

INTERPUBLIC GROUP OF COMPANIES INC
Form 10-Q/A
March 18, 2003

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

FORM 10-Q/A

AMENDMENT NO. 2 TO QUARTERLY REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 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 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 April 30, 2002: 382,025,651 shares.

EXPLANATORY NOTE

(Dollars in Millions)

The Interpublic Group of Companies, Inc. ("Interpublic" or "the Company") is filing this Form 10-Q/A to restate its financial statements and revise certain disclosures as of and for the three months ended March 31, 2002.

During the fourth quarter of 2002, the Company identified charges of \$47.0 (35.3, net of tax) (in addition to total asset impairment and other charges of \$118.7 that related to the three months ended September 30, 2002) that are related to the prior periods from January 1, 1997 through September 30, 2002. Of this amount, \$2.9 (\$1.9, net of tax) related to the three months ended March 31, 2002 and has been recorded through a restatement of previously recorded amounts in this Form 10-Q/A. The total pre tax of charges of \$2.9 principally related to adjustments to record intangible asset amortization.

This Form 10-Q/A amends the Form 10-Q filed by the Company on May 15, 2002, for the three months ended March 31, 2002 and the Form 10-Q/A filed by the Company on December 18, 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 and Items 1 and 6 of Part II of the Company's original Form 10-Q/A filing only, and except for such items and Exhibit 11, no other information included in the Company's original Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002, is amended by this amendment.

For additional discussion of developments relating to periods subsequent to March 31, 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/A 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 March 31, 2002
and 2001 (unaudited)
- Consolidated Balance Sheet
March 31, 2002 (unaudited) and
December 31, 2001

Consolidated Statement of Comprehensive Income
Three months ended March 31, 2002
and 2001 (unaudited)

Consolidated Statement of Cash Flows
Three months ended March 31, 2002
and 2001 (unaudited)

Notes to Consolidated Financial Statements (unaudited)

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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 MARCH 31,
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

2002
(Restated)

2001
(Restated)

| | | |
|---|----------------------|----------------------|
| REVENUE | <u>\$1,420.0</u> | <u>\$1,674.8</u> |
| OPERATING EXPENSES: | | |
| Salaries and related expenses | 868.8 | 1,004.1 |
| Office and general expenses | 419.8 | 478.9 |
| Amortization of intangible assets | 2.8 | 41.9 |
| Restructuring and other merger related costs | <u> --</u> | <u> 1.5</u> |
| Total operating expenses | <u>1,291.4</u> | <u>1,526.4</u> |
| OPERATING INCOME | <u> 128.6</u> | <u> 148.4</u> |
| OTHER INCOME (EXPENSE): | | |
| Interest expense | (35.3) | (37.5) |
| Interest income | 6.9 | 12.5 |
| Other income | 0.3 | 8.6 |
| Investment impairment | <u> --</u> | <u> (160.1)</u> |
| Total other income (expense) | <u> (28.1)</u> | <u> (176.5)</u> |
| |) |) |
| Income (loss) before provision for income taxes | 100.5 | (28.1) |
| Provision for (benefit of) income taxes | <u> 38.0</u> | <u> (2.5)</u> |
| |) |) |
| Income (loss) of consolidated companies | 62.5 | (25.6) |
| Income applicable to minority interests | (3.6) | (6.9) |
| Equity in net income of unconsolidated affiliates | <u> 0.9</u> | <u> 1.3</u> |

| | | |
|----------------------------|----------------|------------------|
| NET INCOME (LOSS) | <u>\$ 59.8</u> | <u>\$ (31.2)</u> |
| | |) |
| Earnings (loss) per share: | | |
| Basic | \$ 0.16 | \$ (0.09) |
| Diluted | \$ 0.16 | \$ (0.09) |
| Weighted average shares: | | |
| Basic | 373.0 | 366.1 |
| Diluted | 379.8 | 366.1 |
| Cash dividends per share | \$ 0.095 | \$ 0.095 |

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

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

ASSETS

| | March 31, 2002 (Unaudited) <u>(Restated)</u> | December 31, 2001 <u>(Restated)</u> |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 575.1 | \$ 935.2 |
| Account receivables (net of allowance for doubtful accounts: 2002-\$88.1; 2001-\$90.7) | 4,464.8 | 4,673.2 |
| Expenditures billable to clients | 391.8 | 325.5 |
| Deferred taxes on income | 48.0 | 80.0 |
| Prepaid expenses and other current assets | <u>332.3</u> | <u>337.6</u> |
| Total current assets | <u>5,812.0</u> | <u>6,351.5</u> |

FIXED ASSETS, AT COST:

| | | |
|--------------------------------|----------------|----------------|
| Land and buildings | 159.8 | 161.1 |
| Furniture and equipment | 1,097.2 | 1,083.2 |
| Leasehold improvements | <u>461.8</u> | <u>461.4</u> |
| | 1,718.8 | 1,705.7 |
| Less: accumulated depreciation | <u>(891.3)</u> | <u>(858.0)</u> |
| |) |) |
| Total fixed assets | <u>827.5</u> | <u>847.7</u> |

OTHER ASSETS:

| | | |
|---|----------------|----------------|
| Investment in unconsolidated affiliates | 159.6 | 156.7 |
| Deferred taxes on income | 486.9 | 495.0 |
| Other assets and miscellaneous investments | 427.4 | 427.9 |
| Goodwill | 3,073.9 | 2,994.3 |
| Other intangible assets (net of accumulated amortization: 2002-\$26.8; 2001-\$24.0) | <u>106.6</u> | <u>102.2</u> |
| Total other assets | <u>4,254.4</u> | <u>4,176.1</u> |

| | | |
|--------------|-------------------|-------------------|
| TOTAL ASSETS | <u>\$10,893.9</u> | <u>\$11,375.3</u> |
|--------------|-------------------|-------------------|

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY

| | March 31, 2002 (Unaudited) <u>(Restated)</u> | December 31, 2001 <u>(Restated)</u> |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 4,211.0 | \$ 4,555.5 |
| Accrued expenses | 1,216.6 | 1,323.7 |
| Loans payable | 525.4 | 453.1 |
| Accrued income taxes | 14.8 | 61.5 |
| Dividends payable | <u>36.2</u> | <u>36.0</u> |
| | | |
| Total current liabilities | <u>6,004.0</u> | <u>6,429.8</u> |
| | | |
| NON-CURRENT LIABILITIES: | | |
| Long-term debt | 1,239.3 | 1,356.8 |
| Convertible subordinated notes | 552.5 | 548.5 |
| Zero-coupon convertible senior notes | 576.7 | 575.3 |
| Deferred compensation | 377.0 | 377.3 |
| Accrued postretirement benefits | 55.8 | 54.4 |
| Other non-current liabilities | 104.1 | 103.8 |
| Minority interests in consolidated subsidiaries | <u>90.0</u> | <u>89.3</u> |
| | | |
| Total non-current liabilities | <u>2,995.4</u> | <u>3,105.4</u> |
| | | |
| Commitments and contingencies (Note 7) | | |
| | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, no par value, shares authorized: 20.0, shares issued: none | | |
| Common stock, \$0.10 par value, shares authorized: 550.0, shares issued: 2002 - 386.7; 2001 - 385.8 | 38.7 | 38.6 |
| Additional paid-in capital | 1,775.7 | 1,785.2 |

