INTERPUBLIC GROUP OF COMPANIES, INC.
Form 10-Q
July 28, 2011
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2011

or

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

Commission file number: 1-6686
THE INTERPUBLIC GROUP OF COMPANIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-1024020
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1114 Avenue of the Americas, New York, New York 10036
(Address of principal executive offices) (Zip Code)
(212) 704-1200
(Registrant’s telephone number, including area code)
(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 ý 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 ý 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 definition of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
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 ý

The number of shares of the registrant’s common stock outstanding as of July 15, 2011 was 478,523,337.

Table of Contents

INDEX

INFORMATION REGARDING FORWARD-LOOKING DISCLOSURE

This quarterly report on Form 10-Q contains forward-looking statements. Statements in this report that are not historical facts, including statements about management's beliefs and expectations, constitute forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "would," "estimate," "continue" or comparable terminology are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined under Item 1A, Risk Factors, in our most recent annual report on Form 10-K. Forward-looking statements speak only as of the date they are made and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, the following:

- potential effects of a challenging economy, for example, on the demand for our advertising and marketing services, on our clients' financial condition and on our business or financial condition;
- our ability to attract new clients and retain existing clients;
- our ability to retain and attract key employees;
- risks associated with assumptions we make in connection with our critical accounting estimates, including changes in assumptions associated with any effects of a weakened economy;
- potential adverse effects if we are required to recognize impairment charges or other adverse accounting-related developments;
- risks associated with the effects of global, national and regional economic and political conditions, including counterparty risks and fluctuations in economic growth rates, interest rates and currency exchange rates; and
- developments from changes in the regulatory and legal environment for advertising and marketing and communications services companies around the world.

Investors should carefully consider these factors and the additional risk factors outlined in more detail under Item 1A, Risk Factors, in our most recent annual report on Form 10-K.

1

Table of Contents

Part I – FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)
THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
REVENUE	$1,740.7	$1,611.7	$3,215.5	$2,948.7
OPERATING EXPENSES:				
Salaries and related expenses	1,095.7	991.0	2,175.8	1,970.3
Office and general expenses	470.8	442.9	910.0	859.7
Restructuring and other reorganization-related charges, net	0.2	0.6	1.0	0.9
Total operating expenses	1,566.7	1,434.5	3,086.8	2,830.9
OPERATING INCOME	174.0	177.2	128.7	117.8
EXPENSES AND OTHER INCOME:				
Interest expense	(33.1)	(35.0)	(65.0)	(67.6)
Interest income	9.7	6.1	18.0	12.6
Other income (expense), net	5.3	(2.1)	(0.8)	(1.6)
Total (expenses) and other income	(18.1)	(31.0)	(47.8)	(56.6)
Income before income taxes	155.9	146.2	80.9	61.2
Provision for income taxes	47.6	63.3	26.1	48.0
Income of consolidated companies	108.3	82.9	54.8	13.2
Equity in net income (loss) of unconsolidated affiliates	0.6	0.2	0.9	(0.4)
NET INCOME	108.9	83.1	55.7	12.8
Net (income) loss attributable to noncontrolling interests	(4.3)	(0.6)	3.7	5.1
NET INCOME ATTRIBUTABLE TO IPG	104.6	82.5	59.4	17.9
Dividends on preferred stock	(2.9)	(2.9)	(5.8)	(9.8)
Benefit from preferred stock repurchased	0.0	25.7	0.0	25.7
NET INCOME AVAILABLE TO IPG COMMON STOCKHOLDERS	$101.7	$105.3	$53.6	$33.8
Earnings per share available to IPG common stockholders:				
Basic	$0.21	$0.22	$0.11	$0.07
Diluted	$0.19	$0.15	$0.11	$0.02
Weighted-average number of common shares outstanding:				
Basic	473.1	473.0	474.6	472.1
Diluted	546.9	544.9	515.6	531.6
Dividends declared per common share	$0.06	$0.00	$0.12	$0.00

