OMNICOM GROUP INC
Form 10-K
February 27, 2009

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

# FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR FISCAL YEAR ENDED DECEMBER 31, 2008

Commission File Number: 1-10551

# OMNICOM GROUP INC.

(Exact name of registrant as specified in its charter)

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

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

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $.15 Par Value | New York Stock Exchange |

Securities Registered Pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K ( 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates as of June 30, 2008 was $14,325,000,000.

As of February 12, 2009, 310,932,000 shares of Omnicom Common Stock, $.15 par value, were outstanding.

Certain portions of Omnicom s definitive proxy statement relating to its annual meeting of shareholders scheduled to be held on May 19, 2009 are incorporated by reference into Part III of this report.

## OMNICOM GROUP INC.

## ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2008

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* The information regarding Executive Officers of the Registrant is included in Part I, Item 1, Business. Additional information called for by Items 10, 11, 12, 13 and 14, to the extent not included in this document, is incorporated herein by reference to the information to be included under the captions Corporate Governance, Certain Transactions, Executive Compensation and Stock Ownership in our definitive proxy statement, which is expected to be filed by April 8, 2009.

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## FORWARD LOOKING STATEMENTS

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

## AVAILABLE INFORMATION

Our internet address is www.omnicomgroup.com where we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such material with the Securities and Exchange Commission or the SEC. Our SEC reports can be accessed through the investor relations section of our website. The information found on our website is not part of this or any other report we file with or furnish to the SEC. Any document that we file with the SEC may also be read and copied at the SEC s Public Reference Room located at Room 1580, 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings are also available at the SEC s website at http://www.sec.gov and at the offices of the New York Stock Exchange.

## PART I

### Introduction

This report is both our 2008 annual report to shareholders and our 2008 annual report on Form 10-K required under the federal securities laws.

We are a strategic holding company. We provide professional services to clients through multiple agencies operating in all major markets around the world. Our companies provide advertising, marketing and corporate communications services. For simplicity, the terms Omnicom, we, our and us each refer to Omnicom Group Inc. ar our subsidiaries unless the context indicates otherwise.

### Item 1. Business

***Our Business:*** Omnicom, a strategic holding company, was formed in 1986 by the merger of several leading advertising, marketing and corporate communications companies. We are one of the largest advertising, marketing and corporate communications companies in the world and we operate in a highly competitive industry. The proliferation of media channels, including the rapid development of interactive technologies and mediums, along with their integration within all offerings, has fragmented audiences. These developments make it increasingly more difficult for marketers to reach their target audiences in a cost-effective way, causing them to turn to marketing service providers such as Omnicom for a customized mix of advertising and marketing communications services designed to make the best use of their total marketing expenditures.

Our agencies, which operate in all major markets around the world, provide a comprehensive range of services which we group into four fundamental disciplines: traditional media advertising; customer relationship management ( CRM ); public relations; and specialty communications. The services included in these categories are:

advertising
brand consultancy
corporate social responsibility consulting
crisis communications
custom publishing
database management
digital and interactive marketing
direct marketing
directory advertising
entertainment marketing
environmental design
experiential marketing
field marketing
investor relations
marketing research
media planning and buying
mobile marketing services
multi-cultural marketing
non-profit marketing
organizational communications
package design
product placement
promotional marketing
public affairs
public relations
recruitment communications

| | |
|---|---|
| financial / corporate business-to-business advertising | reputation consulting |
| graphic arts | retail marketing |
| healthcare communications | search engine marketing |
| instore design | sports and event marketing |

Although the medium used to reach a given client s target audience may be different across each of these disciplines, we develop and deliver the marketing message in a similar way by providing client-specific consulting services.

Our business model was built and continues to evolve around our clients. While our companies operate under different names and frame their ideas in different disciplines, we organize our services around our clients. The fundamental premise of our business is to structure our business offerings and allocate our resources based on the specific requirements of our clients. As clients increase their demands for marketing effectiveness and efficiency, they have tended to consolidate their business with larger, multi-disciplinary agencies or integrated groups of agencies. Accordingly, our business model demands that multiple agencies within Omnicom collaborate in formal and informal virtual networks that cut across internal organizational structures to execute against our clients specific marketing requirements. We believe that this organizational philosophy, and our ability to execute it, helps to differentiate us from our competition.



Our agency networks and our virtual networks provide us with the ability to integrate services across all disciplines. This means that the delivery of these services can, and does, take place across agencies, networks and geographic regions simultaneously.

Further, for the longer term, we believe that our virtual network strategy facilitates better integration of services required by the demands of the marketplace for advertising and marketing communications services. Our over-arching strategy for our business is to continue to use our virtual networks to grow our business relationships with our clients.

The various components of our business and material factors that affected us in 2008 are discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) of this report. None of our acquisitions in 2008, 2007 or 2006 were material to our consolidated financial position or results of operations. For information concerning our acquisitions, see Note 2 to our consolidated financial statements.

***Geographic Regions and Segments:*** Our total consolidated revenue is almost evenly divided between U.S. and non-U.S. operations. For financial information concerning domestic and foreign operations and segment reporting, see our MD&A and Note 4 to our consolidated financial statements.

***Our Clients:*** Consistent with the fundamentals of our business strategy, our agencies serve similar clients, in similar industries, and in many cases the same clients, across a variety of geographic regions and locations. Our clients participate in virtually all industry sectors of the global economy. Furthermore, in many cases, our agencies or networks serve different product groups within the same clients served by other Omnicom agencies or networks. For example, our largest client was served by more than 100 of our agencies in 2008 and represented 2.8% of our 2008 consolidated revenue. No other client accounted for more than 2.1% of our 2008 consolidated revenue. Our top 100 clients were each served, on average, by more than 40 of our agencies in 2008 and collectively represented 47.2% of our 2008 consolidated revenue.

***Our Employees:*** At December 31, 2008, we employed approximately 68,000 people. We are not party to any significant collective bargaining agreements. The skill-sets of our workforce across our agencies and within each discipline are similar. Common to all is the ability to understand a client s brand or product, its selling proposition and the ability to develop a unique message to communicate the value of the brand or product to the client s target audience. Recognizing the importance of this core competency, we have established tailored training and education programs for our service professionals around this competency. See our MD&A for a discussion of the effect of salary and related costs on our historical results of operations.

