INTERPUBLIC GROUP OF COMPANIES INC
Form 10-K/A
December 06, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 3 TO
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended	Commission file number
December 31, 2001	1-6686

THE INTERPUBLIC GROUP OF COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-1024020
State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1271 Avenue of the Americas, New York, New York	10020
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_. No____.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A.

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant was $12,577,276,869 as of March 15, 2002.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock outstanding at March 15, 2002: 380,207,886 shares.

EXPLANATORY NOTE
(Dollars in Millions)

The Interpublic Group of Companies, Inc. (the "Company") has restated its consolidated financial statements for periods from 1996 to June 2002. During the second and third quarters of 2002, the Company identified total charges of $181.3 ($135.9, net of tax) related to prior periods. Of the total amount of charges, $18.2 related to 2002 and $163.1 related to the year ended December 31, 2001 and prior. This Form 10-K/A shows the impact of the restatement on the consolidated financial statements for the three years ended December 31, 2001. Prior year Form 10-Ks have not been restated. Note 17 to these restated consolidated financial statements and Item 6(b) to this Form 10-K/A show the impact of the restatement on the Company's consolidated statement of operations for the 5 years ended December 31, 2001.

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

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

This Form 10-K/A amends the Form 10-K filed by the Company on April 1, 2002, for the fiscal year ended December 31, 2001, as amended by the Form 10-K/A filed by the Company on May 3, 2002, and the Form 10-K/A filed by the Company on June 3, 2002. This amendment includes certain information required by Items 6, 7 and 8 of Form 10-K, 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-K/A amends Items 6, 7 and 8 of Part II and Item 14 of Part IV of the Company's original Form 10-K filing only, and except for such items and Exhibit 23, no other information included in the Company's original Annual Report on Form 10-K for the year ended December

31, 2001, is amended by this amendment.

For additional discussion of developments relating to periods subsequent to December 31, 2001, please see the Company's reports filed with the Securities and Exchange Commission with respect to such subsequent periods, including the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

PART II

Item 6. Selected Financial Data

Item 6(a).

The following tables set forth selected financial data and other data concerning Interpublic for each of the last five years (dollar amounts in millions, except per share amounts). The following selected financial data should be read in conjunction with the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

SELECTED FINANCIAL DATA FOR FIVE YEARS
(Amounts in Millions, Except Per Share Amounts and Number of Employees)
(Unaudited)

	2001 (Restated)	2000 (Restated)	1999 (Restated)	1998 (Restated)	1997 (Restated)
OPERATING DATA					
Revenue	$ 6,723.2	$ 7,182.7	$ 6,417.2	$ 5,492.9	$ 4,850.7
Operating expenses	6,012.0	6,181.2	5,630.9	4,832.5	4,417.0
Restructuring and other merger related costs	645.6	177.7	159.5	3.3	79.6
Goodwill impairment and other charges	303.1	--	--	--	--
Special compensation charge	--	--	--	--	32.2
Investment impairment	208.3	--	--	--	--
Interest expense	164.6	126.3	99.5	86.5	80.0
Provision for (benefit of) income taxes	(53.8)	342.4	281.1	298.7	204.7
Net income (loss)	$ (527.4)	$ 397.1	$ 340.2	$ 361.8	$ 152.0
PER SHARE DATA					
Basic					
Net income (loss)	$ (1.43)	$ 1.10	$ 0.97	$ 1.04	$ 0.46
Weighted-average shares	369.0	359.6	352.0	346.9	333.8
Diluted					
Net income (loss)	$ (1.43)	$ 1.07	$ 0.94	$ 1.01	$ 0.44
Weighted-average shares	369.0	370.6	364.6	359.4	345.2
FINANCIAL POSITION					

Working capital	$ (77.9)	$ (421.5)	$ (83.1)	$ (151.2)	$ (52.3)
Total assets	$11,390.5	$12,264.0	$11,155.6	$9,297.3	$ 7,927.1
Total long-term debt	$ 2,480.6	$ 1,531.8	$ 1,085.2	$ 721.7	$ 590.5
Book value per share	$ 4.91	$ 6.40	$ 5.64	$ 4.74	$ 3.90
OTHER DATA					
Cash dividends - Interpublic	$ 129.2	$ 109.1	$ 90.4	$ 76.9	$ 61.2
Cash dividends per share - Interpublic	$ .38	$ .37	$ .33	$ .29	$ .25
Number of employees	54,100	62,000	54,800	49,500	43,100

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

Item 6(b).

The table below presents a summary of the impact of restating (a) the consolidated statement of operations for the first two quarters of 2002, the quarters of 2001 and 2000 and the years ended December 31, 1998 and 1997, and (b) the consolidated balance sheets at June 30 and March 31, 2002.

CONSOLIDATED STATEMENT OF OPERATIONS

Quarterly Data	As Previously Reported	As Restated
Three months ended March 31, 2002		
- Operating income	$ 140.1	$131.5
- Net income	$ 66.7	$ 61.7
- Earnings per share - Basic	$ 0.18	$ 0.17
- Earnings per share - Diluted	$ 0.18	$ 0.16
Three months ended June 30, 2002		
- Operating income	$ 238.5	$228.9
- Net income	$ 117.0	$111.3
- Earnings per share - Basic	$ 0.31	$ 0.30
- Earnings per share - Diluted	$ 0.31	$ 0.29
Three months ended March 31, 2001		
- Operating income	$ 153.1	$149.6
- Net loss	$ (28.8)	$(30.4)
- Loss per share - Basic	$ (0.08)	$(0.08)
- Loss per share - Diluted	$ (0.08)	$(0.08)

Three months ended June 30, 2001		
- Operating loss	$ (26.2)	$ (33.7)
- Net loss	$(110.2)	$(116.3)
- Loss per share - Basic	$ (0.30)	$ (0.32)
- Loss per share - Diluted	$ (0.30)	$ (0.32)
Three months ended September 30, 2001		
- Operating loss	$(570.6)	$(574.9)
- Net loss	$(477.5)	$(481.1)
- Loss per share - Basic	$ (1.29)	$ (1.30)
- Loss per share - Diluted	$ (1.29)	$ (1.30)
Three months ended December 31, 2001		
- Operating income	$ 235.6	$ 221.5
- Net income	$ 111.2	$ 100.4
- Earnings per share - Basic	$ 0.30	$ 0.27
- Earnings per share - Diluted	$ 0.30	$ 0.27
Three months ended March 31, 2000		
- Operating income	$ 95.4	$ 93.4
- Net income	$ 50.1	$ 48.3
- Earnings per share - Basic	$ 0.14	$ 0.14
- Earnings per share - Diluted	$ 0.14	$ 0.13
Three months ended June 30, 2000		
- Operating income	$ 299.0	$ 293.2
- Net income	$ 166.4	$ 161.6
- Earnings per share - Basic	$ 0.47	$ 0.45
- Earnings per share - Diluted	$ 0.47	$ 0.44

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

	As Previously Reported	As Restated
Three months ended September 30, 2000		
- Operating income	$ 191.5	$ 186.4
- Net income	$ 90.8	$ 86.5

- Earnings per share - Basic	$ 0.25	$ 0.24
- Earnings per share - Diluted	$ 0.24	$ 0.23
Three months ended December 31, 2000		
- Operating income	$ 263.2	$ 250.8
- Net income	$ 113.0	$ 100.7
- Earnings per share - Basic	$ 0.31	$ 0.28
- Earnings per share - Diluted	$ 0.30	$ 0.27

Annual Data

Twelve months ended December 31, 1998		
- Operating income	$ 672.4	$ 657.1
- Net income	$ 374.2	$ 361.8
- Earnings per share - Basic	$ 1.08	$ 1.04
- Earnings per share - Diluted	$ 1.04	$ 1.01
Twelve months ended December 31, 1997		
- Operating income	$ 342.6	$ 321.9
- Net income	$ 168.7	$ 152.0
- Earnings per share - Basic	$ 0.51	$ 0.46
- Earnings per share - Diluted	$ 0.49	$ 0.44

