FIRST KEYSTONE CORP
Form 10-K
March 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2014**

or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number: 2-88927

FIRST KEYSTONE CORPORATION

(Exact name of registrant as specified in its Charter)

Pennsylvania	**23-2249083**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)
111 West Front Street Berwick, Pennsylvania	**18603**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(570) 752-3671**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $2.00 per share**

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ¨ No x

Indicate by check mark whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definitions of "large accelerated filer," "accelerated filer," and "small reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the registrant’s outstanding voting common stock held by non-affiliates on June 30, 2014 determined by using a per share closing price on that date of $24.85 as quoted on the Over the Counter Market, was $123,933,063.

At March 2, 2015, there were 5,567,872 shares of Common Stock, $2.00 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s 2015 definitive Proxy Statement are incorporated by reference in Part III of this Report.

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PART I

Forward Looking Statements

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements, which are included pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to (a) projections or statements regarding future earnings, expenses, net interest income, other income, earnings or loss per share, asset mix and quality, growth prospects, capital structure, and other financial terms, (b) statements of plans and objectives of management or the Board of Directors, and (c) statements of assumptions, such as economic conditions in First Keystone Corporation’s (the “Corporation”) market areas. Such forward-looking statements can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “intends”, “will”, “should”, “anticipates”, or the negative of any of the foreg or other variations thereon or comparable terminology, or by discussion of strategy.

Forward-looking statements are subject to certain risks and uncertainties such as local economic conditions, competitive factors, and regulatory limitations. Actual results may differ materially from those projected in the forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: ineffectiveness of the business strategy due to changes in current or future market conditions; the effects of weak economic conditions on current customers, specifically the effect of the economy on loan customers’ ability to repay loans; possible impacts of the capital and liquidity requirements of Basel III standards and other regulatory pronouncements, regulations and rules; effects of short- and long-term federal budget and tax negotiations and their effects on economic and business conditions; changes in accounting principles, policies or guidelines as may be adopted by the regulatory agencies as well as the Public Company Accounting Oversight Board and the Financial Accounting Standards Board, and other accounting standards setters; the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the internet; governmental monetary and fiscal policies, as well as legislative and regulatory changes; the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements, as well as interest rate risks; information technology difficulties, including technological changes; challenges in establishing and maintaining operations in new markets; volatilities in the securities markets; acquisitions and integration of acquired businesses; the failure of assumptions underlying the establishment of reserves for loan losses and estimations of values of collateral and various financial assets and liabilities; acts of war or terrorism; disruption of credit and equity markets; our ability to manage current levels of impaired assets; deposit flows; the loss of certain key officers; our ability to maintain the value and image of our brand and protect our intellectual property rights; continued relationships with major customers; the potential impact to the Corporation from continually evolving cybersecurity and other technological risks and attacks, including additional costs, reputational damage, regulatory penalties and financial losses; and weak economic conditions.

We caution readers not to place undue reliance on these forward-looking statements. They only reflect management’s analysis as of this date. The Corporation does not revise or update these forward-looking statements to reflect events or changed circumstances. Please carefully review the risk factors described in this document and in other documents the Corporation files from time to time with the Securities and Exchange Commission, including the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and any Current Reports on Form 8-K.

ITEM 1. BUSINESS

General

First Keystone Corporation (the "Corporation") is a Pennsylvania business corporation, and a bank holding company, registered with and supervised by the Board of Governors of the Federal Reserve System. The Corporation was incorporated on July 6, 1983, and commenced operations on July 2, 1984, upon consummation of the acquisition of all of the outstanding stock of First National Bank of Berwick (the predecessor to First Keystone Community Bank). The Corporation has one wholly-owned subsidiary, First Keystone Community Bank (the "Bank"), which has a commercial banking operation and trust department as its major lines of business. Since commencing operations, the Corporation's business has consisted primarily of managing and supervising the Bank, and its principal source of income has been dividends paid by the Bank. Greater than 98% of the Corporation's revenue and profit came from the commercial bank subsidiary for the years ended December 31, 2014, 2013, and 2012, and was the only reportable segment. At December 31, 2014, the Corporation had total consolidated assets, deposits and stockholders' equity of approximately $912 million, $662 million and $106 million, respectively.

First Keystone Community Bank was originally organized in 1864 as a national banking association. On October 1, 2010, the Bank converted from a national banking association to a Pennsylvania chartered commercial bank under the supervision of the Pennsylvania Department of Banking and Securities and the FDIC.

Effective November 1, 2007, the Corporation completed its acquisition of Pocono Community Bank through the merger of Pocono with and into the Bank. On the acquisition date, Pocono Community Bank had approximately $150 million in assets, $105 million in loans and $110 million in deposits. Headquartered in Stroudsburg, Pennsylvania, and organized in 1996, Pocono had 4 banking offices located in Monroe County, Pennsylvania. The acquisition expanded the branch network of the Corporation and provides Pocono customers with a broader array of products and services.

The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") to the maximum extent of the law regulated by the FDIC and the Pennsylvania Department of Banking and Securities. The Bank is subject to regulation by the Federal Reserve Board governing reserves required to be maintained against certain deposits and other matters. The Bank is also a member of the Federal Home Loan Bank of Pittsburgh, which is one of the twelve regional cooperative banks comprising the system of Federal Home Loan Banks that lending institutions use to finance housing and economic development in local communities.

The Bank's legal headquarters are located at 111 West Front Street, Berwick, Pennsylvania, from which it oversees the operations of its eighteen branch locations. These locations consist of five branches within Columbia County, eight branches within Luzerne County, one branch in Montour County, and four branches within Monroe County, Pennsylvania. For further information, please refer to Item 2 – Properties, and Note 13 Commitments and

Contingencies in the notes to the consolidated financial statements.

The Bank is a full service commercial bank providing a wide range of services to individuals and small to medium sized businesses in its Northeastern Pennsylvania market area. The Bank's commercial banking activities include accepting time, demand and savings deposits and making secured and unsecured commercial, real estate and consumer loans. Additionally, the Bank provides personal and corporate trust and agency services to individuals, corporations and others, including trust investment accounts, investment advisory services, mutual funds, estate planning, and management of pension and profit sharing plans. The Bank's business is not seasonal in nature. The Bank has no foreign loans or highly leveraged transaction loans, as defined by the Federal Reserve Board. Substantially all of the loans in the Bank's portfolio have been originated by the Bank. Policies adopted by the Board of Directors are the basis by which the Bank conducts its lending activities.

At December 31, 2014, the Bank had 189 full-time employees and 29 part-time employees. In the opinion of management, the Bank enjoys a satisfactory relationship with its employees. The Bank is not a party to any collective bargaining agreement.

The Corporation's internet website is www.firstkeystonecorporation.com and the Bank's internet website is www.fkcbank.com.

When we say "we", "us", "our" or the "Corporation", we mean the Corporation on a consolidated basis with the Bank.

Primary Market Areas

The Bank's primary market area reaches from Monroe and Montour counties along the Interstate 80 corridor through parts of Columbia and Luzerne counties as well as other adjoining counties. The Bank's eastern market area is centered in Stroudsburg, Pennsylvania and serves all of Monroe county, as well as adjoining counties of Pike and Northampton. The area served by the Bank is a mix of rural communities and small to mid-sized towns. The current population of the Bank's primary four-county footprint has decreased 0.5% since 2010 to 573,000 and is estimated to decrease 0.4% to 571,000 by 2019. As of June 30, 2014, the FDIC deposit market share data ranked the Bank 4^{th} in the deposit market share in the four-county market, with 6.0% of deposits.

The Bank's headquarters, main office, and three of its branch offices are located in Berwick, Pennsylvania. Therefore, the Bank has a very strong presence in the Borough of Berwick, a community with a current population of approximately 10,000. The Bank ranks a commanding first in deposit market share in the Berwick market with 71.1% of deposits as of June 30, 2014, based on data compiled annually by the FDIC.

In the course of attracting and retaining deposits and originating loans, the Bank faces considerable competition. The Bank competes with 26 commercial banks, 3 savings associations, and 49 credit unions for traditional banking products, such as deposits and loans in its primary four-county market area. Additionally, the Bank competes with consumer finance companies for loans, mutual funds and other investment alternatives for deposits. The Bank competes for deposits based on the ability to provide a range of competitively priced products, quality service, competitive rates, and convenient locations and hours. The competition among its peers for loan origination generally relates to interest rates offered, products available, ease of process, quality of service, and loan origination fees charged. The economic base of the Bank's market region is developed around small business, health care, educational facilities (college and public schools), light manufacturing industries, and agriculture.

The Bank continues to assess the market area to determine the best way to meet the financial needs of the communities it serves. Management continues to pursue new market opportunities based on a strategic plan to efficiently grow the Bank, improve earnings performance, and bring the Bank's products and services to new customers. Management strategically addresses growth opportunities versus competitive issues by determining the new products and services to be offered, evaluating expansion opportunities of its existing footprint with new locations, as well as investing in the expertise of skilled staffing. The Bank continues to succeed in serving its customers by living up to its motto, "Yesterday's Traditions. Tomorrow's Vision."

Competition - Bank

The Bank's competition is comprised of national, regional and community banking financial institutions. The Bank's major competitors in Columbia, Luzerne, Montour and Monroe counties are:

- First Columbia Bank & Trust Co. of Bloomsburg
- PNC Bank, N.A.
- M & T Bank
- FNB Bank, N.A.
- Wells Fargo Bank
- National Penn Bank
- Citizens Bank
- ESSA Bank & Trust
- First National Community Bank
- Service 1st FCU
- Jersey Shore State Bank
- Bank of America
- Valor FCU

The Bank is generally competitive with all competing financial institutions in its service area with respect to interest rates paid on time and savings deposits, service charges on deposit accounts and interest rates charged on loans.

Concentration

The Corporation and the Bank are not dependent on deposits nor exposed by loan concentrations to a single customer or to a small group of customers, such that the loss of any one or more would not have a materially adverse effect on the financial condition of the Corporation or the Bank. The customers' ability to repay their loans is generally dependent on the real estate market and general economic conditions prevailing in Pennsylvania, among other factors.

Supervision and Regulation

The Corporation is subject to the jurisdiction of the Securities and Exchange Commission (the "SEC") and of state securities laws for matters relating to the offering and sale of its securities. The Corporation is currently subject to the SEC's rules and regulations relating to companies whose shares are registered under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended.

The Corporation is also subject to the provisions of the Bank Holding Company Act of 1956, as amended, and to supervision by the Federal Reserve Board. The Bank Holding Company Act requires the Corporation to secure the prior approval of the Federal Reserve Board before it owns or controls, directly or indirectly, more than 5% of the voting shares of substantially all of the assets of any institution, including another bank.

The Bank Holding Company Act also prohibits acquisition of control of a bank holding company, such as the Corporation, without prior notice to the Federal Reserve Board. Control is defined for this purpose as the power, directly or indirectly, to direct the management or policies of a bank holding company or to vote 25% (or 10%, if no other person or persons acting on concert, holds a greater percentage of the common stock) or more of the Corporation's common stock.

The Corporation is required to file an annual report with the Federal Reserve Board and any additional information that the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may also make examinations of the Corporation and any or all of its subsidiaries.

The Bank is subject to federal and state statutes applicable to banks chartered under the banking laws of Pennsylvania and to banks whose deposits are insured by the FDIC. The Bank is subject to supervision, regulation and examination by the Pennsylvania Department of Banking and Securities, the FDIC and the Consumer Financial Protection Bureau.

Federal and state banking laws and regulations govern, among other things, the scope of a bank’s business, the investments a bank may make, the reserves against deposits a bank must maintain, loans a bank makes and collateral it takes, and the activities of a bank with respect to mergers and consolidations and the establishment of branches.

As a subsidiary of a bank holding company, the Bank is subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to the bank holding company or its subsidiaries, on investments in the stock or other securities of the bank holding company or its subsidiaries and on taking such stock or securities as collateral for loans. The Federal Reserve Act and Federal Reserve Board regulations also place certain limitations and reporting requirements on extensions of credit by a bank to principal shareholders of its parent holding company, among others, and to related interests of such principal shareholders. In addition, such legislation and regulations may affect the terms upon which any person becoming a principal shareholder of a holding company may obtain credit from banks with which the subsidiary bank maintains a correspondent relationship.

Permitted Non-Banking Activities

The Federal Reserve Board permits bank holding companies to engage in non-banking activities so closely related to banking, managing or controlling banks as to be a proper incident thereto. The Corporation does not at this time engage in any of these non-banking activities, nor does the Corporation have any current plans to engage in any other permissible activities in the foreseeable future.

Legislation and Regulatory Changes

From time to time, various types of federal and state legislation have been proposed that could result in additional regulations of, and restrictions on, the business of the Bank. It cannot be predicted whether any such legislation will be adopted or how such legislation would affect the business of the Bank. As a consequence of the extensive regulation of commercial banking activities in the United States, the Bank’s business is particularly susceptible to being affected by federal legislation and regulations that may increase the costs of doing business.

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. No prediction can be made as to the likelihood of any major changes or the impact such changes might have on the Corporation and the Bank. Certain changes of potential significance to the Corporation which have been enacted recently and others which are currently under consideration by Congress or various regulatory agencies are discussed below.

Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”)

The FDICIA established five different levels of capitalization of financial institutions, with “prompt corrective actions” and significant operational restrictions imposed on institutions that are capital deficient under the categories. The five categories are:

- well capitalized
- adequately capitalized
- undercapitalized
- significantly undercapitalized, and
- critically undercapitalized.

To be considered well capitalized, an institution must have a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6%, a leverage capital ratio of at least 5%, and must not be subject to any order or directive requiring the institution to improve its capital level. An institution falls within the adequately capitalized category if it has a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4%, and a leverage capital ratio of at least 4%. Institutions with lower capital levels are deemed to be undercapitalized, significantly undercapitalized or critically undercapitalized, depending on their actual capital levels. In addition, the appropriate federal regulatory agency may downgrade an institution to the next lower capital category upon a determination that the institution is in an unsafe or unsound condition, or is engaged in an unsafe or unsound practice. Institutions are required under the FDICIA to closely monitor their capital levels and to notify their appropriate regulatory agency of any basis for a change in capital category. On December 31, 2014, the Corporation and the Bank exceeded the minimum capital levels of the well capitalized category. See Note 15 — Regulatory Matters.

Regulatory oversight of an institution becomes more stringent with each lower capital category, with certain “prompt corrective actions” imposed depending on the level of capital deficiency.

Other Provisions of the FDICIA

Each depository institution must submit audited financial statements to its primary regulator and the FDIC, whose reports are made publicly available. In addition, the audit committee of each depository institution must consist of outside directors and the audit committee at “large institutions” (as defined by FDIC regulation) must include members with banking or financial management expertise. The audit committee at “large institutions” must also have access to independent outside counsel. In addition, an institution must notify the FDIC and the institution’s primary regulator of any change in the institution’s independent auditor, and annual management letters must be provided to the FDIC and the depository institution’s primary regulator. The regulations define a “large institution” as one with over $500 million in assets, which does include the Bank. Also, under the rule, an institution's independent public accountant must examine the institution's internal controls over financial reporting and perform agreed-upon procedures to test compliance with laws and regulations concerning safety and soundness.

Under the FDICIA, each federal banking agency must prescribe certain safety and soundness standards for depository institutions and their holding companies. Three types of standards must be prescribed:

• asset quality and earnings

• operational and managerial, and

• compensation

Such standards would include a ratio of classified assets to capital, minimum earnings, and, to the extent feasible, a minimum ratio of market value to book value for publicly traded securities of such institutions and holding companies. Operational and managerial standards must relate to:

• internal controls, information systems and internal audit systems

• loan documentation

• credit underwriting

• interest rate exposure

• asset growth, and

• compensation, fees and benefits

The FDICIA also sets forth Truth in Savings disclosure and advertising requirements applicable to all depository institutions.

Real Estate Lending Standards. Pursuant to the FDICIA, federal banking agencies adopted real estate lending guidelines which would set loan-to-value ("LTV") ratios for different types of real estate loans. The LTV ratio is generally defined as the total loan amount divided by the appraised value of the property at the time the loan is originated. If the institution does not hold a first lien position, the total loan amount would be combined with the amount of all junior liens when calculating the ratio. In addition to establishing the LTV ratios, the guidelines require all real estate loans to be based upon proper loan documentation and a recent appraisal or certificate of inspection of the property.

Regulatory Capital Requirements

The federal banking regulators have adopted certain risk-based capital guidelines to assist in the assessment of the capital adequacy of a banking organization's operations for both transactions reported on the balance sheet as assets and transactions, such as letters of credit, and recourse agreements, which are recorded as off-balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. Treasury securities, to 100% for assets with relatively high credit risk, such as business loans.

The following table presents the Bank's capital ratios at December 31, 2014.

	(In Thousands)	
Tier I Capital	$ 77,423	
Tier II Capital	6,390	
Total Capital	$ 83,813	
Adjusted Total Average Assets	$ 897,419	
Total Adjusted Risk-Weighted Assets[1]	$ 556,121	
Tier I Risk-Based Capital Ratio[2]	13.92	%
Required Tier I Risk-Based Capital Ratio	4.00	%
Excess Tier I Risk-Based Capital Ratio	9.92	%
Total Risk-Based Capital Ratio[3]	15.07	%
Required Total Risk-Based Capital Ratio	8.00	%
Excess Total Risk-Based Capital Ratio	7.07	%
Tier I Leverage Ratio[4]	8.63	%
Required Tier I Leverage Ratio	4.00	%
Excess Tier I Leverage Ratio	4.63	%

[1]Includes off-balance sheet items at credit-equivalent values less intangible assets.

[2]Tier I Risk-Based Capital Ratio is defined as the ratio of Tier I Capital to Total Adjusted Risk-Weighted Assets.

[3]Total Risk-Based Capital Ratio is defined as the ratio of Tier I and Tier II Capital to Total Adjusted Risk-Weighted Assets.

[4]Tier I Leverage Ratio is defined as the ratio of Tier I Capital to Adjusted Total Average Assets.

The Corporation's capital ratios are not materially different than those of the Bank.

The Corporation's ability to maintain the required levels of capital is substantially dependent upon the success of the Corporation's capital and business plans; the impact of future economic events on the Corporation's loan customers; and the Corporation's ability to manage its interest rate risk and investment portfolio and control its growth and other operating expenses. See also the information under Capital Strength in Management's Discussion and Analysis on page 39 of this report.

Regulatory Capital Changes

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The phase-in period for community banking organizations begins January 1, 2015, while larger institutions (generally those with assets of $250 billion or more) must begin compliance on January 1, 2014. The final rules call for the following capital requirements:

- A minimum ratio of common tier 1 capital to risk-weighted assets of 4.5%.
- A minimum ratio of tier 1 capital to risk-weighted assets of 6%.
- A minimum ratio of total capital to risk-weighted assets of 8%.
- A minimum leverage ratio of 4%.

In addition, the final rules establish a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations will begin on January 1, 2016.

Under the initially proposed rules, accumulated other comprehensive income ("AOCI") would have been included in a banking organization's common equity tier 1 capital. The final rules allow community banks to make a one-time election not to include these additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election must be made in the first call report or FR Y-9 series report that is filed after the financial institution becomes subject to the final rule.

The final rules permanently grandfather non-qualifying capital instruments (such as trust preferred securities and cumulative perpetual preferred stock) issued before May 19, 2010 for inclusion in the tier 1 capital of banking organizations with total consolidated assets less than $15 billion as of December 31, 2009 and banking organizations that were mutual holding companies as of May 19, 2010. The Corporation does not have trust preferred securities or cumulative perpetual preferred stock with no plans to add these to the capital structure.

The proposed rules would have modified the risk-weight framework applicable to residential mortgage exposures to require banking organizations to divide residential mortgage exposures into two categories in order to determine the applicable risk weight. In response to commenter concerns about the burden of calculating the risk weights and the potential negative effect on credit availability, the final rules do not adopt the proposed risk weights but retain the current risk weights for mortgage exposures under the general risk-based capital rules.

Consistent with the Dodd-Frank Act, the new rules replace the ratings-based approach to securitization exposures, which is based on external credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for these exposures. Alternatively, banking organizations may use the existing gross-up approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250 percent risk weight.

Under the new rules, mortgage servicing assets and certain deferred tax assets are subject to stricter limitations than those applicable under the current general risk-based capital rule. The new rules also increase the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors.

The Corporation has assessed the impact of these changes on the regulatory ratios of the Corporation and the Bank on the capital, operations, liquidity and earnings of the Corporation and Bank, and concluded that the new rules will not have a material negative effect.

Effect of Government Monetary Policies

The earnings of the Corporation are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies.

The Federal Reserve Board has had, and will likely continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order to, among other things, curb inflation or combat a recession. The Federal Reserve Board has a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulations of, among other things, the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

Effects of Inflation

Inflation has some impact on the Bank’s operating costs. Unlike industrial companies, however, substantially all of the Bank’s assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on the Bank’s performance than the general levels of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as prices of goods and services.

Environmental Regulation

There are several federal and state statutes that regulate the obligations and liabilities of financial institutions pertaining to environmental issues. In addition to the potential for attachment of liability resulting from its own actions, a bank may be held liable, under certain circumstances, for the actions of its borrowers, or third parties, when such actions result in environmental problems on properties that collateralize loans held by the bank. Further, the liability has the potential to far exceed the original amount of the loan issued by the Bank. Currently, neither the Corporation nor the Bank is a party to any pending legal proceeding pursuant to any environmental statute, nor are the Corporation and the Bank aware of any circumstances that may give rise to liability under any such statute.

Interest Rate Risk

Federal banking agency regulations specify that the Bank's capital adequacy include an assessment of the Bank's interest rate risk exposure. The standards for measuring the adequacy and effectiveness of a banking organization's Interest Rate Risk ("IRR") management includes a measurement of Board of Directors and senior management oversight, and a determination of whether a banking organization's procedures for comprehensive risk management are appropriate to the circumstances of the specific banking organization. The Bank has internal IRR models that are used to measure and monitor IRR. Additionally, the regulatory agencies have been assessing IRR on an informal basis for several years. For these reasons, the Corporation does not expect the addition of IRR evaluation to the agencies' capital guidelines to result in significant changes in capital requirements for the Bank.

<u>JOBS Act</u>

In 2012, the Jumpstart Our Business Startups Act (the "JOBS Act") became law. The JOBS Act is aimed at facilitating capital raising by smaller companies, banks and bank holding companies by implementing the following changes:

- Raising the threshold requiring registration under the Exchange Act for banks and bank holdings companies from 500 to 2,000 holders of record;
- Raising the threshold for triggering deregistration under the Exchange Act for banks and bank holding companies from 300 to 1,200 holders of record;
- Raising the limit for Regulation A offerings from $5 million to $50 million per year and exempting some Regulation A offerings from state blue sky laws;
- Permitting advertising and general solicitation in Rule 506 and Rule 144A offerings;
- Allowing private companies to use "crowdfunding" to raise up to $1 million in any 12-month period, subject to certain conditions; and
- Creating a new category of issuer, called an "Emerging Growth Company," for companies with less than $1 billion in annual gross revenue, which will benefit from certain changes that reduce the cost and burden of carrying out an equity initial public offering and complying with public company reporting obligations for up to five years.

The JOBS Act has not had any application to the Corporation, and management will continue to monitor the implementation rules for potential effects which might benefit the Corporation.

The Gramm-Leach-Bliley Act of 2000

In 2000, the Gramm-Leach-Bliley Act became law, which is also known as the Financial Services Modernization Act. The act repealed some Depression-era banking laws and will permit banks, insurance companies and securities firms to engage in each others' businesses after complying with certain conditions and regulations. The act grants to community banks the power to enter new financial markets as a matter of right that larger institutions have managed to do on an ad hoc basis. At this time, the Corporation has no plans to pursue these additional possibilities.

The Sarbanes-Oxley Act

In 2002, the Sarbanes-Oxley Act became law. The Act was in response to public concerns regarding corporate accountability in connection with recent high visibility accounting scandals. The stated goals of the Sarbanes-Oxley Act are:

- To increase corporate responsibility;
- To provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies; and
- To protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The Sarbanes-Oxley Act generally applies to all companies, both U.S. and non-U.S., that file periodic reports with the SEC under the Exchange Act. The legislation includes provisions, among other things:

- Governing the services that can be provided by a public company's independent auditors and the procedures for approving such services;
- Requiring the chief executive officer and chief financial officer to certify certain matters relating to the company's periodic filings under the Exchange Act;
- Requiring expedited filings of reports by insiders of their securities transactions and containing other provisions relating to insider conflicts of interest;
- Increasing disclosure requirements relating to critical financial accounting policies and their application;
- Increasing penalties for securities law violations; and
- Creating a public accounting oversight board, a regulatory body subject to SEC jurisdiction with broad powers to set auditing, quality control and ethics standards for accounting firms.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) became law in July 2010. Dodd-Frank is intended to affect a fundamental restructuring of federal banking regulation. Among other things, Dodd-Frank created a new Financial Stability Oversight Council to identify systemic risks in the financial system and gave federal regulators new authority to take control of and liquidate financial firms. Dodd-Frank additionally created a new independent federal regulator to administer federal consumer protection laws. Dodd-Frank is expected to have a significant impact on our business operations as its provisions take effect. It is difficult to predict at this time what specific impact Dodd-Frank and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense. Among the provisions that are likely to affect us are the following:

Holding Company Capital Requirements. Dodd-Frank requires the Federal Reserve to apply consolidated capital requirements to bank holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than $15 billion in assets. Dodd-Frank additionally requires that bank regulators issue countercyclical capital requirements so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

Deposit Insurance. Dodd-Frank permanently increases the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor, and extended unlimited deposit insurance to non-interest bearing transaction accounts through December 31, 2012. Dodd-Frank also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. Dodd-Frank requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. Effective one year from the date of enactment, Dodd-Frank eliminates the federal statutory prohibition against the payment of interest on business checking accounts.

Corporate Governance. Dodd-Frank requires publicly traded companies to give stockholders a non-binding vote on executive compensation at least every three years, a non-binding vote regarding the frequency of the vote on executive compensation at least every six years, and a non-binding vote on "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders. The SEC has finalized the rules implementing these requirements which took effect on January 21, 2011. Additionally, Dodd-Frank directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of whether the company is publicly traded. Dodd-Frank also gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Prohibition Against Charter Conversions of Troubled Institutions. Effective one year after enactment, Dodd-Frank prohibits a depository institution from converting from a state to federal charter or vice versa while it is the subject of a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter unless the appropriate federal banking agency gives notice of the conversion to the federal or state authority that issued the enforcement action and that agency does not object within 30 days. The notice must include a plan to address the significant supervisory matter. The converting institution must also file a copy of the conversion application with its current federal regulator which must notify the resulting federal regulator of any ongoing supervisory or investigative proceedings that are likely to result in an enforcement action and provide access to all supervisory and investigative information relating thereto.

Interstate Branching. Dodd-Frank authorizes national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks will be able to enter new markets more freely.

Limits on Interstate Acquisitions and Mergers. Dodd-Frank precludes a bank holding company from engaging in an interstate acquisition — the acquisition of a bank outside its home state — unless the bank holding company is both well capitalized and well managed. Furthermore, a bank may not engage in an interstate merger with another bank headquartered in another state unless the surviving institution will be well capitalized and well managed. The previous standard in both cases was adequately capitalized and adequately managed.

Limits on Interchange Fees. Dodd-Frank amends the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. On June 29, 2011, the Federal Reserve Board set the interchange rate cap at $0.24 per transaction. While the restrictions on interchange fees do not affect banks with assets less than $10 billion, the rule could affect the competitiveness of debit cards issued by smaller banks.

Consumer Financial Protection Bureau. Dodd-Frank creates a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB will have examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. Dodd-Frank authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, Dodd-Frank will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. Dodd-Frank permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Available Information

The Corporation's common stock is registered under Section 12(g) of the Exchange Act. The Corporation is subject to the informational requirements of the Exchange Act, and, accordingly, files reports, proxy statements and other information with the SEC. The reports, proxy statements and other information filed with the SEC are available for inspection and copying at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Corporation is an electronic filer with the SEC. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC's internet site address is www.sec.gov.

A copy of the Corporation's Annual Report on Form 10-K may be obtained without charge at www.fkyscorp.com or via email at info@fkcbank.com. Quarterly reports on Form 10-Q, current event reports on Form 8-K, and amendments to these reports, may be obtained without charge via email at info@fkcbank.com. Information may also be obtained via written request to Investor Relations at First Keystone Corporation, Attention: Cheryl Wynings, 111 West Front Street, P.O. Box 289, Berwick, Pennsylvania 18603, or by telephone at 570-752-3671, extension 1175.

ITEM 1A. RISK FACTORS

Investments in the Corporation's common stock involve risk. The market price of the Corporation's common stock may fluctuate significantly in response to a number of factors, including:

The Corporation is subject to interest rate risk.

The Corporation’s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Corporation’s control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Corporation receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Corporation’s ability to originate loans and obtain deposits, (ii) the fair value of the Corporation’s financial assets and liabilities, and (iii) the average duration of the Corporation’s mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Corporation’s net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Corporation’s results of operations, any substantial, unexpected, or prolonged change in market interest rates could have a material adverse effect on the Corporation’s financial condition and results of operations.

The Corporation is subject to lending risk.

As of December 31, 2014, approximately 65.4% of the Corporation's loan portfolio consisted of Commercial and Industrial loans and Commercial Real Estate loans (including construction loans) of which both include a tax-free component. These types of loans are generally viewed as having more risk of default than Residential Real Estate loans or Consumer loans. These types of loans are also typically larger than Residential Real Estate loans and Consumer loans. Because the Corporation's loan portfolio contains a significant number of Commercial and Industrial and Commercial Real Estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Corporation's financial condition and results of operations.

If the Corporation's Allowance for Loan Losses is not sufficient to cover actual loan losses, its earnings could decrease.

The Corporation's loan customers may not repay their loans according to the terms of their loans, and the collateral securing the payment of their loans may be insufficient to assure repayment. The Corporation may experience significant credit losses, which could have a material adverse effect on its operating results. In determining the amount of the allowance for loan losses, the Corporation reviews its loans and its loss and delinquency experience, and the Corporation evaluates economic conditions. If its assumptions prove to be incorrect, its allowance for loan losses may not cover inherent losses in its loan portfolio at the date of its financial statements. Material additions to the Corporation's allowance would materially decrease its net income. At December 31, 2014, its allowance for loan losses totaled $6.4 million, representing 1.36% of its average total loans.

Although the Corporation believes it has underwriting standards to manage normal lending risks, it is difficult to assess the future performance of its loan portfolio due to ongoing new originations. The Corporation cannot assure that its non-performing loans will not increase or that its non-performing or delinquent loans will not adversely affect its future performance.

In addition, federal regulators periodically review the Corporation's allowance for loan losses and may require it to increase its allowance for loan losses or recognize further loan charge-offs. Any increase in its allowance for loan losses or loan charge-offs as required by these regulatory agencies could have a material adverse effect on its results of operations and financial condition.

The Corporation's operations of its business, including its interaction with customers, are increasingly done via electronic means, and this has increased its risks related to cyber security.

The Corporation is exposed to the risk of cyber-attacks in the normal course of business. In general, cyber incidents can result from deliberate attacks or unintentional events. The Corporation has observed an increased level of attention in the industry focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. To combat against these attacks, the Corporation has policies and procedures in place to prevent or limit the effect of the possible security breach of its information systems and it has insurance against some cyber-risks and attacks. While the Corporation has not incurred any material losses related to cyber-attacks, nor is it aware of any specific or threatened cyber-incidents as of the date of this report, it may incur substantial costs and suffer other negative consequences if it falls victim to successful cyber-attacks. Such negative consequences could include remediation costs that may include liability for stolen assets or information and repairing system damage that may have been caused; deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants; lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract customers following an attack; disruption or failures of physical infrastructure, operating systems or networks that support our business and customers resulting in the loss of customers and business opportunities; additional regulatory scrutiny and possible regulatory penalties; litigation; and reputational damage adversely affecting customer or investor confidence.

The Corporation’s information systems may experience an interruption or breach in security.