***Executive Officers of the Registrant:*** Our executive officers as of February 12, 2009 are:

| Name | Position | Age |
|---|---|---|
| Bruce Crawford | Chairman | 80 |
| John D. Wren | President and Chief Executive Officer | 56 |
| Randall J. Weisenburger | Executive Vice President and Chief Financial Officer | 50 |
| Michael Birkin | Vice Chairman | 50 |
| Peter Mead | Vice Chairman | 69 |
| Philip J. Angelastro | Senior Vice President Finance and Controller | 44 |
| Charles Brymer | President and Chief Executive Officer of DDB Worldwide | 49 |
| Thomas Carroll | President and Chief Executive Officer of TBWA Worldwide | 53 |
| Thomas L. Harrison | Chairman and Chief Executive Officer of Diversified Agency Services ( DAS ) | 61 |
| Michael J. O Brien | Senior Vice President, General Counsel and Secretary | 47 |
| Andrew Robertson | President and Chief Executive Officer of BBDO Worldwide | 48 |
| Daryl D. Simm | Chairman and Chief Executive Officer of Omnicom Media Group ( OMG ) | 47 |

All of the executive officers have held their present positions at Omnicom for at least five years except as specified below.

Michael Birkin was appointed Vice Chairman, as well as President and CEO of Omnicom Asia-Pacific, in March 2005. From 1999 to 2005, he served as Worldwide President of DAS.

Charles Brymer was named President and CEO of DDB Worldwide in April 2006. Formerly, Mr. Brymer was the Chairman and CEO of Interbrand Group, a global brand consultancy firm.



Thomas Carroll was named Chief Executive Officer of TBWA Worldwide in December 2007, having been made President of TBWA Worldwide in September 2006. From August 2004 until September 2006, Mr. Carroll served as Vice Chairman of TBWA Worldwide. Prior to that, he was President of TBWA Americas.

Andrew Robertson was named Chief Executive Officer of BBDO Worldwide in May 2004, having been made President of BBDO Worldwide in 2002.

Daryl Simm was named Chairman and Chief Executive Officer of Omnicom Media Group in November 2005. Mr. Simm previously held the position of President and CEO of OMG.

Additional information about our directors and executive officers appears under the captions Corporate Governance, Certain Transactions, Election of Directors, Executive Compensation and Stock Ownership in our definitive proxy statement, which is expected to be filed by April 8, 2009.

## Item 1A. Risk Factors

***The global economic recession could continue to adversely impact our business and results of operations and financial condition.***

Contractions in the availability of business and consumer credit, a decrease in consumer and business spending, a significant rise in unemployment and other factors have all contributed to a global economic recession. To some extent, every industry sector in most markets around the world has been adversely affected by the current economic conditions. This has led to discretionary reductions in advertising, marketing and corporate communications services spending by both our U.S. and international clients and was a contributing factor to the year-over-year decrease in our revenues in the fourth quarter of 2008.

We expect that clients marketing spending will continue to contract for the near term. If the global economic recession continues, our clients businesses could be adversely affected which would likely lead to reductions in client spending. These reductions could adversely affect our business and results of operations and financial condition.

***The global credit crisis could adversely impact our financial condition and results of operations.***

The bursting of the housing bubble and the related mortgage defaults that followed ultimately led to a crisis in the credit markets and a contraction in the availability of credit. This crisis has made it more difficult for businesses to meet their capital requirements.

A continuation of the credit crisis coupled with a prolonged economic recession could lead clients to change their financial relationship with their vendors, including us. If that were to occur, we could require additional capital to fund the changes in our day-to-day working capital requirements. There is no assurance that such additional financing will be available on favorable terms, if at all. This could materially adversely impact our results of operations and financial condition.

Additionally, in connection with the global credit crisis, several banks in the bank syndicate that supports our $2.5 billion credit facility received capital infusions from their central governments. In the event that a bank in our syndicate were to default on its obligation to fund its commitment under our credit facility or cease to exist and there was no successor entity, the credit facility provides that the remaining banks in the syndicate would only be required to fund advances requested under the credit facility on a pro rata basis up to their total commitment. As a result, the portion of the credit facility provided by the defaulting bank would not be available to us and we could require additional capital. There is no assurance that such additional financing will be available on favorable terms, if at all. This could materially adversely impact our results of operations and financial position.

***In a period of severe economic downturn, the risk of a material loss related to purchases of media on behalf of our clients could significantly increase.***

In many of our businesses we purchase media for our clients and act as an agent for a disclosed principal. We enter into contractual commitments with media providers on behalf of our clients at levels that substantially exceed our revenue. These commitments are included in our accounts payable balance when the media services are delivered by the media providers. While operating practices vary by country, media type and media vendor,



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in the United States and certain foreign markets many of our contracts with media providers specify that if our client defaults on its payment obligations then we are not liable to the media providers under the legal theory of sequential liability until we have been paid for the media by our client. In other countries, we manage our risk in other ways, including evaluating and monitoring our clients credit worthiness and, in many cases, requiring credit insurance or payment in advance. Further, in cases where we become committed to the media and it becomes apparent that a client may be unable to pay for the media, options are potentially available to us in the marketplace in addition to those cited above to mitigate the potential loss, including negotiating with media providers. This risk could significantly increase in periods of severe economic downturn. Such a loss could have a material adverse effect on our results of operations and financial condition.

***A reduction in client spending and a slowdown in client payments could materially adversely affect our working capital.***

Working capital is a source of cash as we have historically run a negative working capital cycle during the year. This cycle occurs because our businesses incur costs on behalf of our clients, including when we place media and incur production costs. We generally require collection from our clients prior to our payment for the media and production cost obligations.

The global economic recession could cause a reduction in the volume of client spending or a delay in the time our clients take to pay us which would negatively affect our working capital. Consequently, we could need to obtain additional financing. There is no assurance that such additional financing would be available on favorable terms, if at all. Such circumstances could therefore materially adversely affect our results of operations and financial condition.

