STONEMOR PARTNERS LP
Form 10-Q
May 08, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2015

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: 001-32270

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware	**80-0103159**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
311 Veterans Highway, Suite B	
Levittown, Pennsylvania	**19056**
(Address of principal executive offices)	**(Zip Code)**

(215) 826-2800

(Registrant s telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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The number of the registrant s outstanding common units at May 1, 2015 was 29,259,424.

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Part I Financial Information

Item 1. Financial Statements

StoneMor Partners L.P.

Condensed Consolidated Balance Sheet

(in thousands)

(unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 6,397	$ 10,401
Accounts receivable, net of allowance	65,429	62,503
Prepaid expenses	3,107	4,708
Other current assets	24,613	24,266
Total current assets	99,546	101,878
Long-term accounts receivable, net of allowance	91,088	89,536
Cemetery property	339,821	339,848
Property and equipment, net of accumulated depreciation	99,569	100,391
Merchandise trusts, restricted, at fair value	488,007	484,820
Perpetual care trusts, restricted, at fair value	345,183	345,105
Deferred financing costs, net of accumulated amortization	8,707	9,089
Deferred selling and obtaining costs	102,904	97,795
Deferred tax assets	40	40
Goodwill	58,836	58,836
Intangible assets	68,441	68,990
Other assets	3,211	3,136
Total assets	$ 1,705,353	$ 1,699,464
Liabilities and partners capital		
Current liabilities:		
Accounts payable and accrued liabilities	$ 34,552	$ 35,382
Accrued interest	4,742	1,219
Current portion, long-term debt	1,664	2,251
Total current liabilities	40,958	38,852
Other long-term liabilities	1,237	1,292
Obligation for lease and management agreements, net	8,943	8,767

Long-term debt	297,184	285,378
Deferred cemetery revenues, net	661,877	643,408
Deferred tax liabilities	17,573	17,708
Merchandise liability	150,195	150,192
Perpetual care trust corpus	345,183	345,105
Total liabilities	1,523,150	1,490,702
Commitments and contingencies		
Partners capital (deficit)		
General partner deficit	(6,204)	(5,113)
Common partners, 29,259 and 29,204 units outstanding as of March 31, 2015 and December 31, 2014, respectively	188,407	213,875
Total partners capital	182,203	208,762
Total liabilities and partners capital	$ 1,705,353	$ 1,699,464

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of Operations

(in thousands, except per unit data)

(unaudited)

	Three months ended March 31, 2015	2014
Revenues:		
Cemetery		
Merchandise	$ 26,937	$ 26,068
Services	13,910	10,297
Investment and other	11,310	16,275
Funeral home		
Merchandise	7,075	5,052
Services	8,185	6,695
Total revenues	67,417	64,387
Costs and expenses:		
Cost of goods sold (exclusive of depreciation shown separately below):		
Perpetual care	1,667	1,391
Merchandise	5,416	6,113
Cemetery expense	16,265	13,329
Selling expense	13,910	11,189
General and administrative expense	9,329	7,645
Corporate overhead (including $272 and $271 in unit-based compensation for the three months ended March 31, 2015 and 2014, respectively)	8,734	7,456
Depreciation and amortization	2,952	2,368
Funeral home expense		
Merchandise	2,376	1,646
Services	5,593	4,787
Other	4,181	2,853
Acquisition related costs, net of recoveries	349	349
Total cost and expenses	70,772	59,126
Operating profit (loss)	(3,355)	5,261
Gain on acquisition		412
Interest expense	5,463	5,574
Net income (loss) before income taxes	(8,818)	99

Income tax expense (benefit)	65	(310)
Net income (loss)	$ (8,883)	$ 409
General partner s interest in net income (loss) for the period	$ (120)	$ 4
Limited partners interest in net income (loss) for the period	$ (8,763)	$ 405
Net income (loss) per limited partner unit (basic and diluted)	$ (.30)	$ .02
Weighted average number of limited partners units outstanding - basic	29,230	22,493
Weighted average number of limited partners units outstanding - diluted	29,230	22,787
Distributions declared per unit	$ .630	$ .600

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of

Partners Capital (Deficit)

(in thousands)

(unaudited)

	Partners Capital (Deficit)		
	Common Unit Holders	General Partner	Total
Balance, December 31, 2014	$ 213,875	$ (5,113)	$ 208,762
Issuance of common units	1,421		1,421
Compensation related to unit awards	272		272
Net loss	(8,763)	(120)	(8,883)
Cash distributions	(16,977)	(971)	(17,948)
Unit distributions	(1,421)		(1,421)
Balance, March 31, 2015	$ 188,407	$ (6,204)	$ 182,203

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of Cash Flows

(in thousands)

(unaudited)

	For the three months ended March 31, 2015	2014
Operating activities:		
Net income (loss)	$ (8,883)	$ 409
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Cost of lots sold	2,048	3,057
Depreciation and amortization	2,952	2,368
Unit-based compensation	272	271
Accretion of debt discounts	734	624
Gain on acquisition		(412)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(5,196)	(3,168)
Allowance for doubtful accounts	719	705
Merchandise trust fund	(10,231)	(16,420)
Prepaid expenses	1,601	1,142
Other current assets	(348)	3,394
Other assets	(92)	(44)
Accounts payable and accrued and other liabilities	2,524	(9,564)
Deferred selling and obtaining costs	(5,109)	(2,803)
Deferred cemetery revenue	24,842	18,881
Deferred taxes (net)	(135)	(551)
Merchandise liability	155	(829)
Net cash provided by (used in) operating activities	5,853	(2,940)
Investing activities:		
Cash paid for cemetery property	(1,501)	(748)
Purchase of subsidiaries		(200)
Cash paid for property and equipment	(1,314)	(1,330)
Net cash used in investing activities	(2,815)	(2,278)
Financing activities:		
Cash distributions	(17,948)	(13,391)
Additional borrowings on long-term debt	20,335	17,000
Repayments of long-term debt	(9,395)	(55,504)
Proceeds from public offerings		53,178

Cost of financing activities		(34)		
Net cash provided by (used in) financing activities		(7,042)		1,283
Net decrease in cash and cash equivalents		(4,004)		(3,935)
Cash and cash equivalents - Beginning of period		10,401		12,175
Cash and cash equivalents - End of period	$	6,397	$	8,240
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$	1,176	$	1,423
Cash paid during the period for income taxes	$	66	$	
Non-cash investing and financing activities:				
Acquisition of assets by financing	$	137	$	30

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

StoneMor Partners L.P. (StoneMor , the Company or the Partnership) is a provider of funeral and cemetery products and services in the death care industry in the United States. Through its subsidiaries, StoneMor offers a complete range of funeral merchandise and services, along with cemetery property, merchandise and services, both at the time of need and on a pre-need basis. As of March 31, 2015, the Partnership operated 303 cemeteries in 27 states and Puerto Rico, of which 272 are owned and 31 are operated under lease, management or operating agreements. The Partnership also owned and operated 98 funeral homes in 19 states and Puerto Rico.

Basis of Presentation

The unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All interim financial data is unaudited. However, in the opinion of management, the interim financial data as of March 31, 2015 and for the three months ended March 31, 2015 and 2014 includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for a full year. The December 31, 2014 condensed consolidated balance sheet data was derived from audited financial statements included in the Company s 2014 Annual Report on Form 10-K (2014 Form 10-K), but does not include all disclosures required by GAAP, which are presented in the Company s 2014 Form 10-K.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of each of the Company s subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Company has a variable interest and is the primary beneficiary. The Company operates 31 cemeteries under long-term lease, operating or management contracts. The operations of 16 of these managed cemeteries have been consolidated in accordance with the provisions of Accounting Standards Codification (ASC) 810.

The Company operates 15 cemeteries under long-term lease, operating or management agreements that do not qualify as acquisitions for accounting purposes, including 13 cemeteries related to the transaction with the Archdiocese of Philadelphia that closed in the second quarter of 2014. As a result, the Company did not consolidate all of the existing assets and liabilities related to these cemeteries. The Company has consolidated the existing assets and liabilities of these cemeteries merchandise and perpetual care trusts as variable interest entities since the Company controls and receives the benefits and absorbs any losses from operating these trusts. Under these long-term lease, operating or management agreements, which are subject to certain termination provisions, the Company is the exclusive operator of these cemeteries. The Company earns revenues related to sales of merchandise, services, and interment rights and incurs expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, the Company will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. The Company has also recognized the existing merchandise liabilities that it assumed as part of these agreements.

New Accounting Pronouncements

In the second quarter of 2014, the Financial Accounting Standards Board issued Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which supersedes the revenue recognition requirements in

Topic 605 - Revenue Recognition and most industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. On April 29, 2015, the Financial Accounting Standards Board issued for public comment a proposed update that would defer the effective date of ASU 2014-09 by one year. The Company is currently in the process of evaluating the potential impact of this update on its financial statements.

In the first quarter of 2015, the Financial Accounting Standards Board issued Update No. 2015-02, Consolidation (Topic 810) (ASU 2015-02), which amends previous consolidation analysis guidance. ASU 2015-02 requires

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companies to consider revised consolidation criteria regarding limited partnerships and similar legal entities. The amendments are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early application is permitted. The Company is currently in the process of evaluating the impact of this update, which is not expected to have a significant impact on the Company s financial position, results of operations, or cash flows.

In the second quarter of 2015, the Financial Accounting Standards Board issued Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), which changes the presentation of debt issuance costs. ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. The amendments in the update are effective for annual reporting periods beginning after December 15, 2015, including interim periods within those reporting periods. Early application is permitted. The Company is currently in the process of evaluating the impact of this update, which is not expected to have a significant impact on its financial position, results of operations, or cash flows.

Use of Estimates

Preparation of these unaudited condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expense during the reporting periods. As a result, actual results could differ from those estimates. The most significant estimates in the unaudited condensed consolidated financial statements are the valuation of assets in the merchandise trusts and perpetual care trusts, allowance for cancellations, unit-based compensation, merchandise liability, deferred sales revenue, deferred margin, deferred merchandise trust investment earnings, deferred obtaining costs, assets and liabilities obtained via business combinations and income taxes. Deferred sales revenue, deferred margin and deferred merchandise trust investment earnings are included in deferred cemetery revenues, net, on the unaudited condensed consolidated balance sheet.

2. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

Long-term accounts receivable, net, consists of the following:

	As of March 31, 2015	As of December 31, 2014
	(in thousands)	
Customer receivables	$ 200,643	$ 194,537
Unearned finance income	(20,911)	(20,360)
Allowance for contract cancellations	(23,215)	(22,138)
	156,517	152,039
Less: current portion, net of allowance	65,429	62,503
Long-term portion, net of allowance	$ 91,088	$ 89,536

Activity in the allowance for contract cancellations is as follows:

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	For the three months ended March 31, 2015	2014
	(in thousands)	
Balance - Beginning of period	$ 22,138	$ 20,275
Provision for cancellations	6,072	5,031
Charge-offs - net	(4,995)	(4,057)
Balance - End of period	$ 23,215	$ 21,249

There have been no changes to the Company s long-term accounts receivable accounting policies since the filing of the Company s 2014 Form 10-K.

3. CEMETERY PROPERTY

Cemetery property consists of the following:

	As of March 31, 2015	December 31, 2014
	(in thousands)	
Developed land	$ 79,134	$ 79,058
Undeveloped land	172,141	172,238
Mausoleum crypts and lawn crypts	78,518	78,524
Other land	10,028	10,028
Total	$ 339,821	$ 339,848

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	As of March 31, 2015	December 31, 2014
	(in thousands)	
Building and improvements	$ 108,615	$ 108,178
Furniture and equipment	50,019	49,290
	158,634	157,468
Less: accumulated depreciation	(59,065)	(57,077)
Property and equipment - net	$ 99,569	$ 100,391

Depreciation expense was $2.4 million and $2.0 million during the three months ended March 31, 2015 and 2014, respectively.

5. MERCHANDISE TRUSTS

At March 31, 2015, the Company s merchandise trusts consisted of the following types of assets:

Money market funds that invest in low risk short term securities;

Publicly traded mutual funds that invest in underlying debt securities;

Publicly traded mutual funds that invest in underlying equity securities;

Equity investments primarily in securities that are currently paying dividends or distributions. These investments include Master Limited Partnerships and global equity securities;

Fixed maturity debt securities issued by various corporate entities; and

Fixed maturity debt securities issued by U.S. states and local government agencies.

All of these investments are classified as Available for Sale as defined by the Investments in Debt and Equity topic of the ASC. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by the Fair Value Measurements and Disclosures topic of the ASC. See Note 15 for further details. There were no Level 3 assets.

The merchandise trusts are variable interest entities (VIE) for which the Company is the primary beneficiary. The assets held in the merchandise trusts are required to be used to purchase the merchandise to which they relate. If the value of these assets falls below the cost of purchasing such merchandise, the Company may be required to fund this shortfall.