The Corporation relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Corporation’s customer relationship management, general ledger, deposit, loan and other systems. The Corporation has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems; however, there can be no assurance that any such failures, interruptions or security breaches will not occur. While the Corporation maintains insurance coverage that may, subject to policy terms and conditions including significant self-insured deductibles, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. The occurrence of any failures, interruptions or security breaches of the Corporation’s information systems could damage the Corporation’s reputation adversely affecting customer or investor confidence, result in a loss of customer business, subject the Corporation to additional regulatory scrutiny and possible regulatory penalties, or expose the Corporation to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation’s financial condition and results of operations.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact the Corporation’s business.

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Corporation’s ability to conduct business. Such events could affect the stability of the Corporation’s deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Corporation to incur additional expenses. Severe weather or natural disasters, acts of war or terrorism or other adverse external events may occur in the future. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Corporation’s business, which, in turn, could have a material adverse effect on the Corporation’s financial condition and results of operations.

The Corporation operates in a highly competitive industry.

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources and greater technology. Such competitors primarily include national, regional and community banks within the various markets in which the Corporation operates. The Corporation also faces competition from many other types of financial institutions, including, without limitation, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as online account opening, automatic transfer and automatic payment systems. Many of the Corporation’s competitors have fewer regulatory constraints and may have lower cost structures.

The Corporation's ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- The ability to expand the Corporation's market position;
- The scope, relevance and pricing of products and services offered to meet customer needs and demands;
- The rate at which the Corporation introduces new products and services relative to its competitors;
- Customer satisfaction with the Corporation's level of service; and
- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Corporation's competitive position, which could adversely affect the Corporation's growth and profitability, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

New lines of business or new products and services may subject the Corporation to additional risks.

From time-to-time, the Corporation may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Corporation may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Corporation's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Corporation's business, results of operations and financial condition.

The Basel III capital requirements may require the Corporation to maintain higher levels of capital, which could reduce its profitability.

Basel III targets higher levels of base capital, certain capital buffers and a migration toward common equity as the key source of regulatory capital. Although the new capital requirements are phased in over the next decade and may change substantially before final implementation, Basel III signals a growing effort by domestic and international bank regulatory agencies to require financial institutions, including depository institutions, to maintain higher levels of capital. As Basel III is implemented, regulatory viewpoints could change or require additional capital to support the Corporation's business risk profile prior to final implementation of the Basel III standards. If the Corporation and the Bank are required to maintain higher levels of capital, the Corporation and the Bank may have fewer opportunities to invest capital into interest-earning assets, which could limit the profitable business operations available to the Corporation and the Bank and adversely impact its financial condition and results of operations.

If the Corporation concludes that the decline in value of any of its investment securities is other than temporary, the Corporation will be required to write down the credit-related portion of the impairment of that security through a charge to earnings.

Management reviews its investment securities portfolio at each quarter-end reporting period to determine whether the fair value is below the current carrying value. When the fair value of any of its investment securities has declined below its carrying value, management is required to assess whether the decline is other than temporary. If management concludes that the decline is other than temporary, management will be required to write down the credit-related portion of the impairment of that security through a charge to earnings. Due to the complexity of the calculations and assumptions used in determining whether an asset is impaired, the impairment disclosed may not accurately reflect the actual impairment in the future.

Future credit downgrades of the United States Government due to issues relating to debt and the deficit may adversely affect the Corporation.

As a result of failure of the federal government to reach agreement over federal debt and the ongoing issues connected with the debt ceiling, certain rating agencies placed the United States government's long-term sovereign debt rating on their equivalent of negative watch and announced the possibility of a rating downgrade. The rating agencies, due to constraints related to the rating of the United States, also placed government-sponsored enterprises in which the Corporation invests and receives lines of credit on negative watch and a downgrade of the United States' credit rating would trigger a similar downgrade in the credit rating of these government sponsored enterprises. Furthermore, the credit rating of other entities, such as state and local governments, may also be downgraded should the United States credit rating be downgraded. The impact that a credit rating downgrade may have on the national and local economy could have an adverse effect on the Corporation's financial condition and results of operations.

The Corporation’s profitability depends significantly on economic conditions in the Commonwealth of Pennsylvania.

The Corporation’s success depends primarily on the general economic conditions of the Commonwealth of Pennsylvania and the specific local markets in which the Corporation operates. Unlike larger national or other regional banks that are more geographically diversified, the Corporation provides banking and financial services to customers primarily in Columbia, Luzerne, Montour and Monroe counties. The local economic conditions in these areas have a significant impact on the demand for the Corporation’s products and services as well as the ability of the Corporation’s customers to repay loans, the value of the collateral securing loans and the stability of the Corporation’s deposit funding sources. Also, a significant decline in general economic conditions could impact the local economic conditions and, in turn, have a material adverse effect on the Corporation’s financial condition and results of operations.

The Corporation’s future acquisitions could dilute stockholders’ ownership and may cause the Corporation to become more susceptible to adverse economic events.

The Corporation may use its common stock to acquire other companies or make investments in banks and other complementary businesses in the future. The Corporation may issue additional shares of common stock to pay for future acquisitions, which would dilute stockholders’ ownership interest in the Corporation. Future business acquisitions could be material to the Corporation, and the degree of success achieved in acquiring and integrating these businesses into the Corporation could have a material effect on the value of the Corporation’s common stock. In addition, any acquisition could require the Corporation to use substantial cash or other liquid assets or to incur debt. In those events, the Corporation could become more susceptible to economic downturns and competitive pressures.

The Corporation may not be able to attract and retain skilled people.

The Corporation’s success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Corporation can be intense and the Corporation may not be able to hire people or to retain them. The unexpected loss of services of one or more of the Corporation’s key personnel could have a material adverse impact on the Corporation’s business because of their skills, knowledge of the Corporation’s market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

The Corporation is subject to extensive government regulation and supervision.

The Corporation, primarily through the Bank, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Corporation's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation is subject to claims and litigation pertaining to fiduciary responsibility.

From time to time, customers make claims and take legal action pertaining to the Corporation's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Corporation's performance of its fiduciary responsibilities are founded or unfounded, and if such claims and legal actions are not resolved in a manner favorable to the Corporation, they may result in significant financial liability and/or adversely affect the market perception of the Corporation and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Corporation's financial condition and results of operations.

The trading volume in the Corporation's common stock is less than that of other larger financial services companies.

The Corporation's common stock is not currently listed on a national stock exchange, but traded on the Over the Counter Market. As a result, trading volume is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Corporation's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Corporation has no control. Given the lower trading volume of the Corporation's common stock, significant sales of the Corporation's common stock, or the expectation of these sales, could cause the Corporation's stock price to fall.

The Corporation's controls and procedures may fail or be circumvented.

Management regularly reviews and updates the Corporation's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation's business, results of operations and financial condition.

The Corporation continually encounters technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation's operations. Many of the Corporation's competitors have substantially greater resources to invest in technological improvements. The Corporation may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Corporation's business and, in turn, the Corporation's financial condition and results of operations.

The Corporation may need or be compelled to raise additional capital in the future, but that capital may not be available when it is needed and on terms favorable to current shareholders.

Federal banking regulators require the Corporation and Bank to maintain adequate levels of capital to support their operations. These capital levels are determined and dictated by law, regulation and banking regulatory agencies. In addition, capital levels are also determined by the Corporation's management and board of directors, based on capital levels that they believe are necessary to support the Corporation's business operations. The Corporation is evaluating its present and future capital requirements and needs, is developing a comprehensive capital plan and is analyzing capital raising alternatives, methods and options. Even if the Corporation succeeds in meeting the current regulatory capital requirements, the Corporation may need to raise additional capital in the near future to support possible loan losses during future periods or to meet future regulatory capital requirements.

Further, the Corporation's regulators may require it to increase its capital levels. If the Corporation raises capital through the issuance of additional shares of its common stock or other securities, it would likely dilute the ownership interests of current investors and would likely dilute the per-share book value and earnings per share of its common stock. Furthermore, it may have an adverse impact on the Corporation's stock price. New investors may also have rights, preferences and privileges senior to the Corporation's current shareholders, which may adversely impact its current shareholders. The Corporation's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside its control, and on its financial performance. Accordingly, the Corporation cannot assure the shareholders of its ability to raise additional capital on terms and time frames acceptable to it or to raise additional capital at all. If the Corporation cannot raise additional capital in sufficient amounts when needed, its ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect the Corporation's operations, financial condition and results of operations.

The Corporation is subject to environmental liability risk associated with lending activities.

A significant portion of the Corporation's loan portfolio is secured by real property. During the ordinary course of business, the Corporation may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Corporation may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Corporation to incur substantial expenses and may materially reduce the affected property's value or limit the Corporation's ability to use or sell the affected property. In addition, future laws, or more stringent interpretations or enforcement policies with respect to existing laws, may increase the Corporation's exposure to environmental liability. Although the Corporation has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation's ability to pay dividends is subject to limitations.

The Corporation is a bank holding company and its operations are conducted by the Bank, which is a separate and distinct legal entity. Substantially all of the Corporation's assets are held by the Bank.

The Corporation's ability to pay dividends depends on its receipt of dividends from the Bank, its primary source of dividends. Dividend payments from the Bank are subject to legal and regulatory limitations, generally based on net profits and retained earnings, imposed by the various banking regulatory agencies. The ability of banking subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements. There is no assurance that the Bank will be able to pay dividends in the future or that the Corporation will generate adequate cash flow to pay dividends in the future. The Corporation's failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock.

Pennsylvania Business Corporation Law and various anti-takeover provisions under its Articles of Incorporation and Bylaws could impede the takeover of the Corporation.

Various Pennsylvania laws affecting business corporations may have the effect of discouraging offers to acquire the Corporation, even if the acquisition would be advantageous to shareholders. In addition, the Corporation has various anti-takeover measures in place under its Articles of Incorporation and Bylaws, including a staggered board of directors and the absence of cumulative voting. Any one or more of these measures may impede the takeover of the Corporation without the approval of its Board of Directors and may prevent its shareholders from taking part in a transaction in which they could realize a premium over the current market price of its common stock.

The Corporation’s banking subsidiary may be required to pay higher FDIC insurance premiums or special assessments which may adversely affect its earnings.

Poor economic conditions and the resulting bank failures have increased the costs of the FDIC and depleted its deposit insurance fund. Additional bank failures may prompt the FDIC to increase its premiums above the recently increased levels or to issue special assessments. The Corporation is generally unable to control the amount of premiums or special assessments that its subsidiary is required to pay for FDIC insurance. Any future changes in the calculation or assessment of FDIC insurance premiums may have a material adverse effect on the Corporation’s results of operations, financial condition, and its ability to continue to pay dividends on its common stock at the current rate or at all.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Corporation and its subsidiary occupy eighteen branch properties in Columbia, Luzerne, Montour and Monroe counties in Pennsylvania, which are used principally as banking offices.

Properties owned are:

- Main Office located at 111 West Front Street, Berwick, Pennsylvania 18603;
- Salem Office located at 400 Fowler Avenue, Berwick, Pennsylvania 18603;
- Freas Avenue Office located at 701 Freas Avenue, Berwick, Pennsylvania 18603;
- Scott Township Office located at 2301 Columbia Boulevard, Bloomsburg, Pennsylvania 17815;
- Mifflinville Office located at Third and Race Streets, Mifflinville, Pennsylvania 18631;
- Hanover Township Office located at 1540 Sans Souci Parkway, Hanover Township, Pennsylvania 18706;
- Danville Office located at 1519 Bloom Road, Danville, Pennsylvania 17821;
- Mountainhome Office located at 1154 Route 390, Cresco, Pennsylvania 18326;
- Brodheadsville Office located at 2022 Route 209, Brodheadsville, Pennsylvania 18322;
- Swiftwater Office located at 2070 Route 611, Swiftwater, Pennsylvania 18370;
- Plymouth Office located at 463 West Main Street, Plymouth, Pennsylvania 18651;
- Kingston Office located at 299 Wyoming Avenue, Kingston, Pennsylvania 18704;
- Dallas Office located at 2325 Memorial Highway, Dallas, Pennsylvania 18612;
- Shickshinny Office located at 107 South Main Street, Shickshinny, Pennsylvania 18655;
- Properties located at Second and Market Streets, and Third and Bowman Streets, Berwick, Pennsylvania 18603; and
- 20 ATMs located in Columbia, Luzerne, Montour and Monroe counties.

Properties leased are:

- Briar Creek Office located inside the Giant Market at 50 Briar Creek Plaza, Berwick, Pennsylvania 18603;
- Nescopeck Office located at 437 West Third Street, Nescopeck, Pennsylvania 18635;
- Stroudsburg Office located at 559 Main Street, Stroudsburg, Pennsylvania 18360; and
- Mountain Top Office located at 18 North Mountain Boulevard, Mountain Top, Pennsylvania 18707 (land parcel is leased and the bank building is owned).

ITEM 3. LEGAL PROCEEDINGS

The Corporation and/or the Bank are defendants in various legal proceedings arising in the ordinary course of their business. However, in the opinion of management of the Corporation and the Bank, there are no proceedings pending to which the Corporation and the Bank is a party or to which their property is subject, which, if determined adversely to the Corporation and the Bank, would be material in relation to the Corporation's and Bank's individual profits or financial condition, nor are there any proceedings pending other than ordinary routine litigation incident to the business of the Corporation and the Bank. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Corporation and the Bank by government authorities or others.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation's common stock is traded in the over-the-counter market on the OTC Market under the symbol "FKYS". The following table sets forth:

- The quarterly high and low prices for a share of the Corporation's common stock during the periods indicated as reported to the management of the Corporation;
- Quarterly dividends on a share of the common stock paid with respect to each quarter since January 1, 2013; and
- The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

MARKET VALUE OF COMMON STOCK

	High	Low	Per Share Dividend Paid
2014:			
First quarter	$ 27.00	$ 24.24	$ 0.26
Second quarter	$ 26.25	$ 24.05	$ 0.26
Third quarter	$ 25.00	$ 24.00	$ 0.26
Fourth quarter	$ 24.70	$ 23.05	$ 0.27
2013:			
First quarter	$ 26.75	$ 23.71	$ 0.26
Second quarter	$ 26.70	$ 25.24	$ 0.26
Third quarter	$ 27.00	$ 25.05	$ 0.26
Fourth quarter	$ 27.00	$ 24.50	$ 0.26

As of December 31, 2014, the Corporation had approximately 928 shareholders of record.

The Corporation has paid dividends since commencement of business in 1984. It is the present intention of the Corporation's Board of Directors to continue the dividend payment policy. Stock value, cost and availability of external capital, and the Corporation's present and anticipated capital needs are weighed in the process of making a responsible decision. Further dividends must necessarily depend upon earnings, financial condition, appropriate legal restrictions and other factors relevant at the time the Board of Directors of the Corporation considers its dividend policy. Cash available for dividend distributions to shareholders of the Corporation must initially come from dividends paid by the Bank to the Corporation. Therefore, the restrictions on the Bank's dividend payments are directly applicable to the Corporation.

Transfer Agent:

Computershare	(800) 368-5948
P.O. Box 30170	
College Station, TX 77842-3170	

The following brokerage firms make a market in First Keystone Corporation common stock:

RBC Dain Rauscher	(800) 223-4207
Janney Montgomery Scott LLC	(800) 526-6397
Stifel Nicolaus & Co. Inc.	(800) 223-6807
Boenning & Scattergood, Inc.	(800) 883-1212

Dividend Restrictions on the Bank

Generally, as a Pennsylvania state chartered bank, under Pennsylvania banking law, the Bank may only pay dividends out of accumulated net earnings.

Dividend Restrictions on the Corporation

Under the Pennsylvania Business Corporation Law of 1988, as amended, the Corporation may not pay a dividend if, after giving effect thereto, either:

- The Corporation would be unable to pay its debts as they become due in the usual course of business; or
- The Corporation's total assets would be less than its total liabilities.

The determination of total assets and liabilities may be based upon:

- Financial statements prepared on the basis of generally accepted accounting principles;
- Financial statements that are prepared on the basis of other accounting practices and principles that are reasonable under the circumstances; or
- A fair valuation or other method that is reasonable under the circumstances.

PERFORMANCE GRAPH

The following graph and table compare the cumulative total shareholder return on the Corporation's common stock during the period December 31, 2009, through and including December 31, 2014, with

- The cumulative total return on the SNL Securities Corporate Performance Index[1] for banks $500 million to $1 billion in total assets in the Middle Atlantic area[2], and
- The cumulative total return for all United States stocks traded on the NASDAQ Stock Market.

The comparison assumes $100 was invested on December 31, 2009, in the Corporation's common stock and in each of the indices below and assumes further the reinvestment of dividends into the applicable securities. The shareholder return shown on the graph and table below is not necessarily indicative of future performance.

FIRST KEYSTONE CORPORATION

Total Return Performance

	Period Ending					
	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
First Keystone Corporation	100.00	108.87	134.25	166.11	177.91	182.95
NASDAQ Composite	100.00	118.15	117.22	138.02	193.47	222.16
SNL Bank $500M- $1B	100.00	109.16	96.03	123.12	159.65	175.15

[1] SNL Securities is a research and publishing firm specializing in the collection and dissemination of data on the banking, thrift and financial services industries.

[2] The Middle Atlantic area comprises the states of Delaware, Pennsylvania, Maryland, New Jersey, New York, the District of Columbia and Puerto Rico.

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ITEM 6. SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
SELECTED FINANCIAL DATA AT YEAR END:					
Total assets	$912,353	$901,514	$819,966	$818,546	$796,601
Total investment securities	348,722	354,770	298,873	331,429	310,168
Net loans	481,071	439,999	427,124	410,066	403,950
Total deposits	661,562	690,075	608,834	624,349	626,895
Total long-term borrowings	65,339	40,429	44,520	64,339	66,400
Total stockholders' equity	106,271	96,351	103,330	93,092	79,060
SELECTED OPERATING DATA:					
Interest income	$31,019	$30,961	$34,936	$37,028	$38,154
Interest expense	4,452	4,954	6,514	9,405	12,742
Net interest income	26,567	26,007	28,422	27,623	25,412
Provision for loan losses	433	1,372	1,600	1,900	2,575
Net interest income after provision for loan losses	26,134	24,635	26,822	25,723	22,837
Non-interest income	7,902	7,805	5,875	4,431	5,758
Non-interest expense	21,208	19,942	20,521	17,695	17,272
Income before income tax expense	12,828	12,498	12,176	12,459	11,323
Income tax expense	2,617	2,225	2,006	2,552	2,362
Net income	$10,211	$10,273	$10,170	$9,907	$8,961
PER SHARE DATA:					
Net income	$1.84	$1.87	$1.86	$1.82	$1.65
Dividends	1.05	1.04	1.01	0.97	0.93
PERFORMANCE RATIOS:					
Return on average assets	1.13 %	1.23 %	1.25 %	1.21 %	1.09 %
Return on average equity	9.90 %	10.12 %	10.19 %	11.57 %	10.98 %
Dividend payout	56.95 %	55.64 %	54.18 %	53.31 %	56.47 %
Average equity to average assets	11.45 %	12.10 %	12.28 %	10.43 %	9.95 %

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of Management's Discussion and Analysis of First Keystone Corporation, a bank holding company (the "Corporation"), and its wholly owned subsidiary, First Keystone Community Bank (the "Bank"), is to assist the reader in reviewing the financial information presented and should be read in conjunction with the consolidated financial statements and other financial data contained herein. Refer to Forward Looking Statements on page 1 for detailed information.

RESULTS OF OPERATIONS

Year Ended December 31, 2014 Versus Year Ended December 31, 2013

Net income decreased to $10,211,000 for the year ended December 31, 2014, as compared to $10,273,000 for the prior year, a decrease of 0.6%. Earnings per share, both basic and diluted, for 2014 was $1.84 as compared to $1.87 in 2013, a decrease of 1.6%. Dividends per share increased to $1.05 in 2014 from $1.04 in 2013, an increase of 1.0%. The Corporation's return on average assets was 1.13% in 2014 as compared to 1.23% in 2013. Return on average equity decreased to 9.90% in 2014 from 10.12% in 2013. Total interest income in 2014 amounted to $31,019,000 and was essentially equal to 2013. Total interest expense of $4,452,000 decreased $502,000 or 10.1% from 2013. The majority of this decrease related to interest expense on deposits as total interest bearing deposits declined from $604,919,000 in 2013 to $565,032,000 in 2014.

Net interest income, as indicated below in Table 1, increased by $560,000 or 2.2% to $26,567,000 for the year ended December 31, 2014. The Corporation's net interest income on a fully tax equivalent basis decreased by $53,000, or 0.2% to $28,344,000 in 2014 as compared to $28,397,000 in 2013.

Year Ended December 31, 2013 Versus Year Ended December 31, 2012

Net income increased to $10,273,000 for the year ended December 31, 2013, as compared to $10,170,000 for the prior year, an increase of 1.0%. Earnings per share, both basic and diluted, for 2013 was $1.87 as compared to $1.86 in 2012, an increase of 0.5%. Dividends per share increased to $1.04 in 2013 from $1.01 in 2012, an increase of 3.0%. The Corporation's return on average assets was 1.23% in 2013 as compared to 1.25% in 2012. Return on average equity decreased to 10.12% in 2013 from 10.19% in 2012. Falling yields resulted in an overall decrease of interest income to $30,961,000, down $3,975,000 or 11.4% from 2012. There was the accompanying decrease in interest on deposits and borrowings as interest rates declined, which resulted in interest expense of $4,954,000 in 2013, a decrease of $1,560,000 or 24.0% from 2012.

Net interest income, as indicated below in Table 1, decreased by $2,415,000 or 8.5% to $26,007,000 for the year ended December 31, 2013. The Corporation's net interest income on a fully tax equivalent basis decreased by $2,685,000, or 8.6% to $28,397,000 in 2013 as compared to $31,082,000 in 2012.

Table 1 — Net Interest Income

(Dollars in thousands)	2014/2013 Increase/(Decrease)				2013/2012 Increase/(Decrease)		
	2014	Amount	%	2013	Amount	%	2012
Interest Income	$31,019	$ 58	0.2	$30,961	$(3,975)	(11.4)	$34,936
Interest Expense	4,452	(502)	(10.1)	4,954	(1,560)	(24.0)	6,514
Net Interest Income	26,567	560	2.2	26,007	(2,415)	(8.5)	28,422
Tax Equivalent Adjustment	1,777	(613)	(25.6)	2,390	(270)	(10.2)	2,660
Net Interest Income (fully tax equivalent)	$28,344	$ (53)	(0.2)	$28,397	$(2,685)	(8.6)	$31,082

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Table 2 — Average Balances, Rates and Interest Income and Expense

(Dollars in thousands)

	2014 Average Balance	**Interest**	**Yield/ Rate**	2013 Average Balance	Interest	Yield/ Rate	2012 Average Balance	Interest	Yield/ Rate
Interest Earning Assets:									
Loans:									
Commercial, net[1,2]	**$65,012**	**$2,685**	**4.13 %**	$57,928	$2,733	4.72 %	$47,386	$2,398	5.06 %
Real Estate[1]	**398,179**	**17,507**	**4.40 %**	372,225	17,339	4.66 %	369,674	19,538	5.29 %
Consumer, net[1,2]	**5,279**	**383**	**7.26 %**	5,887	426	7.24 %	6,520	517	7.93 %
Fees on Loans		**552**	**0 %**		583	0 %		650	0 %
Total Loans[3]	**468,470**	**21,127**	**4.51 %**	436,040	21,081	4.83 %	423,580	23,103	5.45 %
Investment Securities:									
Taxable	**282,145**	**7,850**	**2.78 %**	226,465	6,903	3.05 %	211,081	8,019	3.80 %
Tax-Exempt[1]	**68,062**	**3,561**	**5.23 %**	91,074	5,314	5.83 %	105,359	6,464	6.14 %
Total Investment Securities	**350,207**	**11,411**	**3.26 %**	317,539	12,217	3.85 %	316,440	14,483	4.58 %
Restricted Investment in Bank Stocks	**5,836**	**252**	**4.32 %**	4,088	35	0.86 %	4,768	9	0.19 %
Interest-Bearing Deposits in Other Banks	**1,170**	**6**	**0.51 %**	8,029	18	0.22 %	2,791	1	0.04 %
Total Other Interest Earning Assets	**7,006**	**258**	**3.68 %**	12,117	53	0.44 %	7,559	10	0.13 %
Total Interest Earning Assets	**825,683**	**32,796**	**3.97 %**	765,696	33,351	4.36 %	747,579	37,596	5.03 %
Non-Interest Earning Assets:									
Cash and Due From Banks	**7,687**			6,917			6,881		
Allowance for Loan Losses	**(6,483)**			(5,971)			(5,994)		
Premises and Equipment	**21,252**			20,547			15,978		
Other Assets	**52,813**			51,371			48,536		
Total Non-Interest Earning Assets	**75,269**			72,864			65,401		
Total Assets	**$900,952**			$838,560			$812,980		
Interest Bearing Liabilities:									
Savings, NOW Accounts, and Money Markets	**$362,219**	**$728**	**0.20 %**	$317,477	$691	0.22 %	$289,399	$762	0.26 %

Time Deposits	**204,024**	**2,226**	**1.09 %**	251,758	2,932	1.16 %	249,150	3,794	1.52 %
Securities Sold U/A to Repurchase	**16,936**	**40**	**0.24 %**	18,753	78	0.42 %	19,458	90	0.46 %
Short-Term Borrowings	**58,519**	**174**	**0.30 %**	11,050	27	0.24 %	11,030	28	0.26 %
Long-Term Borrowings	**54,331**	**1,284**	**2.36 %**	45,493	1,226	2.69 %	56,351	1,840	3.27 %
Federal Funds Purchased	**2**		**0 %**			0 %			0 %
Total Interest Bearing Liabilities	**696,031**	**4,452**	**0.64 %**	644,531	4,954	0.77 %	625,388	6,514	1.04 %
Non-Interest Bearing Liabilities:									
Demand Deposits	**92,454**			80,833			80,087		
Other Liabilities	**9,350**			11,692			7,671		
Stockholders' Equity	**103,117**			101,504			99,834		
Total Liabilities/Stockholders' Equity	**$900,952**			$838,560			$812,980		
Net Interest Income Tax Equivalent		**$28,344**			$28,397			$31,082	
Net Interest Spread			**3.33 %**			3.59 %			3.99 %
Net Interest Margin			**3.43 %**			3.71 %			4.16 %

[1]Tax-exempt income has been adjusted to a tax equivalent basis using an incremental rate of 34%, and statutory interest expense disallowance.

[2]Installment loans are stated net of unearned interest.

[3]Average loan balances include non-accrual loans. Interest income on non-accrual loans is not included.

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NET INTEREST INCOME

The major source of operating income for the Corporation is net interest income. Net interest income is the difference between interest income on earning assets, such as loans and securities, and the interest expense on liabilities used to fund those assets, including deposits and other borrowings. The amount of interest income is dependent upon both the volume of earning assets and the level of interest rates. In addition, the volume of non-performing loans affects interest income. The amount of interest expense varies with the amount of funds needed to support earning assets, interest rates paid on deposits and borrowed funds, and finally, the level of interest free deposits.

Table 2 on the preceding page provides a summary of average outstanding balances of earning assets and interest bearing liabilities with the associated interest income and interest expense as well as average tax equivalent rates earned and paid as of year-end 2014, 2013 and 2012.

The yield on earning assets was 3.97% in 2014, 4.36% in 2013, and 5.03% in 2012. The rate paid on interest bearing liabilities was 0.64% in 2014, 0.77% in 2013, and 1.04% in 2012. This resulted in a decrease in our net interest spread to 3.33% in 2014, as compared to 3.59% in 2013 and 3.99% in 2012.

As Table 2 illustrates, net interest margin, which is interest income less interest expense divided by average earning assets, was 3.43% in 2014 as compared to 3.71% in 2013 and 4.16% in 2012. Net interest margins are presented on a tax-equivalent basis. In 2014, yield on earning assets fell by 0.39%, from 4.36% to 3.97% while the rate paid on interest bearing liabilities dropped 0.13%. As loans were repaid and refinanced, and as investments were sold, matured or called, the principal balances were reinvested at lower, current rates. This was the primary cause of the lower yields on both loans and investments. Savings, NOW and money market interest expense increased slightly as a result of the introduction of the Kasasa suite of high interest checking and savings accounts in 2014. Interest paid on certificates of deposit declined as they matured and were reinvested at lower rates. Average long-term borrowings increased $8,838,000 while the average rate paid on these borrowings declined by 0.33% from 2.69% to 2.36%. Therefore, the net interest spread and margin in 2014 as compared to 2013 was negatively impacted. Interest income exempt from federal tax was $3,520,000 in 2014, $4,743,000 in 2013, and $5,317,000 in 2012. Interest income exempt from federal tax decreased due to sales of tax-exempt securities. Tax-exempt income has been adjusted to a tax-equivalent basis using an incremental rate of 34%.

The decline in our net interest margin came from significantly lower earning asset yields and slightly lower funding costs in 2014 and 2013. Fully tax equivalent net interest income fell from 2013 to 2014 by $53,000 or 0.20% to $28,344,000. This occurred while the level of average earning assets increased by 7.8%. The Corporation's net interest margin was under pressure when interest rates started to rise since the Corporation continues to be liability sensitive. There will be more liabilities, including deposits, repricing than earning assets (loans and investments). To negate the potential impact of a lesser net interest margin, the Corporation will continue to focus on attracting lower cost checking, savings and money market accounts and reduce somewhat its dependence on higher priced certificates of deposit.

Table 3 sets forth changes in interest income and interest expense for the periods indicated for each category of interest earning assets and interest bearing liabilities. Information is provided on changes attributable to (i) changes in volume (changes in average volume multiplied by prior rate); (ii) changes in rate (changes in average rate multiplied by prior average volume); and, (iii) changes in rate and volume (changes in average volume multiplied by change in average rate).

In 2014, the decrease in net interest income on a fully tax equivalent basis of $53,000 resulted from an increase in volume of $2,035,000 and a decrease of $2,088,000 due to changes in rate. In 2013, the decrease in net interest income of $2,685,000 resulted from an increase in volume of $632,000 and a decrease of $3,317,000 due to changes in rate.

Table 3 — Rate/Volume Analysis

(Dollars in thousands)	2014 COMPARED TO 2013			2013 COMPARED TO 2012		
	VOLUME	RATE	NET	VOLUME	RATE	NET
Interest Income:						
Loans, Net	$1,568	$(1,522)	$46	$679	$(2,702)	$(2,023)
Taxable Investment Securities	1,697	(750)	947	584	(1,700)	(1,116)
Tax-Exempt Investment Securities	(1,343)	(410)	(1,753)	(876)	(273)	(1,149)
Restricted Investment in Bank Stocks	15	202	217	(1)	27	26
Other	(15)	3	(12)	2	15	17
Total Interest Income	$1,922	$(2,477)	$(555)	$388	$(4,633)	$(4,245)
Interest Expense:						
Savings, NOW and Money Markets	$97	$(60)	$37	$74	$(145)	$(71)
Time Deposits	(556)	(150)	(706)	40	(902)	(862)
Securities Sold U/A to Repurchase	(8)	(30)	(38)	(3)	(9)	(12)
Short-Term Borrowings	116	31	147		(1)	(1)
Long-Term Borrowings	238	(180)	58	(355)	(259)	(614)
Total Interest Expense	(113)	(389)	(502)	(244)	(1,316)	(1,560)
Net Interest Income	$2,035	$(2,088)	$(53)	$632	$(3,317)	$(2,685)

The change in interest due to both volume and yield/rate has been allocated to change due to volume and change due to yield/rate in proportion to the absolute value of the change in each. Balances on non-accrual loans are included for computational purposes. Interest income on non-accrual loans is not included.

PROVISION FOR LOAN LOSSES

For the year ended December 31, 2014, the provision for loan losses was $433,000 as compared to $1,372,000 for 2013 and $1,600,000 for 2012. The provision in 2014 decreased due to the Corporation's analysis of the current loan portfolio, including historic losses, past-due trends, economic conditions, and other relevant factors. Net charge-offs by the Corporation for the fiscal years ended December 31, 2014, 2013 and 2012 were $562,000, $625,000, and $1,757,000, respectively. See Allowance for Loan Losses on Page 34 for further discussion.

