OMNICOM GROUP INC.
Form 10-Q
October 20, 2015

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

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

Commission File Number: 1-10551

OMNICOM GROUP INC.
(Exact name of registrant as specified in its charter)

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

Registrant’s telephone number, including area code: (212) 415-3600
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

As of October 15, 2015, there were 242,255,205 shares of Omnicom Group Inc. Common Stock outstanding.

OMNICOM GROUP INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2015

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FOWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements, including statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, from time to time, the Company or its representatives have made, or may make, forward-looking statements, orally or in writing. These statements may discuss goals, intentions and expectations as to future plans, trends, events, results of operations or financial condition, or otherwise, based on current beliefs of the Company's management as well as assumptions made by, and information currently available to, the Company's management. Forward-looking statements may be accompanied by words such as "aim," "anticipate," "believe," "plan," "could," "would," "should," "estimate," "expect," "forec "guidance," "intend," "may," "will," "possible," "potential," "predict," "project" or similar words, phrases or expressions. Thes forward-looking statements are subject to various risks and uncertainties, many of which are outside the Company's control. Therefore, you should not place undue reliance on such statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include: international, national or local economic, social or political conditions that could adversely affect the Company or its clients; losses on media purchases and production costs incurred on behalf of clients; reductions in client spending, a slowdown in client payments and changes in client advertising, marketing and corporate communications requirements; failure to manage potential conflicts of interest between or among clients; unanticipated changes relating to competitive factors in the advertising, marketing and corporate communications industries; ability to hire and retain key personnel; ability to attract new clients and retain existing clients in the manner anticipated; reliance on information technology systems; changes in legislation or governmental regulations affecting the Company or its clients; conditions in the credit markets; risks associated with assumptions the Company makes in connection with its critical accounting estimates and legal proceedings; and the Company's international operations, which are subject to the risks of currency fluctuation and currency repatriation restrictions. The foregoing list of factors is not exhaustive. You should carefully consider the foregoing factors and the other risks and uncertainties that may affect the Company's business, including those described in Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2014 and in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. Except as required under applicable law, the Company does not assume any obligation to update these forward-looking statements.

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
OMNICOM GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$1,427.5	$2,388.1
Short-term investments, at cost	2.5	2.2
Accounts receivable, net of allowance for doubtful accounts of $21.4 and $24.9	6,313.9	6,524.7
Work in process	1,455.3	1,166.6
Other current assets	1,053.6	1,108.9
Total Current Assets	10,252.8	11,190.5
Property and Equipment at cost, less accumulated depreciation of $1,227.5 and $1,221.2	691.3	708.0
Equity Method Investments	136.5	148.2
Goodwill	8,682.7	8,822.2
Intangible Assets, net of accumulated amortization of $662.1 and $611.4	338.9	389.4
Other Assets	355.1	301.4
TOTAL ASSETS	$20,457.3	$21,559.7
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$8,336.5	$8,797.5
Customer advances	1,181.6	1,180.9
Current portion of debt	1,003.4	0.4
Short-term borrowings	9.7	7.2
Taxes payable	240.7	301.1
Other current liabilities	1,615.0	1,774.0
Total Current Liabilities	12,386.9	12,061.1
Long-Term Notes Payable	3,602.2	4,562.6
Long-Term Liabilities	772.6	774.3
Long-Term Deferred Tax Liabilities	613.5	654.7
Commitments and Contingent Liabilities (See Note 11)		
Temporary Equity - Redeemable Noncontrolling Interests	178.5	185.7
Equity:		
Shareholders’ Equity:		
Preferred stock	—	—
Common stock	59.6	59.6
Additional paid-in capital	857.3	818.6
Retained earnings	9,968.8	9,576.9
Accumulated other comprehensive income (loss)	(981.6)	(618.2)
Treasury stock, at cost	(7,426.1)	(6,986.9)
Total Shareholders’ Equity	2,478.0	2,850.0
Noncontrolling interests	425.6	471.3
Total Equity	2,903.6	3,321.3
TOTAL LIABILITIES AND EQUITY	$20,457.3	$21,559.7