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

2

Table of Contents

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

	June 30, 2011	December 31, 2010
ASSETS:		
Cash and cash equivalents	$1,809.8	$2,675.7
Marketable securities	14.2	13.7
Accounts receivable, net of allowance of $63.4 and $63.1	4,160.9	4,317.6
Expenditures billable to clients	1,348.7	1,217.1
Other current assets	260.1	229.4
Total current assets	7,593.7	8,453.5
Furniture, equipment and leasehold improvements, net of accumulated depreciation of $1,206.6 and $1,147.1	450.8	454.3
Deferred income taxes	373.0	334.2
Goodwill	3,427.1	3,368.5
Other non-current assets	457.0	460.3
TOTAL ASSETS	$12,301.6	$13,070.8
LIABILITIES:		
Accounts payable	$4,064.7	$4,474.5
Accrued liabilities	2,849.4	3,112.7
Short-term borrowings	150.0	114.8
Current portion of long-term debt	448.6	38.9
Total current liabilities	7,512.7	7,740.9
Long-term debt	1,167.8	1,583.3
Deferred compensation	451.4	486.1
Other non-current liabilities	402.1	402.4
TOTAL LIABILITIES	9,534.0	10,212.7
Redeemable noncontrolling interests (see Note 4)	272.1	291.2
STOCKHOLDERS' EQUITY:		
Preferred stock	221.5	221.5
Common stock	48.1	47.5
Additional paid-in capital	2,398.0	2,456.8
Accumulated deficit	(4.3)	(63.7)
Accumulated other comprehensive loss, net of tax	(46.6)	(119.0)
	2,616.7	2,543.1
Less: Treasury stock	(153.1)	(14.1)
Total IPG stockholders' equity	2,463.6	2,529.0
Noncontrolling interests	31.9	37.9
TOTAL STOCKHOLDERS' EQUITY	2,495.5	2,566.9
TOTAL LIABILITIES AND EQUITY	$12,301.6	$13,070.8

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

Table of Contents

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

	Six months ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$55.7	$12.8
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets and intangible assets	73.3	74.2
Provision for uncollectible receivables	5.7	6.7
Amortization of restricted stock and other non-cash compensation	29.5	26.5
Net amortization of bond premiums and deferred financing costs	(4.0)	(1.8)
Deferred income tax (benefit) provision	(36.1)	4.4
Other	13.7	18.3
Changes in assets and liabilities, net of acquisitions and dispositions, providing (using) cash:		
Accounts receivable	251.0	(144.7)
Expenditures billable to clients	(107.7)	(161.1)
Other current assets	(30.7)	(25.3)
Accounts payable	(415.7)	139.3
Accrued liabilities	(365.6)	(124.8)
Other non-current assets and liabilities	(70.8)	(26.7)
Net cash used in operating activities	(601.7)	(202.2)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(53.1)	(28.3)
Proceeds from sales of businesses and investments, net of cash sold	7.0	30.9
Acquisitions, including deferred payments, net of cash acquired	(38.6)	(9.0)
Other investing activities	0.2	(2.9)
Net cash used in investing activities	(84.5)	(9.3)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	(139.0)	0.0
Common stock dividends	(56.8)	0.0
Exercise of stock options	11.7	0.0
Repurchase of preferred stock	0.0	(265.9)
Purchase of long-term debt	0.0	(21.4)
Net increase in short term bank borrowings	24.7	3.6
Acquisition related payments	(47.6)	0.0
Distributions to noncontrolling interests	(10.7)	(12.1)
Preferred stock dividends	(5.8)	(13.8)
Other financing activities	2.8	(6.3)
Net cash used in financing activities	(220.7)	(315.9)
Effect of foreign exchange rate changes on cash and cash equivalents	41.0	(37.9)
Net decrease in cash and cash equivalents	(865.9)	(565.3)
Cash and cash equivalents at beginning of period	2,675.7	2,495.2
Cash and cash equivalents at end of period	$1,809.8	$1,929.9

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

4

Table of Contents

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

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss, Net of Tax	Treasury Stock	Total IPG Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
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 (loss)					59.4			59.4	(3.7)	55.7
Foreign currency translation adjustments, net of tax						65.6		65.6	0.4	66.0
Changes in market value of securities available-for-sale, net of tax						0.6		0.6		0.6
Recognition of previously unrealized loss on securities available-for-sale, net of tax						0.2		0.2		0.2
Unrecognized losses, transition obligation and prior service cost, net of tax						6.0		6.0		6.0
Total comprehensive income (loss)								$ 131.8	$ (3.3)	$ 128.5
Reclassifications related to redeemable noncontrolling interests									10.2	10.2
Noncontrolling interest transactions				(0.3)				(0.3)	(3.1)	(3.4)
Distributions to noncontrolling interests									(10.7)	(10.7)
Change in redemption value of redeemable noncontrolling interests				(10.3)				(10.3)		(10.3)