***Companies periodically review and change their advertising, marketing and corporate communications services business models and relationships. If we are unable to remain competitive or retain key clients, our business and financial results may be materially adversely affected.***

The businesses in which we participate are highly competitive. Key competitive considerations for retaining existing business and winning new business include our ability to develop creative solutions that meet client needs, the quality and effectiveness of the services we offer, and our ability to efficiently serve clients, particularly large international clients, on a broad geographic basis. While many of our client relationships are long-standing, clients put their advertising, marketing and corporate communications services business up for competitive review from time to time. We have won and lost accounts in the past as a result of these reviews. To the extent that we are not able to remain competitive, our revenue may be adversely affected, which could materially adversely affect our results of operations and financial condition.

***We received approximately 47% of our revenue from our 100 largest clients in 2008, and the loss of several of these clients could adversely impact our prospects, business and results of operations and financial condition.***

Our clients generally are able to reduce advertising and marketing spending or cancel projects at any time on short notice for any reason. It is possible that our clients could reduce spending in comparison with historical patterns, or they could reduce future spending. A significant reduction in advertising and marketing spending by our largest clients, or the loss of several of our largest clients, if not replaced by new client accounts or an increase in business from existing clients, would adversely affect our revenue and could have a material adverse effect on our results of operations and financial condition.

***The success of our acquiring and retaining clients depends on our ability to avoid and manage conflicts of interest arising out of other client relationships and retention of key personnel.***

Our ability to retain existing clients and to attract new clients may, in some cases, be limited by clients perceptions of, or policies concerning, conflicts of interest arising out of other client relationships. If we are unable to maintain multiple agencies to manage multiple client relationships and avoid potential conflicts of interests, our business and financial results may be materially adversely affected.

In addition, we may lose or fail to attract and retain key personnel. Our employees are our most important assets. Our ability to attract and retain key personnel is an important aspect of our competitiveness. If we are unable to attract and retain key personnel, our ability to provide our services in the manner our customers have come to expect may be adversely affected, which could harm our reputation and result in a loss of clients, which could have a material adverse effect on our results of operations and financial condition.

***Government regulations and consumer advocates may limit the scope of the content of our services, which could affect our ability to meet our clients needs, which could have a material adverse effect on our business.***

Government agencies and consumer groups directly or indirectly affect or attempt to affect the scope, content and manner of presentation of advertising, marketing and corporate communications services, through regulations or other governmental actions. Any such limitations on the scope of the content of our services could affect our ability to meet our clients needs, which could have a material adverse effect on our results of operations and financial condition. In addition, there has been an increasing tendency on the part of businesses to resort to the judicial system to challenge advertising practices. Such claims by businesses or governmental agencies could have a material adverse effect on our results of operations and financial condition in the future.

***We are a global service business and face certain risks of doing business abroad, including political instability and exchange controls, which could have a material adverse effect on our results of operations.***

We face the risks normally associated with global services businesses. The operational and financial performance of our businesses are typically tied to overall economic and regional market conditions, competition for client assignments and talented staff, new business wins and losses and the risks associated with extensive international operations. There are risks of doing business abroad, including those of political instability and exchange controls, which do not affect domestic-focused firms. These risks could have a material adverse affect on our results of operations and financial condition. For financial information on our operations by geographic area, see Note 4 to our consolidated financial statements.

***We are exposed to risks from operating in developing countries.***

We conduct business in numerous developing countries around the world. The risks associated with conducting business in developing countries can include slower payment of invoices, nationalization, social, political and economic instability and currency repatriation restrictions, among other risks. In addition, commercial laws in many of these countries can be vague, inconsistently administered and retroactively applied. If we are deemed not to be in compliance with applicable laws in developing countries where we conduct business, our prospects, business, financial condition and results of operations in those countries could be harmed, which could then have a material adverse impact on our results of operations and financial condition.

***Holders of our convertible notes have the right to cause us to repurchase up to $1.2 billion, in whole or in part, at specified dates in the future.***

In July 2009, $727 million of our 2032 Notes can be put back to us for repurchase. In June 2010, our 2033 and 2038 Notes aggregating $467.5 million can be put to us for repurchase. (See next paragraph regarding our 2031 Notes) If we are required to satisfy one or more puts to repurchase our convertible notes, we expect to have sufficient available cash and unused credit commitments to fund the puts. We also believe that we will still have capacity under our existing credit commitments sufficient to meet our cash requirements for the normal course of our business operations after any put event. However, in the event that our existing credit commitments or our cash flow from operations were to decrease, we might need to seek additional funding alternatives. There is no assurance that such additional financing would be available on favorable terms, if at all.

On February 9, 2009, holders of $841.2 million aggregate principal amount of our 2031 Notes had put their notes to us for purchase at par. We borrowed $814.4 million under our credit facility and received $26.8 million from unaffiliated equity investors in a partnership we control to fund the purchase of the 2031 Notes. We purchased and retired $295.2 million aggregate principal amount of the 2031 Notes that had been put. The partnership, formed for the purpose of buying the 2031 Notes, used a portion of our credit facility borrowings and the contributed equity to purchase the remaining $546.0 million aggregate principal amount of the 2031 Notes that were put. The partnership purchased the 2031 Notes intending to sell such notes back into the marketplace over the next 12 months if market conditions permit.

***Downgrades of our debt credit ratings could adversely affect us.***

Standard and Poor s Rating Service currently rates our long-term debt A-, Moody s Investors Service rates our long-term debt Baa1 and Fitch Ratings rates our long-term debt A-. Our short-term debt ratings are A2, P2 and F2 by the respective agencies. Our outstanding senior notes, convertible notes and existing bank credit facility do not contain provisions that require acceleration of cash payment upon a downgrade. The interest rates and fees on our bank credit facility, however, would increase if our long-term debt credit rating is downgraded.



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Additionally, our access to the capital markets could be adversely affected by adverse changes to the short- or long-term debt credit ratings assigned to us by independent rating agencies. Furthermore, the 2031, 2032, 2033 and 2038 Notes are convertible at specified ratios if, in the case of the 2031 Notes and the 2032 Notes, our long-term debt credit ratings are downgraded to BBB or lower by Standard & Poor s Ratings Service, or Baa3 or lower by Moody s Investors Service or in the case of the 2033 and 2038 Notes to BBB- or lower by S&P, and Ba1 or lower by Moody s. These events would not, however, result in an adjustment of the number of shares issuable upon conversion and would not accelerate the holder s right to cause us to repurchase the notes.