Charge-offs declined in 2014 as compared to the previous year as a result of fewer borrowers defaulting on credit obligations, the Corporation's diligent collection efforts, and the improving economy. These factors also contributed to the decline in net charge-offs in 2013 as compared to 2012. The increased balance of net charge-offs at December 31, 2012 is largely the result of challenges associated with the economy (higher unemployment and increased delinquencies) that were experienced at that time. While the Corporation cannot accurately predict future charge-offs, it is anticipated that the current level of charge-offs may continue into 2015, as economic conditions remain uncertain.

The allowance for loan losses as a percentage of average loans outstanding was 1.36% as of December 31, 2014, 1.49% as of December 31, 2013 and 1.36% as of December 31, 2012.

On a quarterly basis, management performs, and the Corporation's Audit Committee and the Board of Directors reviews, a detailed analysis of the adequacy of the allowance for loan losses. This analysis includes an evaluation of credit risk concentration, delinquency trends, past loss experience, current economic conditions, composition of the loan portfolio, classified loans and other relevant factors.

The Corporation will continue to monitor its allowance for loan losses and make future adjustments to the allowance through the provision for loan losses as conditions warrant. Although the Corporation believes that the allowance for loan losses is adequate to provide for losses inherent in the loan portfolio, there can be no assurance that future losses will not exceed the estimated amounts or that additional provisions will not be required in the future.

The Bank is subject to periodic regulatory examination by the Pennsylvania Department of Banking and Securities and the FDIC. As part of the examination, the regulators will assess the adequacy of the Bank's allowance for loan losses and may include factors not considered by the Bank. In the event that a regulatory examination results in a conclusion that the Bank's allowance for loan losses is not adequate, the Bank may be required to increase its provision for loan losses.

NON-INTEREST INCOME

Non-interest income is derived primarily from trust department revenue, service charges and fees, income on bank owned life insurance, ATM and debit card income, gains on sales of mortgage loans and other miscellaneous income. In addition, net investment securities gains and losses also impact total non-interest income. Table 4 provides the yearly non-interest income by category, along with the amount, dollar changes, and percentage of change.

Non-interest income through December 31, 2014 was $7,902,000, an increase of 1.2%, or $97,000, from 2013. Table 4 provides the major categories of non-interest income and each respective change comparing the last three years. The majority of the 2014 increase was due to an increase in revenue generated from service charges and fees and ATM and debit card income.

During 2014, the Corporation recorded a net gain of $2,756,000 from the sales of securities in its investment portfolio, a decrease of $144,000 from 2013. The Bank has taken gains and losses in the portfolio, primarily in municipal securities, to reduce market risk and protect from further changes in value in the face of increases in long-term interest rates. In 2013, gains totaled $2,900,000, while in 2012 they were $813,000. These gains resulted from the normal readjustment process within the portfolio.

Gains on sales of mortgage loans provided $284,000 in 2014 as compared to $618,000 in 2013 and $1,016,000 in 2012. The decrease in gains on sales of mortgage loans in 2014 and 2013 was due to rising secondary market rates resulting in a decline in refinanced mortgages. In 2014, the Bank originated $30,348,000 in residential mortgage loans and sold $10,972,000. This compared unfavorably to 2013 when the Bank originated $46,773,000 in residential mortgage loans and sold $25,653,000. The increase in volume in 2012 was due to the favorable interest rate environment for refinancing. The Corporation continues to service the majority of mortgages which are sold. This servicing income provides an additional source of non-interest income on an ongoing basis.

Service charges and fees increased by $212,000 in 2014 as compared to 2013, or 15.1% due to an increase in per item overdraft fees and certain other deposit account fees. During 2013, the Bank evaluated competitor fees in the marketplace and determined that higher deposit fees could be supported. In addition, ATM and debit card income increased $123,000 or 12.3% due to the Bank’s new Kasasa rewards checking program which encourages customers to use their debit card more often. Service charges and fees increased $197,000 in 2013 as compared to 2012, primarily due to prepayment fees relating to certain commercial loans that were paid in advance of their maturity.

Other income, consisting primarily of safe deposit box rentals, income from the sale of non-deposit investment products, and miscellaneous fees, increased $167,000 or 46.8% in 2014 and decreased $38,000 or 9.6% in 2013. Commissions earned on sales of retail non-deposit investment products increased 47.3% in 2014 but decreased 11.2%

in 2013.

Table 4 — Non-Interest Income

(Dollars in thousands)	**2014**	**2014/2013 Increase/(Decrease) Amount**	**%**	**2013**	2013/2012 Increase/(Decrease) Amount	%	2012
Trust department	**$921**	**$ 80**	**9.5**	**$841**	$95	12.7	$746
Service charges and fees	**1,614**	**212**	**15.1**	**1,402**	197	16.3	1,205
Bank owned life insurance income	**680**	**(7)**	**(1.0)**	**687**	(36)	(5.0)	723
ATM and debit card income	**1,123**	**123**	**12.3**	**1,000**	23	2.4	977
Gains on sales of mortgage loans	**284**	**(334)**	**(54.0)**	**618**	(398)	(39.2)	1,016
Other	**524**	**167**	**46.8**	**357**	(38)	(9.6)	395
Subtotal	**5,146**	**241**	**4.9**	**4,905**	(157)	(3.1)	5,062
Net investment securities gains	**2,756**	**(144)**	**(5.0)**	**2,900**	2,087	256.7	813
Total	**$7,902**	**$ 97**	**1.2**	**$7,805**	$1,930	32.9	$5,875

NON-INTEREST EXPENSE

Non-interest expense consists of salaries and employee benefits, occupancy, furniture and equipment, and other miscellaneous expenses. Table 5 provides the yearly non-interest expense by category, along with the amount, dollar changes, and percentage of change.

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Total non-interest expense amounted to $21,208,000, an increase of $1,266,000, or 6.3% in 2014 as compared to a decrease of $579,000, or 2.8% in 2013. Expenses associated with employees (salaries and employee benefits) continue to be the largest non-interest expenditure. Salaries and employee benefits amounted to 54.1% of total non-interest expense in 2014 and 54.8% in 2013. Salaries and employee benefits increased $546,000, or 5.0% in 2014 and $516,000, or 5.0% in 2013. The hiring of several new employees, including a Financial Services Officer and a Financial Consultant, among others, contributed to the 2014 increase in salaries and benefits expense. The majority of the salaries and employee benefits increase in 2014 and 2013 was related to the opening of new branches in Dallas, Pennsylvania, on March 18, 2013, and Shickshinny, Pennsylvania, on December 9, 2013. In addition, the Corporation experienced a 3.4% increase in medical insurance for its employees, from $1,342,000 to $1,387,000. The number of full time equivalent employees was 205 as of December 31, 2014, 207 as of December 31, 2013, and 193 as of December 31, 2012.

Net occupancy expense increased $154,000, or 10.1% in 2014 as compared to an increase of $118,000, or 8.4% in 2013. The 2014 increase in net occupancy expense primarily consisted of higher building depreciation, maintenance and repairs, and taxes associated with the new Dallas and Shickshinny branches and the renovation and expansion of the Bank’s main headquarters. Furniture and equipment and computer expense decreased $46,000, or 2.7% in 2014 compared to an increase of $54,000, or 3.3% in 2013. The increases in 2013 were caused by higher service maintenance on software, higher depreciation, and losses on disposals of furniture and fixtures due to the renovation and expansion of the Bank’s main headquarters and the replacement of several ATMs. Pennsylvania shares tax expense decreased $147,000, or 18.8% in 2014 as a result of a lowered tax rate from the prior year and an increase in the deduction for U.S. Obligations held in the investment portfolio. FDIC insurance expense increased $83,000, or 19.7% in 2014 as compared to a decrease of $64,000, or 13.2% in 2013. FDIC insurance expense varies with changes in net asset size, risk ratings, and FDIC derived assessment rates. Data processing fees of $300,000 were incurred in 2014 as a result of the planned outsourcing of the Bank’s core processing system for data security, disaster recovery and system efficiency goals. Foreclosed assets held for resale expense amounted to $80,000 in 2014, $41,000 in 2013 and $654,000 in 2012. The Corporation incurred costs associated with the maintenance and sales of eight foreclosed properties in 2012, but only four properties in 2013 and three properties in 2014. Advertising expenses increased $128,000 or 29.0% as a result of the rollout of the Bank’s new suite of rewards checking products called Kasasa in the first quarter of 2014. FHLB prepayment penalties of $345,000 were expenses related to the early prepayment of a borrowing with the Federal Home Loan Bank (“FHLB”) in 2013. Other expenses increased $424,000 or 15.7% from 2013 to 2014. The increase was due to higher fees for an enhanced internet and mobile banking platform, Kasasa rewards and success fees, and an increase in charitable donations.

The overall level of non-interest expense remains low, relative to the Bank’s peers (community banks from $500 million to $1 billion in assets). In fact, the Bank’s total non-interest expense was 2.35% of average assets in 2014 and 2.38% in 2013. The Bank’s non-interest expense as a percentage of average assets places the Bank among the leaders in its peer financial institution categories in controlling non-interest expense.

Table 5 — Non-Interest Expense

(Dollars in thousands)	**2014/2013**				2013/2012		
	Increase/(Decrease)				Increase/(Decrease)		
	2014	**Amount**	**%**	**2013**	Amount	%	2012
Salaries and employee benefits	**$ 11,475**	**$ 546**	3.6%	3.5%			
All other salaries and related expenses	3.0%	3.1%	3.2 %				

Office and General Expenses

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

		Components of Change				Change	
	Prior Year Amount	Foreign Currency	Net Acquisitions/ (Divestitures)	Organic	Total Amount	Organic	Total
2011 - 2012	$1,925.3	$(40.7)	$8.4	$(7.0)	$1,886.0	(0.4)%	(2.0)%
2010 - 2011	1,841.6	34.3	(4.9)	54.3	1,925.3	2.9 %	4.5 %

Our office and general expense ratio, defined as office and general expenses as a percentage of total consolidated revenue, decreased in 2012 to 27.1% from 27.4% in 2011. Office and general expenses in 2012 decreased by $39.3 compared to 2011, due to a favorable foreign currency rate impact of $40.7 and an organic decrease of $7.0, partially offset by the effect of net acquisitions of $8.4. The organic decrease was primarily attributable to lower occupancy costs, as we continue to find efficiencies in our real estate portfolio, and professional fees. The organic decrease was partially offset by higher production expenses in our international markets, most notably in the Asia Pacific region and in the United Kingdom, related to pass-through costs, which are also reflected in revenue, for certain projects where we acted as principal that increased in size or were new during 2012.

Our office and general expense ratio decreased in 2011 to 27.4% from 28.3% in 2010. Office and general expenses in 2011 increased by $83.7 compared to 2010, primarily consisting of an organic increase of $54.3 and an adverse foreign currency rate impact of $34.3. The organic increase was primarily attributable to continued business growth in 2011, which resulted in higher production expenses related to pass-through costs for certain projects where we acted as a principal that increased in size or were new during 2011. Also contributing to the organic increase, but to a lesser extent, was higher discretionary spending to support business growth.

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The following table details our office and general expense ratio. All other office and general expenses primarily include production expenses, and, to a lesser extent, depreciation and amortization, bad debt expense, foreign currency gains (losses), restructuring and other reorganization-related charges (reversals), long-lived asset impairment and other expenses.

	Years ended December 31,		
	2012	2011	2010
Office and general expenses	27.1 %	27.4 %	28.3 %
Professional fees	1.7 %	1.8 %	1.9 %
Occupancy expense (excluding depreciation and amortization)	7.0 %	7.2 %	7.7 %
Travel & entertainment, office supplies and telecommunications	3.6 %	3.6 %	3.7 %
All other office and general expenses	14.8 %	14.8 %	15.0 %

EXPENSES AND OTHER INCOME

	Years ended December 31,		
	2012	2011	2010
Cash interest on debt obligations	$(130.6)	$(138.9)	$(139.8)
Non-cash interest	(2.9)	2.1	0.1
Interest expense	(133.5)	(136.8)	(139.7)
Interest income	29.5	37.8	28.7
Net interest expense	(104.0)	(99.0)	(111.0)
Other income, net	100.5	150.2	12.9
Total (expenses) and other income	$(3.5)	$51.2	$(98.1)

Net Interest Expense

For 2012, net interest expense increased by $5.0 as compared to 2011, primarily due to an increase in non-cash interest expense. Non-cash interest expense increased since the premium associated with our 4.25% Convertible Senior Notes due 2023 (the "4.25% Notes"), which we retired in March 2012, was fully amortized. Cash interest expense decreased primarily due to the retirement of our 4.25% Notes, which was offset by lower interest income, primarily in the United States due to lower cash balances.

For 2011, net interest expense decreased by $12.0 as compared to 2010, primarily due to an increase in interest income. Interest income increased primarily due to an increase in average cash and cash equivalent balances and an increase in average interest rates in certain countries around the world compared to the prior-year period. Interest expense decreased primarily due to repayment of debt obligations in 2010, partially offset by higher interest expense in certain countries outside of the United States.

Other Income, net

Results of operations include certain items that are not directly associated with our revenue-producing operations.

	Years ended December 31,		
	2012	2011	2010
Gains on sales of businesses and investments	$88.2	$125.9	$4.3
Vendor discounts and credit adjustments	15.3	19.4	12.7
Other (expense) income, net	(3.0)	4.9	(4.1)
Total other income, net	$100.5	$150.2	$12.9

Sales of Businesses and Investments – This item primarily includes realized gains and losses relating to the sales of businesses and investments, cumulative translation adjustment balances from the liquidation of entities and sales of marketable securities and investments in publicly traded and privately held companies in our Rabbi Trusts. During 2012, we received net proceeds of $94.8 from the sale of our remaining holdings in Facebook and recorded a pre-tax gain of $93.6. Additionally, we recognized a gain relating to the sale of a business in an international market within our Constituency Management Group ("CMG") segment, which was partially offset by losses recognized relating to the sale of a business in an international market and the sale of a business in the domestic market within our Integrated Agency Networks ("IAN") segment, as well as an adjustment relating to a reserve for a change in estimate in connection with a business disposed of in a prior year. During 2011, we received net proceeds of $133.5 from the sale of approximately half of our holdings in Facebook and recorded a pre-tax gain of $132.2. Additionally, we recognized a loss relating to the sale of a business in the domestic market within our IAN segment. During 2010, we recognized a gain relating

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to the sale of a business in the domestic market within our CMG segment, which was partially offset by a loss recognized relating to the sale of one our European businesses within our IAN segment.
Vendor Discounts and Credit Adjustments – We are in the process of settling our liabilities related to vendor discounts and credits established as part of the 2004 Restatement. These adjustments reflect the reversal of certain of these liabilities as a result of differences resulting from settlements with clients or vendors or where the statute of limitations has lapsed.

INCOME TAXES

	Years ended December 31,		
	2012	2011	2010
Income before income taxes	$674.8	$738.4	$450.6
Provision for income taxes	$213.3	$190.2	$171.3
Effective income tax rate	31.6 %	25.8 %	38.0 %

Our tax rates are affected by many factors, including our worldwide earnings from various countries, changes in legislation and tax characteristics of our income. In 2012, our effective income tax rate of 31.6% was positively impacted by the reversals of valuation allowances associated with the Asia Pacific and Continental Europe regions, of $26.2 and $21.8, respectively, as well as by a benefit derived from the deduction of foreign tax credits that previously had a full valuation allowance. Our effective income tax rate was negatively impacted by an adjustment of $19.5 associated with the establishment of a previously unrecorded reserve for a tax contingency for the years 2007 through 2010, losses in certain foreign locations where we receive no tax benefit due to 100% valuation allowances and state and local income taxes, net of federal income tax benefit.
On January 2, 2013, the American Taxpayer Relief Act of 2012 (the "Act") was signed into law and is effective in the first quarter of 2013. The Act contains various provisions which should be beneficial to the Company, and while we continue to assess the current and future impact of this Act, we do not expect it to have a material impact to our effective or cash tax rates in the near future.
In 2011, our effective income tax rate of 25.8% was positively impacted primarily from the utilization of capital losses to offset nearly all of the $132.2 capital gain realized from the Facebook transaction. The capital gain enabled us to use capital loss carryforwards, on which a 100% valuation allowance had been previously established, and capital losses attributable to worthless securities in a consolidated subsidiary. Additionally, the effective income tax rate was positively impacted by the recognition of previously unrecognized tax benefits as a result of the effective settlement of the 2007-2008 IRS audit cycle, a lower effective income tax rate on non-U.S. operations and the net reversal of valuation allowances, primarily in Europe. The effective income tax rate was negatively impacted by state and local taxes and losses in certain foreign locations where we receive no tax benefit due to 100% valuation allowances. The settlement of the 2007-2008 audit cycle resulted in no cash payment.
In 2010, our effective income tax rate of 38.0% was positively impacted by reversals of valuation allowances in Canada and the United Kingdom. Our effective income tax rate was negatively impacted by an increase in unrecognized tax benefits and the taxation of foreign operations, which included an income tax assessment in Latin America. During 2010, we effectively settled with the United Kingdom tax authorities for the 2007 and 2008 tax years, which resulted in no cash payment. Also in 2010, we effectively settled our New York State examination for the 1999-2001 tax years. This settlement resulted in a cash payment of $11.7 consisting of $5.4 of tax and $6.3 of interest, which was previously reserved.
See Note 8 to the Consolidated Financial Statements for further information.

EARNINGS PER SHARE

Basic earnings per share available to IPG common stockholders for the years ended December 31, 2012, 2011 and 2010 were $1.01, $1.12 and $0.57 per share, respectively. Diluted earnings per share for the years ended December 31, 2012, 2011 and 2010 were $0.94, $0.99 and $0.47 per share, respectively.

Basic and diluted earnings per share for the year ended December 31, 2012 included $0.14 and $0.12 per share, respectively, from the gain recorded for the sale of our remaining holdings in Facebook. Basic and diluted earnings per share for the year ended December 31, 2011 included $0.27 and $0.23 per share, respectively, from the gain recorded for the sale of approximately half of our holdings in Facebook. Basic earnings per share for the year ended December 31, 2010 included a benefit of $0.05 per share from the repurchase of a portion of our Series B Preferred Stock. Diluted earnings per share for the year ended December 31, 2010 was not impacted by this benefit.

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Segment Results of Operations

As discussed in Note 13 to the Consolidated Financial Statements, we have two reportable segments as of December 31, 2012: IAN and CMG. We also report results for the "Corporate and other" group.

IAN

REVENUE

	Year ended December 31, 2011	Components of Change: Foreign Currency	Net Acquisitions/ (Divestitures)	Organic	Year ended December 31, 2012	Change: Organic	Total
Consolidated	$5,891.8	$(138.7)	$19.8	$(44.4)	$5,728.5	(0.8)%	(2.8)%
Domestic	3,131.0	0.0	(12.2)	(98.0)	3,020.8	(3.1)%	(3.5)%
International	2,760.8	(138.7)	32.0	53.6	2,707.7	1.9%	(1.9)%

During 2012, IAN revenue decreased by $163.3 compared to 2011, due to an adverse foreign currency rate impact of $138.7 and an organic revenue decrease of $44.4, partially offset by the effect of net acquisitions of $19.8. The organic revenue decrease was attributable to a decline in our domestic market due to net client losses in the prior year, most notably in the consumer goods and technology and telecom sectors, and a decline in spending from existing clients, primarily in the health care and retail sectors. Partially offsetting this decline in the domestic market were increases in the auto and transportation and financial services sectors. In our international markets, our organic revenue increase was primarily attributable to net client wins and net higher spending from existing clients throughout nearly all client sectors, most notably in the Asia Pacific region, primarily in Australia and India, and in the Latin America region, predominantly in Brazil. The sectors primarily contributing to the international organic revenue increase were the retail and technology and telecom sectors, which was partially offset by a decrease in the consumer goods sector. The international organic revenue increase was partially offset by an organic revenue decrease in the Continental Europe region, primarily due to a continued challenging economic climate.

	Year ended December 31, 2010	Components of Change: Foreign Currency	Net Acquisitions/ (Divestitures)	Organic	Year ended December 31, 2011	Change: Organic	Total
Consolidated	$5,468.4	$106.9	$24.7	$291.8	$5,891.8	5.3%	7.7%
Domestic	2,977.9	0.0	(11.7)	164.8	3,131.0	5.5%	5.1%
International	2,490.5	106.9	36.4	127.0	2,760.8	5.1%	10.9%

During 2011, IAN revenue increased by $423.4 compared to 2010, primarily consisting of an organic revenue increase of $291.8 and a favorable foreign currency rate impact of $106.9. The increase in revenue at our IAN segment represented approximately 74% of the total organic revenue increase. The organic revenue increase was primarily attributable to net higher spending from existing clients in all major client sectors, across our advertising and media businesses and in nearly all geographic regions, led by the domestic market. The sectors which primarily contributed to the organic revenue increase were technology and telecom and, to a lesser extent, auto and transportation. The international organic increase occurred predominantly in the Latin America region, primarily in Brazil, and in the Asia Pacific region, primarily in India and China. The international organic revenue increase was partially offset by an organic revenue decrease in the Continental Europe region, which was impacted by a challenging economic climate in the region.

SEGMENT OPERATING INCOME

	Years ended December 31,			Change	
	2012	2011	2010	2012 vs 2011	2011 vs 2010
Segment operating income	$701.1	$728.0	$615.2	(3.7)%	18.3 %
Operating margin	12.2 %	12.4 %	11.3 %		

Operating income decreased during 2012 when compared to 2011 due to a decrease in revenue of $163.3, partially offset by decreases in salaries and related expenses of $69.9 and office and general expenses of $66.5. The decrease in salaries and related expenses was primarily due to a reduction in incentive award expense resulting from lower financial performance compared to targets and, to a lesser extent, lower severance expense. The decrease in office and general expenses was primarily attributable to lower production expenses related to pass-through costs for certain projects where we acted as principal that decreased in size or did not occur during 2012, lower occupancy costs and, to a lesser extent, lower professional fees.

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Operating income increased during 2011 when compared to 2010 due to an increase in revenue of $423.4, partially offset by increases in salaries and related expenses of $238.7 and office and general expenses of $71.9. The increase in salaries and related expenses was primarily attributable to increases in our workforce to support business growth, which resulted in an increase in base salaries, benefits and temporary help across nearly all agencies within IAN. Hiring began in 2010 and sequentially decreased by quarter through 2011. Office and general expenses increased primarily due to an increase in occupancy costs and, to a lesser extent, higher discretionary spending and higher production expenses due to business growth.

CMG
REVENUE

	Year ended December 31, 2011	Components of Change			Year ended December 31, 2012	Change	
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total
Consolidated	$1,122.8	$(8.9)	$22.0	$91.8	$1,227.7	8.2%	9.3%
Domestic	756.7	0.0	0.0	26.1	782.8	3.4%	3.4%
International	366.1	(8.9)	22.0	65.7	444.9	17.9%	21.5%

During 2012, CMG revenue increased by $104.9 compared to 2011, primarily consisting of an organic revenue increase of $91.8. The organic revenue increase was primarily due to net client wins and net higher spending from existing clients across all disciplines, primarily in our events marketing and public relations businesses. The international organic revenue increase occurred throughout nearly all regions, primarily in the Asia Pacific region, most notably in Australia, Singapore and China, and in the United Kingdom, where our events marketing business benefited from work performed for the Olympics in the third quarter. Revenues in the events marketing business can fluctuate due to timing of completed projects where we act as principal, as revenue is typically recognized when the project is complete. The domestic organic revenue increase was primarily due to growth in our public relations and sports marketing businesses.

	Year ended December 31, 2010	Components of Change			Year ended December 31, 2011	Change	
		Foreign Currency	Net Acquisitions/ (Divestitures)	Organic		Organic	Total
Consolidated	$1,038.9	$15.3	$(33.3)	$101.9	$1,122.8	9.8%	8.1%
Domestic	732.0	0.0	(37.1)	61.8	756.7	8.4%	3.4%
International	306.9	15.3	3.8	40.1	366.1	13.1%	19.3%

During 2011, CMG revenue increased by $83.9 compared to 2010, due to an organic revenue increase of $101.9 and a favorable foreign currency rate impact of $15.3, partially offset by the effect of net divestitures of $33.3. The organic revenue increase was primarily due to higher spending from existing clients and net client wins which occurred in most disciplines, primarily in our public relations and events marketing businesses, in both our domestic and international markets. The international organic revenue increase was most significant in the Asia Pacific region, primarily in China and Australia, and in the United Kingdom. The organic revenue increase includes higher revenue related to certain projects where we act as principal, primarily in our events marketing business. The reduction in revenue due to net divestitures primarily relates to the sale of a business in our domestic market in the fourth quarter of 2010.

SEGMENT OPERATING INCOME

	Years ended December 31,			Change	
	2012	2011	2010	2012 vs 2011	2011 vs 2010
Segment operating income	$114.5	$101.2	$78.8	13.1 %	28.4 %
Operating margin	9.3 %	9.0 %	7.6 %		

Operating income increased during 2012 when compared to 2011 due to an increase in revenue of $104.9, partially offset by increases in salaries and related expenses of $51.2 and office and general expenses of $40.4. The increase in salaries and related expenses was primarily attributable to increases in our workforce across all disciplines to support business growth, which resulted in an increase in base salaries and benefits. Office and general expenses increased primarily due to higher production expenses related to pass-through costs for certain projects where we acted as principal that increased in size or were new during 2012.

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Operating income increased during 2011 when compared to 2010 due to an increase in revenue of $83.9, partially offset by increases in salaries and related expenses of $35.6 and office and general expenses of $25.9. Salaries and related expenses increased across all disciplines primarily due to business growth, which resulted in an increase in base salaries, benefits and temporary help. Office and general expenses increased primarily due to higher production expenses associated with business growth.

CORPORATE AND OTHER

Certain corporate and other charges are reported as a separate line item within total segment operating income and include corporate office expenses, shared service center and certain other centrally managed expenses that are not fully allocated to operating divisions. Salaries and related expenses include salaries, long-term incentives, annual bonuses and other miscellaneous benefits for corporate office employees. Office and general expenses primarily include professional fees related to internal control compliance, financial statement audits and legal, information technology and other consulting services that are engaged and managed through the corporate office. In addition, office and general expenses also include rental expense and depreciation of leasehold improvements for properties occupied by corporate office employees. A portion of centrally managed expenses are allocated to operating divisions based on a formula that uses the planned revenues of each of the operating units. Amounts allocated also include specific charges for information technology-related projects, which are allocated based on utilization.

Corporate and other expenses decreased during 2012 by $4.7 to $137.3 compared to 2011, primarily due to lower office and general expenses, partially offset by an increase in temporary help to support our information-technology system-upgrade initiatives.

Corporate and other expenses decreased slightly during 2011 by $3.3 to $142.0 compared to 2010, primarily due to lower occupancy costs, partially offset by an increase in temporary help and severance expense.

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LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW OVERVIEW

The following tables summarize key financial data relating to our liquidity, capital resources and uses of capital.

	Years ended December 31,		
Cash Flow Data	2012	2011	2010
Net income, adjusted to reconcile net income to net cash provided by operating activities [1]	$697.2	$735.7	$566.9
Net cash (used in) provided by working capital [2]	(293.2)	(359.4)	263.2
Changes in other non-current assets and liabilities using cash	(46.8)	(102.8)	(12.8)
Net cash provided by operating activities	$357.2	$273.5	$817.3
Net cash used in investing activities	(210.2)	(58.8)	(108.5)
Net cash provided by (used in) financing activities	131.3	(541.0)	(547.7)

1 Reflects net income adjusted primarily for depreciation and amortization of fixed assets and intangible assets, amortization of restricted stock and other non-cash compensation, deferred income taxes and gain on sale of an investment.

2 Reflects changes in accounts receivable, expenditures billable to clients, other current assets, accounts payable and accrued liabilities.

	December 31,	
Balance Sheet Data	2012	2011
Cash, cash equivalents and marketable securities	$2,590.8	$2,315.6
Short-term borrowings	$172.1	$153.5
Current portion of long-term debt	216.6	404.8
Long-term debt	2,060.8	1,210.9
Total debt	$2,449.5	$1,769.2

Operating Activities

Net cash provided by operating activities during 2012 was $357.2, which is an increase of $83.7 as compared to 2011, primarily as a result of a decrease in working capital usage of $66.2. The net working capital usage in 2012 was primarily impacted by our media businesses.

Net cash provided by operating activities during 2011 was $273.5, which was a decrease of $543.8 as compared to 2010, primarily as a result of a use of cash from working capital in 2011 of $359.4 as compared to a generation of cash in 2010 of $263.2. Due to the seasonality of our business, we typically generate cash from working capital in the second half of a year and use cash from working capital in the first half of a year, with the largest impacts in the first and fourth quarters. In the fourth quarter of 2010, we had significant cash generation from working capital, primarily due to a high rate of growth in our media businesses, which resulted in comparable working capital usage in the first quarter of 2011. Our net working capital usage in 2011 was also impacted by slower growth in those same businesses compared to the prior year.

The timing of media buying on behalf of our clients affects our working capital and operating cash flow. In most of our businesses, our agencies enter into commitments to pay production and media costs on behalf of clients. To the extent possible we pay production and media charges after we have received funds from our clients. The amounts involved substantially exceed our revenues, and primarily affect the level of accounts receivable, expenditures billable to clients, accounts payable and accrued liabilities. Our assets include both cash received and accounts receivable from clients for these pass-through arrangements, while our liabilities include amounts owed on behalf of clients to media and production suppliers.

Our accrued liabilities are also affected by the timing of certain other payments. For example, while annual cash incentive awards are accrued throughout the year, they are generally paid during the first quarter of the subsequent year.

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Investing Activities

Net cash used in investing activities during 2012 primarily relates to payments for capital expenditures and acquisitions, partially offset by the net proceeds of $94.8 received from the sale of our remaining holdings in Facebook. Capital expenditures of $169.2 relate primarily to computer software and hardware, and leasehold improvements. Capital expenditures increased in 2012 compared to the prior year, primarily due to an increase in leasehold improvements made during the year. Payments for acquisitions of $145.5 primarily relate to payments for new acquisitions.

Net cash used in investing activities during 2011 primarily relates to payments for capital expenditures and acquisitions, partially offset by the net proceeds of $133.5 received from the sale of approximately half of our holdings in Facebook. Capital expenditures of $140.3 relate primarily to computer software and hardware, and leasehold improvements. Capital expenditures increased in 2011 compared to the prior year, primarily due to an increase in leasehold improvements made during the year. Payments for acquisitions of $63.1 relate to new acquisitions and deferred payments on prior acquisitions.

Financing Activities

Net cash provided by financing activities during 2012 primarily reflects net proceeds from our debt transactions. We issued $300.0 in aggregate principal amount of 2.25% Senior Notes due 2017 (the "2.25% Notes"), $500.0 in aggregate principal amount of 3.75% Senior Notes due 2023 (the "3.75% Notes") and $250.0 in aggregate principal amount of 4.00% Senior Notes due 2022 (the "4.00% Notes"). The proceeds from the issuance of the 4.00% Notes were applied towards the repurchase and redemption of $399.6 in aggregate principal amount of our 4.25% Notes. We intend to apply the net proceeds from the sale of the 2.25% and 3.75% Notes towards the redemption of our $200.0 in aggregate principal amount of our 4.75% Convertible Senior Notes due 2023 (the "4.75% Notes") and our $600.0 in aggregate principal amount of our 10.00% Senior Notes due 2017 (the "10.00% Notes"). Offsetting the net proceeds from our debt transactions was the repurchase of 32.7 shares of our common stock for an aggregate cost of $350.5, including fees, and dividend payments of $103.4 on our common stock.

Net cash used in financing activities during 2011 primarily relates to the repurchase of 41.7 shares of our common stock for an aggregate cost of $400.8, including fees. Additionally, net cash used in financing activities includes dividend payments of $111.1 on our common stock and acquisition-related payments of $71.5, for equity transactions in consolidated subsidiaries where we increased our ownership interests.