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

| | | |
|---|-----------------------|-----------------------|
| Retained earnings | 891.8 | 868.3 |
| Accumulated other comprehensive loss, net of tax | <u>(465.6)</u> | <u>(447.8)</u> |
| |) |) |
| | 2,240.6 | 2,244.3 |
| Less: | | |
| Treasury stock, at cost: 2002 - 6.1 shares; 2001 - 7.3 shares | (239.1) | (290.2) |
| Unamortized deferred compensation | <u>(107.0)</u> | <u>(114.0)</u> |
| |) |) |
| Total stockholders' equity | <u>1,894.5</u> | <u>1,840.1</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$10,893.9</u> | <u>\$11,375.3</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
THREE MONTHS ENDED MARCH 31,
(Amounts in Millions)
(Unaudited)

| | | |
|---|-------------------|-------------------|
| | 2002 | 2001 |
| | <u>(Restated)</u> | <u>(Restated)</u> |
| Net Income (Loss) | <u>\$ 59.8</u> | <u>\$(31.2)</u> |
| | |) |
| Foreign Currency Translation Adjustments | <u>(18.5)</u> | <u>(87.4)</u> |
| |) |) |
| Unrealized Holding Gains (Losses) on Securities | | |
| Unrealized holding gains | 0.9 | -- |

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

| | | |
|---|----------------|-----------------|
| Tax expense | (0.4) | -- |
| Unrealized holding losses | -- | (7.7) |
| Tax benefit | -- | 3.2 |
| Reclassification of unrealized loss to net earnings | -- | 89.4 |
| Tax benefit | <u>--</u> | <u>(37.5)</u> |
| | |) |
| Unrealized holding gains on securities | <u>0.5</u> | <u>47.4</u> |
| Comprehensive Income (Loss) | <u>\$ 41.8</u> | <u>\$(71.2)</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
THREE MONTHS ENDED MARCH 31,
(Amounts in Millions)
(Unaudited)

| | 2002 <u>(Restated)</u> | 2001 <u>(Restated)</u> |
|--|---------------------------|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 59.8 | \$ (31.2) |
| Adjustments to reconcile net income (loss) to cash used in operating activities: | | |
| Depreciation and amortization of fixed assets | 48.7 | 51.8 |
| Amortization of intangible assets | 2.8 | 41.9 |
| Amortization of restricted stock awards and bond discounts | 18.4 | 15.2 |
| Provision for (benefit of) deferred income taxes | 42.3 | (60.3) |
| Undistributed equity earnings | (0.9) | (1.3) |
| Income applicable to minority interests | 3.6 | 6.9 |
| Investment impairment | -- | 160.1 |
| Other | (0.1) | (4.9) |
| Change in assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 160.4 | 411.3 |
| Expenditures billable to clients | (68.5) | (53.7) |

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

| | | |
|--|----------------|----------------|
| Prepaid expenses and other current assets | 0.3 | (54.2) |
| Accounts payable, accrued expenses and other current liabilities | (417.8) | (1,081.5) |
| Accrued income taxes | (45.9) | (31.5) |
| Other non-current assets and liabilities | <u>2.4</u> | <u>18.6</u> |
| | | |
| Net cash used in operating activities | <u>(194.5)</u> | <u>(612.8)</u> |
| |) |) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisitions, net of cash acquired | (65.3) | (66.5) |
| Capital expenditures | (34.8) | (60.7) |
| Proceeds from sales of businesses | 0.2 | 11.3 |
| Proceeds from sales of long-term investments | 33.2 | 6.4 |
| Purchases of long-term investments | (32.7) | (6.0) |
| Maturities of short-term marketable securities | 11.2 | 10.8 |
| Purchases of short-term marketable securities | (4.3) | (22.8) |
| Other investments and miscellaneous assets | <u>(6.7)</u> | <u>(23.2)</u> |
| |) |) |
| Net cash used in investing activities | <u>(99.2)</u> | <u>(150.7)</u> |
| |) |) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase in short-term bank borrowings | 72.6 | 716.8 |
| Proceeds from long-term debt | 7.3 | 102.7 |
| Payments of long-term debt | (124.0) | (170.8) |
| Treasury stock acquired | (2.2) | (62.3) |
| Issuance of common stock | 26.0 | 36.9 |
| Cash dividends - Interpublic | (36.0) | (29.4) |
| Cash dividends - pooled companies | <u>--</u> | <u>(7.5)</u> |
| | |) |
| Net cash provided by (used in) financing activities | <u>(56.3)</u> | <u>586.4</u> |
| |) |) |
| Effect of exchange rates on cash and cash equivalents | <u>(10.1)</u> | <u>(35.9)</u> |

| | | |
|--|-----------------|-----------------|
| |) |) |
| Decrease in cash and cash equivalents | (360.1) | (213.0) |
| 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>\$ 575.1</u> | <u>\$ 631.6</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 March 31, 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 on March 7, 2003. The operating results for the first three months of the year are not necessarily indicative of the results for the year or other interim periods.

As discussed in Note 8, the Company identified pre-tax charges of which \$2.9 (\$1.9, net of tax) related to the three months ended March 31, 2002. The charges have been recorded through a restatement of previously reported amounts in this Form 10-Q/A.

Certain prior year amounts have been reclassified to conform with current year presentation. Additionally, as discussed in Note 4 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. 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. As a result of the operational initiatives, the combined Company has been organized into four global operating groups. Three of these groups,

McCann-Erickson WorldGroup, an enhanced FCB Group and a new global marketing resource called The Partnership, provide a full complement of global marketing services and marketing communication services. The fourth group, Advanced Marketing Services, focuses on expanding the Company's operations in the area of specialized marketing communications and services.

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 March <u>31, 2002</u> | Liability at March <u>31, 2002</u> |
|--|---|--|--|
| TOTAL BY TYPE | | | |
| Severance and termination costs | \$154.0 | \$59.6 | \$ 94.4 |
| Lease termination and other exit costs | <u>157.1</u> | <u>21.7</u> | <u>135.4</u> |
| Total | <u>\$311.1</u> | <u>\$81.3</u> | <u>\$229.8</u> |

The severance and termination costs related to approximately 6,800 employees who have been, or will be, terminated. As of March 31, 2002, approximately 6,200 of those identified had been terminated. The remaining employees are expected to be terminated by the middle of the year 2002. A significant portion of severance liabilities are expected to be paid out over a period of up to one year. The employee groups affected include all levels and functions across the Company: executive, regional and account management, administrative, creative and media production personnel. Approximately half of the 6,800 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.

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

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 subleased by the middle of the year

2002; however, 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. Approximately one half of the sales or closures had occurred by March 2002, with the remaining to occur by the middle of the year 2002.

3. 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.

4. 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:

| | 2002 <u>(Restated)</u> | 2001 <u>(Restated)</u> |
|----------------------------|---------------------------|---------------------------|
| Reported net income (loss) | \$59.8 | \$(31.2) |
| | <u> --</u> | <u> 35.3</u> |

Add back: goodwill amortization, net
of tax

| | | |
|---------------------|---------------|---------------|
| Adjusted net income | <u>\$59.8</u> | <u>\$ 4.1</u> |
|---------------------|---------------|---------------|

Basic earnings (loss) per share:

| | | |
|--|---------------|----------------|
| Reported net income (loss) | \$0.16 | \$(0.09) |
| Add back: goodwill amortization, net of tax | <u> --</u> | <u> 0.10</u> |
| Adjusted net income | <u>\$0.16</u> | <u>\$ 0.01</u> |

Diluted earnings (loss) per share:

| | | |
|--|---------------|----------------|
| Reported net income (loss) | \$0.16 | \$(0.09) |
| Add back: goodwill amortization, net of tax | <u> --</u> | <u> 0.10</u> |
| Adjusted net income | <u>\$0.16</u> | <u>\$ 0.01</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions, Except Per Share Amounts)

(Unaudited)

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.

