance labor. Office and general expenses, which are not directly related to servicing clients, are less directly linked to changes in our revenue than salary and service costs. Office and general expenses decreased to 15.7% of revenue in the third quarter of 2010 compared to 17.3% in the third quarter of 2009. Office and general expenses decreased to 15.7% of revenue in the first nine months of 2010, as compared to 16.6% in the first nine months of 2009.

Net income - Omnicom Group Inc. in the third quarter of 2010 increased \$9.0 million, or 5.4%, to \$174.6 million from \$165.6 million in the third quarter of 2009. Net income - Omnicom Group Inc. in the first nine months of 2010 increased \$17.7 million, or 3.1%, to \$581.2 million, as compared to \$563.5 million in the first nine months of 2009. 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 7.5% to \$0.57 in the third quarter of 2010, as compared to \$0.53 in the prior year period. Diluted net income per common share - Omnicom Group Inc. increased 4.4% to \$1.88 in the first nine months of 2010, as compared to \$1.80 in the first nine months of 2009. The period-over-period increase in diluted net income per common share - Omnicom Group Inc. is due to the factors described above as well as the impact of the reduction in our weighted average common shares outstanding. This reduction was the result of our purchases of our common stock in the first six months of 2010, net of stock option exercises and shares issued under our employee stock purchase plan.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Continued)

**Results of Operations: Third Quarter 2010 Compared to Third Quarter 2009**

**Revenue:** Our third quarter of 2010 revenue increased 5.5% to \$2,994.6 million from \$2,837.6 million in the third quarter of 2009. Organic growth increased revenue by \$190.3 million. The effect of foreign exchange impacts decreased revenue by \$52.9 million. Acquisitions, net of dispositions, increased revenue by \$19.6 million. The components of the third quarter of 2010 revenue changes in the U.S. ( domestic ) and the remainder of the world ( international ) are summarized below (dollars in millions):

	Total		Domestic		International	
	\$	%	\$	%	\$	%
Three months ended September 30, 2009.	\$ 2,837.6		\$ 1,491.2		\$ 1,346.4	
Components of revenue changes:						
Foreign exchange impact	(52.9)	(1.9)%			(52.9)	(3.9)%
Acquisitions, net of dispositions	19.6	0.7%			19.6	1.5%
Organic growth	190.3	6.7%	125.9	8.4%	64.4	4.8%
Three months ended September 30, 2010.	\$ 2,994.6	5.5%	\$ 1,617.1	8.4%	\$ 1,377.5	2.3%

The components and percentages of changes in the table above are calculated as follows:

- The foreign exchange impact component shown in the table 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 \$3,047.5 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 \$2,994.6 million less \$3,047.5 million for the Total column in the table).
- The acquisitions, net of dispositions component shown in the table is calculated by aggregating the applicable prior period revenue of the acquired businesses. Netted against this number is the revenue of any business included in the prior period reported revenue that was disposed of subsequent to the prior period.
- The organic component shown in the table is calculated by subtracting both the foreign exchange and acquisition revenue components from total revenue growth.
- The percentage change shown in the table of each component is calculated by dividing the individual component amount by the prior period revenue base of that component (in this case \$2,837.6 million for the Total column in the table).

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

The components of revenue for the third quarter of 2010 and year-over-year revenue changes in our primary geographic markets are summarized below (dollars in millions):

	<b>2010 Compared to 2009</b>	
	<b>Revenue</b>	<b>% Change</b>
United States	\$ 1,617.1	8.4%
Euro Markets	551.5	(8.5)%
United Kingdom	270.9	3.0%
Other	555.1	15.5%
<b>Total</b>	<b>\$ 2,994.6</b>	<b>5.5%</b>

For the third quarter of 2010, foreign exchange impacts decreased our revenue by 1.9%, or \$52.9 million, as compared to the third quarter of 2009. The most significant impacts resulted from the strengthening of the U.S. Dollar against the Euro and British Pound, partially offset by the weakening of the U.S. Dollar against the Canadian Dollar, Brazilian Real, Japanese Yen and Australian Dollar.

Assuming exchange rates at October 15, 2010 remain unchanged, we expect the impact of foreign exchange to decrease revenue for the last quarter of 2010 by less than 1%.

Driven by our clients' continuous demand for more effective and efficient branding 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, database management, digital and interactive marketing, direct marketing, entertainment marketing, environmental design, experiential marketing, field marketing, financial/corporate business-to-business advertising, graphic arts, healthcare communications, instore design, investor relations, marketing research, media planning and buying, mobile marketing services, multi-cultural marketing, non-profit marketing, organizational communications, package design, product placement, promotional marketing, public affairs, public relations, recruitment communications, reputation consulting, retail marketing, search engine 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: traditional media advertising, CRM, public relations and specialty communications.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Continued)

The change in revenue in our four fundamental disciplines is as follows (dollars in millions):

**Three Months Ended September 30,**

	2010		2009		2010 vs 2009	
	\$	% of Revenue	\$	% of Revenue	\$	% Change
Traditional media advertising	\$ 1,331.9	44.5%	\$ 1,255.0	44.2%	\$ 76.9	6.1%
CRM	1,108.4	37.0%	1,058.4	37.3%	50.0	4.7%
Public relations	279.9	9.3%	266.2	9.4%	13.7	5.1%
Specialty communications	274.4	9.2%	258.0	9.1%	16.4	6.3%
	<u>\$ 2,994.6</u>		<u>\$ 2,837.6</u>		<u>\$ 157.0</u>	<u>5.5%</u>

Looking ahead to the remainder of the year, barring unforeseen events and excluding foreign exchange impacts, we expect our revenues to increase modestly as a result of continuing increases in client spending in the United States and Asia, as well as easier comparisons to prior year revenues that we expect will more than offset the impact of the loss announced last year of a large client in the automotive sector which we estimate will reduce our revenues for the remainder of 2010 by 1.5% compared to prior year amounts.