The Company has included $8.4 million and $8.3 million of investments held in trust by the West Virginia Funeral Directors Association at March 31, 2015 and December 31, 2014, respectively, in its merchandise trust assets. As required by law, the Company deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recorded at their account value, which approximates their fair value.

The cost and market value associated with the assets held in the merchandise trusts at March 31, 2015 and December 31, 2014 were as follows:

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As of March 31, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 31,591	$	$	$ 31,591
Fixed maturities:				
U.S. State and local government agency	65	15		80
Corporate debt securities	12,566	67	(376)	12,257
Other debt securities	7,182		(8)	7,174
Total fixed maturities	19,813	82	(384)	19,511
Mutual funds - debt securities	246,768	978	(9,047)	238,699
Mutual funds - equity securities	129,452	2,772	(1,578)	130,646
Equity securities	54,888	3,500	(4,336)	54,052
Other invested assets	5,469		(343)	5,126
Total managed investments	$ 487,981	$ 7,332	$ (15,688)	$ 479,625
West Virginia Trust Receivable	8,382			8,382
Total	$ 496,363	$ 7,332	$ (15,688)	$ 488,007

As of December 31, 2014	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 52,521	$	$	$ 52,521
Fixed maturities:				
U.S. State and local government agency	270		(1)	269
Corporate debt securities	9,400	23	(447)	8,976
Other debt securities	7,157		(18)	7,139
Total fixed maturities	16,827	23	(466)	16,384
Mutual funds - debt securities	150,477	869	(8,666)	142,680
Mutual funds - equity securities	167,353	12,568	(463)	179,458
Equity securities	81,639	4,167	(5,507)	80,299
Other invested assets	5,400		(241)	5,159
Total managed investments	$ 474,217	$ 17,627	$ (15,343)	$ 476,501
West Virginia Trust Receivable	8,319			8,319
Total	$ 482,536	$ 17,627	$ (15,343)	$ 484,820

The contractual maturities of debt securities as of March 31, 2015 are presented below:

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As of March 31, 2015	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. State and local government agency	$	$ 18	$ 60	$ 2
Corporate debt securities		7,052	5,205	
Other debt securities	891	6,283		
Total fixed maturities	$ 891	$ 13,353	$ 5,265	$ 2

Temporary Declines in Fair Value

The Company evaluates declines in fair value below cost of each individual asset held in the merchandise trusts on a quarterly basis.

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at March 31, 2015 and December 31, 2014 is presented below:

	Less than 12 months		12 Months or more		Total		Number of
As of March 31, 2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Securities in Loss Position
	(in thousands, except number of securities data)						
Fixed maturities:							
Corporate debt securities	$ 6,070	$ 214	$ 2,539	$ 162	$ 8,609	$ 376	46
Other debt securities	2,384	2	4,790	6	7,174	8	13
Total fixed maturities	8,454	216	7,329	168	15,783	384	59
Mutual funds - debt securities	87,042	617	132,090	8,430	219,132	9,047	28
Mutual funds - equity securities	49,100	1,578			49,100	1,578	4
Equity securities	26,285	3,671	3,511	665	29,796	4,336	56
Other invested assets			4,918	343	4,918	343	1
Total	$ 170,881	$ 6,082	$ 147,848	$ 9,606	$ 318,729	$ 15,688	148

	Less than 12 months		12 Months or more		Total		Number of
As of December 31, 2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Securities in Loss Position
	(in thousands, except number of securities data)						
Fixed maturities:							
U.S. State and local government agency	$ 143	$ 1	$	$	$ 143	$ 1	3

Corporate debt securities	5,905	342	1,506	105	7,411	447	58
Other debt securities	2,370	8	4,769	10	7,139	18	13
Total fixed maturities	8,418	351	6,275	115	14,693	466	74
Mutual funds - debt securities	32,072	1,039	95,629	7,627	127,701	8,666	34
Mutual funds - equity securities	4,147	463			4,147	463	2
Equity securities	44,563	4,641	3,909	866	48,472	5,507	60
Other invested assets			4,881	241	4,881	241	1
Total	$ 89,200	$ 6,494	$ 110,694	$ 8,849	$ 199,894	$ 15,343	171

There were 148 and 171 securities in an unrealized loss position in merchandise trusts as of March 31, 2015 and December 31, 2014, respectively, of which 38 and 39, respectively, were in an unrealized loss position for more than twelve months. For all securities in an unrealized loss position, the Company evaluated the severity of the impairment and length of time that a security has been in a loss position and has concluded the decline in fair value below the asset s cost was temporary in nature. In addition, the Company is not aware of any circumstances that would prevent the future market value recovery for these securities.

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Other-Than-Temporary Impairment of Trust Assets

During the three months ended March 31, 2015, the Company determined that there were two securities with an aggregate cost basis of approximately $0.6 million and an aggregate fair value of approximately $0.4 million, resulting in an impairment of $0.2 million, wherein such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of these assets to their current value and offset this change against deferred revenue. This reduction in deferred revenue will be reflected in earnings in future periods as the underlying merchandise is delivered or the underlying service is performed.

During the three months ended March 31, 2014, the Company determined that there were no other than temporary impairments to the investment portfolio in the merchandise trusts.

A reconciliation of the Company s merchandise trust activities for the three months ended March 31, 2015 is presented below:

Fair Value at 12/31/2014	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss (1)	Taxes	Fees	Unrealized Change in Fair Value	Fair Value at 3/31/2015
				(in thousands)					
$484,820	16,540	(11,537)	3,874		5,702	(15)	(737)	(10,640)	$488,007

(1) Includes $3.9 million representing the net effect of other-than-temporary impairment charges and the release of previously realized impairment charges, as a result of sales and maturities of impaired securities.

The Company made net contributions into the trusts of approximately $5.0 million during the three months ended March 31, 2015. During the three months ended March 31, 2015, purchases and sales of securities available for sale included in trust investments were approximately $239.0 million and $239.1 million, respectively.

6. PERPETUAL CARE TRUSTS

At March 31, 2015, the Company s perpetual care trusts consisted of the following types of assets:

- Money market funds that invest in low risk short term securities;
- Publicly traded mutual funds that invest in underlying debt securities;
- Publicly traded mutual funds that invest in underlying equity securities;

Equity investments that are currently paying dividends or distributions. These investments include Master Limited Partnerships and global equity securities;

Fixed maturity debt securities issued by various corporate entities;

Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies; and

Fixed maturity debt securities issued by U.S. states and local government agencies.

All of these investments are classified as Available for Sale as defined by the Investments in Debt and Equity topic of the ASC. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by the Fair Value Measurements and Disclosures topic of the ASC. See Note 15 for further details. There were no Level 3 assets.

The cost and market value associated with the assets held in the perpetual care trusts at March 31, 2015 and December 31, 2014 were as follows:

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As of March 31, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 30,012	$	$	$ 30,012
Fixed maturities:				
U.S. Government and federal agency	100	15		115
U.S. State and local government agency	27	1		28
Corporate debt securities	24,774	224	(782)	24,216
Other debt securities	371			371
Total fixed maturities	25,272	240	(782)	24,730
Mutual funds - debt securities	202,419	414	(4,777)	198,056
Mutual funds - equity securities	77,034	12,763	(40)	89,757
Equity securities	2,167	489	(35)	2,621
Other invested assets	7			7
Total	$ 336,911	$ 13,906	$ (5,634)	$ 345,183

As of December 31, 2014	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 26,644	$	$	$ 26,644
Fixed maturities:				
U.S. Government and federal agency	100	16		116
U.S. State and local government agency	78	1		79
Corporate debt securities	24,275	104	(913)	23,466
Other debt securities	371			371
Total fixed maturities	24,824	121	(913)	24,032
Mutual funds - debt securities	128,735	379	(5,220)	123,894
Mutual funds - equity securities	103,701	23,003	(1,268)	125,436
Equity securities	30,617	14,704	(247)	45,074
Other invested assets	25			25
Total	$ 314,546	$ 38,207	$ (7,648)	$ 345,105

The contractual maturities of debt securities as of March 31, 2015 were as follows:

As of March 31, 2015	Less than 1	1 year through 5 years	6 years through 10 years	More than 10

	year			years
		(in thousands)		
U.S. Government and federal agency	$	$ 115	$	$
U.S. State and local government agency	28			
Corporate debt securities	455	14,723	9,018	20
Other debt securities	371			
Total fixed maturities	$ 854	$ 14,838	$ 9,018	$ 20

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Temporary Declines in Fair Value

The Company evaluates declines in fair value below cost of each individual asset held in the perpetual care trusts on a quarterly basis.

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at March 31, 2015 and December 31, 2014 is presented below:

As of March 31, 2015	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses	Number of Securities in Loss Position
	(in thousands, except number of securities data)						
Fixed maturities:							
Corporate debt securities	$ 10,571	$ 516	$ 3,861	$ 266	$ 14,432	$ 782	55
Total fixed maturities	10,571	516	3,861	266	14,432	782	55
Mutual funds - debt securities	18,437	529	119,177	4,248	137,614	4,777	30
Mutual funds - equity securities	3,458	40			3,458	40	2
Equity securities	237	32	619	3	856	35	25
Total	$ 32,703	$ 1,117	$ 123,657	$ 4,517	$ 156,360	$ 5,634	112

As of December 31, 2014	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses	Number of Securities in Loss Position
	(in thousands, except number of securities data)						
Fixed maturities:							
Corporate debt securities	$ 14,434	$ 798	$ 2,519	$ 115	$ 16,953	$ 913	83
Total fixed maturities	14,434	798	2,519	115	16,953	913	83
Mutual funds - debt securities	30,345	768	86,814	4,452	117,159	5,220	31
Mutual funds - equity securities	13,035	1,268			13,035	1,268	5
Equity securities	3,866	245	620	2	4,486	247	29
Total	$ 61,680	$ 3,079	$ 89,953	$ 4,569	$ 151,633	$ 7,648	148

There were 112 and 148 securities in an unrealized loss position in perpetual care trusts as of March 31, 2015 and December 31, 2014, respectively, of which 22 and 20, respectively, were in an unrealized loss position for more than twelve months. For all securities in an unrealized loss position, the Company evaluated the severity of the impairment and length of time that a security has been in a loss position and has concluded the decline in fair value below the asset s cost was temporary in nature. In addition, the Company is not aware of any circumstances that would prevent the future market value recovery for these securities.

Other-Than-Temporary Impairment of Trust Assets

During the three months ended March 31, 2015 and 2014, the Company determined that there were no other than temporary impairments to the investment portfolio in the perpetual care trusts.

A reconciliation of the Company s perpetual care trust activities for the three months ended March 31, 2015 is presented below:

Fair Value at 12/31/2014	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss (1)	Taxes	Fees	Unrealized Change in Fair Value	Fair Value at 3/31/2015
				(in thousands)					
$345,105	6,478	(2,793)	3,649		15,699	(134)	(534)	(22,287)	$ 345,183

(1) Includes $12.0 million representing the net effect of other-than-temporary impairment charges and the release of previously realized impairment charges, as a result of sales and maturities of impaired securities.

The Company made net contributions into the trusts of approximately $3.7 million during the three months ended March 31, 2015. During the three months ended March 31, 2015, purchases and sales of securities available for sale included in trust investments were approximately $233.9 million and $230.7 million, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in acquisitions.

There have been no changes in the goodwill balance during the period and a summary by reportable segment is as follows:

	Cemeteries			Funeral	
	Southeast	Northeast	West	Homes	Total
		(in thousands)			
Goodwill as of March 31, 2015 and December 31, 2014	$ 8,950	$ 3,288	$ 11,948	$ 34,650	$ 58,836

Other Acquired Intangible Assets

The Company has other acquired intangible assets, most of which have been recognized as a result of acquisitions and long-term lease, management and operating agreements. All of the intangible assets are amortized as a component of depreciation and amortization in the unaudited condensed consolidated statement of operations. The major classes of intangible assets are as follows:

	As of March 31, 2015			As of December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset
			(in thousands)			
Amortized intangible assets:						
Lease and management agreements	$ 59,758	$ (830)	$ 58,928	$ 59,758	$ (581)	$ 59,177

Underlying contract value	6,239	(897)	5,342	6,239	(858)	5,381
Non-compete agreements	5,250	(2,375)	2,875	5,250	(2,126)	3,124
Other intangible assets	1,439	(143)	1,296	1,439	(131)	1,308
Total intangible assets	$ 72,686	$ (4,245)	$ 68,441	$ 72,686	$ (3,696)	$ 68,990

See Note 7 of the Company s 2014 Form 10-K for a discussion of the Company s intangible assets, including its contract-based intangible asset pertaining to the lease and management agreements with the Archdiocese of Philadelphia.