Repurchase of common stock							(139.0)	(139.0)		(139.0)
Common stock dividends				(56.8)				(56.8)		(56.8)
Preferred stock dividends				(5.8)				(5.8)		(5.8)
Stock-based compensation				27.2				27.2		27.2
Exercise of stock options		1.2	0.1	11.7				11.8		11.8
Restricted stock, net of forfeitures		0.6	0.5	(27.2)				(26.7)		(26.7)
Other		0.1	0.0	2.7				2.7	0.9	3.6
Balance at June 30, 2011	$ 221.5	491.4	$ 48.1	$ 2,398.0	$ (4.3)	$ (46.6)	$ (153.1)	$ 2,463.6	$ 31.9	$ 2,495.5

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

Table of Contents

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) – (CONTINUED)
(Amounts in Millions)
(Unaudited)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	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 (loss)					17.9			17.9	(5.1)	12.8
Foreign currency translation adjustments, net of tax						(67.8)		(67.8)	(0.1)	(67.9)
Changes in market value of securities available-for-sale, net of tax						0.1		0.1		0.1
Unrecognized losses, transition obligation and prior service cost, net of tax						3.5		3.5		3.5
Total comprehensive loss								$(46.3)	$(5.2)	$(51.5)
Reclassifications related to redeemable noncontrolling interests									16.9	16.9
Noncontrolling interest transactions				(18.8)				(18.8)	(0.1)	(18.9)
Distributions to noncontrolling interests									(12.1)	(12.1)
Change in redemption value of redeemable noncontrolling interests				(4.7)				(4.7)		(4.7)
Repurchase of preferred stock	(303.5)			35.9				(267.6)		(267.6)
Preferred stock dividends				(9.8)				(9.8)		(9.8)
				28.8				28.8		28.8

Stock-based compensation										
Restricted stock, net of forfeitures		2.2	0.3	(11.1)				(10.8)		(10.8)
Other		0.2	0.0	1.3			(0.1)	1.2		1.2
Balance at June 30, 2010	$221.5	488.9	$47.4	$2,462.6	$(306.9)	$(240.8)	$(14.1)	$2,169.7	$38.1	$2,207.8

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

Table of Contents

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

Note 1: Basis of Presentation

The unaudited Consolidated Financial Statements have been prepared by The Interpublic Group of Companies, Inc. and subsidiaries (the "Company," "IPG," "we," "us" or "our") in accordance with accounting principles generally accepted in t United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for reporting interim financial information on Form 10-Q. Accordingly, they do not include certain information and disclosures required for complete financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make judgments, assumptions and estimates that affect the amounts reported and disclosed. Actual results could differ from these estimates and assumptions. The consolidated results for interim periods are not necessarily indicative of results for the full year and should be read in conjunction with our 2010 Annual Report on Form 10-K.

In the opinion of management, these unaudited Consolidated Financial Statements include all adjustments of a normal and recurring nature necessary for a fair statement of the information for each period contained therein. Certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

During the first quarter of 2011, we changed the classification of taxes assessed by governmental authorities that are directly imposed on our revenue-producing transactions from a gross to a net basis in a country. This change, which was applied retrospectively and does not change previously reported operating income or net income, decreased revenue and office and general expense by $6.1 for the three months ended June 30, 2010, and by $10.4 for the six months ended June 30, 2010. A comparable amount is included as a reduction to revenue and office and general expense for the three and six months ended June 30, 2011. We believe this presentation better aligns the Company's internal financial and operational management reporting as well as increases consistency in our external reporting across the countries in which we operate.

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		June 30, 2011 Book Value	Fair Value [2]	December 31, 2010 Book Value	Fair Value [2]
7.25% Senior Unsecured Notes due 2011	7.25	% [1]	$36.3	$36.3	$36.3	$37.0
6.25% Senior Unsecured Notes due 2014 (less unamortized discount of $0.3)	6.29	% [1]	355.0	385.9	353.3	378.0
10.00% Senior Unsecured Notes due 2017 (less unamortized discount of $10.0)	10.38	%	590.0	703.5	589.4	705.0
4.75% Convertible Senior Notes due 2023 (plus unamortized premium of $3.8)	3.50	%	203.8	249.1	205.0	235.0
4.25% Convertible Senior Notes due 2023 (plus unamortized premium of $10.2)	0.58	%	410.2	452.5	417.4	444.4
Other notes payable and capitalized leases			21.1		20.8	
Total long-term debt			1,616.4		1,622.2	
Less: current portion [3]			448.6		38.9	
Long-term debt, excluding current portion			$1,167.8		$1,583.3	

1 Excludes the effect of related interest rate swaps.

2 Fair values are derived from trading quotes by institutions making a market in the securities and estimations of value by those institutions using proprietary models.