CONSOLIDATED BALANCE SHEETS

June 30, 2002 (a)		
CURRENT ASSETS:		
Cash and cash equivalents	$ 537.3	$ 537.3
Accounts receivable	4,959.2	4,913.8
Other current assets	910.4	894.9
TOTAL CURRENT ASSETS	$ 6,406.9	$ 6,346.0
TOTAL ASSETS	$11,772.6	$11,700.6

LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 5,791.7	$ 5,828.8
Loans payable	598.6	598.6
Accrued income taxes	48.4	31.4
TOTAL CURRENT LIABILITIES	$ 6,438.7	$ 6,458.8
NON-CURRENT LIABILITIES	$ 3,050.2	$ 3,050.2
STOCKHOLDERS' EQUITY	$ 2,283.7	$ 2,191.6
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$11,772.6	$11,700.6

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

	As Previously Reported	As Restated
March 31, 2002		
CURRENT ASSETS:		
Cash and cash equivalents	$ 575.1	$ 575.1
Accounts receivable	4,576.0	4,466.7
Other current assets	784.1	772.1
TOTAL CURRENT ASSETS	$ 5,935.2	$ 5,813.9
TOTAL ASSETS	$11,043.1	$10,910.9

LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 5,389.7	$ 5,425.4
Loans payable	525.4	525.4
Accrued income taxes	60.9	19.4
Dividends payable	36.2	36.2
TOTAL CURRENT LIABILITIES	$ 6,012.2	$ 6,006.4
NON-CURRENT LIABILITIES	$ 2,990.3	$ 2,990.3
STOCKHOLDERS' EQUITY	$ 2,040.6	$ 1,914.2
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$11,043.1	$10,910.9

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

OVERVIEW OF SIGNIFICANT EVENTS

The year 2001 contained several significant events for the Company as it completed a major acquisition and

implemented a wide ranging restructuring plan. Further, the Company's operating results were negatively impacted by very weak demand for its services and by the cost of the restructuring plan and other asset impairment write-offs.

The significant events that occurred during the year were as follows:

* Acquisition of True North

  On June 22, 2001, the Company acquired True North Communications Inc. ("True North"), a global provider of advertising and communication services, in a transaction accounted for as a pooling of interests. The Company issued approximately 58.2 million shares in connection with the acquisition. The acquisition increased the size of the Company's operations by approximately 25%. The acquisition precipitated a major reorganization and restructuring (see below) and resulted in some one-time revenue losses as client conflicts materialized.

* Reorganization and Restructuring Plan

  Following the True North acquisition in June 2001, the Company undertook 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 these 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, will 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 areas of specialized marketing communications and services.

  In connection with these initiatives, the Company is executing a wide-ranging restructuring plan that includes severance, lease terminations and other actions. The total amount of the charges recorded in connection with the plan was $645.6 which included severance for approximately 6,800 employees and the downsizing or closure of 180 offices.

* Economic conditions

  The year 2001 was challenging for both the Company and the advertising and marketing communications industry as a whole. The Company found itself operating against the most adverse conditions in over 50 years. Demand for most of the Company's services dropped dramatically and this had a severe impact on the Company's profitability. The drop in demand was not limited to any one of the Company's service offerings nor to any geographical region. It has been estimated that media spending in 2001 dropped by about 4% in the U.S. and by about 3% internationally compared to the prior year, with the drop accelerating as the year progressed. The Company's revenue in the fourth quarter 2001 was severely impacted by the worsening economic conditions as reflected in the 16% drop in its revenue compared to the fourth quarter of the prior year.

* Credit Facility and Other Borrowings

  During the year, the Company entered into the following financing transactions:

  a) On June 26, 2001, the Company replaced its maturing $375.0, 364-day syndicated revolving multi-currency credit agreement with a substantially similar $500.0 facility. The new facility bears interest at variable rates based on either LIBOR or a bank's base rate, at the Company's option.

b) On August 22, 2001, the Company completed the issuance and sale of $500.0 principal amount of senior unsecured notes due 2011. The notes bear interest at a rate of 7.25% per annum. The Company used the net proceeds of approximately $493 from the sale of the notes to repay outstanding indebtedness under its credit facilities.

c) In December 2001, the Company completed the issuance and sale of approximately $702 of aggregate principal amount of Zero-Coupon Convertible Senior Notes due 2021. The yield to maturity of the notes was 1%. The net proceeds from the offering of approximately $563.5 were used to pay down short-term debt.

* Other Write-Offs

  During the year, the Company performed a review of its assets and identified certain items that had become impaired. Accordingly, significant charges were taken primarily for goodwill (total charges of $303.1) and investment write-downs (total charges of $208.3).

OUTLOOK

The Company's results of operations are dependent upon: a) maintaining and growing its revenue, b) the ability to gain new clients, c) the continuous alignment of its costs to its revenue and d) retaining key personnel. Revenue is also highly dependent on overall economic conditions. As discussed above, 2001 was a very difficult year for the Company. During the year, spending by clients on most marketing services was reduced and the reduction was felt worldwide. While most of the reduction was due to general recessionary conditions, the marketing industry was particularly hard hit as clients, many of whom seemed to have been surprised by the suddenness of the recession, looked to their advertising and marketing budgets for the quickest cuts. Thus the drop in demand for services in our industry was more severe than that noted in the overall economy.

The Company has taken steps to improve its operating performance and to bring its cost structure in line with the current revenue environment. The restructuring program announced in the third quarter of 2001 has already begun to yield significant cost savings. The annualized savings from the plan are expected to exceed $250. As of December 2001, the Company's headcount has been reduced from approximately 62,000 (at December 31, 2000) to 54,100 primarily due to the restructuring program.

RESULTS OF OPERATIONS

As discussed in Note 17, during the second and third quarters of 2002, the Company identified total charges of $181.3 ($135.9, net of tax) that are related to prior periods. The $163.1 of charges that related to the periods prior to December 31, 2001 have been recorded through a restatement of previously reported amounts in this Form 10-K/A.

As a result of a review undertaken surrounding the process of internally allocating certain overhead costs and reimbursable charges to operating units throughout the world, the Company identified and recorded $101.0 of

intracompany charges. The review related to McCann-Erickson WorldGroup ("McCann"). Cost allocations are performed by McCann in order to, among other things, satisfy regulatory authorities and measure client account profitability. The charges were principally in Europe and had been included in accounts receivable and work-in progress rather than being expensed.

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

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

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

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

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

On June 22, 2001, the Company acquired True North in a transaction accounted for as a pooling of interests. The Company's financial statements have been restated for all prior periods to reflect the results of True North. The following discussion relates to the combined results of the Company after giving effect to the pooling of interests with True North.

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 reported a net loss of $527.4 or $1.43 diluted loss per share, net income of $397.1 or $1.07 diluted earnings per share and net income of $340.2 or $0.94 diluted earnings per share for the years ended December 31, 2001, 2000 and 1999, respectively. Net income excluding non-recurring items was $337.1 or $0.90 diluted earnings per share, $547.1 or $1.47 diluted earnings per share and $441.2 or $1.21 diluted earnings per share for the years ended December 31, 2001, 2000 and 1999, respectively.