8. LONG-TERM DEBT

The Company had the following outstanding debt:

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	As of	
	March 31, 2015	December 31, 2014
	(in thousands)	
7.875% Senior Notes, due June 2021	$ 175,000	$ 175,000
Credit Facility, due December 2019:		
Working Capital Draws	97,902	85,902
Acquisition Draws	25,000	25,000
Notes payable - acquisition debt	819	861
Notes payable - acquisition non-competes	2,396	2,765
Insurance and vehicle financing	1,121	1,632
Total	302,238	291,160
Less current portion	1,664	2,251
Less unamortized bond and note payable discounts	3,390	3,531
Long-term portion	$ 297,184	$ 285,378

This note includes a summary of material terms of the Company s senior notes and revolving credit facility. For a more detailed description of the Company s long-term debt agreements, see the Company s 2014 Form 10-K.

7.875% Senior Notes due 2021

On May 28, 2013, the Company issued $175.0 million aggregate principal amount of 7.875% Senior Notes due 2021 (the Senior Notes). The Company pays 7.875% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year, since December 1, 2013. The net proceeds from the offering were used to retire a $150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 and the remaining proceeds were used for general corporate purposes. The Senior Notes were issued at 97.832% of par resulting in gross proceeds of $171.2 million with an original issue discount of approximately $3.8 million. The Company incurred debt issuance costs and fees of approximately $4.6 million. These costs and fees are deferred and are amortized over the life of the Senior Notes. Based on trades made on March 31, 2015, the Company has estimated the fair value of its Senior Notes to be in excess of par and trading at a premium of 4.94%, which would imply a fair value of $183.6 million at March 31, 2015. The Senior Notes are valued using Level 2 inputs as defined by the Fair Value Measurements and Disclosures topic of the ASC in Note 15. As of March 31, 2015, the Company was in compliance with all applicable covenants of the Senior Notes.

Credit Facility

On December 19, 2014, the Partnership entered into the Fourth Amended and Restated Credit Agreement (the Credit Agreement).

The Credit Agreement provides for a single revolving credit facility of $180.0 million (the Credit Facility) maturing on December 19, 2019. Additionally the Credit Agreement provides for an uncommitted ability to increase the Credit Facility by an additional $70.0 million. The summary of the material terms of the Credit Agreement is set forth below. Capitalized terms, which are not defined in the following description, shall have the meaning assigned to such terms in the Credit Agreement.

At March 31, 2015, amounts outstanding under the Credit Facility bore interest at rates of approximately 3.5%. The interest rates on the Credit Facility are calculated as follows:

For Eurodollar Rate Loans, the outstanding principal amount thereof bears interest for each Interest Period at a rate per annum equal to the Eurodollar Rate for the Interest Period plus the Applicable Rate for Eurodollar Rate Loans; and

For Base Rate Loans and Swing Line Loans, the outstanding principal amount thereof bears interest from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate for Base Rate Loans.

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In addition, the Borrowers must pay a Letter of Credit Fee for each Letter of Credit equal to the Applicable Rate for Letter of Credit Fees times the daily amount to be drawn under such Letter of Credit. The Applicable Rate is determined based on the Consolidated Leverage Ratio of the Partnership and its Subsidiaries, and ranges from 2.25% to 4.00% for Eurodollar Rate Loans and Letter of Credit Fees, and 1.25% to 3.00% for Base Rate Loans. The current Applicable Rate for each of: (i) Eurodollar Rate Loans and Letter of Credit Fees is 3.75% and (ii) Base Rate Loans is 2.75% based on the current Consolidated Leverage Ratio. The Credit Agreement also requires the Borrowers to pay a quarterly unused commitment fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments.

The Credit Agreement contains financial covenants, pursuant to which the Borrowers and the Guarantors will not permit:

Consolidated EBITDA for any Measurement Period to be less than the sum of (i) $80.0 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after June 30, 2014;

the Consolidated Debt Service Coverage Ratio to be less than 2.50 to 1.0 for any Measurement Period; and

the Consolidated Leverage Ratio to be greater than 4.00 to 1.0 for any period.

The covenants include, among other limitations, limitations on: (i) liens, (ii) the creation or incurrence of debt, (iii) investments and acquisitions, (iv) dispositions of property, (v) dividends, distributions and redemptions, and (vi) transactions with Affiliates.

The Credit Agreement provides that two types of draws are permitted with respect to the Credit Facility: Acquisition Draws and Working Capital Draws. The proceeds of Acquisition Draws may be utilized by the Borrowers to finance Permitted Acquisitions, the purchase and construction of mausoleums and related costs or the net amount of Merchandise Trust deposits made after the Closing Date under the Credit Agreement, irrespective of whether such amounts relate to new or existing cemeteries or funeral homes. The proceeds of Working Capital Draws, Letters of Credit and Swing Line Loans may be utilized by the Borrowers to finance working capital requirements, Capital Expenditures and for other general corporate purposes. The borrowing of Working Capital Advances is subject to a borrowing formula of 85% of Eligible Receivables. This limit was $133.0 million at March 31, 2015.

Each Acquisition Draw is subject to equal quarterly amortization of the principal amount of such draw, with annual principal payments comprised of ten percent (10%) of the related draw amount, commencing on the second anniversary of such draw, with the remaining principal due on the Maturity Date, subject to certain mandatory prepayment requirements. Working Capital Draws are due on the Maturity Date, subject to certain mandatory prepayment requirements.

As of March 31, 2015, there were $122.9 million of outstanding borrowings under the Credit Facility. The Credit Facility approximates fair value as it consists of multiple current LIBOR borrowings with maturities of 90 days or less, with amounts that can be rolled-over or reborrowed at market rates. It is valued using Level 2 inputs. As of March 31, 2015, the Company complied with all applicable financial covenants.

The Company routinely incurs debt financing costs and fees when borrowing under, or making amendments to, the Credit Facility. These costs and fees are deferred and are amortized over the life of the Credit Facility.

9. INCOME TAXES

As of March 31, 2015, the Company s taxable corporate subsidiaries had federal net operating loss carryforwards of approximately $223.1 million, which will begin to expire in 2017 and $272.0 million in state net operating loss carryforwards, a portion of which expires annually.

The Partnership is not a taxable entity for federal and state income tax purposes; rather, the Partnership s tax attributes, except those of its corporate subsidiaries, are to be included in the individual tax returns of its partners. Neither the Partnership s financial reporting income, nor the cash distributions to unit-holders, can be used as a substitute for the detailed tax calculations that the Partnership must perform annually for its partners. Net income from the Partnership is not treated as passive income for federal income tax purposes. As a result, partners subject to the passive activity loss rules are not permitted to offset income from the Partnership with passive losses from other sources.

The Partnership s corporate subsidiaries account for their income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards.

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Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The provision for income taxes for the three months ended March 31, 2015 and 2014 is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2015 and 2014, respectively. The Company s effective tax rate differs from its statutory tax rate primarily because the Company s legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

The Company is not currently under examination by any federal or state jurisdictions. The federal statute of limitations and certain state statutes of limitations are open from 2011 forward. Management believes that the accrual for tax liabilities is adequate for all open years. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. On the basis of present information, it is the opinion of the Company s management that there are no pending assessments that will result in a material effect on the Company s consolidated financial statements over the next twelve months.

10. DEFERRED CEMETERY REVENUES, NET

At March 31, 2015 and December 31, 2014, deferred cemetery revenues, net, consisted of the following:

	As of	
	March 31, 2015	**December 31, 2014**
	(in thousands)	
Deferred cemetery revenue	$ 477,420	$ 456,632
Deferred merchandise trust revenue	116,678	104,717
Deferred merchandise trust unrealized gains (losses)	(8,356)	2,284
Deferred pre-acquisition margin	139,344	140,378
Deferred cost of goods sold	(63,209)	(60,603)
Deferred cemetery revenues, net	$ 661,877	$ 643,408
Deferred selling and obtaining costs	$ 102,904	$ 97,795

Deferred selling and obtaining costs are carried as an asset on the unaudited condensed consolidated balance sheet in accordance with the Financial Services Insurance topic of the ASC.

11. COMMITMENTS AND CONTINGENCIES

Legal

The Company is party to legal proceedings in the ordinary course of its business but does not expect the outcome of any proceedings, individually or in the aggregate, to have a material effect on the Company s financial position, results of operations or liquidity.

Leases

At March 31, 2015, the Company was committed to operating lease payments for premises, automobiles and office equipment under various operating leases with initial terms ranging from one to twenty five years and options to renew at varying terms. Expenses under these operating leases were $0.7 million and $0.6 million during the three months ended March 31, 2015 and 2014, respectively.

The operating leases will result in future payments in the following approximate amounts from March 31, 2015 and beyond:

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	(in thousands)
2015	$ 2,000
2016	2,444
2017	2,305
2018	1,912
2019	1,726
2020	613
Thereafter	1,744
Total	$ 12,744

Other

See Note 13 of the Company s 2014 Form 10-K for a discussion of the Company s future commitments related to its agreements with the Archdiocese of Philadelphia.

12. PARTNERS CAPITAL

The table below reflects the activity relating to the number of common units outstanding for the three months ended March 31, 2015:

	Three months ended March 31, 2015
Outstanding, beginning of period	29,203,595
Unit distributions	54,622
Unit-based compensation	1,148
Outstanding, end of period	29,259,365

Unit-Based Compensation

The Company has issued to certain key employees, management, and directors unit-based compensation in the form of unit appreciation rights and restricted phantom partnership units.

Compensation expense recognized related to unit appreciation rights and restricted phantom unit awards for the three months ended March 31, 2015 and 2014 are summarized in the table below:

	Three months ended March 31,	
	2015	2014
	(in thousands)	
Unit appreciation rights	$ 21	$ 19
Restricted phantom units	251	252

Total unit-based compensation expense	$ 272	$ 271

As of March 31, 2015, there was approximately $0.1 million in non-vested unit appreciation rights expense outstanding. These unit appreciation rights will be expensed through 2018.

The diluted weighted average number of limited partners units outstanding presented on the unaudited condensed consolidated statement of operations does not include 185,194 units for the three months ended March 31, 2015, as their effects would be anti-dilutive.

During the three months ended March 31, 2015, 1,148 common units were issued under the StoneMor Partners L.P. Long-Term Incentive Plans. See Note 11 of the Company s 2014 Form 10-K for a description of the Company s Long-Term Incentive Plans.

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Other Unit Issuances

Pursuant to a Common Unit Purchase Agreement, dated May 19, 2014, by and between the Company and American Cemeteries Infrastructure Investors, LLC, a Delaware limited liability company (ACII), the Company issued 54,622 common units to ACII in lieu of a cash distribution of approximately $1.4 million on February 16, 2015. Refer to the Company s 2014 Form 10-K, Note 17, for a detailed discussion of the Common Unit Purchase Agreement.

13. ACQUISITIONS

First Quarter 2014 Acquisition

On January 16, 2014, certain subsidiaries of the Company (collectively the Buyer) entered into an Asset Purchase and Sale Agreement with Carriage Cemetery Services, Inc. (the Seller). Pursuant to the Agreement, the Buyer acquired one cemetery in Florida, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller $0.2 million in cash.

The table below reflects the Company s final assessment of the fair value of net assets acquired and the resulting gain on bargain purchase.

	Final Assessment (in thousands)
Assets:	
Accounts receivable	$ 47
Cemetery property	470
Property and equipment	140
Merchandise trusts, restricted, at fair value	2,607
Perpetual care trusts, restricted, at fair value	691
Total assets	3,955
Liabilities:	
Deferred margin	1,035
Merchandise liabilities	956
Deferred tax liability	641
Perpetual care trust corpus	691
Other liabilities	20
Total liabilities	3,343
Fair value of net assets acquired	612
Consideration paid	200
Gain on bargain purchase	$ 412

If the acquisition noted above had been consummated at the beginning of the comparable prior annual reporting period, on a pro forma basis, for the three months ended March 31, 2015 and 2014, consolidated revenues, consolidated net income (loss), and net income (loss) per limited partner unit (basic and diluted) would have been as follows:

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	Three months ended March 31, 2015	2014
	(in thousands, except per unit data)	
Revenue	$ 67,417	$ 64,398
Net income (loss)	(8,883)	(2)
Net income (loss) per limited partner unit (basic and diluted)	$ (.30)	$

These pro forma results are unaudited, have been prepared for comparative purposes only, and may include certain adjustments such as increased interest on the acquisition of debt, changes in the timing of financing events and the recognition of gains on acquisitions. They do not purport to be indicative of the results of operations which actually would have resulted had this acquisition been in effect at the beginning of the comparable prior annual reporting period or of future results of operations of the location.

The property acquired in the first quarter of 2014 has contributed less than $0.1 million of revenue and operating profit for both the three months ended March 31, 2015 and the three months ended March 31, 2014.

Other 2014 Acquisitions and Agreements

See Note 13 of the Company s 2014 Form 10-K for a discussion of the Company s other 2014 acquisitions and its agreements with the Archdiocese of Philadelphia. There have been no changes during the period to assessments of the fair value of net assets acquired in the other 2014 acquisitions. Those amounts may be retrospectively adjusted as additional information is received.