**Operating Expenses:** Our third quarter of 2010 worldwide operating expenses increased \$137.7 million, or 5.4%, to \$2,680.5 million from \$2,542.8 million in the third quarter of 2009, as shown below (dollars in millions):

**Three Months Ended September 30,**

	2010			2009			2010 vs 2009	
	\$	% of Revenue	% of Total Operating Expenses	\$	% of Revenue	% of Total Operating Expenses	\$ Change	% Change
Revenue	\$ 2,994.6			\$ 2,837.6			\$ 157.0	5.5%
Operating Expenses:								
Salary and service costs	2,210.8	73.8%	82.5%	2,052.3	72.3%	80.7%	158.5	7.7%
Office and general expenses	469.7	15.7%	17.5%	490.5	17.3%	19.3%	(20.8)	(4.2)%
Total Operating Expenses	<u>2,680.5</u>	<u>89.5%</u>		<u>2,542.8</u>	<u>89.6%</u>		<u>137.7</u>	<u>5.4%</u>
Operating Income	<u>\$ 314.1</u>	<u>10.5%</u>		<u>\$ 294.8</u>	<u>10.4%</u>		<u>\$ 19.3</u>	<u>6.5%</u>

Salary and service costs are comprised of salary and related costs and direct service costs. Salary and service costs increased \$158.5 million in the third quarter of 2010 compared to the third quarter of 2009. Salary and service costs as a percentage of revenue increased 1.5% in the third quarter of 2010 compared to the third quarter of 2009. This increase resulted from a change in our business mix and growth in our events and sports marketing businesses and reflects increased compensation costs, primarily related to freelance labor.

Office and general expenses decreased \$20.8 million in the third quarter of 2010 compared to the third quarter of 2009. Office and general expenses as a percentage of revenue decreased 1.6% in the third quarter of 2010 compared to the third quarter of 2009. These costs are comprised of office and equipment rents, technology costs and depreciation, amortization of identifiable intangible assets, professional fees and other overhead expenses and are less directly linked to changes in our revenue.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

Included in office and general expenses for the quarter ended September 30, 2010 is a \$14.0 million non-cash gain resulting from the remeasurement to fair value, in accordance with Codification Topic 805, of our existing ownership interest in an affiliate in the Middle East in which we acquired a majority stake in July 2010. Further, we recorded a \$13.1 million charge in the third quarter of 2010 related to impairment and other costs on the disposal of certain underperforming businesses in Europe.

**Net Interest Expense:** Our net interest expense increased to \$29.8 million in the third quarter of 2010, as compared to \$28.9 million in the third quarter of 2009. Gross interest expense increased \$2.3 million to \$36.1 million. This increase was primarily due to increased interest resulting from our 4.45% Senior Notes issued in August 2010 and amortization of supplemental interest payments made on our Convertible Notes due 2038, partially offset by a net reduction in interest expense on our 2016 Notes, resulting from the interest rate swaps and decreases in amortization of supplemental interest payments made in prior periods on our Convertible Notes due 2031 and our Convertible Notes due 2032. Gross interest income increased \$1.4 million to \$6.3 million in the third quarter of 2010.

**Income Taxes:** Our consolidated effective income tax rate was 34.1% in the third quarter of 2010, which increased slightly from 34.0% in the third quarter 2009.

**Net Income Per Common Share - Omnicom Group Inc.:** For the foregoing reasons, net income - Omnicom Group Inc. in the third quarter of 2010 increased \$9.0 million, or 5.4%, to \$174.6 million from \$165.6 million in the third quarter of 2009. Diluted net income per common share - Omnicom Group Inc. increased 7.5% to \$0.57 in the third quarter of 2010, as compared to \$0.53 in the prior year period. The period-over-period increase in diluted net income per common share - Omnicom Group Inc. is due to the factors described above as well as the impact of the reduction in our weighted average common shares outstanding. This reduction was the result of our purchases of our common stock in the first six months of 2010, net of stock option exercises and shares issued under our employee stock purchase plan.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Continued)

**Results of Operations: First Nine Months of 2010 Compared to First Nine Months of 2009**

**Revenue:** Our first nine months of 2010 revenue increased 5.9% to \$8,955.7 million from \$8,454.9 million in the first nine months of 2009. Organic growth increased revenue by \$423.6 million. The effect of foreign exchange impacts increased revenue by \$59.1 million. Acquisitions, net of dispositions, increased revenue by \$18.1 million. The components of the first nine months of 2010 revenue changes in the U.S. ( domestic ) and the remainder of the world ( international ) are summarized below (dollars in millions):

