

INTERPUBLIC GROUP OF COMPANIES INC  
Form 10-Q/A  
December 18, 2002

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

## FORM 10-Q/A

AMENDMENT NO. 1 TO QUARTERLY REPORT PURSUANT TO SECTION 13  
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2002**

OR

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

Commission File Number: 1 -6686

### **THE INTERPUBLIC GROUP OF COMPANIES, INC.**

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

13 -1024020

(I.R.S. Employer  
Identification No.)

1271 Avenue of the Americas, New York, New York

(Address of principal executive offices)

10020

(Zip Code)

Registrant's telephone number, including area code (212) 399 -8000

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock outstanding at July 31, 2002: 383,735,876 shares.

**EXPLANATORY NOTE**  
(Dollars in Millions)

The Interpublic Group of Companies, Inc. (the "Company") has restated its consolidated financial statements for periods from 1996 to June 2002. During the second and third quarters of 2002, the Company identified total charges of \$181.3 (\$135.9, net of tax) related to prior periods. Of the total amount of charges, \$18.2 related to the six months ended June 30, 2002 and \$12.4 related to the six months ended June 30, 2001. This Form 10-Q/A reflects the impact of the restatement on the consolidated financial statements for the three and six months ended June 30, 2002 and 2001. Note 2 to these restated consolidated financial statements shows the impact of the restatement on the Company's consolidated statement of operations for the three and six months ended June 30, 2002 and 2001. As noted therein, the previously filed Form 10-Q for the three and six months ended June 30, 2002 included the impact of \$68.5 of restatement charges. Such amount is included in the revised total charges of \$181.3.

As a result of a review undertaken surrounding the process of internally allocating certain overhead costs and reimbursable charges to operating units throughout the world, the Company identified and recorded \$101.0 of intracompany charges. The review related to McCann-Erickson WorldGroup ("McCann"). Cost allocations are performed by McCann in order to, among other things, satisfy regulatory authorities and measure client account profitability. The charges were principally in Europe and had been included in accounts receivable and work-in-progress rather than being expensed.

In addition to the intracompany charges, the Company identified an additional \$36.3 at McCann principally related to estimates of insurance proceeds not yet realized, specific write-offs of receivables and work-in progress, costs that had been capitalized rather than expensed and other items. An additional \$44.0 at subsidiaries other than McCann was identified. The largest component of the total was \$30.3 related to understated liabilities, which the Company has concluded date back to 1996 and prior, at a subsidiary within The Partnership. The understated liabilities were identified as a result of the Company changing a subsidiary ledger system. Additionally, the Company identified \$8.7 related to revenue and cost recognition adjustments at a subsidiary of Interpublic Sports and Entertainment Group.

This Form 10-Q/A amends the Form 10-Q filed by the Company on August 14, 2002, for the three and six months ended June 30, 2002. This amendment includes certain information required by Items 1 and 2 of Form 10-Q, including such restated consolidated financial statements (together with other information relating to such restated consolidated financial statements) and the Company's amended and restated management's discussion and analysis of financial condition and results of operations.

This Form 10-Q/A amends Items 1 and 2 of Part I of the Company's original Form 10-Q filing only, and no other information included in the Company's original Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2002, is amended by this amendment.

For additional discussion of developments relating to periods subsequent to June 30, 2002, please see the Company's reports filed with the Securities and Exchange Commission with respect to such subsequent periods, including the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

**THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES**  
**I N D E X**

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

Consolidated Statement of Operations  
Three months ended June 30, 2002  
and 2001 (unaudited)

Consolidated Statement of Operations  
Six months ended June 30, 2002  
and 2001 (unaudited)

Consolidated Balance Sheet  
June 30, 2002 (unaudited) and  
December 31, 2001

Consolidated Statement of Comprehensive Income  
Three months ended June 30, 2002  
and 2001 (unaudited)

Consolidated Statement of Comprehensive Income  
Six months ended June 30, 2002  
and 2001 (unaudited)

Consolidated Statement of Cash Flows  
Six months ended June 30, 2002  
and 2001 (unaudited)

Notes to Consolidated Financial Statements (unaudited)

Item 2. Management's Discussion and Analysis of  
Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures  
about Market Risk

**PART II. OTHER INFORMATION**

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

SIGNATURES

CERTIFICATIONS

## INDEX TO EXHIBITS

## PART I - FINANCIAL INFORMATION

Item 1.

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS  
THREE MONTHS ENDED JUNE 30,  
(Amounts in Millions, Except Per Share Amounts)  
(unaudited)

	<u>2002</u> <u>(Restated)</u>	2001 <u>(Restated)</u>
REVENUE	<u>\$1,612.7</u>	<u>\$1,759.8</u>
OPERATING EXPENSES:		
Salaries and related expenses	889.8	978.4
Office and general expenses	491.7	500.2
Amortization of intangible assets	2.3	42.2
Restructuring and other merger related costs	--	51.3
Goodwill impairment and other charges	<u>    --</u>	<u>  221.4</u>
 Total operating expenses	 <u>1,383.8</u>	 <u>1,793.5</u>
 OPERATING INCOME (LOSS)	 <u>  228.9</u>	 <u>  (33.7)</u>
		)
OTHER INCOME (EXPENSE):		
Interest expense	(36.9)	(41.4)

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

Interest income	8.1	10.1
Other income	10.3	3.3
Investment impairment	<u>(16.2)</u>	<u>--</u>
	)	
Total other income (expense)	<u>(34.7)</u>	<u>(28.0)</u>
	)	)
Income (loss) before provision for income taxes	194.2	(61.7)
Provision for income taxes	<u>75.4</u>	<u>46.2</u>
Income (loss) of consolidated companies	118.8	(107.9)
Income applicable to minority interests	(11.1)	(10.5)
Equity in net income of unconsolidated affiliates	<u>3.6</u>	<u>2.1</u>
NET INCOME (LOSS)	<u>\$ 111.3</u>	<u>\$ (116.3)</u>
		)
Earnings (loss) per share:		
Basic	\$ 0.30	\$ (0.32)
Diluted	\$ 0.29	\$ (0.32)
Weighted average shares:		
Basic	375.7	368.9
Diluted	382.4	368.9
Cash dividends per share	\$ 0.095	\$ 0.095

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

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS  
SIX MONTHS ENDED JUNE 30,

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

(Amounts in Millions, Except Per Share Amounts)

(unaudited)

	2002 <u>(Restated)</u>	2001 <u>(Restated)</u>
REVENUE	<u>\$3,032.7</u>	<u>\$3,434.6</u>
OPERATING EXPENSES:		
Salaries and related expenses	1,757.6	1,982.0
Office and general expenses	910.9	978.4
Amortization of intangible assets	3.8	84.1
Restructuring and other merger related costs	--	52.8
Goodwill impairment and other charges	<u>--</u>	<u>221.4</u>
 Total operating expenses	 <u>2,672.3</u>	 <u>3,318.7</u>
 OPERATING INCOME	 <u>360.4</u>	 <u>115.9</u>
OTHER INCOME (EXPENSE):		
Interest expense	(72.2)	(78.9)
Interest income	15.0	22.6
Other income	10.6	11.9
Investment impairment	<u>(16.2)</u>	<u>(160.1)</u>
	)	)
Total other income (expense)	<u>(62.8)</u>	<u>(204.5)</u>
	)	)
Income (loss) before provision for income taxes	297.6	(88.6)
Provision for income taxes	<u>114.4</u>	<u>44.1</u>

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

Income (loss) of consolidated companies	183.2	(132.7)
Income applicable to minority interests	(14.7)	(17.4)
Equity in net income of unconsolidated affiliates	<u>4.5</u>	<u>3.4</u>
NET INCOME (LOSS)	<u>\$ 173.0</u>	<u>\$ (146.7)</u>
		)
Earnings (loss) per share:		
Basic	\$ 0.46	\$ (0.40)
Diluted	\$ 0.45	\$ (0.40)
Weighted average shares:		
Basic	374.3	367.5
Diluted	381.1	367.5
Cash dividends per share	\$ 0.19	\$ 0.19

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

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(Amounts in Millions, Except Per Share Amounts)

ASSETS

	June 30, 2002 (Unaudited) <u>(Restated)</u>	December 31, 2001 <u>(Restated)</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 537.3	\$ 935.2
Account receivables (net of allowance for doubtful accounts: 2002-\$91.5; 2001-\$90.7)	4,913.8	4,674.9
Expenditures billable to clients	460.1	325.5
Deferred taxes on income	44.5	80.0
Prepaid expenses and other current assets	<u>390.3</u>	<u>337.6</u>

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

Total current assets	<u>6,346.0</u>	<u>6,353.2</u>
FIXED ASSETS, AT COST:		
Land and buildings	168.0	161.1
Furniture and equipment	1,125.3	1,083.2
Leasehold improvements	<u>504.6</u>	<u>461.4</u>
	1,797.9	1,705.7
Less: accumulated depreciation	<u>(938.6)</u>	<u>(858.0)</u>
	)	)
Total fixed assets	<u>859.3</u>	<u>847.7</u>
OTHER ASSETS:		
Investment in unconsolidated affiliates	177.8	159.6
Deferred taxes on income	467.4	492.8
Other assets and miscellaneous investments	435.3	430.8
Goodwill	3,321.9	3,004.2
Other intangible assets (net of accumulated amortization: 2002-\$32.2; 2001-\$24.0)	<u>92.9</u>	<u>102.2</u>
Total other assets	<u>4,495.3</u>	<u>4,189.6</u>
TOTAL ASSETS	<u>\$11,700.6</u>	<u>\$11,390.5</u>

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



THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(Amounts in Millions, Except Per Share Amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2002 (Unaudited) <u>(Restated)</u>	December 31, 2001 <u>(Restated)</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 4,807.8	\$ 4,555.5
Accrued expenses	1,021.0	1,321.3
Loans payable	598.6	453.1
Accrued income taxes	31.4	65.2
Dividends payable	<u>          --</u>	<u>          36.0</u>
Total current liabilities	<u>        6,458.8</u>	<u>        6,431.1</u>
<b>NON-CURRENT LIABILITIES:</b>		
Long-term debt	1,243.1	1,356.8
Convertible subordinated notes	556.5	548.5
Zero-coupon convertible senior notes	578.1	575.3
Deferred compensation	416.1	376.7
Accrued postretirement benefits	56.5	54.4
Other non-current liabilities	110.8	100.5
Minority interests in consolidated subsidiaries	<u>          89.1</u>	<u>          89.3</u>
Total non-current liabilities	<u>        3,050.2</u>	<u>        3,101.5</u>

Commitments and contingencies (Note 12)

**STOCKHOLDERS' EQUITY:**

Preferred stock, no par value,  
shares authorized: 20.0, shares issued: none

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

Common stock, \$0.10 par value, shares authorized: 550.0, shares issued: 2002 - 388.4; 2001 - 385.8	38.8	38.6
Additional paid-in capital	1,808.8	1,785.2
Retained earnings	1,022.5	886.1
Accumulated other comprehensive loss, net of tax	<u>(361.3)</u>	<u>(447.8)</u>
	)	)
	2,508.8	2,262.1
Less:		
Treasury stock, at cost: 2002 - 4.9 shares; 2001 - 7.3 shares	(193.5)	(290.2)
Unamortized deferred compensation	<u>(123.7)</u>	<u>(114.0)</u>
	)	)
Total stockholders' equity	<u>2,191.6</u>	<u>1,857.9</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$11,700.6</u>	 <u>\$11,390.5</u>

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

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
THREE MONTHS ENDED JUNE 30,  
(Amounts in Millions)  
(unaudited)

	2002 <u>(Restated)</u>	2001 <u>(Restated)</u>
Net Income (Loss)	<u>\$111.3</u>	<u>\$(116.3)</u>
		)
Foreign Currency Translation Adjustments	<u>107.7</u>	<u>(11.7)</u>