14. SEGMENT INFORMATION

The Company is organized into five distinct reportable segments, which are classified as Cemetery Operations Southeast, Cemetery Operations Northeast, Cemetery Operations West, Funeral Homes, and Corporate.

The Company has chosen this level of organization of reportable segments due to the fact that a) each reportable segment has unique characteristics that set it apart from other segments; b) the Company has organized its management personnel at these operational levels; and c) it is the level at which the Company s chief decision makers and other senior management evaluate performance.

The cemetery operations segments sell interment rights, caskets, burial vaults, cremation niches, markers and other cemetery related merchandise. The nature of the Company s customers differs in each of its regionally based cemetery operating segments. Cremation rates in the West region are substantially higher than they are in the Southeast region. Rates in the Northeast region tend to be somewhere between the two. Statistics indicate that customers who select cremation services have certain attributes that differ from customers who select other methods of interment. The disaggregation of cemetery operations into the three distinct regional segments is primarily due to these differences in customer attributes along with the previously mentioned management structure and senior management analysis methodologies.

The Company s Funeral Homes segment offers a range of funeral-related services such as family consultation, the removal of and preparation of remains and the use of funeral home facilities for visitation. These services are distinctly different than the cemetery merchandise and services sold and provided by the cemetery operations segments.

The Company s Corporate segment includes various home office selling and administrative expenses that are not allocable to the other operating segments.

Segment information is as follows:

As of and for the three months ended March 31, 2015:

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	Southeast	Cemeteries Northeast	West	Funeral Homes	Corporate	Adjustment	Total
				(in thousands)			
Revenues							
Sales	$ 24,290	$ 12,485	$ 10,695	$	$	$ (17,526)	$ 29,944
Service and other	11,886	8,759	9,000			(7,432)	22,213
Funeral home				17,415		(2,155)	15,260
Total revenues	36,176	21,244	19,695	17,415		(27,113)	67,417
Costs and expenses							
Cost of sales	5,268	2,329	2,140			(2,654)	7,083
Cemetery	6,834	5,853	3,578				16,265
Selling	9,147	5,005	4,152		200	(4,594)	13,910
General and administrative	4,670	2,540	2,119				9,329
Corporate overhead					8,734		8,734
Depreciation and amortization	800	607	499	799	247		2,952
Funeral home				12,611		(461)	12,150
Acquisition related costs, net of recoveries					349		349
Total costs and expenses	26,719	16,334	12,488	13,410	9,530	(7,709)	70,772
Operating profit (loss)	$ 9,457	$ 4,910	$ 7,207	$ 4,005	$ (9,530)	$ (19,404)	$ (3,355)
Total assets	$ 645,407	$ 428,673	$ 444,411	$ 165,828	$ 21,034	$	$ 1,705,353
Amortization of cemetery property	$ 1,130	$ 485	$ 390	$	$	$ (417)	$ 1,588
Long lived asset additions	$ 1,505	$ 746	$ 497	$ 218	$ 84	$	$ 3,050
Goodwill	$ 8,950	$ 3,288	$ 11,948	$ 34,650	$	$	$ 58,836

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As of and for the three months ended March 31, 2014:

	Southeast	Cemeteries Northeast	West	Funeral Homes	Corporate	Adjustment	Total
				(in thousands)			
Revenues							
Sales	$ 22,101	$ 7,410	$ 9,821	$	$	$ (10,458)	$ 28,874
Service and other	11,626	10,604	10,923			(9,387)	23,766
Funeral home				13,254		(1,507)	11,747
Total revenues	33,727	18,014	20,744	13,254		(21,352)	64,387
Costs and expenses							
Cost of sales	4,792	1,678	2,777			(1,743)	7,504
Cemetery	6,395	3,235	3,699				13,329
Selling	7,248	2,802	3,234		545	(2,640)	11,189
General and administrative	4,096	1,492	2,057				7,645
Corporate overhead					7,456		7,456
Depreciation and amortization	633	236	521	736	242		2,368
Funeral home				9,504		(218)	9,286
Acquisition related costs, net of recoveries					349		349
Total costs and expenses	23,164	9,443	12,288	10,240	8,592	(4,601)	59,126
Operating profit (loss)	$ 10,563	$ 8,571	$ 8,456	$ 3,014	$ (8,592)	$ (16,751)	$ 5,261
Total assets	$ 580,359	$ 318,937	$ 434,562	$ 135,819	$ 23,290	$	$ 1,492,967
Amortization of cemetery property	$ 1,251	$ 583	$ 1,223	$	$	$ (334)	$ 2,723
Long lived asset additions	$ 1,564	$ 442	$ 1,041	$ 57	$ 52	$	$ 3,156
Goodwill	$ 6,174	$	$ 11,948	$ 30,615	$	$	$ 48,737

Results of individual operating segments are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of individual operating segments are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the operating segments. Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. Revenues and associated expenses are not deferred in accordance with SAB No. 104; therefore, the deferral of these revenues and expenses is provided in the adjustment column to reconcile the Company s managerial financial statements to those prepared in accordance with GAAP. Pre-need sales revenues included within the sales category consist primarily of the sale of burial lots, burial vaults, mausoleum crypts, grave markers and memorials, and caskets. Management accounting practices included in the Southeast, Northeast, and Western Regions reflect these pre-need sales when contracts are signed by the customer and accepted by the Company. Pre-need sales reflected in the unaudited condensed consolidated financial statements, prepared in accordance with GAAP, recognize revenues for the sale of burial lots and mausoleum crypts when the product is constructed and at least 10% of the sales price is collected. With respect to the other products, the unaudited condensed consolidated financial statements prepared under GAAP recognize sales revenues when the criteria for delivery under SAB No. 104 are met. These criteria include, among other things, purchase of the product, delivery and installation of the product in the ground, and transfer of title to the customer. In each case, costs are accrued in connection with the recognition of revenues; therefore, the unaudited condensed consolidated financial statements reflect Deferred Cemetery Revenue, Net, and Deferred Selling and Obtaining Costs on the unaudited condensed consolidated balance sheet, whereas the Company s management accounting practices exclude these items.

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15. FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures topic of the ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This topic also establishes a fair value hierarchy that gives the highest priority to observable inputs and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy defined by this topic are described below.

Level 1: Quoted market prices available in active markets for identical assets or liabilities. The Company includes short-term investments, consisting primarily of money market funds, U.S. Government debt securities and publicly traded equity securities and mutual funds in its level 1 investments.

Level 2: Quoted prices in active markets for similar assets; quoted prices in non-active markets for identical or similar assets; inputs other than quoted prices that are observable. The Company includes U.S. state and municipal, corporate and other fixed income debt securities in its level 2 investments.

Level 3: Any and all pricing inputs that are generally unobservable and not corroborated by market data.

On the Company s unaudited condensed consolidated balance sheet, current assets, long-term accounts receivable and current liabilities are recorded at amounts that approximate fair value.

The following table displays the Company s assets measured at fair value as of March 31, 2015 and December 31, 2014.

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As of March 31, 2015

Merchandise Trust

	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 31,591	$	$ 31,591
Fixed maturities:			
U.S. state and local government agency		80	80
Corporate debt securities		12,257	12,257
Other debt securities		7,174	7,174
Total fixed maturity investments		19,511	19,511
Mutual funds - debt securities	238,699		238,699
Mutual funds - equity securities - real estate sector	19,133		19,133
Mutual funds - equity securities - energy sector	12,815		12,815
Mutual funds - equity securities - MLP s	21,308		21,308
Mutual funds - equity securities - other	77,390		77,390
Equity securities:			
Master limited partnerships	25,224		25,224
Global equity securities	28,828		28,828
Other invested assets		5,126	5,126
Total	$ 454,988	$ 24,637	$ 479,625

Perpetual Care Trust

	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 30,012	$	$ 30,012
Fixed maturities:			
U.S. government and federal agency	115		115
U.S. state and local government agency		28	28
Corporate debt securities		24,216	24,216
Other debt securities		371	371
Total fixed maturity investments	115	24,615	24,730

Mutual funds - debt securities	198,056		198,056
Mutual funds - equity securities - real estate sector	17,052		17,052
Mutual funds - equity securities - energy sector	20,424		20,424
Mutual funds - equity securities - MLP s	40,474		40,474
Mutual funds - equity securities - other	11,807		11,807
Equity securities:			
Master limited partnerships	988		988
Global equity securities	1,633		1,633
Other invested assets		7	7
Total	$ 320,561	$ 24,622	$ 345,183

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As of December 31, 2014

Merchandise Trust

	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 52,521	$	$ 52,521
Fixed maturities:			
U.S. state and local government agency		269	269
Corporate debt securities		8,976	8,976
Other debt securities		7,139	7,139
Total fixed maturity investments		16,384	16,384
Mutual funds - debt securities	142,680		142,680
Mutual funds - equity securities - real estate sector	58,672		58,672
Mutual funds - equity securities - energy sector	7,733		7,733
Mutual funds - equity securities - MLP s	22,927		22,927
Mutual funds - equity securities - other	90,126		90,126
Equity securities:			
Master limited partnerships	50,091		50,091
Global equity securities	30,208		30,208
Other invested assets		5,159	5,159
Total	$ 454,958	$ 21,543	$ 476,501

Perpetual Care Trust

	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 26,644	$	$ 26,644
Fixed maturities:			
U.S. government and federal agency	116		116
U.S. state and local government agency		79	79
Corporate debt securities		23,466	23,466
Other debt securities		371	371
Total fixed maturity investments	116	23,916	24,032

Mutual funds - debt securities	123,894		123,894
Mutual funds - equity securities - real estate sector	41,753		41,753
Mutual funds - equity securities - energy sector	14,829		14,829
Mutual funds - equity securities - MLP s	43,596		43,596
Mutual funds - equity securities - other	25,258		25,258
Equity securities:			
Master limited partnerships	43,207		43,207
Global equity securities	1,867		1,867
Other invested assets		25	25
Total	$ 321,164	$ 23,941	$ 345,105

Level 1 securities primarily consist of actively publicly traded money market funds, mutual funds and equity securities.

Level 2 securities primarily consist of corporate and other fixed income debt securities. The Company obtains pricing information for these securities from an independent pricing vendor. The pricing vendor uses various pricing models for each asset class that are consistent with what other market participants would use. The inputs and assumptions to the pricing vendor s model are derived from market observable sources including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and other market-related data. Since many fixed income securities do not trade on a daily basis, the pricing vendor uses available information as applicable such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Thus, certain securities may not be priced using quoted prices, but rather determined from market observable information. These investments are included in Level 2. The Company reviews the information provided by the pricing vendor on a regular basis. In addition, the pricing vendor has an established process in place for the identification and resolution of potentially erroneous prices.

There were no level 3 assets.

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

The words we, us, our, StoneMor, the Partnership, the Company and similar words refer to StoneMor Partner and its subsidiaries.

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, including, but not limited to, information regarding the status and progress of our operating activities, the plans and objectives of our management, assumptions regarding our future performance and plans, and any financial guidance provided or guidance related to our future distributions, as well as certain information in our other filings with the SEC and elsewhere are forward-looking statements.

Generally, the words believe, may, will, estimate, continue, anticipate, intend (including, but not limited to to maintain or increase our distributions), project, expect, predict and similar expressions identify these forward-looking statements.

These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated or implied. Our major risk is related to uncertainties associated with the cash flow from our pre-need and at-need sales, our trusts, and financings, which may impact our ability to meet our financial projections, our ability to service our debt and pay distributions, and our ability to increase our distributions.

Our additional risks and uncertainties, include, but are not limited to, the following: uncertainties associated with future revenue and revenue growth; uncertainties associated with the integration or anticipated benefits of our recent acquisitions or any future acquisitions; our ability to complete and fund additional acquisitions; the effect of economic downturns; the impact of our significant leverage on our operating plans; the decline in the fair value of certain equity and debt securities held in our trusts; our ability to attract, train and retain an adequate number of sales people; uncertainties associated with the volume and timing of pre-need sales of cemetery services and products; increased use of cremation; changes in the death rate; changes in the political or regulatory environments, including potential changes in tax accounting and trusting policies; our ability to successfully implement a strategic plan relating to achieving operating improvements, strong cash flows and further deleveraging; our ability to successfully compete in the cemetery and funeral home industry; litigation or legal proceedings that could expose us to significant liabilities and damage our reputation; the effects of cyber security attacks due to our significant reliance on information technology; uncertainties relating to the financial condition of third-party insurance companies that fund our pre-need funeral contracts; and various other uncertainties associated with the death care industry and our operations in particular.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (2014 Form 10-K) and our other reports filed with the SEC. Except as required under applicable law, we assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

Overview

Cemetery Operations

We are currently the second largest owner and operator of cemeteries in the United States. As of March 31, 2015, we operated 303 cemeteries in 27 states and Puerto Rico. We own 272 of these cemeteries and we manage or operate the remaining 31 under lease, operating or management agreements with the nonprofit cemetery companies that own the cemeteries. As a result of the agreements, other control arrangements and applicable accounting rules, we have treated 16 of these cemeteries as acquisitions for accounting purposes.