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

	2001 (Restated)	2000 (Restated)	1999 (Restated)
Net Income (Loss)			
Net income (loss), as reported	$(527.4)	$397.1	$340.2

Less non-recurring items:			
Salaries and related expenses - (reduction in severance reserves)	50.0		
Office and general expenses - (write-off of operating assets)	(85.4)		
Restructuring and other merger related costs	(645.6)	(177.7)	(159.5)
Goodwill impairment and other charges	(303.1)		
Investment impairment	(208.3)		
Tax effect of above items	327.9	53.4	58.5
Equity in net income of unconsolidated affiliates (asset impairment and restructuring charges)		(25.7)	
Total non-recurring items	(864.5)	(150.0)	(101.0)
Net income excluding non-recurring items	$ 337.1	$547.1	$441.2

Revenue

Worldwide revenue for 2001 was $6,723.2, a decrease of $459.5 or 6.4% from 2000. Domestic revenue, which represented 57% of revenue in 2001, decreased $438.4 or 10.3% from 2000. International revenue, which represented 43% of revenue in 2001, decreased $21.1 or 1.0% from 2000. International revenue would have increased 5.0% excluding the effects of changes in foreign currency. The decrease in worldwide revenue was a result of reduced demand for advertising and marketing services due to the weak economy, particularly in the United States, the negative impact of the events of September 11 and the loss of the Chrysler account in the fourth quarter of 2000. The components of the total revenue change of (6.4)% were: acquisitions net of divestitures 0.9%, impact of foreign currency changes (2.2)%, impact of the loss of the Chrysler account (1.6)%, the estimated impact of the events of September 11 (0.5)% and organic revenue decline of (3.0)%. Organic changes in revenue are based on increases or decreases in net new business activity and increases or decreases from existing client accounts.

Worldwide revenue for 2000 was $7,182.7, an increase of $765.5 or 11.9% over 1999. Domestic revenue, which represented 59% of revenue, increased $620.0 or 17.1% over 1999. International revenue, which represented 41% of revenue in 2000, increased $145.5 or 5.2% over 1999. International revenue would have increased 14.5% excluding

the effects of changes in foreign currency. The increase in worldwide revenue was a result of both growth from new business gains and growth from acquisitions. The components of the total revenue change of 11.9% were: acquisitions 3.6%, impact of foreign currency changes (4.2)% and organic revenue 12.5%.

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) specialized 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:

	2001	2000	1999
Advertising and Media Management	$4,001	$4,450	$4,155
Marketing Communications	1,823	1,855	1,511
Marketing Intelligence	446	461	464
Specialized Marketing Services	453	417	287
Total Revenue	$6,723	$7,183	$6,417

Operating Expenses

Worldwide operating expenses for 2001 increased $601.8 to $6,960.7. Operating expenses excluding non-recurring items were $5,976.6, a decrease of 3.3% over 2000. Operating expenses outside the United States increased 1.1%, while domestic operating expenses decreased 6.5%. The decrease in worldwide operating expenses reflected the benefit of the Company's restructuring initiatives in the latter part of the year and other operating cost reduction initiatives partially offset by an increase in amortization of intangible assets due to the higher level of acquisitions in the year 2000 over 1999. The components of the total change of (3.3)% were: acquisitions net of divestitures 0.7%, impact of foreign currency changes (2.1)%, impact of the loss of the Chrysler account (1.6)% and organic operating expenses (0.3)%.

Worldwide operating expenses for 2000 increased $568.5 to $6,358.9. Operating expenses excluding non-recurring items were $6,181.2, an increase of 9.8% over 1999, comprised of a 2.8% increase in international expenses and a 15.3% increase in domestic expenses. The components of the total change of 9.8% were: acquisitions 3.4%, impact of foreign currency changes (3.0)% and organic operating expenses 9.4%.

The Company's expenses related to employee compensation and various employee incentive and benefit programs amount to approximately 57% of revenue. The employee incentive programs are based primarily upon operating results. Salaries and related expenses for 2001 decreased $247.6 to $3,807.0. Salaries and related expenses excluding non-recurring items were $3,857.0, a decrease of 4.9%. The decrease is a result of lower headcount, which was reduced to 54,100 or 12.7% at December 31, 2001 from 62,000 at December 31, 2000, and reduced incentive compensation commensurate with performance. Of the total headcount reduction of 7,900, approximately 5,200 are a direct result of the Company's 2001 restructuring plan. The components of the total change of (4.9)% were: acquisitions net of divestitures 0.8%, impact of foreign currency changes (2.0)%, impact of the loss of the Chrysler account (1.4)% and organic salaries and related expenses (2.3)%.

Salaries and related expenses were $4,054.6 in 2000 and $3,635.2 in 1999, an increase of 11.5%. The increase was a result of growth from acquisitions and new business gains. The total headcount increased by 7,200 or 13.1% at

December 31, 2000 from the prior year. The components of the total change of 11.5% were: acquisitions 4.2%, impact of foreign currency changes (2.0)% and organic salaries and related expenses 9.3%.

Office and general expenses increased $49.7 in 2001 to $2,032.0. Office and general expenses excluding non-recurring items were $1,946.6, a decrease of 1.8%. The decrease was due to the impact of foreign currency changes and the impact of the loss of the Chrysler account, offset by higher office rental and supplies costs. However, during the latter part of the year, the Company benefited from the restructuring plan initiatives, including reduced travel and entertainment costs and reduced office rental and supplies costs. The components of the total change of (1.8)% were: acquisitions net of divestitures 0.4%, impact of foreign currency changes (2.4)%, impact of the loss of the Chrysler account (2.2)% and organic office and general expenses 2.4%.

Office and general expenses for 2000 were $1,982.3, an increase of 6.2% over 1999. The increase was a result of higher new business development costs, higher office rental and supplies costs, higher travel and entertainment costs and increased depreciation costs. The components of the total change of 6.2% were: acquisitions 3.4%, impact of foreign currency changes (5.1)% and organic office and general expenses 7.9%.

Amortization of intangible assets increased $28.7 to $173.0 in 2001 and increased $15.9 to $144.3 in 2000. The year over year increase reflects the increased level of acquisition activity in 1999 and 2000. See New Accounting Standards section for discussion of accounting for goodwill and other intangible assets going forward.

NON-RECURRING ITEMS

RESTRUCTURING AND OTHER MERGER RELATED COSTS

2001 Activities

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 connection with the plan was $645.6 ($446.5, net of tax), of which $592.8 was recorded in the third quarter with the remainder having been recorded through the end of the second quarter.

A summary of the components of the total restructuring and other merger related costs in 2001, together with an analysis of the cash and non-cash elements, is as follows:

	Total recorded	Cash paid in 2001	Non-cash items	Liability at December 31, 2001

TOTAL BY TYPE				
Severance and termination costs	$297.5	$143.5	$ --	$154.0
Lease termination and other exit costs	310.9	55.2	98.6	157.1
Transaction costs	37.2	31.5	5.7	--
Total	$645.6	$230.2	$104.3	$311.1

The severance and termination costs relate to approximately 6,800 employees who have been, or will be, terminated. As of December 31, 2001, approximately 5,200 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.

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 December 2001, with the remaining to occur by the middle of the year 2002.

The transaction costs relate to the direct costs incurred in connection with the True North acquisition and included investment banker and other professional services fees.

2000 Activities

During 2000, the Company recorded restructuring and other merger related costs of $177.7 ($124.3, net of tax). Of the total pre-tax restructuring and other merger related costs, cash charges represented $104.6. The key components of the charge were: a) costs associated with the restructuring of Lowe & Partners Worldwide (formerly Lowe Lintas & Partners Worldwide), b) costs associated with the loss, by True North, of the Chrysler account, c) other costs related to the acquisition of Deutsch and d) costs related principally to the merger with NFO.

Lowe & Partners

In October 1999, the Company announced the merger of two of its advertising networks. The networks affected, Lowe & Partners Worldwide and Ammirati Puris Lintas, were combined to form a new agency. The merger involved the consolidation of operations in agencies in approximately 24 cities in 22 countries around the world and the severance of approximately 600 employees. As of September 30, 2000, all restructuring activities had been completed.

In connection with this restructuring, costs of $84.1 ($51.4, net of tax) were recorded in 1999 and $87.8 ($53.6, net of tax) in 2000. Of the totals, $75.6 related to severance, $50.2 related to lease related costs and the remainder related principally to investment write-offs. No adjustment to the Company's statement of operations was required as a result of the completion of the restructuring plan.