		)
Unrealized Holding Gains (Losses) on Securities		
Unrealized holding gains	--	9.2
Tax expense	--	(3.8)
Unrealized holding losses	(5.5)	--
Tax benefit	2.3	--
Reclassification of unrealized loss to net earnings	--	--
Tax benefit	<u>--</u>	<u>--</u>
Unrealized holding gains (losses) on securities	<u>(3.2)</u>	<u>5.4</u>
	)	
Comprehensive Income (Loss)	<u>\$215.8</u>	<u>\$(122.6)</u>
		)

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

-

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
SIX MONTHS ENDED JUNE 30,  
(Amounts in Millions)  
(unaudited)

	2002 <u>(Restated)</u>	2001 <u>(Restated)</u>
Net Income (Loss)	<u>\$173.0</u>	<u>\$(146.7)</u>
		)
Foreign Currency Translation Adjustments	<u>89.2</u>	<u>(99.0)</u>
		)
Unrealized Holding Gains (Losses) on Securities		

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

Unrealized holding gains	0.9	9.2
Tax expense	(0.4)	(3.8)
Unrealized holding losses	(5.5)	(7.7)
Tax benefit	2.3	3.2
Reclassification of unrealized loss to net earnings	--	89.4
Tax benefit	<u>---</u>	<u>(37.5)</u>
		)
Unrealized holding gains (losses) on securities	<u>(2.7)</u>	<u>52.8</u>
	)	
Comprehensive Income (Loss)	<u>\$259.5</u>	<u>\$(192.9)</u>
		)

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

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
SIX MONTHS ENDED JUNE 30,  
(Amounts in Millions)  
(unaudited)

	2002 <u>(Restated)</u>	2001 <u>(Restated)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 173.0	\$ (146.7)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization of fixed assets	98.7	104.1
Amortization of intangible assets	3.8	84.1
Amortization of restricted stock awards and bond discounts	39.4	33.4
Provision for (benefit of) deferred income taxes	59.3	(82.1)
Undistributed equity earnings	(4.5)	(3.4)
Income applicable to minority interests	14.7	17.4
Restructuring charges - non cash	--	30.2
Goodwill impairment and other	--	197.4

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

Investment impairment	16.2	160.1
Other	(9.7)	(8.7)
Change in assets and liabilities, net of acquisitions:		
Accounts receivable	(36.7)	220.2
Expenditures billable to clients	(121.9)	(58.8)
Prepaid expenses and other current assets	(29.6)	(42.8)
Accounts payable, accrued expenses and other current liabilities	(178.3)	(774.6)
Accrued income taxes	(35.6)	(62.7)
Other non-current assets and liabilities	<u>30.8</u>	<u>13.0</u>
Net cash provided by (used in) operating activities	<u>19.6</u>	<u>(319.9)</u>
		)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions, net of cash acquired	(206.5)	(142.4)
Capital expenditures	(81.9)	(124.7)
Proceeds from sales of businesses	0.2	12.2
Proceeds from sales of long-term investments	39.3	14.9
Purchases of long-term investments	(38.5)	(15.4)
Maturities of short-term marketable securities	23.5	15.6
Purchases of short-term marketable securities	(9.3)	(33.6)
Other investments and miscellaneous assets	<u>(56.4)</u>	<u>(86.1)</u>
	)	)
Net cash used in investing activities	<u>(329.6)</u>	<u>(359.5)</u>
	)	)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase in short-term bank borrowings	88.8	787.0
Proceeds from long-term debt	1.5	150.0
Payments of long-term debt	(132.1)	(261.7)
Treasury stock acquired	(7.7)	(100.1)
Issuance of common stock	44.2	56.4
Cash dividends - Interpublic	(72.5)	(59.5)
Cash dividends - pooled companies	<u>--</u>	<u>(15.1)</u>
		)

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

Net cash provided by (used in) financing activities	<u>(77.8)</u>	<u>557.0</u>
	)	
Effect of exchange rates on cash and cash equivalents	<u>(10.1)</u>	<u>(36.1)</u>
	)	)
Decrease in cash and cash equivalents	(397.9)	(158.5)
Cash and cash equivalents at beginning of year	<u>935.2</u>	<u>844.6</u>
Cash and cash equivalents at end of period	<u>\$ 537.3</u>	<u>\$ 686.1</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions, Except Per Share Amounts)  
(Unaudited)

1. Basis of Presentation

In the opinion of management, the financial statements included herein contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows at June 30, 2002 and for all periods presented. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in The Interpublic Group of Companies, Inc.'s (the "Company" or "Interpublic") December 31, 2001 Annual Report to Stockholders filed on Form 10-K/A. The operating results for the first six months of the year are not necessarily indicative of the results for the year or other interim periods.

Additionally, as discussed in Note 2, the Company identified total charges of \$181.3 that are related to prior periods. The total amount of charges has been recorded through a restatement of previously reported amounts.

Certain prior year amounts have been reclassified to conform with current year presentation. Additionally, as discussed in Note 7 below, the consolidated statement of operations is not comparable to the prior year reflecting a change in accounting principle pursuant to Statement of

Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

2. Restatement

During the second and third quarters of 2002, the Company identified total charges of \$181.3 (\$135.9, net of tax) that are related to prior periods. The total amount of charges has been recorded through a restatement of previously reported amounts in this Form 10-Q/A. Of the total amount of charges, \$18.2 related to the six months ended June 30, 2002 and \$12.4 related to the six months ended June 30, 2001.

As a result of a review undertaken surrounding the process of internally allocating certain overhead costs and reimbursable charges to operating units throughout the world, the Company identified and recorded \$101.0 of intracompany charges. The review related to McCann-Erickson WorldGroup ("McCann"). Cost allocations are performed by McCann in order to, among other things, satisfy regulatory authorities and measure client account profitability. The charges were principally in Europe and had been included in accounts receivable and work-in-progress rather than being expensed.

In addition to the intracompany charges, the Company identified an additional \$36.3 at McCann principally related to estimates of insurance proceeds not yet realized, specific write-offs of receivables and work-in progress, costs that had been capitalized rather than expensed and other items. An additional \$44.0 at subsidiaries other than McCann was identified. The largest component of the total was \$30.3 related to understated liabilities, which the Company has concluded date back to 1996 and prior, at a subsidiary within The Partnership. The understated liabilities were identified as a result of the Company changing a subsidiary ledger system. Additionally, the Company identified \$8.7 related to revenue and cost recognition adjustments at a subsidiary of Interpublic Sports and Entertainment Group.

As a result of the reviews undertaken, the Company is in the process of terminating certain employees, implementing other personnel changes and strengthening certain control processes in order to prevent the situations leading to the restatement from recurring.

See Note 13 for a description of waivers that have been secured to ensure compliance with credit agreements and a discussion of certain liquidity matters.

The Company has been informed by the Securities and Exchange Commission staff that it is conducting an informal inquiry into the matters discussed above. The Company is cooperating fully with the inquiry.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions, Except Per Share Amounts)  
(Unaudited)

The table below presents a summary of the impact of restating the statements of financial operations for the three and six months ended June 30, 2002 and 2001, and the balance sheet as of June 30, 2002 and December 31, 2001.

CONSOLIDATED STATEMENT OF OPERATIONS

	As Previously <u>Reported (a)</u>	As <u>Restated</u>
Three months ended June 30, 2002		
- Operating income	\$ 238.5	\$ 228.9
- Net income	\$ 117.0	\$ 111.3
- Earnings per share - Basic	\$ 0.31	\$ 0.30
- Earnings per share - Diluted	\$ 0.31	\$ 0.29
Six months ended June 30, 2002		
- Operating income	\$ 378.6	\$ 360.4
- Net income	\$ 183.7	\$ 173.0
- Earnings per share - Basic	\$ 0.49	\$ 0.46
- Earnings per share - Diluted	\$ 0.48	\$ 0.45
Three months ended June 30, 2001		
- Operating loss	\$ (26.2)	\$ (33.7)
- Net loss	\$(110.2)	\$(116.3)
- Loss per share - Basic	\$ (0.30)	\$ (0.32)
- Loss per share - Diluted	\$ (0.30)	\$ (0.32)
Six months ended June 30, 2001		
- Operating income	\$ 126.9	\$ 115.9
- Net loss	\$(139.0)	\$(146.7)
- Loss per share - Basic	\$ (0.38)	\$ (0.40)
- Loss per share - Diluted	\$ (0.38)	\$ (0.40)

CONSOLIDATED BALANCE SHEET



Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

June 30, 2002

CURRENT ASSETS:

Cash and cash equivalents	\$ 537.3	\$ 537.3
Accounts receivable	4,959.2	4,913.8
Other current assets	<u>910.4</u>	<u>894.9</u>

TOTAL CURRENT ASSETS	<u>\$ 6,406.9</u>	<u>\$ 6,346.0</u>
----------------------	-------------------	-------------------

TOTAL ASSETS	<u>\$11,772.6</u>	<u>\$11,700.6</u>
--------------	-------------------	-------------------

LIABILITIES AND  
STOCKHOLDERS' EQUITY:

CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 5,791.7	\$ 5,828.8
Loans payable	598.6	598.6
Accrued income taxes	<u>48.4</u>	<u>31.4</u>

TOTAL CURRENT LIABILITIES	<u>\$ 6,438.7</u>	<u>\$ 6,458.8</u>
---------------------------	-------------------	-------------------

NON-CURRENT LIABILITIES	<u>\$ 3,050.2</u>	<u>\$ 3,050.2</u>
-------------------------	-------------------	-------------------

STOCKHOLDERS' EQUITY	<u>\$ 2,283.7</u>	<u>\$ 2,191.6</u>
----------------------	-------------------	-------------------

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$11,772.6</u>	<u>\$11,700.6</u>
--	-------------------	-------------------

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions, Except Per Share Amounts)

(Unaudited)

	As Previously <u>Reported (a)</u>	As <u>Restated</u>
December 31, 2001		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 935.2	\$ 935.2
Accounts receivable	4,780.5	4,674.9
Other current assets	<u>751.5</u>	<u>743.1</u>
<b>TOTAL CURRENT ASSETS</b>	<b><u>\$ 6,467.2</u></b>	<b><u>\$ 6,353.2</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$11,514.7</u></b>	<b><u>\$11,390.5</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 5,841.7	\$ 5,876.8
Loans payable	453.1	453.1
Accrued income taxes	103.1	65.2
Dividends payable	<u>36.0</u>	<u>36.0</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>\$ 6,433.9</u></b>	<b><u>\$ 6,431.1</u></b>
<b>NON-CURRENT LIABILITIES</b>	<b><u>\$ 3,101.5</u></b>	<b><u>\$ 3,101.5</u></b>
<b>STOCKHOLDERS' EQUITY:</b>	<b><u>\$ 1,979.3</u></b>	<b><u>\$ 1,857.9</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$11,514.7</u></b>	<b><u>\$11,390.5</u></b>

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

(a) Of the \$181.3 (\$135.9, net of tax) restatement amount, \$68.5 (\$40.1, net of tax) was previously reported as income statement adjustments in the June 30, 2002 Form 10-Q. Also included in the restated stockholders' equity is a \$3.7 adjustment to foreign currency translation adjustments. The amounts noted above "as previously reported" were derived from the amounts reflected in the June 30, 2002 Form 10-Q.