	Total		Domestic		International	
	\$	%	\$	%	\$	%
Nine months ended September 30, 2009	\$ 8,454.9		\$ 4,548.0		\$ 3,906.9	
Components of revenue changes:						
Foreign exchange impact	59.1	0.7%			59.1	1.5%
Acquisitions, net of dispositions	18.1	0.2%	(29.5)	(0.6)%	47.6	1.2%
Organic growth	423.6	5.0%	328.2	7.2%	95.4	2.5%
Nine months ended September 30, 2010	\$ 8,955.7	5.9%	\$ 4,846.7	6.6%	\$ 4,109.0	5.2%

The components and percentages of changes in the table above are calculated as follows:

- The foreign exchange impact component shown in the table 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 \$8,896.6 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 \$8,955.7 million less \$8,896.6 million for the Total column in the table).
- The acquisitions, net of dispositions component shown in the table is calculated by aggregating the applicable prior period revenue of the acquired businesses. Netted against this number is the revenue of any business included in the prior period reported revenue that was disposed of subsequent to the prior period.
- The organic component shown in the table is calculated by subtracting both the foreign exchange and acquisition revenue components from total revenue growth.
- The percentage change shown in the table of each component is calculated by dividing the individual component amount by the prior period revenue base of that component (in this case \$8,454.9 million for the Total column in the table).

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Continued)

The components of revenue for the first nine months of 2010 and year-over-year revenue changes in our primary geographic markets are summarized below (dollars in millions):

	2010 Compared to 2009	
	Revenue	% Change
United States	\$ 4,846.7	6.6%
Euro Markets	1,714.5	(4.9)%
United Kingdom	780.2	4.6%
Other	1,614.3	18.9%
Total	\$ 8,955.7	5.9%

For the first nine months of 2010, foreign exchange impacts increased our revenue by 0.7%, or \$59.1 million as compared to the first nine months of 2009. The most significant impacts resulted from the weakening of the U.S. Dollar against the Canadian Dollar, Brazilian Real, Australian Dollar, South African Rand and Japanese Yen, partially offset by the strengthening of the U.S. Dollar against the Euro and British Pound.

The change in revenue in our four fundamental disciplines is as follows (dollars in millions):

	Nine Months Ended September 30,					
	2010		2009		2010 vs 2009	
	\$	% of Revenue	\$	% of Revenue	\$	% Change
Traditional media advertising	\$ 4,008.7	44.8%	\$ 3,806.6	45.0%	\$ 202.1	5.3%
CRM	3,261.7	36.4%	3,061.2	36.2%	200.5	6.6%
Public relations	846.7	9.4%	798.0	9.4%	48.7	6.1%
Specialty communications	838.6	9.4%	789.1	9.4%	49.5	6.3%
	\$ 8,955.7		\$ 8,454.9		\$ 500.8	5.9%

**Operating Expenses:** Our first nine months of 2010 worldwide operating expenses increased \$455.5 million, or 6.1%, to \$7,935.1 million from \$7,479.6 million in the first nine months of 2009, as shown below (dollars in millions):

	Nine Months Ended September 30,						
	2010			2009		2010 vs 2009	
	\$	% of Revenue	% of Total Operating Expenses	\$	% of Revenue	% of Total Operating Expenses	\$ Change

Edgar Filing: OMNICOM GROUP INC - Form 10-Q

Revenue	\$ 8,955.7			\$ 8,454.9			\$ 500.8	5.9%
Operating Expenses:								
Salary and service costs	6,526.5	72.9%	82.2%	6,077.8	71.9%	81.3%	448.7	7.4%
Office and general expenses	1,408.6	15.7%	17.8%	1,401.8	16.6%	18.7%	6.8	0.5%
Total Operating Expenses	<u>7,935.1</u>	88.6%		<u>7,479.6</u>	88.5%		<u>455.5</u>	6.1%
Operating Income	<u>\$ 1,020.6</u>	11.4%		<u>\$ 975.3</u>	11.5%		<u>\$ 45.3</u>	4.6%

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

Salary and service costs are comprised of salary and related costs and direct service costs. Salary and service costs increased \$448.7 million in the first nine months of 2010 compared to the first nine months of 2009. Salary and service costs as a percentage of revenue increased 1.0% in the first nine months of 2010 compared to the first nine months of 2009. This increase resulted from a change in our business mix and growth in our events and sports marketing businesses and reflects increased compensation costs, primarily related to freelance labor.

Office and general expenses increased \$6.8 million in the first nine months of 2010 compared to the first nine months of 2009. Office and general expenses as a percentage of revenue decreased 0.9% in the first nine months of 2010 compared to the first nine months of 2009. These costs are comprised of office and equipment rents, technology costs and depreciation, amortization of identifiable intangible assets, professional fees and other overhead expenses and are less directly linked to changes in our revenue.

**Net Interest Expense:** Our net interest expense increased to \$77.7 million in the first nine months of 2010, as compared to \$72.1 million in the first nine months of 2009. Our gross interest expense increased \$7.9 million to \$95.9 million. This increase in gross interest expense was primarily due to increased interest resulting from our 6.25% Senior Notes issued in July 2009, our 4.45% Senior Notes issued in August 2010, and amortization of supplemental interest payments made on our Convertible Notes due 2038. This increase was partially offset by lower interest expense resulting from no borrowings under our credit facility during the first nine months of 2010 and decreases in amortization of supplemental interest payments made in prior periods on our Convertible Notes due 2031 and our Convertible Notes due 2032, as well as a net reduction in interest expense on our 2016 Notes, resulting from interest rate swaps entered into in August 2010. Gross interest income increased \$2.3 million to \$18.2 million in the first nine months of 2010.