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.

5.

Derivative and Hedging Instruments

Interest Rate Swaps

At March 31, 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 March 31, 2002 was approximately \$4.8.

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 March 31, 2002, the Company had contracts covering approximately \$65 of notional amount of currency. Substantially, all of these contracts expired by mid-April 2002. As of March 31, 2002, the fair value of the forward contracts was a gain of \$0.3.

Other

The Company has two embedded derivative instruments under the terms of the offering of Zero-Coupon Convertible Notes. At March 31, 2002, the fair value of the two derivatives was negligible.

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

6. Segment Information

The Company is 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"). Each of McCann, FCB, The Partnership and AMS 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 four 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 four 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 McCann,

FCB, The Partnership and AMS, the Company believes that the long-term average gross margin of each of these four groups will converge over time. Given the similarity of the operations, the four groups have been aggregated.

7. 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.

8. Restatement

During the fourth quarter of 2002, the Company identified charges of \$47.0 (\$35.3, net of tax) (in addition to total asset impairment and other charges of \$118.7 that related to the three months ended September 30, 2002) that are related to prior periods from January 1, 1997 through September 30, 2002. Of this amount, \$2.9 (\$1.9, net of tax) was related to the three months ended March 31, 2002. The \$2.9 of pre-tax charges has been recorded through a restatement of previously recorded amounts in this Form 10 Q/A. The total amount of charges of \$2.9 principally relates to adjustments to record intangible asset amortization.

December 2002 Restatement

During the second and third quarters of 2002, the Company identified total charges of \$181.3 (\$135.9, net of tax) that were related to prior periods. In December 2002, the Company restated its financial statements for periods up to and including June 30, 2002. The amounts described within this document "as previously reported" reflect the amounts restated in December 2002.

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.

In December 2002, the Company restated its financial statements for periods up to and including June 30, 2002. The amounts discussed within this document "as previously reported" reflect the amounts restated in December 2002.

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

Octagon Motorsports (OMS) Impairment Announced March 2003

OMS owns and leases certain racing circuit facilities that are used for automobile, motorcycle and go-cart racing, primarily in the United Kingdom. Beginning in the second quarter of 2002 and continuing in subsequent quarters, certain of the Octagon businesses experienced significant operational difficulties, including significantly lower than anticipated attendance at the marquee British Grand Prix race in July 2002. These events and a change in management at OMS in the third quarter of 2002 led the Company to begin assessing its long-term strategy for OMS.

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company prepared a valuation of OMS to assess its fair value. For this purpose, the Company used a valuation method based on the valuations of comparable, publicly traded entities. This method was considered by management to be the most appropriate one to value OMS, and based on the results of this analysis, the Company concluded that no impairment charge was required at September 30, 2002.

Throughout the fourth quarter of 2002, the Company continued to assess various strategic alternatives for the OMS business. In order to assist in evaluating strategic alternatives, the Company prepared a discounted cash flow analysis which indicated that the book value of OMS significantly exceeded its estimated fair value and that a goodwill impairment had occurred. As part of this process, the Company reassessed its third quarter valuation and its key assumptions, and concluded that the impairment charge should have been recorded in the third quarter of 2002.

In addition, as a result of the goodwill analysis, the Company assessed whether there had been an impairment of the Company's long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company concluded that the book value of certain asset groupings at OMS was significantly higher than their expected future cash flows and that an impairment had occurred.

Accordingly, the Company has recognized a non-cash impairment loss and related charge of \$118.7 (\$83.8, net of tax) as of September 30, 2002 through a restatement of previously recorded results for that period. The charges included \$82.1 of goodwill impairment, \$24.6 of fixed asset write-offs, and \$12.0 to record the fair value of an associated put option.

Subsequent to the third quarter, management determined that its original operating plans were no longer feasible and decided to explore options to exit some or all of these businesses. The remaining book value of long-lived assets relating to OMS is approximately \$73 at September 30, 2002, and this amount, as well as other substantial contractual obligations, may not be fully recoverable depending upon the exit strategy ultimately followed. In addition, OMS is contractually required to upgrade and improve certain of its existing facilities over the next 2 years. These capital expenditures amount to approximately \$38 and are expected to be impaired as incurred based on current cash flow analysis for the relevant asset groupings.

OTHER ITEMS

See Note 9 for a discussion of certain liquidity matters and amendments under credit agreements.

The Company has been advised by the Securities and Exchange Commission staff that it has issued a formal order in connection with its investigation of the Company's previously announced restatement of earnings for the periods from 1997 through June 2002. The matter had been subject to an informal SEC inquiry. The Company is cooperating fully with the Commission.

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 financial statements for the three months ended March 31, 2002 and 2001, and balance sheets as of March 31, 2002 and December 31, 2001.

CONSOLIDATED STATEMENT OF OPERATIONS

| As Previously <u>Reported</u> | As <u>Restated</u> |
|-------------------------------------|-----------------------|
|-------------------------------------|-----------------------|

Three months ended March 31,
2002

| | | |
|--------------------------------|----------|---------|
| - Operating income | \$ 131.5 | \$128.6 |
| - Net income | \$ 61.7 | \$ 59.8 |
| - Earnings per share - Basic | \$ 0.17 | \$ 0.16 |
| - Earnings per share - Diluted | \$ 0.16 | \$ 0.16 |

Three months ended March 31,
2001

| | | |
|----------------------------|-----------|----------|
| - Operating income | \$ 149.6 | \$148.4 |
| - Net loss | \$ (30.4) | \$(31.2) |
| - Loss per share - Basic | \$ (0.08) | \$(0.09) |
| - Loss per share - Diluted | \$ (0.08) | \$(0.09) |

CONSOLIDATED BALANCE SHEET

March 31, 2002

CURRENT ASSETS:

| | | |
|---------------------------|--------------|--------------|
| Cash and cash equivalents | \$ 575.1 | \$ 575.1 |
| Accounts receivable | 4,466.7 | 4,464.8 |
| Other current assets | <u>772.1</u> | <u>772.1</u> |

| | | |
|----------------------|-------------------|-------------------|
| TOTAL CURRENT ASSETS | <u>\$ 5,813.9</u> | <u>\$ 5,812.0</u> |
|----------------------|-------------------|-------------------|

| | | |
|--------------|-----------------|-----------------|
| FIXED ASSETS | <u>\$ 827.5</u> | <u>\$ 827.5</u> |
|--------------|-----------------|-----------------|

| | | |
|--------------|-------------------|-------------------|
| OTHER ASSETS | <u>\$ 4,269.5</u> | <u>\$ 4,254.4</u> |
|--------------|-------------------|-------------------|

| | | |
|--------------|-------------------|-------------------|
| TOTAL ASSETS | <u>\$10,910.9</u> | <u>\$10,893.9</u> |
|--------------|-------------------|-------------------|

LIABILITIES AND
STOCKHOLDERS' EQUITY:

CURRENT LIABILITIES:

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

| | | |
|--|-------------------|-------------------|
| Accounts payable and accrued expenses | \$ 5,425.4 | \$ 5,427.6 |
| Loans payable | 525.4 | 525.4 |
| Accrued income taxes | 19.4 | 14.8 |
| Dividends payable | <u>36.2</u> | <u>36.2</u> |
| | | |
| TOTAL CURRENT LIABILITIES | <u>\$ 6,006.4</u> | <u>\$ 6,004.0</u> |
| | | |
| NON-CURRENT LIABILITIES | <u>\$ 2,990.3</u> | <u>\$ 2,995.4</u> |
| | | |
| STOCKHOLDERS' EQUITY | <u>\$ 1,914.2</u> | <u>\$ 1,894.5</u> |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$10,910.9</u> | <u>\$10,893.9</u> |