3. Earnings (Loss)Per Share

The following sets forth the computation of earnings per share for the three and six month periods ended June 30, 2002 and 2001:

	<u>Three Months Ended June 30,</u>	
	2002 <u>(Restated)</u>	2001 <u>(Restated)</u>
Basic		
Net income (loss)	<u>\$ 111.3</u>	<u>\$(116.3)</u>
		)
Weighted average number of common shares outstanding	<u>375.7</u>	<u>368.9</u>
Earnings (loss) per share	<u>\$ 0.30</u>	<u>\$ (0.32)</u>
		)
Diluted (a)		
Net income (loss)	\$111.3	\$(116.3)
Addback income on assumed conversion of subordinated notes	<u>    --</u>	<u>    --</u>
Net income (loss) - diluted	<u>\$111.3</u>	<u>\$(116.3)</u>
		)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions, Except Per Share Amounts)  
(Unaudited)

Weighted average number of common shares outstanding	375.7	368.9
Weighted average number of incremental shares in connection with assumed conversion of subordinated notes	--	--
Weighted average number of incremental shares in connection with restricted stock and assumed exercise of stock options	<u>6.7</u>	<u>--</u>
Weighted average number of common shares outstanding - diluted	<u>382.4</u>	<u>368.9</u>
Earnings (loss) per share - diluted	<u>\$ 0.29</u>	<u>\$ (0.32)</u>

)

- (a) The computation of diluted EPS for 2002 excludes the assumed conversion of the 1.8% and 1.87% Convertible Subordinated Notes because they were anti-dilutive. The computation of diluted EPS for 2001 excludes the assumed conversion of the 1.80% and 1.87% Convertible Subordinated Notes, the conversion of restricted stock and assumed exercise of stock options because they were antidilutive.

Six Months Ended June 30,

	2002 (Restated)	2001 (Restated)
Basic		
Net income (loss)	<u>\$ 173.0</u>	<u>\$(146.7)</u>
Weighted average number of common shares outstanding	<u>374.3</u>	<u>367.5</u>
Earnings (loss) per share	<u>\$ 0.46</u>	<u>\$ (0.40)</u>

)

)

Diluted (b)		
Net income (loss)	\$173.0	\$(146.7)
Weighted average number of common shares outstanding	374.3	367.5
Weighted average number of incremental shares in connection with restricted stock and assumed exercise of stock options	<u>6.8</u>	<u>--</u>
Weighted average number of common shares outstanding - diluted	<u>381.1</u>	<u>367.5</u>
Earnings (loss) per share - diluted	<u>\$ 0.45</u>	<u>\$ (0.40)</u>

)

- (b) The computation of diluted EPS for 2002 and 2001 excludes the assumed conversion of the 1.8% and 1.87% Convertible Subordinated Notes because they were anti-dilutive. The computation of diluted EPS for 2001 excludes the conversion of restricted stock and assumed exercise of stock options because they were antidilutive.

4.

#### Restructuring and Other Merger Related Costs

Following the completion of the True North acquisition in June 2001, the Company initiated a series of operational initiatives focusing on: a) the integration of the True North operations and the identification of synergies and savings, b) the realignment of certain Interpublic businesses and c) productivity initiatives to achieve higher operating margins. In connection with the operational initiatives, the Company executed a wide-ranging restructuring plan that included severance, lease terminations and other actions. The total amount of the charges incurred in 2001 in connection with the plan was \$645.6.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions, Except Per Share Amounts)  
(Unaudited)

A summary of the remaining liability for restructuring and other merger related costs is as follows:

	Balance at December <u>31, 2001</u>	Cash paid through June <u>30, 2002</u>	Liability at June <u>30, 2002</u>
<b>TOTAL BY TYPE</b>			
Severance and termination costs	\$154.0	\$ 94.2	\$ 59.8
Lease termination and other exit costs	<u>157.1</u>	<u>39.4</u>	<u>117.7</u>
 Total	 <u>\$311.1</u>	 <u>\$133.6</u>	 <u>\$177.5</u>

As of June 30, 2002, the Company expects that 7,500 employees will be terminated in connection with the restructuring plan. Of that total, the majority of severance actions have occurred with the remainder to occur by the end of September. A significant portion of severance liabilities are expected to be paid out over a period of up to one year.

The employee groups affected by the restructuring program include all levels and functions across the Company: executive, regional and account management, administrative, creative and media production personnel. Approximately half of the headcount reductions relate to the U.S., one third relate to Europe (principally the UK, France and Germany), with the remainder relating to Latin America and Asia Pacific.

Lease termination costs, net of estimated sublease income, relate to the offices that have been or will be vacated as part of the restructuring. The Company plans to downsize or vacate approximately 180 locations and expects that all leases will have been terminated or the premises vacated or subleased by September 30, 2002. The cash portion of the charge will be paid out over a period of up to five years. The geographical distribution of offices to be vacated is similar to the geographical distribution of the severance charges. Lease termination and related costs include write-offs related to the abandonment of leasehold improvements as part of the office vacancies.

Other exit costs relate principally to the impairment loss on sale or closing of certain business units in the U.S. and Europe. In the aggregate, the businesses being sold or closed represent an immaterial portion of the revenue and operating profit of the Company. The write-off amount was computed based upon the difference between the estimated sales proceeds (if any) and the carrying value of the related assets. The sales and closures had been completed by June 30, 2002.

#### 5. Goodwill Impairment and Other Charges

In 2001, the Company determined that the goodwill attributable to certain acquisitions was in excess of its estimates of the entities' future cashflows. As a result, an impairment charge of \$303.1 (\$263.4, net of tax) had been recorded in 2001. Of the total write-off, \$221.4 was recorded in the second quarter of 2001, with the remainder recorded in the third quarter of 2001. The largest components of the goodwill impairment and other charges were Capita Technologies, Inc. (approximately \$145) and Zentropy Partners (approximately \$16), both internet services businesses. The remaining amount primarily related to several other businesses including internet services, healthcare consulting, and certain advertising

offices in Europe and Asia Pacific.

6. Investment Impairment

During the first quarter of 2001 the Company recorded a charge of \$160.1 related to the impairment of investments primarily in publicly traded internet-related companies, including marchFIRST, Inc. (an internet professional services firm), which had filed for relief under Chapter 11 of the Federal Bankruptcy Code in April 2001. The impairment charge adjusted the carrying value of investments to the estimated market value.

During the second quarter of 2002, the Company recorded investment impairment charges of \$16.2, primarily relating to certain investments of Octagon, a sports marketing company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions, Except Per Share Amounts)  
(Unaudited)

7. New Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS 141"), and No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). These statements were effective for fiscal years beginning after December 15, 2001. Under the new standards, the purchase method of accounting is required for all business combinations initiated after June 30, 2001 and goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their estimated useful lives.

During the first quarter of 2002, the Company performed the required impairment tests of goodwill and determined that there was no impairment required to be recognized upon adoption. The Company estimates that, based on its current intangible assets, amortization expense will be approximately \$6.0 to \$8.0 in each of the next five years.

In connection with SFAS 142, goodwill amortization ceased effective January 1, 2002. The following analysis shows the impact on the Company's statement of operations had SFAS 142 been effective for all periods presented:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	2002	2001	2002	2001
	<u>(Restated)</u>	<u>(Restated)</u>	<u>(Restated)</u>	<u>(Restated)</u>
Reported net income (loss)	\$111.3	\$(116.3)	\$173.0	\$(146.7)
	<u>---</u>	<u>35.0</u>	<u>---</u>	<u>70.3</u>

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

Add back: goodwill  
amortization, net of tax

Adjusted net income (loss)	<u>\$111.3</u>	<u>\$(81.3)</u>	<u>\$173.0</u>	<u>\$(76.4)</u>
		)		)

Basic earnings (loss) per  
share:

Reported earnings (loss)	\$0.30	\$(0.32)	\$0.46	\$(0.40)
Add back: goodwill amortization, net of tax	<u>---</u>	<u>0.10</u>	<u>---</u>	<u>0.19</u>
Adjusted earnings (loss)	<u>\$0.30</u>	<u>\$(0.22)</u>	<u>\$0.46</u>	<u>\$(0.21)</u>
		)		)

Diluted earnings (loss) per  
share:

Reported earnings (loss)	\$0.29	\$(0.32)	\$0.45	\$(0.40)
Add back: goodwill amortization, net of tax	<u>---</u>	<u>0.10</u>	<u>---</u>	<u>0.19</u>
Adjusted earnings (loss)	<u>\$0.29</u>	<u>\$(0.22)</u>	<u>\$0.45</u>	<u>\$(0.21)</u>
		)		)

In June 2001, Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("SFAS 143") was issued. SFAS 143 addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated retirement costs that result from the acquisition, construction, or development and normal operation of a long-lived asset. Upon initial recognition of a liability for an asset retirement obligation, SFAS 143 requires an increase in the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated to expense using a systematic and rational method over the asset's useful life. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The adoption of this statement is not expected to have an impact on the Company's financial position or results of operations.

In August 2001, Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* ("SFAS 144") was issued. SFAS 144 supersedes Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-lived Assets to be Disposed of* ("SFAS 121"), and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. SFAS 144 also amends ARB (Accounting Research Bulletins) No. 51, *Consolidated Financial Statements*, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions, Except Per Share Amounts)  
(Unaudited)

SFAS 144 retains the fundamental provisions of SFAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while resolving significant implementation issues associated with SFAS 121. Among other things, SFAS 144 provides guidance on how long-lived assets used as part of a group should be evaluated for impairment, establishes criteria for when long-lived assets are held for sale, and prescribes the accounting for long-lived assets that will be disposed of other than by sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The adoption of this statement did not have an impact on the Company's financial position or results of operations.

In November 2001, the Emerging Issues Task Force reached a consensus on Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred* ("EITF 01-14"). EITF 01-14 establishes that reimbursements received for certain out-of-pocket expenses should be reported as revenue and operating expenses in the statement of operations. Historically, the Company classified reimbursed out-of-pocket expenses as a reduction of operating expenses. The Company has adopted this guidance effective the first quarter of fiscal year 2002.

In June 2002, Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146") was issued. SFAS 146 changes the measurement and timing of recognition for exit costs, including restructuring charges, and is effective for any such activities initiated after December 31, 2002. It has no effect on charges recorded for exit activities begun prior to this date.

8. Derivative and Hedging Instruments

*Interest Rate Swaps*

At June 30, 2002, the Company had outstanding interest rate swap agreements covering all of the \$500.0, 7.875% notes due October 2005. The fair value of the hedges at June 30, 2002 was an asset of approximately \$19.9.

Hedges of Net Investments

The Company has repaid the Euro borrowings that, as of December 31, 2001, had been designated as a hedge of a net investment.

Forward Contracts

As of June 30, 2002, the Company had contracts covering approximately \$34.8 of notional amount of currency. As of June 30, 2002, the fair value of the forward contracts was an asset of \$3.0.

Other

The Company has two embedded derivative instruments under the terms of the offering of Zero-Coupon Convertible Notes. At June 30, 2002, the fair value of the two derivatives was negligible.

9. Segment Information

During the second quarter of 2002, the Company reorganized its operations. Prior to the second quarter the Company was organized into four global operating groups: a) McCann-Erickson WorldGroup ("McCann"), b) the FCB Group ("FCB"), c) The Partnership and d) Advanced Marketing Services ("AMS"). In the second quarter, the Company carved out certain operations related to certain sports and event planning activities and combined them to form a fifth global operating group, IPG Sports and Entertainment ("S&E"). Each of McCann, FCB, The Partnership, AMS and S&E operate with the same business objective which is to provide clients with a wide variety of services that contribute to the delivery of a message and to the maintenance or creation of a brand. However, the Partnership and AMS historically have had lower gross margins than the Company average. The five global operating groups share numerous clients, have similar cost structures, provide services in a similar fashion and draw their employee base from the same sources. The annual margins of each of the five groups may vary due to global economic conditions, client spending and specific circumstances such as the Company's restructuring activities. However, based on the respective future prospects of the five groups, the Company believes that the long-term average gross margin of each of these five groups will converge over time and, given the similarity of the operations, the five groups have been aggregated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions, Except Per Share Amounts)  
(Unaudited)

10. Acquisitions and Deferred Payments

During the first six months of 2002 the Company has completed 8 acquisitions. The companies acquired included those in the U.S. and Europe and included healthcare, public relations, direct marketing and research companies. In connection with these acquisitions, the Company paid \$43.1 in cash and issued shares with a value of \$1.1. Additionally, the Company paid \$2.0 in cash and \$0.8 in stock for additional ownership interests in companies in which a previous investment had been made. In connection with the acquisitions, approximately \$4.5 of cash was acquired.