**Income Taxes:** Our consolidated effective income tax rate was 34.0% in the first nine months of 2010, which decreased slightly when compared to the first nine months of 2009.

**Net Income Per Common Share - Omnicom Group Inc.:** For the foregoing reasons, net income - Omnicom Group Inc. in the first nine months of 2010 increased \$17.7 million, or 3.1%, to \$581.2 million from \$563.5 million in the first nine months of 2009. Diluted net income per common share - Omnicom Group Inc. increased 4.4% to \$1.88 in the first nine months of 2010, as compared to \$1.80 in the prior year period. The period-over-period increase in diluted net income per common share - Omnicom Group Inc. is due to the factors described above as well as the impact of the reduction in our weighted average common shares outstanding. This reduction was the result of our purchases of our common stock during the first six months of 2010, net of stock option exercises and shares issued under our employee stock purchase plan.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Continued)

**Critical Accounting Policies**

For a more complete understanding of all of our accounting policies, our financial statements and the related management's discussion and analysis of those results, investors are encouraged to consider this information together with our discussion of our critical accounting policies under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2009 Form 10-K.

We evaluate goodwill for impairment at least annually at the end of the second quarter of the year. We identify our reporting units as components of our operating segments. These are our five agency networks. The regional reporting units of each agency network are responsible for the agencies in their region. They report to the segment managers and facilitate the administrative and logistical requirements of our client-centric strategy for delivering services to clients in their regions. For each of our operating segments, their regional reporting units have similar economic characteristics and are aggregated for purposes of testing goodwill for impairment at the operating segment level. The conclusion is based on a detailed analysis of the aggregation criteria set for in the FASB Accounting Standards Codification. Consistent with the fundamentals of our business strategy, the agencies within our regional reporting units serve similar clients in similar industries and in many cases, the same clients. In addition, the agencies within our regional reporting units have similar economic characteristics, as the main economic components of each agency are the salary and service costs associated with providing professional services, the office and general costs associated with office space and occupancy, and the provision of technology requirements which are generally limited to personal computers, servers and off-the-shelf software. Finally, the expected benefits of our acquisitions are typically shared across multiple agencies and regions as they work together to integrate the acquired agency into our client service strategy.

***Estimates and Assumptions - Goodwill Impairment Review***

We use the following valuation methodologies to determine the fair value of our reporting units, including (1) the income approach which utilizes discounted expected future cash flows, (2) comparative market participant multiples for EBITDA (earnings before interest expense, income taxes, depreciation and amortization), and (3) when available, consideration of recent and similar purchase acquisition transactions.

In applying the income approach, we use estimates to derive the expected discounted cash flows ( DCF ) for each reporting unit that serve as the basis of our valuation. These estimates and assumptions include revenue growth and operating margin, tax rates, capital expenditures, weighted average cost of capital and related discount rates and expected long-term cash flow growth rates. All these estimates and assumptions are affected by conditions specific to our businesses, economic conditions related to the industry in which we operate, as well as conditions in the global economy. The assumptions that have the most significant affect on our valuations derived using a DCF methodology are: (1) the expected long-term growth rate of our reporting units' cash flows and (2) the weighted average cost of capital ( WACC ).

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

The range of assumptions used for the long-term growth rate and WACC in our evaluation as of June 30, 2010 and 2009 are as follows:

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
Long-Term Growth Rate	4.0%	4.5%
	10.3%	
	-	
WACC	10.9%	11.1% - 11.8%

Long-term growth rates represent the expected long-term growth rate for the industry in which we operate and the global economy. The average historical revenue growth rate of our reporting units for the past nine years was approximately 7.7% and the average nominal GDP growth of the countries comprising our major markets that account for substantially all of our revenue ( Average Nominal GDP ) was 4.9% over the same period. We considered this history when determining the long-term growth rates used in our annual impairment test at June 30, 2010. We believe marketing expenditures over the long term have a high correlation to GDP. We also believe, based on our historical performance, that our long-term growth rate will exceed Average Nominal GDP growth. For our annual test as of June 30, 2010, beginning in 2016, we used an estimated long-term growth rate of 4.0% for all of our reporting units.

The risk-adjusted discount rate used in our DCF analysis represents the estimated WACC for each of our reporting units. The WACC is comprised of (1) a risk-free rate of return, (2) a business risk index ascribed to us and to companies in our industry comparable to our reporting units based on a market derived variable that measures the volatility of the share price of equity securities relative to the volatility of the overall equity market, (3) an equity risk premium that is based on the rate of return on equity of publicly traded companies with business characteristics comparable to our reporting units, and (4) the current after-tax market rate of return on debt of companies with business characteristics similar to our reporting units, each weighted by the relative market value percentages of our equity and debt. The reduction in the WACC used at June 30, 2010 compared to June 30, 2009 was primarily the result of a decrease in the long-term U.S. Treasury bond, the risk-free rate of return used.

When performing our annual impairment test as of June 30, 2010 and estimating the future cash flows of all of our reporting units, we also considered the economic outlook in mid-year 2010. We experienced an increase in our revenue in the first half of 2010 of 6.1%, of which 2.0% was due to foreign exchange movements. This led us to estimate growth rates for the subsequent five years that reflect current business conditions and increase gradually throughout this period.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

***Sensitivity Analysis and Conclusion - Goodwill Impairment Review***

Consistent with the fundamentals of our business strategy, the agencies within our reporting units serve similar clients in similar industries, and in many cases, the same clients. In addition, the agencies within our reporting units have similar economic characteristics, as the main economic components of each agency are the salary and service costs associated with providing professional services, the office and general costs associated with office space and occupancy, and the provision of technology requirements that are generally limited to personal computers, servers and off-the-shelf software.