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

| | As Previously <u>Reported</u> | As <u>Restated</u> |
|---------------------------|-------------------------------------|-----------------------|
| December 31, 2001 | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 935.2 | \$ 935.2 |
| Accounts receivable | 4,674.9 | 4,673.2 |
| Other current assets | <u>743.1</u> | <u>743.1</u> |
| | | |
| TOTAL CURRENT ASSETS | <u>\$ 6,353.2</u> | <u>\$ 6,351.5</u> |
| | | |
| FIXED ASSETS | <u>\$ 847.7</u> | <u>\$ 847.7</u> |

| | | |
|--|-------------------|-------------------|
| OTHER ASSETS | <u>\$ 4,189.6</u> | <u>\$ 4,176.1</u> |
| TOTAL ASSETS | <u>\$11,390.5</u> | <u>\$11,375.3</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 5,876.8 | \$ 5,879.2 |
| Loans payable | 453.1 | 453.1 |
| Accrued income taxes | 65.2 | 61.5 |
| Dividends payable | <u>36.0</u> | <u>36.0</u> |
| TOTAL CURRENT LIABILITIES | <u>\$ 6,431.1</u> | <u>\$ 6,429.8</u> |
| NON-CURRENT LIABILITIES | <u>\$ 3,101.5</u> | <u>\$ 3,105.4</u> |
| STOCKHOLDERS' EQUITY: | <u>\$ 1,857.9</u> | <u>\$ 1,840.1</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$11,390.5</u> | <u>\$11,375.3</u> |

9. Subsequent Events

Debt and Certain Liquidity Matters

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 credit ratings (as of November 19, 2002) of BBB and Baa3, as reported by Standard & Poor's and Moody's Investors Services, Inc., respectively,

the interest rate for base rate loans is 4.25% and the interest spread with respect to LIBOR loans is 1.0%. At September 30, 2002, approximately \$103.5 was borrowed under these facilities, and as of November 15, 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 involving total charges of \$181.3 described in Note 8 hereof, to the Company's Consolidated Financial Statements. The Company required and received waivers related to its financial covenants in the Prudential Agreements as of September 30, 2002.

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

In addition, the Company 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 related to the restatement of total charges of \$181.3. 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 interest rates (as of November 19, 2002) on the notes issued pursuant to the Prudential Agreements were increased to 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). (See below for resolution of these matters on February 10, 2003.)

In addition to the Revolving Credit Facilities, at September 30, 2002, the Company had \$122.2 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. As of November 15, 2002, this aggregate amount was approximately \$244.8.

Further Amendments and Other Events

The interest rates on base rate loans and LIBOR loans under the Revolving Credit Facilities are affected by the facilities' utilization levels and the Company's credit ratings. On October 25, 2002, Moody's Investors Services, Inc. downgraded the Company's credit rating to Baa3. On March 7, 2003, Standard and Poor's downgraded the Company's credit rating to BB+. As of March 7, 2003, the combined effect of the downgrades was an increase in the interest spread payable on LIBOR loans under the Revolving Credit Facilities of 50 basis points from the applicable spread as of November 19, 2002. The current interest spread with respect to LIBOR loans is 1.5%, effective as of March 7, 2003. As of March 5, 2003, approximately \$50.1 was borrowed under the Revolving Credit Facilities.

On February 10, 2003, the Company amended certain provisions of the Revolving Credit Facilities and the Prudential Agreements effective as of December 31, 2002. The new terms of the Revolving Credit Facilities and the Prudential Agreements restrict the Company's ability to declare or pay dividends, repurchase shares of common stock, make cash acquisitions or investments, make capital expenditures and prepay long-term debt, as well as the ability of the Company's domestic subsidiaries to incur additional debt. Certain of these limitations will be modified upon receipt of aggregate net cash proceeds equal to at least \$400.0 from asset sales and capital markets transactions. The level of proceeds from such transactions and the outstanding balance of the Company's zero-coupon convertible senior notes due 2021 (the "Zero-Coupon Notes") will determine the permitted levels of annual acquisition spending and the permitted level of long-term debt prepayment. The level of proceeds, the outstanding balance of the Zero-Coupon Notes and the Company's future earnings performance will determine the permitted levels of share buybacks and dividend payments.

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

On March 13, 2003, the Company sold 4.50% Convertible Senior Notes due 2023 in an aggregate principal amount of \$800.0. The Company received net cash proceeds from this transaction equal to approximately \$778.0. As a result, the Company's permitted level of annual cash acquisition spending has increased to \$25.0. In addition, on March 10, 2003, the Company commenced a tender offer to purchase for cash any and all of the outstanding Zero-Coupon Notes, at a price equal to 82.9876% of the principal amount of the notes at maturity. The tender offer expires on April 4, 2003. If the Zero-Coupon Notes are substantially retired pursuant to this tender offer, the Company's permitted level of annual cash acquisition spending would be further increased to \$100.0 and the Company would be permitted to

prepay long-term debt. If all of the Zero-Coupon Notes are tendered pursuant to the tender offer, the Company would pay a total of \$582.5 to the holders of the Zero-Coupon Notes. The Company will incur an immaterial loss with respect to each Zero-Coupon Note purchased pursuant to the tender offer as a result of the premium paid to the note holders.

All limitations on dividend payments and share buybacks expire when the Zero-Coupon Notes have been substantially retired and earnings before interest, taxes, depreciation and amortization are at least \$1,300.0 for four consecutive quarters.

Certain defined terms relating to financial covenants contained in the Revolving Credit Facilities and the Prudential Agreements were also amended effective as of December 31, 2002. The definition of debt for borrowed money in the Revolving Credit Facilities was modified to include the Company's 1.8% Convertible Subordinated Notes due 2004 and 1.87% Convertible Subordinated Notes due 2006. The definition of EBITDA in the Revolving Credit Agreements and the definition of cash flow and consolidated net worth in the Prudential Agreements were amended to include up to \$500.0 of non-cash, non-recurring charges taken in the fiscal year ended December 31, 2002 and the quarter ended March 31, 2003. The corresponding financial covenant ratio levels in the Revolving Credit Facilities and the Prudential Agreements were also amended.

Furthermore, as of December 31, 2002, 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 8.0% to 10.01%. The impact of the increased interest rates will not be material to the Company's financial position, cash flows or results of operations.

On February 10, 2003, the Company also received from UBS AG a commitment for an interim credit facility providing for \$500.0, maturing no later than July 31, 2004 and available to the Company beginning May 15, 2003, subject to certain conditions. This commitment terminated in accordance with its terms when the Company received net cash proceeds equal to at least \$400.0 from its sale of the 4.50% Convertible Senior Notes due 2023. In connection with this commitment, the Company agreed to pay certain fees the impact of which will not be material to the Company's financial position, cash flows or results of operations.

On February 26, 2003, the Company obtained waivers of certain defaults under the Revolving Credit Facilities and the Prudential Agreements relating to the restatement in connection with \$47.0 of charges described in Note 8 to the Company's Consolidated Financial Statements. The waivers covered certain financial reporting requirements related to the Company's consolidated financial statements for the quarter ended September 30, 2002. No financial covenants were required to be waived.

The Company's current liquidity has been negatively impacted by lower profitability and issues resulting from the restatements. The Company believes that cash flow from operations, together with its availability under existing lines of credit and expected refinancings thereof and cash on hand, will be sufficient to fund the Company's working capital needs and other obligations for the next twelve months. 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 assets) and modify its operating strategies.