***We may be unsuccessful in evaluating material risks involved in completed and future acquisitions.***

We regularly review potential acquisitions of businesses we believe may be complementary to our businesses and client needs. As part of the review we conduct business, legal and financial due diligence with the goal of identifying and evaluating material risks involved in any particular transaction. Despite our efforts, we may be unsuccessful in ascertaining or evaluating all such risks. As a result, we might not realize the intended advantages of any given acquisition. If we fail to identify certain material risks from one or more acquisitions, our results of operations and financial condition could be adversely affected.

***Goodwill may become impaired.***

In accordance with U.S. generally accepted accounting principles ( US GAAP or GAAP ), we have recorded a significant amount of goodwill in our consolidated financial statements resulting from our acquisition activities, which principally represents the specialized know-how of the workforce at the agencies we have acquired. We annually test the carrying value of goodwill for impairment, as discussed in Note 1 to our consolidated financial statements. The estimates and assumptions about future results of operations and cash flows made in connection with the impairment testing could differ from future actual results of operations and cash flows. While we have concluded, for each year presented in our financial statements included in this report, that our goodwill is not impaired, future events could cause us to conclude that the asset values associated with a given operation may become impaired. Any resulting impairment loss could materially adversely affect our results of operations and financial condition.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We maintain office space in many major cities around the world. The facility requirements of our agencies are similar across geographic regions and disciplines and we believe that our facilities are in suitable and well-maintained condition for our current operations. Our facilities are primarily used for office and administrative purposes by our employees in performing professional services. Our principal corporate offices are at 437 Madison Avenue, New York, New York and One East Weaver Street, Greenwich, Connecticut. We also maintain executive offices in London, England; Shanghai, China; and Tokyo, Japan.

Substantially all of our office space is leased from third parties with varying expiration dates ranging from one to 17 years. Certain of our leases are subject to rent reviews or contain various escalation clauses and certain of our leases require us to pay various operating expenses, which may also be subject to escalation. Leases are generally denominated in the local currency of the operating entity. Our consolidated office rent expense was $386.9 million in 2008, $384.7 million in 2007 and $351.9 million in 2006, after reduction for rents received from subleases of $22.8 million, $22.4 million and $22.3 million, respectively.

Our obligations for future minimum base rents under terms of non-cancelable real estate leases reduced by rents receivable from non-cancelable subleases are (dollars in millions):

| | Net Rent |
|---|---|
| 2009 | $363.5 |
| 2010 | 321.1 |
| 2011 | 264.0 |
| 2012 | 225.7 |
| 2013 | 183.9 |
| Thereafter | 667.1 |

See Note 11 to our consolidated financial statements for a discussion of our lease commitments and our MD&A for the impact of leases on our operating expenses.



**Item 3. Legal Proceedings**

Beginning on June 13, 2002, several putative class actions were filed against us and certain senior executives in the United States District Court for the Southern District of New York. The actions have since been consolidated under the caption *In re Omnicom Group Inc. Securities Litigation*, No. 02-CV-4483 (RCC), on behalf of a proposed class of purchasers of our common stock between February 20, 2001 and June 11, 2002. The consolidated complaint alleges, among other things, that our public filings and other public statements during that period contained false and misleading statements or omitted to state material information relating to (1) our calculation of the organic growth component of period-to-period revenue growth, (2) our valuation of and accounting for certain internet investments made by our Communicade Group ( Communicade ), which we contributed to Seneca Investments LLC ( Seneca ) in 2001, and (3) the existence and amount of certain contingent future obligations in respect of acquisitions. The complaint seeks an unspecified amount of compensatory damages plus costs and attorneys fees. Defendants moved to dismiss the complaint and on March 28, 2005, the court dismissed portions (1) and (3) of the complaint detailed above. The court s decision denying the defendants motion to dismiss the remainder of the complaint did not address the ultimate merits of the case, but only the sufficiency of the pleading. Defendants have answered the complaint. Discovery concluded in the second quarter of 2007. On April 30, 2007, the court granted plaintiff s motion for class certification, certifying the class proposed by plaintiffs. In the third quarter of 2007 defendants filed a motion for summary judgment on plaintiff s remaining claim. On January 28, 2008, the court granted defendants motion in its entirety, dismissing all claims and directing the court to close the case. On February 4, 2008, the plaintiffs filed a notice of intent to appeal that decision to the United States Court of Appeals for the Second Circuit. The appeal has been fully briefed. The parties await a date for oral argument before the Court of Appeals. The defendants continue to believe that the allegations against them are baseless and intend to vigorously oppose plaintiff s appeal.

In addition, on June 28, 2002, a derivative action was filed on behalf of Omnicom in New York state court. On February 18, 2005, a second shareholder derivative action, again purportedly brought on behalf of the Company, was filed in New York state court. The derivative actions have been consolidated before one New York State Justice and the plaintiffs have filed an amended consolidated complaint. The consolidated derivative complaint questions the business judgment of certain current and former directors of Omnicom, by challenging, among other things, the valuation of and accounting for the internet investments made by Communicade and the contribution of those investments to Seneca. The consolidated complaint alleges that the defendants breached their fiduciary duties of good faith. The lawsuit seeks from the directors the amount of profits received from selling Omnicom stock and other unspecified damages to be paid to the Company, as well as costs and attorneys fees. The defendants moved to dismiss the derivative complaint on the procedural ground that plaintiffs had failed to make a demand on the board. On June 27, 2006, the trial court entered a decision denying the motion to dismiss. The decision did not address the merits of the allegations, but rather accepted the allegations as true for the purposes of the motion (as the Court was required to do) and excused plaintiffs from making a demand on the board. In the first quarter of 2007, defendants appealed the trial court s decision. On September 25, 2007, the New York Supreme Court, Appellate Division, First Department issued a decision reversing the trial court and dismissing the derivative claims. Plaintiffs served defendants with a motion seeking reargument of the appeal or, in the alternative, permission to appeal the decision to the Court of Appeals, New York s highest court. On January 31, 2008, the court denied the plaintiff s motion. We believe the matter is concluded.