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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OMNICOM GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	$3,706.6	$3,749.6	$10,981.1	$11,122.7
Operating Expenses	3,278.3	3,316.0	9,636.5	9,758.0
Operating Income	428.3	433.6	1,344.6	1,364.7
Interest Expense	45.6	42.2	134.0	135.4
Interest Income	9.7	10.8	29.3	31.3
Income Before Income Taxes and Income From Equity Method Investments	392.4	402.2	1,239.9	1,260.6
Income Tax Expense	128.9	134.4	406.9	410.9
Income From Equity Method Investments	3.2	5.8	6.2	10.4
Net Income	266.7	273.6	839.2	860.1
Net Income Attributed To Noncontrolling Interests	27.4	29.8	76.9	85.6
Net Income - Omnicom Group Inc.	$239.3	$243.8	$762.3	$774.5
Net Income Per Share - Omnicom Group Inc.:				
Basic	$0.97	$0.95	$3.08	$2.97
Diluted	$0.97	$0.95	$3.06	$2.95
Dividends Declared Per Common Share	$0.50	$0.50	$1.50	$1.40

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

OMNICOM GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Income	$266.7	$273.6	$839.2	$860.1
Unrealized loss on cash flow hedge, net of income taxes of ($21.2) for the three months and ($6.6) for the nine months ended September 30, 2015	(29.7)	—	(9.2)	—
Unrealized gain on available-for-sale securities, net of income taxes of $0.0 and $0.0 for the three months and $0.1 and $0.2 for the nine months ended September 30, 2015 and 2014, respectively	0.1	0.1	0.3	0.3
Foreign currency translation adjustment, net of income taxes of ($109.4) and ($181.7) for the three months and ($203.7) and ($128.4) for the nine months ended September 30, 2015 and 2014, respectively	(212.6)	(352.6)	(395.7)	(249.3)
Defined benefit pension and postemployment plans adjustment, net of income taxes of $1.4 and $0.9 for the three months and $4.4 and $2.7 for the nine months ended September 30, 2015 and 2014, respectively	2.2	1.3	6.6	4.1
Other Comprehensive Income (Loss)	(240.0)	(351.2)	(398.0)	(244.9)
Comprehensive Income (Loss)	26.7	(77.6)	441.2	615.2
Comprehensive Income (Loss) Attributed to Noncontrolling Interests	9.8	2.2	42.3	69.2
Comprehensive Income (Loss) - Omnicom Group Inc.	$16.9	$(79.8)	$398.9	$546.0

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

OMNICOM GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	$839.2	$860.1
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	137.9	140.3
Amortization of intangible assets	80.8	77.1
Share-based compensation	75.4	69.5
Excess tax benefit from share-based compensation	(22.8)	(20.2)
Other, net	1.1	(1.8)
Change in operating capital	(670.8)	(1,091.9)
Net Cash Provided By Operating Activities	440.8	33.1
Cash Flows from Investing Activities:		
Capital expenditures	(145.6)	(138.3)
Acquisition of businesses and interests in affiliates, net of cash acquired	(36.2)	(65.3)
Other, net	13.1	6.5
Net Cash Used In Investing Activities	(168.7)	(197.1)
Cash Flows from Financing Activities:		
Proceeds from short-term debt	3.6	27.3
Redemption of convertible debt	—	(252.7)
Dividends paid to common shareholders	(373.9)	(340.7)
Repurchases of common stock	(507.9)	(864.8)
Proceeds from stock plans	11.4	14.6
Acquisition of additional noncontrolling interests	(7.7)	(22.0)
Dividends paid to noncontrolling interest shareholders	(86.7)	(83.2)
Payment of contingent purchase price obligations	(55.6)	(74.5)
Excess tax benefit on share-based compensation	22.8	20.2
Other, net	(28.0)	(21.7)
Net Cash Used In Financing Activities	(1,022.0)	(1,597.5)
Effect of foreign exchange rate changes on cash and cash equivalents	(210.7)	(111.3)
Net Decrease in Cash and Cash Equivalents	(960.6)	(1,872.8)
Cash and Cash Equivalents at the Beginning of Period	2,388.1	2,710.5
Cash and Cash Equivalents at the End of Period	$1,427.5	$837.7

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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OMNICOM GROUP INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Presentation of Financial Statements

The terms "Omnicom," the "Company," "we," "our" and "us" each refer to Omnicom Group Inc. and our subsidiaries, unless t context indicates otherwise. The accompanying unaudited condensed consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP" or "GAAP") for interim financial information and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosure have been condensed or omitted.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation, in all material respects, of the information contained herein. Certain reclassifications have been made to the prior year financial information to conform to the current year presentation. These unaudited condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014 ("2014 10-K"). Results for the interim periods are not necessarily indicative of results that may be expected for the year.