Loss of Chrysler Account

In September 2000, Chrysler, one of True North's larger accounts, announced that it was undertaking a review of its two advertising agencies to reduce the costs of its global advertising and media. On November 3, 2000, True North was informed that it was not selected as the agency of record. In December 2000, True North terminated its existing contract with Chrysler and entered into a transition agreement effective January 1, 2001.

As a result of the loss of the Chrysler account, the Company recorded a charge of $17.5 pre-tax ($10.0, net of tax) in the fourth quarter of 2000. The charge covered primarily severance, lease termination and other exit costs associated with the decision to close the Detroit office. The severance portion of the charge amounted to $5.8 and reflected the elimination of approximately 250 positions. The charge also included $11.4 associated primarily with the lease termination of the Detroit office, as well as other exit costs. In addition, an impairment loss of $5.5 was recorded for intangible assets that were determined to be no longer recoverable. Offsetting these charges was a $5.2 payment from Chrysler to compensate the Company for severance and other exit costs. As of December 31, 2001, all actions had been completed. No adjustment to the Company's statement of operations was required as a result of the completion of these actions.

Acquisition of Deutsch

In connection with the acquisition of Deutsch in 2000, the Company recognized a charge related to one-time transaction costs of $44.7 ($41.7, net of tax). The principal component of this amount related to the expense associated with various equity participation agreements with certain members of management. These agreements provided for participants to receive a portion of the proceeds in the event of the sale or merger of Deutsch.

NFO and Other

In addition to the above 2000 activities, additional charges, substantially all of which were cash costs, were recorded during 2000 related principally to the transaction and other merger related costs arising from the acquisition of NFO.

Also included in 2000 were excess restructuring reserves of $0.6 related to the 1999 restructuring of Bozell and FCB Worldwide. This excess was reversed into income in the Company's statement of operations during 2000.

1999 Activities

During 1999, the Company recorded restructuring and other merger related costs of $159.5 ($101.0, net of tax). Of the total pre-tax restructuring and other merger related costs, cash charges represented $91.5. The components of the charge were: a) costs associated with the restructuring of Lowe & Partners Worldwide (see above) and b) costs associated with the restructuring of Bozell and FCB Worldwide.

Bozell and FCB Worldwide

In September 1999, the Company announced a formal plan to restructure its Bozell and FCB Worldwide agency operations and recorded a $75.4 charge ($49.6, net of tax) in the third quarter of 1999. The charge covered primarily severance ($41.4) and lease termination and other exit costs ($24.2) in connection with the combination and integration of the two worldwide advertising agency networks. Approximately 640 individuals were terminated as part of the plan. Bozell Worldwide's international operations, along with Bozell Detroit and Bozell Costa Mesa, were merged with FCB Worldwide and now operate under the FCB Worldwide name. The restructuring initiatives also included the impairment loss on the sale or closing of certain underperforming business units. The activities had been completed by December 31, 2000.

GOODWILL IMPAIRMENT AND OTHER CHARGES

Following the completion of the True North acquisition and the realignment of certain of the Company's businesses, the Company evaluated the realizability of various assets. In connection with this review, undiscounted cash flow projections were prepared for certain investments, and the Company determined that the goodwill attributable to certain business units was stated at an amount in excess of the future estimated cashflows. As a result, an impairment charge of $303.1 ($263.4, net of tax) was recorded in 2001. Of the total write-off, $221.4 was recorded in the second quarter, with the remainder recorded in the third quarter. The largest components of the goodwill impairment and other charges were Capita Technologies, Inc. (approximately $145) and Zentropy Partners (approximately $16), both internet services businesses. The remaining amount primarily related to several other businesses including internet services, healthcare consulting and certain advertising offices in Europe and Asia Pacific.

INVESTMENT IMPAIRMENT

During 2001, the Company recorded total charges related to the impairment of investments of $208.3 ($134.1, net of tax). Of the total amount, $160.1 ($103.7, net of tax) was recorded in the first quarter, with the remainder recorded in the third quarter. The charge in the first quarter 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 third quarter charge included write-offs for investments in non-internet companies, certain venture funds and other investments. The impairment charge adjusted the carrying value of investments to the estimated market value where an other than temporary impairment had occurred.

At December 31, 2001, the Company had approximately $146 of investments, of which approximately $55 are less than 20% owned (and are accounted for on the cost basis), and approximately $91 are available-for-sale securities.

OTHER NON-RECURRING ITEMS

Included in office and general expenses in 2001 were charges of $85.4 ($49.5, net of tax) relating primarily to operating assets, which are no longer considered realizable. Additionally, a benefit of $50.0 ($29.0, net of tax) resulting from a reduction in severance reserves related to recent significant headcount reductions is included in salaries and related expenses.

In 2000, the Company also recorded its share of the asset impairment and restructuring charges of Modem Media. The

$25.7 charge is reflected in equity in net income of unconsolidated affiliates in the Company's statement of operations.

OTHER INCOME (EXPENSE)

Interest Expense

Interest expense increased by $38.3 to $164.6 in 2001 due to higher debt levels, which included the issuance and sale of $500.0, 7.25% notes due 2011 in August 2001. The increase was partially offset by lower interest rates paid on short-term borrowings. The Company's effective interest rate was benefited by the interest rate swap agreements covering $400.0 of the $500.0, 7.875% notes issued in 2000. The interest rate savings as a result of these agreements was approximately $4.5 in 2001. In addition, the Company expects to further reduce its effective interest rate in 2002 due to the issuance and sale of the Zero-Coupon Convertible Notes in December 2001. See Liquidity and Capital Resources section for description of financing activities. Interest expense increased by $26.8 to $126.3 in 2000 due to higher average debt levels and higher interest rates, which included the issuance and sale of $500.0, 7.875% notes due 2005.

Interest Income

Interest income was $41.8 in 2001, $57.5 in 2000 and $56.2 in 1999. The decrease in 2001 is primarily due to lower interest rates and lower average cash balances primarily resulting from the lower earnings levels in 2001. Interest income increased modestly in 2000 from 1999.

Other Income

Other income primarily consists of investment income, gains from the sale of businesses and other interests and gains (losses) from the sale of investments, primarily marketable securities classified as available-for-sale. Other income decreased by $29.2 in 2001 and by $22.9 in 2000 primarily due to a reduction in the gains from sales of investments, which were a loss of $(2.5), and gains of $28.5 and $45.3 in 2001, 2000 and 1999, respectively. The year over year reduction reflects the reduced level of the Company's investment activity.

OTHER ITEMS

The Company's effective income tax rate was a benefit of 9.7% in 2001, and an expense of 42.9% in 2000 and 43.3% in 1999. The 2001 effective tax rate was impacted by the non-recurring items, which were benefited at lower foreign tax rates and by the write-off of non-deductible goodwill, resulting in a lower tax benefit rate. Excluding non-recurring items, the effective income tax rate was 43.0%, 40.6% and 42.0%, respectively. The primary difference between the effective tax rate and the statutory federal rate of 35% is due to state and local taxes and nondeductible goodwill expense. The increased tax rate in 2001 reflects a change in the tax status of Deutsch, Inc., which was acquired in November 2000, from "S" Corporation to "C" Corporation status.

Income applicable to minority interests decreased by $12.5 to $30.3 in 2001 and increased by $4.6 in 2000. The decrease in 2001 was primarily due to lower operating results of certain operations in Europe and Asia Pacific. The slight increase in 2000 was due to the growth of companies not wholly owned.

Equity in net income of unconsolidated affiliates was $4.0 in 2001, a loss of $15.6 in 2000 and income of $10.2 in 1999. Equity in net income of unconsolidated affiliates excluding non-recurring items decreased to $4.0 in 2001 from $10.1 in 2000. The decrease was primarily due to reduced earnings of our unconsolidated affiliates and the consolidation of an advertising office in the Middle East at the end of 2000.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2001, cash and cash equivalents were $935.2, an increase of $90.6 from the December 31, 2000 balance of $844.6. The Company collects funds from clients on behalf of media outlets resulting in cash receipts and disbursements at levels substantially exceeding its revenue. Therefore, the working capital amounts reported on its balance sheet and cash flows from operating activities reflect the "pass-through" of these items.