Our reporting units do vary in size with respect to revenue and the amount of debt allocated to them. These differences drive the variations in fair value among our reporting units. In addition, these differences, as well as differences in book value, including goodwill, cause the variations in the amount by which fair value exceeds book value among the reporting units. The reporting unit goodwill balances and debt vary by reporting unit primarily because our three legacy agency networks were acquired at the formation of Omnicom and were accounted for as a pooling of interest that did not result in any additional debt or goodwill being recorded. The remaining two agency networks, including Reporting Unit 5, were built through a combination of internal growth and acquisitions that were accounted for as purchase transactions and as a result, they have a relatively higher amount of goodwill and debt.

The decline in the fair value of our reporting units that would need to occur in order to fail step one of our goodwill impairment test (the Threshold) is as follows (dollars in millions):

Reporting Units	June 30, 2010		June 30, 2009	
	Goodwill	Threshold	Goodwill	Threshold
1 and 2	\$1,792.6	>60%	\$1,769.9	>55%
3 and 4	\$2,112.6	>70%	\$2,099.2	>70%
5	\$3,565.7	>55%	\$3,577.5	>50%

Based on the analysis described above, we concluded that our goodwill was not impaired as of June 30, 2010 because the fair values of each of our reporting units were substantially in excess of their respective net book values.

Notwithstanding our belief that the assumptions we used in our impairment testing for our WACC and long-term growth rate are reasonable, we performed a sensitivity analysis for each of our reporting units. The results of this sensitivity analysis for our annual impairment test as of June 30, 2010 revealed that if our WACC was increased by 1% and/or our long-term growth rate was decreased by 1%, the fair value of each of our reporting units would continue to be substantially in excess of their respective net book values and pass step one of the impairment test.

We plan to continue to perform our impairment test at the end of the second quarter of each year unless certain events or circumstances trigger the need for an interim evaluation for impairment. The estimates we use in testing our goodwill for impairment do not constitute forecasts or projections of future results or operations, but rather are estimates and assumptions based on

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

historical results and assessments of macroeconomic factors affecting our reporting units. We believe that our estimates and assumptions are reasonable, but they are subject to change from period to period. Actual results of operations and other factors will likely differ from the estimates used in our discounted cash flow valuation and it is possible that differences could be material. A change in the estimates we use could result in a decline in the estimated fair value of one or more of our reporting units from the amounts derived as of our latest valuation and could cause us to fail step one of our goodwill impairment test if the estimated fair value for the reporting unit is less than the carrying value of the net assets of the reporting unit, including its goodwill. A large decline in estimated fair value of a reporting unit could result in a non-cash impairment charge and may have an adverse effect on our results of operations and financial position.

**New Accounting Pronouncements**

See Note 2 to our unaudited condensed consolidated financial statements for additional information.

**Liquidity and Capital Resources**

***Cash Sources and Requirements, Including Contractual Obligations***

Historically, substantially all of our non-discretionary cash requirements have been funded from operating cash flow and cash on hand. Our principal non-discretionary funding requirement is our working capital. In addition, we have contractual obligations related to our senior notes and convertible notes, our recurring business operations (primarily related to lease obligations), as well as certain contingent acquisition obligations related to acquisitions made in prior years.

Our principal discretionary cash requirements include dividend payments to our shareholders, payments for new strategic acquisitions, capital expenditures and repurchases of our common stock. Our discretionary spending is funded from operating cash flow, cash on hand and short-term investments. In addition, in any given period, depending on the level of our discretionary activity, we may use other sources of available funding, such as the issuance of commercial paper and borrowings under our credit facility to finance these activities.

We have a seasonal working capital cycle. Working capital requirements are typically lowest at year-end. The fluctuation in working capital requirements between the lowest and highest points during the course of the year can be more than \$1.5 billion. This cycle occurs because our businesses incur costs on behalf of our clients, including when we place media and incur production costs. We generally require collection from our clients prior to our payment for the media and production costs. During the year, we manage our liquidity through our credit facilities.



**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

During the first nine months of 2010, the gross amount of commercial paper issued and redeemed under our commercial paper program was approximately \$10.4 billion, with an average term of approximately 13.6 days. The maximum amount outstanding for our commercial paper issuances at any time during 2010 was \$1.05 billion. The weighted average interest for the nine months ended September 30, 2010 was 0.41%. The average commercial paper issuances during the quarter ended September 30, 2010 were \$418.8 million. Commercial paper issuances were significantly reduced in the third quarter following the issuance in August 2010 of our 2020 Notes. There were no commercial paper borrowings outstanding at September 30, 2010.

During the first nine months of 2010, we generated \$43.5 million of cash from operations. Our discretionary spending during the period was comprised primarily of: dividend payments of \$169.2 million; capital expenditures of \$98.1 million; repurchases of our common stock of \$567.0 million; and acquisition payments of \$141.9 million, including contingent acquisition obligations. Our total discretionary spending for the nine months ended September 30, 2010, was \$976.2 million compared to \$371.9 million for the nine months ended September 30, 2009. This increase primarily resulted from our repurchases of common stock in the first nine months of 2010. We did not repurchase common stock in the first nine months of 2009.