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

Other

On January 15, 2003, the Company announced that it had hired outside advisors to help it explore strategic alternatives regarding NFO WorldGroup, and is currently in discussions concerning a possible sale.

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" or 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 August 13, 2002 announcement regarding the restatement of its previously reported earnings for the periods January 1, 1997 through March 31, 2002. These actions, which were all filed in the United States District Court for the Southern District of New York, were consolidated by the Court and lead counsel appointed for all plaintiffs, on November 8, 2002. A consolidated amended complaint was filed thereafter on January 10, 2003. The purported classes consist of Interpublic shareholders who purchased Interpublic stock in the period from October 1997 to October 2002. Specifically, the consolidated amended complaint alleges that Interpublic and certain of its present and former directors and officers allegedly made misleading statements to its shareholders between October 1997 and October 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 consolidated amended complaint alleges 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. The consolidated amended complaint also alleges violations of Sections 11 and 15 of the Securities Act of 1933 in connection with Interpublic's acquisition of True North Communications, Inc. ("True North"). No amount of damages is specified in the consolidated amended complaint. On February 6, 2003, defendants filed a motion to dismiss the consolidated amended complaint in its entirety. On February 28, 2003, plaintiffs filed their opposition to defendants' motion. The motion is currently pending.

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 allegedly made misleading statements in connection with the filing of a 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 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 were filed in the Circuit Court of Cook County, Illinois. On December 18, 2002, defendants removed these actions from Illinois state court to the United States District Court for the Northern District of Illinois. Thereafter, on January 10, 2003, defendants moved to transfer these two actions to the Southern District of New York. Plaintiffs have moved to remand the actions to Illinois state court, and have opposed defendants' motion to transfer. Those motions are now pending.

State Derivative Actions

In addition to the federal lawsuits, several shareholder derivative suits have been filed. On October 24, 2002, a 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. The suit alleges a breach of fiduciary duties to Interpublic's shareholders. On November 15, 2002, another 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. On December 18, 2002, defendants moved to dismiss these actions. In lieu of a response, plaintiffs consolidated the actions and filed an Amended Consolidated Complaint on January 10, 2003, again alleging breach of fiduciary duties to Interpublic's shareholders. The Amended Consolidated Complaint does not state a specific amount of damages. On January 27, 2003, defendants filed motions to dismiss the Consolidated Amended Complaint, and those motions are currently pending.

(Unaudited)

On September 4, 2002, a shareholder derivative suit was filed in New York Supreme Court, New York County, by a single shareholder acting on behalf of the Company against the Board of Directors and against the Company's auditors. This suit alleged a breach of fiduciary duties to Interpublic's shareholders. On November 26, 2002, another shareholder derivative suit, alleging the same breaches of fiduciary duties, was filed in the New York Supreme Court, New York County. The plaintiffs from these two shareholder derivative suits filed an Amended Derivative Complaint on January 31, 2003. The Amended Derivative Complaint does not state a specific amount of damages. On February 24, 2003, plaintiffs also filed a Shareholders' Derivative Complaint in the United States District Court for the Southern District of New York. This action alleges the same breach of fiduciary duties claim as the state court actions, and adds a claim for contribution and forfeiture against two of the individual defendants pursuant to Section 21D of the Exchange Act and Section 304 of the Sarbanes-Oxley Act. The complaint does not state a specific amount of damages. Defendants intend to move to dismiss these derivative actions.

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 position, cash flows or results of operations.

Tax Matters

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 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 there will not be a material effect on the Company's financial position, cash flows or results of operations from the ultimate resolution of these matters.

Item 2.

RESULTS OF OPERATIONS

During the fourth quarter of 2002, the Company identified total charges of \$47.0 (\$35.3, net of tax) (in addition to total asset impairment and other charges of \$118.7 that related to the three months ended September 30, 2002) that are related to prior periods from January 1, 1997 through September 30, 2002. Of this amount, \$2.9 (\$1.9, net of tax) was related to the three months ended March 31, 2002 and has been recorded through a restatement of previously recorded amounts in this Form 10 Q/A. The total amount of charges of \$2.9 principally relates to adjustments to record intangible asset amortization.

December 2002 Restatement

During the second and third quarters of 2002, the Company identified charges of \$181.3 (\$135.9, net of tax) that were related to prior periods. In December 2002, the Company restated its financial statements for periods up to and including June 30, 2002. The amounts described within this document "as previously reported" reflect the amounts restated in December 2002.

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.

In December 2002, the Company restated its financial statements for periods up to and including June 30, 2002. The amounts discussed within this document "as previously reported" reflect the amounts restated in December 2002.

Octagon Motorsports (OMS) Impairment Announced March 2003

OMS owns and leases certain racing circuit facilities that are used for automobile, motorcycle and go-cart racing, primarily in the United Kingdom. Beginning in the second quarter of 2002 and continuing in subsequent quarters, certain of the Octagon businesses experienced significant operational difficulties, including significantly lower than anticipated attendance at the marquee British Grand Prix race in July 2002. These events and a change in management at OMS in the third quarter of 2002 led the Company to begin assessing its long-term strategy for OMS.

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company prepared a valuation of OMS to assess its fair value. For this purpose, the Company used a valuation method based on the valuations of comparable, publicly traded entities. This method was considered by management to be the most appropriate one to value OMS, and based on the results of this analysis, the Company concluded that no impairment charge was required at September 30, 2002.

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)

Throughout the fourth quarter of 2002, the Company continued to assess various strategic alternatives for the OMS business. In order to assist in evaluating strategic alternatives, the Company prepared a discounted cash flow analysis which indicated that the book value of OMS significantly exceeded its estimated fair value and that a goodwill impairment had occurred. As part of this process, the Company reassessed its third quarter valuation and its key assumptions, and concluded that the impairment charge should have been recorded in the third quarter of 2002.

In addition, as a result of the goodwill analysis, the Company assessed whether there had been an impairment of the Company's long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of*

Long-Lived Assets. The Company concluded that the book value of certain asset groupings at OMS was significantly higher than their expected future cash flows and that an impairment had occurred.

Accordingly, the Company has recognized a non-cash impairment loss and related charge of \$118.7 (\$83.8, net of tax) as of September 30, 2002 through a restatement of previously recorded results for that period. The charges included \$82.1 of goodwill impairment, \$24.6 of fixed asset write-offs, and \$12.0 to record the fair value of an associated put option.

Subsequent to the third quarter, management determined that its original operating plans were no longer feasible and decided to explore options to exit some or all of these businesses. The remaining book value of long-lived assets relating to OMS is approximately \$73 at September 30, 2002, and this amount, as well as other substantial contractual obligations, may not be fully recoverable depending upon the exit strategy ultimately followed. In addition, OMS is contractually required to upgrade and improve certain of its existing facilities over the next 2 years. These capital expenditures amount to approximately \$38 and are expected to be impaired as incurred based on current cash flow analysis for the relevant asset groupings.

OTHER ITEMS

See Note 9 for a discussion of certain liquidity matters and amendments under credit agreements.

The Company has been advised by the Securities and Exchange Commission staff that it has issued a formal order in connection with its investigation of the Company's previously announced restatement of earnings for the periods from 1997 through June 2002. The matter had been subject to an informal SEC inquiry. The Company is cooperating fully with the Commission.