2. New Accounting Standards

In May 2014, the FASB issued FASB ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which replaces all existing revenue recognition guidance under U.S. GAAP. On July 9, 2015, the FASB board approved a one year deferral of the effective date of ASU 2014-09 for all annual and interim reporting periods beginning December 15, 2017 and permits early application for all annual and interim periods beginning after December 15, 2016. ASU 2014-09 provides for one of two methods of transition: retrospective application to each prior period presented or recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. The FASB has proposed further amendments to ASU 2014-09 for certain technical changes. Presently, we are not yet in a position to assess the application date, the transition method we will choose or the impact of the application on our results of operations or financial position.

In February 2015, the FASB issued FASB ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"), which changes the consolidation analysis for both the variable interest model and for the voting model for limited partnerships and similar entities. ASU 2015-02 is effective for annual and interim periods beginning after December 15, 2015 and early application is permitted. ASU 2015-02 provides for one of two methods of transition: retrospective application to each prior period presented or recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. We will apply ASU 2015-02 on January 1, 2016 and we do not expect that the application of the new standard will have a significant impact on our results of operations or financial position.

In April 2015, the FASB issued FASB ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), which requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of debt. ASU 2015-03 is effective for annual and interim periods beginning after December 15, 2015 and early application is permitted and requires retrospective application to each prior period presented. ASU 2015-03 only affects the presentation of debt issuance costs in the balance sheet and has no impact on results of operations. We will apply ASU 2015-03 on January 1, 2016 and we do not expect that the application of the new standard will have any impact on our results of operations or financial position.

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3. Net Income per Common Share

The computation of basic and diluted net income per common share for the three and nine months ended September 30, 2015 and 2014 is (in millions, except per share amounts):

	Three Months		Nine Months	
	2015	2014	2015	2014
Net Income Available for Common Shares:				
Net income - Omnicom Group Inc.	$239.3	$243.8	$762.3	$774.5
Net income allocated to participating securities	(2.5)	(4.3)	(9.0)	(14.7)
	$236.8	$239.5	$753.3	$759.8
Weighted Average Shares:				
Basic	243.2	251.4	244.7	255.6
Dilutive stock options and restricted shares	1.2	1.0	1.1	1.7
Diluted	244.4	252.4	245.8	257.3
Anti-dilutive stock options and restricted shares	0.1	—	0.1	—
Net Income per Common Share - Omnicom Group Inc.:				
Basic	$0.97	$0.95	$3.08	$2.97
Diluted	$0.97	$0.95	$3.06	$2.95

4. Goodwill and Intangible Assets

Goodwill and intangible assets at September 30, 2015 and December 31, 2014 were (in millions):

	2015			2014		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Goodwill	$9,219.2	$(536.5)	$8,682.7	$9,377.6	$(555.4)	$8,822.2
Intangible assets:						
Purchased and internally developed software	$309.2	$(238.1)	$71.1	$298.7	$(221.4)	$77.3
Customer related and other	691.8	(424.0)	267.8	702.1	(390.0)	312.1
	$1,001.0	$(662.1)	$338.9	$1,000.8	$(611.4)	$389.4

We evaluate goodwill for impairment at least annually at the end of the second quarter of the year and whenever events or circumstances indicate the carrying value may not be recoverable. At June 30, 2015, we performed Step 1 of the annual impairment test and compared the fair value of each of our reporting units to its respective carrying value, including goodwill. Based on the results of our impairment test, we concluded that our goodwill was not impaired at June 30, 2015 because the fair value of each of our reporting units was substantially in excess of its respective net book value.

Changes in goodwill for the nine months ended September 30, 2015 and 2014 were (in millions):

	2015	2014
January 1	$8,822.2	$8,916.0
Acquisitions	88.3	131.4
Dispositions	(2.9)	(1.6)
Foreign currency translation	(224.8)	(170.6)
September 30	$8,682.7	$8,875.2

There were no goodwill impairment losses recorded in the first nine months of 2015 or 2014 and there are no accumulated goodwill impairment losses. Goodwill for acquisitions completed in 2015 and 2014 includes $4.5 million and $27.6 million, respectively, of goodwill attributed to noncontrolling interests in the acquired businesses.

5. Debt

Credit Lines

On July 31, 2015, we extended the maturity of our $2.5 billion revolving credit facility (“Credit Agreement”) to July 31, 2020. In addition to the Credit Agreement, we can issue up to $2 billion of commercial paper and we have domestic and international uncommitted credit lines aggregating $1.3 billion and $937.8 million at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015 and December 31, 2014 there were no outstanding commercial paper issuances or borrowings under the Credit Agreement and the uncommitted credit lines.

