INTERPUBLIC GROUP OF COMPANIES INC
Form 8-K
September 18, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report	Commission file number
September 18, 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

Item 5. OTHER EVENTS

On August 10, 2001, The Interpublic Group of Companies Inc. (the "Company") filed a Current Report on Form 8-K in which it restated its consolidated financial statements as previously presented in Form 10-K for the year ended December 31, 2000. Effective July 26, 2001, upon the announcement of results for the second quarter of 2001, those supplemental consolidated financial statements became the historical results of the Company.

This current report is identical to the filing made on August 10, 2001, except for the removal of references to the financial statements as being "supplemental".

As discussed in Note 15 of the consolidated financial statements of the Company, on June 22, 2001, the Company acquired True North Communications Inc. ("True North") in a transaction accounted for as a pooling of interests. This Current Report on Form 8-K includes the Company's consolidated financial statements and other financial information restated to reflect the effect of the pooling of True North.

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- PricewaterhouseCoopers LLP
- Arthur Andersen LLP, New York
- Arthur Andersen LLP, Chicago
- J.H. Cohn LLP

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PricewaterhouseCoopers LLP

Arthur Andersen LLP, New York

Arthur Andersen LLP, Chicago

J.H. Cohn LLP

SIGNATURES

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

THE INTERPUBLIC GROUP OF COMPANIES, INC.

(Registrant)

Date: September 18, 2001 BY /S/ DAVID WEATHERSEED

DAVID WEATHERSEED

Vice President and Controller

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

On June 22, 2001, The Interpublic Group of Companies, Inc. (the "Company") acquired True North Communications Inc. ("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.

For the purposes of the following discussion, the restructuring and other merger related costs (in 2000, 1999 and 1998), the asset impairment and restructuring charges related to the Company's equity investment in Modem Media, Inc. ("Modem Media") (in 2000) and the Deutsch transaction costs (in 2000) will be referred to, collectively, as "non-recurring items". The non-recurring items are described in a subsequent section of this discussion. All amounts discussed below are as reported unless otherwise noted.

Results Of Operations

The Company reported net income of $420.3 million or $1.14 diluted earnings per share, $359.5 million or $.99 diluted earnings per share and $374.2 million or $1.04 diluted earnings per share for the years ended December 31, 2000, 1999, and 1998, respectively. Excluding the impact of non-recurring items in all years, net income would have been $570.2 million or $1.53 diluted earnings per share, $460.4 million or $1.26 diluted earnings per share and $376.1 million or $1.05 diluted earnings per share for the years ended December 31, 2000, 1999 and 1998, respectively.

The following table sets forth net income and earnings per share as reported and before non-recurring items:

(Dollars in thousands, except per share amounts)

	2000	1999	1998
Net income as reported	$420,261	$359,509	$374,174
Earnings per share			
Basic	$ 1.17	$ 1.02	$ 1.08

Diluted	$ 1.14	$ 0.99	$ 1.04
Net income before non-recurring items	$570,245	$460,446	$376,075
Earnings per share			
Basic	$ 1.59	$ 1.31	$ 1.08
Diluted	$ 1.53	$ 1.26	$ 1.05

Revenue

Worldwide revenue for 2000 was $7.2 billion, an increase of $765 million or 11.9% over 1999. Domestic revenue, which represented 59.0% of worldwide revenue in 2000, increased $620 million or 17.1% over 1999. International revenue, which represented 41.0% of worldwide revenue in 2000, increased $145.5 million or 5.2% over 1999. International revenue would have increased 14.5% excluding the effect of the strengthening of the U.S. dollar against major currencies. The increase in worldwide revenue is a result of both growth from new business gains and growth from acquisitions. Organic revenue growth, exclusive of acquisitions and currency effects, was 12.5% over 1999.

Revenue from specialized marketing and communication services, which include market research, relationship (direct) marketing, public relations, sports and event marketing, healthcare marketing and e-consultancy and services, comprised approximately 38% of total worldwide revenue in 2000, compared to 36% in 1999.

Worldwide revenue for 1999 was $6.4 billion, an increase of $924 million or 16.8% over 1998. Domestic revenue, which represented 56.5% of worldwide revenue, increased $534 million or 17.3% over 1998. International revenue, which represented 43.5% of worldwide revenue in 1999, increased $390 million or 16.3% over 1998. International revenue would have increased 20.6% excluding the effect of the strengthening of the U.S. dollar against major currencies.

Operating Expenses

Worldwide operating expenses for 2000, excluding non-recurring items, were $6.2 billion, an increase of 9.8% over 1999. Operating expenses outside the United States increased 2.8%, while domestic operating expenses increased 15.3%. These increases were commensurate with the increases in revenue. Worldwide operating expenses for 1999, excluding non-recurring items, were $5.6 billion, an increase of 16.4% over 1998, comprised of a 14.5% increase in international expenses and a 18% increase in domestic expenses.

