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

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. an 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
- graphic arts
- healthcare communications
- instore design
- reputation consulting
- retail marketing
- search engine marketing
- 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.

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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,

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.

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.

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.

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:						
Foreign exchange impact	(210.7)	(5.8)%			(210.7)	(11.8)%
Acquisitions, net of dispositions	39.2	1.1%	20.0	1.1%	19.2	1.0%
Organic	(83.2)	(2.3)%	(106.4)	(5.8)%	23.2	1.3%
December 31, 2008	$ 3,371.3	(7.0)%	$ 1,759.5	(4.7)%	$ 1,611.8	(9.5)%

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 the rapidly changing economic conditions, we have less visibility than we historically have had regarding client spending plans in the near term. Client spending began to contract in the last half of 2008 and the contraction accelerated in the fourth quarter of 2008. The decline was broad-based across all industry segments and geographic areas. 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.

The components and percentages are calculated as follows:

- The foreign exchange impact component shown in the table is calculated by first converting the current period s local currency revenue using the average exchange rates from the equivalent prior period to arrive at a constant currency revenue (in this case $13,196.0 million and $3,582.0 million for the Total column in the table for the year and quarter, respectively). The foreign exchange impact equals the difference between the current period revenue in U.S. Dollars and the current period revenue in constant currency (in this case $13,359.9 million less $13,196.0 million and $3,371.3 million less $3,582.0 million for the Total column in the table for the year and quarter, respectively).
- The acquisition component shown in the table is calculated by aggregating the applicable prior period revenue of the acquired businesses. Netted against this number is the revenue of any business included in the prior period reported revenue that was disposed of subsequent to the prior period.
- The organic component shown in the table is calculated by subtracting both the foreign exchange and acquisition revenue components from total revenue growth.
- The percentage change shown in the table of each component is calculated by dividing the individual component amount by the prior period revenue base of that component (in this case $12,694.0 million and $3,626.0 million for the Total column in the table for the year and quarter, respectively).

The components of 2008 revenue and revenue growth for the full year and fourth quarter in our primary geographic markets are summarized and discussed below (dollars in millions):

	2008 Compared to 2007		Q4 2008 Compared to Q4 2007	
	Revenue	% Growth	Revenue	% Growth

United States	$ 6,890.0	2.8%	$1,759.5	(4.7)%
Euro Markets	2,985.6	10.2%	767.6	(7.6)%
United Kingdom	1,325.4	(4.9)%	298.9	(18.7)%
Other	2,158.9	14.5%	545.3	(6.2)%
Total	$13,359.9	5.2%	$3,371.3	(7.0)%

For the full year 2008, foreign exchange impacts increased our international revenue by $163.9 million. The most significant impacts resulted from the strengthening, especially during the first half of the year, of the Euro, Japanese Yen and Brazilian Real against the U.S. Dollar, which was offset primarily by the decline of the

British Pound and Korean Won against the U.S. Dollar. Beginning in the third quarter of 2008 and especially during the last four months of the year, the U.S. Dollar strengthened against most other major currencies. However, the foreign exchange impact for the year was still positive.

For the fourth quarter of 2008, foreign exchange impacts decreased our international revenue by $210.7 million. The most significant impacts resulted from the strengthening of the U.S. Dollar against the British Pound, Euro, Brazilian Real, Australian Dollar, and Korean Won, which was offset slightly by the weakening of the U.S. Dollar against the Japanese Yen.

Assuming exchange rates at January 30, 2009 remain unchanged, we expect foreign exchange impacts to decrease our full-year 2009 consolidated revenue by between 6.5% and 7.5%.

Additional geographic information relating to our business is contained in Note 4 to our consolidated financial statements.

Due to a variety of factors, in the normal course, our agencies both gain and lose business from clients each year. The net result in 2008 was an overall gain in new business. Under our client-centric approach, we seek to broaden our relationships with our largest clients. Revenue from our single largest client represented 2.8% of our worldwide revenue in both 2008 and 2007. No other client represented more than 2.1% in 2008 or more than 2.4% in 2007. Our ten largest and 100 largest clients represented 16.7% and 47.4% of our 2008 worldwide revenue, respectively, and 16.7% and 46.2% of our 2007 worldwide revenue, respectively.