We operate 15 cemeteries under long-term lease, operating or management agreements that do not qualify as acquisitions for accounting purposes. As a result, we did not consolidate all of the existing assets and liabilities related to these cemeteries. We have consolidated the existing assets and liabilities of these cemeteries merchandise and perpetual care trusts as variable interest entities since we control and receive the benefits and absorb any losses from operating these trusts. Under these long-term lease, operating or management agreements, which are subject to certain termination provisions, we are the exclusive operator of these cemeteries. We earn revenues related to sales of merchandise, services, and interment rights and incur expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, we will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. We have also recognized the existing merchandise liabilities assumed as part of these agreements.

We sell cemetery products and services both at the time of death, which we refer to as at-need, and prior to the time of death, which we refer to as pre-need. Revenues from cemetery operations accounted for approximately 77.4% and 81.8% of our total revenues during the three months ended March 31, 2015 and 2014, respectively. The change in the contribution to total revenues was primarily due to one large land sale from the first quarter of 2014. In addition, during the first quarter of 2015, we had reductions in investment income from our trusts, as well as higher contributions from our 2014 funeral home acquisitions.

Our results of operations for our cemetery operations are determined primarily by the volume of sales of products and services and the timing of product delivery and performance of services. We derive our cemetery revenues primarily from:

- at-need sales of cemetery interment rights, merchandise and services, which we recognize as revenue when we have delivered the related merchandise or performed the service;
- pre-need sales of cemetery interment rights, which we generally recognize as revenues when we have collected 10% of the sales price from the customer;
- pre-need sales of cemetery merchandise, which we recognize as revenues when we satisfy the criteria specified below for delivery of the merchandise to the customer;
- pre-need sales of cemetery services which we recognize as revenues when we perform the services for the customer;

- investment income from assets held in our merchandise trust, which we recognize as revenues when we deliver the underlying merchandise or perform the underlying services and recognize the associated sales revenue as discussed above;

- investment income from perpetual care trusts, excluding realized gains and losses on the sale of trust assets, which we recognize as revenues as the income is earned in the trust; and

- other items, such as interest income on pre-need installment contracts and sales of land.

The criteria for recognizing revenue related to the sale of cemetery merchandise is that such merchandise is delivered to our customer, which generally means that:

- the merchandise is complete and ready for installation; or

- the merchandise is either installed or stored at an off-site location, at no additional cost to us, and specifically identified with a particular customer; and

- the risks and rewards of ownership have passed to the customer.

We generally satisfy these delivery criteria by purchasing the merchandise and either installing it on our cemetery property or storing it, at the customer s request, in third-party warehouses, at no additional cost to us, until the time of need. With respect to burial vaults, we install the vaults rather than storing them to satisfy the delivery criteria. When merchandise is stored for a customer, we may issue a certificate of ownership to the customer to evidence the transfer to the customer of the risks and rewards of ownership.

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Pre-need Sales

As previously noted, we do not recognize revenue on pre-need sales of merchandise and services until we have delivered the merchandise or performed the services. Accordingly, deferred revenues from pre-need sales and related merchandise trust earnings are reflected as a liability on our unaudited condensed consolidated balance sheet in deferred cemetery revenues, net.

Total deferred cemetery revenues, net, also includes deferred revenues from pre-need sales that were entered into by entities we acquired prior to the time we acquired them. This includes both those entities that we acquired at the time of the formation of Cornerstone and other subsequent acquisitions. Our profit margin on pre-need sales entered into by entities we subsequently acquired is generally less than our profit margin on other pre-need sales because, in accordance with industry practice at the time these acquired pre-need sales were made, none of the selling expenses were recognized at the time of sale. As a result, we are required to recognize all of the expenses (including deferred selling expenses) associated with these acquired pre-need sales when we recognize the revenues from that sale.

Pre-need products and services are typically sold on an installment basis. Subject to state law, these contracts are normally subject to cooling-off periods, generally between three and thirty days, during which the customer may elect to cancel the contract and receive a full refund of amounts paid. Also, subject to applicable state law, we are generally permitted to retain the amounts already paid on contracts, including any amounts that were required to be deposited into trust, on contracts cancelled after the cooling-off period. Historical post cooling-off period cancellations total approximately 10% of our pre-need sales (based on contract dollar amounts). If the products and services purchased under a pre-need contract are needed for interment before payment has been made in full, generally the balance due must be immediately paid in full.

Contracts related to pre-need installment sales are usually for a period not to exceed 60 months, with payments of principal and interest required. Pre-need sales contracts normally contain provisions for both principal and interest. For those contracts that do not bear a market rate of interest, we impute such interest based upon the prime rate plus 150 basis points, which resulted in a rate of 4.75% for the three months ended March 31, 2015 and 2014.

We normally offer prepayment incentives to customers whose pre-need contracts are longer than 36 months and bear interest. If those customers pay their contracts in full in less than 12 months, we rebate the interest that we have collected from them. Even though this rebate policy reduces the amount of interest income we receive on our accounts receivable, the net effect is an increase in our immediate cash flow.

In certain cases, pre-need contracts will be cancelled before they are fully paid. In these circumstances, we are generally permitted to retain amounts already paid to us, including any amounts that were required to be deposited into trust. In certain other cases, the products and services purchased under a pre-need contract are needed for interment before payment has been made in full. In these cases, we are generally entitled to be immediately paid in full for any amounts still outstanding.

At-need Sales

Revenue on at-need merchandise sales is deferred until the time that such merchandise is delivered. The lag between the contract origination and delivery is normally minimal. At-need sales of products and services are generally required to be paid for in full at the time of sale. At that time, we will deposit amounts, as legally required, into our perpetual care trusts. We are not required to deposit any amounts from our at-need sales into merchandise trusts.

Expenses

We analyze and categorize our operating expenses as follows:

1. Cost of goods sold and selling expenses

Cost of goods sold reflects the actual cost of purchasing products and performing services. Sales of cemetery lots and interment rights, whether at-need or pre-need, typically have a lower cost of goods sold than other merchandise that we sell.

Selling expenses consist of salesperson and sales management payroll costs, including selling commissions, bonuses and employee benefits. We self-insure medical expenses of our employees up to certain individual and aggregate limits over which we have stop-loss insurance coverage. Our self-insurance policy may result in variability in our future operating expenses. Selling expenses also include other costs of obtaining product and service sales, such as advertising, marketing, postage and telephone.

Direct costs associated with pre-need sales of cemetery merchandise and services, such as sales commissions and cost of goods sold, are reflected in the unaudited condensed consolidated balance sheet in deferred selling and obtaining costs and deferred cemetery revenues, net, respectively, and are expensed as the merchandise is delivered or the services are performed. Indirect costs, such as marketing and advertising costs, are expensed in the period in which they are incurred.

2. Cemetery Expenses

Cemetery expenses represent the cost to maintain and repair our cemetery properties and consist primarily of labor and equipment, utilities, real estate taxes and other maintenance items. Repairs necessary to maintain our cemeteries are expensed as they are incurred. Other maintenance costs required over the long term to maintain the operating capacity of our cemeteries, such as to build roads and install sprinkler systems are capitalized.

3. General and administrative expenses

General and administrative expenses, which do not include corporate overhead, primarily include personnel costs, insurance and other costs necessary to maintain our cemetery offices.

4. Depreciation and amortization

We depreciate our property and equipment on a straight-line basis over their estimated useful lives.

5. Acquisition related costs

Acquisition related costs, which include legal fees and other third party costs incurred in acquisition related activities, are expensed as incurred.

Funeral Home Operations

As of March 31, 2015, we owned and operated 98 funeral homes. These properties are located in 19 states and Puerto Rico. Forty-five of our funeral homes are located on the grounds of cemeteries that we own.

We derive revenues at our funeral homes from the sale of funeral home merchandise, including caskets and related funeral merchandise, and services, including removal and preparation of remains, the use of our facilities for visitation, worship and performance of funeral services and transportation services. We sell these services and merchandise generally at the time of need utilizing salaried licensed funeral directors. Our funeral home operations also include revenues related to the sale of term and final expense whole life insurance in markets where we do not own a funeral home, as well as pre-need whole life insurance in markets where we own a funeral home. Funeral home revenues accounted for approximately 22.6% of our total revenues during the three months ended March 31, 2015 as compared to 18.2% during the same period last year.

Pursuant to state law, a portion of proceeds received from pre-need funeral service contracts is put into trust while amounts used to defray the initial administrative costs are not. All investment earnings generated by the assets in the trust (including realized gains and losses) are deferred until the associated merchandise is delivered or the services are performed. The balance of the amounts in these trusts is included within the merchandise trusts.

We generally include revenues from pre-need casket sales in the results of our cemetery operations. However, some states require that caskets be sold by funeral homes, and revenues from casket sales in those states are included in our funeral home results.

Our funeral home operating expenses consist primarily of compensation to our funeral directors, day to day costs of managing the business and the cost of caskets.

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Corporate

We incur fixed costs for corporate overhead primarily for centralized functions, such as payroll, accounting, collections and professional fees. We also incur expenses related to reporting requirements under U.S. federal securities laws and certain other additional expenses of being a public company.

Current Market Conditions and Economic Developments

As of March 31, 2015, the amortized cost of the assets in our merchandise trusts exceeded their market value by 1.7%, compared to December 31, 2014 when the market value of the assets exceeded their amortized cost by 0.5%. As of March 31, 2015, the market value of the assets in our perpetual care trusts exceeded their amortized cost by 2.5% as compared to December 31, 2014 when the market value of the assets exceeded their amortized cost by 9.7%. Changes in the cost to market ratios are due in part to the repositioning of assets within our merchandise and perpetual care trust portfolios.

As of March 31, 2015, the majority of our long-term debt consisted of $175.0 million in Senior Notes due 2021, the offering of which took place in May of 2013, and $122.9 million of borrowings under our credit facility, which expires in 2019. As of March 31, 2015, we had $57.1 million of total availability under our revolving credit facility. The revolving credit facility provides for both acquisition draws, which are used primarily to finance acquisitions, acquisition related costs and mausoleum construction costs, and working capital draws, which are used to finance all other corporate costs. As of March 31, 2015, we had approximately $97.9 million of working capital draws, which are limited to a borrowing formula of 85% of eligible account receivables. This limit was $133.0 million at March 31, 2015.

The aggregate values of pre-need and at-need contracts written were $78.3 million for the three months ended March 31, 2015 as compared to $63.7 million during the same period last year.

Impact on Our Ability to Meet Our Debt Covenants

Current market conditions have not negatively impacted our ability to meet our significant debt covenants. These covenants specifically relate to a certain measure of Consolidated EBITDA and certain coverage and leverage ratios as defined in the Credit Agreement described below.

Consolidated EBITDA is a non-GAAP financial measure and is primarily related to the current period value of contracts written, investment income from the merchandise and perpetual care trusts, and current expenses incurred.

We have two primary debt covenants that are dependent upon our financial results, the Consolidated Leverage Ratio and the Consolidated Debt Service Coverage Ratio. The Consolidated Leverage Ratio relates to the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA. Our Consolidated Leverage Ratio was 3.43 at March 31, 2015 compared to a maximum allowed ratio of 4.00. The Consolidated Debt Service Coverage Ratio relates to the ratio of Consolidated EBITDA to Consolidated Debt Service. Our Consolidated Debt Service Coverage Ratio was 4.37 at March 31, 2015 compared to a minimum allowed ratio of 2.50.

Segment Reporting and Related Information

The Company is organized into five distinct reportable segments, which are classified as Cemetery Operations Southeast, Cemetery Operations Northeast, Cemetery Operations West, Funeral Homes, and Corporate.

We chose this level of organization and disaggregation of reportable segments due to the fact that a) each reportable segment has unique characteristics that set it apart from each other; b) we have organized our management personnel at these operational levels; and c) this is the level at which our chief decision makers and other senior management evaluate performance.

The Cemetery Operations segments sell interment rights, caskets, burial vaults, cremation niches, markers and other cemetery related merchandise. Our cemetery operations are disaggregated into three different geographically based segments. The nature of our customers differs in each of our regionally based cemetery operating segments. Cremation rates in the West region are substantially higher than they are in the Southeast region. Rates in the Northeast region tend to be somewhere between the two. Statistics indicate that customers who select cremation services have certain attributes that differ from customers who select other methods of interment. The disaggregation of cemetery operations into the three distinct regional segments is primarily due to these differences in customer attributes along with the previously mentioned management structure and senior management analysis methodologies.

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Our Funeral Homes segment offers a range of funeral-related services such as family consultation, the removal of and preparation of remains and the use of funeral home facilities for visitation. These services are distinctly different than the cemetery merchandise and services sold and provided by the Cemetery Operations segments.

Our Corporate segment includes various home office expenses, miscellaneous selling, cemetery and general administrative expenses that are not allocable to other operating segments, certain depreciation and amortization expenses and acquisition related costs.