Foreign Exchange Rate Changes

The effect of foreign exchange rate changes on cash and cash equivalents included in the Consolidated Statements of Cash Flows resulted in a decrease of $6.2 in 2012. The decrease was a result of the U.S. Dollar being stronger than several foreign currencies, including the Brazilian Real and South African Rand, offset by the U.S. Dollar being weaker than other foreign currencies, including the Australian Dollar, British Pound and the Euro, as of December 31, 2012 compared to December 31, 2011.

The effect of foreign exchange rate changes on cash and cash equivalents included in the Consolidated Statements of Cash Flows resulted in a decrease of $46.7 in 2011. The decrease was a result of the U.S. Dollar being stronger than several foreign currencies, including the Euro and Brazilian Real, as of December 31, 2011 compared to December 31, 2010.

LIQUIDITY OUTLOOK

We expect our cash flow from operations, cash and cash equivalents to be sufficient to meet our anticipated operating requirements at a minimum for the next twelve months. We also have a committed corporate credit facility available to support our operating needs. We continue to maintain a disciplined approach to managing liquidity, with flexibility over significant uses of cash, including our capital expenditures, cash used for new acquisitions, our common stock repurchase program and our common stock dividends.

From time to time we evaluate market conditions and financing alternatives for opportunities to raise additional financing or otherwise improve our liquidity profile, enhance our financial flexibility and manage market risk. Our ability to access the capital markets depends on a number of factors, which include those specific to us, such as our credit rating, and those related to the financial markets, such as the amount or terms of available credit. There can be no guarantee that we would be able to access new sources of liquidity on commercially reasonable terms, or at all.

Funding Requirements

Our most significant funding requirements include: our operations, non-cancelable operating lease obligations, capital expenditures, acquisitions, dividends, taxes, debt service and contributions to pension and postretirement plans. Additionally, we may be required to make payments to minority shareholders in certain subsidiaries if they exercise their options to sell us their equity interests.

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

Notable funding requirements include:

- Debt service – During 2012, we retired $400.0 in aggregate principal amount of our 4.25% Notes. On February 13, 2013, we announced we would exercise our option to redeem all outstanding 4.75% Notes for cash on March 15, 2013, unless holders of the 4.75% Notes elect to convert their notes into common stock prior to the redemption date. See Note 17 to the Consolidated Financial Statements for further information. We also have the option to redeem the $600.0 10.00% Notes at par plus a "make-whole" amount and accrued and unpaid interest at any time prior to July 15, 2013, and at 105% of their principal amount plus accrued and unpaid interest at any time on or after that date. We intend to apply the net proceeds we received from the issuance of our 2.25% and 3.75% Notes, which we issued in the fourth quarter of 2012, towards funding the payment of any purchase or redemption in 2013. The remainder of our debt is primarily long-term, with maturities scheduled through 2031. See the table below for the maturity schedule of our long-term debt.

- Acquisitions – We paid cash of $142.0, which was net of cash acquired of $14.8, for acquisitions completed in 2012. We also paid cash of $43.8 related to prior year acquisitions, of which $3.2 was charged as operating expense. In addition to potential cash expenditures for new acquisitions, we expect to pay approximately $26.0 in 2013 related to prior-year acquisitions. We may also be required to pay approximately $15.0 in 2013 related to put options held by minority shareholders if exercised. We will continue to evaluate strategic opportunities to grow and to increase our ownership interests in current investments, particularly in our digital and marketing services offerings, and to expand our presence in high-growth and key strategic world markets.

- Dividends – During 2012, we paid cash dividends of $0.24 per share on our common stock, which corresponded to an aggregate dividend payment of $103.4. On February 22, 2013, we announced that our Board of Directors (the “Board”) had declared a common stock cash dividend of $0.075 per share, payable on March 25, 2013 to holders of record as of the close of business on March 11, 2013. Assuming a quarterly dividend of $0.075 per share and no significant change in the number of outstanding shares as of December 31, 2012, we expect to pay approximately $125.0 in 2013. We also pay regular quarterly dividends of $2.9, or $11.6 annually, on our Series B Preferred Stock.

- Contributions to pension plans – Our funding policy regarding our pension plans is to make contributions necessary to satisfy minimum pension funding requirements, plus such additional contributions as we consider appropriate to improve the plans’ funded status. During 2012, we contributed $5.6 and $17.7 of cash to our domestic and foreign pension plans, respectively. For 2013, we expect to contribute approximately $1.0 and $19.0 of cash to our domestic and foreign pension plans, respectively.

The following summarizes our estimated contractual cash obligations and commitments as of December 31, 2012 and their effect on our liquidity and cash flow in future periods.

	Years ended December 31,						
	2013	2014	2015	2016	2017	Thereafter	Total
Long-term debt [1]	$16.1	$350.0	$0.1	$0.1	$922.6	$950.0	$2,238.9
Interest payments on long-term debt [1]	127.3	130.4	108.5	106.5	105.0	209.8	787.5
Non-cancelable operating lease obligations [2]	282.2	261.1	236.1	198.2	163.6	675.5	1,816.7
Contingent acquisition payments [3]	46.5	56.2	42.6	52.1	21.1	12.6	231.1
Uncertain tax positions	4.5	46.4	45.8	25.4	56.6	15.9	194.6
Total	$476.6	$844.1	$433.1	$382.3	$1,268.9	$1,863.8	$5,268.8

[1] Amounts represent maturity at par and interest payments based on contractual obligations. On February 13, 2013, we announced that we would exercise our option to redeem all outstanding 4.75% Notes for cash on March 15, 2013, unless holders of the 4.75% Notes elect to convert their notes into common stock prior to the redemption date. We also have the option to redeem the $600.0 10.00% Notes at par plus a "make-whole" amount and accrued and unpaid interest at any time prior to July 15, 2013, and at 105% of their principal amount plus accrued and unpaid interest at any time on or after that date. The interest payments on long-term debt noted above is expected to decrease related to the retirement of any notes in 2013.

[2] Non-cancelable operating lease obligations are presented net of future receipts on contractual sublease arrangements.

[3] We have structured certain acquisitions with additional contingent purchase price obligations based on the future performance of the acquired entity. See Note 6 and Note 14 to the Consolidated Financial Statements for further information.

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Management’s Discussion and Analysis of Financial Condition and Results of Operations - (continued)
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Share Repurchase Program

In February 2011, the Board authorized a share repurchase program to repurchase from time to time up to $300.0, excluding fees, of our common stock (the "2011 share repurchase program"). In August 2011, the Board authorized an increase in the amount available under our 2011 share repurchase program up to $450.0, excluding fees, of our common stock, as a result of the sale of approximately half of our holdings in Facebook.In February 2012, our Board authorized a program to repurchase from time to time up to $300.0, excluding fees, of our common stock (the "2012 share repurchase program"). In November 2012, the Board authorized an increase in the amount available under our 2012 share repurchase program up to $400.0, excluding fees, of our common stock, as a result of the sale of our remaining holdings in Facebook. On February 22, 2013, we announced that our Board had approved a new share repurchase program to repurchase from time to time up to $300.0, excluding fees, of our common stock. The new authorization is in addition to any amounts remaining available for repurchase under the 2012 share repurchase program. We may effect such repurchases through open market purchases, trading plans established in accordance with SEC rules, derivative transactions or other means. We expect to continue to repurchase our common stock in future periods, although the timing and amount of the repurchases will depend on market conditions and other funding requirements. Any repurchases pursuant to our exercise of our capped call options will not count against the limits established under our share repurchase programs. See "--Financing and Sources of Funds--Capped Call" below. There is no expiration date associated with the share repurchase programs. As of December 31, 2012, $100.0 remains available for repurchase under the 2012 share repurchase program. We completed the 2011 share repurchase program in the first quarter of 2012.

FINANCING AND SOURCES OF FUNDS

Substantially all of our operating cash flow is generated by our agencies. Our cash balances are held in numerous jurisdictions throughout the world, primarily at the holding company level and at our largest subsidiaries. Below is a summary of our sources of liquidity.

	December 31, 2012			
	Total Facility	Amount Outstanding	Letters of Credit [1]	Total Available
Cash, cash equivalents and marketable securities				$2,590.8
Committed credit agreement	$1,000.0	$0.0	$15.1	$984.9
Uncommitted credit arrangements	$317.2	$172.1	$3.3	$141.8

1 We are required from time to time to post letters of credit, primarily to support obligations of our subsidiaries. These letters of credit historically have not been drawn upon.

At December 31, 2012, we held $883.5 of cash, cash equivalents and marketable securities in foreign subsidiaries. We have not provided U.S. federal income taxes on undistributed foreign earnings of our foreign subsidiaries because we consider such earnings to be permanently reinvested outside the United States. If in the future we distribute these amounts to the United States, an additional provision for the U.S. income and foreign withholding taxes, net of foreign tax credits, could be necessary.

Credit Facilities

We maintain a committed corporate credit facility to increase our financial flexibility (the "Credit Agreement"). The Credit Agreement is a revolving facility expiring May 31, 2016, under which amounts borrowed by us or any of our subsidiaries designated under the Credit Agreement may be repaid and reborrowed, subject to an aggregate lending limit of $1,000.0 or the equivalent in other currencies. The aggregate available amount of letters of credit outstanding may decrease or increase, subject to a sublimit on letters of credit of $200.0 or the equivalent in other currencies. Our obligations under the Credit Agreement are unsecured. We use our Credit Agreement to provide letters of credit primarily to support obligations of our subsidiaries.

The Credit Agreement includes covenants that, among other things, limit our liens and the liens of our consolidated subsidiaries and limit subsidiary debt. The financial covenants in the Credit Agreement require that we maintain, as of the end of each fiscal quarter, certain financial measures for the four quarters then ended. In November 2012, we entered into an amendment to our Credit Agreement, which modified the definition of "Total Debt" in the Credit Agreement to disregard until August 15, 2013 the $300.0 in aggregate principal amount of the 2.25% Notes and the $500.0 in aggregate principal amount of the 3.75% Notes that we issued in November 2012, subject to the reduction of this disregarded amount by the amount of any reductions in the outstanding aggregate principal amount of the 4.75% Notes or the 10.00% Notes. As a result of this amendment, these notes will have no impact on our financial covenants in the Credit Agreement until August 15, 2013.

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

The table below sets forth the financial covenants in effect as of December 31, 2012.

Financial Covenants	Four Quarters Ended December 31, 2012	EBITDA Reconciliation	Four Quarters Ended December 31, 2012
Interest coverage ratio (not less than)	5.00x	Operating income	$678.3
Actual interest coverage ratio	7.81x	Add:	
		Depreciation and amortization	192.2
Leverage ratio (not greater than)	2.75x	Other non-cash amounts	0.2
Actual leverage ratio	1.89x	EBITDA [1]	$870.7

[1] EBITDA is calculated as defined in the Credit Agreement.

As of December 31, 2012, we were in compliance with all of our covenants in the Credit Agreement. If we were unable to comply with our covenants in the future, we would seek an amendment or waiver from our lenders, but there is no assurance that our lenders would grant an amendment or waiver. If we were unable to obtain the necessary amendment or waiver, the credit facility could be terminated and our lenders could accelerate payments of any outstanding principal. In addition, under those circumstances we could be required to deposit funds with one of our lenders in an amount equal to any outstanding letters of credit under the credit facility.

We also have uncommitted credit facilities with various banks that permit borrowings at variable interest rates. We use our uncommitted credit lines for working capital needs at some of our operations outside the United States. We have guaranteed the repayment of some of these borrowings made by certain subsidiaries. If we lose access to these credit lines, we would have to provide funding directly to some of our international operations. The weighted-average interest rate on outstanding balances under the uncommitted credit facilities as of December 31, 2012 and 2011 was approximately 4.0% and 5.0%, respectively.

Capped Call

In November 2010, we purchased capped call options to hedge the risk of price appreciation on the shares of our common stock into which our 4.75% Notes are convertible. The strike price and cap price related to the capped call options are listed below.

	December 31, 2012	2011	2010
Strike price	$11.86	$12.13	$12.42
Cap price	$17.43	$17.83	$18.26

During 2012 and 2011, the strike price and cap price related to the capped call options were adjusted due to the payment of cash dividends on our common stock. As of December 31, 2012, the options give us the right to purchase up to 16.9 shares of our common stock at the strike price, except that the net proceeds of exercising the options will not exceed the difference between $17.43 and $11.86. Subject to certain limitations, we may elect settlement of the options to occur in cash or in shares. The options will expire on April 2, 2013. Our capped call transaction meets the definition of an off-balance sheet arrangement per Regulation S-K Item 303(a)(4).

Cash Pooling

We aggregate our domestic cash position on a daily basis. Outside the United States we use cash pooling arrangements with banks to help manage our liquidity requirements. In these pooling arrangements, several IPG agencies agree with a single bank that the cash balances of any of the agencies with the bank will be subject to a full right of set-off against amounts the other agencies owe the bank, and the bank provides for overdrafts on the net balance for all the agencies up to an agreed-upon level. Typically, each agency pays interest on outstanding overdrafts and receives interest on cash balances. Our Consolidated Balance Sheets reflect cash, net of bank overdrafts, under all of our pooling arrangements, and as of December 31, 2012 and 2011 the amounts netted were $1,166.3 and $1,106.6, respectively.

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

DEBT CREDIT RATINGS

Our long-term debt credit ratings as of February 13, 2013 are listed below.

	Moody’s Investor Service	Standard and Poor’s	Fitch Ratings
Rating	Baa3	BB+	BBB
Outlook	Stable	Positive	Stable

We are investment-grade rated by both Moody's Investor Services ("Moody's") and Fitch Ratings. The most recent update to our credit ratings occurred in February 2012, when Standard & Poor's placed our credit rating on positive credit watch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning credit rating agency. The rating of each credit rating agency should be evaluated independently of any other rating. Credit ratings could have an impact on liquidity, either adverse or favorable, including, among other things, because they could affect funding costs in the capital markets or otherwise. For example, our Credit Agreement fees and borrowing rates are based on a credit ratings grid.

RECENT ACCOUNTING STANDARDS

See Note 15 to the Consolidated Financial Statements for further information on certain accounting standards that have been adopted during 2012 or that have not yet been required to be implemented and may be applicable to our future operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk
(Amounts in millions)
In the normal course of business, we are exposed to market risks related to interest rates, foreign currency rates and certain balance sheet items. From time to time, we use derivative instruments, pursuant to established guidelines and policies, to manage some portion of these risks. Derivative instruments utilized in our hedging activities are viewed as risk management tools and are not used for trading or speculative purposes.

Interest Rates
Our exposure to market risk for changes in interest rates relates primarily to the fair market value and cash flows of our debt obligations. The majority of our debt (approximately 93% and 91% as of December 31, 2012 and 2011, respectively) bears interest at fixed rates. We do have debt with variable interest rates, but a 10% increase or decrease in interest rates would not be material to our interest expense or cash flows. The fair market value of our debt is sensitive to changes in interest rates, and the impact of a 10% change in interest rates is summarized below.

	Increase/(Decrease) in Fair Market Value	
As of December 31,	10% Increase in Interest Rates	10% Decrease in Interest Rates
2012	$(27.5)	$28.4
2011	(7.4)	7.7

We have used interest rate swaps for risk management purposes to manage our exposure to changes in interest rates. During 2012, we entered into and exited forward-starting interest rate swap agreements to effectively lock in the benchmark rate related to our 3.75% Senior Notes due 2023, which we issued in November 2012. We do not have any interest rate swaps outstanding as of December 31, 2012.
We had $2,590.8 of cash, cash equivalents and marketable securities as of December 31, 2012 that we generally invest in conservative, short-term investment-grade securities. The interest income generated from these investments is subject to both domestic and foreign interest rate movements. During 2012 and 2011, we had interest income of $29.5 and $37.8, respectively. Based on our 2012 results, a 100 basis point increase or decrease in interest rates would affect our interest income by approximately $26.0, assuming that all cash, cash equivalents and marketable securities are impacted in the same manner and balances remain constant from year-end 2012 levels.

Foreign Currency Rates
We are subject to translation and transaction risks related to changes in foreign currency exchange rates. Since we report revenues and expenses in U.S. Dollars, changes in exchange rates may either positively or negatively affect our consolidated revenues and expenses (as expressed in U.S. Dollars) from foreign operations. The primary foreign currencies that impacted our results during 2012 were the Brazilian Real, Euro, Indian Rupee and the South African Rand. Based on 2012 exchange rates and operating results, if the U.S. Dollar were to strengthen or weaken by 10%, we currently estimate operating income would decrease or increase between 3% and 5%, assuming that all currencies are impacted in the same manner and our international revenue and expenses remain constant at 2012 levels.
The functional currency of our foreign operations is generally their respective local currency. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and revenues and expenses are translated at the average exchange rates during the period presented. The resulting translation adjustments are recorded as a component of accumulated other comprehensive loss, net of tax, in the stockholders' equity section of our Consolidated Balance Sheets. Our foreign subsidiaries generally collect revenues and pay expenses in their functional currency, mitigating transaction risk. However, certain subsidiaries may enter into transactions in currencies other than their functional currency. Assets and liabilities denominated in currencies other than the functional currency are susceptible to movements in foreign currency until final settlement. Currency transaction gains or losses primarily arising from transactions in currencies other than the functional currency are included in office and general expenses. We have not entered into a material amount of foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of potential adverse fluctuations in foreign currency exchange rates.

We monitor the currencies of countries in which we operate in order to determine if the country should be considered a highly inflationary environment. A currency is determined to be highly inflationary when there is cumulative inflation of approximately 100% or more over a three-year period. If this occurs the functional currency of that country would be changed to our reporting currency, the U.S. Dollar, and foreign exchange gains or losses would be recognized on all monetary transactions, assets and liabilities denominated in currencies other than the U.S. Dollar until the currency is no longer considered highly inflationary. Our Venezuela agencies transitioned to inflationary accounting on January 1, 2010, and as a result, we recorded a foreign exchange translation loss of approximately $5.0 in 2010. This charge was recorded in office and general expenses within the Consolidated

Statements of Operations. In 2010, we re-measured our local non-monetary transactions, assets and liabilities using the exchange rate of 4.3 Venezuelan Bolivares Fuertes per U.S. Dollar. Subsequent to the currency re-measurement, this devaluation did not have a material impact to our Consolidated Financial Statements as we do not have significant operations in Venezuela.

Credit and Market Risks

Balance sheet items that potentially subject us to concentrations of credit risk are primarily cash and cash equivalents, short-term marketable securities, accounts receivable and expenditures billable to clients. We invest our cash primarily in investment-grade, short-term securities and limit the amount of credit exposure to any one counterparty. Concentrations of credit risk with respect to accounts receivable are mitigated by our large number of clients and their dispersion across different industries and geographic areas. We perform ongoing credit evaluations on a large number of our clients and maintain an allowance for doubtful accounts based upon the expected collectability of all accounts receivable.

Our pension plan assets are also exposed to market risk. The fair value of our pension plan assets may appreciate or depreciate during the year, which can result in lower or higher pension expense and funding requirements in future periods.

Item 8. Financial Statements and Supplementary Data
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To The Board of Directors and Stockholders of The Interpublic Group of Companies, Inc.
In our opinion, the accompanying Consolidated Balance Sheets and the related Consolidated Statements of Operations, of Comprehensive Income, of Cash Flows, and of Stockholders' Equity present fairly, in all material respects, the financial position of The Interpublic Group of Companies, Inc., and its subsidiaries, ("the Company") at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
New York, New York
February 22, 2013

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in Millions, Except Per Share Amounts)

	Years ended December 31,		
	2012	2011	2010
REVENUE	$6,956.2	$7,014.6	$6,507.3
OPERATING EXPENSES:			
Salaries and related expenses	4,391.9	4,402.1	4,117.0
Office and general expenses	1,886.0	1,925.3	1,841.6
Total operating expenses	6,277.9	6,327.4	5,958.6
OPERATING INCOME	678.3	687.2	548.7
EXPENSES AND OTHER INCOME:			
Interest expense	(133.5)	(136.8)	(139.7)
Interest income	29.5	37.8	28.7
Other income, net	100.5	150.2	12.9
Total (expenses) and other income	(3.5)	51.2	(98.1)
Income before income taxes	674.8	738.4	450.6
Provision for income taxes	213.3	190.2	171.3
Income of consolidated companies	461.5	548.2	279.3
Equity in net income of unconsolidated affiliates	3.1	3.3	1.9
NET INCOME	464.6	551.5	281.2
Net income attributable to noncontrolling interests	(17.9)	(19.2)	(20.1)
NET INCOME ATTRIBUTABLE TO IPG	446.7	532.3	261.1
Dividends on preferred stock	(11.6)	(11.6)	(15.6)
Benefit from preferred stock repurchased	0.0	0.0	25.7
NET INCOME AVAILABLE TO IPG COMMON STOCKHOLDERS	$435.1	$520.7	$271.2
Earnings per share available to IPG common stockholders:			
Basic	$1.01	$1.12	$0.57
Diluted	$0.94	$0.99	$0.47
Weighted-average number of common shares outstanding:			
Basic	432.5	465.5	473.6
Diluted	481.4	540.6	542.1
Dividends declared per common share	$0.24	$0.24	$0.00

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

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Millions)

	Years ended December 31,		
	2012	2011	2010
NET INCOME	$464.6	$551.5	$281.2
OTHER COMPREHENSIVE (LOSS) INCOME			
Foreign currency translation adjustments	9.7	(92.1)	35.9
Available-for-sale securities:			
Changes in market value of available-for-sale securities	0.4	(0.1)	0.5
Less: recognition of previously unrealized losses (gains) included in net income	0.7	0.3	(0.2)
Income tax effect	(0.5)	0.0	0.1
	0.6	0.2	0.4
Derivative instruments:			
Changes in fair value of derivative instruments	(21.9)	0.0	0.0
Less: recognition of previously unrealized losses included in net income	0.3	0.0	0.0
Income tax effect	8.9	0.0	0.0
	(12.7)	0.0	0.0
Defined benefit pension and other postretirement plans:			
Net actuarial (losses) gains for the period	(67.9)	(25.7)	18.1
Less: amortization of unrecognized losses, transition obligation and prior service cost included in net income	7.7	7.5	10.8
Less: settlement and curtailment losses included in net income	0.7	0.0	1.4
Other	(3.4)	2.4	(1.6)
Income tax effect	1.9	(1.5)	(5.5)
	(61.0)	(17.3)	23.2
Other comprehensive (loss) income, net of tax	(63.4)	(109.2)	59.5
TOTAL COMPREHENSIVE INCOME	401.2	442.3	340.7
Less: comprehensive income attributable to noncontrolling interest	16.8	16.7	22.0
COMPREHENSIVE INCOME ATTRIBUTABLE TO IPG	$384.4	$425.6	$318.7

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

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THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Millions)

	December 31, 2012	December 31, 2011
ASSETS:		
Cash and cash equivalents	$2,574.8	$2,302.7
Marketable securities	16.0	12.9
Accounts receivable, net of allowance of $59.0 and $55.4	4,496.6	4,425.4
Expenditures billable to clients	1,318.8	1,247.2
Other current assets	332.1	364.0
Total current assets	8,738.3	8,352.2
Furniture, equipment and leasehold improvements, net	504.8	459.8
Deferred income taxes	160.5	181.2
Goodwill	3,580.6	3,444.3
Other non-current assets	509.7	471.2
TOTAL ASSETS	$13,493.9	$12,908.7
LIABILITIES:		
Accounts payable	$6,584.8	$6,647.2
Accrued liabilities	728.2	830.0
Short-term borrowings	172.1	153.5
Current portion of long-term debt	216.6	404.8
Total current liabilities	7,701.7	8,035.5
Long-term debt	2,060.8	1,210.9
Deferred compensation	489.0	440.3
Other non-current liabilities	558.6	481.3
TOTAL LIABILITIES	10,810.1	10,168.0
Commitments and contingencies (see Note 14)		
Redeemable noncontrolling interests (see Note 6)	227.2	243.4
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value, shares authorized: 20.0 Series B shares issued and outstanding: 2012 – 0.2; 2011 – 0.2	221.5	221.5
Common stock, $0.10 par value, shares authorized: 800.0 shares issued: 2012 – 492.1; 2011 – 491.4 shares outstanding: 2012 – 417.5; 2011 – 449.5	48.8	48.2
Additional paid-in capital	2,465.4	2,427.5
Retained earnings	738.3	405.1
Accumulated other comprehensive loss, net of tax	(288.0)	(225.7)
	3,186.0	2,876.6
Less: Treasury stock, at cost: 2012 - 74.6 shares; 2011 - 41.9 shares	(765.4)	(414.9)
Total IPG stockholders' equity	2,420.6	2,461.7
Noncontrolling interests	36.0	35.6
TOTAL STOCKHOLDERS' EQUITY	2,456.6	2,497.3
TOTAL LIABILITIES AND EQUITY	$13,493.9	$12,908.7

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

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THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Millions)

	Years ended December 31, 2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$464.6	$551.5	$281.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of fixed assets and intangible assets	147.7	150.9	148.4
Provision for uncollectible receivables	16.3	10.4	10.7
Amortization of restricted stock and other non-cash compensation	44.5	51.7	50.0
Net amortization of bond discounts (premiums) and deferred financing costs	1.8	(8.7)	(4.4)
Deferred income tax provision	103.6	83.9	56.0
Gain on sale of an investment	(93.6)	(132.2)	0.0
Other	12.3	28.2	25.0
Changes in assets and liabilities, net of acquisitions and dispositions, providing (using) cash:			
Accounts receivable	(44.7)	(219.2)	(547.6)
Expenditures billable to clients	(73.8)	(39.2)	(122.8)
Other current assets	3.5	(42.0)	(0.2)
Accounts payable	(120.4)	(62.9)	867.4
Accrued liabilities	(57.8)	3.9	66.4
Other non-current assets and liabilities	(46.8)	(102.8)	(12.8)
Net cash provided by operating activities	357.2	273.5	817.3
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(169.2)	(140.3)	(96.3)
Acquisitions, including deferred payments, net of cash acquired	(145.5)	(63.1)	(61.9)
Proceeds from the sale of an investment	94.8	133.5	0.0
Other investing activities	9.7	11.1	49.7
Net cash used in investing activities	(210.2)	(58.8)	(108.5)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	1,044.6	0.0	0.0
Purchase of long-term debt	(401.5)	(38.9)	(217.3)
Repurchase of common stock	(350.5)	(400.8)	0.0
Common stock dividends	(103.4)	(111.1)	0.0
Repurchase of preferred stock	0.0	0.0	(265.9)
Acquisition-related payments	(37.1)	(71.5)	(29.5)
Distributions to noncontrolling interests	(17.0)	(23.0)	(21.5)
Preferred stock dividends	(11.6)	(11.6)	(19.6)
Net increase in short term bank borrowings	12.6	42.5	17.4
Other financing activities	(4.8)	73.4	(11.3)
Net cash provided by (used in) financing activities	131.3	(541.0)	(547.7)
Effect of foreign exchange rate changes on cash and cash equivalents	(6.2)	(46.7)	19.4
Net increase (decrease) in cash and cash equivalents	272.1	(373.0)	180.5
Cash and cash equivalents at beginning of period	2,302.7	2,675.7	2,495.2
Cash and cash equivalents at end of period	$2,574.8	$2,302.7	$2,675.7

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

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Millions)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss, Net of Tax	Treasury Stock	Total IPG Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance at December 31, 2009	$525.0	486.5	$47.1	$2,441.0	$(324.8)	$(176.6)	$(14.0)	$2,497.7	$38.6	$2,536.3
Net income					261.1			261.1	20.1	281.2
Other comprehensive income						57.6		57.6	1.9	59.5
Reclassifications related to redeemable noncontrolling interests				3.5				3.5	(1.5)	2.0
Noncontrolling interest transactions				(28.1)				(28.1)	0.2	(27.9)
Distributions to noncontrolling interests									(21.5)	(21.5)
Change in redemption value of redeemable noncontrolling interests				(11.0)				(11.0)		(11.0)
Repurchase of preferred stock	(303.5)			35.9				(267.6)		(267.6)
Capped call transaction costs				(22.8)				(22.8)		(22.8)
Preferred stock dividends				(15.6)				(15.6)		(15.6)
Stock-based compensation		2.7	0.4	55.4				55.8		55.8
Shares withheld for taxes		(0.2)	(0.1)	(11.8)				(11.9)		(11.9)
Tax effect from stock-based compensation				4.5				4.5		4.5
Other		0.5	0.1	5.8			(0.1)	5.8	0.1	5.9
Balance at December 31, 2010	$221.5	489.5	$47.5	$2,456.8	$(63.7)	$(119.0)	$(14.1)	$2,529.0	$37.9	$2,566.9
Net income					532.3			532.3	19.2	551.5
						(106.7)		(106.7)	(2.5)	(109.2)

Other comprehensive loss										
Reclassifications related to redeemable noncontrolling interests				2.7				2.7	7.7	10.4
Noncontrolling interest transactions				0.4	0.6			1.0	(2.6)	(1.6)
Distributions to noncontrolling interests									(23.0)	(23.0)
Change in redemption value of redeemable noncontrolling interests				(10.6)	(3.5)			(14.1)		(14.1)
Repurchase of common stock							(400.8)	(400.8)		(400.8)
Common stock dividends				(56.8)	(54.3)			(111.1)		(111.1)
Preferred stock dividends				(5.8)	(5.8)			(11.6)		(11.6)
Stock-based compensation		1.5	0.8	47.9				48.7		48.7
Exercise of stock options		1.3	0.1	11.9				12.0		12.0
Shares withheld for taxes		(0.9)	(0.2)	(26.8)				(27.0)		(27.0)
Tax effect from stock-based compensation				8.4				8.4		8.4
Other				(0.6)	(0.5)			(1.1)	(1.1)	(2.2)
Balance at December 31, 2011	$221.5	491.4	$48.2	$2,427.5	$405.1	$(225.7)	$(414.9)	$2,461.7	$35.6	$2,497.3

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

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in Millions)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss, Net of Tax	Treasury Stock	Total IPG Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance at December 31, 2011	$221.5	491.4	$48.2	$2,427.5	$405.1	$(225.7)	$(414.9)	$2,461.7	$35.6	$2,497.3
Net income					446.7			446.7	17.9	464.6
Other comprehensive loss						(62.3)		(62.3)	(1.1)	(63.4)
Reclassifications related to redeemable noncontrolling interests				12.0				12.0	(1.1)	10.9
Noncontrolling interest transactions									(2.2)	(2.2)
Distributions to noncontrolling interests									(17.0)	(17.0)
Change in redemption value of redeemable noncontrolling interests					2.7			2.7		2.7
Repurchase of common stock							(350.5)	(350.5)		(350.5)
Common stock dividends					(103.4)			(103.4)		(103.4)
Preferred stock dividends					(11.6)			(11.6)		(11.6)
Stock-based compensation		1.6	0.7	31.3				32.0		32.0
Exercise of stock options		1.1	0.1	10.8				10.9		10.9
Shares withheld for taxes		(2.1)	(0.2)	(23.5)				(23.7)		(23.7)
Tax effect from stock-based compensation				14.8				14.8		14.8
Other				(7.5)	(1.2)			(8.7)	3.9	(4.8)
Balance at December 31, 2012	$221.5	492.0	$48.8	$2,465.4	$738.3	$(288.0)	$(765.4)	$2,420.6	$36.0	$2,456.6

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

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

Note 1: Summary of Significant Accounting Policies

Business Description

The Interpublic Group of Companies, Inc. and subsidiaries (the "Company," "IPG," "we," "us" or "our") is one of the world's premier global advertising and marketing services companies. Our agencies create customized marketing programs for clients that range in scale from large global marketers to regional and local clients. Comprehensive global services are critical to effectively serve our multinational and local clients in markets throughout the world, as they seek to build brands, increase sales of their products and services and gain market share in an increasingly complex and fragmented media landscape.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its consolidated subsidiaries, some of which are not wholly owned. Investments in companies over which we do not have control, but the ability to exercise significant influence, are accounted for using the equity method of accounting. Investments in companies over which we have neither control nor have the ability to exercise significant influence are accounted for under the cost method. All intercompany accounts and transactions have been eliminated in consolidation.

We have consolidated certain entities meeting the definition of variable interest entities, and the inclusion of these entities does not have a material impact on our Consolidated Financial Statements.

Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the current-year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires us to make judgments, assumptions and estimates that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

Revenue Recognition

Our revenues are primarily derived from the planning and execution of multi-channel advertising, marketing and communications programs around the world. Our revenues are directly dependent upon the advertising, marketing and corporate communications requirements of our existing clients and our ability to win new clients. Our revenue is typically lowest in the first quarter and highest in the fourth quarter. This reflects the seasonal spending of our clients, incentives earned at year end on various contracts and project work completed that is typically recognized during the fourth quarter.

Most of our client contracts are individually negotiated and, accordingly, the terms of client engagements and the bases on which we earn commissions and fees vary significantly. As is customary in the industry, our contracts generally provide for termination by either party on relatively short notice, usually 90 days.

Our client contracts are complex arrangements that may include provisions for incentive compensation and vendor rebates and credits. Our largest clients are multinational entities and, as such, we often provide services to these clients out of multiple offices and across many of our agencies. In arranging for such services, it is possible that we will enter into global, regional and local agreements. Agreements of this nature are reviewed by legal counsel to determine the governing terms to be followed by the offices and agencies involved.

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

- Fees are generally recognized as earned based on the proportional performance input method of revenue recognition in situations where our fee is reconcilable to the actual hours incurred to service the client as detailed in a contractual staffing plan, where the fee is earned on a per hour basis or where actual hours incurred are provided to the client on a periodic basis (whether or not the fee is reconcilable), with the amount of revenue recognized in these situations limited to the amount realizable under the client contract. We believe an input-based measure (the ‘hour’) is appropriate in situations where the client arrangement essentially functions as a time and out-of-pocket expense contract and the client receives the benefit of the services provided throughout the contract term.

- Fees are recognized on a straight-line or monthly basis when service is provided essentially on a pro-rata basis and the terms of the contract support monthly basis accounting.
- Certain fees (such as for major marketing events) are deferred until contract completion if the final act is so significant in relation to the service transaction taken as a whole or if any of the terms of the contract do not otherwise qualify for proportional performance or monthly basis recognition. Fees may also be deferred and recognized upon delivery of a project if the terms of the client contract identify individual discrete projects.

Depending on the terms of the client contract, revenue is derived from diverse arrangements involving fees for services performed, commissions, performance incentive provisions and combinations of the three. Commissions are generally earned on the date of the broadcast or publication. Contractual arrangements with clients may also include performance incentive provisions designed to link a portion of our revenue to our performance relative to either qualitative or quantitative goals, or both. Performance incentives are recognized as revenue for quantitative targets when the target has been achieved and for qualitative targets when confirmation of the incentive is received from the client.

The majority of our revenue is recorded as the net amount of our gross billings less pass-through expenses charged to a client. In most cases, the amount that is billed to clients significantly exceeds the amount of revenue that is earned and reflected in our Consolidated Financial Statements because of various pass-through expenses, such as production and media costs. We assess whether our agency or the third-party supplier is the primary obligor, and we evaluate the terms of our client agreements as part of this assessment. In addition, we give appropriate consideration to other key indicators such as latitude in establishing price, discretion in supplier selection and credit risk to the vendor. Because we operate broadly as an advertising agency, based on our primary lines of business and given the industry practice to generally record revenue on a net versus gross basis, we believe that there must be strong evidence in place to overcome the presumption of net revenue accounting. Accordingly, we generally record revenue net of pass-through charges as we believe the key indicators of the business suggest we generally act as an agent on behalf of our clients in our primary lines of business. In those businesses where the key indicators suggest we act as a principal (primarily sales promotion and event, sports and entertainment marketing), we record the gross amount billed to the client as revenue and the related incremental direct costs incurred as office and general expenses. In general, we also report revenue net of taxes assessed by governmental authorities that are directly imposed on our revenue-producing transactions.

As we provide services as part of our core operations, we generally incur incidental expenses, which, in practice, are commonly referred to as “out-of-pocket” expenses. These expenses often include expenses related to airfare, mileage, hotel stays, out-of-town meals and telecommunication charges. We record the reimbursements received for such incidental expenses as revenue with a corresponding offset to office and general expense.

We receive credits from our vendors and media outlets for transactions entered into on behalf of our clients that, based on the terms of our contracts and local law, are either remitted to our clients or retained by us. If amounts are to be passed through to clients, they are recorded as liabilities until settlement or, if retained by us, are recorded as revenue when earned. Income or expense may also be realized in connection with differences resulting from settling vendor discount or credit liabilities that were established as part of the restatement we presented in our 2004 Annual Report on Form 10-K (the “2004 Restatement”). In these situations, or if we release certain of these credit liabilities when the statute of limitations has lapsed, given the historical nature of these liabilities, we generally record such items as other income, net as we do not consider these to be part of current operating results.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments, which include certificates of deposit, government securities, commercial paper and time deposits with original maturities of three months or less at the time of purchase and are stated at estimated fair value, which approximates cost. Cash is maintained at multiple high-credit-quality financial institutions.

Short-Term Marketable Securities

Short-term marketable securities include investment-grade time deposits, commercial paper and government securities with maturities greater than three months but less than twelve months. These securities are classified as available-for-sale and are carried at fair value with net unrealized gains and losses reported as a component of accumulated other comprehensive loss, which is a component of stockholders' equity. The cost of securities is determined based upon the average cost of the securities sold.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is estimated based on the aging of accounts receivable, reviews of client credit reports, industry trends and economic indicators, as well as reviews of recent payment history for specific customers. The estimate is based largely on a formula-driven calculation but is supplemented with economic indicators and knowledge of potential write-offs of specific client accounts.

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(Amounts in Millions, Except Per Share Amounts)

Expenditures Billable to Clients
Expenditures billable to clients are primarily comprised of production and media costs that have been incurred but have not yet been billed to clients, as well as fees that have been earned which have not yet been billed to clients. Unbilled amounts are presented in expenditures billable to clients regardless of whether they relate to our fees or production and media costs. A provision is made for unrecoverable costs as deemed appropriate.

Accounts Payable
Accounts payable includes all operating payables, including those related to all media and production costs. These payables are due within one year.

Investments
Our investments in publicly traded companies over which we do not exert a significant influence are classified as available-for-sale. These investments are reported at fair value based on quoted market prices with net unrealized gains and losses reported as a component of accumulated other comprehensive loss. Our non-publicly traded investments and all other publicly traded investments, including investments to fund certain deferred compensation and retirement obligations, are accounted for using the equity method or cost method. We do not disclose the fair value for equity method investments or investments held at cost as it is not practical to estimate fair value since there is no readily available market data and it is cost prohibitive to obtain independent valuations. We regularly review our equity and cost method investments to determine whether a significant event or change in circumstances has occurred that may impact the fair value of each investment. In the event a decline in fair value of an investment occurs, we determine if the decline has been other-than-temporary. We consider our investments strategic and long-term in nature, so we determine if the fair value decline is recoverable within a reasonable period. For our investments, we evaluate fair value based on specific information (valuation methodologies, estimates of appraisals, financial statements, etc.) in addition to quoted market price, if available. We consider all known quantitative and qualitative factors in determining if an other-than-temporary decline in value of an investment has occurred.

Derivatives
We are exposed to market risk related to interest rates, foreign currency rates and certain balance sheet items. From time to time we enter into derivative instruments for risk management purposes, and not for speculative purposes. All derivative instruments are recorded at fair value on our balance sheet. Changes in fair value are immediately included in earnings if the derivatives are not designated as a hedge instrument or if the derivatives do not qualify as effective hedges. For derivatives designated as hedge instruments, we evaluate for hedge accounting both at inception and throughout the hedge period. If a derivative is designated as a fair value hedge, then changes in the fair value of the derivative are offset against the changes in the fair value of the underlying hedged item. If a derivative is designated as a cash flow hedge, then the effective portion of the changes in the fair value of the derivative is recognized as a component of accumulated other comprehensive income and subsequently reclassified to earnings in our Consolidated Statement of Operations in the same period as the underlying hedged transaction affects earnings.

Furniture, Equipment and Leasehold Improvements
Furniture, equipment and leasehold improvements are stated at cost, net of accumulated depreciation. Furniture and equipment are depreciated generally using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 7 years for furniture, equipment and computer software costs, 10 to 35 years for buildings and the shorter of the useful life or the remaining lease term for leasehold improvements.

Goodwill and Other Intangible Assets

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

We review goodwill and other intangible assets with indefinite lives not subject to amortization as of October 1^{st} each year and whenever events or significant changes in circumstances indicate that the carrying value may not be recoverable. We evaluate the recoverability of goodwill at a reporting unit level. We have 11 reporting units that were subject to the 2012 annual impairment testing. During 2012, our reporting unit structure changed due to the creation of a new reporting unit which had been previously included within an existing reporting unit, as well as the disposal of a reporting unit. Our annual impairment review as of October 1, 2012 did not result in an impairment charge at any of our reporting units.

We review intangible assets with definite lives subject to amortization whenever events or circumstances indicate that a carrying amount of an asset may not be recoverable. Recoverability of these assets is determined by comparing the carrying value of these assets to the estimated undiscounted future cash flows expected to be generated by these assets. These assets are impaired when their carrying value exceeds their fair value. Impaired intangible assets with definite lives subject to amortization are written down to their fair value with a charge to expense in the period the impairment is identified. Intangible assets with definite lives are amortized on a straight-line basis with estimated useful lives generally between 7 and 15 years. Events or circumstances that might require impairment testing include the loss of a significant client, the identification of other impaired assets within a reporting unit, loss of key personnel, the disposition of a significant portion of a reporting unit, significant decline in stock price or a significant adverse change in business climate or regulations.

In 2011, we adopted new authoritative guidance for goodwill which permits an entity to first assess qualitative factors to determine whether the fair value of a reporting unit is “more likely than not” less than its carrying value. Qualitative factors to consider may include macroeconomic conditions, industry and market considerations, cost factors that may have a negative effect on earnings, overall financial performance of the reporting unit, and other relevant entity-specific events such as changes in management, key personnel, strategy or clients, as well as pending litigation. If, after assessing the totality of events or circumstances such as those described above, an entity determines that it is "more likely than not" that the fair value of a reporting unit is less than its carrying value, then the entity is required to perform the first step of a two-step quantitative impairment test to identify and measure impairment, if necessary. Otherwise, no additional testing is required.

For reporting units not included in the qualitative assessment, or for any reporting units identified in the qualitative assessment as "more likely than not" that the fair value is less than its carrying value, the first step of the quantitative impairment test is performed. For our annual impairment test, we compare the respective fair value of our reporting units' equity to the carrying value of their net assets. The first step is a comparison of the fair value of each reporting unit to its carrying value, including goodwill. The sum of the fair values of all our reporting units is reconciled to our current market capitalization plus an estimated control premium. Goodwill allocated to a reporting unit whose fair value is equal to or greater than its carrying value is not impaired, and no further testing is required. Should the carrying amount for a reporting unit exceed its fair value, then the first step of the quantitative impairment test is failed and the magnitude of any goodwill impairment is determined under the second step, which is a comparison of the implied fair value of a reporting unit's goodwill to its carrying value. The implied fair value of goodwill is the excess of the fair value of the reporting unit over its carrying value, excluding goodwill. Impaired goodwill is written down to its implied fair value with a charge to expense in the period the impairment is identified.

The fair value of a reporting unit for 2012 and 2011 was estimated using a combination of the income approach, which incorporates the use of the discounted cash flow method, and the market approach, which incorporates the use of earnings and revenue multiples based on market data.

Foreign Currencies

The functional currency of our foreign operations is generally their respective local currency. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and revenues and expenses are translated at the average exchange rates during the period presented. The resulting translation adjustments are recorded as a component of accumulated other comprehensive loss in the stockholders’ equity section of our Consolidated Balance Sheets. Currency transaction gains or losses primarily arising from transactions in currencies other than the functional currency are included in office and general expenses. Foreign currency transactions resulted in a pre-tax gain of $1.2

in 2012 and pre-tax losses of $0.9 in 2011 and $0.7 in 2010.
We monitor the currencies of countries in which we operate in order to determine if the country should be considered a highly inflationary environment. A currency is determined to be highly inflationary when there is cumulative inflation of approximately 100% or more over a three-year period. If this occurs the functional currency of that country would be changed to our reporting currency, the U.S. Dollar, and foreign exchange gains or losses would be recognized on all monetary transactions, assets and liabilities in currencies other than the U.S. Dollar until the currency is no longer considered highly inflationary.

Income Taxes
The provision for income taxes includes U.S. federal, state, local and foreign taxes. Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences between the financial statement carrying amounts and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which the temporary differences are expected to be reversed. We evaluate the realizability of our deferred tax assets and establish a valuation allowance when it is “more likely than not” that all or a portion of the deferred tax assets will not be realized. We evaluate our tax positions using the

"more likely than not" recognition threshold and then apply a measurement assessment to those positions that meet the recognition threshold. We have established tax reserves that we believe to be adequate in relation to the potential for additional assessments in each of the jurisdictions in which we are subject to taxation. We regularly assess the likelihood of additional tax assessments in those jurisdictions and adjust our reserves as additional information or events require.

Redeemable Noncontrolling Interests

Many of our acquisitions include provisions under which the noncontrolling equity owners can require us to purchase additional interests in a subsidiary at their discretion. Payments for these redeemable noncontrolling interests are contingent upon achieving projected operating performance targets and satisfying other conditions specified in the related agreements and are subject to revisions as the earn-out periods progress. We record these redeemable noncontrolling interests in "mezzanine equity" in our Consolidated Balance Sheets. Each reporting period, redeemable noncontrolling interests are reported at their estimated redemption value, but not less than their initial fair value. Any adjustment to the redemption value above initial value prior to exercise will also impact retained earnings or additional paid-in capital, but will not impact net income. Adjustments as a result of currency translation will affect the redeemable noncontrolling interest balance, but do not impact retained earnings or additional paid-in capital.

Earnings Per Share ("EPS")

Basic EPS available to IPG common stockholders equals net income available to IPG common stockholders divided by the weighted-average number of common shares outstanding for the applicable period. Diluted EPS equals net income available to IPG common stockholders adjusted to exclude, if dilutive, preferred stock dividends, interest expense related to potentially dilutive securities calculated using the effective interest rate method and the benefit from the preferred stock repurchased, divided by the weighted-average number of common shares outstanding, plus any additional common shares that would have been outstanding if potentially dilutive shares had been issued.
Diluted EPS reflect the potential dilution that would occur if certain potentially dilutive securities or debt obligations were exercised or converted into common stock. The potential issuance of common stock is assumed to occur at the beginning of the year (or at the time of issuance of the potentially dilutive instrument, if later) and the incremental shares are included using the treasury stock or "if-converted" method. The proceeds utilized in applying the treasury stock method consist of the amount, if any, to be paid upon exercise and, as it relates to stock-based compensation, the amount of compensation cost attributed to future service not yet recognized and any tax benefits credited to additional paid-in-capital related to the exercise. These proceeds are then assumed to be used to purchase common stock at the average market price of our stock during the period. The incremental shares (difference between the shares assumed to be issued and the shares assumed to be purchased), to the extent they would have been dilutive, are included in the denominator of the diluted EPS calculation.
We may be required to calculate basic EPS using the two-class method, as a result of our redeemable noncontrolling interests. To the extent that the redemption value increases and exceeds the then-current fair value of a redeemable noncontrolling interest, net income available to IPG common stockholders (used to calculate EPS) could be negatively impacted by that increase, subject to certain limitations. The partial or full recovery of any reductions to net income available to IPG common stockholders (used to calculate EPS) is limited to any cumulative prior-period reductions. For the years ended December 31, 2012, 2011 and 2010, there was no impact to EPS for adjustments related to our redeemable noncontrolling interests.

Pension and Postretirement Benefits

We have pension and postretirement benefit plans covering certain domestic and international employees. We use various actuarial methods and assumptions in determining our net pension and postretirement benefit costs and obligations, including the discount rate used to determine the present value of future benefits, expected long-term rate of return on plan assets and healthcare cost trend rates. The overfunded or underfunded status of our pension and postretirement benefit plans is recorded on our Consolidated Balance Sheet.

Stock-Based Compensation

Compensation costs related to share-based transactions, including employee stock options, are recognized in the Consolidated Financial Statements based on fair value. Stock-based compensation expense is generally recognized ratably over the requisite service period based on the estimated grant-date fair value, net of estimated forfeitures.

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Notes to Consolidated Financial Statements – (continued)
(Amounts in Millions, Except Per Share Amounts)

Note 2: Debt and Credit Arrangements

Long-Term Debt

A summary of the carrying amounts and fair values of our long-term debt is listed below.

		December 31,			
	Effective	2012		2011	
	Interest Rate	Book Value	Fair Value [1]	Book Value	Fair Value
6.25% Senior Unsecured Notes due 2014 (less unamortized discount of $0.2)	6.29 %	$352.8	$372.6	$354.3	$374.5
10.00% Senior Unsecured Notes due 2017 (less unamortized discount of $8.1)	10.38 %	591.9	660.8	590.6	690.0
2.25% Senior Notes due 2017 (less unamortized discount of $0.7)	2.30 %	299.3	297.8	0.0	0.0
4.00% Senior Notes due 2022 (less unamortized discount of $2.9)	4.13 %	247.1	258.7	0.0	0.0
3.75% Senior Notes due 2023 (less unamortized discount of $1.5)	4.32 %	498.5	499.7	0.0	0.0
4.75% Convertible Senior Notes due 2023 (plus unamortized premium of $0.5) [2]	3.50 %	200.5	202.8	202.7	220.5
4.25% Convertible Senior Notes due 2023		0.0	0.0	403.0	405.5
Other notes payable and capitalized leases		87.3	90.8	65.1	
Total long-term debt		2,277.4		1,615.7	
Less: current portion [3]		216.6		404.8	
Long-term debt, excluding current portion		$2,060.8		$1,210.9	

[1] See Note 11 for information on the fair value measurement of our long-term debt.

[2] See Note 17 for further information regarding subsequent events.

[3] On March 15, 2013, holders of our 4.75% Convertible Senior Notes due 2023 (the “4.75% Notes”) may require us to repurchase their notes for cash, stock or a combination, at our election, at par, and accordingly, we included these notes in the current portion of long-term debt on our December 31, 2012 Consolidated Balance Sheet. We included our 4.25% Convertible Senior Notes due 2023 (the “4.25% Notes”) in the current portion of long-term debt on our December 31, 2011 Consolidated Balance Sheet because holders of the 4.25% Notes had a repurchase option on March 15, 2012 for cash at par. The 4.25% Notes were retired in the first quarter of 2012.

Annual maturities are scheduled as follows based on the book value as of December 31, 2012.

2013 [1]	$16.1
2014	352.8
2015	0.1
2016	0.1
2017	913.8

Thereafter	994.5
Total long-term debt	$2,277.4

1 Holders of our 4.75% Notes may require us to repurchase their notes for cash, stock or a combination, at our election, at par in March 2013.

For those debt securities that have a premium or discount at the time of issuance, we amortize the amount through interest expense based on the maturity date or the first date the holders may require us to repurchase the debt securities, if applicable. A premium would result in a decrease in interest expense and a discount would result in an increase in interest expense in future periods. We also have recorded debt issuance costs related to certain financing transactions in other assets in our Consolidated Balance Sheets, which are also amortized through interest expense. As of December 31, 2012 and 2011, we had unamortized debt issuance costs of $27.5 and $25.5, respectively.
Our debt securities include covenants that, among other things, limit our liens and the liens of certain of our consolidated subsidiaries, but do not require us to maintain any financial ratios or specified levels of net worth or liquidity.

Debt Transactions

2.25% Senior Notes due 2017

In November 2012, we issued $300.0 in aggregate principal amount of 2.25% Senior Notes due 2017 (the "2.25% Notes") at a discount to par. As a result, the 2.25% Notes were reflected on our Consolidated Balance Sheet at a fair value of $299.3 at issuance. The discount of $0.7 is amortized through the maturity date of November 15, 2017. Interest is payable semi-annually in arrears on May 15th and November 15th of each year, commencing on May 15, 2013. Capitalized fees of $2.1 related to the issuance of the 2.25% Notes, including commissions and offering expenses, are amortized in interest expense through the maturity date.

3.75% Senior Notes due 2023

In November 2012, we issued $500.0 in aggregate principal amount of 3.75% Senior Notes due 2023 (the "3.75% Notes") at a discount to par. As a result, the 3.75% Notes were reflected on our Consolidated Balance Sheet at a fair value of $498.5 at issuance. The discount of $1.5 is amortized through the maturity date of February 15, 2023. Interest is payable semi-annually in arrears on February 15th and August 15th of each year, commencing on August 15, 2013. Capitalized fees of $3.8 related to the issuance of the 3.75% Notes, including commissions and offering expenses, are amortized in interest expense through the maturity date.

We intend to apply the net proceeds from the sale of the 2.25% and 3.75% Notes towards the redemption of $200.0 in aggregate principal amount of our 4.75% Notes and $600.0 in aggregate principal amount of our 10.00% Senior Notes due 2017 (the "10.00% Notes"). We have the option to redeem the 4.75% Notes at par plus accrued interest at any time on or after March 15, 2013. We have the option to redeem the 10.00% Notes at par plus a "make-whole" amount and accrued and unpaid interest at any time prior to July 15, 2013, and at 105% of their principal amount plus accrued and unpaid interest at any time on or after that date.

4.00% Senior Notes due 2022

In March 2012, we issued $250.0 in aggregate principal amount of 4.00% Senior Notes due 2022 (the "4.00% Notes") at a discount to par. As a result, the 4.00% Notes were reflected on our Consolidated Balance Sheet at a fair value of $246.8 at issuance. The discount of $3.2 is amortized through the maturity date of March 15, 2022. Interest is payable semi-annually in arrears on March 15th and September 15th of each year, commencing on September 15, 2012. Capitalized fees, including commissions and offering expenses, of $2.5 related to the issuance of the 4.00% Notes are amortized in interest expense through the maturity date. We applied the net proceeds towards the repurchase and redemption of our 4.25% Notes as described below.

Consistent with our other debt securities, the 2.25% Notes, the 3.75% Notes and the 4.00% Notes include covenants that, among other things, limit our liens and the liens of certain of our consolidated subsidiaries, but do not require us to maintain any financial ratios or specified levels of net worth or liquidity.
At any time, at our option, we may redeem all or some of the 2.25% Notes, the 3.75% Notes and the 4.00% Notes at the greater of the principal amount of the notes to be redeemed and a "make-whole" amount, plus, in either case, accrued and unpaid interest to the date of redemption. If we experience a change of control event, coupled with a specified downgrade in the credit rating of the applicable series, we must offer to repurchase each series of these notes in cash at a price equal to not less than 101% of the aggregate principal amount of such notes, plus accrued and unpaid interest to the date of repurchase.

4.25% Convertible Senior Notes due 2023

In March 2012, we retired $400.0 in aggregate principal amount of our 4.25% Notes. Of the amount retired, $399.6 in aggregate principal amount was redeemed or repurchased for cash at par plus accrued interest of $0.5. The remaining $0.4 in aggregate principal amount of our 4.25% Notes was converted, at the election of the 4.25% Note holders, into Interpublic common stock at a conversion rate of 82.4612 shares (actual number) per $1,000 (actual number) principal amount of the 4.25% Notes, or approximately 30,000 shares (actual number). The retirement of our 4.25% Notes eliminates approximately 33.0 shares of common stock from our eligible diluted share count annually.

7.25% Senior Unsecured Notes due 2011

In August 2011, the remaining $36.3 aggregate principal amount of our 7.25% Senior Unsecured Notes due 2011 matured, and we paid $37.6 in cash, including accrued and unpaid interest.

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Convertible Senior Notes
Conversion Features
Our 4.75% Notes are convertible into our common stock. The conversion rate of our 4.75% Notes is subject to adjustment in specified circumstances, including any payment of cash dividends on our common stock. The conversion rate of our 4.75% Notes is also subject to adjustment for certain events arising from stock splits and combinations, stock dividends and certain other actions by us that modify our capital structure. The 4.75% Notes provide for an additional "make-whole" adjustment to the conversion rate in the event of a change of control meeting specified conditions.
Our 4.75% Notes are convertible at any time if the average price of our common stock for 20 trading days immediately preceding the conversion date is greater than or equal to a specified percentage of the conversion price; this percentage was equal to 115.5% in 2012 and declines 0.5% each year until it reaches 110% at maturity. Our 4.75% Notes are also convertible, regardless of the price of our common stock, if: (i) we call the 4.75% Notes for redemption; (ii) we make specified distributions to shareholders; (iii) we become a party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash or property (other than securities); or (iv) the credit ratings assigned to the 4.75% Notes by any two of Moody's Investor Service, Standard and Poor's and Fitch Ratings are lower than Ba2, BB and BB, respectively, or the 4.75% Notes are no longer rated by at least two of these ratings services. As of December 31, 2012, our 4.75% Notes were not convertible based on the triggers listed above. As a result of certain conversion features, our 4.75% Notes contain embedded derivatives whose fair values as of December 31, 2012 and 2011 were negligible. Our 4.75% Notes are also convertible, whether or not the above conditions are met, from February 15, 2023 to March 15, 2023. The 4.75% Notes are not considered securities with participation rights in earnings available to IPG common stockholders as there are no features attached to these securities that allow holders to participate in our undistributed earnings.
The conversion rates, corresponding conversion prices and conversion shares for our 4.75% Notes are listed below.

	December 31,		
	2012	2011	2010
Conversion price	$11.86	$12.13	$12.42
Conversion rate per note (actual number)	84.3402	82.4612	80.5153
Conversion shares	16.9	16.5	16.1

During 2012 and 2011, the conversion rate for our 4.75% Notes was adjusted as a result of the cumulative effect of the cash dividends declared and paid on our common stock, which resulted in a corresponding adjustment of the conversion price and conversion shares.

Repurchase / Redemption Options
Holders of our 4.75% Notes may require us to repurchase their notes on March 15, 2013 or March 15, 2018, for cash, common stock or a combination of cash and common stock, at our election. Additionally, investors may require us to repurchase our 4.75% Notes in the event of certain change of control events that occur prior to March 15, 2013, for cash, common stock or a combination of cash and common stock, at our election. At our option, we may redeem our 4.75% Notes for cash on or after March 15, 2013. The redemption price in each of these instances will be 100% of the principal amount of the 4.75% Notes being redeemed, plus accrued and unpaid interest, if any.

Capped Call
In November 2010, we purchased capped call options to hedge the risk of price appreciation on the shares of our common stock into which our 4.75% Notes are convertible. The strike price and cap price related to the capped call options are listed below.

	December 31,		
	2012	2011	2010
Strike price	$11.86	$12.13	$12.42
Cap price	$17.43	$17.83	$18.26

During 2012 and 2011, the strike price and cap price related to the capped call options were adjusted due to the payment of cash dividends on our common stock. As of December 31, 2012, the options give us the right to purchase up to 16.9 shares of our common stock at the strike price, except that the net proceeds of exercising the options will not exceed the difference between $17.43 and $11.86. Subject to certain limitations, we may elect settlement of the options to occur in cash or in shares. The options will expire on April 2, 2013. During 2010, we paid an aggregate premium of $22.8 for the options, which was recorded as a reduction to additional paid-in capital in the Consolidated Balance Sheet.

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Interest Rate Swaps
We enter into interest rate swaps to manage our exposure to changes in interest rates. In March and April of 2012, we entered into forward-starting interest rate swap agreements with an aggregate notional amount of $300.0 to effectively lock in the benchmark rate for a forecasted issuance of debt to occur prior to December 31, 2013. These swaps qualified for hedge accounting as cash flow hedges, and, as such, the effective portion of the losses on the swaps was recorded in other comprehensive income and the ineffective portion of the losses on the swaps was recorded in other income, net. In November 2012, we terminated these swaps when we issued our 3.75% Notes. We paid $24.0 in cash to settle the swaps, which is classified under the financing section of our Consolidated Statements of Cash Flows, and recognized a charge of $2.1, which was included as a component of other income, net in our Consolidated Statement of Operations. The deferred losses on the swaps of $21.9 will be amortized as an increase to interest expense over the term of the 3.75% Notes.
For the year ended December 31, 2012, we reclassified $0.3 from accumulated other comprehensive loss into interest expense. Within the next twelve months, we expect to reclassify approximately $1.7 from accumulated other comprehensive loss into interest expense in our Consolidated Statement of Operations.

Credit Agreements
We maintain a committed corporate credit facility (the "Credit Agreement") and uncommitted credit facilities with various banks that permit borrowings at variable interest rates. As of December 31, 2012 and 2011, there were no borrowings under our committed corporate credit facility. However, there were borrowings under the uncommitted facilities made by several of our international subsidiaries. We have guaranteed the repayment of some of these borrowings made by certain subsidiaries. The weighted-average interest rate on outstanding balances under the uncommitted credit facilities as of December 31, 2012 and 2011 was approximately 4.0% and 5.0%, respectively.
A summary of our credit facilities is presented below.

	December 31,							
	2012				2011			
	Total Facility	Amount Outstanding	Letters of Credit	Total Available	Total Facility	Amount Outstanding	Letters of Credit	Total Available
Committed credit agreement	$ 1,000.0	$ 0.0	$ 15.1	$ 984.9	$ 1,000.0	$ 0.0	$ 16.2	$ 983.8
Uncommitted credit agreements	$ 317.2	$ 172.1	$ 3.3	$ 141.8	$ 458.3	$ 153.5	$ 2.6	$ 302.2

In May 2011, we entered into an amendment and restatement of our Credit Agreement, increasing the commitments of the lenders to $1,000.0 from $650.0, and extending the Credit Agreement's expiration to May 31, 2016. The amendments modified our financial covenants, and provided additional flexibility with respect to, or eliminated, certain covenants such as restrictions on acquisitions, capital expenditures and restricted payments. In addition, the cost structure was reduced. The Credit Agreement is a revolving facility, under which amounts borrowed by us or any of our subsidiaries designated under the Credit Agreement may be repaid and reborrowed, subject to an aggregate lending limit of $1,000.0 or the equivalent in other currencies. The aggregate available amount of letters of credit outstanding may decrease or increase, subject to a sublimit on letters of credit of $200.0 or the equivalent in other currencies. Our obligations under the Credit Agreement are unsecured.
Under the Credit Agreement, we can elect to receive advances bearing interest based on either the base rate or the Eurocurrency rate (each as defined in the Credit Agreement) plus an applicable margin that is determined based on our credit ratings. As of December 31, 2012, the applicable margin is 0.40% for base rate advances and 1.40% for Eurocurrency rate advances. Letter of credit fees accrue on the average daily aggregate amount of letters of credit outstanding, at a rate equal to the applicable margin for Eurocurrency rate advances, and fronting fees accrue on the

aggregate amount of letters of credit outstanding at an annual rate of 0.25%. We also pay a facility fee at an annual rate of 0.35% on the aggregate lending commitment under the Credit Agreement.
The Credit Agreement includes covenants that, among other things, limit our liens and the liens of our consolidated subsidiaries and limit subsidiary debt, as well as financial covenants. The financial covenants in the Credit Agreement require that we maintain, as of the end of each fiscal quarter, certain financial measures for the four quarters then ended.
In November 2012, we entered into an amendment to our Credit Agreement, which modified the definition of “Total Debt” in the Credit Agreement to disregard until August 15, 2013 the $300.0 in aggregate principal amount of the 2.25% Notes and the $500.0 in aggregate principal amount of the 3.75% Notes we issued in November 2012, subject to the reduction of this disregarded amount by the amount of any reductions in the outstanding aggregate principal amount of the 4.75% Notes or the 10.00% Notes. As a result of this amendment, these notes will have no impact on our financial covenants in the Credit Agreement until August 15, 2013.

(Amounts in Millions, Except Per Share Amounts)

The table below sets forth the financial covenants in effect as of December 31, 2012 and thereafter.

Interest coverage ratio (not less than): [1]	5.00x
Leverage ratio (not greater than): [2]	2.75x

1 The interest coverage ratio is defined as EBITDA, as defined in the Credit Agreement, to net interest expense plus cash dividends on convertible preferred stock for the four quarters then ended.
2 The leverage ratio is defined as debt as of the last day of such fiscal quarter to EBITDA, as defined in the Credit Agreement, for the four quarters then ended.

We were in compliance with all of our covenants in the Credit Agreement as of December 31, 2012.