Driven by our clients continuous demand for more effective and efficient branding activities, we strive to provide an extensive range of advertising, marketing and corporate communications services through various client-centric networks that are organized to meet specific client objectives. These services include advertising, brand consultancy, crisis communications, custom publishing, database management, digital and interactive marketing, direct marketing, directory advertising, entertainment marketing, environmental design, experiential marketing, field marketing, financial / corporate business-to-business advertising, graphic arts, healthcare communications, instore design, investor relations, marketing research, media planning and buying, mobile marketing services, multi-cultural marketing, non-profit marketing, organizational communications, package design, product placement, promotional marketing, public affairs, public relations, recruitment communications, reputation consulting, retail marketing, search engine marketing and sports and event marketing. In an effort to monitor the changing needs of our clients and to further expand the scope of our services to key clients, we monitor revenue across a broad range of disciplines and group them into the following four categories as summarized below: traditional media advertising, CRM, public relations and specialty communications.

	Year Ended December 31, (Dollars in millions)					
	2008		2007		2008 vs 2007	
	Revenue	% of Revenue	Revenue	% of Revenue	$ Growth	% Growth
Traditional media advertising	$ 5,731.8	42.9%	$ 5,463.7	43.0%	$268.1	4.9%
CRM	5,084.9	38.1%	4,645.7	36.6%	439.2	9.5%
Public relations	1,267.4	9.5%	1,273.1	10.0%	(5.7)	(0.4)%
Specialty communications	1,275.8	9.5%	1,311.5	10.4%	(35.7)	(2.7)%
	$13,359.9		$12,694.0		$665.9	5.2%

Operating Expenses: Our 2008 worldwide operating expenses increased $635.6 million, or 5.8%, to $11,670.5 million from $11,034.9 million in 2007, as shown below.

	Year Ended December 31, (Dollars in millions)							
	2008			2007			2008 vs 2007	
	$	% of Revenue	% of Total Operating Expenses	$	% of Revenue	% of Total Operating Expenses	$ Growth	% Growth
Revenue	$ 13,359.9			$ 12,694.0			$ 665.9	5.2%
Operating Expenses:								
Salary and service costs	9,560.2	71.6%	81.9%	9,008.2	71.0%	81.6%	552.0	6.1%
Office and general expenses	2,110.3	15.8%	18.1%	2,026.7	16.0%	18.4%	83.6	4.1%
Total Operating Expenses	11,670.5	87.4%		11,034.9	86.9%		635.6	5.8%
Operating Profit	$ 1,689.4	12.6%		$ 1,659.1	13.1%		$ 30.3	1.8%

Because we provide professional services, salary and service costs represent the largest part of our operating expenses. As a percentage of total operating expenses, salary and service costs were 81.9% in 2008 and 81.6% in 2007. These costs are comprised of salary and related costs and direct service costs. Salary and service costs accounted for $552.0 million of the $635.6 million increase in total operating expenses. During the first nine months of 2008, salary and service costs as a percentage of revenue increased slightly compared to the same period in 2007. However, given the reduction of revenue that occurred in the fourth quarter of 2008 compared to the fourth quarter of 2007, we took actions to reduce incentive compensation and our discretionary spending. As a result of taking these actions the ratio of salary and service costs as a percentage of revenue for the full year 2008 would have been similar to that of 2007; however, we reduced our work force in the fourth quarter of 2008 in anticipation of reductions in client spending in 2009 and we incurred expenses related to severance benefits that were $51 million greater than similar costs incurred in the fourth quarter of 2007. As a result of these incremental severance costs, salary and service costs as a percentage of revenue increased to 71.6% for the full year of 2008 compared to 71.0% in 2007.

Office and general expenses represented 18.1% and 18.4% of our operating expenses in 2008 and 2007, respectively. These costs are comprised of office and equipment rents, technology costs and depreciation, amortization of identifiable intangible assets, professional fees and other overhead expenses. As a percentage of revenue, office and general expenses decreased marginally in 2008 from 16.0% to 15.8%. These costs are less directly linked to changes in our revenues than our salary and service costs. Although they tend to increase as our revenues increase, the rate of increase could be more or less than the rate of increase in our revenues.

Net Interest Expense: Our net interest expense increased slightly by $0.3 million in 2008 to $74.3 million, as compared to $74.0 million in 2007. Our gross interest expense increased by $17.7 million to $124.6 million. The increase was primarily due to higher interest expense on our Euro and Yen denominated swaps, which were terminated in the second half of 2008, and additional interest expense due to an increase in our average debt outstanding, partially offset by interest expense savings in 2008 associated with a decrease in the amortization (in accordance with EITF No. 96-19, Debtor s Accounting for a Modification or Exchange of Debt Instruments (EITF 96-19) of supplemental interest payments that were made on our Zero Coupon Zero Yield Convertible Notes due 2032 and 2038 (2032 Notes and 2038 Notes) in prior periods. The total increase in gross interest expense was almost entirely offset by increased interest income earned on our foreign cash balances.