The following discussion relates to the results of the Company after giving effect to the adjustments for the charges 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 March 31, 2002 Compared to Three Months Ended March 31, 2001

The Company reported net income of \$59.8 or \$0.16 diluted earnings per share and a net loss of \$31.2 or \$0.09 loss per share for the three months ended March 31, 2002 and 2001, respectively. Net income excluding non-recurring items was \$73.9 or \$0.20 diluted earnings per share for the three months ended March 31, 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>March 31,</u> | |
|--|---|---------------------------|
| | 2002 <u>(Restated)</u> | 2001 <u>(Restated)</u> |
| <u>Net Income (Loss)</u> | | |
| | <u>\$59.8</u> | <u>\$ (31.2)</u> |
| Net income (loss), as reported | |) |
| Less non-recurring items: | | |
| Restructuring and other merger related costs | -- | (1.5) |
| Investment impairment | -- | (160.1) |
| | <u> --</u> | <u> 56.5</u> |
| Tax effect of above items | <u> --</u> | <u>(105.1)</u> |
| Total non-recurring items | |) |
| | <u>\$59.8</u> | <u>\$ 73.9</u> |
| Net income, excluding non-recurring items | | |

Revenue

Worldwide revenue for the three months ended March 31, 2002 was \$1,420.0, a decrease of \$254.8 or 15.2% from the three months ended March 31, 2001. Domestic revenue, which represented 58% of revenue in the three months ended March 31, 2002, decreased \$187.7 or 18.4% from the same period in 2001. International revenue, which represented 42% of revenue in the three months ended March 31, 2002, decreased \$67.1 or 10.2% from the same period in 2001. International revenue would have decreased 7.6% 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 total revenue decrease of (15.2)% was due to: net acquisitions/divestitures (0.5)%, impact of foreign currency changes (0.9)%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (1.0)% and organic revenue decline (12.8)%. 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 March 31,</u> | |
|----------------------------------|-------------------------------------|------------------|
| | <u>2002</u> | <u>2001</u> |
| Advertising and Media Management | \$ 843.4 | \$1,019.7 |
| Marketing Communications | 384.8 | 446.0 |
| Marketing Intelligence | 102.3 | 105.6 |
| | <u>89.5</u> | <u>103.5</u> |
| Marketing Services | | |
| | <u>\$1,420.0</u> | <u>\$1,674.8</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 March 31, 2002 decreased \$235.0 or 15.4% to \$1,291.4 compared to the three months ended March 31, 2001. Worldwide operating expenses excluding non-recurring items for the three months ended March 31, 2002 decreased \$233.5 or 15.3% compared to the three months ended March 31, 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 4). The decrease of (15.3)% was due to: net acquisitions/divestitures (2.5)%, impact of foreign currency changes (1.0)%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (1.2)% and reductions in operating expenses from existing operations (10.6)%.

The Company's expenses related to employee compensation and various employee incentive and benefit programs amount to approximately 61% of revenue. Salaries and related expenses for the three months ended March 31, 2002 decreased \$135.3 to \$868.8 compared to the three months ended March 31, 2001. The decrease is primarily a result of lower headcount, which was reduced to 53,000 at March 31, 2002 compared with 60,700 at March 31, 2001 as a result of the Company's 2001 restructuring plan. The decrease of (13.5)% was due to: net acquisitions/divestitures (2.5)%, impact of foreign currency changes (1.0)%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (1.0)% and reductions in salaries and related expenses from existing operations (9.0)%.

Office and general expenses decreased \$59.1 or 12.3% in the three months ended March 31, 2002 to \$419.8 compared to \$478.9 in the three months ended March 31, 2001. The decrease 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. The decrease of (12.3)% was due to: net acquisitions/divestitures (3.2)%, impact of foreign currency changes (1.3)%, impact of the loss of the Chrysler account and loss of accounts of Pepsi owned brands (1.6)% and reductions in office and general expenses from existing operations (6.2)%.

Amortization of intangible assets was \$2.8 in the three months ended March 31, 2002 compared with \$41.9 in the first 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 \$0.9 million for the first quarter of 2001 under the new standard (see Note 4).

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. As a result of the operational initiatives, the combined Company has been organized into four global operating groups. Three of these groups, McCann-Erickson WorldGroup, an enhanced FCB Group and a new global marketing resource called The Partnership, provide a full complement of global marketing services and marketing communication services. The fourth group, Advanced Marketing Services, focuses on expanding the Company's operations in the area of specialized marketing communications and services.

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.

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)

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 March <u>31, 2002</u> | Liability at March <u>31, 2002</u> |
|--|---|--|--|
| TOTAL BY TYPE | | | |
| Severance and termination costs | \$154.0 | \$59.6 | \$ 94.4 |
| Lease termination and other exit costs | 157.1 | 21.7 | 135.4 |
| Transaction costs | <u>---</u> | <u>---</u> | <u>---</u> |
| Total | <u>\$311.1</u> | <u>\$81.3</u> | <u>\$229.8</u> |

The severance and termination costs relate to approximately 6,800 employees who have been, or will be, terminated. As of March 31, 2002, approximately 6,300 of those identified had been terminated. The remaining employees are expected to be terminated by the middle of the year 2002. A significant portion of severance liabilities are expected to be paid out over a period of up to one year. The employee groups affected include all levels and functions across the Company: executive, regional and account management, administrative, creative and media production personnel. Approximately half of the 6,800 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 subleased by the middle of the year 2002; however, 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. Approximately one half of the sales or closures had occurred by March 2002, with the remaining to occur by the middle of the year 2002.

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 March 31, 2002, the Company had approximately \$137 of investments, of which approximately \$54 represents less than 20% owned and are accounted for on the cost basis and approximately \$83 represents available-for-sale securities.

OTHER INCOME (EXPENSE)

Interest Expense

Interest expense was \$35.3 in the first three months of 2002 compared with \$37.5 in the first 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 \$563.5 from the Zero-Convertible Notes to repay indebtedness under the Company's credit facilities.

Interest Income

Interest income was \$6.9 for the three months of 2002 compared with \$12.5 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) from the sale of investments, primarily marketable securities classified as available-for-sale. Other income was \$0.3 for the first three months of 2002 compared with \$8.6 for the first three months of 2001. The prior year included gains on the sale of a marketing services affiliate in Europe and some non-core marketing services affiliates in the U.S.

OTHER ITEMS

The Company's effective income tax rate was an expense of 37.8% for the first quarter of 2002 and a benefit of 8.9% for the first quarter of

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

2001. The 2001 effective tax rate was impacted by the lower tax benefit rate on the investment impairment charge. Excluding non-recurring items, the effective income tax rate was 37.8% for the first three months of 2002 compared to 40.4% for the first three 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 \$3.6 in the first three months of 2002 compared to \$6.9 in the first three months of 2001. The decrease in the first three 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.

Equity in net income of unconsolidated affiliates was \$0.9 in the first three months of 2002 compared to \$1.3 in the first three months of 2001. The reduction is primarily due to reduced earnings of our unconsolidated affiliates, principally in Europe.

Derivative and Hedging Instruments

Interest Rate Swaps

At March 31, 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 March 31, 2002 was approximately \$4.8.

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 March 31, 2002, the Company had contracts covering approximately \$65 of notional amount of currency. Substantially, all of these contracts expired by mid-April 2002. As of March 31, 2002, the fair value of the forward contracts was a gain of \$0.3.

Other

The Company has two embedded derivative instruments under the terms of the offering of Zero-Coupon Convertible Notes. At March 31, 2002, the fair value of the two derivatives was negligible.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2002, cash and cash equivalents were \$575.1, a decrease of \$360.1 from the December 31, 2001 balance of \$935.2. The March 31, 2002 cash position was impacted by the severance and lease termination costs paid in connection with the Company's restructuring plan. 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.

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 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.

Net cash used by operating activities was \$194.5 and \$612.8 for the three months ended March 31, 2002 and 2001, respectively. The decrease in cash used for the first three months of 2002 was primarily attributable to the reduction of cash used for working capital partially offset by payments made in connection with the Company's restructuring plan. The Company paid \$81.3 related to severance and lease termination costs. 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, disbursements for severance and lease terminations related to the Company's restructuring activities, repurchase of the Company's common stock and payment of cash dividends.