***Cash Management***

We manage our cash and liquidity centrally through our wholly-owned finance subsidiaries that manage our treasury centers in North America, Europe and Asia. Each day, operations with excess funds invest these funds with their regional treasury center. Likewise, operations that require funding borrow funds from their regional treasury center. The treasury centers then aggregate the net position. The net position is either invested with or borrowed from third party providers. To the extent that our treasury centers require liquidity, they have the ability to access local currency lines of credit, our \$2.5 billion credit facility, or depending on market conditions at the time, issue up to \$1.5 billion of U.S. Dollar-denominated commercial paper. This enables us to more efficiently manage our debt balances and effectively utilize our cash, as well as better manage our exposure to foreign exchange.

At September 30, 2010, our cash and cash equivalents increased \$102.3 million and our short-term investments increased slightly when compared to December 31, 2009.

***Debt Instruments and Related Covenants***

We maintain a credit facility with a consortium of banks providing borrowing capacity of up to \$2.5 billion. This facility expires June 23, 2011. Our credit facility provides back-up liquidity in the event any of our convertible notes are put back to us, as well as support for our commercial paper issuances. Depending on market conditions at the time, we typically fund our daily borrowing needs by issuing commercial paper, borrowing under our short-term uncommitted lines of credit, or drawing down on our credit facility. As of September 30, 2010, there were no borrowings outstanding under this facility.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

At September 30, 2010, we had short-term borrowings of \$61.5 million that were comprised of bank overdrafts of our international subsidiaries. These bank overdrafts are treated as unsecured loans pursuant to the subsidiaries' bank agreements.

Our bank syndicate includes large global banks such as Citibank, JPMorgan Chase, HSBC, RBS, Deutsche Bank, Bank of America, Societe Generale and BBVA. We also include large regional banks in the U.S. such as US Bancorp, Northern Trust, PNC and Wells Fargo. We also include banks that have a major presence in countries where we conduct business such as BNP Paribas in France, Sumitomo in Japan, Intesa San Paolo in Italy, Scotia in Canada and ANZ in Australia.

Several banks in our bank syndicate merged with other global financial institutions and in connection with the global credit crisis, received capital infusions from their central governments. In the event that a bank in our syndicate was to default on its obligation to fund its commitment under our credit facility or cease to exist and there was no successor entity, the credit facility provides that the remaining banks in the syndicate would only be required to fund advances requested under the credit facility on a pro rata basis up to their total commitment and the portion of the credit facility provided by the defaulting bank would not be available to us.

Our credit facility contains financial covenants that restrict our ability to incur indebtedness as defined in the agreements. These financial covenants limit the ratio of total consolidated indebtedness to total consolidated EBITDA (under our credit agreement, EBITDA is defined as earnings before interest, taxes, depreciation and amortization) to no more than 3.0 times. In addition, we are also required to maintain a minimum ratio of EBITDA to interest expense of at least 5.0 times. At September 30, 2010, we were in compliance with these covenants, as our ratio of debt to EBITDA was 1.9 times and our ratio of EBITDA to interest expense was 12.9 times. In addition, our credit facility does not limit our ability to declare or pay dividends.

On February 9, 2010, holders of \$5.7 million aggregate principal amount of our Convertible Notes due February 7, 2031 put their notes to us for purchase at par.

On June 8, 2010, we amended the indenture relating to our Convertible Notes due July 1, 2038 ( "2038 Notes" ). Prior to the amendment, we had the right to redeem our 2038 Notes beginning on June 15, 2010 and at any time thereafter. The amendment permits us to redeem our 2038 Notes only on the following dates between 2010 and 2018: June 15, 2010, June 17, 2013, and June 15, 2018. On or after June 15, 2018, we will revert back to our right to redeem the 2038 Notes at any time.

In June 2010, we offered to pay a supplemental interest payment to holders of our 2038 Notes who did not put their notes back to us for repurchase and who consented to amend the indenture relating to the 2038 Notes to, among other things, waive their right to contingent cash interest, if payable, from December 15, 2010 through and including December 15, 2013, and eliminate our right to redeem the 2038 Notes prior to June 17, 2013.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

Holder of \$403.2 million aggregate principal amount of our 2038 Notes consented to the amendments and were paid a supplemental interest payment of \$20.2 million. The supplemental interest payment is being amortized through to the next put date, June 17, 2013. Holder of \$60.8 million aggregate principal amount of our 2038 Notes put their notes to us for purchase at par. Accordingly, we purchased and retired these notes. Holders of the remaining \$3.4 million of our 2038 Notes did not put their notes to us for purchase and did not consent to the amendments and were not paid a supplemental interest payment.

On August 5, 2010, we issued \$1.0 billion principal amount of 4.45% Senior Notes due August 15, 2020 ( 2020 Notes ). The proceeds from the issuance before deducting underwriting commissions and offering expenses were \$996.5 million. The 2020 Notes were co-issued by Omnicom Group Inc. and two of its wholly owned finance subsidiaries, Omnicom Capital Inc. and Omnicom Finance Inc., as co-obligors. The 2020 Notes are senior unsecured notes that rank in equal right of payment with all existing and future unsecured indebtedness and as a joint and several liability of the issuer and the co-obligors.