3 On March 15, 2012, holders of our 4.25% Convertible Senior Notes due 2023 (the "4.25% Notes") may require us to repurchase their notes for cash at par and as such, we included these notes in the current portion of long-tern debt on our June 30, 2011 unaudited Consolidated Balance Sheet. Any 4.25% Notes not repurchased on March 15, 2012 will be reclassified to long-term debt.

7

(Amounts in Millions, Except Per Share Amounts)

Interest Rate Swaps

In March 2011, we entered into an interest rate swap agreement related to our 6.25% Senior Unsecured Notes due 2014 (the "2014 Notes") to effectively convert $100.0 notional amount of our $350.0 2014 Notes from fixed rate to floating rate debt. In April 2011, we entered into an additional interest rate swap agreement related to the 2014 Notes to effectively convert an additional $100.0 notional amount of our 2014 Notes from fixed to floating rate debt. In May 2011, we terminated all of the interest rate swaps related to the 2014 Notes, which were settled for a total of $2.7, received in cash, which included accrued and unpaid interest. Upon termination of these swaps, a debt premium equal to the swaps' fair value of $2.3 was recorded as an adjustment to the carrying value of the debt and will be amortized as a reduction to interest expense over the remaining term of the 2014 Notes, resulting in an annual effective interest rate of 5.8%.

Credit Facilities

On May 31, 2011, we entered into an amendment and restatement of our credit agreement originally dated as of July 18, 2008 (the "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. Additionally, 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.

We were in compliance with all of our covenants in the Credit Agreement as of June 30, 2011. 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. As of June 30, 2011, we had received investment-grade ratings from two of the major credit ratings agencies, and consequently we are not required to satisfy a minimum EBITDA financial covenant and no longer have limitations on restricted payments. The table below sets forth the financial covenants in effect as of June 30, 2011.

	Q2 2011	Q3 2011	Q4 2011 & Thereafter
Interest coverage ratio (not less than): [1]	4.50x	5.00x	5.00x
Leverage ratio (not greater than): [2]	3.25x	3.00x	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.

Convertible Senior Notes

The conversion rates of our 4.25% Notes and 4.75% Convertible Senior Notes due 2023 (the "4.75% Notes," and, together with the 4.25% Notes, the "Convertible Notes") are subject to adjustment in specified circumstances, including any payment of cash dividends on our common stock. As of June 30, 2011, the conversion rate for our Convertible Notes has been adjusted from 80.5153 to 81.3289 as a result of the cumulative effect of the cash dividends declared and paid on our common stock during the first half of 2011, resulting in a corresponding adjustment of the conversion price from $12.42 to $12.30. The conversion rate of our 5 1/4% Series B Cumulative Convertible Perpetual Preferred Stock is also subject to adjustment for the payment of cash dividends on our common stock, but has not been adjusted as the applicable threshold for adjustment has not been reached.

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. During the second quarter of 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 June 30, 2011, the options give us the right to purchase up to 16.3 shares of our common stock at a strike price of $12.30 per share (previously $12.42), except that the economic value of the net proceeds of exercising the options will not exceed the difference between the strike price and the adjusted cap price of $18.08 per share (previously $18.26).