The defendants in both cases believe that the allegations against them are baseless and intend to vigorously oppose the lawsuits. Currently, we are unable to determine the outcome of these cases and the effect on our financial position or results of operations. The outcome of any of these matters is inherently uncertain and may be affected by future events. Accordingly, there can be no assurance as to the ultimate effect of these matters.

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

**Item 4. Submission of Matters to a Vote of Security Holders**

Our annual shareholders meeting has historically been held in the second quarter of the year. No matters were submitted to a vote of our shareholders during the last quarter of 2008.



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## PART II

**Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common shares are listed on the New York Stock Exchange under the symbol OMC. On February 12, 2009, we had 2,951 holders of record of our common shares. On June 25, 2007, pursuant to a two-for-one stock split which was effected in the form of a 100% stock dividend, each shareholder received one additional share of Omnicom Group Inc. common stock for each share held on June 6, 2007. In connection with the stock split, quarterly high and low common share sales prices, dividends paid, dividends declared, all prior period earnings per share data, share amounts and other per share data have been adjusted to reflect the stock split in accordance with Statement of Financial Accounting Standard ( SFAS ) No. 128, Earnings per Share.

The table below shows the range of quarterly high and low sales prices reported on the New York Stock Exchange Composite Tape for our common shares and the dividends paid per share for these periods.

| Period | High | Low | Dividends Paid Per Share |
|---|---|---|---|
| **2007** | | | |
| First Quarter | $53.45 | $50.29 | $0.125 |
| Second Quarter | 54.68 | 50.56 | 0.125 |
| Third Quarter | 55.45 | 47.41 | 0.150 |
| Fourth Quarter | 53.07 | 45.82 | 0.150 |
| **2008** | | | |
| First Quarter | $47.96 | $40.86 | $0.150 |
| Second Quarter | 50.16 | 43.74 | 0.150 |
| Third Quarter | 45.00 | 37.23 | 0.150 |
| Fourth Quarter | 38.42 | 22.02 | 0.150 |

During the three months ended December 31, 2008, there were no purchases of our common stock by us or any of our affiliated purchasers.

## Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with our consolidated financial statements and related notes that begin on page F-1 of this report, as well as our MD&A.

| | (Dollars in millions, except per share amounts) | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| **For the years ended December 31:** | | | | | |
| Revenue | $13,359.9 | $12,694.0 | $11,376.9 | $10,481.1 | $ 9,747.2 |
| Operating Profit | 1,689.4 | 1,659.1 | 1,483.5 | 1,339.8 | 1,215.4 |
| Net Income | 1,000.3 | 975.7 | 864.0 | 790.7 | 723.5 |
| Net Income Per Common Share: | | | | | |
| Basic | 3.20 | 2.99 | 2.52 | 2.19 | 1.95 |
| Diluted | 3.17 | 2.95 | 2.50 | 2.18 | 1.94 |
| Dividends Declared Per Common Share | 0.600 | 0.575 | 0.500 | 0.4625 | 0.450 |

| | (Dollars in millions, except per share amounts) | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| **As of December 31:** | | | | | |
| Cash, cash equivalents and short-term investments | $ 1,112.4 | $ 1,841.0 | $ 1,928.8 | $ 1,209.9 | $ 1,739.6 |
| Total Assets | 17,318.4 | 19,271.7 | 17,804.7 | 15,919.9 | 16,002.4 |
| Long-Term Obligations: | | | | | |
| Long-term debt | 1,012.8 | 1,013.2 | 1,013.2 | 18.2 | 19.1 |
| Convertible debt | 2,041.5 | 2,041.5 | 2,041.5 | 2,339.3 | 2,339.3 |
| Other long-term liabilities | 444.4 | 481.2 | 305.8 | 298.4 | 309.1 |

On June 25, 2007, pursuant to a two-for-one stock split which was effected in the form of a 100% stock dividend, each shareholder received one additional share of Omnicom Group Inc. common stock for each share held on June 6, 2007. In connection with the stock split, dividends declared and all prior period earnings per share data have been adjusted to reflect the stock split in accordance with SFAS No. 128, Earnings per Share.

## Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

### *Executive Summary*

We are a strategic holding company. We provide professional services to clients through multiple agencies around the world. On a global, pan-regional and local basis, our agencies provide these services in the following disciplines: traditional media advertising, CRM, public relations and specialty communications. Our business model was built and continues to evolve around our clients. While our companies operate under different names and frame their ideas in different disciplines, we organize our services around our clients. The fundamental premise of our business is that our clients specific requirements should be the central focus in how we structure our business offerings and allocate our resources. This client-centric business model results in multiple agencies collaborating in formal and informal virtual networks that cut across internal organizational structures to deliver consistent brand messages for a specific client and execute against each of our client s specific marketing requirements. We continually seek to grow our business with our existing clients by maintaining our client-centric approach, as well as expanding our existing business relationships into new markets and with new clients. In addition, we pursue selective acquisitions of complementary companies with strong, entrepreneurial management teams that typically either currently serve or have the ability to serve our existing client base.

In recent years, certain business trends have affected our business and our industry. These trends include our clients increasingly expanding the focus of their brand strategies from national markets to pan-regional and global markets and integrating traditional and non-traditional marketing channels, as well as utilizing interactive technologies and new media outlets. Additionally, in an effort to gain greater efficiency and effectiveness from their total marketing budgets, clients are increasingly requiring greater coordination of marketing activities and concentrating these activities with a smaller number of service providers. We believe these trends have benefitted our business in the past and, over the long term, will continue to provide a competitive advantage to us.

Contractions in the availability of business and consumer credit, a decrease in consumer spending, a significant rise in unemployment and other factors have all led to increasingly volatile capital markets over the course of 2008. During recent months, the financial services, automotive and other sectors of the global economy have come under increased pressure, resulting in, among other consequences, extraordinarily difficult conditions in the capital and credit markets and a global economic recession that has negatively impacted our clients spending on the services that our agencies provide.