Critical Accounting Policies and Estimates

The unaudited condensed consolidated financial statements are prepared in conformity with GAAP. The preparation of these consolidated financial statements required us to make estimates, judgments and assumptions that affected the reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods (see Note 1 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q). Our critical accounting policies are those that are both important to the portrayal of our financial condition and results of operations and require management s most difficult, subjective and complex judgment. These critical accounting policies are discussed in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of our 2014 Form 10-K. There have been no significant changes to our critical accounting policies since the filing of our 2014 Form 10-K.

Results of Operations Segments

We account for and analyze the results of operations for our segments on a basis of accounting that is different from GAAP. We reconcile these non-GAAP accounting results of operations to GAAP based amounts at the consolidated level. This reconciliation is included in Note 14 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

The method of accounting we utilize to analyze our overall results of operations, including segment results, provides for a production based view of our business. Under the production based view, we recognize revenues at their contract value at the point in time in which the contract is written, less a historic cancellation reserve. All related costs are expensed in the period the contract is recognized as revenue. In contrast, GAAP requires that we defer all revenues, and the direct costs associated with these revenues, until we meet certain delivery and performance requirements. The nature of our business is such that there is no meaningful relationship between the time that elapses from the date a contract is executed and the date the underlying merchandise is delivered or the service, delivery and performance requirements are met. Further, certain factors affecting this time period, such as weather and supplier issues, are out of our control. As a result, during a period of growth, operating profits as defined by GAAP will tend to lag behind operating profits on a production based view because of the required deferral of revenues. Our performance based view ignores these delays and presents results based upon the underlying value of contracts written. We believe this is the most reliable indicator of our performance for a given period as the value of contracts written less a historical cancellation reserve reflects the economic value added during a given period of time. Accordingly, the ensuing segment discussion is on a basis of accounting that differs from GAAP. See Note 1 to the consolidated financial statements included in the 2014 Form 10-K for a more detailed discussion of our accounting policies under GAAP.

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

Cemetery Segments

Cemetery Operations Southeast

Since January 1, 2014, we have acquired ten properties in our Cemetery Operations Southeast segment. The first acquisition occurred during the first quarter of 2014 and the remaining nine occurred during the second quarter of 2014. The results of operations for these acquired properties have either less or no impact on the results for the three months ended March 31, 2014, but are included in the results for the three months ended March 31, 2015. The acquisitions contributed approximately $3.4 million of the revenues and $2.4 million of the costs and expenses for the three months ended March 31, 2015, compared to less than $0.1 million of the revenues and costs and expenses for the three months ended March 31, 2014.

The table below compares the results of operations for our Cemetery Operations Southeast for the three months ended March 31, 2015 to the same period last year:

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	Three months ended March 31,			
	2015	2014	Change ($)	Change (%)
	(in thousands)			
		(non-GAAP)		
Total revenues	$ 36,176	$ 33,727	$ 2,449	7.3%
Total costs and expenses	26,719	23,164	3,555	15.3%
Operating profit	$ 9,457	$ 10,563	$ (1,106)	-10.5%

Revenues

The increase in revenues was primarily related to increases of $0.9 million in the value of pre-need contracts written, $1.7 million in the value of at-need contracts written and $0.3 million in interest and other income, partially offset by a reduction of $0.5 million in income from our trusts. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

Total costs and expenses

The net increase in costs and expenses was primarily related to:

A $0.5 million increase in the cost of goods sold primarily attributable to sales from the acquired properties and changes in product mix.

A $0.4 million increase in cemetery expenses due to an increase in labor costs.

A $1.9 million increase in selling expenses due to increases of $1.5 million in commissions and personnel costs, $0.3 million in advertising and marketing expenses and $0.1 million in travel expenses.

A $0.6 million increase in general and administrative expenses, primarily due to a $0.3 million increase in insurance costs and a $0.2 million increase in personnel costs.

A $0.2 million increase in depreciation expense.

Cemetery Operations Northeast

During the second quarter of 2014, we acquired three properties and separately obtained the rights from the Archdiocese of Philadelphia to operate thirteen properties in our Cemetery Operations Northeast segment. The results of operations for these properties have no impact on the results for the three months ended March 31, 2014, but are included in the results for the three months ended March 31, 2015. These properties have contributed approximately $9.2 million of the revenues and $6.2 million of the costs and expenses of the segment for the three months ended March 31, 2015. In addition, in the first quarter of 2014 as noted below, we had one large land sale, which had a high profit margin and is the primary driver behind the decrease in operating profit period over period.

The table below compares the results of operations for our Cemetery Operations Northeast for the three months ended March 31, 2015 to the same period last year:

	Three months ended March 31,			
	2015	2014	Change ($)	Change (%)
	(in thousands)			
	(non-GAAP)			
Total revenues	$ 21,244	$ 18,014	$ 3,230	17.9%
Total costs and expenses	16,334	9,443	6,891	73.0%
Operating profit	$ 4,910	$ 8,571	$ (3,661)	-42.7%

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Revenues

The increase in revenues was primarily related to increases of $4.2 million in the value of pre-need contracts written and $4.4 million in the value of pre-need contracts written, partially offset by decreases of $1.1 million in income from our trusts and $4.3 million in other income. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts. The decrease in other income was primarily related to one land sale that occurred during the first quarter of 2014.

Total costs and expenses

The net increase in costs and expenses was mostly attributable to the new properties and was primarily related to:

A $0.7 million increase in the cost of goods sold primarily attributable to sales from the acquired properties and changes in product mix.

A $2.6 million increase in cemetery expenses primarily due to increases of $2.1 million in labor costs, $0.3 million in repairs and maintenance expense, $0.1 million in utility and fuel costs and $0.1 million in real estate tax expense.

A $2.2 million increase in selling expenses attributable to a $1.8 million increase in commissions and personnel costs and a $0.4 million increase in advertising and marketing costs.

A $1.0 million increase in general and administrative expenses, primarily due to a $0.3 million increase in insurance costs, a $0.4 million increase in personnel costs and $0.1 million increase in professional fees, with the remaining increase in general office costs.

A $0.4 million increase in depreciation and amortization expense, $0.3 million of which was attributable to the amortization of the intangible assets relating to the lease and management agreements with the Archdiocese of Philadelphia.

Cemetery Operations West

The table below compares the results of operations for our Cemetery Operations West for the three months ended March 31, 2015 to the same period last year:

	Three months ended March 31,			
	2015	**2014**	**Change ($)**	**Change (%)**
		(in thousands)		
			(non-GAAP)	
Total revenues	$ 19,695	$ 20,744	$ (1,049)	-5.1%

Total costs and expenses	12,488	12,288	200	1.6%
Operating profit	$ 7,207	$ 8,456	$ (1,249)	-14.8%

Revenues

The decrease in revenues was primarily related to a decrease of $2.1 million in income from our trusts, which was partially offset by increases of $0.8 million in the value of pre-need contracts written, $0.1 million in the value of at-need contracts written and $0.2 million in interest and other income. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

Total costs and expenses

The net increase in costs and expenses was primarily related to:

- A $0.6 million decrease in the cost of goods sold primarily attributable to changes in product mix.

- A $0.1 million decrease in cemetery expenses primarily related to a decrease in repair and maintenance costs.

- A $0.9 million increase in selling expenses primarily related to commissions and personnel costs.

Funeral Homes Segment

In the second quarter of 2014, we acquired nine funeral homes and in the fourth quarter of 2014, we acquired two funeral homes. Therefore, the results of operations for these properties have no impact on the results for the three months ended March 31, 2014, but are included in the results for the three months ended March 31, 2015. The additions have contributed approximately $2.9 million of the revenues and $2.1 million of the costs and expenses of the segment for the three months ended March 31, 2015.

The table below compares the results of operations for our Funeral Homes segment for the three months ended March 31, 2015 to the same period last year:

	Three months ended March 31,			
	2015	2014	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 17,415	$ 13,254	$ 4,161	31.4%
Total costs and expenses	13,410	10,240	3,170	31.0%
Operating profit	$ 4,005	$ 3,014	$ 991	32.9%

Revenues

The increase in revenues was primarily attributable to increases of $1.7 million in the value of pre-need contracts written, $2.1 million in the value of at-need contracts written, $0.1 million in other income and $0.3 million in insurance-related revenues.

Total costs and expenses

The net increase in costs and expenses was primarily attributable to increases of $1.0 million in personnel costs, $0.8 million in merchandise costs, $0.3 million in facility related costs, $0.3 million in other service and supplies expense, and $0.4 million in expenses related to insurance sales, with the remaining increase in other general costs and depreciation.

Corporate Segment

The table below compares expenses incurred by the Corporate segment for the three months ended March 31, 2015 to the same period last year:

	Three months ended March 31,			
	2015	2014	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Selling, cemetery and general and administrative expenses	$ 200	$ 545	$ (345)	100.0%
Depreciation and amortization	247	242	5	2.1%
Acquisition related costs, net of recoveries	349	349		0.0%

Corporate expenses

Corporate personnel expenses	3,711	3,243	468	14.4%
Other corporate expenses	5,023	4,213	810	19.2%
Total corporate overhead	8,734	7,456	1,278	17.1%
Total corporate expenses	$ 9,530	$ 8,592	$ 938	10.9%

The increase in corporate expenses was primarily driven by increases of $0.5 million in corporate personnel expenses, $0.2 million in both professional fees and information technology costs and $0.1 million in insurance costs, with the remaining increase in general corporate costs. These increases were partially offset by a $0.3 million decrease in selling expenses, primarily related to a reduction in compensation expense, with the remaining increase in general corporate costs.

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Reconciliation of Segment Results of Operations to Consolidated Results of Operations

As discussed in the segment sections of this Management s Discussion and Analysis of Financial Condition and Results of Operations, revenues and their associated costs as reported at the segment level are not deferred.

Periodic consolidated revenues recorded in accordance with GAAP reflect the amount of total merchandise and services that were delivered during the period. Accordingly, period over period changes to revenues can be impacted by:

Changes in the value of contracts written and other revenues generated during a period that are delivered in their period of origination and are recognized as revenue and not deferred as of the end of their period of origination.

Changes in merchandise and services that are delivered during a period that had been originated during a prior period.

The table below analyzes results of operations and the changes therein for the three months ended March 31, 2015 as compared to the same period last year. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/or changes in the timing of when merchandise and services were delivered. During 2014, we acquired 13 cemeteries and 11 funeral homes, and obtained the rights from the Archdiocese of Philadelphia to operate 13 cemetery properties. The results of operations for these properties have either less or no impact on the results for the three months ended March 31, 2014, but are included in the results for the three months ended March 31, 2015. These properties are contributing a significant portion of the increases to revenues and costs and expenses in the table below.

	Three months ended March 31, 2015 (in thousands)			Three months ended March 31, 2014 (in thousands)				
	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Change in GAAP results ($)	Change in GAAP results (%)
Revenues								
Pre-need cemetery revenues	$ 35,893	$ (15,231)	$ 20,662	$ 29,976	$ (9,268)	$ 20,708	$ (46)	-0.2%
At-need cemetery revenues	25,976	(2,658)	23,318	19,848	(1,225)	18,623	4,695	25.2%
Investment income from trusts	11,985	(7,449)	4,536	15,628	(9,651)	5,977	(1,441)	-24.1%
Interest income	2,200		2,200	2,007		2,007	193	9.6%
Funeral home revenues	17,415	(2,155)	15,260	13,254	(1,507)	11,747	3,513	29.9%
	1,061	380	1,441	5,026	299	5,325	(3,884)	-72.9%

Other cemetery revenues								
Total revenues	94,530	(27,113)	67,417	85,739	(21,352)	64,387	3,030	4.7%
Costs and expenses								
Cost of goods sold	9,737	(2,654)	7,083	9,247	(1,743)	7,504	(421)	-5.6%
Cemetery expense	16,265		16,265	13,329		13,329	2,936	22.0%
Selling expense	18,504	(4,594)	13,910	13,829	(2,640)	11,189	2,721	24.3%
General and administrative expense	9,329		9,329	7,645		7,645	1,684	22.0%
Corporate overhead	8,734		8,734	7,456		7,456	1,278	17.1%
Depreciation and amortization	2,952		2,952	2,368		2,368	584	24.7%
Funeral home expense	12,611	(461)	12,150	9,504	(218)	9,286	2,864	30.8%
Acquisition related costs, net of recoveries	349		349	349		349		0.0%
Total costs and expenses	78,481	(7,709)	70,772	63,727	(4,601)	59,126	11,646	19.7%
Operating profit (loss)	$ 16,049	$ (19,404)	$ (3,355)	$ 22,012	$ (16,751)	$ 5,261	$ (8,616)	-163.8%

Revenues

Pre-need cemetery revenues were $20.7 million for the three months ended March 31, 2015 and the same period last year. Comparing the two periods, there were offsetting $5.9 million increases in the value of cemetery contracts written and deferred revenue.