Table of Contents

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

Note 3: Earnings Per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net income available to IPG common stockholders - basic	$101.7	$105.3	$53.6	$33.8
Adjustments: Effect of dilutive securities				
Interest on 4.25% Notes	0.4	0.4	0.7	0.7
Interest on 4.75% Notes	1.0	1.0	0.0	0.0
Preferred stock dividends	2.9	0.0	0.0	0.0
Benefit from preferred stock repurchased [1]	0.0	(25.7)	0.0	(21.7)
Net income available to IPG common stockholders - diluted	$106.0	$81.0	$54.3	$12.8
Weighted-average number of common shares outstanding - basic	473.1	473.0	474.6	472.1
Add: Effect of dilutive securities				
Restricted stock, stock options and other equity awards	8.8	9.8	8.5	9.3
4.25% Notes	32.5	32.2	32.5	32.2
4.75% Notes	16.3	16.1	0.0	0.0
Preferred stock outstanding	16.2	0.0	0.0	0.0
Preferred stock repurchased	0.0	13.8	0.0	18.0
Weighted-average number of common shares outstanding - diluted	546.9	544.9	515.6	531.6
Earnings per share available to IPG common stockholders - basic	$0.21	$0.22	$0.11	$0.07
Earnings per share available to IPG common stockholders - diluted	$0.19	$0.15	$0.11	$0.02

1 For the three and six months ended June 30, 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, for the six months ended June 30, 2010, 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.

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
4.75% Notes	0.0	0.0	16.3	16.1
Preferred stock outstanding	0.0	16.2	16.2	16.2
Total	0.0	16.2	32.5	32.3

Securities excluded from the diluted earnings per share calculation because the exercise price was greater than the average market price:				
Stock options [1]	7.7	19.9	7.7	19.9

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.

Table of Contents

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

Note 4: Supplementary Data

Accrued Liabilities

The following table presents the components of accrued liabilities.

	June 30, 2011	December 31, 2010
Media and production expenses	$2,249.2	$2,332.2
Salaries, benefits and related expenses	365.2	470.0
Office and related expenses	54.3	62.0
Acquisition obligations	8.5	63.5
Interest	40.8	41.5
Professional fees	17.9	24.6
Other	113.5	118.9
Total accrued liabilities	$2,849.4	$3,112.7

Acquisition obligations – During the second**Risks Related to Our Industry**

The growth of the market for our services and products depends on the continued growth of the Internet as a medium for content, advertising, commerce and communications.

Expansion in the sales of our services and products depends on the continued acceptance of the Internet as a platform for content, advertising, commerce and communications. The acceptance of the Internet as a medium for such uses could be adversely impacted by delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, privacy protection, reliability, cost, ease of use, accessibility and quality of service. The performance of the Internet and its acceptance as such a medium has been harmed by viruses, worms, and similar malicious programs, and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If for any reason the Internet does not remain a medium for widespread content, advertising, commerce and communications, the demand for our services and products would be significantly reduced, which would harm our business.

The growth of the market for our services and products depends on the development and maintenance of the Internet infrastructure.

Our business strategy depends on continued Internet and high-speed Internet access growth. Any downturn in the use or growth rate of the Internet or high-speed Internet access would be detrimental to our business. If the Internet continues to experience significant growth in number of users, frequency of use and amount of data transmitted, the Internet infrastructure might not be able to support the demands placed on it and the performance or reliability of the Internet may be adversely affected. The success of our business therefore depends on the development and maintenance of a sound Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security, as well as timely development of complementary products, such as routers, for providing reliable Internet access and services. Consequently, as Internet usage increases, the growth of the market for our products depends upon improvements made to the Internet as well as to individual customers networking infrastructures to alleviate overloading and congestion. In addition, any delays in the adoption of new standards and protocols required to govern increased levels of Internet activity or increased governmental regulation may have a detrimental effect on the Internet infrastructure.

A substantial majority of our revenue is derived from search and display advertising; our revenue would decline if advertisers do not continue their usage of the Internet as an advertising medium.

We have derived and expect to continue to derive a substantial majority of our revenue from search and display advertising on our platform. Such search and display advertising revenue accounted for approximately 65%, 69% and 79% of our revenue for the years ended December 31, 2009, 2010 and 2011, or $39.3 million, $45.9 million and $72.1 million, respectively, and 83% of our revenue for the six months ended June 30, 2012, or $51.2 million. However, the prospects for continued demand and market acceptance for Internet advertising are uncertain. If advertisers do not continue to increase their usage of the Internet as an advertising medium, our revenue would decline. Advertisers that have traditionally relied on other advertising media may not advertise on the Internet. Most advertising agencies and potential advertisers, particularly local advertisers, have only limited experience advertising on the Internet and devote only a small portion of their advertising expenditures to online advertising. As the Internet evolves, advertisers may find online advertising to be a less attractive or less effective means of promoting their services and products than traditional methods of advertising and may not continue to allocate funds for Internet advertising. Many historical predictions by industry analysts and others concerning the growth of the Internet as a commercial medium have overstated the growth of the Internet and you should not rely upon them. This growth may not occur or may occur more slowly than estimated.