As one of the world s leading advertising, marketing and corporate communications companies, we operate in all major markets of the global economy. We have a large and diverse client base. Our largest client represented 2.8% or our consolidated revenue for the year ended December 31, 2008 and no other client accounted for more than 2.1% of our consolidated revenue for the year ended December 31, 2008. Our top 100 clients accounted for 47.2% of our consolidated revenue for the year ended December 31, 2008. Our business is spread across a significant number of industry sectors with no one industry comprising more than 15% of revenue from our 1,000 largest clients for the year ended December 31, 2008. Although our revenues are generally balanced between the U.S. and international markets and we have a large and diverse client base, we are not immune to global economic conditions.

During the second half of 2008, we experienced a decline in the rate of growth of our revenue compared to the second half of 2007 and, due to rapidly changing economic conditions, we have less visibility than we historically have had regarding client spending plans in the near term. During previous periods of economic downturn, our industry experienced slower growth rates and industry-wide margin contractions. Accordingly, in the fourth quarter of

2008, in response to reductions in client spending, we took action to reduce our salary and service costs by reducing incentive compensation and through actions to limit our discretionary spending. Additionally, in anticipation of reductions in client spending in 2009, we reduced our work force in the fourth quarter of 2008 and we incurred expenses related to severance benefits. Continued economic uncertainty and reductions in consumer spending may result in further reductions in client spending levels that could adversely affect our results of operations and financial condition. We intend to continue to closely monitor economic



conditions, client spending and other factors, and in response, will take actions available to us to reduce costs, manage working capital and conserve cash. In the current economic environment, there can be no assurance as to the effects of future economic circumstances, client spending patterns, client credit worthiness and other developments on us and whether and to what extent our efforts to respond to them will be effective.

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

We analyze revenue growth by reviewing the components and mix of the growth, including growth by major geographic location, growth by major marketing discipline, growth from currency fluctuations, growth from acquisitions and growth from our largest clients.

In recent years, our revenue has been divided almost evenly between domestic and international operations. In 2008, our overall revenue growth was 5.2%, of which 1.3% was related to changes in foreign exchange rates and 1.0% was related to the acquisition of entities, net of entities disposed. The remainder, 2.9%, was organic growth.

In 2008, traditional media advertising represented about 43% of our total revenue and grew by 4.9% over the prior year. CRM represented about 38% of the total revenue and grew by 9.5% over the previous year. Public relations represented about 9.5% of the total revenue and decreased by 0.4% from the prior year, and specialty communications represented about 9.5% of total revenue and decreased by 2.7% from the prior year.

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

Because we are a service business, we monitor salary and service costs and office and general costs as a percentage of revenue. Salary and service costs tend to fluctuate in conjunction with changes in revenue. Office and general expenses, which are not directly related to servicing clients, are less directly linked to changes in our revenues than salary and service costs. These costs tend to increase as revenue increases; however, the rate of increase in these expenses could be more or less than the rate of increase in our revenues. During 2008, salary and service costs increased slightly to 71.6% of revenue versus 71.0% of revenue in 2007. The increase in salary and service costs as a percentage of revenue is primarily attributable to recording severance benefits in the fourth quarter of 2008 that were $55 million greater than the amount recorded in the comparable period in 2007. We recorded these severance benefits as a result of reducing our work force in anticipation of reductions in client spending in 2009. Office and general expenses decreased slightly during 2008 to 15.8% of revenue from 16.0% in 2007.

Our net income for 2008 increased by 2.5% to $1,000.3 million from $975.7 million in 2007 and our diluted EPS increased by 7.5% to $3.17 from $2.95 in the prior year for the reasons described above, as well as the impact of the reduction in our weighted average shares outstanding for the year. This reduction was the result of our purchases through 2007 and the first eight months of 2008 of treasury shares net of option exercises and share issuances under our employee stock purchase plan.

**Critical Accounting Policies and New Accounting Pronouncements**

**Critical Accounting Policies**

We have prepared the following summary of our critical accounting policies to assist the reader in better understanding our financial statements and the related MD&A. We believe that the following policies may involve a higher degree of judgment and complexity in their application and represent the critical accounting policies used in the preparation of our financial statements. Readers are encouraged to consider this summary together with our consolidated financial statements and the related notes, including our discussion in Note 1 setting forth our accounting policies in greater detail, for a more complete understanding of critical accounting policies discussed below.



***Estimates:*** Our financial statements are prepared in conformity with U.S. GAAP and require us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities including valuation allowances for receivables and deferred tax assets, accruals for incentive compensation and the disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during a reporting period. We evaluate these estimates on an ongoing basis and we base our estimates on historical experience, current conditions and various other assumptions we believe are reasonable under the circumstances. Actual results can differ from those estimates, and it is possible that the differences could be material.

A fair value approach is used in testing goodwill for impairment under SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS 142 ) and when evaluating cost-method investments, which consist of ownership interests in non-public companies, to determine if an other-than-temporary impairment has occurred. We consider and use several comparable market participant measurements to determine fair value, including consideration of similar and recent transactions and, when available and as appropriate, we use comparative market multiples. We also use a discounted expected cash flow methodology. Numerous estimates and assumptions have to be made when completing a discounted expected cash flow valuation, including estimates and assumptions regarding interest rates, appropriate discount rates and capital structure. Additionally, estimates must be made regarding revenue growth, operating margins, tax rates, working capital requirements and capital expenditures. Judgment is required when determining fair value, including when we evaluate the applicability of similar and recent transactions, and when determining the appropriate comparative market multiples to be used. Actual results of operations, cash flows and other factors used in a discounted expected cash flow valuation will likely differ from the estimates used and it is possible that differences could be material. Additional information about impairment testing under SFAS 142 and valuation of cost-method investments appears in Note 1 to our consolidated financial statements.

A fair value approach is used in determining the award value of share-based employee compensation in accordance with SFAS No. 123 (Revised 2004), Share-Based Payment ( SFAS 123R ). We utilize the Black-Scholes option valuation model to determine the fair value of option awards. This valuation model uses several assumptions and estimates such as expected life, rate of risk free interest, volatility and dividend yield. If different assumptions and estimates were used to determine the fair value, our actual results of operations and cash flows would likely differ from the estimates used and it is possible that differences and changes could be material. Additional information about these assumptions and estimates appears in Note 7 to our consolidated financial statements.