At-need cemetery revenues were $23.3 million for the three months ended March 31, 2015, an increase of $4.7 million, or 25.2%, as compared to $18.6 million during the same period last year. The increase was primarily caused by an increase of $6.1 million in the value of cemetery contracts written, partially offset by an increase of $1.4 million in deferred revenue.

Investment income from trusts was $4.5 million for the three months ended March 31, 2015, a decrease of $1.5 million, or 24.1%, as compared to $6.0 million during the same period last year. On a segment basis, we had a decrease of $3.6 million, which was offset by an adjustment of $2.1 million related to funds for which we have met the requirements that would allow us to recognize them as revenue. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

Interest income on accounts receivable was $2.2 million for the three months ended March 31, 2015, an increase of $0.2 million, or 9.6%, as compared to $2.0 million during the same period last year, primarily due to an increase in accounts receivable.

Funeral home revenues were $15.3 million for the three months ended March 31, 2015, an increase of $3.6 million, or 29.9%, as compared to $11.7 million during the same period last year. The increase was primarily caused by an aggregate increase of $4.2 million from an increase the value of contracts written and other revenues, which was partially offset by an increase of $0.6 million in deferred revenue.

Other cemetery revenues were $1.4 million during the three months ended March 31, 2015 as compared to $5.3 million in the same period last year. The decrease was primarily related to one land sale that occurred during the first quarter of 2014.

Costs and Expenses

The cost of goods sold was $7.1 million for the three months ended March 31, 2015, a decrease of $0.4 million, or 5.6%, as compared to $7.5 million during the same period last year. The ratio of cost of goods sold to pre-need and at-need cemetery revenues was 16.1% during the three months ended March 31, 2015 as compared to 19.1% during the same period last year. The change in the ratio primarily relates to changes in product mix and the inclusion of the cost of property sold as part of a land sale that is presented within Other cemetery revenues in results for the three months ended March 31, 2014.

Cemetery expenses were $16.3 million during the three months ended March 31, 2015, an increase of $3.0 million, or 22.0%, compared to $13.3 million during the same period last year. Within this category, there were increases of $2.5 million in personnel costs largely due to newly acquired properties, $0.3 million in repairs and maintenance expense and a net $0.2 million increase in other cemetery expenses. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our operating costs relative to our overall cemetery operations. An increase in the ratio indicates that expense increases related to the operation and maintenance of our cemetery properties exceeded increases in the value of contracts written, while a decrease in the ratio indicates that expense growth did not exceed increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decline as many of the expenses in this category are fixed in nature. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 26.3% during the three months ended March 31, 2015 as compared to 26.8% during the same period last year.

Selling expenses were $13.9 million during the three months ended March 31, 2015, an increase of $2.7 million, or 24.3%, as compared to $11.2 million during the same period last year. The ratio of selling expenses to cemetery revenues was 31.6% during the three months ended March 31, 2015 as compared to 28.4% during the same period last year. This is largely due to segment based increases of $3.5 million in commissions and personnel costs, $0.8 million in advertising and marketing costs, $0.2 million in travel costs, and $0.2 million in other general selling costs, partially offset by a $2.0 million increase in deferred selling expenses. The ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, the majority of our selling expenses are directly related to sales commissions and bonuses, which would be directly related to changes in the value of pre-need and at-need contracts written. As a result, we would expect this ratio to follow relatively consistent trends over the long-term.

General and administrative expenses were $9.3 million during the three months ended March 31, 2015, an increase of $1.7 million, or 22.0%, as compared to $7.6 million during the same period last year. The increase was due to increases of $0.7 million in both personnel costs and insurance costs and $0.2 million in professional fees, with the remaining increase in other general office costs. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our general and administrative costs relative to our overall cemetery operations. An increase in the ratio indicates that general and administrative percentage expense increases related to our cemetery properties exceeded percent increases in the value of contracts written, while a decrease in the ratio indicates that expense growth on a percentage basis did not exceed percentage increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to decrease slightly as many of the expenses in this category are fixed in nature. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues was 15.1% during the three months ended March 31, 2015 as compared to 15.3% during the same period last year.

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Total corporate overhead was $8.7 million for the three months ended March 31, 2015, an increase of $1.2 million, or 17.1% compared to $7.5 million during the same period last year. The increase was primarily driven by increases of $0.5 million in corporate personnel expenses, $0.2 million in both professional fees and information technology costs and $0.1 million in insurance costs, with the remaining increase in general corporate costs.

Depreciation and amortization was $3.0 million for the three months ended March 31, 2015, an increase of $0.6 million, or 24.7%, as compared to $2.4 million during the same period last year. The majority of the increase was attributable to acquired properties and amortization of the intangible assets relating to the lease and management agreements entered into in 2014.

Funeral home expenses were $12.2 million for the three months ended March 31, 2015, an increase of $2.9 million, or 30.8%, as compared to $9.3 million during the same period last year. The increase was primarily attributable to segment based increases of $1.0 million in personnel costs, $0.8 million in merchandise costs, $0.3 million in facility related costs, $0.3 million in other service and supplies expense, $0.4 million in expenses related to insurance sales, partially offset by a $0.2 million increase in deferred funeral home expenses, with the remaining increase in other general costs.

Acquisition related costs were $0.3 million for the three months ended March 31, 2015 and the same period last year. These costs may vary from period to period depending on the amount of acquisition activity that takes place.

Non-segment Allocated Results

Certain statement of operations amounts are not allocated to segment operations. These amounts are those line items that can be found on our unaudited condensed consolidated statement of operations below operating profit and above net income (loss).

The table below summarizes these items and the changes between the three months ended March 31, 2015 and 2014:

	Three months ended March 31,			
	2015	**2014**	**Change ($)**	**Change (%)**
		(in thousands)		
Gain on acquisition	$	$ 412	$ (412)	-100.0%
Interest expense	5,463	5,574	(111)	-2.0%
Income tax expense (benefit)	$ 65	$ (310)	$ 375	-121.0%

The gain on acquisition recorded during the three months ended March 31, 2014 relates to our first quarter 2014 acquisition. Refer to Note 13 of our unaudited condensed consolidated financial statements in Item 1 of this Form 10-Q for a more detailed discussion.

Interest expense was relatively consistent period over period. There was a decrease in interest expense on amounts outstanding under the credit facility, primarily due to a reduction in interest rates. This decrease was partially offset by an increase in discount accretion expense, primarily relating to the obligation for the lease and management agreements entered into in 2014 with the Archdiocese of Philadelphia. Average amounts outstanding under the credit facility were $125.0 million and $100.6 million during the three months ended March 31, 2015 and 2014, respectively.

We had an income tax expense of $0.1 million for the three months ended March 31, 2015, as compared to an income tax benefit of $0.3 million during the same period last year. Our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

Supplemental Data

The following table presents supplemental operating data for the periods presented:

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	Three months ended March 31, 2015		Three months ended March 31, 2014	
Operating Data:				
Interments performed		14,612		11,313
Cemetery revenues per interment performed	$	3,569	$	4,653
Interment rights sold (1):				
Lots		7,050		5,277
Mausoleum crypts (including pre-construction)		618		564
Niches		369		261
Net interment rights sold (1)		8,037		6,102
Number of contracts written		29,481		23,831
Aggregate contract amount, in thousands (excluding interest)	$	78,304	$	63,672
Average amount per contract (excluding interest)	$	2,656	$	2,672
Number of pre-need contracts written		13,701		11,928
Aggregate pre-need contract amount, in thousands (excluding interest)	$	50,028	$	41,762
Average amount per pre-need contract (excluding interest)	$	3,651	$	3,501
Number of at-need contracts written		15,780		11,903
Aggregate at-need contract amount, in thousands (excluding interest)	$	28,276	$	21,910
Average amount per at-need contract (excluding interest)	$	1,792	$	1,841

(1) Net of cancellations. Sales of double-depth burial lots are counted as two sales.

Liquidity and Capital Resources

Overview

Our primary short-term liquidity needs are to fund general working capital requirements, repay our debt obligations, service our debt, make routine maintenance capital improvements and pay distributions. We will need additional liquidity to construct mausoleum and lawn crypts on the grounds of our cemetery properties.

Our primary sources of liquidity are cash flows from operations and amounts available under our revolving credit facility as described below. In the past, we have been able to increase our liquidity through long-term bank borrowings and the issuance of additional common units and other partnership securities, including debt, subject to the restrictions in our revolving credit facility and under our senior notes.

We believe that cash generated from operations and our borrowing capacity under our revolving credit facility, which is discussed below, will be sufficient to meet our working capital requirements as well as our anticipated capital expenditures for the foreseeable future.

In addition to macroeconomic conditions, our ability to satisfy our debt service obligations, fund planned capital expenditures, make acquisitions and pay distributions to partners will depend upon our future operating performance. Our operating performance is primarily dependent on the sales volume of customer contracts, the cost of purchasing cemetery merchandise that we have sold, the amount of funds withdrawn from merchandise trusts and perpetual care trusts and the timing and amount of collections on our pre-need installment contracts.

Long-term Debt

7.875% Senior Notes due 2021

On May 28, 2013, we issued $175.0 million aggregate principal amount of 7.875% Senior Notes due 2021 (the Senior Notes). We pay 7.875% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year, since December 1, 2013. The net proceeds from the offering were used to retire our previously outstanding $150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 and the remaining proceeds were used for general corporate purposes. The Senior Notes were issued at 97.832% of par resulting in gross proceeds of $171.2 million with an original issue discount of approximately $3.8 million. We incurred debt issuance costs and fees of approximately $4.6 million. These costs and fees are deferred and are amortized over the life of the Senior Notes. As of March 31, 2015, we were in compliance with all applicable covenants of the Senior Notes.

Credit Facility

On December 19, 2014, we entered into the Fourth Amended and Restated Credit Agreement (the Credit Agreement).

The Credit Agreement provides for a single revolving credit facility of $180.0 million (the Credit Facility) maturing on December 19, 2019. Additionally the Credit Agreement provides for an uncommitted ability to increase the Credit Facility by an additional $70.0 million. The summary of the material terms of the Credit Agreement is set forth below. Capitalized terms, which are not defined in the following description, shall have the meaning assigned to such terms in the Credit Agreement.

At March 31, 2015, amounts outstanding under the Credit Facility bore interest at rates of approximately 3.5%. The interest rates on the Credit Facility are calculated as follows:

For Eurodollar Rate Loans, the outstanding principal amount thereof bears interest for each Interest Period at a rate per annum equal to the Eurodollar Rate for the Interest Period plus the Applicable Rate for Eurodollar Rate Loans; and

For Base Rate Loans and Swing Line Loans, the outstanding principal amount thereof bears interest from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate for Base Rate Loans.

In addition, the Borrowers must pay a Letter of Credit Fee for each Letter of Credit equal to the Applicable Rate for Letter of Credit Fees times the daily amount to be drawn under such Letter of Credit. The Applicable Rate is determined based on our Consolidated Leverage Ratio, and ranges from 2.25% to 4.00% for Eurodollar Rate Loans and Letter of Credit Fees, and 1.25% to 3.00% for Base Rate Loans. The current Applicable Rate for each of: (i) Eurodollar Rate Loans and Letter of Credit Fees is 3.75% and (ii) Base Rate Loans is 2.75% based on the current Consolidated Leverage Ratio. The Credit Agreement also requires the Borrowers to pay a quarterly unused commitment fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments.

The Credit Agreement contains financial covenants, pursuant to which the Borrowers and the Guarantors will not permit:

Consolidated EBITDA for any Measurement Period to be less than the sum of (i) $80.0 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after June 30, 2014;

the Consolidated Debt Service Coverage Ratio to be less than 2.50 to 1.0 for any Measurement Period; and the Consolidated Leverage Ratio to be greater than 4.00 to 1.0 for any period.

The covenants include, among other limitations, limitations on: (i) liens, (ii) the creation or incurrence of debt, (iii) investments and acquisitions, (iv) dispositions of property, (v) dividends, distributions and redemptions, and (vi) transactions with Affiliates.

As of March 31, 2015, we were in compliance with all applicable financial covenants.

The Credit Agreement provides that two types of draws are permitted with respect to the Credit Facility: Acquisition Draws and Working Capital Draws. The proceeds of Acquisition Draws may be utilized by the Borrowers to finance Permitted Acquisitions, the purchase and construction of mausoleums and related costs or the net amount of Merchandise Trust deposits made after the Closing Date under the Credit Agreement, irrespective of whether such amounts relate to new or existing cemeteries or funeral homes. The proceeds of Working Capital Draws, Letters of Credit and Swing Line Loans may be utilized by the Borrowers to finance working capital requirements, Capital Expenditures and for other general corporate purposes. The borrowing of Working Capital Advances is subject to a borrowing formula of 85% of Eligible Receivables.