Cash Pooling
We aggregate our domestic cash position on a daily basis. Outside the United States we use cash pooling arrangements with banks to help manage our liquidity requirements. In these pooling arrangements, several IPG agencies agree with a single bank that the cash balances of any of the agencies with the bank will be subject to a full right of set-off against amounts the other agencies owe the bank, and the bank provides for overdrafts as long as the net balance for all the agencies does not exceed an agreed-upon level. Typically, each agency pays interest on outstanding overdrafts and receives interest on cash balances. Our Consolidated Balance Sheets reflect cash, net of bank overdrafts, under all of our pooling arrangements, and as of December 31, 2012 and 2011 the amounts netted were $1,166.3 and $1,106.6, respectively.

Note 3: Convertible Preferred Stock
Each share of our 5 1/4% Series B Cumulative Convertible Perpetual Preferred Stock (the "Series B Preferred Stock") has a liquidation preference of $1,000 per share and is convertible at the option of the holder at any time into shares of our common stock, subject to adjustment upon the occurrence of certain events, including the payment of cash dividends on our common stock. The Series B Preferred Stock may be converted at our option if the closing price of our common stock multiplied by the conversion rate in effect at that time equals or exceeds 130% of the liquidation preference for 20 trading days during any consecutive 30 trading day period. Holders of the Series B Preferred Stock will be entitled to an adjustment to the conversion rate if they convert their shares in connection with a fundamental change satisfying certain specified conditions. The Series B Preferred Stock is junior to all of our existing and future debt obligations and senior to our common stock with respect to payments of dividends and rights upon liquidation, winding up or dissolution, to the extent of the liquidation preference.
The number of shares outstanding, conversion rates and corresponding conversion prices and conversion shares for our Series B Preferred Stock are listed below.

	December 31,		
	2012	2011	2010
Shares outstanding (actual number)	221,474	221,474	221,474
Conversion rate per share	76.2197	74.4500	73.1904
Conversion price	$ 13.12	$ 13.43	$ 13.66
Conversion shares	16.9	16.5	16.2

During 2012 and 2011, the conversion rate per share for our Series B Preferred Stock was adjusted as a result of the cumulative effect of certain cash dividends declared and paid on our common stock during the year, which resulted in a corresponding adjustment of the conversion price and conversion shares. In 2010, we launched a tender offer and purchased 303,526 shares (actual number) of our Series B Preferred Stock for cash for an aggregate purchase price of

$267.6. The aggregate purchase price was calculated as the number of shares tendered multiplied by the purchase price of $869.86 per share plus unpaid dividends of $1.9, which were prorated for the period the tendered shares were outstanding, and transaction costs directly associated with the repurchase. The carrying value of the tendered shares was $293.3 and was determined based on the number of shares tendered multiplied by the liquidation preference, less the pro-rata amount of issuance costs associated with the original issuance of the preferred stock. A benefit of $25.7, representing the excess carrying value of the tendered shares over consideration from the repurchase, was recorded as an adjustment to additional paid-in capital. Additionally, the pro-rata amount of issuance costs of $10.2 was recorded as an adjustment to additional paid-in capital.

The terms of our Series B Preferred Stock do not permit us to pay dividends on our common stock unless all accumulated and unpaid dividends on the Series B Preferred Stock have been or contemporaneously are declared and paid, or provision for the payment thereof has been made. We declared annual dividends of $52.50 per share, or $11.6, $11.6 and $15.6, on our Series B Preferred Stock during 2012, 2011 and 2010, respectively. Regular quarterly dividends, if declared, are $13.125 per share.

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Dividends on each share of Series B Preferred Stock are payable quarterly in cash or, if certain conditions are met, in common stock, at our option on January 15, April 15, July 15 and October 15, or the next business date if these dates fall on the weekend or a holiday, of each year. Dividends on our Series B Preferred Stock are cumulative from the date of issuance and are payable on each payment date to the extent that we have assets that are legally available to pay dividends and our Board of Directors, or an authorized committee of our Board, declares a dividend payable. The terms of the Series B Preferred Stock include an embedded derivative instrument, the fair value of which as of December 31, 2012 and 2011 was negligible. The Series B Preferred Stock is not considered a security with participation rights in earnings available to IPG common stockholders due to the contingent nature of the conversion feature of these securities.

Note 4: Earnings Per Share

The following sets forth basic and diluted earnings per common share available to IPG common stockholders.

	Years ended December 31,		
	2012	2011	2010
Net income available to IPG common stockholders - basic	$435.1	$520.7	$271.2
Adjustments: Effect of dilutive securities			
Interest on 4.25% Notes [1]	0.3	1.4	1.4
Interest on 4.75% Notes	4.1	4.1	4.0
Dividends on preferred stock	11.6	11.6	0.0
Benefit from preferred stock repurchased [2]	0.0	0.0	(21.7)
Net income available to IPG common stockholders - diluted	$451.1	$537.8	$254.9
Weighted-average number of common shares outstanding - basic	432.5	465.5	473.6
Add: Effect of dilutive securities			
Restricted stock, stock options and other equity awards	7.2	9.1	11.3
4.25% Notes [1]	7.9	33.0	32.2
4.75% Notes	16.9	16.5	16.1
Preferred stock outstanding	16.9	16.5	0.0
Preferred stock repurchased	0.0	0.0	8.9
Weighted-average number of common shares outstanding - diluted	481.4	540.6	542.1
Earnings per share available to IPG common stockholders - basic	$1.01	$1.12	$0.57
Earnings per share available to IPG common stockholders - diluted	$0.94	$0.99	$0.47

1 We retired all of our outstanding 4.25% Notes in March 2012. For purposes of calculating diluted earnings per share for 2012, the potentially dilutive shares are pro-rated based on the period they were outstanding.

2 For the year ended December 31, 2010, the benefit from the preferred stock repurchased is excluded from net income available to IPG common stockholders for purposes of calculating diluted earnings per share since the associated common shares, if converted, were dilutive. In addition, the benefit is also net of $4.0 of preferred dividends that were declared during the first quarter of 2010 and associated with the preferred stock repurchased.

The following table presents the potential shares excluded from the diluted earnings per share calculation because the effect of including these potential shares would be antidilutive.

	Years ended December 31,		
	2012	2011	2010
Preferred stock outstanding	0.0	0.0	16.2
Securities excluded from the diluted earnings per share calculation because the exercise price was greater than the average market price:			
Stock options [1]	6.6	8.9	15.6

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

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Note 5: Supplementary Data

Valuation and Qualifying Accounts – Allowance for Uncollectible Accounts Receivable

	Years ended December 31,		
	2012	2011	2010
Balance at beginning of period	$55.4	$63.1	$66.0
Charges to costs and expenses	16.3	10.4	10.7
Reversals to other accounts[1]	(0.2)	(0.5)	(0.4)
Deductions:			
Dispositions	(0.4)	0.0	(0.5)
Uncollectible accounts written off	(12.6)	(16.3)	(11.8)
Foreign currency translation adjustment	0.5	(1.3)	(0.9)
Balance at end of period	$59.0	$55.4	$63.1

[1] Amounts primarily relate to miscellaneous other amounts and reclassifications.

Furniture, Equipment and Leasehold Improvements, net

	December 31,	
	2012	2011
Furniture and equipment	$932.6	$881.5
Leasehold improvements	597.2	593.0
Land and buildings	109.9	111.6
	1,639.7	1,586.1
Less: accumulated depreciation	(1,134.9)	(1,126.3)
Total furniture, equipment and leasehold improvements, net	$504.8	$459.8

The total depreciation and amortization expense for the years ended December 31, 2012, 2011 and 2010 was $124.3, $130.7 and $129.0, respectively.

Accrued Liabilities

The following table presents the components of accrued liabilities.

	December 31,	
	2012	2011
Salaries, benefits and related expenses	$478.2	$520.6
Office and related expenses	51.6	57.9
Acquisition obligations	29.5	43.7
Interest	42.4	40.3
Professional fees	21.7	25.3
Other	104.8	142.2
Total accrued liabilities	$728.2	$830.0

2004 Restatement Liabilities

As part of the 2004 Restatement, we recognized liabilities related to vendor discounts and credits where we had a contractual or legal obligation to rebate such amounts to our clients or vendors. Reductions to these liabilities are achieved through settlements with clients and vendors, but also may occur if the applicable statute of limitations in a jurisdiction has lapsed. As of December 31, 2012 and 2011, we had vendor discounts and credit liabilities of $26.9

and $55.5, respectively, related to the 2004 Restatement.

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Other Income, net
Results of operations include certain items that are not directly associated with our revenue-producing operations.

	Years ended December 31,		
	2012	2011	2010
Gains on sales of businesses and investments	$88.2	$125.9	$4.3
Vendor discounts and credit adjustments	15.3	19.4	12.7
Other (expense) income, net	(3.0)	4.9	(4.1)
Total other income, net	$100.5	$150.2	$12.9

Sales of Businesses and Investments – This item primarily includes realized gains and losses relating to the sales of businesses and investments, cumulative translation adjustment balances from the liquidation of entities and sales of marketable securities and investments in publicly traded and privately held companies in our Rabbi Trusts. During 2012, we received net proceeds of $94.8 from the sale of our remaining holdings in Facebook and recorded a pre-tax gain of $93.6. Additionally, we recognized a gain relating to the sale of a business in an international market within our Constituency Management Group ("CMG") segment, which was partially offset by losses recognized relating to the sale of a business in an international market and the sale of a business in the domestic market within our Integrated Agency Networks ("IAN") segment, as well as an adjustment relating to a reserve for a change in estimate in connection with a business disposed of in a prior year. During 2011, we received net proceeds of $133.5 from the sale of approximately half of our holdings in Facebook and recorded a pre-tax gain of $132.2. Additionally, we recognized a loss relating to the sale of a business in the domestic market within our IAN segment. During 2010, we recognized a gain relating to the sale of a business in the domestic market within our CMG segment, which was partially offset by a loss recognized relating to the sale of one our European businesses within our IAN segment.
Vendor Discounts and Credit Adjustments – We are in the process of settling our liabilities related to vendor discounts and credits established as part of the 2004 Restatement. These adjustments reflect the reversal of certain of these liabilities as a result of differences resulting from settlements with clients or vendors or where the statute of limitations has lapsed.

Share Repurchase Program
In February 2012, our Board of Directors (the "Board") authorized a program to repurchase from time to time up to $300.0, excluding fees, of our common stock (the "2012 share repurchase program"). In November 2012, the Board authorized an increase in the amount available under our 2012 share repurchase program up to $400.0, excluding fees, of our common stock. In February 2011, the Board authorized a share repurchase program to repurchase from time to time up to $300.0, excluding fees, of our common stock (the "2011 share repurchase program"). In August 2011, the Board authorized an increase in the amount available under our 2011 share repurchase program up to $450.0, excluding fees, of our common stock, as a result of the sale of approximately half of our holdings in Facebook. We may effect such repurchases through open market purchases, trading plans established in accordance with SEC rules, derivative transactions or other means.
The following table presents our share repurchase activity under our share repurchase programs.

	Years ended December 31,	
	2012	2011
Number of shares repurchased	32.7	41.7
Aggregate cost, including fees	$350.5	$400.8
Average price per share, including fees	$10.72	$9.62

As of December 31, 2012, $100.0 remains available for repurchase under the 2012 share repurchase program. The 2012 share repurchase program has no expiration date. We completed the 2011 share repurchase program in the first quarter of 2012.

Supplemental Cash Flow Information

	Years ended December 31,		
	2012	2011	2010
Cash paid for interest	$130.6	$138.9	$139.8
Cash paid for income taxes, net of refunds [1]	95.7	102.0	87.3

[1] Refunds of $23.5, $25.4 and $28.7 were received for the years ended December 31, 2012, 2011 and 2010, respectively.

(Amounts in Millions, Except Per Share Amounts)

Note 6: Acquisitions

We continue to evaluate strategic opportunities to expand our industry expertise, strengthen our position in high-growth and key strategic geographical markets and industry sectors, advance technological capabilities and improve operational efficiency through both acquisitions and increased ownership interests in current investments. Our acquisitions typically provide for an initial payment at the time of closing and additional contingent purchase price payments based on the future performance of the acquired entity. We have entered into agreements that may require us to purchase additional equity interests in certain consolidated and unconsolidated subsidiaries. The amounts at which we record these transactions in our financial statements are based on estimates of the future financial performance of the acquired entity, the timing of the exercise of these rights, changes in foreign currency exchange rates and other factors.

For companies acquired, we estimate the fair values of the assets and liabilities based on 100% of the business for consolidation. The purchase price in excess of the estimated fair value of the tangible net assets acquired is allocated to identifiable intangible assets and then to goodwill. Due to the characteristics of advertising, specialized marketing and communication services companies, our acquisitions typically do not have significant amounts of tangible assets since the principal assets we acquire are client relationships and talent. As a result, a substantial portion of the purchase price is primarily allocated to customer lists, trade names and goodwill.

For acquisitions we record deferred payment and redeemable noncontrolling interest amounts on our Consolidated Balance Sheets based on their acquisition-date fair value. Deferred payments are recorded on a discounted basis and adjusted quarterly, if necessary, through operating income or net interest expense, depending on the nature of the arrangement, for both changes in estimate and accretion between the acquisition date and the final payment date. See Note 14 for further information on contingent acquisition obligations. Redeemable noncontrolling interests are adjusted quarterly to their estimated redemption value, but not less than their initial fair value. Any adjustments to the redemption value impacts retained earnings or additional paid-in capital, except for foreign currency translation adjustments. The following table presents changes in our redeemable noncontrolling interests.

	Years ended December 31,		
	2012	2011	2010
Balance at beginning of period	$243.4	$291.2	$277.8
Change in related noncontrolling interest balance	1.1	(7.7)	1.5
Changes in redemption value of redeemable noncontrolling interests:			
Additions	0.0	17.9	31.9
Redemptions and reclassifications	(14.2)	(70.7)	(30.1)
Redemption value adjustments	(3.1)	12.7	10.1
Balance at end of period	$227.2	$243.4	$291.2

For all acquisitions, if a portion of the deferred payments and purchases of additional interests after the effective date of purchase are contingent upon employment terms, then that amount is accounted separately from the business combination and recognized as compensation expense over the required earn-out period. Payments deemed as compensation are excluded from the fair value purchase price allocation to tangible net assets and intangible assets acquired.

During 2012, we completed twelve acquisitions, eight of which were included in the IAN operating segment and four of which were included in the CMG operating segment. All acquired agencies have been integrated into one of our global networks or existing agencies. The most significant acquisitions included a healthcare market research and consulting agency and a search marketing agency in the United Kingdom, and, in the United States, a digital healthcare-marketing specialist and a designer of in-store shopping experiences. During 2012, we recorded approximately $201.0 of goodwill and intangible assets related to these acquisitions.

During 2011, we completed twenty-two acquisitions, which included purchases of controlling interests in previously unconsolidated subsidiaries. Of these acquisitions, eighteen were included in the IAN operating segment and four were included in the CMG operating segment. The most significant acquisitions included full service creative agencies in Australia, a public relations firm in Brazil, digital and direct marketing agencies in the United Kingdom, a healthcare communications firm in Germany and a social media agency in the United States. During 2011, we recorded approximately $133.0 of goodwill and intangible assets related to these acquisitions.

During 2010, we completed five acquisitions, four of which were included in the IAN operating segment and one of which was included in the CMG operating segment. During 2010, we recorded approximately $63.0 of goodwill and intangible assets related to these acquisitions.

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The results of operations of our acquired companies were included in our consolidated results from the closing date of each acquisition. We did not make any payments in stock related to our acquisitions in 2012, 2011 or 2010.
Details of cash paid for current and prior years' acquisitions are listed below.

	Years ended December 31,		
	2012	2011	2010
Cost of investment: current-year acquisitions	$156.8	$48.0	$47.1
Cost of investment: prior-year acquisitions	40.6	105.1	49.6
Less: net cash acquired	(14.8)	(18.5)	(5.3)
Total cost of investment [1]	182.6	134.6	91.4
Operating expense [2]	3.2	0.5	3.0
Total cash paid for acquisitions	$185.8	$135.1	$94.4

1 Of the total cash paid, $37.1, $71.5 and $29.5 for the years ended December 31, 2012, 2011 and 2010, respectively, are classified under the financing section of the Consolidated Statements of Cash Flows within acquisition-related payments. These transactions relate to increases in our ownership interests in our consolidated subsidiaries as well as deferred payments for acquisitions that closed on or after January 1, 2009. Of the total cash paid, $145.5, $63.1 and $61.9 for the years ended December 31, 2012, 2011 and 2010, respectively, are classified under the investing section of the Consolidated Statements of Cash Flows within acquisitions, including initial payments for new transactions, net of cash acquired, and deferred payments for acquisitions that closed prior to January 1, 2009.

2 Represents cash payments made that were either in excess of the contractual value or contingent upon the future employment of the former owners of acquired companies.

Note 7: Intangible Assets

Goodwill

Goodwill is the excess purchase price remaining from an acquisition after an allocation of purchase price has been made to identifiable assets acquired and liabilities assumed based on estimated fair values. The changes in the carrying value of goodwill for our segments, IAN and CMG, for the years ended December 31, 2012 and 2011 are listed below.

	IAN	CMG	Total [1]
Balance as of December 31, 2010	$2,906.0	$462.5	$3,368.5
Current year acquisitions	68.5	28.4	96.9
Contingent and deferred payments for prior acquisitions	0.8	0.0	0.8
Other [2]	(22.4)	0.5	(21.9)
Balance as of December 31, 2011	$2,952.9	$491.4	$3,444.3
Current year acquisitions	122.0	11.7	133.7
Contingent and deferred payments for prior acquisitions	2.2	0.0	2.2
Other [2]	(2.5)	2.9	0.4
Balance as of December 31, 2012	$3,074.6	$506.0	$3,580.6

1 For all periods presented we have not recorded a goodwill impairment charge.
2 Primarily includes foreign currency translation adjustments.
See Note 1 for information regarding our annual impairment methodology.

Other Intangible Assets

Other intangible assets are comprised of assets with indefinite lives not subject to amortization and assets with definite lives subject to amortization. Other intangible assets primarily consist of customer lists and trade names, which have definitive lives and are subject to amortization on a straight-line basis with estimated useful lives generally between 7 and 15 years. Amortization expense for other intangible assets for the years ended December 31, 2012, 2011 and 2010 was $23.4, $20.2 and $19.4, respectively. During 2012 and 2011, we recorded approximately $67.0 and $36.0 of intangible assets related to acquisitions made in the respective year.

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The following table provides a summary of other intangible assets, which are included in other assets on our Consolidated Balance Sheets.

	December 31, 2012			2011		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Customer lists	$184.0	$(96.9)	$87.1	$165.9	$(81.7)	$84.2
Trade names	59.7	(15.5)	44.2	52.9	(12.3)	40.6
Other	15.1	(5.7)	9.4	17.3	(7.8)	9.5
Total	$258.8	$(118.1)	$140.7	$236.1	$(101.8)	$134.3

The estimated annual amortization expense for other intangible assets for the next five years as of December 31, 2012 is listed below.

	2013	2014	2015	2016	2017
Estimated amortization expense	$29.9	$29.8	$26.1	$15.2	$5.5

Note 8: Income Taxes
The components of income before income taxes, equity earnings and the impact of noncontrolling interests are listed below.

	Years ended December 31, 2012	2011	2010
Domestic	$386.9	$428.4	$216.2
Foreign	287.9	310.0	234.4
Total	$674.8	$738.4	$450.6

The provision for income taxes is listed below.

	Years ended December 31, 2012	2011	2010
U.S. federal income taxes (including foreign withholding taxes):			
Current	$9.4	$0.9	$13.7
Deferred	118.1	92.3	60.2
	127.5	93.2	73.9
State and local income taxes:			
Current	17.1	12.3	16.8
Deferred	25.3	11.3	(0.1)
	42.4	23.6	16.7
Foreign income taxes:			
Current	83.2	93.1	84.8
Deferred	(39.8)	(19.7)	(4.1)
	43.4	73.4	80.7
Total	$213.3	$190.2	$171.3

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A reconciliation of the effective income tax rate before equity earnings and the impact of noncontrolling interests as reflected in our Consolidated Statements of Operations to the U.S. federal statutory income tax rate is listed below.

	Years ended December 31,		
	2012	2011	2010
U.S. federal statutory income tax rate	35.0 %	35.0 %	35.0 %
Income tax provision at U.S. federal statutory rate	$ 236.2	$ 258.4	$ 157.7
State and local income taxes, net of federal income tax benefit	27.3	15.3	10.8
Impact of foreign operations, including withholding taxes	8.4	(21.9)	4.7
Change in net valuation allowance [1]	(57.3)	(32.9)	(2.4)
Worthless securities deduction	0.0	(23.0)	(2.5)
Increases (decreases) in unrecognized tax benefits, net	24.1	(2.7)	8.9
Other	(25.4)	(3.0)	(5.9)
Provision for income taxes	$ 213.3	$ 190.2	$ 171.3
Effective income tax rate on operations	31.6 %	25.8 %	38.0 %

[1] Reflects changes in valuation allowance that impacted the effective income tax rate for each year presented.

In 2012, our effective income tax rate of 31.6% was positively impacted by the reversals of valuation allowances associated with the Asia Pacific and Continental Europe regions, of $26.2 and $21.8, respectively, as well as by a benefit derived from the deduction of foreign tax credits that previously had a full valuation allowance. Our effective income tax rate was negatively impacted by an adjustment of $19.5 associated with the establishment of a previously unrecorded reserve for a tax contingency for the years 2007 through 2010, losses in certain foreign locations where we receive no tax benefit due to 100% valuation allowances and state and local income taxes, net of federal income tax benefit.

In 2011, our effective income tax rate of 25.8% was positively impacted primarily from the utilization of capital losses to offset nearly all of the $132.2 capital gain realized from the Facebook transaction. The capital gain enabled us to use capital loss carryforwards, on which a 100% valuation allowance had been previously established, and capital losses attributable to worthless securities in a consolidated subsidiary. Additionally, our effective income tax rate was positively impacted by the recognition of previously unrecognized tax benefits as a result of the effective settlement of the 2007-2008 IRS audit cycle, a lower effective income tax rate on non-U.S. operations and the net reversal of valuation allowances, primarily in the Continental Europe region. The effective income tax rate was negatively impacted by state and local taxes and losses in certain foreign locations where we receive no tax benefit due to 100% valuation allowances.

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The components of deferred tax assets and liabilities are listed below.

	December 31, 2012	2011
Postretirement/post-employment benefits	$40.4	$42.4
Deferred compensation	192.4	205.2
Pension costs	27.0	14.2
Basis differences in fixed assets	26.9	81.8
Rent	50.2	38.6
Interest	66.9	54.8
Accruals and reserves	51.1	55.6
Allowance for doubtful accounts	9.2	8.1
Basis differences in intangible assets	(364.9)	(330.1)
Investments in equity securities	(5.2)	30.8
Tax loss/tax credit carry forwards	449.7	478.1
Restructuring and other reorganization-related costs	1.2	2.0
Other	88.3	92.2
Total deferred tax assets, net	633.2	773.7
Valuation allowance	(392.9)	(489.9)
Net deferred tax assets	$240.3	$283.8

We evaluate the realizability of our deferred tax assets on a quarterly basis. A valuation allowance is established when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. In circumstances where there is negative evidence, establishment of a valuation allowance is considered. We believe that cumulative losses in the most recent three-year period represent significant negative evidence, and as a result, we determined that certain of our deferred tax assets required the establishment of a valuation allowance. The realization of our deferred tax assets is primarily dependent on future earnings. The amount of the deferred tax assets considered realizable could be reduced in the near future if estimates of future taxable income are lower than anticipated. The deferred tax assets for which an allowance was recognized relate primarily to state and foreign tax loss carryforwards.

The change in the valuation allowance is listed below.

	Years ended December 31, 2012	2011	2010
Balance at beginning of period	$489.9	$508.1	$425.5
(Reversed) charged to costs and expenses	(49.5)	(25.1)	92.3
Charged (reversed) to gross tax assets and other accounts	(47.5)	6.9	(9.7)
Balance at end of period	$392.9	$489.9	$508.1

In 2012, amounts reversed to costs and expenses primarily relate to the net reversal of valuation allowances in the Asia Pacific and Continental Europe regions, based on positive evidence in the form of a sustained pattern of profitability. Amounts reversed to gross tax assets and other accounts relate primarily to the reversal of valuation allowance on foreign tax credits.

In 2011, amounts reversed to costs and expenses primarily relate to the utilization of capital loss carryforwards and the expiration of foreign tax credits on which 100% valuation allowances had been established, and the net reversal of valuation allowances based on positive evidence in the form of a sustained pattern of profitability. These reversals were partially offset by the establishment of an additional deferred tax asset and a corresponding valuation allowance for a Luxembourg tax loss carryforward.

In 2010, amounts charged to costs and expenses primarily relate to the establishment of a deferred tax asset and a corresponding valuation allowance for a Luxembourg tax loss carryforward, which were first available for effective utilization in 2011. This resulted from restructuring due to a tax law change in Luxembourg. Amounts reversed to gross tax assets and other accounts relate primarily to the effect of foreign currency translation.

As of December 31, 2012, there are $1,356.6 of loss carryforwards, of which $15.1 are U.S. tax loss carryforwards that expire in the years 2026 through 2029. The remaining $1,341.5 are non-U.S. tax loss carryforwards, of which $1,091.1 have unlimited carryforward periods and $250.4 have expiration periods from 2013 through 2031.

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As of December 31, 2012 and 2011, we had $2,110.0 and $1,766.7, respectively, of undistributed earnings attributable to foreign subsidiaries. It is our intention to permanently reinvest undistributed earnings of our foreign subsidiaries. We have not provided deferred U.S. income taxes or foreign withholding taxes on temporary differences resulting from earnings for certain foreign subsidiaries which are permanently reinvested outside the U.S. It is not practicable to determine the amount of unrecognized deferred tax liability associated with these temporary differences.
The table below summarizes the activity related to our unrecognized tax benefits.

	December 31,		
	2012	2011	2010
Balance at beginning of period	$ 161.0	$ 146.7	$ 160.5
Increases as a result of tax positions taken during a prior year	28.2	5.3	4.6
Decreases as a result of tax positions taken during a prior year	(6.8)	(18.1)	(28.1)
Settlements with taxing authorities	(0.7)	(5.0)	(10.2)
Lapse of statutes of limitation	(1.1)	(0.2)	(0.6)
Increases as a result of tax positions taken during the current year	14.0	32.3	20.5
Balance at end of period	$ 194.6	$ 161.0	$ 146.7

Included in the total amount of unrecognized tax benefits of $194.6 as of December 31, 2012, is $193.5 of tax benefits that, if recognized, would impact the effective income tax rate. The total amount of accrued interest and penalties as of December 31, 2012 and 2011 is $13.5 and $12.1, respectively, of which a detriment of $1.4 and $0.2 is included in our 2012 and 2011 Consolidated Statements of Operations, respectively. In accordance with our accounting policy, interest and penalties accrued on unrecognized tax benefits are classified as income taxes in our Consolidated Statements of Operations.
In 2011, we effectively settled the 2007-2008 IRS audit cycle. The settlement resulted in no cash payment and our effective income tax rate was positively impacted by the recognition of previously unrecognized tax benefits.
We have various tax years under examination by tax authorities in various countries, and in various states, such as New York, in which we have significant business operations. It is not yet known whether these examinations will, in the aggregate, result in our paying additional taxes. We believe our tax reserves are adequate in relation to the potential for additional assessments in each of the jurisdictions in which we are subject to taxation. We regularly assess the likelihood of additional tax assessments in those jurisdictions and, if necessary, adjust our reserves as additional information or events require.
With respect to all tax years open to examination by U.S. federal, various state and local, and non-U.S. tax authorities, we currently anticipate that total unrecognized tax benefits will decrease by an amount between $30.0 and $40.0 in the next twelve months, a portion of which will affect our effective income tax rate, primarily as a result of the settlement of tax examinations and the lapsing of statutes of limitations. This net decrease is related to various items of income and expense, primarily transfer pricing adjustments.
We are effectively settled with respect to U.S. income tax audits for years prior to 2009. With limited exceptions, we are no longer subject to state and local income tax audits for years prior to 1999, or non-U.S. income tax audits for years prior to 2005.

Note 9: Accumulated Other Comprehensive Loss, Net of Tax
The components of accumulated other comprehensive loss, net of tax are listed below.

	December 31,		
	2012	2011	2010

Foreign currency translation adjustment	$(130.1)	$(140.9)	$(51.3)
Unrecognized losses, transition obligation and prior service cost	(146.0)	(85.0)	(67.7)
Net unrealized losses on derivatives	(12.7)	0.0	0.0
Net unrealized holding gains on securities	0.8	0.2	0.0
Accumulated other comprehensive loss, net of tax	$(288.0)	$(225.7)	$(119.0)

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Note 10: Incentive Compensation Plans

2009 Performance Incentive Plan

We issue stock and cash-based incentive awards to our employees under a plan established by the Compensation and Leadership Talent Committee of the Board of Directors (the "Compensation Committee") and approved by our shareholders. In May 2009, our shareholders approved the 2009 Performance Incentive Plan (the "2009 PIP"), which replaced previous incentive plans. The number of shares of common stock initially available for granting new stock options and stock appreciation rights under the 2009 PIP was 8.1. The number of shares of common stock initially available for performance-based awards and other stock-based awards under the 2009 PIP was 26.5. Subject to the terms of the 2009 PIP, there are limits on the number of shares that may be awarded to any one participant for each type of award. The vesting period of awards granted is generally commensurate with the requisite service period. We generally issue new shares to satisfy the exercise of stock options or the distribution of other stock-based awards.
Additionally, under the 2009 PIP, we are able to grant performance cash awards. The performance cash awards are granted to certain employees who otherwise would have been eligible to receive performance-based stock awards. These awards have a service period vesting condition and a performance vesting condition. The amount of the performance cash award received by an employee with a performance vesting condition can range from 0% to 300% of the target amount of the original grant value. Performance cash awards generally vest in three years. A committee of the Board of Directors may grant performance cash awards to any eligible employee; however, no employee can receive more than $6.0 during a performance period. Performance cash awards may be settled in shares on the vest date. The number of shares to be settled on the vesting date will be calculated as the cash value adjusted for performance divided by our stock price on the vesting date.
The amount of stock-based compensation expense as reflected in salaries and related expenses in our Consolidated Statement of Operations, and the related tax benefit, are listed below.

	Years ended December 31,		
	2012	2011	2010
Stock options	$5.4	$6.7	$7.4
Stock-settled awards	14.9	21.9	32.7
Cash-settled awards	3.9	5.7	10.9
Performance-based awards	24.5	23.3	11.0
Employee stock purchase plan	0.6	0.7	0.5
Other [1]	1.1	4.1	4.3
Stock-based compensation expense	$50.4	$62.4	$66.8
Tax benefit	$19.7	$22.1	$22.1

1 Represents charges recorded for severance expense related to stock-based compensation awards.

Stock Options

Stock options are granted with the exercise price equal to the fair market value of our common stock on the grant date. They are generally exercisable between two and four years from the grant date and expire ten years from the grant date (or earlier in the case of certain terminations of employment).

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The following tables are a summary of stock option activity during 2012.

	Options	Weighted-Average Exercise Price (per option)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Stock options outstanding as of January 1, 2012	18.1	$12.10		
Granted	0.6	11.65		
Exercised	(1.2)	9.43		
Cancelled/expired	(3.0)	25.20		
Forfeited	(0.4)	4.93		
Stock options outstanding as of December 31, 2012	14.1	9.76	4.5	$ 27.6
Stock options vested and expected to vest as of December 31, 2012	13.4	9.92	4.4	$ 24.4
Stock options exercisable as of December 31, 2012	10.2	10.89	3.6	$ 9.9

	Options	Weighted-Average Grant Date Fair Value (per option)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Non-vested as of January 1, 2012	5.0	$ 3.31		
Granted	0.6	4.24		
Vested	(1.3)	3.94		
Forfeited	(0.4)	2.88		
Non-vested as of December 31, 2012	3.9	3.29	7.0	$ 18.0

There were 1.2, 1.3 and 0.5 stock options exercised in 2012, 2011 and 2010, respectively. The total intrinsic value of stock options exercised during 2012, 2011 and 2010 was $2.0, $3.2 and $0.6, respectively. The cash received from the stock options exercised in 2012, 2011 and 2010 was $11.7, $13.3 and $4.8, respectively. As of December 31, 2012, there was $4.2 of total unrecognized compensation expense related to non-vested stock options granted, which is expected to be recognized over a weighted-average period of 0.8 years.