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

Operating Activities

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

Net cash provided by operating activities was $148.5, $607.2 and $769.4 for the years ended December 31, 2001, 2000 and 1999, respectively. The decrease in 2001 was primarily attributable to lower operating profit levels and to severance payments made in connection with the Company's restructuring plan. The Company's practice is to bill and collect from its clients in sufficient time to pay the amounts due for media on a timely basis. Other uses of working capital include acquisitions, capital expenditures, 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

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 2001, 2000 and 1999 the Company paid $1,729.7, $1,668.3 and $652.2, respectively, in cash and stock for new acquisitions, including a number of specialized marketing and communications services companies to complement its existing agency systems and to optimally position itself in the ever-broadening communications marketplace. This amount includes the value of stock issued for pooled companies and includes cash of $84.7, $577.4 and $231.4 in 2001, 2000 and 1999, respectively.

The Company's capital expenditures in 2001 were $268.0 compared to $259.5 in 2000 and $249.7 in 1999. The primary purposes of these expenditures were to upgrade computer and telecommunications systems and to modernize offices. The Company's planned capital expenditures for 2002 are estimated to be no greater than the level of spending in 2001.

During 2001, the Company sold a marketing services affiliate in Europe for approximately $5 and some non-core marketing services affiliates in the U.S. for approximately $6.9.

During 2000, the Company sold its interest in a non-core minority owned marketing services business for proceeds of approximately $12.

During 1999, the Company sold its entire investment in Publicis S.A. for net cash proceeds of $135.3 and a portion of its investments in the common stock of Lycos and marchFIRST (formerly USWEB) for combined proceeds of approximately $56. Additionally, the Company sold its minority interest in Nicholson NY, Inc. to Icon in exchange for shares of Icon's common stock worth $19.

Financing Activities

Total debt at December 31, 2001 was $2,933.7, an increase of $852.6 from December 31, 2000. The increase in debt was primarily attributable to lower operating profit levels and to severance payments made in connection with the Company's restructuring plan.

Zero-Coupon Convertible Notes

In December 2001, the Company completed the issuance and sale of approximately $702 of aggregate principal amount of Zero-Coupon Convertible Senior Notes ("Zero-Coupon Notes") due 2021. The Company used the net proceeds of $563.5 from this offering to repay indebtedness under the Company's credit facilities. The Zero-Coupon Notes are unsecured, zero-coupon, senior securities that may be converted into common shares if the price of the Company's common stock reaches a specified threshold, at a conversion rate of 22.8147 shares per one thousand dollars principal amount at maturity, subject to adjustment. This threshold will initially be 120% of the accreted value of a Zero-Coupon Note, divided by the conversion rate and will decline 1/2% each year until it reaches 110% at maturity in 2021. A Zero-Coupon Note's accreted value is the sum of its issue price plus its accrued original issue discount.

The Zero-Coupon Notes may also be converted, regardless of the sale price of the Company's common stock, at any time after: (i) the credit rating assigned to the Zero-Coupon Notes by any two of Moody's Investors Service, Inc., Standard & Poor's Ratings Group and Fitch IBCA Duff & Phelps are Bal, BB+ and BB+, respectively, or lower, or the Zero-Coupon Notes are no longer rated by at least two of these ratings services, (ii) the Company calls the Zero-Coupon Notes for redemption, (iii) the Company makes specified distributions to shareholders or (iv) the Company becomes a party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash or property (other than securities).

The Company, at the investor's option, may be required to redeem the Zero-Coupon Notes for cash on December 14, 2003. The Company may also be required to redeem the Zero-Coupon Notes at the investor's option, on December 14, 2004, 2005, 2006, 2011 or 2016 for cash or common stock or a combination of both, at the Company's election. Additionally, the Company has the option of redeeming the Zero-Coupon Notes after December 14, 2006 for cash.

The yield to maturity of the Zero-Coupon Notes at the date of issuance was 1%. Unless the Company is required to pay the contingent interest described in the following sentence or the U.S. tax laws change in certain ways, no cash interest will be paid at any time. After December 14, 2006, if the Company's stock price reaches specified thresholds, the Company would be obligated to pay semi-annual contingent cash interest which would approximate the dividends paid to common stockholders during the prior six-month period (subject to a floor rate). Further, in the event that the notes are not registered for public sale by May 13, 2002, additional amounts of up to 0.5% per annum would be payable until the registration is declared effective by the SEC.

Senior Unsecured Notes - 7.25%

On August 22, 2001, the Company completed the issuance and sale of $500.0 principal amount of senior unsecured notes due 2011. The notes bear interest at a rate of 7.25% per annum. The Company used the net proceeds of approximately $493 from the sale of the notes to repay outstanding indebtedness under its credit facilities.

Senior Unsecured Notes - 7.875%

On October 20, 2000, the Company completed the issuance and sale of $500.0 principal amount of senior unsecured notes due 2005. The notes bear an interest rate of 7.875% per annum. The Company used the net proceeds of approximately $496 from the sale of the notes to repay outstanding indebtedness under its credit facilities.

During 2001, the Company entered into interest rate swap agreements to convert the fixed interest rate on the 7.875% notes to a variable rate based on 6 month LIBOR. At December 31, 2001, the Company had outstanding interest rate swap agreements covering $400.0 of the $500.0, 7.875% notes due October 2005. The swaps have the same term as the 7.875% notes and, for 2001, had the effect of reducing the effective interest rate on the notes to 6.972%.

Credit Agreements

In July 2001, the Company entered into a credit agreement with a group of lenders. The credit agreement provided for revolving borrowings of up to $750.0. No borrowings were drawn under this facility and the facility terminated upon the issuance and sale of the $500.0 Senior Notes on August 22, 2001.

On June 26, 2001, the Company replaced its maturing $375.0, 364-day syndicated revolving multi-currency credit agreement with a substantially similar $500.0 facility. The new facility bears interest at variable rates based on either LIBOR or a bank's base rate, at the Company's option. As of December 31, 2001, there were no outstanding balances under this facility. Prior to June 25, 2002, the Company may, at its option, borrow the full amount of the $500.0 facility for a one-year term.

In June 2000, the Company entered into a five-year syndicated revolving multi-currency credit agreement with a group of lenders. The credit agreement provides for borrowings of up to $375.0 which bear interest at variable rates based on LIBOR or a bank's base rate, at the Company's option. At December 31, 2001, there was approximately $144.1 borrowed under this facility.

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 financial covenants contained in the Company's term loan agreements 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 December 31, 2001, 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. During 2001, as a result of the significant non-recurring charges, the Company required and received amendments related to its financial covenants.

Floating Rate Notes

On June 28, 2001, the Company issued and sold $100.0 of floating rate notes. The notes mature on June 28, 2002 and bear interest at a variable rate based on three month LIBOR. The Company intends to repay these notes at maturity from its available borrowing capacity.

Other

During 2001, the Company purchased approximately 2.4 million shares of its common stock, compared to 4.8 million shares in 2000. 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.

Based on current demand for the Company's services and the global economic environment, the Company believes that its cash flow from operations, together with its existing lines of credit and cash on hand, is sufficient to provide for the liquidity needs of its business. At December 31, 2001 and 2000, the Company's committed credit facilities were approximately $875 and $750, respectively, of which $144.1 and $160.0 were utilized at December 31, 2001 and 2000. In addition, the Company has had success in the past accessing the debt markets for increased liquidity. Unanticipated decreases in cash flow from operations as a result of decreased demand for our services and other developments, including those described in the "Cautionary Statement" below, may require the Company to seek other sources of liquidity and modify its operating strategies.

The Company is currently engaged in preliminary discussions and expects to renew its 364-day, $500.0 bank facility which matures in June 2002. At December 31, 2001, there were no borrowings under this facility.