In February 2009, we borrowed $814.4 million under our credit facility to fund the purchase of our 2031 Notes by us and a partnership we control. Borrowings under the credit facility bear interest at either a floating base rate or the Eurocurrency rate, plus an applicable margin. As a result, we expect our gross interest expense to increase in 2009. Additionally, assuming exchange rates and interest rates at January 30, 2009 remain unchanged, we expect interest income earned on our foreign cash balances to decrease in 2009.

See Liquidity and Capital Resources and Quantitative and Qualitative Disclosures About Market Risk for a discussion of our indebtedness and related matters.

Income Taxes: Our 2008 consolidated effective income tax rate was 33.6%, which is down slightly from our 2007 rate of 33.9%, primarily due to lower rates in various foreign jurisdictions.

Earnings Per Share (EPS): For the foregoing reasons, our net income in 2008 increased $24.6 million, or 2.5%, to $1,000.3 million from $975.7 million in 2007. Diluted earnings per share increased 7.5% to $3.17 in 2008, as compared to $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. The reduction in our weighted average common shares outstanding was the result of our purchases throughout 2007 and the first eight months of 2008 of treasury shares, net of shares issued upon option exercises and shares issued under our employee stock purchase plan.

Financial Results from Operations 2007 Compared with 2006

	Year Ended December 31, (Dollars in millions, except per share amounts)	
	2007	**2006**
Revenue	$ 12,694.0	$ 11,376.9
Operating Expenses:		
Salary and service costs	9,008.2	8,087.8
Office and general expenses	2,026.7	1,805.6
	11,034.9	9,893.4

Operating Profit	1,659.1	1,483.5
Net Interest Expense:		
Interest expense	106.9	124.9
Interest income	(32.9)	(33.3)
	74.0	91.6
Income Before Income Taxes	1,585.1	1,391.9
Income Taxes	536.9	466.9
Equity in Earnings of Affiliates	38.4	29.6
Minority Interests	(110.9)	(90.6)
Net Income	$ 975.7	$ 864.0
Net Income Per Common Share:		
Basic	$ 2.99	$ 2.52
Diluted	2.95	2.50
Dividends Declared Per Common Share	$ 0.575	$ 0.500

The following year-over-year analysis gives further details and insight into the changes in our 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 changes in foreign currency rates between the years 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 2007 consolidated worldwide revenue increased 11.6% to $12,694.0 million from $11,376.9 million in 2006. The effect of foreign exchange impacts increased worldwide revenue by $436.8 million. Acquisitions, net of dispositions, increased 2007 worldwide revenue by $77.7 million and organic growth increased worldwide revenue by $802.6 million. The components of total 2007 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, 2006	$ 11,376.9		$ 6,194.0		$ 5,182.9	
Components of revenue changes:						
Foreign exchange impact	436.8	3.8%			436.8	8.4%
Acquisitions, net of dispositions	77.7	0.7%	42.5	0.7%	35.2	0.7%
Organic	802.6	7.1%	467.7	7.6%	334.9	6.5%
December 31, 2007	$ 12,694.0	11.6%	$ 6,704.2	8.2%	$ 5,989.8	15.6%

The components and percentages are calculated as follows:

- The foreign exchange impact component shown in the table is calculated by first converting the current period s local currency revenue using the average exchange rates from the equivalent prior period to arrive at a constant currency revenue (in this case $12,257.2 million for the Total column in the table). The foreign exchange impact equals the difference between the current period revenue in U.S. Dollars and the current period revenue in constant currency (in this case $12,694.0 million less $12,257.2 million for the Total column in the table).
- The acquisition component shown in the table is calculated by aggregating the applicable prior period revenue of the acquired businesses. Netted against this number is the revenue of any business included in the prior period reported revenue that was disposed of subsequent to the prior period.
- The organic component shown in the table is calculated by subtracting both the foreign exchange and acquisition revenue components from total revenue growth.
- The percentage change shown in the table of each component is calculated by dividing the individual component amount by the prior period revenue base of that component (in this case $11,376.9 million for the Total column in the table).

The components of 2007 revenue and revenue growth compared to 2006 in our primary geographic markets are summarized and discussed below (dollars in millions):

	Revenue	% Growth
United States	$ 6,704.2	8.2%
Euro Markets	2,709.7	16.9%
United Kingdom	1,393.8	13.3%
Other	1,886.3	15.3%
Total	$ 12,694.0	11.6%

As indicated, foreign exchange impacts increased our international revenue by $436.8 million for 2007. The most significant impacts resulted from the strengthening of the Euro, British Pound, Australian Dollar and Brazilian Real against the U.S. Dollar, which was offset primarily by the decline of the Japanese Yen against the U.S. Dollar. Additional geographic information relating to our business is contained in Note 4 to our consolidated financial statements.