We use the Black-Scholes option-pricing model to estimate the fair value of options granted, which requires the input of subjective assumptions including the option's expected term and the price volatility of the underlying stock. Changes in the assumptions can materially affect the estimate of fair value and our results of operations could be materially impacted. The weighted-average grant-date fair value per option during the years ended December 31, 2012, 2011 and 2010 was $4.24, $4.57 and $3.88, respectively.

The fair value of each option grant has been estimated with the following weighted-average assumptions.

	Years ended December 31, 2012	2011	2010
Expected volatility [1]	43.8 %	39.9 %	42.2 %
Expected term (years) [2]	6.8	6.7	6.5
Risk free interest rate [3]	1.3 %	2.8 %	3.0 %
Expected dividend yield [4]	2.1 %	1.9 %	0.0 %

1 The expected volatility used to estimate the fair value of stock options awarded is based on a blend of: (i) historical volatility of our common stock for periods equal to the expected term of our stock options and (ii) implied volatility of tradable forward put and call options to purchase and sell shares of our common stock.

2 The estimate of our expected term is based on the average of (i) an assumption that all outstanding options are exercised upon achieving their full vesting date and (ii) an assumption that all outstanding options will be exercised at the midpoint between the current date (i.e., the date awards have ratably vested through) and their full contractual term. In determining the estimate, we considered several factors, including the historical option exercise behavior of our employees and the terms and vesting periods of the options.

3 The risk free rate is determined using the implied yield currently available for zero-coupon U.S. government issuers with a remaining term equal to the expected term of the options.

4 The expected dividend yield is calculated based on an annualized dividend of $0.24 per share in 2012 and 2011. No dividend yield was assumed in 2010 because we did not pay cash dividends on our common stock during that year.

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Stock-Based Compensation
We grant other stock-based compensation awards such as stock-settled awards, cash-settled awards and performance-based awards (settled in cash or shares) to certain key employees. The number of shares or units received by an employee for performance-based awards depends on Company performance against specific performance targets and could range from 0% to 300% of the target amount of shares originally granted. Incentive awards are subject to certain restrictions and vesting requirements as determined by the Compensation Committee. The fair value of the shares on the grant date is amortized over the vesting period, which is generally three years. Upon completion of the vesting period for cash-settled awards, the grantee is entitled to receive a payment in cash based on the fair market value of the corresponding number of shares of common stock. No monetary consideration is paid by a recipient for any incentive award. The fair value of cash-settled awards is adjusted each quarter based on our share price. The holders of stock-settled awards have absolute ownership interest in the underlying shares of common stock prior to vesting, which includes the right to vote and receive dividends. Dividends declared on common stock are accrued during the vesting period and paid when the award vests. The holders of cash-settled and performance-based awards have no ownership interest in the underlying shares of common stock until the awards vest and the shares of common stock are issued.
Stock-based compensation awards expected to be settled in cash have been classified as liabilities in our Consolidated Balance Sheets as of December 31, 2012 and 2011.

	Years ended December 31,		
	2012	2011	2010
Stock-Settled Awards:			
Awards granted	0.9	0.8	3.7
Weighted-average grant-date fair value (per award)	$ 11.43	$ 11.94	$ 8.47
Total fair value of vested awards distributed	$ 63.5	$ 63.1	$ 36.4
Cash-Settled Awards:			
Awards granted	0.1	0.0	0.6
Weighted-average grant-date fair value (per award)	$ 10.94	$ 8.96	$ 8.50
Total fair value of vested awards distributed	$ 11.1	$ 10.4	$ 4.8
Performance-Based Awards:			
Awards granted	1.8	1.8	0.1
Weighted-average grant-date fair value (per award)	$ 10.61	$ 11.58	$ 11.02
Total fair value of vested awards distributed	$ 11.5	$ 30.8	$ 4.6

In conjunction with common stock dividends declared in 2012 and 2011, we accrued dividends of $1.1 and $2.5, respectively, on non-vested stock-settled awards and paid $1.7 and $0.3 for stock-settled awards that vested during 2012 and 2011, respectively.
A summary of the activity of our non-vested stock-settled awards, cash-settled awards, and performance-based awards during 2012 is presented below (performance-based awards are shown at 100% of the shares originally granted).

	Stock-Settled Awards		Cash-Settled Awards		Performance-Based Awards	
	Awards	Weighted-Average Grant-Date Fair Value (per award)	Awards	Weighted-Average Grant-Date Fair Value (per award)	Awards	Weighted-Average Grant-Date Fair Value (per award)

Non-vested as of January 1, 2012	9.2	$ 6.41	1.6	$ 5.85	2.0	$ 10.84
Granted	0.9	11.43	0.1	10.94	1.8	10.61
Vested	(5.7)	4.88	(1.0)	4.62	(1.0)	8.50
Forfeited	(0.6)	8.16	(0.2)	6.54	(0.1)	11.62
Non-vested as of December 31, 2012	3.8	9.55	0.5	8.62	2.7	11.57
Total unrecognized compensation expense remaining	$ 6.6		$ 0.8		$ 11.9	
Weighted-average years expected to be recognized over	0.8		0.4		1.8	

During 2012, 2011 and 2010, additional performance cash awards with a total target value of $33.6, $31.9 and $19.0 respectively, were awarded under the 2009 PIP and will be settled in shares upon vesting, which is three years from the grant date.

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As of December 31, 2012, there was $26.8 of total unrecognized compensation expense related to these awards, which is expected to be recognized over a remaining weighted-average period of 1.7 years.
In conjunction with our annual grant of long-term incentive compensation awards, we reviewed our estimates and assumptions in 2012, which resulted in an increase to our estimated forfeiture rate, as our review of our actual forfeitures indicated a higher level of forfeitures than previously assumed.

2009 Restricted Cash Plan
In March 2009, the Compensation Committee approved the Interpublic Restricted Cash Plan (the “Cash Plan”). Under the Cash Plan, the Board, the Compensation Committee or the Plan Administrator may grant cash awards to certain employees eligible to receive stock-settled and cash-settled awards. Cash awards, when granted, have a service period vesting condition and generally vest in three years.

Cash Awards
During the years ended December 31, 2012, 2011 and 2010, the Compensation Committee granted cash awards under the Cash Plan with a total target value of $2.7, $4.2 and $31.6, respectively, and we recognized $10.9, $16.6 and $12.8, respectively, in salaries and related expenses in our Consolidated Statements of Operations.
During the years ended December 31, 2012, 2011 and 2010, the Compensation Committee granted performance awards to be settled in cash under the 2009 PIP with a total target value of $37.4, $39.3, and $18.5, respectively, and we recognized $18.9, $22.0 and $11.4, respectively, in salaries and related expenses in our Consolidated Statements of Operations.
We amortize the present value of the amount expected to vest for cash awards and performance cash awards over the vesting period using the straight-line method, less an assumed forfeiture rate. Cash awards do not fall within the scope of the authoritative guidance for stock compensation as they are not paid in equity and the value of the award is not correlated with our stock price. Due to the cash nature of the payouts and the vesting period, we account for these awards in accordance with authoritative guidance for deferred compensation arrangements.

Employee Stock Purchase Plans
The Interpublic Group of Companies Employee Stock Purchase Plan (the “ESPP Plan”) became active April 1, 2007. Under the ESPP Plan, eligible employees may purchase our common stock through payroll deductions not exceeding 10% of their eligible compensation or 900 (actual number) shares each offering period. The price an employee pays for a share of common stock under the ESPP Plan is 90% of the lesser of the average market price of a share on the first business day of the offering period or the average market price of a share on the last business day of the offering period of three months. An aggregate of 15.0 shares are reserved for issuance under the ESPP Plan, of which 2.3 shares have been issued through December 31, 2012.

Note 11: Fair Value Measurements
Authoritative guidance for fair value measurements establishes a fair value hierarchy which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2	

	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial Instruments that are Measured at Fair Value on a Recurring Basis
We primarily apply the market approach to determine the fair value of financial instruments that are measured at fair value on a recurring basis. There were no changes to our valuation techniques used to determine the fair value of financial instruments during 2012 as compared to the prior year.

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The following tables present information about our financial instruments measured at fair value on a recurring basis as of December 31, 2012 and December 31, 2011, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	December 31, 2012				Balance Sheet
	Level 1	Level 2	Level 3	Total	Classification
Assets					
Cash equivalents	$1,806.6	$0.0	$0.0	$1,806.6	Cash and cash equivalents
Short-term marketable securities	16.0	0.0	0.0	16.0	Marketable securities
Long-term investments	1.5	0.0	0.0	1.5	Other assets
Total	$1,824.1	$0.0	$0.0	$1,824.1	
As a percentage of total assets	13.5 %	0.0 %	0.0 %	13.5 %	
Liabilities					
Mandatorily redeemable noncontrolling interests [1]	$0.0	$0.0	$25.3	$25.3	

	December 31, 2011				Balance Sheet
	Level 1	Level 2	Level 3	Total	Classification
Assets					
Cash equivalents	$1,596.5	$0.0	$0.0	$1,596.5	Cash and cash equivalents
Short-term marketable securities	12.9	0.0	0.0	12.9	Marketable securities
Long-term investments	1.3	9.0	0.0	10.3	Other assets
Total	$1,610.7	$9.0	$0.0	$1,619.7	
As a percentage of total assets	12.5 %	0.1 %	0.0 %	12.5 %	
Liabilities					
Mandatorily redeemable noncontrolling interests [1]	$0.0	$0.0	$58.9	$58.9	

1 Relates to unconditional obligations to purchase additional noncontrolling equity shares of consolidated subsidiaries. Fair value measurement of the obligation was based upon the amount payable as if the forward contracts were settled. The amount redeemable within the next twelve months is classified in accrued liabilities; any interests redeemable thereafter are classified in other non-current liabilities.

The following tables present additional information about financial instruments measured at fair value on a recurring basis and for which we utilize Level 3 inputs to determine fair value.

	Years ended December 31,	
Liabilities	2012	2011
Mandatorily redeemable noncontrolling interests - Balance at beginning of period	$58.9	$52.0

Level 3 additions	0.0	28.1
Level 3 reductions	(34.9)	(28.0)
Realized losses included in net income	(1.4)	(6.7)
Foreign currency translation	(0.1)	0.1
Mandatorily redeemable noncontrolling interests - Balance at end of period	$25.3	$58.9

Level 3 reductions primarily consist of cash payments made related to unconditional obligations to purchase additional equity interests in previous acquisitions, which are classified within the financing section of our Consolidated Statements of Cash Flows. Level 3 additions relate to new unconditional obligations to purchase additional equity interests in previous acquisitions for cash in future periods. Realized losses included in net income for mandatorily redeemable noncontrolling interests are reported as a component of interest expense in our Consolidated Statements of Operations.

(Amounts in Millions, Except Per Share Amounts)

Gross unrealized and realized gains and losses for our long-term investments and short-term marketable securities were not material for the years ended December 31, 2012, 2011 and 2010.

Financial Instruments that are not Measured at Fair Value on a Recurring Basis

The following table presents information about our financial instruments that are not measured at fair value on a recurring basis as of December 31, 2012, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Total long-term debt	$0.0	$2,292.4	$90.8	$2,383.2

Our long-term debt comprises senior notes and other notes payable. The fair value of our senior notes traded over-the-counter is based on quoted prices for such securities, but which fair value can also be derived from inputs that are readily observable. Therefore, these senior notes are classified as Level 2 within the fair value hierarchy. Our other notes payable are not actively traded and their fair value is not solely derived from readily observable inputs. Thus, the fair value of our other notes payable is determined based on a discounted cash flow model and other proprietary valuation methods, and therefore is classified as Level 3 within the fair value hierarchy. See Note 2 for further information on our long-term debt.

Non-financial Instruments that are Measured at Fair Value on a Nonrecurring Basis

Certain non-financial instruments are measured at fair value on a nonrecurring basis, primarily goodwill, intangible assets, and property, plant and equipment. Accordingly, these assets are not measured and adjusted to fair value on an ongoing basis but are subject to periodic evaluations for potential impairment.

Note 12: Employee Benefits

Pension and Postretirement Benefit Plans

We have a defined benefit pension plan (the "Domestic Pension Plan") that consists of approximately 4,100 participants and has been closed to new participants. We also have numerous funded and unfunded plans outside the U.S. The Interpublic Limited Pension Plan in the U.K. is a defined benefit plan and is our most material foreign pension plan in terms of the benefit obligation and plan assets. Some of our domestic and foreign subsidiaries provide postretirement health benefits and life insurance to eligible employees and, in certain cases, their dependents. The domestic postretirement benefit plan is our most material postretirement benefit plan in terms of the benefit obligation. This plan consists of approximately 2,400 participants, is closed to new participants and is unfunded.

Differences between the aggregate income statement and balance sheet amounts listed in the tables below and the totals reported in our Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income and Consolidated Balance Sheets relate to non-material foreign pension and postretirement benefit plans.

Pension and Postretirement Benefit Obligation

The change in the benefit obligation, the change in plan assets, the funded status and amounts recognized for the domestic pension plan, the significant foreign pension plans and the domestic postretirement benefit plan are listed below.

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	Domestic Pension Plan		Foreign Pension Plans		Domestic Postretirement Benefit Plan	
December 31,	2012	2011	2012	2011	2012	2011
Benefit Obligation						
Projected benefit obligation as of January 1	$129.0	$130.9	$456.6	$431.1	$50.8	$51.8
Service cost	0.0	0.0	10.2	9.6	0.2	0.2
Interest cost	6.3	6.8	21.9	23.3	2.3	2.7
Benefits paid	(10.8)	(11.9)	(20.4)	(21.2)	(5.9)	(6.2)
Plan participant contributions	0.0	0.0	0.6	0.7	1.7	1.4
Actuarial losses (gains)	16.1	3.2	60.0	13.5	(2.5)	0.9
Settlements and curtailments	0.0	0.0	(6.5)	(5.8)	0.0	0.0
Foreign currency effect	0.0	0.0	8.9	4.9	0.0	0.0
Other	0.0	0.0	1.1	0.5	0.0	0.0
Projected benefit obligation as of December 31	$140.6	$129.0	$532.4	$456.6	$46.6	$50.8
Fair Value of Plan Assets						
Fair value of plan assets as of January 1	$107.2	$95.3	$363.6	$312.1	$0.0	$0.0
Actual return on plan assets	13.7	9.7	17.6	9.0	0.0	0.0
Employer contributions	5.6	14.1	17.7	65.0	4.2	4.8
Plan participant contributions	0.0	0.0	0.6	0.7	1.7	1.4
Benefits paid	(10.8)	(11.9)	(20.4)	(21.2)	(5.9)	(6.2)
Settlements	0.0	0.0	(6.1)	(5.8)	0.0	0.0
Foreign currency effect	0.0	0.0	8.7	3.8	0.0	0.0
						0.0
Fair value of plan assets as of December 31	$115.7	$107.2	$381.7	$363.6	$0.0	$0.0
Funded status of the plans at December 31	$(24.9)	$(21.8)	$(150.7)	$(93.0)	$(46.6)	$(50.8)

	Domestic Pension Plan		Foreign Pension Plans		Domestic Postretirement Benefit Plan	
December 31,	2012	2011	2012	2011	2012	2011
Amounts recognized in Consolidated Balance Sheets						
Non-current asset	$0.0	$0.0	$7.4	$19.6	$0.0	$0.0
Current liability	0.0	0.0	(8.4)	(8.1)	(4.6)	(4.9)
Non-current liability	(24.9)	(21.8)	(149.7)	(104.5)	(42.0)	(45.9)
Net liability recognized	$(24.9)	$(21.8)	$(150.7)	$(93.0)	$(46.6)	$(50.8)
Accumulated benefit obligation	$140.6	$129.0	$508.5	$432.8		

Amounts recognized in Accumulated Other Comprehensive Loss, net						
Net actuarial loss	$53.6	$49.9	$115.7	$55.2	$4.2	$6.7
Prior service cost (credit)	0.0	0.0	1.8	1.9	(0.2)	(0.3)
Transition obligation	0.0	0.0	0.0	0.0	0.0	0.1
Total amount recognized	$53.6	$49.9	$117.5	$57.1	$4.0	$6.5

In 2013, we estimate that we will recognize $8.3 and $2.9 of net actuarial losses from accumulated other comprehensive loss, net to net periodic cost related to our domestic pension plan and significant foreign pension plans, respectively.

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	Domestic Pension Plan		Foreign Pension Plans	
December 31,	2012	2011	2012	2011
Pension plans with underfunded or unfunded accumulated benefit obligation				
Aggregate projected benefit obligation	$ 140.6	$ 129.0	$ 515.8	$ 132.6
Aggregate accumulated benefit obligation	140.6	129.0	497.3	127.0
Aggregate fair value of plan assets	115.7	107.2	358.5	20.2

Net Periodic Cost
The components of net periodic benefit cost and key assumptions are listed below.

	Domestic Pension Plan			Foreign Pension Plans			Domestic Postretirement Benefit Plan		
Years ended December 31,	2012	2011	2010	2012	2011	2010	2012	2011	2010
Service cost	$0.0	$0.0	$0.0	$ 10.2	$9.6	$9.7	$0.2	$0.2	$0.3
Interest cost	6.3	6.8	7.3	21.9	23.3	22.8	2.3	2.7	2.8
Expected return on plan assets	(7.7)	(7.5)	(7.0)	(18.2)	(19.0)	(17.0)	0.0	0.0	0.0
Settlement and curtailment losses	0.0	0.0	0.0	0.7	0.0	1.4	0.0	0.0	0.0
Amortization of:									
Transition obligation	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.2
Prior service cost (credit)	0.0	0.0	0.0	0.2	0.2	0.2	(0.1)	(0.1)	(0.1)
Unrecognized actuarial losses	6.4	6.6	8.6	1.0	0.7	1.9	0.0	0.0	0.0
Net periodic cost	$5.0	$5.9	$8.9	$ 15.8	$ 14.8	$ 19.0	$2.6	$2.9	$3.2

Assumptions

	Domestic Pension Plan			Foreign Pension Plans			Domestic Postretirement Benefit Plan		
Years ended December 31,	2012	2011	2010	2012	2011	2010	2012	2011	2010
Net periodic cost									
Discount rate	5.00 %	5.50 %	5.51 %	5.00 %	5.45 %	5.50 %	5.00 %	5.50 %	5.50 %
Rate of compensation increase	N/A	N/A	N/A	3.66 %	4.37 %	4.43 %	N/A	N/A	N/A
Expected return on plan assets	7.25 %	7.50 %	7.49 %	5.02 %	5.88 %	5.84 %	N/A	N/A	N/A
Benefit obligation									
Discount rate	4.00 %	5.00 %	5.50 %	4.32 %	5.00 %	5.45 %	4.00 %	5.00 %	5.50 %
Rate of compensation increase	N/A	N/A	N/A	3.57 %	3.66 %	4.34 %	N/A	N/A	N/A
Health care cost trend rate assumed for next year									
Initial rate (weighted-average)							8.00 %	8.00 %	8.50 %
Year ultimate rate is reached							2019	2016	2017
Ultimate rate							5.00 %	5.50 %	5.50 %

Discount Rates – At December 31, 2012, 2011 and 2010, we determined our discount rates for our domestic pension plan, foreign pension plans and domestic postretirement benefit plan based on either a bond selection/settlement approach or bond yield curve approach. Using the bond selection/settlement approach, we determine the discount rate by selecting a portfolio of corporate bonds appropriate to provide for the projected benefit payments. Using the bond yield curve approach, we determine the discount rate by matching the plans' cash flows to spot rates developed from a yield curve. Both approaches utilize high quality AA-rated corporate bonds and the plans' projected cash flows to develop a discounted value of the benefit payments, which is then used to develop a single discount rate. In countries where markets for high-quality long-term AA corporate bonds are not well developed, a portfolio of long-term government bonds is used as a basis to develop hypothetical corporate bond yields, which serve as a basis to derive the discount rate.

Expected Return on Assets – Our expected rate of return is determined at the beginning of each year and considers asset class index returns over various market and economic conditions, current and expected market conditions, risk premiums associated with asset classes and long-term inflation rates. We determine both a short-term and long-term view and then select a long-term rate of return assumption that matches the duration of our liabilities.

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Fair Value of Pension Plan Assets
The following table presents the fair value of our domestic and foreign pension plans' assets as of December 31, 2012 and 2011, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. See Note 11 for a description of the fair value hierarchy.

	December 31, 2012				December 31, 2011			
Asset Class	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investment funds	$22.3	$327.9	$48.2	$398.4	$18.4	$307.1	$43.8	$369.3
Insurance contracts	0.0	24.8	0.0	24.8	0.0	24.8	0.0	24.8
Limited partnerships	0.0	0.0	39.8	39.8	0.0	0.0	41.1	41.1
Other	28.6	5.5	0.3	34.4	31.1	4.4	0.1	35.6
Total	$50.9	$358.2	$88.3	$497.4	$49.5	$336.3	$85.0	$470.8

Investment funds include mutual funds, common/collective trusts, hedge funds and other commingled assets that are invested primarily in equity and fixed income securities. Mutual funds, which are publicly traded, are primarily valued using recently reported sales prices. Investment funds, which are not publicly traded, are valued based on the net asset value of shares held by the plan at year end, which reflects the fair value of the underlying investments. Insurance contracts are valued based on the cash surrender value of the contract. Limited partnerships are invested primarily in equity and fixed income securities. Other investments primarily include cash and cash equivalents, equity securities, derivatives and fixed income securities such as government and investment-grade corporate bonds.
The following table presents additional information about our domestic and foreign pension plans' assets for which we utilize Level 3 inputs to determine fair value.

	Year ended December 31, 2012				Year ended December 31, 2011			
	Investment Funds	Limited Partnerships	Other	Total	Investment Funds	Limited Partnerships	Other	Total
Balance at beginning of period	$43.8	$41.1	$0.1	$85.0	$53.9	$3.2	$0.1	$57.2
Actual return on assets:								
Assets sold during the year	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
Assets still held at year end	2.2	(1.3)	0.0	0.9	(0.6)	(1.2)	0.0	(1.8)
Net purchases, sales and settlements	2.2	0.0	0.2	2.4	(9.6)	39.1	0.0	29.5
Balance at end of period	$48.2	$39.8	$0.3	$88.3	$43.8	$41.1	$0.1	$85.0

Asset Allocation
The primary investment goal for our plans' assets is to maximize total asset returns while ensuring the plans' assets are available to fund the plans' liabilities as they become due. The plans' assets in aggregate and at the individual portfolio level are invested so that total portfolio risk exposure and risk-adjusted returns best achieve this objective. The aggregate amount of our own stock held as investment for our domestic and foreign pension funds is considered negligible relative to the total fund assets. As of December 31, 2012, the weighted-average target and actual asset allocations relating to our domestic and foreign pension plans' assets are listed below.

		December 31,	
Asset Class	2013 Target Allocation	2012	2011
Equity securities	23%	22%	20%
Fixed income securities	48%	44%	47%
Real estate	5%	5%	1%

Other	24 %	29 %	32 %
Total	100 %	100 %	100 %

Cash Flows

During 2012, we contributed $5.6 and $17.7 of cash to our domestic and foreign pension plans, respectively. For 2013, we expect to contribute approximately $1.0 and $19.0 of cash to our domestic and foreign pension plans, respectively.

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The following estimated future benefit payments, which reflect future service, as appropriate, are expected to be paid in the years indicated below.

Years	Domestic Pension Plan	Foreign Pension Plans	Domestic Postretirement Benefit Plan
2013	$10.1	$22.0	$5.0
2014	9.8	23.0	4.8
2015	9.6	23.2	4.7
2016	9.3	26.0	4.4
2017	9.1	25.9	4.2
2018 - 2022	42.8	143.5	17.5

The estimated future payments for our domestic postretirement benefit plan is before any estimated federal subsidies expected to be received under the Medicare Prescription Drug, Improvement and Modernization Act of 2003.
The following federal subsidies are expected to be received in the years indicated below.

Years	Domestic Postretirement Benefit Plan
2013	$0.4
2014	0.5
2015	0.5
2016	0.5
2017	0.5
2018 - 2022	0.9

Savings Plans

We sponsor defined contribution plans (the "Savings Plans") that cover substantially all domestic employees. The Savings Plans permit participants to make contributions on a pre-tax and/or after-tax basis and allow participants to choose among various investment alternatives. We match a portion of participant contributions based upon their years of service. Amounts expensed for the Savings Plans for 2012, 2011 and 2010 were $35.6, $35.4 and $34.3, respectively. Expense includes a discretionary Company contribution of $4.8, $3.7 and $3.6 offset by participant forfeitures of $3.0, $2.6 and $2.4 in 2012, 2011 and 2010, respectively. In addition, we maintain defined contribution plans in various foreign countries and contributed $34.0, $30.8 and $26.2 to these plans in 2012, 2011 and 2010, respectively.

Deferred Compensation and Benefit Arrangements

We have deferred compensation arrangements which (i) permit certain of our key officers and employees to defer a portion of their salary or incentive compensation, or (ii) require us to contribute an amount to the participant's account. The arrangements typically provide that the participant will receive the amounts deferred plus interest upon attaining certain conditions, such as completing a certain number of years of service or upon retirement or termination. As of December 31, 2012 and 2011, the deferred compensation liability balance was $90.0 and $96.0, respectively. Amounts expensed for deferred compensation arrangements in 2012, 2011 and 2010 were $9.8, $7.6 and $14.1, respectively.

We have deferred benefit arrangements with certain key officers and employees that provide participants with an annual payment, payable when the participant attains a certain age and after the participant's employment has terminated. The deferred benefit liability was $173.8 and $178.3 as of December 31, 2012 and 2011, respectively. Amounts expensed for deferred benefit arrangements in 2012, 2011 and 2010 were $15.0, $14.8 and $12.9, respectively.

We have purchased life insurance policies on participants' lives to assist in the funding of the related deferred compensation and deferred benefit liabilities. As of December 31, 2012 and 2011, the cash surrender value of these policies was $150.2 and $144.9, respectively. In addition to the life insurance policies, certain investments are held for the purpose of paying the deferred compensation and deferred benefit liabilities. These investments, along with the life insurance policies, are held in a separate revocable trust for the purpose of paying the deferred compensation and the deferred benefit arrangement liabilities. As of December 31, 2012 and 2011, the value of such investments in the trust was $5.9 and $13.8, respectively. The short-term investments are included in cash and cash equivalents, and the long-term investments and cash surrender value of the policies are included in other assets.

Long-Term Disability Plan

We have a long-term disability plan which provides income replacement benefits to eligible participants who are unable to perform their job duties during the first 24 months of disability. Income replacement benefits are continued thereafter if the participant is unable to perform any job related to his or her education, training or experience. As all income replacement benefits are fully insured, no related obligation is required as of December 31, 2012 and 2011. In addition to income replacement benefits, plan participants may remain covered for certain health and life insurance benefits up to age 65, and accordingly, we have recorded an obligation of $11.3 and $9.3 as of December 31, 2012 and 2011, respectively.

Note 13: Segment Information

As of December 31, 2012, we have two reportable segments, which are IAN and CMG. IAN is comprised of McCann Worldgroup, Draftfcb, Lowe & Partners, Mediabrands and our domestic integrated agencies. CMG is comprised of a number of our specialist marketing services offerings. We also report results for the “Corporate and other” group.

Within IAN, our agencies provide a comprehensive array of global communications and marketing services, each offering a distinctive range of solutions for our clients. In addition, our domestic integrated agencies, including Campbell-Ewald, Hill Holliday and Mullen, provide a full range of advertising, marketing communications services and/or marketing services and partner with our global operating divisions as needed. IAN’s operating divisions share similar economic characteristics and are similar in other areas, specifically related to the nature of their services, the manner in which the services are provided and the similarity of their respective customers.

CMG, which includes Weber Shandwick, FutureBrand, DeVries, GolinHarris, Jack Morton, and Octagon Worldwide, provides clients with diversified services, including public relations, meeting and event production, sports and entertainment marketing, corporate and brand identity and strategic marketing consulting. CMG shares some similarities with service lines offered by IAN; however, on an aggregate basis, CMG has a higher proportion of arrangements for which they act as principal, a different distribution model than IAN and different margin structure.

The profitability measure employed by our chief operating decision maker for allocating resources to operating divisions and assessing operating division performance is operating income. All segments follow the same accounting policies as those described in Note 1.

Certain corporate and other charges are reported as a separate line item within total segment operating income and include corporate office expenses, shared service center expenses and certain other centrally managed expenses that are not fully allocated to operating divisions. Salaries and related expenses include salaries, long-term incentive awards, annual bonuses and other miscellaneous benefits for corporate office employees. Office and general expenses primarily include professional fees related to internal control compliance, financial statement audits and legal, information technology and other consulting services, which are engaged and managed through the corporate office. In addition, office and general expenses includes rental expense and depreciation of leasehold improvements for properties occupied by corporate office employees. A portion of centrally managed expenses are allocated to operating divisions based on a formula that uses the planned revenues of each of the operating units. Amounts allocated also include specific charges for information technology-related projects, which are allocated based on utilization.

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Summarized financial information concerning our reportable segments is shown in the following table.

	Years ended December 31,		
	2012	2011	2010
Revenue:			
IAN	$5,728.5	$5,891.8	$5,468.4
CMG	1,227.7	1,122.8	1,038.9
Total	$6,956.2	$7,014.6	$6,507.3
Segment operating income:			
IAN	$701.1	$728.0	$615.2
CMG	114.5	101.2	78.8
Corporate and other	(137.3)	(142.0)	(145.3)
Total	678.3	687.2	548.7
Interest expense	(133.5)	(136.8)	(139.7)
Interest income	29.5	37.8	28.7
Other income, net	100.5	150.2	12.9
Income before income taxes	$674.8	$738.4	$450.6
Depreciation and amortization of fixed assets and intangible assets:			
IAN	$119.7	$125.7	$116.7
CMG	14.4	12.8	14.2
Corporate and other	13.6	12.4	17.5
Total	$147.7	$150.9	$148.4
Capital expenditures:			
IAN	$97.5	$94.1	$83.5
CMG	26.7	16.9	6.9
Corporate and other	45.0	29.3	5.9
Total	$169.2	$140.3	$96.3

	December 31,	
	2012	2011
Total assets:		
IAN	$11,035.3	$10,589.2
CMG	1,073.1	1,019.9
Corporate and other	1,385.5	1,299.6
Total	$13,493.9	$12,908.7

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Revenue and long-lived assets, excluding intangible assets, are presented by major geographic area in the following table.

	Revenue			Long-Lived Assets	
	Years ended December 31,			December 31,	
	2012	2011	2010	2012	2011
Domestic	$3,803.6	$3,887.7	$3,709.9	$502.5	$477.2
International:					
United Kingdom	572.0	539.4	469.6	64.3	65.2
Continental Europe	823.1	908.9	863.2	76.0	72.1
Asia Pacific	838.1	741.7	639.8	88.0	78.4
Latin America	450.1	444.4	363.3	70.5	69.1
Other	469.3	492.5	461.5	38.8	34.5
Total international	3,152.6	3,126.9	2,797.4	337.6	319.3
Total consolidated	$6,956.2	$7,014.6	$6,507.3	$840.1	$796.5

Revenue is primarily attributed to geographic areas based on where the services are performed. Furniture, equipment and leasehold improvements are allocated based upon physical location. Other assets and investments are allocated based on the location of the related operations.

Note 14: Commitments and Contingencies

Leases

We lease office premises and equipment. Where leases contain escalation clauses or concessions, such as rent holidays and landlord/tenant incentives or allowances, the impact of such adjustments is recognized on a straight-line basis over the minimum lease period. Certain leases provide for renewal options and require the payment of real estate taxes or other occupancy costs, which are also subject to escalation clauses. Net rent expense is listed in the table below.