Subsequent Events
As of September 30, 2002, the Company had two revolving credit facilities provided by a syndicate of banks (the "Revolving Credit Facilities") in an aggregate amount of $875.0, which are utilized to fund the Company's ordinary course business

needs. The Revolving Credit Facilities bear interest rates at either a bank's base rate or LIBOR, at the Company's option. Furthermore, the interest rate on base rate loans is affected by the facilities' utilization levels, and the interest rate on LIBOR loans is affected by utilization levels and the Company's credit ratings. Based on the Company's current credit ratings of BBB and Baa3, as reported by Standard & Poor's and Moody's Investors Services, Inc., respectively, the current interest rate for base rate loans is 4.25% and the interest spread with respect to LIBOR loans is 1.25%. At September 30, 2002, approximately $103.5 was borrowed under these facilities, and as of 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") constituting part of the Company's term loan agreements discussed above, 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 current quarter and (b) restructuring charges and lower operating profit in prior periods resulting from the restatement described in Note 17 to the Company's Consolidated Financial Statements, as of September 30, 2002, the Company required and received waivers related to its financial covenants in the Prudential Agreements.

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

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

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

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

At September 30, 2002, the Company had contingent obligations under guarantees and letters of credit issued by banks for the account of the Company and its subsidiaries in an aggregate amount of approximately $256.6. As of November 15, 2002, this aggregate amount was approximately $244.8.

The Company's liquidity in the third quarter of 2002 has been negatively impacted by lower profitability and issues resulting from the restatement. The Company believes that cash flow from operations, together with its availability under existing lines of credit and cash on hand, will be sufficient to fund the Company's working capital needs and

other obligations on a timely basis. In the event additional funds are required, the Company believes it will have sufficient resources, including borrowing capacity and access to capital markets, to meet such requirements. Unanticipated decreases in cash flow from operations as a result of decreased demand for our services and other developments may require the Company to seek other sources of liquidity (including the disposition of certain non-core assets) and modify its operating strategies.

Contractual Obligations

The following summarizes the Company's estimated contractual obligations at December 31, 2001, and the effect such obligations are expected to have on its liquidity and cash flow in future periods.

	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	AFTER 3 YEARS
CONTRACTUAL OBLIGATIONS:				
Long-term debt	$2,515.2	$ 34.6	$318.9	$2,161.7
Non-cancelable operating lease obligations	$1,552.9	$314.1	$400.2	$ 838.6
Estimated obligations under acquisition earn-outs	$ 380.0	$150.0	$230.0	$ --

The amount reflected as obligations under acquisition earn-outs is estimated based on the assumption that the full

amount due under the acquisition agreements would be paid, however, the Company does not expect to pay out the full amount estimated.

As noted above, the Company's Zero-Coupon Notes contain a provision whereby the Company may be required to redeem the Zero-Coupon Notes for cash on December 14, 2003.

DERIVATIVES AND HEDGING ACTIVITIES

The Company enters into interest rate swaps, hedges of net investment in overseas subsidiaries and forward contracts to mitigate related risks.

Interest Rate Swaps

At December 31, 2001, the Company had outstanding interest rate swap agreements covering $400.0 of the $500.0, 7.875% notes due October 2005. The swaps have the same term as the debt and effectively convert the fixed rate on the debt to a variable rate based on 6 month LIBOR. The swaps are accounted for as hedges of the fair value of the related debt and are recorded as an asset or liability as appropriate. As of December 31, 2001, the fair value of the hedges was an asset of $10. The net effect of the hedges is that interest expense on the $400.0 of debt being hedged is recorded at variable rates, which for 2001 resulted in the effective interest rate on the $500.0, 7.875% notes being reduced to 6.972%. The fair value is estimated based on quotes from the market makers of these instruments and represents the estimated amounts that the Company would expect to receive if these agreements were terminated. These instruments were executed with institutions the Company believes to be credit-worthy.

Hedges of Net Investment

The Company has significant foreign operations and conducts business in various foreign currencies. In order to hedge the value of its investment in Europe, the Company has designated approximately 125 million Euro of borrowings under its $375.0 syndicated revolving multi-currency credit facility as a hedge of this net investment. Changes in the spot rate of the debt instruments designated as hedges of the net investment in a foreign subsidiary are reflected in the cumulative translation adjustment component of stockholders' equity. As of December 31, 2001, the reduction in stockholders' equity related to this item was approximately $5.

Forward Contracts

Short-term

The Company has entered into foreign currency transactions in which foreign currencies (principally the Euro, Pounds Sterling and the Japanese Yen) are bought or sold forward. The contracts were entered into to meet currency requirements arising from specific transactions. The changes in value of these forward contracts were reflected in the Company's consolidated statement of operations. As of December 31, 2001, the Company had contracts covering approximately $50 of notional amount of currency. Substantially all of these contracts expire by the end of February 2002. As of December 31, 2001, the fair value of the forwards was a loss of $0.2.

Long-term

In September 2000, the Company acquired a 35.5% interest in Springer & Jacoby, a German-based advertising group, for total consideration of $25.9. The consideration consisted of an initial cash payment of $16.9 and a put option valued at $9.0. Pursuant to the purchase agreement, two shareholders of Springer & Jacoby have the right to sell all of their shares (put option) to the Company in January 2003 at a fixed price of 27.1 million Euros. The additional shares to be purchased in January 2003 pursuant to the put option represent 15.5% of the outstanding shares of Springer &

Jacoby. The Company has recorded the fair value of this put option as an $8.3 liability at December 31, 2001. The Company has entered into forward contracts to purchase 27.1 million Euros in January 2003. The fair value of the forward contracts was recorded as an asset of $1.0 at December 31, 2001. Changes in the fair value of the put option liability and the forward contracts are reflected as a component of the Company's consolidated statement of operations.

Other

Under the terms of the offering of Zero-Coupon Convertible Notes in December 2001, two embedded derivative instruments were created. The derivatives are related to: a) the value of the contingent interest feature (whereby cash interest may become payable in certain circumstances) and, b) the value of the feature that the debt becomes convertible upon a reduction in the credit rating of the Notes. The Company obtained valuations of the two derivatives at the time of initial issuance of the Notes and determined that the fair value of the two derivatives was negligible. At December 31, 2001, the fair value of the two derivatives was negligible.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements. The Company believes the following accounting policies are critical to the accuracy of the more significant judgements and estimates used in the preparation of its consolidated financial statements:

- revenue recognition;
- allowance for doubtful accounts;
- accounting for income taxes; and
- valuation of long-lived and intangible assets, investments and goodwill.

Revenue recognition

The Company derives revenue from advertising services, including media buying, and from marketing and communication services, including market research, public relations, direct marketing, sales promotion and event marketing activities.

The Company's advertising services revenue is derived from commissions that are earned when the media is placed, from fees earned as advertising services are performed and from production services rendered. In addition, incentive amounts may be earned based on qualitative and/or quantitative criteria. In the case of commissions, revenue is recognized as the media placements appear. In the case of fee and production arrangements, the revenue is recognized as the services are performed which is generally ratably over the period of the client contract. The Company's marketing service revenues are generally earned on a fee basis, and in certain cases incentive amounts may also be earned. As with fee arrangements in advertising, such revenue is recognized as the work is performed. Incentive amounts are recognized upon satisfaction of the relevant qualitative and quantitative criteria.

Allowance for doubtful accounts

The Company assesses the required amount of allowance for doubtful accounts based on past experience and reviews of aging and analysis of specific accounts. While the expense for bad debts has historically fluctuated in line with revenue, it is not certain that past experience will continue.

Accounting for income taxes

As part of the process of preparing its consolidated financial statements, the Company is required to estimate income taxes payable in each of the jurisdictions in which it operates. This process involves estimating the actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. The Company then assesses the likelihood that deferred tax assets will be recovered from future taxable income and to the extent it is determined that recovery is not likely, a valuation allowance is established. Significant management judgement is required in determining the provision for income taxes and the amount of valuation allowance that would be required. In the event that actual results differ from these estimates or the Company adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance which could materially impact our financial position and results of operations.