Investing Activities

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

The Company pursues acquisitions to complement and enhance its service offerings. In addition, the Company seeks to acquire businesses similar to those already owned to expand its geographic scope to better serve new and existing clients. Acquisitions have historically been funded using stock, cash or a combination of both.

During the first three months of 2002 and 2001, the Company paid \$65.3 and \$66.5, respectively, in cash for new acquisitions and earn out payments for previous acquisitions including payments for a number of specialized marketing and communications services companies.

The Company's capital expenditures in the first three months of 2002 were \$34.8 compared to \$60.7 in the first three months of 2001. The primary purposes of these expenditures were to upgrade computer and telecommunications systems and to modernize offices.

Financing Activities

Total debt at March 31, 2002 was \$2,893.9, a decrease of \$39.8 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).

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).

At March 31, 2002, the Company was in compliance with all of its financial covenants, with the most restrictive being that of cash flow to borrowed funds, the ratio of which is required to exceed .25 to 1.

The Company has obtained waivers of certain provisions (not including financial covenants) contained in its revolving credit agreements and term loan agreements relating to the restatement described in Note 8 to the Company's Consolidated Financial Statements.

The Company expects to renew its 364-day, \$500.0 bank facility prior to its maturity in June 2002. At March 31, 2002, there were no borrowings under this facility.

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.

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.

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)

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 credit ratings (as of November 19, 2002) of BBB and Baa3, as reported by Standard & Poor's and Moody's Investors Services, Inc., respectively, the interest rate for base rate loans is 4.25% and the interest spread with respect to LIBOR loans is 1.0%. At September 30, 2002, approximately \$103.5 was borrowed under these facilities, and as of November 15, 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 involving total charges of \$181.3 described in Note 8 hereof, to the Company's Consolidated Financial Statements. The Company required and received waivers related to its financial covenants in the Prudential Agreements as of September 30, 2002.

In addition, the Company 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 related to the restatement of total charges of \$181.3. 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 interest rates (as of November 19, 2002) on the notes issued pursuant to the Prudential Agreements were increased to 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). (See below for resolution of these matters on February 10, 2003.)

In addition to the Revolving Credit Facilities, at September 30, 2002, the Company had \$122.2 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. As of November 15, 2002, this aggregate amount was approximately \$244.8.

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)

Further Amendments and Other Events

The interest rates on base rate loans and LIBOR loans under the Revolving Credit Facilities are affected by the facilities' utilization levels and the Company's credit ratings. On October 25, 2002, Moody's Investors Services, Inc. downgraded the Company's credit rating to Baa3. On March 7, 2003, Standard and Poor's downgraded the Company's credit rating to BB+. As of March 7, 2003, the combined effect of the downgrades was an increase in the interest spread payable on LIBOR loans under the Revolving Credit Facilities of 50 basis points from the applicable spread as of November 19, 2002. The current interest spread with respect to LIBOR loans is 1.5%, effective as of March 7, 2003. As

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

of March 5, 2003, approximately \$50.1 was borrowed under the Revolving Credit Facilities.

On February 10, 2003, the Company amended certain provisions of the Revolving Credit Facilities and the Prudential Agreements effective as of December 31, 2002. The new terms of the Revolving Credit Facilities and the Prudential Agreements restrict the Company's ability to declare or pay dividends, repurchase shares of common stock, make cash acquisitions or investments, make capital expenditures and prepay long-term debt, as well as the ability of the Company's domestic subsidiaries to incur additional debt. Certain of these limitations will be modified upon receipt of aggregate net cash proceeds equal to at least \$400.0 from asset sales and capital markets transactions. The level of proceeds from such transactions and the outstanding balance of the Company's zero-coupon convertible senior notes due 2021 (the "Zero-Coupon Notes") will determine the permitted levels of annual acquisition spending and the permitted level of long-term debt prepayment. The level of proceeds, the outstanding balance of the Zero-Coupon Notes and the Company's future earnings performance will determine the permitted levels of share buybacks and dividend payments.

On March 13, 2003, the Company sold 4.50% Convertible Senior Notes due 2023 in an aggregate principal amount of \$800.0. The Company received net cash proceeds from this transaction equal to approximately \$778.0. As a result, the Company's permitted level of annual cash acquisition spending has increased to \$25.0. In addition, on March 10, 2003, the Company commenced a tender offer to purchase for cash any and all of the outstanding Zero-Coupon Notes, at a price equal to 82.9876% of the principal amount of the notes at maturity. The tender offer expires on April 4, 2003. If the Zero-Coupon Notes are substantially retired pursuant to this tender offer, the Company's permitted level of annual cash acquisition spending would be further increased to \$100.0 and the Company would be permitted to prepay long-term debt. If all of the Zero-Coupon Notes are tendered pursuant to the tender offer, the Company would pay a total of \$582.5 to the holders of the Zero-Coupon Notes. The Company will incur an immaterial loss with respect to each Zero-Coupon Note purchased pursuant to the tender offer as a result of the premium paid to the note holders.

All limitations on dividend payments and share buybacks expire when the Zero-Coupon Notes have been substantially retired and earnings before interest, taxes, depreciation and amortization are at least \$1,300.0 for four consecutive quarters.

Certain defined terms relating to financial covenants contained in the Revolving Credit Facilities and the Prudential Agreements were also amended effective as of December 31, 2002. The definition of debt for borrowed money in the Revolving Credit Facilities was modified to include the Company's 1.8% Convertible Subordinated Notes due 2004 and 1.87% Convertible Subordinated Notes due 2006. The definition of EBITDA in the Revolving Credit Agreements and the definition of cash flow and consolidated net worth in the Prudential Agreements were amended to include up to \$500.0 of non-cash, non-recurring charges taken in the fiscal year ended December 31, 2002 and the quarter ended March 31, 2003. The corresponding financial covenant ratio levels in the Revolving Credit Facilities and the Prudential Agreements were also amended.

Furthermore, as of December 31, 2002, 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 8.0% to 10.01%. The impact of the increased interest rates will not be material to the Company's financial position, cash flows or results of operations.

On February 10, 2003, the Company also received from UBS AG a commitment for an interim credit facility providing for \$500.0, maturing no later than July 31, 2004 and available to the Company beginning May 15, 2003, subject to certain conditions. This commitment terminated in accordance with its terms when the Company received net cash proceeds equal to at least \$400.0 from its sale of the 4.50% Convertible Senior Notes due 2023. In connection with this commitment, the Company agreed to pay certain fees the impact of which will not be material to the Company's financial position, cash flows or results of operations.

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)

On February 26, 2003, the Company obtained waivers of certain defaults under the Revolving Credit Facilities and the Prudential Agreements relating to the restatement in connection with \$47.0 of charges described in Note 8 to the Company's Consolidated Financial Statements. The waivers covered certain financial reporting requirements related to the Company's consolidated financial statements for the quarter ended September 30, 2002. No financial covenants were required to be waived.

The Company's current liquidity has been negatively impacted by lower profitability and issues resulting from the restatements. The Company believes that cash flow from operations, together with its availability under existing lines of credit and expected refinancings thereof and cash on hand, will be sufficient to fund the Company's working capital needs and other obligations for the next twelve months. 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 assets) and modify its operating strategies.

Other

On January 15, 2003, the Company announced that it had hired outside advisors to help it explore strategic alternatives regarding NFO and is currently in discussion concerning a possible sale.