Each Acquisition Draw is subject to equal quarterly amortization of the principal amount of such draw, with annual principal payments comprised of ten percent (10%) of the related draw amount, commencing on the second anniversary of such draw, with the remaining principal due on the Maturity Date, subject to certain mandatory prepayment requirements. Working Capital Draws are due on the Maturity Date, subject to certain mandatory prepayment requirements.

Amounts outstanding under our Credit Facility fluctuated during the three months ended March 31, 2015 and 2014. At the beginning of 2014, we had $114.0 million outstanding on our Credit Facility. During the first quarter of 2014, we reduced our borrowings on the Credit Facility by $36.6 million as we had borrowed $17.0 million prior to February 27, 2014 and then we used the net proceeds from our February 27, 2014 follow-on public offering and other available cash to repay $53.6 million of amounts outstanding on our Credit Facility, resulting in outstanding borrowings of $77.4 million at March 31, 2014. At the beginning of 2015, we had $110.9 million outstanding on our Credit Facility. During the first quarter of 2015, we increased our borrowings on the Credit Facility by a net $12.0 million resulting in outstanding borrowings of $122.9 million on our Credit Facility at March 31, 2015. The average amounts borrowed under our Credit Facility were $125.0 million and $100.6 million for the three months ended March 31, 2015 and 2014, respectively.

For a more detailed description of our long-term debt agreements, see our 2014 Form 10-K.

Cash Flow from Operating Activities

Net cash flows provided by operating activities were $5.9 million during the three months ended March 31, 2015, compared to net cash flows used in operating activities of $2.9 million during the same period last year. The key factors contributing to the net increase in cash flows were the decreased amount of cash we used to settle accounts payable and accrued liabilities and a decrease in inflows into our trusts. These increases in cash flow were partially offset by an increase in accounts receivable and less cash generated from normal revenue producing activities during the first quarter of 2015 compared to the same period in 2014.

Cash Flow from Investing Activities

Net cash used in investing activities was $2.8 million during the three months ended March 31, 2015 as compared to $2.3 million during the same period last year. Cash flows used for investing activities during the three months ended March 31, 2015 were for capital expenditures, while cash flows used for investing activities during the three months ended March 31, 2014 were $0.2 million for the acquisition of one cemetery and $2.1 million for capital expenditures.

Cash Flow from Financing Activities

Net cash flows used in financing activities were $7.0 million during the three months ended March 31, 2015 as compared to net cash provided of $1.3 million during the same period last year. Cash flows used in financing activities for the three months ended March 31, 2015 consisted of cash distributions to unit holders of $17.9 million, partially offset by approximately $10.9 million of net borrowings from our long-term debt. Cash flows provided by financing activities for the three months ended March 31, 2014 consisted of $53.2 million of proceeds from our follow-on public offering, partially offset by net repayments of long-term debt of $38.5 million, and cash distributions to unit holders of $13.4 million.

Capital Expenditures

The following table summarizes total maintenance capital expenditures and expansion capital expenditures, including expenditures for acquisitions described in Note 13 of our unaudited condensed consolidated financial statements in Item 1 of Part I of this Form 10-Q and the construction of mausoleums for the periods presented:

	Three months ended March 31,	
	2015	**2014**
	(in thousands)	
Maintenance capital expenditures	$ 1,314	$ 1,330
Expansion capital expenditures	1,501	948
Total capital expenditures	$ 2,815	$ 2,278

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Seasonality

The death care business is relatively stable and predictable. Although we experience seasonal increases in deaths due to extreme weather conditions and winter flu, these increases have not historically had any significant impact on our results of operations. In addition, we perform fewer initial openings and closings in the winter when the ground is frozen.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The information presented below should be read in conjunction with the notes to our unaudited condensed consolidated financial statements included under Part I, Item 1. Financial Statements in this Quarterly Report on Form 10-Q.

The market risk inherent in our market risk sensitive instruments and positions is the potential change arising from increases or decreases in interest rates and the prices of marketable equity securities, as discussed below. Our exposure to market risk includes forward-looking statements and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates or debt and equity markets. Our views on market risk are not necessarily indicative of actual results that may occur and do not represent the maximum possible gains and losses that may occur, since actual gains and losses will differ from those estimated, based on actual fluctuations in interest rates, equity markets and the timing of transactions. We classify our market risk sensitive instruments and positions as other than trading.

Interest-Bearing Investments

Our fixed-income securities subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of March 31, 2015, the fair value of fixed-income securities in our merchandise trusts represented 4.0% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 7.2% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was $19.5 million and $24.7 million in merchandise trusts and perpetual care trusts, respectively, as of March 31, 2015. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $195,000 and $247,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows. If these securities are held to maturity, no change in fair market value will be realized.

Our money market and other short-term investments subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of March 31, 2015, the fair value of money market and short-term investments in our merchandise trusts represented 6.5% of the fair value of total trust assets while the fair value of money market and short-term investments in our perpetual care trusts represented 8.7% of the fair value of total trust assets. The aggregate quoted fair value of these money market and short-term investments was $31.6 million and $30.0 million in the merchandise trusts and perpetual care trusts, respectively, as of March 31, 2015. Each 1% change in interest rates on these money market and short-term investments would result in changes of approximately $316,000 and $300,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows.

Marketable Equity Securities

Our marketable equity securities subject to market risk consist primarily of investments held in our merchandise trusts and perpetual care trusts. These assets consist of investments in both individual equity securities as well as closed and open ended mutual funds. As of March 31, 2015, the fair value of marketable equity securities in our merchandise trusts represented 11.1% of the fair value of total trust assets while the fair value of marketable equity securities in our perpetual care trusts represented 0.8% of total trust assets. The aggregate quoted fair market value of these marketable equity securities was $54.1 million and $2.6 million in our merchandise trusts and perpetual care trusts, respectively, as of March 31, 2015, based on final quoted sales prices. Each 10% change in the average market prices of the equity securities would result in a change of approximately $5.4 million and $0.3 million in the fair market value of securities held in the merchandise trusts and perpetual care trusts, respectively. As of March 31, 2015, the fair value of marketable closed and open ended mutual funds in our merchandise trusts represented 75.7% of the fair value of total trust assets, 48.9% of which pertained to fixed-income mutual funds. As of March 31, 2015, the fair value of closed and open ended mutual funds in our perpetual care trusts represented 83.4% of total trust assets, 57.4% of which pertained to fixed-income mutual funds. The aggregate quoted fair market value of these closed and open ended mutual funds was $369.3 million and $287.8 million, respectively, in the merchandise trusts and perpetual care trusts as of March 31, 2015, based on final quoted sales prices, of which $238.7 million and $198.1 million, respectively, pertained to fixed-income mutual funds. Each 10% change in the average market prices of the closed and open ended mutual funds would result in a change of approximately $36.9 million and $28.8 million in the fair market value of securities held in our merchandise trusts and perpetual care trusts, respectively.

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Investment Strategies and Objectives

Our internal investment strategies and objectives for funds held in the merchandise trusts and perpetual care trusts are specified in an Investment Policy Statement that requires us to do the following:

- State in a written document our expectations, objectives, tolerances for risk and guidelines in the investment of our assets;
- Set forth a disciplined and consistent structure for managing all trust assets. This structure is based on a long-term asset allocation strategy, which is diversified across asset classes, investment styles and strategies. We believe this structure is likely to meet our stated objectives within our tolerances for risk and variability. This structure also includes ranges around the target allocations allowing for adjustments when appropriate to reduce risk or enhance returns. It further includes guidelines for the selection of investment managers and vehicles through which to implement the investment strategy;
- Provide specific guidelines for each investment manager. These guidelines control the level of overall risk and liquidity assumed in each portfolio;
- Appoint third-party investment advisors to oversee the specific investment managers and advise our Trust Committee; and
- Establish criteria to monitor, evaluate and compare the performance results achieved by the overall trust portfolios and by our investment managers. This allows us to compare the performance results of the trusts to our objectives and other benchmarks, including peer performance, on a regular basis.

Our investment guidelines are based on relatively long investment horizons, which vary with the type of trust. Because of this, interim fluctuations should be viewed with appropriate perspective. The strategic asset allocation of the trust portfolios is also based on this longer-term perspective. However, in developing our investment policy, we have taken into account the potential negative impact on our operations and financial performance of significant short-term declines in market value.

We recognize the challenges we face in achieving our investment objectives in light of the uncertainties and complexities of contemporary investment markets. Furthermore, we recognize that in order to achieve the stated long-term objectives we may have short-term declines in market value. Given the need to maintain consistent values in the portfolio, we have attempted to develop a strategy, which is likely to maximize returns and earnings without experiencing overall declines in value in excess of 3% over any 12-month period. However, we are considering alternative strategies in light of current market conditions.

In order to consistently achieve the stated return objectives within our tolerance for risk, we use a strategy of allocating appropriate portions of our portfolio to a variety of asset classes with attractive risk and return characteristics, and low to moderate correlations of returns. See the notes to our unaudited condensed consolidated financial statements for a breakdown of the assets held in our merchandise trusts and perpetual care trusts by asset class.

Debt Instruments

Our Credit Facility bears interest at a floating rate, based on LIBOR, which is adjusted quarterly. This subjects us to increases in interest expense resulting from movements in interest rates. As of March 31, 2015, we had $122.9 million of borrowings outstanding under our Credit Facility. After these borrowings, our total available borrowing capacity under the Credit Facility is $57.1 million. The revolving credit facility provides for both acquisition draws, which are used primarily to finance acquisitions, acquisition related costs and mausoleum construction costs, and working capital draws, which are used to finance all other corporate costs. As of March 31, 2015, we had approximately $97.9 million of working capital draws, which are limited to a borrowing formula of 85% of eligible account receivables. This limit was $133.0 million at March 31, 2015. The amounts outstanding under the Credit Facility bore interest at rates of approximately 3.5% at March 31, 2015.

Item 4. Controls and Procedures
Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Disclosure Committee and management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon, and as of the date of this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

We and certain of our subsidiaries are parties to legal proceedings that have arisen in the ordinary course of business. We do not expect these matters to have a material adverse effect on our consolidated financial position, results of operations or cash flows. We carry insurance with coverage and coverage limits that we believe to be customary in the funeral home and cemetery industries. Although there can be no assurance that such insurance will be sufficient to protect us against all contingencies, we believe that our insurance protection is reasonable in view of the nature and scope of our operations.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our 2014 Form 10-K and other reports that we file with the SEC, which could materially affect our business, financial condition or future results.

The risks described in the 2014 Form 10-K and other reports that we file with the SEC are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by us described in our 2014 Form 10-K and other reports that we file with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures
None.

Item 5. Other Information
None.

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Item 6. Exhibits

Exhibit Number	Description
10.1	Form of Indemnification Agreement by and between StoneMor GP LLC and Leo J. Pound and Jonathan Contos, dated February 26, 2015.
31.1	Certification pursuant to Exchange Act Rule 13a-14(a) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors.
31.2	Certification pursuant to Exchange Act Rule 13a-14(a) of Timothy K. Yost, Chief Financial Officer.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors (furnished herewith).
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Timothy K. Yost, Chief Financial Officer (furnished herewith).
101	Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets as of March 31, 2015, and December 31, 2014; (ii) Unaudited Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014; (iii) Unaudited Condensed Consolidated Statement of Partners Capital (Deficit); (iv) Unaudited Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2015 and 2014; and (v) Notes to the Unaudited Condensed Consolidated Financial Statements. Users of this data are advised that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of StoneMor Partners L.P.

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SIGNATURES

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

	STONEMOR PARTNERS L.P. By: StoneMor GP LLC its general partner
May 8, 2015	/s/ Lawrence Miller Lawrence Miller Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer)
May 8, 2015	/s/ Timothy K. Yost Timothy K. Yost Chief Financial Officer (Principal Financial Officer)

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Exhibit Index

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32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) ofy:inherit;font-size:9pt;">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	2,760.1	5.8 %	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.

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

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

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.

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

LIQUIDITY AND CAPITAL RESOURCES
CASH FLOW OVERVIEW
The following tables summarize key financial data relating to our liquidity, capital resources and uses of capital.

Cash Flow Data	Years ended December 31, 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.

Balance Sheet Data	December 31, 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.

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

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)
(Amounts in Millions, Except Per Share Amounts)

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.

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.

As of December 31,	Increase/(Decrease) in Fair Market Value 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.

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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.

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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.

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.

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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.

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.

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 1st 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.

	Effective Interest Rate		December 31, 2012 Book Value	Fair Value [1]	2011 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.

(Amounts in Millions, Except Per Share Amounts)

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.

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

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.

Notes to Consolidated Financial Statements – (continued)
(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.

(Amounts in Millions, Except Per Share Amounts)

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

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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Notes to Consolidated Financial Statements – (continued)
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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.

Notes to Consolidated Financial Statements – (continued)
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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.

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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.

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

	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.

(Amounts in Millions, Except Per Share Amounts)

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.

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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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Notes to Consolidated Financial Statements – (continued)
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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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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 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.

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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.

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