SEC Charges McCann-Erickson Worldwide With Accounting Fraud

Holding Company, Two Former Executives Also Charged

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Washington, D.C., May 1, 2008 — The Securities and Exchange Commission today filed enforcement actions against global advertising network McCann-Erickson Worldwide, its parent company, and two former executives for their roles in an accounting fraud involving intercompany transactions.

The SEC's complaint alleges that McCann, which owns hundreds of regional and local advertising agencies throughout the world, fraudulently misstated its financial results by improperly failing to expense intercompany charges that were instead recorded as receivables. Its holding company, Interpublic Group of Companies, Inc. (IPG), negligently failed to address the accounting problems at McCann, its largest subsidiary, resulting in material misstatements in its own financial reporting. IPG and McCann agreed to settle the SEC's charges, and McCann agreed to pay a $12 million penalty.

Additional Materials
- Litigation Release No. 20547
- SEC Complaint re: LaGreca
- SEC Complaint re: IPG

Linda Thomsen, Director of the SEC's Division of Enforcement, said, "A subsidiary that feeds misleading financial results to its parent defrauds the parent's public shareholders and will be held accountable."

Mark Schonfeld, Director of the SEC's New York Regional Office, added, "McCann ignored its intercompany problems year after year, and even worse purposely avoided addressing the problems to ensure it hit profit targets."

Also charged in a separate settled enforcement action were Salvatore LaGreca of Port Washington, N.Y., and Brian Watson, a resident of the United Kingdom. LaGreca served as McCann's Vice Chairman of Finance and Operations and its CFO from January 1996 to October 2002, and oversaw McCann's accounting, financial reporting, strategic planning, mergers and acquisitions, and budgeting. Watson, a resident of the United Kingdom, joined McCann's European-Middle East-Africa region (EMEA) as Director of Operations in 1996. Although he was not an accountant, he handled many aspects of the financial responsibilities when EMEA did not have a Finance Director.

The SEC's complaints allege that IPG restated its financial results in the fall of 2002 in the amount of $181 million for the period 1997 to 2002. The
2002 restatement was largely attributable to the fact that McCann had failed to report accurately its intercompany transactions. McCann officers and employees, including LaGreca and Watson, failed to ensure McCann reconciled its intercompany accounts for at least six years. At times, LaGreca and Watson purposely delayed reconciling intercompany accounts because they knew restatements would result in write-offs that would interfere with McCann's efforts to hit internal annual profit targets. Because McCann never fully reconciled its intercompany accounts and failed to expense properly intercompany charges, McCann's financial results were inaccurate. As LaGreca and Watson knew, IPG then incorporated McCann's financial results in IPG's consolidated financial statements.

According to the SEC's complaint, IPG's financial reporting problems were not resolved in 2002. In September 2005, IPG again restated its pre-tax income for the years 2000 through 2003 and the first nine months of 2004 in the amount of $420 million. A large portion of this restatement was related to $199 million of improperly recognized revenue related to Agency Volume Bonifications (AVBs) and other vendor discounts and credits that IPG took in violation of its contracts with certain of its clients. The 2005 restatement was necessary due to a substantial breakdown of internal controls at IPG and its numerous subsidiaries, including McCann.

IPG filed numerous Forms 10-K, 10-Q, 8-K, and registration statements that contained misrepresentations due to the intercompany issues, the AVB issues, and the various other issues reflected in the 2002 and 2005 restatements.

IPG, McCann, LaGreca and Watson agreed to settle the SEC's charges without admitting or denying the allegations. IPG agreed to consent to a final judgment permanently enjoining it from future violations of Sections 17(a)(2) and (3) of the Securities Act of 1933 and Sections 13(a) and 13(b)(2)(A) and (B) of the Securities Exchange Act of 1934 and Rules 12b-20, 13a-1, 13a-11 and 13a-13 thereunder.

In addition to the $12 million penalty, McCann agreed to consent to a final judgment permanently enjoining it from future violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and aided and abetted IPG's violations of Sections 13(a) and 13(b)(2)(A) and (B) of the Exchange Act, and Rules 12b-20, 13a-1, 13a-11 and 13a-13.

LaGreca and Watson agreed to consent to a final judgment permanently enjoining them from future violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and from aiding and abetting violation of Sections 13(a) and 13(b)(2)(A) and (B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13. LaGreca and Watson also agreed to pay penalties of $25,000 and $50,000, respectively, and pay disgorgement and pre-judgment interest of $46,947 and $17,325, respectively.

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