OTHER MATTERS

Argentina

As a result of the devaluation of the Argentine peso in recent months, the Company's cumulative translation adjustment balance for its Argentine operation reflected a reduction in stockholders' equity of approximately \$10 for the quarter ended March 31, 2002. The Company expects to maintain its strategic investment in Argentina for the long-term. Accordingly, the Company does not currently consider its investment in Argentina 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"), 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 first of the required impairment tests of goodwill and determined that there was no impairment required to be recognized upon adoption.

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)

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:

| | 2002 <u>(Restated)</u> | 2001 <u>(Restated)</u> |
|---|---------------------------|---------------------------|
| Reported net income (loss) | \$59.8 | \$(31.2) |
| Add back: goodwill amortization, net of tax | <u> --</u> | <u> 35.3</u> |
| Adjusted net income | <u>\$59.8</u> | <u>\$ 4.1</u> |

Basic earnings (loss) per share:

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

| | | |
|---|---------------|-----------------|
| Reported net income (loss) | \$0.16 | \$(0.09) |
| Add back: goodwill amortization, net of tax | <u> --</u> | <u> 0.10</u> |
| Adjusted net income | <u>\$0.16</u> | <u>\$ 0.01</u> |
| Diluted earnings (loss) per share: | | |
| Reported net income (loss) | \$0.16 | \$(0.09) |
| Add back: goodwill amortization, net of tax | <u> --</u> | <u> 0.10</u> |
| Adjusted net income | <u>\$0.16</u> | <u>\$ 0.01</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.

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.

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)

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, dispositions, impairment charges, 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 global, national and regional economic and political 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 and existing business which complement and expand Interpublic's business capabilities.

Interpublic's liquidity could be adversely affected if Interpublic is unable to access capital or to raise proceeds from asset sales. 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 investigation relating to the restatements of the Company's financial statements. The Company's financial condition and future results of operations could also be adversely affected if the Company recognizes additional impairment charges due to future events or in the event of other adverse accounting-related developments.

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, including information before taking into account specified items. 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

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Federal Securities Class Actions

Thirteen federal securities purported class actions were filed against The Interpublic Group of Companies, Inc. (referred to hereinafter as "Interpublic" or 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 August 13, 2002 announcement regarding the restatement of its previously reported earnings for the periods January 1, 1997 through March 31, 2002. These actions, which were all filed in the United States District Court for the Southern District of New York, were

consolidated by the Court and lead counsel appointed for all plaintiffs, on November 8, 2002. A consolidated amended complaint was filed thereafter on January 10, 2003. The purported classes consist of Interpublic shareholders who purchased Interpublic stock in the period from October 1997 to October 2002. Specifically, the consolidated amended complaint alleges that Interpublic and certain of its present and former directors and officers allegedly made misleading statements to its shareholders between October 1997 and October 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 consolidated amended complaint alleges 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. The consolidated amended complaint also alleges violations of Sections 11 and 15 of the Securities Act of 1933 in connection with Interpublic's acquisition of True North Communications, Inc. ("True North"). No amount of damages is specified in the consolidated amended complaint. On February 6, 2003, defendants filed a motion to dismiss the consolidated amended complaint in its entirety. On February 28, 2003, plaintiffs filed their opposition to defendants' motion. The motion is currently pending.

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 allegedly made misleading statements in connection with the filing of a 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 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 were filed in the Circuit Court of Cook County, Illinois. On December 18, 2002, defendants removed these actions from Illinois state court to the United States District Court for the Northern District of Illinois. Thereafter, on January 10, 2003, defendants moved to transfer these two actions to the Southern District of New York. Plaintiffs have moved to remand the actions to Illinois state court, and have opposed defendants' motion to transfer. Those motions are now pending.

State Derivative Actions

In addition to the federal lawsuits, several shareholder derivative suits have been filed. On October 24, 2002, a 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. The suit alleges a breach of fiduciary duties to Interpublic's shareholders. On November 15, 2002, another 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. On December 18, 2002, defendants moved to dismiss these actions. In lieu of a response, plaintiffs consolidated the actions and filed an Amended Consolidated Complaint on January 10, 2003, again alleging breach of fiduciary duties to Interpublic's shareholders. The Amended Consolidated Complaint does not state a specific amount of damages. On January 27, 2003, defendants filed motions to dismiss the Consolidated Amended Complaint, and those motions are currently pending.

On September 4, 2002, a shareholder derivative suit was filed in New York Supreme Court, New York County, by a single shareholder acting on behalf of the Company against the Board of Directors and against the Company's auditors. This suit alleged a breach of fiduciary duties to Interpublic's shareholders. On November 26, 2002, another shareholder derivative suit, alleging the same breaches of fiduciary duties, was filed in the New York Supreme Court, New York County. The plaintiffs from these two shareholder derivative suits filed an Amended Derivative Complaint on January 31, 2003. The Amended Derivative Complaint does not state a specific amount of damages. On February

24, 2003, plaintiffs also filed a Shareholders' Derivative Complaint in the United States District Court for the Southern District of New York. This action alleges the same breach of fiduciary duties claim as the state court actions, and adds a claim for contribution and forfeiture against two of the individual defendants pursuant to Section 21D of the Exchange Act and Section 304 of the Sarbanes-Oxley Act. The complaint does not state a specific amount of damages. Defendants intend to move to dismiss these derivative actions.

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 position, cash flows or results of operations.

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

(a) EXHIBITS

| <u>EXHIBIT NO.</u> | <u>DESCRIPTION</u> |
|--------------------|--|
| 10(iii)(A)(1) | Employment Agreement, made as of November 1999 between The Interpublic Group of Companies, Inc. ("Interpublic") and Thomas Dowling.* |
| 10 (iii)(A)(2) | Employment Agreement, made as of January 28, 2002 between Interpublic and Philippe Krakowsky.* |
| 11 | Statement re: Computation of Per Share Earnings. |

(b) REPORTS ON FORM 8-K.

The following Reports on Form 8-K were filed during the quarter ended March 31, 2002.

- 1) Report, dated February 11, 2002. Item 5 Other Events and Item 7 Exhibits, Exhibit 99.1 Press Release.
- 2) Report, dated February 28, 2002. Item 5 Other Events. Item 7 Exhibits, Exhibit 99.1 Press Release.
- 3) Report, dated February 28, 2002. Item 9 Regulation FD Disclosure.

* Previously included in the Registrant's Report on Form 10-Q for the period ended March 31, 2002 that was filed with the Securities and Exchange Commission on May 15, 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: March 18, 2003

BY /S/ DAVID A. BELL
DAVID A. BELL
Chairman of the Board, President
and Chief Executive Officer

Date: March 18, 2003

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

CERTIFICATIONS

I, David A. Bell, certify that:

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

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: March 18, 2003

/s/ David A. Bell

David A. Bell
Chairman of the Board, President
and Chief Executive Officer

CERTIFICATIONS

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: March 18, 2003

/s/ Sean F. Orr

Sean F. Orr

Chief Financial Officer

INDEX TO EXHIBITS

| <u>EXHIBIT NO.</u> | <u>DESCRIPTION</u> |
|--------------------|--|
| 10(iii)(A)(1) | Employment Agreement, made as of November 1999 between The Interpublic Group of Companies, Inc. ("Interpublic") and Thomas Dowling.* |
| 10 (iii)(A)(2) | Employment Agreement, made as of January 28, 2002 between Interpublic and Philippe Krakowsky.* |
| 11 | Statement re: Computation of Per Share Earnings. |

* Previously included in the Registrant's Report on Form 10-Q for the period ended March 31, 2002 that was filed with the Securities and Exchange Commission on May 15, 2002.