Due to a variety of factors, in the normal course, our agencies both gain and lose business from clients each year. The net result in 2007, and historically each year for us as a whole, was an overall gain in new business. Under our client-centric approach, we seek to broaden our relationships with our largest clients. Revenue from our single largest client represented 2.8% of our worldwide revenue in 2007 and 3.6% in 2006. No other client represented more than 2.4% in 2007 or more than 2.9% in 2006. Our ten largest and 100 largest clients represented 16.7% and 46.2% of our 2007 worldwide revenue, respectively, and 18.3% and 46.2% of our 2006 worldwide revenue, respectively.

In an effort to monitor the changing needs of our clients and to further expand the scope of our services to key clients, we monitor revenue across a broad range of disciplines and group them into the following four categories as summarized below: traditional media advertising, CRM, public relations and specialty communications.

	Year Ended December 31, (Dollars in millions)		
	2007	2006	2007 vs 2006

	Revenue	% of Revenue	Revenue	% of Revenue	$ Growth	% Growth
Traditional media advertising	$ 5,463.7	43.0%	$ 4,879.2	42.9%	$ 584.5	12.0%
CRM	4,645.7	36.6%	4,072.6	35.8%	573.1	14.1%
Public relations	1,273.1	10.0%	1,145.8	10.1%	127.3	11.1%
Specialty communications	1,311.5	10.4%	1,279.3	11.2%	32.2	2.5%
	$ 12,694.0		$ 11,376.9		$ 1,317.1	11.6%

Operating Expenses: Our 2007 worldwide operating expenses increased $1,141.5 million, or 11.5%, to $11,034.9 million from $9,893.4 million in 2006, as shown below.

	Year Ended December 31, (Dollars in millions)							
	2007			2006			2007 vs 2006	
	$	% of Revenue	% of Total Operating Expenses	$	% of Revenue	% of Total Operating Expenses	$ Growth	% Growth
Revenue	$ 12,694.0			$ 11,376.9			$ 1,317.1	11.6%
Operating Expenses:								
Salary and service costs	9,008.2	71.0%	81.6%	8,087.8	71.1%	81.7%	920.4	11.4%
Office and general expenses	2,026.7	16.0%	18.4%	1,805.6	15.9%	18.3%	221.1	12.2%
Total Operating Expenses	11,034.9	86.9%		9,893.4	87.0%		1,141.5	11.5%
Operating Profit	$ 1,659.1	13.1%		$ 1,483.5	13.0%		$ 175.6	11.8%

Because we provide professional services, salary and service costs represent the largest part of our operating expenses. During 2007, we continued to invest in our businesses and their professional personnel. As a percentage of total operating expenses, salary and service costs were 81.6% in 2007 and 81.67% in 2006. These costs are comprised of salary and related costs and direct service costs. Most, or $920.4 million and 80.6%, of the $1,141.5 million increase in total operating expenses in 2007, resulted from increases in salary and service costs. This increase was attributable to the increase in our revenue in 2007 and the necessary increases in the direct costs required to deliver our services and pursue new business initiatives, including direct salaries, salary related costs and direct service costs, including freelance labor costs and direct administrative costs, such as travel, as well as increases in incentive-based compensation costs. This increase was partially offset by reductions in employee stock-based compensation expense. As a result, salary and service costs as a percentage of revenue were relatively stable year-to-year at 71.1% in 2006 compared to 71.0% in 2007.

Office and general expenses represented 18.4% and 18.3% of our operating expenses in 2007 and 2006, respectively. These costs are comprised of office and equipment rents, technology costs and depreciation, amortization of identifiable intangible assets, professional fees and other overhead expenses. As a percentage of revenue, office and general expenses increased marginally in 2007 from 15.9% to 16.0%, but remained flat year-over-year on a constant currency basis. These costs are less directly linked to changes in our revenues than our salary and service costs. Although they tend to increase as our revenues increase, the rate of increase could be more or less than the rate of increase in our revenues.

Included in office and general expense for 2006 operating margin is a pre-tax net loss of $0.5 million arising from the sale in the third quarter of a U.S.-based healthcare business and several small businesses. The sale of the healthcare business resulted in a high book tax rate primarily caused by the non-deductibility of goodwill. This increase in income tax expense was more than offset by a one-time reduction of income tax expense from the resolution of uncertainties related to changes in certain foreign tax laws. The aggregate impact of these events was a decrease in profit before tax of $0.5 million, a decrease in tax expense of $1.8 million and an increase in net income of $1.3 million.