	Years ended December 31,		
	2012	2011	2010
Gross rent expense	$358.5	$369.5	$365.2
Third-party sublease rental income	(17.5)	(19.4)	(20.0)
Net rent expense	$341.0	$350.1	$345.2

Cash amounts for future minimum lease commitments for office premises and equipment under non-cancelable leases, along with minimum sublease rental income to be received under non-cancelable subleases, are listed in the table below.

Period	Rent Obligations	Sublease Rental Income	Net Rent
2013	$309.1	$(26.9)	$282.2
2014	275.8	(14.7)	261.1
2015	243.4	(7.3)	236.1
2016	200.3	(2.1)	198.2
2017	164.2	(0.6)	163.6
Thereafter	675.8	(0.3)	675.5
Total	$1,868.6	$(51.9)	$1,816.7

Guarantees

We have guaranteed certain obligations of our subsidiaries relating principally to operating leases and credit facilities of certain subsidiaries. The amount of parent company guarantees on lease obligations was $410.3 and $385.1 as of December 31, 2012 and 2011, respectively, and the amount of parent company guarantees primarily relating to credit facilities was $283.4 and $327.5 as of December 31, 2012 and 2011, respectively. In the event of non-payment by the applicable subsidiary of the obligations covered by a guarantee, we would be obligated to pay the amounts covered by that guarantee. As of December 31, 2012, there were no material assets pledged as security for such parent company guarantees.

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Notes to Consolidated Financial Statements – (continued)
(Amounts in Millions, Except Per Share Amounts)

Contingent Acquisition Obligations

The following table details the estimated future contingent acquisition obligations payable in cash as of December 31, 2012.

	2013	2014	2015	2016	2017	Thereafter	Total
Deferred acquisition payments	$26.0	$12.4	$9.7	$46.4	$18.9	$2.0	$115.4
Redeemable noncontrolling interests and call options with affiliates [1]	20.5	43.8	32.9	5.7	2.2	10.6	115.7
Total contingent acquisition payments	46.5	56.2	42.6	52.1	21.1	12.6	231.1
Less: cash compensation expense included above	(0.7)	(0.6)	(0.8)	(0.2)	0.0	0.0	(2.3)
Total	$45.8	$55.6	$41.8	$51.9	$21.1	$12.6	$228.8

1 We have entered into certain acquisitions that contain both redeemable noncontrolling interests and call options with similar terms and conditions. We have certain redeemable noncontrolling interests that are exercisable at the discretion of the noncontrolling equity owners as of December 31, 2012. These estimated payments of $16.4 are included within the total payments expected to be made in 2013, and will continue to be carried forward into 2014 or beyond until exercised or expired. Redeemable noncontrolling interests are included in the table at current exercise price payable in cash, not at applicable redemption value in accordance with the authoritative guidance for classification and measurement of redeemable securities.

The estimated amounts listed would be paid in the event of exercise at the earliest exercise date. See Note 6 for further information relating to the payment structure of our acquisitions. All payments are contingent upon achieving projected operating performance targets and satisfying other conditions specified in the related agreements and are subject to revisions as the earn-out periods progress.

Legal Matters

We are involved in various legal proceedings, and subject to investigations, inspections, audits, inquiries and similar actions by governmental authorities, arising in the normal course of business. We evaluate all cases each reporting period and record liabilities for losses from legal proceedings when we determine that it is probable that the outcome in a legal proceeding will be unfavorable and the amount, or potential range, of loss can be reasonably estimated. In certain cases, we cannot reasonably estimate the potential loss because, for example, the litigation is in its early stages. While any outcome related to litigation or such governmental proceedings in which we are involved cannot be predicted with certainty, management believes that the outcome of these matters, individually and in the aggregate, will not have a material adverse effect on our financial condition, results of operations or cash flows.

Note 15: Recent Accounting Standards

Impairment of Indefinite-Lived Intangible Assets

In July 2012, the Financial Accounting Standards Board ("FASB") issued amended guidance to simplify impairment testing of indefinite-lived intangible assets other than goodwill. The amended guidance permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the indefinite-lived intangible asset is impaired. If, after assessing qualitative factors, an entity concludes that it is not "more likely than not" that the indefinite-lived intangible asset is impaired, then no additional testing is required. We adopted the amended guidance for our 2012 annual impairment test, which was performed as of October 1, 2012. The adoption of the amended guidance did not have a significant impact on our Consolidated Financial Statements.

Comprehensive Income

In June 2011, the FASB issued amended guidance for presenting comprehensive income, which was effective for us January 1, 2012, and applied retrospectively. The amended guidance provides the option to present the items of net income and other comprehensive income in a single continuous statement of comprehensive income or in two separate, but consecutive, statements, and eliminates the option to present other comprehensive income and its components in the statement of stockholders' equity. The adoption of this amended guidance did not have a significant impact on our Consolidated Financial Statements.

Fair Value Measurements

In May 2011, the FASB issued amended guidance for measuring fair value and required disclosure information about such measures, which was effective for us January 1, 2012, and applied prospectively. The amended guidance requires an entity to disclose all transfers between Level 1 and Level 2 of the fair value hierarchy, as well as provide quantitative and qualitative disclosures related to Level 3 fair value measurements. Additionally, the amended guidance requires an entity to disclose the fair value hierarchy level which was used to determine the fair value of financial instruments that are not measured at fair value, but

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Notes to Consolidated Financial Statements – (continued)
(Amounts in Millions, Except Per Share Amounts)

for which fair value information must be disclosed. The adoption of this amended guidance did not have a significant impact on our Consolidated Financial Statements.

Note 16: Results by Quarter (Unaudited)

	Three Months Ended March 31,		Three Months Ended June 30,		Three Months Ended September 30,		Three Months Ended December 31,	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenue	$1,506.8	$1,474.8	$1,715.7	$1,740.7	$1,670.4	$1,726.5	$2,063.3	$2,072.6
Salaries and related expenses	1,104.9	1,080.1	1,088.9	1,095.7	1,064.3	1,088.0	1,133.8	1,138.3
Office and general expenses	441.3	440.0	450.4	471.0	474.7	465.3	519.6	549.0
Operating (loss) income	(39.4)	(45.3)	176.4	174.0	131.4	173.2	409.9	385.3
Other (expense) income, net [1]	(1.3)	(6.1)	4.7	5.3	1.7	137.1	95.4	13.9
Total (expenses) and other income [1]	(25.9)	(29.7)	(21.3)	(18.1)	(23.2)	113.9	66.9	(14.9)
(Benefit of) provision for income taxes	(19.2)	(21.5)	50.1	47.6	41.9	70.4	140.5	93.7
Net (loss) income [1]	(45.7)	(53.2)	105.5	108.9	67.7	217.5	337.1	278.3
Net (loss) income available to IPG common stockholders [1]	$(45.9)	$(48.1)	$99.0	$101.7	$68.7	$208.1	$313.3	$259.0
(Loss) earnings per share available to IPG common stockholders:								
Basic	$(0.10)	$(0.10)	$0.23	$0.21	$0.16	$0.45	$0.74	$0.58
Diluted	$(0.10)	$(0.10)	$0.22	$0.19	$0.15	$0.40	$0.68	$0.50
Dividends declared per common stock	$0.06	$0.06	$0.06	$0.06	$0.06	$0.06	$0.06	$0.06

[1] The three months ended December 31, 2012 and the three months ended September 30, 2011, include a pre-tax gain of $93.6 and $132.2, respectively, related to the sale of our holdings in Facebook.

Note 17: Subsequent Events

In February 2013, we announced the exercise of the Company's option to redeem for cash all remaining 4.75% Notes outstanding on the redemption date, which will be March 15, 2013. Under the terms of the 4.75% Notes, as a result of the exercise of our redemption option, holders may elect to convert their 4.75% Notes into common stock at any time prior to the redemption date. The maximum aggregate redemption price will be the $200.0 in aggregate principal amount of our 4.75% Notes, plus accrued and unpaid interest up to, but excluding, the redemption date. See Note 2 for further information on the 4.75% Notes.

Additionally, in February 2013, we announced that our Board had approved a new share repurchase program to repurchase from time to time up to $300.0, excluding fees, of our common stock (the "2013 share repurchase program"). The authorization for repurchases under the 2013 share repurchase program is in addition to any amounts

remaining available for repurchase under the 2012 share repurchase program. See Note 5 for further information on the 2012 share repurchase program. We may effect such repurchases under the 2013 share repurchase program through open market purchases, trading plans established in accordance with SEC rules, derivative transactions or other means. The timing and amount of repurchases under the authorization will depend on market conditions and other funding requirements. There is no expiration date associated with the share repurchase programs.
We also announced in February 2013, that our Board had declared a common stock cash dividend of $0.075 per share, payable on March 25, 2013 to holders of record as of the close of business on March 11, 2013.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures

In connection with the preparation of this Annual Report on Form 10-K for the year ended December 31, 2012, we have carried out an evaluation under the supervision of, and with the participation of, our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded (1) that the disclosure controls and procedures were effective as of December 31, 2012 to provide reasonable assurance that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (2) that the disclosure controls and procedures were effective as of December 31, 2012 to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Management’s report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management (with the participation of our Chief Executive Officer and Chief Financial Officer) conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that IPG’s internal control over financial reporting was effective as of December 31, 2012. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the effectiveness of IPG’s internal control over financial reporting as of December 31, 2012, as stated in their report which appears in this Annual Report on Form 10-K.

Changes in internal control over financial reporting

There has been no change in internal control over financial reporting in the quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference to the “Election of Directors” section, the “Director Selection Process” section, the “Code of Conduct” section, the “Principal Committees of The Board of Directors” section, the “Audit Committee” section and the “Section 16(a) Beneficial Ownership Reporting Compliance” section of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 23, 2013 (the “Proxy Statement”), except for the description of our Executive Officers, which appears in Part I of this Report on Form 10-K under the heading “Executive Officers of IPG.”

New York Stock Exchange Certification

In 2012, our Chief Executive Officer provided the Annual CEO Certification to the New York Stock Exchange, as required under Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to the “Compensation of Executive Officers” section, the “Non-Management Director Compensation” section, the “Compensation Discussion and Analysis” section and the “Compensation and Leadership Talent Committee Report” section of the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference to the “Outstanding Shares” section of the Proxy Statement, except for information regarding the shares of common stock to be issued or which may be issued under our equity compensation plans as of December 31, 2012, which is provided in the following table.

Equity Compensation Plan Information

Plan Category	Number of Shares of Common Stock to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) [1, 2, 3]	Weighted-Average Exercise Price of Outstanding Stock Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c) [4]
Equity Compensation Plans Approved by Security Holders	17,312,646	$ 9.76	59,856,965

1 Includes a total of 2,749,590 performance-based share awards made under the 2006 and 2009 Performance Incentive Plan representing the target number of shares to be issued to employees following the completion of the 2010-2012 performance period (the “2012 LTIP Share Awards”), the 2011-2013 performance period (the “2013 LTIP Share Awards”) and the 2012-2014 performance period (the “2014 LTIP Share Awards”), respectively. The computation of the weighted-average exercise price in column (b) of this table does not take the 2012 LTIP Share Awards, the 2013 LTIP Share Awards or the 2014 LTIP Share Awards into account.

2 Includes a total of 467,451 restricted share unit and performance-based awards (“Share Unit Awards”) which may be settled in shares or cash. The computation of the weighted-average exercise price in column (b) of this table does not take the Share Unit Awards into account. Each Share Unit Award actually settled in cash will increase the number of shares of common stock available for issuance shown in column (c).

3 IPG has issued restricted cash awards ("Performance Cash Awards"), half of which shall be settled in shares and half of which shall be settled in cash. Using the 2012 closing stock price of $11.02, the awards which shall be settled in shares represent rights to an additional 6,830,485 shares. These shares are not included in the table above.

4 Includes (i) 46,610,982 shares of common stock available for issuance under the 2009 Performance Incentive Plan, (ii) 12,664,108 shares of common stock available for issuance under the Employee Stock Purchase Plan (2006) and (iii) 581,875 shares of common stock available for issuance under the 2009 Non-Management Directors’ Stock

Incentive Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to the “Review and Approval of Transactions with Related Persons” section and the “Director Independence” section of the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference to the “Appointment of Independent Registered Public Accounting Firm” section of the Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Listed below are all financial statements, financial statement schedules and exhibits filed as part of this Report on Form 10-K.

1. Financial Statements:
Report of Independent Registered Public Accounting Firm
Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010
Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010
Consolidated Balance Sheets as of December 31, 2012 and 2011
Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012, 2011 and 2010
Notes to Consolidated Financial Statements

2. Financial Statement Schedules:
All financial statement schedules are omitted because they are either not applicable or the required information is otherwise provided.

3. Exhibits:
All exhibits, including management contracts and compensatory plans or arrangements, required pursuant to Item 601 of Regulation S-K to be filed as part of this report or incorporated herein by reference to other documents, are listed in the Exhibit Index that immediately precedes the exhibits filed with this Report on Form 10-K and the exhibits transmitted to the SEC as part of the electronic filing of this Report.

SIGNATURES

Pursuant to the requirements of Section 13 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.

THE INTERPUBLIC GROUP OF COMPANIES, INC.
(Registrant)

By /s/ Michael I. Roth
Michael I. Roth
Chairman of the Board and Chief Executive Officer

Date: February 22, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Michael I. Roth Michael I. Roth	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 22, 2013
/s/ Frank Mergenthaler Frank Mergenthaler	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 22, 2013
/s/ Christopher F. Carroll Christopher F. Carroll	Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	February 22, 2013
/s/ Jocelyn Carter-Miller Jocelyn Carter-Miller	Director	February 22, 2013
/s/ Jill M. Considine Jill M. Considine	Director	February 22, 2013
/s/ Richard A. Goldstein Richard A. Goldstein	Director	February 22, 2013
/s/ H. John Greeniaus H. John Greeniaus	Director	February 22, 2013
/s/ Mary J. Steele Guilfoile Mary J. Steele Guilfoile	Director	February 22, 2013
/s/ Dawn Hudson Dawn Hudson	Director	February 22, 2013
/s/ William T. Kerr William T. Kerr	Director	February 22, 2013
/s/ David M. Thomas	Director	February 22, 2013

David M. Thomas

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EXHIBIT INDEX

Exhibit No.	Description
3(i)	Restated Certificate of Incorporation of the Registrant dated as of May 26, 2011, is incorporated by reference to Exhibit 3(i)(3) to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on May 27, 2011.
3(ii)	By-Laws of the Registrant, as amended through May 26, 2011, is incorporated by reference to Exhibit 3(ii) to the Registrant’s Current Report on Form 8-K filed with the SEC on May 27, 2011.
4(iii)(A)	Senior Debt Indenture dated as of November 12, 2004 (the "2004 Indenture"), between the Registrant and SunTrust Bank, as trustee, is incorporated by reference to Exhibit 4.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on November 15, 2004.
4(iii)(B)	Second Supplemental Indenture, dated as of November 18, 2004, to the 2004 Indenture, with respect to the 6.25% Notes due 2014 is incorporated by reference to Exhibit 4.2 to the Registrant’s Current Report on Form 8-K filed with the SEC on November 19, 2004.
4(iii)(C)	Third Supplemental Indenture, dated as of March 28, 2005, to the 2004 Indenture, as modified by the Second Supplemental Indenture, dated as of November 18, 2004, with respect to the 6.25% Senior Unsecured Notes due 2014 is incorporated by reference to Exhibit 4.4 to the Registrant’s Current Report on Form 8-K filed with the SEC on April 1, 2005.
4(iii)(D)	Seventh Supplemental Indenture, dated as of June 15, 2009, to the 2004 Indenture, creating a series of securities designated 10.0% Senior Notes due 2017, is incorporated by reference to Exhibit 4.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on June 16, 2009.
4(iii)(E)	Senior Debt Indenture, dated as of November 15, 2006 (the "2006 Indenture"), between the Registrant and The Bank of New York, as trustee, is incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 17, 2006.
4(iii)(F)	Second Supplemental Indenture, dated as of November 20, 2007 to the 2006 Indenture, with respect to the 4.75% Convertible Senior Notes due 2023 is incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 21, 2007.
4(iii)(G)	Senior Debt Indenture dated as of March 2, 2012 (the "2012 Indenture"), between the Registrant and U.S. Bank National Association, as Trustee, is incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 2, 2012.
4(iii)(H)	First Supplemental Indenture, dated as of March 2, 2012, to the 2012 Indenture, with respect to the 4.00% Senior Notes due 2022 is incorporated by reference to Exhibit 4.2 to the Registrant’s Current Report on Form 8-K filed with the SEC on March 2, 2012.
4(iii)(I)	Second Supplemental Indenture, dated as of November 8, 2012, to the 2012 Indenture, with respect to the 2.25% Senior Notes due 2017 is incorporated by reference to Exhibit 4.2 to the Registrant’s Current Report on Form 8-K filed with the SEC on November 8, 2012.
4(iii)(J)	Third Supplemental Indenture, dated as of November 8, 2012, to the 2012 Indenture, with respect to the 3.75% Senior Notes due 2023 is incorporated by reference to Exhibit 4.3 to the Registrant’s Current Report on Form 8-K filed with the SEC on November 8, 2012.

10(i)(A)	Registration Rights Agreement, dated as of November 20, 2007, is incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on November 21, 2007.
10(i)(B)	Registration Rights Agreement, dated as of June 15, 2009, is incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on June 16, 2009.
10(i)(C)	5-Year Credit Agreement, dated as of July 18, 2008, amended and restated as of April 23, 2010 and as further amended and restated as of May 31, 2011 (the "Credit Agreement"), among the Registrant, the lenders named therein and Citibank, N.A. as administrative agent, is incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with SEC on June 1, 2011.
10(i)(D)	Amendment No. 1 to the Credit Agreement, dated as of November 6, 2012 is incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with SEC on November 7, 2012.

Exhibit No.	Description
(i) Michael I. Roth	
10(iii)(A)(1)	Employment Agreement, made as of July 13, 2004, by and between the Registrant and Michael I. Roth, is incorporated by reference to Exhibit 10(iii)(A)(9) to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.*
10(iii)(A)(2)	Supplemental Employment Agreement, dated as of January 19, 2005, between the Registrant and Michael I. Roth, is incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed with the SEC on January 21, 2005.*
10(iii)(A)(3)	Supplemental Employment Agreement, dated as of February 14, 2005, between the Registrant and Michael I. Roth, is incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed with the SEC on February 17, 2005.*
10(iii)(A)(4)	Amendment, made as of September 12, 2007, to an Employment Agreement, made as of July 13, 2004, between the Registrant and Michael I. Roth, is incorporated by reference to Exhibit 10(iii)(A)(7) to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007. *
10(iii)(A)(5)	Amendment, dated May 1, 2008, to an Employment Agreement, made as of July 13, 2004, between the Registrant and Michael I. Roth, is incorporated by reference to Exhibit 10(iii)(A)(1) to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.*
10(iii)(A)(6)	The Interpublic Senior Executive Retirement Income Plan Participation Agreement, dated March 31, 2008, between the Registrant and Michael Roth, is incorporated by reference to Exhibit 10(iii)(A)(1) to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.*
10(iii)(A)(7)	Executive Change of Control Agreement, effective as of May 27, 2010, by and between the Registrant and Michael I. Roth, is incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K, filed with the SEC on May 27, 2010.*
(ii) Andrew Bonzani	
10(iii)(A)(8)	Employment Agreement, effective as of December 22, 2011, by and between the Registrant and Andrew Bonzani.*
10(iii)(A)(9)	Executive Change of Control Agreement, effective as of December 22, 2011, by and between the Registrant and Andrew Bonzani.*
(iii) Christopher Carroll	
10(iii)(A)(10)	Employment Agreement, made as of April, 2006, by and between the Registrant and Christopher Carroll, is incorporated by reference to Exhibit 10(iii)(A)(8) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.*
10(iii)(A)(11)	Amendment, dated as of October 29, 2007, to an Employment Agreement, made as of April 1, 2006, between the Registrant and Christopher Carroll, is incorporated by reference to Exhibit 10(iii)(A)(9) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.*
10(iii)(A)(12)	

	Executive Change of Control Agreement, effective as of May 31, 2010, by and between the Registrant and Christopher Carroll, is incorporated by reference to Exhibit 10(iii)(A)(10) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.*
(iv) Philippe Krakowsky	
10(iii)(A)(13)	Executive Special Benefits Agreement, dated as of February 1, 2002, and signed as of August 21, 2002, between the Registrant and Philippe Krakowsky, is incorporated by reference to Exhibit 10(iii)(A)(v) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.*
10(iii)(A)(14)	Employment Agreement, made as of January 1, 2006 and executed on March 20, 2006, by and between the Registrant and Philippe Krakowsky, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 24, 2006.*

Exhibit No.	Description
10(iii)(A)(15)	Amendment, made as of September 12, 2007, to an Employment Agreement, made as of January 1, 2006, between the Registrant and Philippe Krakowsky, is incorporated by reference to Exhibit 10(iii)(A)(13) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.*
10(iii)(A)(16)	Amendment, dated September 12, 2007, to an Executive Special Benefit Agreement, dated February 1, 2002, between the Registrant and Philippe Krakowsky, is incorporated by reference to Exhibit 10(iii)(A)(15) to the Registrant's Quarterly Report of Form 10-Q for the quarter ended September 30, 2007.*
10(iii)(A)(17)	Amendment, dated May 1, 2008, to an Employment Agreement, made as of January 1, 2006, between the Registrant and Philippe Krakowsky, is incorporated by reference to Exhibit 10(iii)(A)(3) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.*
10(iii)(A)(18)	Executive Change of Control Agreement, effective as of May 27, 2010, by and between the Registrant and Philippe Krakowsky, is incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 27, 2010.*
(v) Frank Mergenthaler	
10(iii)(A)(19)	Employment Agreement, made as of July 13, 2005, between the Registrant and Frank Mergenthaler is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 19, 2005.*
10(iii)(A)(20)	Amendment, made as of September 12, 2007, to an Employment Agreement, made as of July 18, 2005, between the Registrant and Frank Mergenthaler, is incorporated by reference to Exhibit 10(iii)(A)(9) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.*
10(iii)(A)(21)	Amendment, dated May 1, 2008, to an Employment Agreement, made as of July 18, 2005, between the Registrant and Frank Mergenthaler, is incorporated by reference to Exhibit 10(iii)(A)(2) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.*
10(iii)(A)(22)	Executive Change of Control Agreement, effective as of May 27, 2010, by and between the Registrant and Frank Mergenthaler, is incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 27, 2010.*
(vi) Nicolas Brien	
10(iii)(A)(23)	Employment Agreement, effective as of April 1, 2010, by and between the Registrant and Nicolas Brien, is incorporated by reference to Exhibit 10(iii)(A)(24) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.*
10(iii)(A)(24)	Executive Change of Control Agreement, effective as of May 27, 2010, by and between the Registrant and Nicolas Brien, is incorporated by reference to Exhibit 10(iii)(A)(24) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010. *

(vii) Jill M. Considine

10(iii)(A)(25)	Amended and Restated Deferred Compensation Agreement dated as of September 4, 2008, between the Registrant and Jill M. Considine, is incorporated by reference to Exhibit 10(iii)(A)(1) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.*
10(iii)(A)(26)	Letter, dated November 2, 2006, from Jill M. Considine to the Registrant, is incorporated by reference to Exhibit 10(iii)(B) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.*

(viii) Richard A. Goldstein

10(iii)(A)(27)	Amended and Restated Deferred Compensation Agreement, dated as of September 30, 2008, between the Registrant and Richard A. Goldstein, is incorporated by reference to Exhibit 10(iii)(A)(3) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.*

Exhibit No.	Description
10(iii)(A)(28)	Letter, dated July 24, 2006, from Richard A. Goldstein to the Registrant, is incorporated by reference to Exhibit 10(iii)(A) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.*

Compensation Plans and Arrangements:

10(iii)(A)(29)	Trust Agreement, dated as of June 1, 1990, between the Registrant, Lintas Campbell-Ewald Company, McCann-Erickson USA, Inc., McCann-Erickson Marketing, Inc., Lintas, Inc. and Chemical Bank, as Trustee, is incorporated by reference to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1990.*
10(iii)(A)(30)	True North Communications Inc. Deferred Compensation Plan is incorporated by reference to Exhibit(c)(xiv) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002.
10(iii)(A)(31)	Resolution of the Board of Directors of True North Communications Inc. adopted on March 1, 2002 amending the Deferred Compensation Plan is incorporated by reference to Exhibit(c)(xv) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002.*
10(iii)(A)(32)	The 2002 Performance Incentive Plan of the Registrant is incorporated by reference to Appendix A to the Registrant's Proxy Statement on Schedule 14A, filed April 17, 2002.*
10(iii)(A)(33)	The Interpublic Outside Directors Stock Incentive Plan of the Registrant, as amended through August 1, 2003, is incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.*
10(iii)(A)(34)	The Interpublic 2004 Performance Incentive Plan (the "2004 PIP") is incorporated by reference to Appendix B to the Registrant's Proxy Statement on Schedule 14A, filed with the SEC on April 23, 2004.*
10(iii)(A)(35)	2004 PIP - Form of Option Certificate is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 27, 2004.*
10(iii)(A)(36)	The Interpublic Non-Management Directors' Stock Incentive Plan (the "Non-Management Directors' Plan") is incorporated by reference to Appendix C to the Registrant's Proxy Statement on Schedule 14A, filed with the SEC on April 23, 2004.*
10(iii)(A)(37)	Non-Management Directors' Plan - Form of Plan Option Certificate is incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed with the SEC on October 27, 2004.*
10(iii)(A)(38)	The Employee Stock Purchase Plan (2006) of the Registrant is incorporated by reference to Appendix B to the Registrant's Proxy Statement on Schedule 14A, filed with the SEC on October 21, 2005.*
10(iii)(A)(39)	The Interpublic 2006 Performance Incentive Plan (the "2006 PIP") is incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 27, 2006.*
10(iii)(A)(40)	Amendment to the 2006 PIP is incorporated by reference to Exhibit 10(iii)(A)(1) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.*

10(iii)(A)(41)	2006 PIP - Form of Instrument of Nonstatutory Stock Options is incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the SEC on June 21, 2006.*
10(iii)(A)(42)	Interpublic Executive Severance Plan is incorporated by reference to Exhibit 10(iii)(A)(1) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.*
10(iii)(A)(43)	The Interpublic Senior Executive Retirement Income Plan, Amended and Restated (the "Restated SERIP"), effective January 1, 2007, is incorporated by reference to Exhibit 10(iii)(A)(1) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.*
10(iii)(A)(44)	Restated SERIP - Form of Restated Participation Agreement is incorporated by reference to Exhibit 10(iii)(A)(2) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.*
10(iii)(A)(45)	Restated SERIP - Form of Participation Agreement (Form For New Participants) is incorporated by reference to Exhibit 10(iii)(A)(3) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.*

Exhibit No.	Description
10(iii)(A)(46)	The Interpublic Capital Accumulation Plan, Amended and Restated (the “Restated CAP”), effective January 1, 2007, is incorporated by reference to Exhibit 10(iii)(A)(4) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.*
10(iii)(A)(47)	Restated CAP - Form of Restated Participation Agreement is incorporated by reference to Exhibit 10(iii)(A)(5) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.*
10(iii)(A)(48)	Restated CAP - Form of Participation Agreement (Form For New Participants), is incorporated by reference to Exhibit 10(iii)(A)(6) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.*
10(iii)(A)(49)	Description of the Change in Compensation for Non-Management Directors is incorporated by reference to Exhibit 10(iii)(A)(91) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.*
10(iii)(A)(50)	Description of Changes to the Compensation of Board Committee Chairs and Presiding Director is incorporated by reference to Exhibit 10(iii)(A)(2) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.*
10(iii)(A)(51)	Description of the Change in Compensation for Non-Management Directors and Board Committee Chairs is incorporated by reference to Exhibit 10(iii)(A)(73) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.*
10(iii)(A)(52)	Description of the Changes to the Compensation of Non-Management Directors and the Corporate Governance Committee Chair is incorporated by reference to Exhibit 10(iii)(A)(1) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.*
10(iii)(A)(53)	The Interpublic Restricted Cash Plan, as Amended and Restated as of May 18, 2009 (the "Restricted Cash Plan") is incorporated by reference to Exhibit 10(iii)(A)(13) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*
10(iii)(A)(54)	Restricted Cash Plan Award Agreement, is incorporated by reference to Exhibit 10(iii)(A)(62) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.*
10(iii)(A)(55)	The Interpublic 2009 Performance Incentive Plan (the “2009 PIP”) is incorporated by reference to Appendix A to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 2, 2009.*
10(iii)(A)(56)	2009 PIP Restricted Stock Award Agreement is incorporated by reference to Exhibit 10(iii)(A)(2) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*
10(iii)(A)(57)	2009 PIP Performance Share Award Agreement is incorporated by reference to Exhibit 10(iii)(A)(4) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*
10(iii)(A)(58)	2009 PIP Performance Share Award Agreement (updated 2013).*
10(iii)(A)(59)	

	2009 PIP Combined Restricted Stock and Performance Cash Award Agreement is incorporated by reference to Exhibit 10(iii)(A)(6) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*
10(iii)(A)(60)	2009 PIP Non-Statutory Stock Option Award Agreement is incorporated by reference to Exhibit 10(iii)(A)(8) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*
10(iii)(A)(61)	2009 PIP Restricted Stock Unit Award Agreement (updated) is incorporated by reference to Exhibit 10(iii)(A)(84) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.*
10(iii)(A)(62)	2009 PIP Restricted Stock Unit Award Agreement (updated 2010) is incorporated by reference to Exhibit 10(iii)(A)(85) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.*
10(iii)(A)(63)	2009 PIP Performance Share Award Agreement (updated 2010) is incorporated by reference to Exhibit 10(iii)(A)(86) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.*
10(iii)(A)(64)	2009 PIP Combined Performance Share and Performance Cash Award Agreement (updated 2010) is incorporated by reference to Exhibit 10(iii)(A)(87) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.*

Exhibit No.	Description
10(iii)(A)(65)	2009 PIP Performance Cash Award Agreement is incorporated by reference to Exhibit 10(iii)(A)(88) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.*
10(iii)(A)(66)	2009 PIP Performance Cash Award Agreement (updated 2013).*
10(iii)(A)(67)	2009 PIP Non-Statutory Stock Option Award Agreement (updated 2010) is incorporated by reference to Exhibit 10(iii)(A)(89) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010.*
10(iii)(A)(68)	2009 PIP Non-Statutory Stock Option Award Agreement (updated 2013).*
10(iii)(A)(69)	The 2009 Non-Management Directors’ Stock Incentive Plan (the “2009 NMD Plan”) is incorporated by reference to Exhibit 10(iii)(A)(9) to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*
10(iii)(A)(70)	Amendment to the 2009 NMD Plan is incorporated by reference to Exhibit 10(iii)(A)(2) to the Registrant's Quarterly Form 10-Q for the quarter ended September 30, 2012.*
10(iii)(A)(71)	2009 NMD Plan Restricted Stock Award Agreement is incorporated by reference to Exhibit 10(iii)(A)(10) to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*
10(iii)(A)(72)	2009 NMD Plan Restricted Stock Award Agreement (updated 2013) is incorporated by reference to Exhibit 10(iii)(A)(3) to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.*
10(iii)(A)(73)	2009 NMD Plan Restricted Stock Unit Award Agreement is incorporated by reference to Exhibit 10(iii)(A)(11) to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*
10(iii)(A)(74)	2009 NMD Plan Non-Statutory Stock Option Award Agreement is incorporated by reference to Exhibit 10(iii)(A)(12) to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.*
10(iii)(A)(75)	Supplement to the 2006 PIP and 2009 PIP is incorporated by reference to Exhibit 10(iii)(A)(88) to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2009.*
12	Computation of Ratios of Earnings to Fixed Charges.
21	Subsidiaries of the Registrant.
23	Consent of PricewaterhouseCoopers LLP.
24	Power of Attorney to sign Form 10-K and resolution of Board of Directors re Power of Attorney.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	

	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
32	Certification of the Chief Executive Officer and the Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended.
101	Interactive Data File, for the period ended December 31, 2012.

* Management contracts and compensation plans and arrangements.