During the first six months of 2002 the Company paid \$165.9 in cash and \$42.5 in stock as deferred payments on acquisitions that had closed in prior years. During the first six months of 2001 the Company paid \$78.0 in cash and \$29.7 in stock as deferred payments on acquisitions that had closed in prior years.

As of June 30, 2002, the Company's estimated liability for earn-outs is as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005 and after</u>	<u>Total</u>
Cash	\$46.9	\$120.4	\$72.1	\$66.6	\$306.0
Stock	<u>30.6</u>	<u>26.5</u>	<u>10.1</u>	<u>19.4</u>	<u>86.6</u>
<b>Total</b>	<b><u>\$77.5</u></b>	<b><u>\$146.9</u></b>	<b><u>\$82.2</u></b>	<b><u>\$86.0</u></b>	<b><u>\$392.6</u></b>

The amounts above are estimates based on the current projections as to the amount that will be paid and are subject to revisions as the earn-out periods progress.

In addition to the estimated liability for earn-outs, the Company has entered into agreements that require the Company to purchase additional equity interests in certain companies (put options). In many cases, the Company also has the option to purchase the additional equity interests (call options) in certain circumstances. The total amount of potential payments under put options is as follows:

	Exercisable as of <u>June 30, 2002</u>	Not Exercisable	<u>Total</u>
Cash	\$12.4	\$167.4	\$179.8
Stock	<u>4.1</u>	<u>24.5</u>	<u>28.6</u>
<b>Total</b>	<b><u>\$16.5</u></b>	<b><u>\$191.9</u></b>	<b><u>\$208.4</u></b>

The expected maturity of the \$208.4 is as follows: 2002 - \$21.7; 2003 - \$60.0; 2004 - \$17.0; 2005 and thereafter - \$109.7. The actual amount to be paid is contingent upon the achievement of projected operating performance targets and satisfying other conditions as specified in the relevant agreement.

The Company also has call options to acquire additional equity interests in companies in which it already has an ownership interest. The estimated amount that would be paid under such call options is \$43.5 and, in the event of exercise, would be paid as follows: 2002 - \$0.8; 2003 - \$17.8; 2004 - \$4.9; 2005 thereafter - \$20.0. The actual amount to be paid is contingent upon the achievement of projected operating performance targets and satisfying other conditions as specified in the relevant agreement.

#### 11. Debt

The Company's term loan agreements contain financial covenants that set minimum levels for net worth and for cash flow as a function of borrowed funds and maximum levels of borrowed funds as a function of net worth (as defined in these agreements). During the three months ended June 30, 2002, as a result of decreased cash flows and certain non-recurring charges for past quarters, the Company required and received amendments related to its financial covenants in the term loan agreements. In connection with

the amendments, the Company agreed to a 0.5% increase in interest rates pertaining to \$148.8 outstanding under the term loans. The Company believes that the additional interest payable is not material to the Company's financial position. At June 30, 2002, the Company was in compliance with all of its financial covenants in the term loan agreements, as amended.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Millions, Except Per Share Amounts)  
(Unaudited)

In addition, the Company has obtained waivers of certain provisions contained in its revolving credit agreements and term loan agreements relating to the restatement described in Note 2 to the Company's Consolidated Financial Statements.

12. Commitments and Contingencies

The Company is involved in legal and administrative proceedings of various types. While any litigation contains an element of uncertainty, the Company believes that the outcome of such proceedings or claims will not have a material adverse effect on the Company.

The Internal Revenue Service (IRS) is currently examining the Company's federal income tax returns for 1994 to 1996. While the audit is not complete, the IRS has recently indicated its intention to challenge certain of the Company's tax positions. The Company believes that its tax positions comply with applicable tax law and intends to defend its positions vigorously. The ultimate disposition of these matters could require the Company to make additional payment to the IRS. Nonetheless, the Company believes that it has adequately provided for any foreseeable payments related to these matters and consequently does not anticipate any material earnings impact from the ultimate resolution of these matters.

13. Subsequent Events

Debt and Certain Liquidity Matters

As a result of the restatement described in Note 2 to these consolidated financial statements, the Company required and received waivers to ensure compliance with credit agreements. The following discussion is based on amounts as of September 30, 2002, the most recent date for which a consolidated balance sheet has been filed on Form 10-Q.

As of September 30, 2002, the Company had two revolving credit facilities provided by a syndicate of banks (the "Revolving Credit Facilities") in an aggregate amount of \$875.0, which are utilized to fund the Company's ordinary course business needs. The Revolving Credit Facilities bear interest rates at either a bank's base rate or LIBOR, at the Company's option. Furthermore, the interest rate on base rate loans is affected by the facilities' utilization levels, and the interest rate on LIBOR loans is affected by

utilization levels and the Company's credit ratings. Based on the Company's current (December 13, 2002) credit ratings of BBB- and Baa3, as reported by Standard & Poor's and Moody's Investors Services, Inc., respectively, the current interest rate that the Company is paying for base rate loans is 4.25% and the interest spread with respect to LIBOR loans is 1.25%. At September 30, 2002, approximately \$103.5 was borrowed under these facilities, and as of December 13, 2002, approximately \$48.7 was borrowed. The Revolving Credit Facilities include financial covenants that set maximum levels of debt as a function of EBITDA and minimum levels of EBITDA as a function of interest expense (as defined in these agreements). As of September 30, 2002, the Company was in compliance with both of the financial covenants in the Revolving Credit Facilities.

The Company's note purchase agreements with The Prudential Insurance Company of America (the "Prudential Agreements") also contain financial covenants that set minimum levels for net worth and for cash flow as a function of borrowed funds and maximum levels of borrowed funds as a function of net worth (as defined in these agreements). Due to the impact on the Company's net worth resulting from (a) lower operating profit in the third quarter and (b) restructuring charges and lower operating profit in prior periods resulting from the restatement described in Note 2 to the Company's Consolidated Financial Statements, as of September 30, 2002, the Company required and received waivers related to its financial covenants in the Prudential Agreements.

In addition, the Company has obtained waivers of certain other provisions (excluding financial covenants) contained in its Revolving Credit Facilities and in certain of its term loan agreements, including the Prudential Agreements, which relate to the restatement. In connection with the waivers for its Revolving Credit Facilities, the Company agreed to an increase in interest rates and commitment fees payable to the lenders. In connection with the waivers for the Prudential Agreements, the Company agreed to increase the interest rates on the \$148.8 outstanding under the Prudential Agreements. As a result, the current interest rates on the notes issued pursuant to the Prudential Agreements range from 7.55% to 9.51%. In addition to the increase in interest rates on the Prudential Agreements and the Revolving Credit Facilities, the Company paid fees to the lenders as additional consideration for their granting the waivers and amendments discussed above. The impact of the fees paid and the increased interest rates will not be material to the Company's financial position, cash flows or results of operations.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions, Except Per Share Amounts)

(Unaudited)

The Company also agreed to amend the Revolving Credit Facilities and the Prudential Agreements prior to January 15, 2003 to include limitations that are mutually acceptable to the Company and the lenders on the ability of the Company (i) to make acquisitions or investments, (ii) to make capital expenditures, (iii) to declare or pay dividends and (iv) to repurchase shares or other debt securities. Until this amendment is effective, the Company agreed not to shorten the maturity or amortization of, or prepay any amounts under, its term loan agreements or any other long-term debt (other than (a) in connection with a debt refinancing having the same or later maturity or (b) prepayments pursuant to the terms of the Revolving Credit Facilities).

In addition to the Revolving Credit Facilities, at September 30, 2002, the Company had \$65 of committed lines of credit, all of which was provided by overseas banks which participate in the Company's Revolving Credit Facilities. At September 30, 2002, approximately \$57.2 was outstanding under these lines of credit.

At September 30, 2002 the Company also had \$717.0 of uncommitted lines of credit, \$459.9 of which was provided by banks which participate in the Company's Revolving Credit Facilities. At September 30, 2002, approximately \$326.4 was outstanding under these uncommitted lines of credit. The Company's uncommitted borrowings are repayable upon demand.

At September 30, 2002, the Company had contingent obligations under guarantees and letters of credit issued by banks for the account of the Company and its subsidiaries in an aggregate amount of approximately \$256.6.

The Company's liquidity in the third quarter of 2002 has been negatively impacted by lower profitability and issues resulting from the restatement. The Company believes that cash flow from operations, together with its availability under existing lines of credit and cash on hand, will be sufficient to fund the Company's working capital needs and other obligations on a timely basis. In the event additional funds are required, the Company believes it will have sufficient resources, including borrowing capacity and access to capital markets, to meet such requirements. Unanticipated decreases in cash flow from operations as a result of decreased demand for our services and other developments may require the Company to seek other sources of liquidity (including the disposition of certain non-core assets) and modify its operating strategies.

### Legal Matters

#### Federal Securities Class Actions

Thirteen federal securities purported class actions were filed against The Interpublic Group of Companies, Inc. (referred to hereinafter as "Interpublic" the "Company" or the "Registrant") and certain of its present and former directors and officers by a purported class of purchasers of Interpublic stock shortly after the Company's August 13, 2002 announcement regarding the restatement of its previously reported earnings for the periods January 1, 1997 through March 31, 2002. The purported classes consist of Interpublic shareholders who purchased Interpublic stock in the period from October 1997 to August 2002. These lawsuits allege that Interpublic and certain of its present and former directors and officers made a series of false and misleading statements to its shareholders between October 1997 and August 2002, including the alleged failure to disclose the existence of additional charges that would need to be expensed and the lack of adequate internal financial controls, which allegedly resulted in an overstatement of Interpublic's financial results during those periods. The suits allege that such false and misleading statements constitute violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. No amount of damages is specified in the complaints. These actions, filed in the United States District Court for the Southern District of New York, were consolidated and lead counsel was appointed for all plaintiffs at a hearing on November 8, 2002. A consolidated complaint is due on December 20, 2002. A response to the complaint is due on January 31, 2003.

#### State Securities Class Actions

Two state securities purported class actions were filed against the Company and certain of its present and former directors and officers by a purported class of purchasers of Interpublic stock shortly after the Company's November 13, 2002 announcement regarding the restatement of its previously reported earnings for the periods January 1, 1997 through March 31, 2002. The purported classes consist of Interpublic shareholders who acquired Interpublic stock on or about June 25, 2001 in connection with Interpublic's acquisition of True North Communications, Inc. ("True North"). These lawsuits allege that Interpublic and certain of its present and former directors and officers made a series of false and misleading statements in connection with the filing of a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions, Except Per Share Amounts)

(Unaudited)

registration statement on May 9, 2001 in which Interpublic issued 67,644,272 shares of its common stock for the purpose of acquiring True North., including the alleged failure to disclose the existence of additional charges that would need to be expensed and the lack of adequate internal financial controls, which allegedly resulted in an overstatement of Interpublic's financial results at that time. The suits allege that such false and misleading statements constitute violations of Sections 11 and 15 of the Securities Act of 1933. No amount of damages is specified in the complaints. These actions, which have not yet been served, were filed in the Circuit Court of Cook County, Illinois.

State Derivative Actions

In addition to the federal lawsuits, four shareholder derivative suits have been filed. A suit was filed on September 4, 2002 in New York Supreme Court, New York County, by a single shareholder acting on behalf of the Company against the Board of Directors. The suit alleges a breach of fiduciary duties to Interpublic's shareholders. The complaint does not state a specific amount of damages. An amended complaint was due to be filed on December 13, 2002. Interpublic will have 45 days to respond. On October 24, 2002, another shareholder derivative suit was filed in Delaware Court of Chancery, New Castle County, by a single shareholder acting on behalf of the Company against the Board of Directors. This suit also alleges a breach of fiduciary duties to Interpublic's shareholders. The complaint does not state a specific amount of damages. A response to the complaint is due on December 20, 2002. On November 15, 2002, a suit was filed in Delaware Court of Chancery, New Castle County, by a single shareholder acting on behalf of the Company against the Board of Directors. The complaint in this suit has not yet been served. On November 26, 2002, a derivative suit was filed in the New York Supreme Court, New York County. Interpublic has not yet been served with the complaint in this action. The claims in these actions are substantially identical to the claims asserted in the two suits referenced above.