Net Interest Expense: Our net interest expense in 2007 decreased by $17.6 million in 2007 to $74.0 million, as compared to $91.6 million in 2006. Our gross interest expense decreased by $18.0 million to $106.9 million. The decrease was primarily impacted by interest expense savings associated with the amortization, in accordance with EITF No. 96-19, of supplemental interest payments made with respect to our 2031 and 2032 Notes that were made in 2006, but not in 2007. This reduction was offset by $14.7 million of additional interest costs in the first quarter of 2007, compared to the first quarter of 2006, related to the issuance in late March 2006 of our 5.90% Senior Notes due April 15, 2006 (Senior Notes). During the third quarter of 2007, volatility in the financial markets resulted in an increase in borrowing spreads in the commercial paper markets. To mitigate the effect of these increased spreads, we arranged for $300 million in unsecured uncommitted lines of credit and shifted funding a portion of our daily needs to these lines from our commercial paper program. There were no borrowings outstanding under these lines at December 31, 2007, as these lines were terminated during the fourth quarter of 2007.

Income Taxes: Our 2007 consolidated effective income tax rate was 33.9%, which is up slightly from our 2006 rate of 33.5%. Excluding the net reduction in income tax expense in 2006, resulting from the resolution of uncertainties in the third quarter related to changes in certain tax laws that was somewhat offset by a high book tax rate related to dispositions in the third quarter of 2006, the tax rate in 2006 would have been 33.7%, which is more in line with the 2007 rate. In connection with our adoption of FIN 48, there was no significant change to our effective tax rate in 2007.

Earnings Per Share (EPS): For the foregoing reasons, our net income in 2007 increased $111.7 million, or 12.9%, to $975.7 million from $864.0 million in 2006. Diluted earnings per share increased 18.0% to $2.95 in 2007, as compared to $2.50 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. The reduction in our weighted average common shares outstanding was the result of our purchases throughout 2006 and 2007 of treasury shares, net of shares issued upon option exercises and shares issued under our employee stock purchase plan.

Liquidity and Capital Resources

Cash Sources and Requirements, Including Contractual Obligations

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

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

We have a seasonal working capital cycle. Working capital requirements are lowest at year-end. The fluctuation in working capital requirements between the lowest and highest points during the course of the year can be more than $1.5 billion. This cycle occurs because our businesses incur costs on behalf of our clients, including when we place media and incur production costs. We generally require collection from our clients prior to our payment for the media and production cost obligations. During the year, we manage liquidity through our credit facilities, as discussed below under Cash Management. At December 31, 2008, our cash and cash equivalents decreased by $695.9 million from December 31, 2007. The components of the decrease in 2008 are summarized below (dollars in millions):

SOURCES

Cash Flow from Operations		$ 1,394.2
Add back decrease in net working capital		12.0
Subtotal, Principal Cash Sources		1,406.2

USES

Capital expenditures	$ (212.2)	
Dividends paid	(192.0)	
Acquisition payments, net of cash acquired	(441.4)	
Purchase of treasury shares (net of proceeds from stock option exercises and stock sold in our employee stock purchase plan of $86.0 million)	(760.8)	
Subtotal, Principal Discretionary Cash Uses		(1,606.4)
Discretionary Cash Uses in Excess of Principal Cash Sources		(200.2)
Exchange rate changes		(356.3)
Other, principally financing activities		(127.4)
Deduct decrease in net working capital		(12.0)
Decrease in cash and cash equivalents		$ (695.9)

The Principal Cash Sources and Principal Discretionary Cash Uses amounts presented above are non-GAAP financial measures. These amounts exclude changes in working capital and certain other investing and financing activities, including commercial paper issuances and redemptions, used to fund these working capital changes. This presentation reflects the metrics used by us to assess our sources and uses of cash and was derived from our consolidated statements of cash flows. We believe that this presentation is meaningful for understanding our primary sources and primary uses of that cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Non-GAAP financial measures as reported by us may not be comparable to similarly titled amounts reported by other companies. Additional information regarding our cash flows can be found in our consolidated financial statements.

Cash Management

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

Our cash and cash equivalents decreased by $695.9 million and our short-term investments decreased by $32.7 million from the prior year. Short-term investments include investments of our excess cash which we expect to convert into cash in our current operating cycle, generally within one year. The majority of our short-term investments represent time deposits that mature in 2009. At December 31, 2008 and 2007, our short-term investments did not include any auction rate securities.