Table of Contents

Most of our search revenue is based on the number of paid clicks on sponsored links that are included in search results generated from our platform. Generally, each time a consumer clicks on a sponsored link, the search provider that provided the commercial search result receives a fee from the advertiser who paid for such commercial click and the search provider pays us a portion of that fee. We, in turn, typically share a portion of the fee we receive with our customer. If an advertiser receives what it perceives to be a large number of clicks for which it needs to pay, but that do not result in a desired activity or an increase in sales, the advertiser may reduce or eliminate its advertisements through the search provider that provided the commercial search result to us. This reaction would lead to a loss of revenue to our search providers and consequently to lesser fees paid to us, which would have a material negative effect on our financial results.

Market prices for online advertising may decrease due to competitive or other factors. In addition, if a large number of Internet users use filtering software programs that limit or remove advertising from the users view, advertisers may perceive that Internet advertising is not effective and may choose not to advertise on the Internet.

The market for Internet-based services and products in which we operate is highly competitive, and if we cannot compete effectively, our sales may decline and our business may be harmed.

Competition in the market for Internet-based services and products in which we operate is intense and involves rapidly changing technologies and customer and subscriber requirements, as well as evolving industry standards and frequent product introductions. Our competitors may develop solutions that are similar or superior to our technology. Our primary competitors include high-speed Internet service providers with internal information technology staff capable of developing solutions similar to our technology. Other competitors include Yahoo!, Google, AOL and MSN, a division of Microsoft. Advantages some of our existing and potential competitors hold over us include the following:

- significantly greater revenue and financial resources;
- stronger brand and consumer recognition;
- the capacity to leverage their marketing expenditures across a broader portfolio of services and products;
- more extensive proprietary intellectual property from which they can develop or aggregate content without having to pay fees or paying significantly lower fees than we do;
- pre-existing relationships with content providers that afford them access to content while blocking the access of competitors to that same content;
- pre-existing relationships with high-speed Internet service providers that afford them the opportunity to convert such providers to competing services and products;
- lower labor and development costs; and
- broader global distribution and presence.

If we are unable to compete effectively or we are not as successful as our competitors in our target markets, our sales could decline, our margins could decline and we could lose market share, any of which would materially harm our business, financial condition and results of operations.

Government regulation of the Internet continues to evolve, and new laws and regulations could significantly harm our financial performance.

Today, there are relatively few laws specifically directed towards conducting business over the Internet. We expect more stringent laws and regulations relating to the Internet to be enacted. The adoption or modification of laws related to the Internet could harm our business, financial condition and results of operations by, among other things, increasing our costs and administrative burdens. Due to the increasing popularity and use of the Internet, many laws and regulations relating to the Internet are being debated at the international, federal and state levels, which are likely to address a variety of issues such as:

- user privacy and expression;
- ability to collect and/or share necessary information that allows us to conduct business on the Internet;
- export compliance;
- pricing and taxation;
- fraud;
- advertising;
- intellectual property rights;
- consumer protection;

- protection of minors;
- content regulation;
- information security; and
- quality of services and products.

Several federal laws that could have an impact on our business have been adopted. The Digital Millennium Copyright Act of 1998 reduces the liability of online service providers of third-party content, including content that may infringe copyrights or rights of others. The Children s Online Privacy Protection Act imposes additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.

It could be costly for us to comply with existing and potential laws and regulations, and they could harm our marketing efforts and our attractiveness to advertisers by, among other things, restricting our ability to collect demographic and personal information from consumers or to use or disclose that information in certain ways. If we were to violate these laws or regulations, or if it were alleged that we had, we could face private lawsuits, fines, penalties and injunctions and our business could be harmed.

Finally, the applicability to the Internet and other online services of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes, libel and personal privacy is uncertain. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could also increase our costs of doing business, discourage Internet communications, reduce demand for our services and expose us to substantial liability.

Public scrutiny of Internet privacy issues may result in increased regulation and different industry standards, which could deter or prevent us from providing our current products and solutions to our customers, thereby harming our business.

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the Internet have recently come under increased public scrutiny. The United States government, including the Federal Trade Commission and the Department of Commerce, has announced that it is reviewing the need for greater regulation for the collection of information concerning consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. In addition, the European Union is in the process of proposing reforms to its existing data protection legal framework, which may result in a greater compliance burden for companies with users in Europe. Various government and consumer agencies have also called for new regulation and changes in industry practices.