The Company intends to vigorously defend the actions discussed above. While the proceedings are in the early stages and contain an element of uncertainty, the Company has no reason to believe that the final resolution of the actions will have a material adverse effect on its financial condition.

Item 2.

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

**RESULTS OF OPERATIONS**

As discussed in Note 2, during the second and third quarters of 2002, the Company identified total charges of \$181.3 (\$135.9, net of tax) that are related to prior periods. The total amount of charges has been recorded through a restatement of previously reported amounts in this Form 10-Q/A. Of the total amount of charges, \$18.2 related to the six months ended June 30, 2002 and \$12.4 related to the six months ended June 30, 2001.

As a result of a review undertaken surrounding the process of internally allocating certain overhead costs and reimbursable charges to operating units throughout the world, the Company identified and recorded \$101.0 of intracompany charges. The review related to McCann-Erickson WorldGroup ("McCann"). Cost allocations are performed by McCann in order to, among other things, satisfy regulatory authorities and measure client account profitability. The charges were principally in Europe and had been included in accounts receivable and work-in-progress rather than being expensed.

In addition to the intracompany charges, the Company identified an additional \$36.3 at McCann principally related to estimates of insurance proceeds not yet realized, specific write-offs of receivables and work-in progress, costs that had been capitalized rather than expensed and other items. An additional \$44.0 at subsidiaries other than McCann was identified. The largest component of the total was \$30.3 related to understated liabilities, which the Company has concluded date back to 1996 and prior, at a subsidiary within The Partnership. The understated liabilities were identified as a result of the Company changing a subsidiary ledger system. Additionally, the Company identified \$8.7 related to revenue and cost recognition adjustments at a subsidiary of Interpublic Sports and Entertainment Group.

As a result of the reviews undertaken, the Company is in the process of terminating certain employees, implementing other personnel changes and strengthening certain control processes in order to prevent the situations leading to the restatement from recurring.

See Note 13 for a description of waivers that have been secured to ensure compliance with credit agreements and a discussion of certain liquidity matters.

The Company has been informed by the Securities and Exchange Commission staff that it is conducting an informal inquiry into the matters discussed above. The Company is cooperating fully with the inquiry.

The following discussion relates to the results of the Company after giving effect to the adjustments for the changes described above.

All amounts discussed below are reported in accordance with generally accepted accounting principles ("GAAP") unless otherwise noted. In certain discussions below, the Company has provided comparative comments based on net income and expense amounts excluding non-recurring items (which are described in Non-Recurring Items below). Such amounts do not reflect GAAP; however, management believes they are a relevant and useful measure of financial performance.

The Company's results of operations are dependent upon: a) maintaining and growing its revenue, b) the ability to obtain new clients, c) the continuous alignment of its costs to its revenue and d) retaining key personnel. Revenue is also highly dependent on overall worldwide economic conditions.

### **Three Months Ended June 30, 2002 Compared to Three Months Ended June 30, 2001**

The Company reported net income of \$111.3 or \$0.29 diluted earnings per share and a net loss of \$116.3 or \$0.32 loss per share for the three months ended June 30, 2002 and 2001, respectively. Net income excluding non-recurring items was \$110.9 or \$0.29 diluted earnings per share for the three months ended June 30, 2001.



THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

The following table sets forth net income (loss) as reported and excluding non-recurring items:

	<u>Three Months Ended</u> <u>June 30,</u>	
	2002 <u>(Restated)</u>	2001 <u>(Restated)</u>
<u>Net Income (Loss)</u>		
	<u>\$111.3</u>	<u>\$ (116.3)</u>
Net income (loss), as reported		)
Less non-recurring items:		
Restructuring and other merger related costs	--	(51.3)
Goodwill impairment and other charges	--	(221.4)
	<u>    --</u>	<u>    45.5</u>
Tax effect of above items	<u>    --</u>	<u>(227.2)</u>
Total non-recurring items		)
	<u>\$111.3</u>	<u>\$ 110.9</u>
Net income, excluding non-recurring items		

**Revenue**

Worldwide revenue for the three months ended June 30, 2002 was \$1,612.7, a decrease of \$147.1 or 8.4% from the three months ended June 30, 2001. Domestic revenue, which represented 54% of revenue in the three months ended June 30, 2002, decreased \$138.7 or 13.8% from the same period in 2001. International revenue, which represented 46% of revenue in the three months ended June 30, 2002, decreased \$8.4 or 1.1% from the same period in 2001. International revenue would have decreased 6.7% excluding the effects of changes in foreign currency. The decrease in worldwide revenue was primarily a result of reduced demand for advertising and marketing services by current clients due to the weak economy, the loss of the Chrysler account in the fourth quarter of 2000 and the loss of accounts of Pepsi owned brands. The worldwide revenue decrease of (8.4)% was due to: net acquisitions/divestitures (0.4)%, impact of foreign currency changes 2.2%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (0.7)% and organic revenue decline (9.5)%. Organic changes in revenue are based on increases or decreases in net new business activity and increases or decreases in activity from existing client accounts.

The Company is a worldwide global marketing services company, providing clients with communications expertise in four broad areas: a) advertising and media management, b) marketing communications, which includes client relationship management (direct marketing), public relations, sales promotion, event marketing, on-line marketing and

healthcare marketing, c) marketing intelligence, which includes custom marketing research, brand consultancy and database management and d) marketing services, which includes sports and entertainment marketing, corporate meetings and events, retail marketing and other marketing and business services.

The following table sets forth the estimated revenue breakdown by type of service offering. Management of the Company believes that this breakdown is a useful measure of the types of global marketing services provided. This presentation does not represent the way in which the Company is organized or managed since most of the services are offered by each of the Company's global operating groups:

	<u>Three Months Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
Advertising and Media Management	\$ 957.1	\$1,054.6
Marketing Communications	420.8	462.2
Marketing Intelligence	124.0	113.4
	<u>110.8</u>	<u>129.6</u>
Marketing Services		
	<u>\$1,612.7</u>	<u>\$1,759.8</u>
Total Revenue		

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

#### Operating Expenses

Worldwide operating expenses for the three months ended June 30, 2002 decreased \$409.7 or 22.8% to \$1,383.8 compared to the three months ended June 30, 2001. Worldwide operating expenses excluding non-recurring items for the three months ended June 30, 2002 decreased \$137.0 or 9.0% compared to the three months ended June 30, 2001. The decrease in worldwide operating expenses reflects the benefit of the Company's 2001 restructuring plan and other operating cost reduction initiatives, and a decrease in amortization of intangible assets as a result of adoption of the new accounting pronouncement related to goodwill amortization (see Note 7). The decrease of (9.0)% was due to: net acquisitions/divestitures (0.2)%, impact of foreign currency changes 2.5%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (0.8)% and reductions in operating expenses from existing operations (10.5)%.

The Company's expenses related to employee compensation and various employee incentive and benefit programs amount to approximately 55.2% of revenue. Salaries and related expenses for the three months ended June 30, 2002 decreased \$88.6 or 9.1% to \$889.8 compared to the three months ended June 30, 2001. The decrease is primarily a result of lower headcount, which was reduced to 52,300 at June 30, 2002 compared with 59,500 at June 30, 2001 as a result of the Company's 2001 restructuring plan. The decrease of (9.1)% was due to: net acquisitions/divestitures (0.5)%, impact of foreign currency changes 2.4%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (0.4)% and reductions in salaries and related expenses from existing operations (10.6)%.

Office and general expenses decreased \$8.5 or 1.7% in the three months ended June 30, 2002 to \$491.7 compared to \$500.2 in the three months ended June 30, 2001. The increase was due primarily to the impact of foreign currency changes, the impact of the loss of the Chrysler and accounts of Pepsi owned brands and the benefit of the Company's 2001 restructuring plan initiatives, including reduced travel and entertainment costs and reduced office rental and supplies costs partially offset by an increase in bad debt expense. The decrease of (1.7)% was due to: net acquisitions/divestitures (0.8)%, impact of foreign currency changes 2.9%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (0.7)% and reductions in office and general expenses from existing operations (3.1)%.

Amortization of intangible assets was \$2.3 in the three months ended June 30, 2002 compared with \$42.2 in the second quarter of 2001. The decrease is a result of the adoption of the new standard on accounting for goodwill and other intangible assets effective January 1, 2002. Although SFAS 142 does not require that previously reported numbers be restated, amortization of intangible assets would have been \$1.0 million for the second quarter of 2001 under the new standard (see Note 7).

#### **OTHER INCOME (EXPENSE)**

##### ***Interest Expense***

Interest expense was \$36.9 in the second quarter of 2002 compared with \$41.4 in the second quarter of 2001. The decrease was primarily due to lower interest rates paid on short-term borrowings, the benefit of interest rate swap agreements covering all of the \$500.0, 7.875% notes and the issuance and sale of the Zero-Coupon Convertible Notes in December 2001. The Company used the net proceeds of \$563.2 from the Zero-Coupon Convertible Notes to repay indebtedness under the Company's credit facilities.

##### ***Interest Income***

Interest income was \$8.1 for the second quarter of 2002 compared with \$10.1 in the same period of 2001. The decrease in 2002 is primarily due to lower interest rates and lower average cash balances primarily resulting from the lower earnings levels.

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

##### ***Other Income***

Other income primarily consists of investment income, gains from the sale of businesses and gains (losses) on investments, primarily marketable securities classified as available-for-sale. Other income was \$10.3 for the second quarter of 2002 compared with \$3.3 for the second quarter of 2001. The gain in 2002 reflects gains on the sale of an unconsolidated affiliate in Europe and a marketing services affiliate in the U.S. The prior year included a gain on the sale of an unconsolidated affiliate.

##### ***Investment Impairment***

During the second quarter of 2002, the Company recorded investment impairment charges of \$16.2, primarily relating to certain investments of Octagon, a sports marketing company.

#### **OTHER ITEMS**

The Company's effective income tax rate was 38.8% for the second quarter of 2002 and (74.9)% for the second quarter of 2001. The 2001 effective tax rate was impacted by the restructuring and other merger related costs and the goodwill and other impairment charges, which resulted in a lower tax benefit rate. Excluding non-recurring items, the effective income tax rate was 38.8% for the second quarter of 2002 compared to 43.4% for the second quarter of 2001.

The 2002 effective income tax rate was impacted by the reduced amount of nondeductible goodwill amortization. The primary difference between the effective tax rate and the statutory federal rate of 35% in 2002 is due to state and local taxes.

Income applicable to minority interests was \$11.1 in the second quarter of 2002 compared to \$10.5 in the second quarter of 2001. The slight increase in the second quarter of 2002 was due to increased ownership of certain majority-owned affiliates in the U.S., partially offset by the sale of a majority-owned affiliate.

Equity in net income of unconsolidated affiliates was \$3.6 in the second quarter of 2002 compared to \$2.1 in the second quarter of 2001. The increase is primarily due to increased earnings of unconsolidated affiliates in Latin America and the U.S.

### **Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001**

The Company reported net income of \$173.0 or \$0.45 diluted earnings per share and a net loss of \$146.7 or \$0.40 loss per share for the six months ended June 30, 2002 and 2001, respectively. Net income excluding non-recurring items was \$185.8 or \$0.49 diluted earnings per share for the six months ended June 30, 2001.