We manage our net debt position, which we define as total debt outstanding less cash and short-term investments, centrally through our treasury centers as discussed above. Our net debt outstanding at December 31, 2008 increased by $732.5 million as compared to the prior year-end, as summarized below (dollars in millions):

	2008	2007
Debt:		
Bank loans (due less than one year)	$ 16.2	$ 12.0
Commercial paper issued under $2.5 billion Revolver due June 23, 2011		
10-Year Notes due April 15, 2016	996.4	996.0
Convertible notes due February 7, 2031	847.0	847.0
Convertible notes due July 31, 2032	727.0	727.0
Convertible notes due June 15, 2033	0.1	0.2
Convertible notes due July 1, 2038	467.4	467.3
Other debt	19.1	19.8
Total Debt	3,073.2	3,069.3
Cash and short-term investments	1,112.4	1,841.0
Net Debt	$ 1,960.8	$ 1,228.3

On February 9, 2009, holders of $841.2 million aggregate principal amount of our 2031 Notes 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. The partnership will be consolidated within our financial statements.

Net Debt is a non-GAAP financial measure. We believe this presentation, together with the comparable GAAP measure, is meaningful for understanding our liquidity and it reflects one of the key metrics used by us to assess our cash management. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Non-GAAP financial measures as reported by us may not be comparable to similarly titled amounts reported by other companies.

Debt Instruments, Guarantees and Related Covenants

We maintain a credit facility with a consortium of banks providing borrowing capacity of up to $2.5 billion as described in Note 3 to our consolidated financial statements. Our credit facility provides back-up liquidity in the event any of our convertible notes are put back to us, as well as support for our commercial paper borrowings. Depending on market conditions at the time, we typically fund our daily borrowing needs by issuing commercial paper, borrowing under our short-term uncommitted lines of credit, or drawing down on our credit facility. During 2008, we issued and redeemed $14.7 billion of commercial paper and we borrowed and repaid $13.4 billion under the credit facility. The average term of the commercial paper was 4.4 days and the average borrowing under the credit facility was 15 days. As of December 31, 2008, we had no commercial paper or bank loans outstanding under our credit facility. At December 31, 2008, we had short-term borrowings of $16.2 million outstanding, which are comprised of bank overdrafts by our international subsidiaries. These bank overdrafts are treated as unsecured loans pursuant to the subsidiaries bank agreements.

Our credit facility contains financial covenants that restrict our ability to incur indebtedness as defined in the agreements. These financial covenants limit the ratio of total consolidated indebtedness to total consolidated EBITDA (under our credit agreement, EBITDA is defined as earnings before interest, taxes, depreciation and amortization) to no more than 3.0 times. In addition, they require us to maintain a minimum ratio of EBITDA to interest expense of at least 5.0 times. At December 31, 2008, we were in compliance with these covenants, as our ratio of debt to EBITDA was 1.6 times and our ratio of EBITDA to interest expense was 15.4 times. In addition, our credit facility does not limit our ability to declare or pay dividends.

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 credit ratings are A2, P2 and F2 by the respective agencies. Our outstanding Senior Notes, convertible notes and bank credit facilities do not contain provisions that require acceleration of cash payments should our debt credit ratings be downgraded. The interest rates and fees on our bank credit facilities, however, will increase if our long-term debt credit rating is lowered.

Our wholly-owned finance subsidiaries Omnicom Capital Inc. (OCI) and Omnicom Finance Inc. (OFI) provide funding for our operations by incurring debt and lending the proceeds to our operating subsidiaries. OCI and OFI s assets consist of intercompany loans made to our operating subsidiaries and the related interest receivable. OCI and OFI are co-issuers and co-obligors of our Senior Notes and convertible notes. There are no restrictions in the applicable indentures on the ability of OCI, OFI or us to obtain funds from our subsidiaries through dividends, loans or advances. The Senior Notes and convertible notes are a joint and several liability of us, OCI and OFI, and we unconditionally guarantee the obligations of OCI and OFI with respect to the Senior Notes and convertible notes.

In March 2006, we issued $1.0 billion aggregate principal amount of 5.90% Senior Notes due April 15, 2016. The gross proceeds from the issuance were $995.1 million. The gross proceeds less fees resulted in a 6.05% yield to maturity. The Senior Notes are senior unsecured notes that rank in equal right of payment with all existing and future unsecured indebtedness.