Available and unused credit lines at September 30, 2015 and December 31, 2014 were (in millions):

	2015	2014
Credit Agreement	$2,500.0	$2,500.0
Uncommitted credit lines	1,267.7	937.8
Available and unused credit lines	$3,767.7	$3,437.8

The Credit Agreement contains financial covenants that require us to maintain a Leverage Ratio of consolidated indebtedness to consolidated EBITDA of no more than 3 times for the most recently ended 12-month period (EBITDA is defined as earnings before interest, taxes, depreciation and amortization) and an Interest Coverage Ratio of consolidated EBITDA to interest expense of at least 5 times for the most recently ended 12-month period. At September 30, 2015 we were in compliance with these covenants as our Leverage Ratio was 2.1 times and our Interest Coverage Ratio was 12.6 times. The Credit Agreement does not limit our ability to declare or pay dividends or repurchase our common stock.

Short-Term Borrowings

Short-term borrowings of $9.7 million and $7.2 million at September 30, 2015 and December 31, 2014, respectively, represent bank overdrafts and credit lines of our international subsidiaries. These borrowings are treated as unsecured loans pursuant to the agreements supporting the facilities. Due to the short-term nature of these borrowings, carrying value approximates fair value.

Long-Term Notes Payable

Long-term notes payable at September 30, 2015 and December 31, 2014 were (in millions):

	2015	2014
5.9% Senior Notes due 2016	$1,000.0	$1,000.0
6.25% Senior Notes due 2019	500.0	500.0
4.45% Senior Notes due 2020	1,000.0	1,000.0
3.625% Senior Notes due 2022	1,250.0	1,250.0
3.65% Senior Notes due 2024	750.0	750.0
Other notes and loans	0.4	0.5
	4,500.4	4,500.5
Unamortized premium (discount) on Senior Notes, net	10.4	11.1
Adjustment to carrying value for interest rate swaps	94.8	51.4
	4,605.6	4,563.0
Current portion of debt	(1,003.4)	(0.4)
Long-term notes payable	$3,602.2	$4,562.6

In connection with the maturity of our $1 billion 5.9% Senior Notes on April 15, 2016 (“2016 Notes”), on March 26, 2015, we entered into a $1 billion receive floating (three month LIBOR) pay fixed (2.3209%) forward-starting 10-year interest rate swap. The swap mitigates the risk of changes in the semi-annual interest payments during the period from March 26, 2015 to May 2, 2016, the contractual termination date of the swap, and effectively locks in the fixed interest rate, excluding the effect of our credit spread, on any refinancing of the 2016 Notes. The swap is designated as a cash flow hedge of the semi-annual interest rate payments attributable to changes in the benchmark interest rate. We expect that the swap will have almost no ineffectiveness and is carried on the balance sheet at fair value. Any net gain or loss on the swap is recorded in accumulated other comprehensive income. Upon termination of the swap, any gain or loss will be amortized to interest expense over the life of the new debt or will be recorded in our results of operations if the refinancing is not completed. At September 30, 2015, we recorded a liability of $15.8 million, which is included in other current liabilities and the related loss of $9.2 million, net of income taxes, is recorded in other comprehensive income. The 2016 Notes are classified as current.

In 2014, we entered into receive fixed pay floating interest rate swaps on the $1.25 billion principal amount of our 3.625% Senior Notes due 2022 (“2022 Notes”) and on the $1 billion principal amount of our 4.45% Senior Notes due 2020 (“2020 Notes”). The interest rate swaps hedge the risk of changes in fair value of the 2022 Notes and the 2020 Notes attributable to changes in the benchmark LIBOR interest rate. Under the swap contracts, we receive fixed interest rate payments equal to the coupon interest rate on the 2022 Notes and the 2020 Notes and pay a variable interest rate on the total principal amount of the notes, equal to three month LIBOR in arrears, plus a spread of 1.05% on the 2022 Notes and a spread of 2.16% on the 2020 Notes. The swaps qualify and are designated as fair value hedges on the 2022 Notes and 2020 Notes and have the economic effect of converting the 2022 Notes and the 2020 Notes from fixed rate debt to floating rate debt. Gains and losses attributed to changes in the fair value of the interest rate swaps substantially offset changes in the fair value of the 2022 Notes and the 2020 Notes attributed to changes in the benchmark interest rate. The net interest settlement is recorded in interest expense. At September 30, 2015 and December 31, 2014, we recorded a receivable, which is included in other assets, of $91.5 million and $42.7 million, respectively, representing the fair value of the swaps that was substantially offset by the increase in the carrying value of the 2022 Notes and the 2020 Notes reflecting the change in fair value of the notes. Accordingly, any hedge ineffectiveness was not material to our results of operations.