The following table sets forth net income (loss) as reported and excluding non-recurring items:

	<u>Six Months Ended</u>	
	<u>June 30,</u>	
	2002	2001
	<u>(Restated)</u>	<u>(Restated)</u>
<u>Net Income (Loss)</u>		
	<u>\$173.0</u>	<u>\$ (146.7)</u>
Net income (loss), as reported		)
Less non-recurring items:		
Restructuring and other merger related costs	--	(52.9)
Goodwill impairment and other charges	--	(221.4)
Investment impairment	--	(160.1)
	<u>    --</u>	<u>    101.9</u>
Tax effect of above items		
	<u>    --</u>	<u>    (332.5)</u>
Total non-recurring items		)
	<u>\$173.0</u>	<u>\$ 185.8</u>
Net income, excluding non-recurring items		

**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Dollars in Millions, Except Per Share Amounts)

*Revenue*

Worldwide revenue for the six months ended June 30, 2002 was \$3,032.7, a decrease of \$401.9 or 11.7% from the six months ended June 30, 2001. Domestic revenue, which represented 56% of revenue in the six months ended June 30, 2002, decreased \$326.4 or 16.1% from the same period in 2001. International revenue, which represented 44% of revenue in the six months ended June 30, 2002, decreased \$75.5 or 5.4% from the same period in 2001. International revenue would have decreased 7.1% excluding the effects of changes in foreign currency. The decrease in worldwide revenue was primarily a result of reduced demand for advertising and marketing services by current clients due to the weak economy, the loss of the Chrysler account in the fourth quarter of 2000 and the loss of accounts of Pepsi owned brands. The worldwide revenue decrease of (11.7)% was due to: net acquisitions/divestitures (0.7)%, impact of foreign currency changes 0.7%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (0.8)% and organic revenue decline (10.9)%. Organic changes in revenue are based on increases or decreases in net new business activity and increases or decreases in activity from existing client accounts.

The Company is a worldwide global marketing services company, providing clients with communications expertise in four broad areas: a) advertising and media management, b) marketing communications, which includes client relationship management (direct marketing), public relations, sales promotion, event marketing, on-line marketing and healthcare marketing, c) marketing intelligence, which includes custom marketing research, brand consultancy and database management and d) marketing services, which includes sports and entertainment marketing, corporate meetings and events, retail marketing and other marketing and business services.

The following table sets forth the estimated revenue breakdown by type of service offering. Management of the Company believes that this breakdown is a useful measure of the types of global marketing services provided. This presentation does not represent the way in which the Company is organized or managed since most of the services are offered by each of the Company's global operating groups:

	<u>Six Months Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
Advertising and Media Management	\$1,800.6	\$2,074.3
Marketing Communications	805.5	908.2
Marketing Intelligence	226.4	218.9
	<u>200.2</u>	<u>233.2</u>
Marketing Services		
	<u>\$3,032.7</u>	<u>\$3,434.6</u>

Total Revenue  
Operating Expenses

Worldwide operating expenses for the six months ended June 30, 2002 decreased \$646.4 or 19.5% to \$2,672.3 compared to the six months ended June 30, 2001. Worldwide operating expenses excluding non-recurring items for the six months ended June 30, 2002 decreased \$372.2 or 12.2% compared to the six months ended June 30, 2001. The decrease in worldwide operating expenses reflects the benefit of the Company's 2001 restructuring plan and other operating cost reduction initiatives, and a decrease in amortization of intangible assets as a result of adoption of the new accounting pronouncement related to goodwill amortization (see Note 7). The decrease of (12.2)% was due to: net acquisitions/divestitures (0.7)%, impact of foreign currency changes 0.7%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (0.5)% and reductions in operating expenses from existing operations (11.7)%.

The Company's expenses related to employee compensation and various employee incentive and benefit programs amount to approximately 58.0% of revenue. Salaries and related expenses for the six months ended June 30, 2002 decreased \$224.4 or 11.3% to \$1,757.6 compared to the six months ended June 30, 2001. The decrease is primarily a result of lower headcount, which was reduced to 52,300 at June 30, 2002 compared with 59,500 at June 30, 2001 as a

result of the Company's 2001 restructuring plan. The decrease of (11.3)% was due to: net acquisitions/divestitures (0.7)%, impact of foreign currency changes 0.7%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (0.4)% and reductions in salaries and related expenses from existing operations (10.9)%.

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

Office and general expenses decreased \$67.5 or 6.9% in the six months ended June 30, 2002 to \$910.9 compared to \$978.4 in the six months ended June 30, 2001. The decrease was due primarily to the impact of foreign currency changes, the impact of the loss of the Chrysler account and accounts of Pepsi owned brands and the benefit of the Company's 2001 restructuring plan initiatives, including reduced travel and entertainment costs and reduced office rental and supplies costs partially offset by an increase in bad debt expense. The decrease of (6.9)% was due to: net acquisitions/divestitures (1.1)%, impact of foreign currency changes 0.8%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (0.7)% and reductions in office and general expenses from existing operations (5.9)%.

Amortization of intangible assets was \$3.8 in the six months ended June 30, 2002 compared with \$84.1 in the six months ended June 30, 2001. The decrease is a result of the adoption of the new standard on accounting for goodwill and other intangible assets effective January 1, 2002. Although SFAS 142 does not require that previously reported numbers be restated, amortization of intangible assets would have been \$1.9 million for the six months ended June 30, 2001 under the new standard (see Note 7).

**OTHER INCOME (EXPENSE)**

***Interest Expense***

Interest expense was \$72.2 in the first six months of 2002 compared with \$78.9 in the first six months of 2001. The decrease was primarily due to lower interest rates paid on short-term borrowings, the benefit of interest rate swap agreements covering all of the \$500.0, 7.875% notes and the issuance and sale of the Zero-Coupon Convertible Notes in December 2001. The Company used the net proceeds of \$563.2 from the Zero-Coupon Convertible Notes to repay indebtedness under the Company's credit facilities.

***Interest Income***

Interest income was \$15.0 for the first six months of 2002 compared with \$22.6 in the same period of 2001. The decrease in 2002 is primarily due to lower interest rates and lower average cash balances primarily resulting from the lower earnings levels.

***Other Income***

Other income primarily consists of investment income, gains from the sale of businesses and gains (losses) on investments, primarily marketable securities classified as available-for-sale. Other income was \$10.6 for the first six months of 2002 compared with \$11.9 for the first six months of 2001. The gain in 2002 reflects gains on the sale of an unconsolidated affiliate in Europe and a marketing services affiliate in the U.S. The prior year included gains on the sale of a marketing services affiliate and an unconsolidated affiliate in Europe, and non-core marketing services affiliates in the U.S.

***Investment Impairment***

During the second quarter of 2002, the Company recorded investment impairment charges of \$16.2, primarily relating to certain investments of Octagon, a sports marketing company.

**OTHER ITEMS**

The Company's effective income tax rate was 38.4% for the first six months of 2002 and (49.8)55.7% for the first six months of 2001. The 2001 effective tax rate was impacted by the restructuring and other merger related costs, goodwill impairment and other charges and the investment impairment charge, which resulted in a lower tax benefit rate. Excluding non-recurring items, the effective income tax rate was 38.4% for the first six months of 2002 compared to 42.2% for the first six months of 2001. The 2002 effective income tax rate was impacted by the reduced amount of nondeductible goodwill amortization. The primary difference between the effective tax rate and the statutory federal rate of 35% in 2002 is due to state and local taxes.

Income applicable to minority interests was \$14.7 in the first six months of 2002 compared to \$17.4 in the first six months of 2001. The decrease in the first six months of 2002 was primarily due to lower operating results of certain operations in Europe and Asia Pacific and the sale of a majority-owned affiliate in the U.S.

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

Equity in net income of unconsolidated affiliates was \$4.5 in the first six months of 2002 compared to \$3.4 in the first six months of 2001. The increase is primarily due to increased earnings of unconsolidated affiliates in Latin America and the U.S. offset by reduced earnings of unconsolidated affiliates in Europe.

**NON-RECURRING ITEMS*****RESTRUCTURING AND OTHER MERGER RELATED COSTS***

Following the completion of the True North acquisition in June 2001, the Company initiated a series of operational initiatives focusing on: a) the integration of the True North operations and the identification of synergies and savings, b) the realignment of certain Interpublic businesses and c) productivity initiatives to achieve higher operating margins. In connection with the operational initiatives, the Company executed a wide-ranging restructuring plan that included severance, lease terminations and other actions. The total amount of the charges incurred in 2001 in connection with the plan was \$645.6.

A summary of the remaining liability for restructuring and other merger related costs is as follows:

	Balance at December <u>31, 2001</u>	Cash paid through June <u>30, 2002</u>	Liability at June <u>30, 2002</u>
<b>TOTAL BY TYPE</b>			
Severance and termination costs	\$154.0	\$ 94.2	\$ 59.8
Lease termination and other exit costs	<u>157.1</u>	<u>39.4</u>	<u>117.7</u>
Total	<u>\$311.1</u>	<u>\$133.6</u>	<u>\$177.5</u>

As of June 30, 2002, the Company expects that 7,500 employees will be terminated in connection with the restructuring plan. Of that total, the majority of severance actions have occurred with the remainder to occur by the end of September. A significant portion of severance liabilities are expected to be paid out over a period of up to one year.

The employee groups affected by the restructuring program include all levels and functions across the Company: executive, regional and account management, administrative, creative and media production personnel. Approximately half of the headcount reductions relate to the U.S., one third relate to Europe (principally the UK, France and Germany), with the remainder relating to Latin America and Asia Pacific.

Lease termination costs, net of estimated sublease income, relate to the offices that have been or will be vacated as part of the restructuring. The Company plans to downsize or vacate approximately 180 locations and expects that all leases will have been terminated or the premises vacated or subleased by September 30, 2002. The cash portion of the charge will be paid out over a period of up to five years. The geographical distribution of offices to be vacated is similar to the geographical distribution of the severance charges. Lease termination and related costs include write-offs related to the abandonment of leasehold improvements as part of the office vacancies.

Other exit costs relate principally to the impairment loss on sale or closing of certain business units in the U.S. and Europe. In the aggregate, the businesses being sold or closed represent an immaterial portion of the revenue and operating profit of the Company. The write-off amount was computed based upon the difference between the estimated sales proceeds (if any) and the carrying value of the related assets. The sales and closures had been completed by June 30, 2002.

### ***GOODWILL IMPAIRMENT AND OTHER CHARGES***

Following the completion of the True North acquisition, in connection with the Company's initiative on realignment of certain Interpublic businesses, the Company evaluated the realizability of various assets. In connection with this review, undiscounted cash flow projections were prepared for certain investments, and the Company determined that the goodwill attributable to certain acquisitions was in excess of its estimates of the entities' future cashflows. As a result, an impairment charge of \$303.1 (\$263.4, net of tax) had been recorded in 2001. Of the total write-off, \$221.4

INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

was recorded in the second quarter of 2001, with the remainder recorded in the third quarter of 2001. The largest components of the goodwill impairment and other charges were Capita Technologies, Inc. (approximately \$145) and Zentropy Partners (approximately \$16), both internet services businesses. The remaining amount primarily related to several other businesses including internet services, healthcare consulting, and certain advertising offices in Europe and Asia Pacific.

### ***INVESTMENT IMPAIRMENT***

During the first quarter of 2001, the Company recorded a charge of \$160.1 related to the impairment of investments primarily in publicly traded internet-related companies, including marchFIRST, Inc. (an internet professional services firm), which had filed for relief under Chapter 11 of the Federal Bankruptcy Code in April 2001. The impairment



charge adjusted the carrying value of investments to the estimated market value.

At June 30, 2002, the Company had approximately \$134 of investments, of which approximately \$48 represents less than 20% owned and are accounted for on the cost basis and approximately \$86 represents available-for-sale securities.

### ***DERIVATIVE AND HEDGING INSTRUMENTS***

#### *Interest Rate Swaps*

At June 30, 2002, the Company had outstanding interest rate swap agreements covering all of the \$500.0, 7.875% notes due October 2005. The fair value of the hedges at June 30, 2002 was an asset of approximately \$19.9.

#### *Hedges of Net Investments*

The Company has repaid the Euro borrowings that, as of December 31, 2001, had been designated as a hedge of a net investment.

#### *Forward Contracts*

As of June 30, 2002, the Company had contracts covering approximately \$34.8 of notional amount of currency. As of June 30, 2002, the fair value of the forward contracts was an asset of \$3.0.

#### *Other*

The Company has two embedded derivative instruments under the terms of the offering of Zero-Coupon Convertible Notes. At June 30, 2002, the fair value of the two derivatives was negligible.