Valuation of long-lived and intangible assets, investments and goodwill
The Company has a significant amount of long-lived assets, including fixed assets, investments, goodwill and other intangibles. The Company periodically evaluates the realizability of all of its long-lived assets. Future events could cause the Company to conclude that impairment indicators exist and that the asset values associated with a given operation have become impaired. Any resulting impairment loss could have a material impact on the Company's financial condition and results of operations.

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 at December 31, 2001. The Company expects to maintain its strategic investment in Argentina for the long-term and further anticipates that its Argentine operations will remain profitable. Accordingly, the Company does not currently consider its investment in Argentina to be permanently impaired.

New Accounting Standards
In June 2001, Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") were issued. SFAS 141 requires that companies use the purchase method of accounting for all business combinations initiated after June 30, 2001 and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS 142 addresses the initial recognition and measurement of intangible assets acquired outside a business combination and the recognition and measurement of goodwill and other intangible assets subsequent to acquisition. Under the new standards, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but, instead, will be tested at least annually for impairment. Other intangible assets will continue to be amortized over their useful lives. The Company will adopt the new standards on accounting for goodwill and other intangible assets effective January 1, 2002.

Upon adoption, the Company will cease amortizing the remaining amount of unamortized goodwill. As of December 31, 2001, the Company's remaining unamortized goodwill balance was $3,004.7. Although the Company is still reviewing the provisions of the Statements, it is management's preliminary assessment that no goodwill impairment will be recognized upon adoption of the new standard. Further, the Company does not anticipate any significant reclassifications of amounts reflected on its balance sheet as a result of the adoption of the standard.

Although SFAS 142 does not require that previously reported numbers be restated, the following table sets forth the effect on reported results of adopting SFAS 142:

	2001 (Restated)	2000 (Restated)	1999 (Restated)
Net income (loss), as reported	$(527.4)	$397.1	$340.2
Add back amortization of goodwill	169.0	140.4	122.8
Less related tax effect	(24.3)	(17.2)	(15.0)
Net income (loss), as adjusted	$(382.7)	$520.3	$448.0

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 a material 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", 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 is not expected to have a material impact on the Company's financial position or results of operations.

Conversion to the Euro

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (the "Euro"). The Company conducts business in member countries. The transition period for the introduction of the Euro will end on June 30, 2002. The Company

believes it has addressed the major issues involved with the introduction of the Euro which were: converting information technology systems, reassessing currency risk, negotiating and amending contracts and processing tax and accounting records.

The Company believes that use of the Euro will not have a significant impact on the manner in which it conducts its business affairs and processes its business and accounting records. Accordingly, conversion to the Euro has not and is not expected to have a material effect on the Company's financial condition or results of operations.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rates
At December 31, 2001, a significant portion of the Company's debt obligations were at fixed interest rates. Accordingly, assuming the fixed rate debt is not refinanced, there would be no impact on interest expense or cash flow from either a 10% increase or decrease in market rates of interest. The fair market value of the debt obligations would decrease by $24 if market rates were to increase by 10% and would increase by $26 if market rates were to decrease by 10%. For that portion of the debt that is either maintained at variable rates or is swapped into variable rates, based on amounts and rates outstanding at December 31, 2001, the change in interest expense and cash flow from a 10% change in rates would be approximately $5.

Foreign Currencies
The Company faces two risks related to foreign currency exchange: translation risk and transaction risk. Amounts invested in the Company's foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in the stockholders' equity section of the balance sheet. The Company's foreign subsidiaries generally collect revenues and pay expenses in currencies other than the United States dollar. Since the functional currency of the Company's foreign operations is generally the local currency, foreign currency translation of the balance sheet is reflected as a component of stockholders' equity and does not impact operating results. Revenues and expenses in foreign currencies translate into varying amounts of U.S. dollars depending upon whether the U.S. dollar weakens or strengthens against other currencies. Therefore, changes in exchange rates may negatively affect the Company's consolidated revenues and expenses (as expressed in U.S. dollars) from foreign operations. Currency transaction gains or losses arising from transactions in currencies other than the functional currency are included in results of operations. The Company has generally not entered into a material amount of foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

CAUTIONARY STATEMENT

This Annual Report on Form 10-K/A, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements. Interpublic representatives may also make forward looking statements orally from time to time. Statements in this Annual Report that are not historical facts, including statements about the Company's beliefs and expectations, particularly regarding recent business and economic trends, the impact of litigation, the integration of acquisitions and restructuring costs, constitute forward-looking statements. These statements are based on current plans, expectations, 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 the Company

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 effect of national and regional economic conditions, the Company's ability to attract new clients and retain existing clients, the financial success of the Company's clients, developments from changes in the regulatory and legal environment for advertising companies around the world, and the successful completion and integration of acquisitions which complement and expand the Company's business capabilities.

This Annual Report also contains certain financial information calculated on a "pro forma" basis (including information that is restated to exclude the impact of specified historical events). Because "pro forma" financial information by its very nature departs from traditional accounting conventions, such information should not be viewed as a substitute for the information prepared by the Company in accordance with GAAP, including the balance sheets and statements of income and cash flow contained in this Annual Report.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
The Interpublic Group of Companies, Inc.

In our opinion, based upon our audits and the reports of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows, and of stockholders' equity and comprehensive income, after the restatement described in Note 17, present fairly, in all material respects, the financial position of The Interpublic Group of Companies, Inc. and its subsidiaries (the "Company") at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based

on our audits. We did not audit the financial statements of NFO Worldwide, Inc. ("NFO"), a wholly-owned subsidiary, which statements reflect total revenues constituting approximately 7% of the related 1999 consolidated financial statement total. We did not audit the financial statements of Deutsch, Inc. and Subsidiary and Affiliates ("Deutsch"), a wholly-owned subsidiary, which statements reflect total net loss constituting approximately 2% of the related 2000 consolidated financial statement total and total net income constituting approximately 4% of the related 1999 consolidated financial statement total. Additionally, we did not audit the financial statements of True North Communications Inc. ("True North"), a wholly-owned subsidiary, which statements reflect total revenues constituting approximately 22% of the related consolidated financial statement totals for each of the two years in the period ended December 31, 2000. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for NFO, Deutsch and True North, is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, New York
February 28, 2002, except for Note 17, which is as of December 6, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The following report is a copy of the report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP.

To the Stockholders and Board of Directors of True North Communications Inc.:

We have audited the consolidated balance sheets of True North Communications Inc. (a Delaware corporation) and Subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of three years in the period ended December 31, 2000 (not presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Publicis Communications for the year ended December 31, 1998. The Company's equity in its net earnings was $3.7 million for the year ended December 31, 1998. The financial statements of Publicis Communications were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Publicis Communications, is based solely upon the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of True North Communications Inc. and Subsidiaries as of December 31, 2000, and the results of their operations and their cash flows for each of the three years in the period

ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As explained in the notes to the consolidated financial statements (not presented herein), the Company has given retroactive effect to the change in accounting for amortization of intangible assets.

Arthur Andersen LLP
Chicago, Illinois,
March 20, 2001

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The following report is a copy of the report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP.

To the Board of Directors and Stockholders of NFO Worldwide, Inc.:

We have audited the accompanying consolidated statement of income, stockholder's equity and cash flows of NFO Worldwide, Inc. (a Delaware corporation) and subsidiaries for the year ended December 31, 1999. These financial statements (not presented separately herein) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of NFO Worldwide, Inc. and subsidiaries for the year ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedule referred to in Item 14 (not separately presented herein) is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the consolidated financial statements taken as a whole.