6. Segment Reporting

Our five branded agency networks operate in the advertising, marketing and corporate communications services industry, and are organized into agency networks, virtual client networks, regional reporting units and operating groups. The agency networks' regional reporting units comprise three principal regions; the Americas, EMEA and Asia Pacific. The regional reporting units monitor the performance and are responsible for the agencies in their region. Agencies within the regional reporting units serve similar clients in similar industries and in many cases the same clients and have similar economic characteristics. The main economic components of each agency are employee compensation and related costs and direct service costs and office and general costs which include rent and occupancy costs, technology costs and other overhead expenses. Therefore, given these similarities, we aggregate our operating segments, which are our five agency networks, into one reporting segment.

Revenue and long-lived assets and goodwill by geographic area as of and for the periods ended September 30, 2015 and 2014 were (in millions):

	Americas	EMEA	Asia Pacific
2015			
Revenue - Three months ended	$2,292.0	$1,027.8	$386.8
Revenue - Nine months ended	6,807.1	3,035.9	1,138.1
Long-lived assets and goodwill	6,107.8	2,750.4	515.8
2014			
Revenue - Three months ended	$2,224.4	$1,119.5	$405.7
Revenue - Nine months ended	6,600.9	3,355.1	1,166.7
Long-lived assets and goodwill	6,103.9	2,902.1	582.8

The Americas comprises North America, which includes the United States, Canada and Puerto Rico, and Latin America, which includes Mexico. EMEA comprises the United Kingdom, the Euro currency countries, other European countries that have not adopted the European Union Monetary standard, the Middle East and Africa. Asia

Pacific comprises Australia, China, India, Japan, Korea, New Zealand, Singapore and other Asian countries. Revenue in the United States for the three months ended September 30, 2015 and 2014 was $2,098.5 million and $2,004.3 million, respectively, and for the nine months ended September 30, 2015 and 2014 was $6,203.0 million and $5,937.4 million, respectively.

7. Income Taxes

Our effective tax rate for the nine months ended September 30, 2015 increased to 32.8% from 32.6% for the nine months ended September 30, 2014. The effective tax rate for the nine months ended September 30, 2014 reflects the recognition of an income tax benefit of approximately $11 million related to previously incurred expenses for the proposed merger with Publicis Groupe S.A. (“Publicis”). On May 8, 2014, the proposed merger was terminated. Prior to the termination of the merger, the majority of the merger costs, which were incurred in 2013, were capitalized for income tax purposes and the related tax benefits were not recorded. Because the merger was terminated, the merger costs were no longer required to be capitalized for income tax purposes. Excluding the income tax benefit of $11 million related to the proposed merger, the effective tax rate for the first nine months of 2014 was 33.5%. The decrease in the effective tax rate for the nine months ended September 30, 2015 from the effective tax rate for the nine months ended September 30, 2014 excluding the income tax benefit related to the proposed merger, is primarily due to a legal entity restructuring of our European operations. As a result of the reorganization, a certain portion of the foreign earnings in the affected countries is subject to lower effective tax rates.

At September 30, 2015, our net unrecognized tax benefits were $60.9 million. Of this amount, approximately $50.8 million would affect our effective tax rate upon resolution of the uncertain tax positions.

8. Pension and Other Postemployment Benefits

Defined Benefit Pension Plans

The components of net periodic benefit cost for the nine months ended September 30, 2015 and 2014 were (in millions):

	2015	2014
Service cost	$3.7	$5.5
Interest cost	5.2	5.5
Expected return on plan assets	(2.3)	(2.2)
Amortization of prior service cost	3.1	3.2
Amortization of actuarial (gains) losses	4.3	1.4
	$14.0	$13.4

We contributed $0.8 million and $0.7 million to our defined benefit pension plans in the nine months ended September 30, 2015 and 2014, respectively.

Postemployment Arrangements

The components of net periodic benefit cost for the nine months ended September 30, 2015 and 2014 were (in millions):

	2015	2014
Service cost	$3.6	$3.0
Interest cost		