Our business, including our ability to operate and expand internationally, could be adversely affected if legislation or regulations are adopted, interpreted or implemented in a manner that is inconsistent with our current business practices and that require changes to these practices, our services or our privacy policies.

Risks Related to Ownership of Our Common Stock

Concentration of ownership among our directors, officers, large stockholders and their respective affiliates could limit our other stockholders ability to influence the outcome of key corporate decisions, such as an acquisition of our company.

Our directors, executive officers and holders of more than 5% of our common stock, together with their affiliates, beneficially own or control, directly or indirectly, a majority of our outstanding common stock. As a result, these stockholders, if they act together, would have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, if they act together, would have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership might harm the trading price of our common stock by:

delaying, deferring or preventing a change in our control;

impeding a merger, consolidation, takeover or other business combination involving us; or

discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Future sales of our common stock may cause the trading price of our common stock to decline.

As of February 15, 2012, the closing date of our initial public offering, we had 26,729,170 outstanding shares of common stock, of which 19,900,308 were subject to restrictions on resale as a result of lock-up agreements entered into with the underwriters of our initial public offering and the provisions of Rules 144 and 701 under the Securities Act of 1933, as amended, or the Securities Act. On August 11, 2012, these shares became available for sale in the public market (subject, in some cases, to volume

36

limitations). Sales of a substantial number of such shares following expiration of the lock-up (or the perception that such sales may occur) could cause our share price to fall.

As of February 15, 2012, the closing date of our initial public offering, stockholders holding some 17,666,204 shares of our common stock had demand and piggyback rights to require us to register such shares with the SEC, subject to contractual lock-up agreements. If we register any of these shares of common stock, the stockholders would be able to sell those shares freely in the public market.

In addition, the shares that are either subject to outstanding options or that may be granted in the future under our 2012 Equity Incentive Plan will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the contractual lock-up agreements and Rules 144 and 701 under the Securities Act.

As of February 22, 2012, we registered the shares of our common stock that we may issue under our equity plans. These shares can be freely sold in the public market upon issuance, subject to any vesting or contractual lock-up agreements.

If any of these additional shares described are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

Some provisions of our certificate of incorporation, bylaws and Delaware law may discourage, delay or prevent a merger or acquisition or prevent the removal of our current board of directors and management.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may discourage, delay or prevent a merger or acquisition or prevent the removal of our current board of directors and management. We have a number of anti-takeover devices in place that will hinder takeover attempts, including:

- our board of directors is classified into three classes of directors with staggered three-year terms;
- our directors may only be removed for cause, and only with the affirmative vote of a majority of the voting interest of stockholders entitled to vote;
- only our board of directors and not our stockholders will be able to fill vacancies on our board of directors;
- only our chairman of the board, our chief executive officer or a majority of our board of directors, and not our stockholders, are authorized to call a special meeting of stockholders;
- our stockholders will be able to take action only at a meeting of stockholders and not by written consent;
- our amended and restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

These provisions and other provisions in our charter documents could discourage, delay or prevent a transaction involving a change in our control. Any delay or prevention of a change in control transaction could cause stockholders to lose a substantial premium over the then-current trading price of their shares. These provisions could also discourage proxy contests and could make it more difficult for our stockholders to elect directors of their choosing or to cause us to take other corporate actions such stockholders desire.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which, subject to some exceptions, prohibits business combinations between a Delaware corporation and an interested stockholder, which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation s voting stock, for a three-year period following the date that the stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control that our stockholders might consider to be in their best interests.

We have not paid cash dividends on our capital stock, and we do not expect to do so in the foreseeable future.

We have not historically paid cash dividends on our capital stock. We anticipate that we will retain all future earnings and cash resources for the future operation and development of our business, and as a result, we do not anticipate paying any cash dividends to holders of our capital stock for the foreseeable future. Any future determination regarding the payment of any dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board may deem relevant. Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

Table of Contents

The trading price and volume of our common stock has been and will likely continue to be volatile, and the value of an investment in our common stock may decline.