***Acquisitions and Goodwill:*** We have historically made and expect to continue to make selective acquisitions. In making acquisitions, the price we pay is determined by various factors, including specialized know-how, reputation, competitive position, geographic coverage and service offerings, as well as our experience and judgment. The amount we paid for acquisitions, including cash and assumption of net liabilities, totaled $492.2 million in 2008 and $378.3 million in 2007. Approximately 36% and 42%, respectively, of these amounts related to contingent purchase price obligations, sometimes referred to as earn-outs, paid during the respective year related to acquisitions previously completed.

A summary of our contingent purchase price obligations and obligations to purchase additional interests in certain subsidiary and affiliate companies is set forth in the Liquidity and Capital Resources section of this MD&A. The amount of contingent purchase price obligations and obligations to purchase additional interests in certain subsidiary and affiliate companies are based on future performance. Contingent purchase price obligations, for acquisitions completed prior to January 1, 2009 are accrued, in accordance with GAAP, when the contingency is resolved and payment is certain.

Our acquisition strategy has been focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of our various strategic business platforms and agency brands through the expansion of their geographic reach and/or their service capabilities to better serve our clients. Additional key factors we consider include the competitive position and specialized know-how of the acquisition targets. Accordingly, like most service businesses, a substantial portion of the intangible asset value that we acquire is the know-how of the people, which is treated as part of goodwill and, in accordance with SFAS No. 141, Business Combinations ( SFAS 141 ), is not valued separately. For each of our acquisitions, we undertake a detailed review to identify other intangible assets and a valuation is performed for all such assets identified.



The majority of the value of the identifiable intangible assets that we acquire is derived from customer relationships, including the related customer contracts. When making the necessary valuation assumptions of these identified intangible assets, we typically use an income approach and consider comparable market participant measurements. The expected benefits of our acquisitions are typically shared across multiple agencies as they work together to integrate the acquired agency into our client service strategy.

We evaluate goodwill for impairment annually during the second quarter of the year. In accordance with paragraph 30 of SFAS 142, we identified our regional reporting units as components of our operating segments, which are our five agency networks. The regional reporting units of each agency network are responsible for the agencies in their region. They report to the segment managers and facilitate the administrative and logistical requirements of our client-centric strategy for delivering services to clients in their regions. We then concluded that for each of our operating segments, their regional reporting units had similar economic characteristics and should be aggregated for purposes of testing goodwill for impairment at the operating segment level. Our conclusion was based on a detailed analysis of the aggregation criteria set forth in paragraph 17 of SFAS No.131, Disclosures about Segments of an Enterprise and Related Information ( SFAS 131 ), and the guidance set forth in EITF D-101: Clarification of Reporting Unit Guidance in Paragraph 30 of FASB Statement No. 142. Consistent with the fundamentals of our business strategy, the agencies within our regional reporting units serve similar clients in similar industries, and in many cases the same clients. In addition, the agencies within our regional reporting units have similar economic characteristics, as the main economic components of each agency are the salary and service costs associated with providing professional services, the office and general costs associated with office space and occupancy, and the provision of technology requirements which are generally limited to personal computers, servers and off-the-shelf software. Finally, the expected benefits of our acquisitions are typically shared across multiple agencies and regions as they work together to integrate the acquired agency into our client service strategy. Based on the results of our impairment testing, we concluded that the fair value of our reporting units exceeded their book value and therefore, our goodwill was not impaired.

Additional information about acquisitions and goodwill appears in Notes 1 and 2 to our consolidated financial statements.

***Changes in Accounting for Acquisitions:*** In December 2007, the FASB issued SFAS 141 (Revised 2007), Business Combinations ( SFAS 141R ). SFAS 141R will be effective for fiscal years beginning after December 15, 2008. Early adoption is prohibited and SFAS 141R will apply to business combinations entered into after January 1, 2009. We will adopt SFAS 141R on January 1, 2009. SFAS 141R will require, among other things that: the acquirer record 100% of the assets acquired and liabilities assumed even when less than 100% of the target is acquired; all transaction costs be expensed as incurred; and, a liability for contingent purchase price obligations (earn-outs), if any, be recorded at the acquisition date and remeasured at fair value and included in earnings in each subsequent reporting period.

***Revenue Recognition:*** Substantially all of our revenue is derived from fees for services or a rate per hour, or equivalent basis, and revenue is realized when the service is performed in accordance with terms of each client arrangement, upon completion of the earnings process and when collection is reasonably assured. We record revenue net of sales tax, use tax and value added tax. Certain of our businesses earn a portion of their revenue as commissions based upon performance in accordance with client arrangements.

These principles are the foundation of our revenue recognition policy and apply to all client arrangements in each of our service disciplines traditional media advertising, CRM, public relations and specialty communications.

More specifically, in compliance with Staff Accounting Bulletin ( SAB ) 101, Revenue Recognition in Financial Statements ( SAB 101 ), as updated by SAB 104, Revenue Recognition ( SAB 104 ), our policy requires the following key elements to be satisfied prior to recognizing revenue: persuasive evidence of an arrangement must exist; the sales price must be fixed or determinable; delivery, performance and acceptance must be in accordance with the client arrangement; and collection is reasonably assured.

Because the services that we provide across each of our disciplines are similar and delivered to clients in similar ways, all of the key elements set forth above apply to client arrangements in each of our four disciplines.



In the majority of our businesses, we act as an agent and record revenue equal to the net amount retained, when the fee or commission is earned. In certain cases, we contract directly with suppliers for media payments and third-party production costs and are responsible for their payment, recharging our clients for all costs incurred. Although we may bear credit risk in respect of these activities, the arrangements with our clients are such that, in effect, we act as an agent on their behalf. In these cases, costs incurred with external suppliers are excluded from our revenue.