On March 31, 2006, we entered into an agreement to purchase 11.0 million shares of our outstanding common stock for $458.7 million. We repurchased the shares under an accelerated share repurchase (ASR) program with a financial institution at $41.705 per share with an initial settlement date of April 3, 2006. The purchase was funded using a portion of the proceeds from our Senior Notes offering. During the second quarter of 2006, the financial institution purchased the 11.0 million shares of our common stock in the open market and we paid a settlement amount of $45.1 million, referred to as the purchase price adjustment, based upon the difference between the actual cost of the shares purchased by the financial institution of $45.805 per share and the initial purchase price of $41.705 per share.

At December 31, 2008, we had a total of $2,041.5 million aggregate principal amount of convertible notes outstanding, including $847.0 million 2031 Notes that were issued in February 2001, $727.0 million 2032 Notes that were issued in March 2002, $0.1 million Zero Coupon Zero Yield Convertible Notes due 2033 that were issued in June 2003 and $467.4 million Zero Coupon Zero Yield Convertible Notes due 2038 (2038 Notes) that were originally issued in June 2003 as 2033 Notes that were subsequently amended in June 2006 to become the 2038 Notes.

The holders of our 2031 Notes have the right to cause us to repurchase up to the entire aggregate principal amount of the notes then outstanding for par value in February of each year. The holders of our 2032 Notes have the right to cause us to repurchase up to the entire aggregate principal amount of the notes then outstanding for par value in August of each year. The holders of our 2038 Notes have the right to cause us to repurchase up to the entire aggregate principal amount of the notes then outstanding for par value on June 15, 2010, 2013, 2018, 2023 and on each June 15 annually thereafter through June 15, 2037. The 2031, 2032, 2033 and 2038 Notes are convertible, at specified ratios, only upon the occurrence of certain events, including: if our common shares trade above certain levels, if we effect extraordinary transactions or, in the case of the 2031 Notes and the 2032 Notes, if 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. For additional information about the terms of these notes, see Note 3 to our consolidated financial statements.

In February 2006, we paid a supplemental interest payment of $39.2 million to qualified noteholders of our 2031 Notes that did not put their notes back to us. The total supplemental interest payment was amortized ratably over a 12-month period to the next put date in February 2007 in accordance with EITF 96-19.

In June 2006, we offered to pay a supplemental interest payment of $27.50 per $1,000 principal amount of notes to holders of our 2033 Notes that did not put their notes back to us and consented to the amendments to the notes and related indenture as of June 27, 2006. The principal amendment extended the maturity of the notes

from June 15, 2033 to July 1, 2038. The additional amendments conformed other terms of the notes for the extension of the maturity date, as well as amending the comparable yield. On June 21, 2006, we repurchased $132.5 million of 2033 Notes that were put to us. With respect to the remaining $467.5 million of 2033 Notes as of June 30, 2006, noteholders holding a combined amount of $428.1 million who consented to the amendments were paid $27.50 per $1,000 note and their notes were amended. The total supplemental interest payment of $11.7 million is being amortized ratably over a 24-month period to the next put date in accordance with EITF 96-19. The remaining noteholders of the 2033 Notes, comprising $39.4 million aggregate principal amount of notes, did not consent to the amendments and were not paid the supplemental interest payment. During 2007, substantially all of the remaining holders of the 2033 Notes exchanged their 2033 Notes for 2038 Notes, reducing the aggregate principal amount of our 2033 Notes to $0.2 million. No supplemental interest payment or fee was paid to noteholders for this exchange.

In July 2006, we offered to pay a supplemental interest payment of $32.50 per $1,000 principal amount of notes to holders of our 2032 Notes as of August 1, 2006 that did not put their notes back to us. On August 4, 2006, we repurchased $165.2 million of our 2032 Notes that were put to us. With respect to the remaining $727.0 million of notes, noteholders were paid a total supplemental interest payment of $23.6 million on August 2, 2006 which was amortized ratably over a 12-month period to the next put date in accordance with EITF 96-19.

In February 2007, we did not pay a supplemental interest payment to noteholders of our 2031 Notes. Additionally, none of the 2031 Notes were put back to us for repayment.

In July 2007, we did not pay a supplemental interest payment to noteholders of our 2032 Notes. Additionally, none of the 2032 Notes were put back to us for repayment.

In February 2008, we offered to pay a supplemental interest payment of $9.00 per $1,000 principal amount of notes to holders of our 2031 Notes as of February 4, 2008 who did not put their notes back to us. None of the 2031 Notes were put back to us and on February 8, 2008 noteholders were paid a total supplemental interest payment of $7.6 million that is being amortized ratably over a 12-month period to the next put date in accordance with EITF 96-19.