On August 6, 2010, we paid a supplemental interest payment of \$5.7 million to holders of our Zero Coupon Zero Yield Convertible Notes due July 31, 2032 ( 2032 Notes ) who did not put their notes back to us. None of our 2032 Notes were put back to us for repurchase and \$252.7 million of our 2032 Notes remain outstanding. The supplemental interest payment is being amortized ratably over a twelve-month period to the next put date.

In August 2010, we entered into a series of interest rate swap agreements to hedge the risk of changes in fair value of the \$1 billion principal amount of our 5.90% Senior Notes due April 15, 2016 ( 2016 Notes ). Under the terms of these agreements, we will receive fixed interest rate payments and will make variable interest rate payments on the total principal value of the 2016 Notes. These agreements effectively convert the 2016 Notes from fixed rate debt to floating rate debt from the date of the swaps through the maturity of the 2016 Notes. The swap agreements qualify as a hedge for accounting purposes at inception and at September 30, 2010 and are designated as a fair value hedge on the 2016 Notes. The variable interest rate we pay is based on the one month and three month US LIBOR rate, flat. The fixed rate we receive is 1.766%. The swaps mature on April 15, 2016, the maturity date of the 2016 Notes. In accordance with Codification Topic 815, the swaps are recorded in our balance sheet at fair value and the change in the fair value of the swaps and the change in the fair value of the debt, the hedged item, are recorded in earnings as an adjustment to interest expense. We will continue to evaluate these arrangements for hedge accounting treatment. At September 30, 2010, we recorded an asset of \$6.9 million representing the fair value of the swaps and recorded an increase in the carrying value of the 2016 Notes of \$6.5 million reflecting the change in fair value of the 2016 Notes from the inception of the fair value hedge.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

Our outstanding debt and amounts available under our credit facility as of September 30, 2010 were (dollars in millions):

	<u>Debt Outstanding</u>	<u>Available Credit</u>
Short-term borrowings (due in less than one year)	\$ 61.5	
\$2.5 billion credit facility due June 23, 2011		\$ 2,500.0
5.90% Senior Notes due April 15, 2016	1,003.7	
6.25% Senior Notes due July 15, 2019	497.1	
4.45% Senior Notes due August 15, 2020	996.6	
Convertible Notes due February 7, 2031	0.1	
Convertible Notes due July 31, 2032	252.7	
Convertible Notes due June 15, 2033	0.1	
Convertible Notes due July 1, 2038	406.6	
Other debt	2.3	
	<u>\$ 3,220.7</u>	<u>\$ 2,500.0</u>

***Credit Markets and Availability of Credit***

In light of the uncertainty of future economic conditions, we continue to seek to take actions available to us to respond to changing conditions and we will continue to actively manage our discretionary expenditures. We will continue to monitor and manage the level of credit made available to our clients. We believe that these actions, plus the availability of our \$2.5 billion credit facility, are sufficient to fund our near-term working capital needs and our discretionary spending.

The next date on which holders of our Convertible Notes due July 31, 2032 can put their notes back to us for cash is July 31, 2011. Because our credit facility expires in less than one year, our outstanding 2032 Notes are classified as current liabilities in our unaudited condensed consolidated balance sheet at September 30, 2010. If our 2032 Notes are put back to us, based on our current financial condition and expectations, we expect to have sufficient cash and unused credit commitments to fund any put. Although such borrowings would reduce the amount available under our credit facility to fund our cash requirements, we believe that we have sufficient capacity under these commitments to meet our cash requirements for the normal course of our business operations after any put event. The next date on which the holders of our 2038 Notes can put their notes back to us for cash is June 17, 2013.

In funding our day-to-day liquidity, we are a participant in the commercial paper market. Disruptions in the credit markets beginning in the third quarter of 2008 and continuing into the first part of 2009 led to periods of illiquidity in the commercial paper market and higher credit spreads. During this period, to mitigate these conditions and to fund our day-to-day liquidity, we used our uncommitted lines of credit and borrowed under our credit facility. In the second half of 2009, we resumed our commercial paper issuances.

We will continue to closely monitor our liquidity and the credit markets. We cannot predict with any certainty the impact on us of any further disruptions in the credit markets.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Continued)

**Contractual Obligations and Other Commercial Commitments**

**Contingent Acquisition Obligations:** Certain of our acquisitions are structured with contingent purchase price obligations, often referred to as earn-outs. We utilize contingent purchase price structures in an effort to minimize the risk to us associated with potential future negative changes in the performance of the acquired entity during the post-acquisition transition period. These payments are not contingent upon future employment. At September 30, 2010, the amount of future contingent purchase price payments that we would be required to pay for acquisitions completed prior to January 1, 2009, assuming that the businesses perform over the relevant future periods at their current profit levels, is approximately \$128 million. The ultimate amounts payable cannot be predicted with reasonable certainty because they are dependent upon future results of operations of the subject businesses and are subject to changes in foreign currency exchange rates. In accordance with U.S. GAAP, prior to January 1, 2009, we have not recorded a liability for these items on our balance sheet since the definitive amount was not determinable or distributable prior to January 1, 2009. Actual results can differ from these estimates and the actual amounts that we pay are likely to be different from these estimates. Our obligations change from period to period primarily as a result of payments made during the current period, changes in the acquired entities' performance and changes in foreign currency exchange rates. These differences could be significant. The contingent purchase price obligations as of September 30, 2010, calculated assuming that the acquired businesses perform over the relevant future periods at their current profit levels, are as follows (dollars in millions):

<b>Remainder</b>						
<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Thereafter</b>	<b>Total</b>	
\$9	\$76	\$35	\$8	\$	\$128	

Contingent purchase price obligations related to acquisitions completed subsequent to December 31, 2008, are recorded as liabilities at fair value in our unaudited condensed consolidated balance sheet and are remeasured at each reporting period and changes in fair value are recorded in our results of operations. These liabilities are not included in the above amounts.