The trading price of our common stock has been, and is likely to continue to be, volatile and could decline substantially within a short period of time. For example, since shares of our common stock were sold in our initial public offering in February 2012 at a price of $5.00 per share through the close of business on August 6, 2012, our trading price has ranged from $4.75 to $18.00. The trading price of our common stock may be subject to wide fluctuations in response to various factors, some of which are beyond our control, including:

- variations in our financial performance;
- announcements of technological innovations, new services and products, strategic alliances or significant agreements by us or by our competitors;
- recruitment or departure of key personnel;
- changes in the estimates of our operating results or changes in recommendations or withdrawal of research coverage by securities analysts;
- market conditions in our industry, the industries of our customers and the economy as a whole;
- adoption or modification of laws, regulations, policies, procedures or programs applicable to our business or announcements relating to these matters; and
- the expiration of contractual lock-up agreements.

In addition, if the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. Some companies that have had volatile market prices for their securities have had securities class actions filed against them. Such a suit filed against us, regardless of its merits or outcome, could cause us to incur substantial costs and could divert management s attention.

If securities or industry analysts do not publish research or reports about our company, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

The requirements of being a public company, including increased costs and demands upon management as a result of complying with federal securities laws and regulations applicable to public companies, may adversely affect our financial performance and our ability to attract and retain directors.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and the rules and regulations of The NASDAQ Global Market. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and NASDAQ, impose additional requirements on public companies, including enhanced corporate governance practices. For example, the NASDAQ listing requirements require that listed companies satisfy certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of business conduct. In addition, our management team has limited experience managing a publicly-traded company or complying with the increasingly complex laws pertaining to public companies. In addition, most of our current directors have limited experience serving on the boards of public companies. In order to have an effective board, these new directors and any other directors that join our board will need to integrate with our other directors and management and become familiar with our operations and growth strategies.

The requirements of these rules and regulations have increased and will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming and costly and may also place undue strain on our personnel, systems and resources. Our management and other personnel must devote a substantial amount of time to these requirements. These rules and regulations will also make it more difficult and more expensive for us to maintain directors and officers liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage. If we are unable to maintain adequate directors and officers insurance, our ability to recruit and retain qualified directors, especially those directors who may be considered independent for purposes of NASDAQ rules, and officers may be significantly curtailed.

Table of Contents

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

In February 2012, we completed the initial public offering of shares of our common stock, in which we issued and sold 5,454,545 shares of common stock at a price to the public of $5.00 per share, for aggregate gross proceeds to the Company of $27.3 million, in each case excluding shares of common stock sold by selling stockholders in the offering. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-178049), which was declared effective by the SEC on February 9, 2012. The syndicate of underwriters was led by Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc. as joint book-running managers for the offering. Stifel Nicolaus & Company, Incorporated, BMO Capital Markets Corp., Needham & Company, LLC and Oppenheimer & Co. Inc. served as co-managers for the offering.

The net proceeds to the Company from the initial public offering were approximately $22.4 million after deducting underwriting discounts of $1.9 million and offering costs of $3.0 million. No payments for such offering costs were made directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities or (iii) any of our affiliates other than the payment of certain legal expenses on behalf of our selling stockholders.

We intend to use the net proceeds from our initial public offering for working capital and other general corporate purposes, including financing our growth, developing new products and funding capital expenditures. Pending these uses, we have retained the net proceeds in cash and cash equivalent accounts. In the future, we may invest in money market funds and debt instruments of the U.S. government and its agencies and high credit quality corporate issuers.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The exhibits listed in the Index to Exhibits (following the signatures page of this Quarterly Report on Form 10-Q) are filed with, or incorporated by reference in, this Quarterly Report on Form 10-Q.

Table of Contents

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.

	SYNACOR, INC.	
Date: August 14, 2012	By:	/s/ RONALD N. FRANKEL **Ronald N. Frankel** **President and Chief Executive Officer** (Principal Executive Officer)
Date: August 14, 2012	By:	/s/ WILLIAM J. STUART **William J. Stuart** **Chief Financial Officer and Secretary** (Principal Financial and Accounting Officer)

40

Table of Contents

EXHIBIT INDEX

Exhibit No.	Exhibit
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Synacor, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed on August 14, 2012 formatted in Extensible Business Reporting Language (XBRL):
	(i) Condensed Consolidated Balance Sheets as of December 31, 2011 and June 30, 2012
	(ii) Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2012
	(iii) Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2011 and 2012
	(iv) Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2012
	(v) Notes to Condensed Consolidated Financial Statements

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.