In June 2008, we did not pay a supplemental interest payment to noteholders of our 2033 Notes and 2038 Notes, and none of our 2033 Notes or 2038 Notes were put back to us for repurchase.

In July 2008, we offered to pay a supplemental interest payment of $25.00 per $1,000 principal amount of notes to holders of our 2032 Notes as of July 31, 2008 and we amended the 2032 Notes to eliminate Omnicom s right to redeem the 2032 Notes prior to August 2, 2010, provided that the noteholders deliver a valid consent to the amendment, agree not to put their notes back to us and waive their rights to contingent cash interest payable from October 31, 2008 through and including August 1, 2010. Substantially all of the noteholders consented to the amendments and all of the 2032 Notes remain outstanding. Noteholders were paid a total supplemental interest payment totaling $18.1 million that will be amortized ratably over a 12-month period to the next put date in accordance with EITF 96-19.

Our outstanding debt and amounts available under these facilities as of December 31, 2008 were as follows (dollars in millions):

	Debt Outstanding	Available Credit
Bank loans (due in less than one year)	$ 16.2	$
Commercial paper issued under		
$2.5 billion Revolver due June 23, 2011		2,500.0
Senior Notes due April 15, 2016	996.4	
Convertible notes due February 7, 2031	847.0	
Convertible notes due July 31, 2032	727.0	
Convertible notes due June 15, 2033	0.1	
Convertible notes due July 1, 2038	467.4	
Other debt	19.1	
Total	$ 3,073.2	$ 2,500.0

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Additional information about our indebtedness is included in Note 3 to our consolidated financial statements.

On February 9, 2009, holders of $841.2 million aggregate principal amount of our 2031 Notes 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. The partnership will be consolidated in accordance with Accounting Research Bulletin No. 51, Consolidated Financial Statements, as amended, and FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, and as a result, all of the 2031 Notes held by the partnership will be eliminated in consolidation.

The following table presents our outstanding debt at December 31, 2008, after giving effect to the purchase of the 2031 Notes and does not reflect any other financing activities that occurred subsequent to December 31, 2008 (dollars in millions):

Bank loans (due in less than one year)	$ 16.2
$2.5 billion Revolver due June 23, 2011	814.4
Senior Notes due April 15, 2016	996.4
Convertible notes due February 7, 2031	5.8
Convertible notes due July 31, 2032	727.0
Convertible notes due June 15, 2033	0.1
Convertible notes due July 1, 2038	467.4
Other debt	19.1
Total	$ 3,046.4

Credit Markets and Availability of Credit

In light of the uncertainty of future economic conditions, we continue to seek to take actions available to us to respond to changing economic conditions and we will continue to actively manage our discretionary expenditures. We have not repurchased any of our common stock since August 2008 and we do not plan to resume our repurchases until we believe that the credit markets have begun to stabilize. We will continue to monitor and manage the level of credit made available to our clients. We believe that these actions, in addition to the availability of our $2.5 billion credit facility, are sufficient to fund our near-term working capital needs and our discretionary spending. For additional information about our credit facility, see Note 3 to our consolidated financial statements.

The next date on which holders of the 2032 Notes can put the notes back to us for cash is July 2009. The next date on which holders of the 2033 Notes and 2038 Notes can put the notes back to us for cash is June 2010. If our convertible notes are put back to us, based on our current financial condition and expectations, we expect to have sufficient available cash and unused credit commitments to fund any put. Although such borrowings would reduce the amount available under our credit facility to fund our cash requirements, we believe that we have sufficient capacity under these commitments to meet our cash requirements for the normal course of our business operations after the put event.

In funding our day-to-day liquidity, we have historically been a participant in the commercial paper market. Recent disruptions in the credit markets have led to periods of illiquidity in the commercial paper market and higher credit spreads. To mitigate these conditions and to fund our day-to-day liquidity through the end of 2008, we used our uncommitted lines of credit and borrowed under our credit facility, while reducing the volume and the terms of our commercial paper borrowings.

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

Contractual Obligations and Other Commercial Commitments

We enter into numerous contractual and commercial undertakings in the normal course of our business. The following table summarizes information about certain of our obligations as of December 31, 2008 and should be read together with Note 3 (Debt), Note 8 (Income Taxes), Note 11 (Commitments and Contingent Liabilities), Note 12 (Fair Value of Financial Instruments) and Note 13 (Derivative Instruments and Hedging Activities) to our consolidated financial statements (dollars in millions):

	Due in Less than 1 Year	Due in 1 to 3 Years	Due in 3 to 5 Years	Due in More than 5 Years	Total