### **LIQUIDITY AND CAPITAL RESOURCES**

At June 30, 2002, cash and cash equivalents were \$537.3, a decrease of \$397.9 from the December 31, 2001 balance of \$935.2. The June 30, 2002 cash position was impacted by the severance and lease termination costs paid in connection with the Company's restructuring plan in addition to payouts of prior year incentives accruals in the second quarter of 2002.

The Company collects funds from clients on behalf of media outlets resulting in cash receipts and disbursements at levels substantially exceeding its revenue. Therefore, the working capital amounts reported on its balance sheet and cash flows from operating activities reflect the "pass-through" of these items.

Cash flow provided from operating activities, supplemented by seasonal short-term borrowings and long-term credit facilities, finance the operating, acquisition and capital expenditure requirements of the Company, in addition to dividend payments and repurchases of common stock.

#### **Operating Activities**

Cash flow from operations and borrowings under existing credit facilities, and refinancings thereof, have been the primary sources of the Company's working capital, and management believes that they will continue to be so in the future.

**INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

## Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

(Dollars in Millions, Except Per Share Amounts)

Net cash provided by (used in) operating activities was a source of \$19.6 compared to a use of \$319.9 for the six months ended June 30, 2002 and 2001, respectively. The decrease in cash used for the first six months of 2002 was primarily attributable to the reduction of cash used for working capital including reduced payments of incentives in the second quarter of 2002 partially offset by payments made in connection with the Company's restructuring plan. The Company paid \$133.6 related to severance, lease termination and other exit costs in connection with its restructuring plan. The Company's practice is to bill and collect from its clients in sufficient time to pay the amounts due for media on a timely basis. Other uses of working capital include acquisitions, capital expenditures, repurchase of the Company's common stock and payment of cash dividends.

### ***Investing Activities***

During the first six months of 2002 the Company has completed 8 acquisitions. The companies acquired included those in the U.S. and Europe and included healthcare, public relations, direct marketing and research companies. In connection with these acquisitions, the Company paid \$43.1 in cash and issued shares with a value of \$1.1. Additionally, the Company paid \$2.0 in cash and \$0.8 in stock for additional ownership interests in companies in which a previous investment had been made.

During the first six months of 2002 the Company paid \$165.9 in cash and \$42.5 in stock as deferred payments on acquisitions that had closed in prior years. During the first six months of 2001 the Company paid \$78.0 in cash and \$29.7 in stock as deferred payments on acquisitions that had closed in prior years.

The Company's capital expenditures in the first six months of 2002 were \$81.9 compared to \$124.7 in the first six months of 2001. The Company continues to expect that capital expenditures for 2002 will be lower than the prior year. The primary purposes of these expenditures were to upgrade computer and telecommunications systems and to modernize offices.

### ***Financing Activities***

Total debt at June 30, 2002 was \$2,976.3, an increase of \$42.6 from December 31, 2001. The Company's bank-provided revolving credit agreements include financial covenants that set maximum levels of debt as a function of EBITDA and minimum levels of EBITDA as a function of interest expense (as defined in these agreements). At June 30, 2002, the Company was in compliance with all of its financial covenants in the revolving credit agreements.

The Company's term loan agreements also contain financial covenants that set minimum levels for net worth and for cash flow as a function of borrowed funds and maximum levels of borrowed funds as a function of net worth (as defined in these agreements). During the three months ended June 30, 2002, as a result of decreased cash flows and certain non-recurring charges for past quarters, the Company required and received amendments related to its financial covenants in the term loan agreements. In connection with the amendments, the Company agreed to a 0.5% increase in interest rates pertaining to \$148.8 outstanding under the term loans. The Company believes that the additional interest payable is not material to the Company's financial position. At June 30, 2002, the Company was in compliance with all of its financial covenants in the term loan agreements, as amended.

In addition, the Company has obtained waivers of certain other provisions (not including financial covenants) contained in its revolving credit agreements and term loan agreements relating to the restatement described in Note 2 to the Company's Consolidated Financial Statements.

The Company renewed its 364-day, \$500.0 bank facility prior to its maturity in June 2002. At June 30, 2002, there were no borrowings under this facility.

The Company repaid its \$100 floating rate notes on June 28, 2002, the date of maturity. In addition, subsequent to June 30, 2002, the Company repaid an aggregate amount of \$16.7 to two lenders under a term loan agreement.

### ***Other***

During the first three months of 2001, the Company purchased approximately 1.1 million shares of its common stock. Since July 2001, the Company has not repurchased its common stock in the open market as its current holdings of treasury shares are sufficient to meet its needs for various compensation plans.

INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

*Subsequent Events*

As of September 30, 2002, the Company had two revolving credit facilities provided by a syndicate of banks (the "Revolving Credit Facilities") in an aggregate amount of \$875.0, which are utilized to fund the Company's ordinary course business needs. The Revolving Credit Facilities bear interest rates at either a bank's base rate or LIBOR, at the Company's option. Furthermore, the interest rate on base rate loans is affected by the facilities' utilization levels, and the interest rate on LIBOR loans is affected by utilization levels and the Company's credit ratings. Based on the Company's current (December 13, 2002) credit ratings of BBB- and Baa3, as reported by Standard & Poor's and Moody's Investors Services, Inc., respectively, the current interest rate that the Company is paying for base rate loans is 4.25% and the interest spread with respect to LIBOR loans is 1.25%. At September 30, 2002, approximately \$103.5 was borrowed under these facilities, and as of December 13, 2002, approximately \$48.7 was borrowed. The Revolving Credit Facilities include financial covenants that set maximum levels of debt as a function of EBITDA and minimum levels of EBITDA as a function of interest expense (as defined in these agreements). As of September 30, 2002, the Company was in compliance with both of the financial covenants in the Revolving Credit Facilities.

The Company's note purchase agreements with The Prudential Insurance Company of America (the "Prudential Agreements") also contain financial covenants that set minimum levels for net worth and for cash flow as a function of borrowed funds and maximum levels of borrowed funds as a function of net worth (as defined in these agreements). Due to the impact on the Company's net worth resulting from (a) lower operating profit in the third quarter and (b) restructuring charges and lower operating profit in prior periods resulting from the restatement described in Note 2 to the Company's Consolidated Financial Statements, as of September 30, 2002, the Company required and received waivers related to its financial covenants in the Prudential Agreements.

In addition, the Company has obtained waivers of certain other provisions (excluding financial covenants) contained in its Revolving Credit Facilities and in certain of its term loan agreements, including the Prudential Agreements, which relate to the restatement. In connection with the waivers for its Revolving Credit Facilities, the Company agreed to an increase in interest rates and commitment fees payable to the lenders. In connection with the waivers for the Prudential Agreements, the Company agreed to increase the interest rates on the \$148.8 outstanding under the Prudential Agreements. As a result, the current interest rates on the notes issued pursuant to the Prudential Agreements range from 7.55% to 9.51%. In addition to the increase in interest rates on the Prudential Agreements and the Revolving Credit Facilities, the Company paid fees to the lenders as additional consideration for their granting the waivers and amendments discussed above. The impact of the fees paid and the increased interest rates will not be material to the Company's financial position, cash flows or results of operations.

The Company also agreed to amend the Revolving Credit Facilities and the Prudential Agreements prior to January 15, 2003 to include limitations that are mutually acceptable to the Company and the lenders on the ability of the Company (i) to make acquisitions or investments, (ii) to make capital expenditures, (iii) to declare or pay dividends and (iv) to repurchase shares or other debt securities. Until this amendment is effective, the Company agreed not to shorten the maturity or amortization of, or prepay any amounts under, its term loan agreements or any other long-term debt (other than (a) in connection with a debt refinancing having the same or later maturity or (b) prepayments pursuant to the terms of the Revolving Credit Facilities).

In addition to the Revolving Credit Facilities, at September 30, 2002, the Company had \$65 of committed lines of credit, all of which was provided by overseas banks which participate in the Company's Revolving Credit Facilities. At September 30, 2002, approximately \$57.2 was outstanding under these lines of credit.

At September 30, 2002 the Company also had \$717.0 of uncommitted lines of credit, \$459.9 of which was provided by banks which participate in the Company's Revolving Credit Facilities. At September 30, 2002, approximately \$326.4 was outstanding under these uncommitted lines of credit. The Company's uncommitted borrowings are repayable upon demand.

At September 30, 2002, the Company had contingent obligations under guarantees and letters of credit issued by banks for the account of the Company and its subsidiaries in an aggregate amount of approximately \$256.6.

INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

The Company's liquidity in the third quarter of 2002 has been negatively impacted by lower profitability and issues resulting from the restatement. The Company believes that cash flow from operations, together with its availability under existing lines of credit and cash on hand, will be sufficient to fund the Company's working capital needs and other obligations on a timely basis. In the event additional funds are required, the Company believes it will have sufficient resources, including borrowing capacity and access to capital markets, to meet such requirements. Unanticipated decreases in cash flow from operations as a result of decreased demand for our services and other developments may require the Company to seek other sources of liquidity (including the disposition of certain non-core assets) and modify its operating strategies.

The Company has paid cash dividends at a quarterly rate of \$0.095 per share since the second quarter of 2000, when it was increased from \$0.085 per share. The determination of dividend payments is made by the Company's Board of Directors on a quarterly basis.

Based on current demand for the Company's services and the global economic environment, the Company believes that its cash flow from operations, together with its existing lines of credit and cash on hand, is sufficient to provide for the liquidity needs of its business. At June 30, 2002, the Company's committed credit facilities were \$938.2 of which \$106.8 was utilized at June 30, 2002. In addition, the Company has had success in the past accessing the debt markets for increased liquidity. Unanticipated decreases in cash flow from operations as a result of decreased demand for our services and other developments, including those described in the "Cautionary Statement" below, may require the Company to seek other sources of liquidity and modify its operating strategies.

As of June 30, 2002, the Company's estimated liability for earn-outs is as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005 and after</u>	<u>Total</u>
Cash	\$46.9	\$120.4	\$72.1	\$66.6	\$306.0
Stock	<u>30.6</u>	<u>26.5</u>	<u>10.1</u>	<u>19.4</u>	<u>86.6</u>
<b>Total</b>	<b><u>\$77.5</u></b>	<b><u>\$146.9</u></b>	<b><u>\$82.2</u></b>	<b><u>\$86.0</u></b>	<b><u>\$392.6</u></b>

The amounts above are estimates based on the current projections as to the amount that will be paid and are subject to revisions as the earn-out periods progress.

In addition to the estimated liability for earn-outs, the Company has entered into agreements that require the Company to purchase additional equity interests in certain companies (put options). In many cases, the Company also has the option to purchase the additional equity interests (call options) in certain circumstances. The total amount of potential payments under put options is as follows:

	Exercisable as of <u>June 30, 2002</u>	Not Exercisable	<u>Total</u>
Cash	\$12.4	\$167.4	\$179.8
Stock	<u>4.1</u>	<u>24.5</u>	<u>28.6</u>

<b>Total</b>	<u>\$16.5</u>	<u>\$191.9</u>	<u>\$208.4</u>
--------------	---------------	----------------	----------------

The expected maturity of the \$208.4 is as follows: 2002 - \$21.7; 2003 - \$60.0; 2004 - \$17.0; 2005 and thereafter - \$109.7. The actual amount to be paid is contingent upon the achievement of projected operating performance targets and satisfying other conditions as specified in the relevant agreement.

The Company also has call options to acquire additional equity interests in companies in which it already has an ownership interest. The estimated amount that would be paid under such call options is \$43.5 and, in the event of exercise, would be paid as follows: 2002 - \$0.8; 2003 - \$17.8; 2004 - \$4.9; 2005 thereafter - \$20.0. The actual amount to be paid is contingent upon the achievement of projected operating performance targets and satisfying other conditions as specified in the relevant agreement.

INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

#### OTHER MATTERS

##### *Argentina and Brazil*

As a result of the devaluation of currencies in Argentina and Brazil in recent months, the Company's cumulative translation adjustment balance reflected a reduction in stockholders' equity of approximately \$23.2 for the six months ended June 30, 2002. The Company expects to maintain its strategic investment in Argentina and Brazil for the long-term. Accordingly, the Company does not currently consider its investment in these countries to be permanently impaired.

##### *New Accounting Standards*

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS 141"), and No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). These statements were effective for fiscal years beginning after December 15, 2001. Under the new standards, the purchase method of accounting is required for all business combinations initiated after June 30, 2001 and goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their estimated useful lives.

During the first quarter of 2002, the Company performed the required impairment tests of goodwill and determined that there was no impairment required to be recognized upon adoption. The Company estimates that, based on its current intangible assets, amortization expense will be approximately \$6.0 to \$8.0 in each of the next five years.

In connection with SFAS 142, goodwill amortization ceased effective January 1, 2002. The following analysis shows the impact on the Company's statement of operations had SFAS 142 been effective for all periods presented:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	2002	2001	2002	2001
	<u>(Restated)</u>	<u>(Restated)</u>	<u>(Restated)</u>	<u>(Restated)</u>
Reported net income (loss)	\$111.3	\$(116.3)	\$173.0	\$(146.7)
Add back: goodwill amortization, net of tax	<u>    --</u>	<u>  35.0</u>	<u>    --</u>	<u>  70.3</u>

Adjusted net income (loss)	<u>\$111.3</u>	<u>\$ (81.3)</u>	<u>\$173.0</u>	<u>\$ (76.4)</u>
		)		)
Basic earnings (loss) per share:				
Reported earnings (loss)	\$0.30	\$(0.32)	\$0.46	\$(0.40)
Add back: goodwill amortization, net of tax	<u>    --</u>	<u>    0.10</u>	<u>    --</u>	<u>    0.19</u>
Adjusted earnings (loss)	<u>\$0.30</u>	<u>\$(0.22)</u>	<u>\$0.46</u>	<u>\$(0.21)</u>
		)		)
Diluted earnings (loss) per share:				
Reported earnings (loss)	\$0.29	\$(0.32)	\$0.45	\$(0.40)
Add back: goodwill amortization, net of tax	<u>    --</u>	<u>    0.10</u>	<u>    --</u>	<u>    0.19</u>
Adjusted earnings (loss)	<u>\$0.29</u>	<u>\$(0.22)</u>	<u>\$0.45</u>	<u>\$(0.21)</u>
		)		)

In June 2001, Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("SFAS 143") was issued. SFAS 143 addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated retirement costs that result from the acquisition, construction, or development and normal operation of a long-lived asset. Upon initial recognition of a liability for an asset retirement obligation, SFAS 143 requires an increase in the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated to expense using a systematic and rational method over the assets' useful life. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The adoption of this statement is not expected to have an impact on the Company's financial position or results of operations.

INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

In August 2001, Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* ("SFAS 144") was issued. SFAS 144 supersedes Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-lived Assets to be Disposed of* ("SFAS 121"), and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. SFAS 144 also amends ARB (Accounting Research Bulletins) No. 51, *Consolidated Financial Statements*, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary.

SFAS 144 retains the fundamental provisions of SFAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while resolving significant implementation issues associated with SFAS 121. Among other things, SFAS 144 provides guidance on how long-lived assets used as part of a group should be evaluated for impairment, establishes criteria for when long-lived assets are held for sale, and prescribes the accounting for long-lived assets that will be disposed of other than by sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The adoption of this statement did not have an impact on the Company's financial position or results of operations.

In November 2001, the Emerging Issues Task Force reached a consensus on Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred* ("EITF 01-14"). EITF 01-14 establishes that reimbursements received for certain out-of-pocket expenses should be reported as revenue and operating expenses in the statement of operations. Historically, the Company classified reimbursed out-of-pocket expenses as a reduction of operating expenses. The Company has adopted this guidance effective the first quarter of fiscal year 2002.

In June 2002, Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146") was issued. SFAS 146 changes the measurement and timing of recognition for exit costs, including restructuring charges, and is effective for any such activities initiated after December 31, 2002. It has no effect on charges recorded for exit activities begun prior to this date.

### **Item 3.**

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to market risk related to interest rates and foreign currencies.

##### ***Interest Rates***

At June 30, 2002, a significant portion of the Company's debt obligations was at fixed interest rates. Accordingly, for the fixed rate debt, assuming the fixed rate debt is not refinanced, there would be no impact on interest expense or cash flow from either a 10% increase or decrease in market rates of interest. The fair market value of the debt obligations would decrease by approximately \$31.0 on an annual basis if market rates were to increase by 10% and would increase by approximately \$33.0 on an annual basis if market rates were to decrease by 10%. For that portion of the debt that is either maintained at variable rates or is swapped into variable rates, based on amounts and rates outstanding at June 30, 2002, the change in interest expense and cash flow from a 10% change in rates would be approximately \$4.4 on an annual basis.

##### ***Foreign Currencies***

The Company faces two risks related to foreign currency exchange: translation risk and transaction risk. Amounts invested in the Company's foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in the stockholders' equity section of the balance sheet. The Company's foreign subsidiaries generally collect revenues and pay expenses in currencies other than the U.S. dollar. Since the functional currency of the Company's foreign operations is generally the local currency, foreign currency translation of the balance sheet is reflected as a component of stockholders' equity and does not impact operating results. Revenues and expenses in foreign currencies translate into varying amounts of U.S. dollars depending upon whether the U.S. dollar weakens or strengthens against other currencies. Therefore, changes in exchange rates may

INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(Dollars in Millions, Except Per Share Amounts)

negatively affect the Company's consolidated revenues and expenses (as expressed in U.S. dollars) from foreign operations. Currency transaction gains or losses arising from transactions in currencies other than the functional currency are included in results of operations. The Company has generally not entered into a material amount of foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

#### **CAUTIONARY STATEMENT**

This document contains forward-looking statements. Interpublic's representatives may also make forward-looking statements orally from time to time. Statements in this document that are not historical facts, including statements about Interpublic's beliefs and expectations, particularly regarding recent business and economic trends, the impact of litigation, the integration of acquisitions and restructuring costs, constitute forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and Interpublic undertakes no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those associated with the effects of national and regional economic conditions, Interpublic's ability to attract new clients and retain existing clients, the financial success of Interpublic's clients, developments from changes in the regulatory and legal environment for advertising and marketing and communications services companies around the world, and the successful completion and integration of acquisitions which complement and expand Interpublic's business capabilities.

Interpublic's liquidity could be adversely affected if Interpublic is unable to access the capital markets or to negotiate successfully further amendments to its Revolving Credit Facilities or the Prudential Agreements by January 15, 2003. In addition, Interpublic could be adversely affected by developments in connection with the purported class actions and derivative suits that it is defending or the SEC informal inquiry relating to the restatement.

At any given time, Interpublic may be engaged in a number of preliminary discussions that may result in one or more acquisitions or dispositions. These opportunities require confidentiality and from time to time give rise to bidding scenarios that require quick responses by Interpublic. Although there is uncertainty that any of these discussions will result in definitive agreements or the completion of any transactions, the announcement of any such transaction may lead to increased volatility in the trading price of Interpublic's securities.

The success of recent or contemplated future acquisitions will depend on the effective integration of newly-acquired businesses into Interpublic's current operations. Important factors for integration include realization of anticipated synergies and cost savings and the ability to retain and attract new personnel and clients.

In addition, Interpublic's representatives may from time to time refer to "pro forma" financial information. Because "pro forma" financial information by its very nature departs from traditional accounting conventions, this information should not be viewed as a substitute for the information prepared by Interpublic in accordance with GAAP, including the balance sheets and statements of income and cash flow contained in Interpublic's quarterly and annual reports filed with the SEC on Forms 10-Q and 10-K.

Investors should evaluate any statements made by Interpublic in light of these important factors.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS



<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
10(i)(A)	364-Day Credit Agreement, dated as of May 16, 2002 among Interpublic, the Initial Lenders named therein, Citibank, N.A. as Administrative Agent and Salomon Smith Barney Inc. as Lead Arranger and Book Manager (the "364 - Day Credit Agreement").*
10(i)(B)	Amendment No. 3 dated May 16, 2002, to a 5-Year Credit Agreement (the "5 - Year Credit Agreement") among Interpublic, the Initial Lenders named therein, Citibank, N.A. as Administrative Agent and Salomon Smith Barney Inc., as Lead Arranger and Book Manager.*
10(i)(C)	Waiver and Amendment Letter, dated August 6, 2002 to the 364-Day Credit Agreement.*
10(i)(D)	Waiver and Amendment Letter, dated August 6, 2002 to the 5-Year Credit Agreement.*
10(iii)A(i)	Deferred Compensation Agreement, dated as of April 1, 2002 between Interpublic and Jill M. Considine.*
10(iii)(A)(ii)	Executive Severance Agreement, dated as of April 18, 2002 between Interpublic and Bruce Nelson.*
10(iii)(A)(iii)	The Interpublic Group of Companies, Inc. 2002 Performance Incentive Plan, incorporated herein by reference to Appendix A to Schedule 14A, filed April 17, 2002.*

(b) REPORTS ON FORM 8-K.

The following Reports on Form 8-K were filed during the quarter ended June 30, 2002.

- 1) Report, dated May 2, 2002. Item 5 Other Events and Item 7 Exhibits, Exhibit 99.1. Press Release.
- 2) Report, dated May 2, 2002. Item 9 Regulation FD Disclosure.

---

\* Previously included in the Registrant's Report on Form 10-Q for the three and six months ended June 30, 2002, that was filed with the Securities and Exchange Commission on August 14, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE INTERPUBLIC GROUP OF COMPANIES, INC.  
(Registrant)

Date: December 18, 2002

BY /S/ JOHN J. DOONER, JR.  
JOHN J. DOONER, JR.  
Chairman of the Board, President  
and Chief Executive Officer

Date: December 18, 2002

BY /S/ SEAN F. ORR  
SEAN F. ORR  
Executive Vice President and  
Chief Financial Officer

CERTIFICATIONS

I, John J. Dooner, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of The Interpublic Group of Companies, Inc.;

Edgar Filing: INTERPUBLIC GROUP OF COMPANIES INC - Form 10-Q/A

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: December 18, 2002

/s/ John J. Dooner, Jr.

John J. Dooner, Jr.

Chief Executive Officer

I, Sean F. Orr, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of The Interpublic Group of Companies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: December 18, 2002

/s/ Sean F. Orr

Sean F. Orr

Chief Financial Officer

INDEX TO EXHIBITS

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
10(i)(A)	364-Day Credit Agreement, dated as of May 16, 2002 among Interpublic, the Initial Lenders named therein, Citibank, N.A. as Administrative Agent and Salomon Smith Barney Inc. as Lead Arranger and Book Manager (the "364 - Day Credit Agreement").*
10(i)(B)	Amendment No. 3 dated May 16, 2002, to a 5-Year Credit Agreement (the "5 - Year Credit Agreement") among Interpublic, the Initial Lenders named therein, Citibank, N.A. as Administrative Agent and Salomon Smith Barney Inc., as Lead Arranger and Book Manager.*
10(i)(C)	Waiver and Amendment Letter, dated August 6, 2002 to the 364-Day Credit Agreement.*
10(i)(D)	Waiver and Amendment Letter, dated August 6, 2002 to the 5-Year Credit Agreement.*
10(iii)(A)(i)	Deferred Compensation Agreement, dated as of April 1, 2002 between Interpublic and Jill M. Considine.*
10(iii)(A)(ii)	Executive Severance Agreement, dated as of April 18, 2002 between Interpublic and Bruce Nelson.*
10(iii)(A)(iii)	The Interpublic Group of Companies, Inc. 2002 Performance Incentive Plan, incorporated herein by reference to Appendix A to Schedule 14A, filed April 17, 2002.*

---

\* Previously included in the Registrant's Report on Form 10-Q for the three and six months ended June 30, 2002, that was filed with the Security and Exchange Commission on August 14, 2002.