Arthur Andersen LLP
New York, New York,
February 25, 2000

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholder of Deutsch, Inc. and Subsidiary and Affiliates:

We have audited the combined balance sheet of Deutsch, Inc. and Subsidiary and Affiliates as of December 31, 2000, and the related combined statements of operations, stockholder's equity and cash flows for the two years then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Deutsch, Inc. and Subsidiary and Affiliates as of December 31, 2000, and their results of operations and cash flows for the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 1999 combined financial statements have been restated to reflect the correct treatment of payments made to the Company's sole stockholder. In financial statements previously issued for the year ended December 31, 1999, certain payments had been classified as bonuses which, it has been determined, should have been reflected as distributions to the Company's sole stockholder. Accordingly, the Company has restated the 1999 financial statements to reflect the correct accounting for the payments and the related tax effects.

J.H. Cohn LLP
Roseland, New Jersey
February 13, 2001

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(Amounts in Millions, Except Per Share Amounts)

	YEAR ENDED DECEMBER 31,		
	2001 (Restated)	2000 (Restated)	1999 (Restated)
REVENUE	$6,723.2	$7,182.7	$6,417.2

OPERATING EXPENSES:			
Salaries and related expenses	3,807.0	4,054.6	3,635.2
Office and general expenses	2,032.0	1,982.3	1,867.3
Amortization of intangible assets	173.0	144.3	128.4
Restructuring and other merger related costs	645.6	177.7	159.5
Goodwill impairment and other charges	303.1	--	--
Total operating expenses	6,960.7	6,358.9	5,790.4
OPERATING INCOME (LOSS)	(237.5)	823.8	626.8
OTHER INCOME (EXPENSE):			
Interest expense	(164.6)	(126.3)	(99.5)
Interest income	41.8	57.5	56.2
Other income	13.7	42.9	65.8
Investment impairment	(208.3)	--	--
Total other income (expense)	(317.4)	(25.9)	22.5
Income (loss) before provision for (benefit of) income taxes	(554.9)	797.9	649.3
Provision for (benefit of) income taxes	(53.8)	342.4	281.1
Income (loss) of consolidated companies	(501.1)	455.5	368.2
Income applicable to minority interests	(30.3)	(42.8)	(38.2)
Equity in net income (loss) of unconsolidated affiliates	4.0	(15.6)	10.2
NET INCOME (LOSS)	$ (527.4)	$ 397.1	$ 340.2

)

Earnings (loss) per share:			
Basic EPS	$ (1.43)	$ 1.10	$ 0.97
Diluted EPS	$ (1.43)	$ 1.07	$ 0.94
Weighted average shares:			
Basic	369.0	359.6	352.0
Diluted	369.0	370.6	364.6
Cash dividends per share	$ 0.38	$ 0.37	$ 0.33

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

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

ASSETS

	DECEMBER 31,	
	2001 (Restated)	2000 (Restated)
CURRENT ASSETS:		
Cash and cash equivalents (includes certificates of deposit: 2001-$93.8; 2000-$110.9)	$ 935.2	$ 844.6
Accounts receivable (net of allowance for doubtful accounts: 2001-$90.7; 2000-$85.7)	4,674.9	5,644.7
Expenditures billable to clients	325.5	436.7
Deferred taxes on income	80.0	--
Prepaid expenses and other current assets	337.6	277.8
Total current assets	6,353.2	7,203.8
FIXED ASSETS, AT COST:		
Land and buildings	161.1	174.1
Furniture and equipment	1,083.2	1,102.3

Leasehold improvements	461.4	427.8
	1,705.7	1,704.2
Less: accumulated depreciation	(858.0)	(879.2)
Total fixed assets	847.7	825.0
OTHER ASSETS:		
Investment in unconsolidated affiliates	159.6	174.5
Deferred taxes on income	492.8	380.3
Other assets and miscellaneous investments	430.8	525.4
Intangible assets (net of accumulated amortization: 2001-$1,024.8; 2000-$861.5)	3,106.4	3,155.0
Total other assets	4,189.6	4,235.2
TOTAL ASSETS	$11,390.5	$12,264.0

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31,	
	2001 (Restated)	2000 (Restated)
CURRENT LIABILITIES:		

Accounts payable	$ 4,555.5	$ 5,781.6
Accrued expenses	1,321.3	1,082.8
Accrued income taxes	65.2	182.2
Dividends payable	36.0	29.4
Short-term bank borrowings	418.5	483.8
Current portion of long-term debt	34.6	65.5
Total current liabilities	6,431.1	7,625.3
NON-CURRENT LIABILITIES:		
Long-term debt	1,356.8	998.7
Convertible subordinated notes	548.5	533.1
Zero-coupon convertible senior notes	575.3	-
Deferred compensation	376.7	464.3
Accrued postretirement benefits	54.4	55.2
Other non-current liabilities	100.5	105.7
Minority interests in consolidated subsidiaries	89.3	100.6
Total non-current liabilities	3,101.5	2,257.6
Commitments and contingencies (Note 16)		
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: 2001 - 385.8; 2000 - 377.3	38.6	37.7
Additional paid-in capital	1,785.2	1,514.7
Retained earnings	886.1	1,564.8
Accumulated other comprehensive loss, net of tax	(447.8)	(410.2)
	2,262.1	2,707.0

Less:		
Treasury stock, at cost: 2001 - 7.3 shares; 2000 - 5.5 shares	(290.2)	(194.8)
Unamortized deferred compensation	(114.0)	(131.1)
Total stockholders' equity	1,857.9	2,381.1
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$11,390.5	$12,264.0

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

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in Millions)

	YEAR ENDED DECEMBER 31		
	2001 (Restated)	2000 (Restated)	1999 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (527.4)	$ 397.1	$ 340.2
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization of fixed assets	199.1	192.6	168.0
Amortization of intangible assets	173.0	144.3	128.4
Amortization of restricted stock awards and bond discounts	79.1	60.5	42.9
Provision for (benefit of) deferred income taxes	(191.2)	(20.2)	14.6
Undistributed equity losses (earnings)	4.0	15.6	(10.2)
Income applicable to minority interests	30.3	42.8	38.2
Restructuring costs, non-cash	104.3	73.1	68.0
Investment impairment	208.3	--	--
Goodwill impairment and other	275.6	--	--
Other net gains	(5.6)	(32.0)	(47.7)
Change in assets and liabilities, net of acquisitions:			
Accounts receivable	795.2	(208.7)	(907.3)

Expenditures billable to clients	90.8	(29.5)	(23.8)
Prepaid expenses and other current assets	(105.5)	(56.6)	(8.4)
Accounts payable, accrued expenses and other current liabilities	(890.9)	13.9	1,005.6
Accrued income taxes	(106.8)	(19.5)	(68.6)
Other non-current assets and liabilities	16.2	33.8	29.5
Net cash provided by operating activities	148.5	607.2	769.4
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions, net of cash acquired	(310.6)	(670.1)	(318.6)
Capital expenditures	(268.0)	(259.5)	(249.7)
Proceeds from sales of businesses	18.9	12.1	--
Proceeds from sales of long-term investments	36.8	83.9	268.2
Purchase of long-term investments	(29.4)	(147.9)	(133.9)
Maturities of short-term marketable securities	85.3	98.3	25.8
Purchases of short-term marketable securities	(79.7)	(101.4)	(51.7)
Other investments and miscellaneous assets	(142.2)	(95.0)	(54.2)
Investment in unconsolidated affiliates	(7.6)	(12.5)	(11.1)
Net cash used in investing activities	(696.5)	(1,092.1)	(525.2)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank borrowings	(670.6)	105.8	50.0
Proceeds from long-term debt	1,804.7	1,013.9	433.9
Payments of long-term debt	(281.8)	(521.8)	(111.1)
Treasury stock acquired	(118.0)	(248.1)	(313.4)
Issuance of common stock	85.6	60.0	91.5
Proceeds from IPO of subsidiary	--	--	42.0
Cash dividends - Interpublic	(129.2)	(109.1)	&nbs