A small portion of our contractual arrangements with clients include performance incentive provisions designed to link a portion of our revenue to our performance relative to both quantitative and qualitative goals. We recognize this portion of revenue when the specific quantitative goals are achieved, or when our performance against qualitative goals is determined by our clients. Additional information about our revenue recognition appears in Note 1 to our consolidated financial statements.

***Employee Share-Based Compensation:*** On January 1, 2006, we adopted SFAS 123R. Our outstanding share-based compensation awards are principally stock options and restricted stock. In accordance with SFAS 123R, because our awards are share settled, we record employee share-based compensation at fair value on the date of grant. On January 1, 2004, we elected to adopt SFAS 123, as amended by (SFAS No. 148, Accounting, for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123 ( SFAS 148 ) and, as provided by SFAS 148, we elected to apply it retroactively. Accordingly, our Net Income for all years presented includes a compensation charge for the grant date fair value of all share-based compensation awards in the respective year the award was earned.

As a result of our election in 2004 to adopt SFAS 123, as amended by SFAS 148, the adoption of SFAS 123R in 2006 did not have a significant effect on our financial statements. SFAS 123R requires, among other things, that we record share-based compensation net of an estimate for awards that are expected to be forfeited. On January 1, 2006, we recorded an increase to our Operating Income and Net Income of $3.6 million and $2.0 million, respectively, as a result of the cumulative effect of this change in accounting for forfeitures. However, because this adjustment was not significant, we did not present it on an after-tax basis as a cumulative effect of an accounting change on our income statement.

In estimating the grant date of fair value stock option awards, we use certain assumptions and estimates to derive fair value, such as expected term, rate of risk free interest, volatility and dividend yield. If different assumptions and estimates were used, the amounts charged to compensation expense would be different. However, due to limited stock option award activity in the past several years and given that most stock option awards that are outstanding have been fully expensed in our financial statement, the impact of using different assumptions and estimates would not be material on our current results of operations.

Pre-tax share-based employee compensation expense for the years ended December 31, 2008, 2007 and 2006, was $59.3 million, $68.7 million and $71.1 million, respectively. Information about our specific awards and stock plans can be found in Note 7 to our consolidated financial statements.

Additional information regarding the changes required by SFAS 123R and its impact on our financial statements can be found in Notes 1 and 7 to our consolidated financial statements.

**New Accounting Pronouncements**

In addition to those discussed previously, additional information regarding new accounting pronouncements can also be found in Note 14 to our consolidated financial statements. Note 1 to our consolidated financial statements also includes a summary of our significant accounting policies.

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**Financial Results from Operations 2008 Compared with 2007**

| | Year Ended December 31, (Dollars in millions, except per share amounts) | |
|---|---|---|
| | **2008** | **2007** |
| Revenue | $13,359.9 | $12,694.0 |
| Operating Expenses: | | |
| Salary and service costs | 9,560.2 | 9,008.2 |
| Office and general expenses | 2,110.3 | 2,026.7 |
| | 11,670.5 | 11,034.9 |
| Operating Profit | 1,689.4 | 1,659.1 |

| | | |
|---|---|---|
| Net Interest Expense: | | |
| Interest expense | 124.6 | 106.9 |
| Interest income | (50.3) | (32.9) |
| | 74.3 | 74.0 |
| Income Before Income Taxes | 1,615.1 | 1,585.1 |
| Income Taxes | 542.7 | 536.9 |
| Equity in Earnings of Affiliates | 42.0 | 38.4 |
| Minority Interests | (114.1) | (110.9) |
| Net Income | $ 1,000.3 | $ 975.7 |
| Net Income Per Common Share: | | |
| Basic | $ 3.20 | $ 2.99 |
| Diluted | 3.17 | 2.95 |
| Dividends Declared Per Common Share | $ 0.600 | $ 0.575 |

The following analysis gives further details and insight into our 2008 financial performance.

***Revenue:*** When comparing performance between years, we discuss non-GAAP financial measures such as the impact that foreign currency rate changes, acquisitions/dispositions and organic growth have on reported revenue. We derive significant revenue from international operations and year-over-year changes in foreign currency rates impact our reported results. Our reported results are also impacted by our acquisition and disposition activity and organic growth. Accordingly, we provide this information to supplement the discussion of changes in revenue period-to-period.

Our 2008 consolidated worldwide revenue increased 5.2% to $13,359.9 million from $12,694.0 million in 2007. The effect of foreign exchange impacts increased worldwide revenue by $163.9 million. Acquisitions, net of dispositions, increased 2008 worldwide revenue by $128.1 million and organic growth increased worldwide revenue by $373.9 million. The components of total 2008 revenue growth in the U.S. ( domestic ) and the remainder of the world ( international ) are summarized below (dollars in millions):

| | Total | | Domestic | | International | |
|---|---|---|---|---|---|---|
| | **$** | **%** | **$** | **%** | **$** | **%** |
| December 31, 2007 | $ 12,694.0 | | $ 6,704.2 | | $ 5,989.8 | |
| Components of revenue changes: | | | | | | |
| Foreign exchange impact | 163.9 | 1.3% | | | 163.9 | 2.7% |
| Acquisitions, net of dispositions | 128.1 | 1.0% | 70.3 | 1.1% | 57.8 | 1.0% |
| Organic | 373.9 | 2.9% | 115.5 | 1.7% | 258.4 | 4.3% |
| December 31, 2008 | $ 13,359.9 | 5.2% | $ 6,890.0 | 2.8% | $ 6,469.9 | 8.0% |

Our fourth quarter 2008 consolidated worldwide revenue decreased 7.0% to $3,371.3 million from $3,626.0 million in the fourth quarter of 2007. The effect of foreign exchange impacts decreased worldwide revenue by $210.7 million. Acquisitions, net of dispositions, increased fourth quarter 2008 worldwide revenue by $39.2 million and organic growth decreased worldwide revenue by $83.2 million. The components of total fourth quarter 2008 revenue in the U.S. ( domestic ) and the remainder of the world ( international ) are summarized below (dollars in millions):

| | Total | | Domestic | | International | |
|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % |
| December 31, 2007 | $ 3,626.0 | | $ 1,845.9 | | $ 1,780.1 | |
| Components of revenue changes: | | | | | | |