***Credit Risk***

We provide marketing and corporate communications services to thousands of clients who operate in nearly every industry sector and in the normal course of business, we grant credit to qualified clients. Due to the diversified nature of our client base, we do not believe that we are exposed to a concentration of credit risk as our largest client accounted for 3.2%, and no other client accounted for more than 2.4%, of our consolidated revenue for the nine months ended September 30, 2010. However, during periods of economic downturn, the credit profiles of our clients could change.

In many of our businesses we purchase media for our clients and act as an agent for a disclosed principal. We enter into contractual commitments with media providers on behalf of our clients at levels that substantially exceed our revenue in connection with the services we provide. These

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(Continued)**

commitments are included in our accounts payable balance when the media services are delivered by the media providers. While operating practices vary by country, media type and media vendor, in the United States and certain foreign markets many of our contracts with media providers specify that if our client defaults on its payment obligations then we are not liable to the media providers under the legal theory of sequential liability until we have been paid for the media by our client. In other countries, we manage our risk in other ways, including evaluating and monitoring our clients' credit worthiness and, in many cases, purchasing credit insurance or requiring payment in advance. Further, in cases where we become committed to the media and it becomes apparent that a client may be unable to pay for the media, options are potentially available to us in the marketplace, in addition to those cited above to mitigate the potential loss, including negotiating with media providers. We have not experienced a material loss related to purchases of media on behalf of our clients. However, this risk could increase in an economic downturn.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our results of operations are subject to risk from the translation to the U.S. Dollar of the revenue and expenses of our foreign operations, which are generally denominated in the local currency. For the most part, our revenues and the expenses incurred related to that revenue are denominated in the same currency. This minimizes the impact that fluctuations in exchange rates will have on our net income.

Our 2009 Form 10-K provides a detailed discussion of the market risks affecting our operations. No material change has occurred in our market risks since the disclosure contained in our 2009 Form 10-K. See our discussion regarding current economic conditions in Item 2 -Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Executive Summary and Liquidity and Capital Resources sections.

**ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within applicable time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. We conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2010. Based on that evaluation, our CEO and CFO concluded that as of September 30, 2010 our disclosure controls and procedures are effective to ensure that decisions can be made timely with respect to required disclosures, as well as ensuring that the recording, processing, summarization and reporting of information required to be included in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 are appropriate.

There have not been any changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

KPMG LLP, an independent registered public accounting firm that audited our consolidated financial statements included in our Annual Report on Form 10-K filed on February 19, 2010, has issued an attestation report on Omnicom's internal control over financial reporting as of December 31, 2009, dated February 19, 2010.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

The information regarding legal proceedings described in Note 10 to the unaudited condensed consolidated financial statements set forth in Part I of this Report is incorporated by reference into this Part II, Item 1.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in Item 1A in our 2009 Form 10-K.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Stock repurchase activity during the three months ended September 30, 2010 was as follows:

Period:	Total Number of Shares Purchased	Average Price Paid Per Share	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
July 2010	41,411	\$ 34.33		
August 2010	2,639	\$ 37.43		
September 2010		\$		
Total	44,050	\$ 34.52		

During the quarter ended September 30, 2010, 44,050 shares of our common stock were withheld from employees to satisfy estimated tax obligations relating to the vesting of shares of restricted stock under the terms of our 2007 Incentive Award Plan. The value of the common stock that was withheld was based on the closing price of our common stock on the applicable vesting date.

There were no unregistered sales of equity securities during the three months ended September 30, 2010.

**Item 6. Exhibits****(a) Exhibits**

- 4.1 Second Supplemental Indenture, dated as of August 5, 2010, among Omnicom Group Inc., Omnicom Capital Inc., Omnicom Finance Inc. and Deutsche Bank Trust Company Americas, as trustee, to the Indenture, dated as of July 1, 2009, among Omnicom Group Inc., Omnicom Capital Inc., Omnicom Finance Inc. and Deutsche Bank Trust Company Americas, as trustee (Exhibit 4.1 to the Form 8-K (File No. 1-10551), filed on August 5, 2010, and incorporated herein by reference).



- 4.2 Form of 4.450% Notes due 2020 (Exhibit 4.2 to the Form 8-K (File No. 1-10551), filed on August 5, 2010, and incorporated herein by reference).
- 31.1 Certification of the Chief Executive Officer and President required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of the Executive Vice President and Chief Financial Officer required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of the Chief Executive Officer and President required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.
- 32.2 Certification of the Executive Vice President and Chief Financial Officer required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.
- 101 Interactive Data File

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: October 22, 2010

**OMNICOM GROUP INC.**

/s/ Randall J. Weisenburger

---

Randall J. Weisenburger  
Executive Vice President  
and Chief Financial Officer  
(on behalf of Omnicom Group Inc.  
and as Principal Financial Officer)