Significant portions of the Company's expenses relate to employee compensation and various employee incentive and benefit programs. The employee incentive programs are based primarily upon operating results. Salaries and related expenses were $4.0 billion in 2000 or 56.2% of revenue as compared to $3.6 billion in 1999 or 56.4% of revenue and $3.1 billion in 1998 or 57.3% of revenue. The year over year dollar increase is a result of growth from acquisitions and new business gains.

Office and general expenses were $2.0 billion in 2000, $1.9 billion in 1999, and $1.6 billion in 1998. The year over year increase is a result of the continued growth of the Company.

In the fourth quarter of 1999, NFO recorded special charges of $22 million as a result of the difficult competitive environment due to client consolidation in the financial services industry. Approximately $16 million of the special charges were related to the write-off of intangible assets which were deemed permanently impaired.

Income from Operations

Income from operations for 2000 was $849.1 million. Excluding non-recurring items, income from operations for 2000 was $1.03 billion, an increase of $217.9 million or 26.8% over 1999. Exclusive of acquisitions, foreign exchange fluctuations and amortization of intangible assets, income from operations increased 28.9% for 2000 compared to 1999.

Income from operations for 1999 was $649.4 million. Excluding non-recurring items, income from operations for 1999 was $808.9 million compared to $675.8 million in 1998, an increase of 19.7%. The increase is a result of growth from acquisitions and new business gains.

Restructuring and Other Merger Related Costs

During 2000, the Company recorded pre-tax restructuring and other merger related costs of $133 million ($82.6 million net of tax). Of the total pre-tax restructuring and other merger-related costs, cash charges represented $96 million. The key components of the charge were the (i) costs associated with the restructuring of Lowe Lintas & Partners Worldwide (ii) costs associated with the loss of the Chrysler account and (iii) costs relating principally to the merger with NFO. Additionally, in 1999, costs were incurred in connection with the restructuring of Bozell and FCB.

Lowe Lintas

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 network called Lowe Lintas & Partners Worldwide. The merger involved the consolidation of operations in Lowe Lintas agencies in approximately 24 cities in 22 countries around the world. As of September 30, 2000, all restructuring activities had been completed.

A summary of the components of the reserve for restructuring and other merger-related costs for Lowe Lintas is as follows:

		Year to Date December 31, 2000				
(Dollars in millions)	Balance at 12/31/99	Expense Recognized	Cash Paid	Asset Write-offs	Reclassifications	Balance at 12/31/00
Severance and termination costs	$43.6	$32.0	$(46.7)	$ --	$(17.2)	$11.7
Fixed asset write-offs	11.1	14.2	--	(25.3)	--	--
Lease termination costs	3.8	21.1	(10.1)	--	--	14.8
Investment write-offs and other	23.4	20.5	(6.4)	(37.5)	--	--
Total	$81.9	$87.8	$(63.2)	$(62.8)	$(17.2)	$26.5

The severance and termination costs recorded in 2000 relate to approximately 360 employees who have been terminated. The remaining severance and termination amounts will be paid in 2001. The employee groups affected include management, administrative, account management, creative and media production personnel, principally in the U.S. and several European countries. Included in severance and termination costs is an amount of $17.2 million related to non-cash charges for stock options which has been reclassified to additional paid in capital.

The fixed asset write-offs relate largely to the abandonment of leasehold improvements as part of the merger. The amount recognized in 2000 relates to fixed asset write-offs in 4 offices, the largest of which is in the U.K.

Lease termination costs relate to the offices vacated as part of the merger. The lease terminations have been completed, with the cash portion to be paid out over a period of up to five years.

The investment write-offs relate to the loss on sale or closing of certain business units. In 2000, $12.7 million of investment write-offs has been recorded, the majority of which results from the decision to sell or abandon 3 businesses located in Asia and Europe. In the aggregate, the businesses being sold or abandoned represent an immaterial portion of the revenue and operations of Lowe Lintas & Partners. 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. These sales or closings were completed in mid 2000.

Loss of Chrysler Account

In September 2000, Chrysler, one of the Company'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, the Company was informed that it was not selected as the agency of record. In December 2000, the Company 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 $17.5 million pre-tax charge in the fourth quarter of 2000. The charge covers primarily severance, lease termination and other exit costs associated with the decision to close the Detroit office. The severance portion of the charge amounts to $5.8 million and reflects the elimination of approximately 250 positions. The charge also includes $11.4 million associated primarily with the lease termination of the Detroit office, as well as other exit costs. In addition, an impairment loss of $5.5 million was recorded for intangible assets that are no longer recoverable. Offsetting these charges was a $5.2 million payment from Chrysler to compensate the Company for severance and other exit costs. At December 31, 2000, 5 people had been terminated and $0.3 million of severance and other exit costs had been paid.

Bozell and FCB Worldwide

In September 1999, the Company committed to a formal plan to restructure its Bozell and FCB Worldwide agency operations and recorded a $75.4 million pre-tax charge in the third quarter of 1999. The charge covered primarily severance, lease termination and other exit costs in connection with the combination and integration of the two worldwide advertising agency networks. Bozell Worldwide's international operations, along with its Detroit and Costa Mesa offices, were merged with FCB Worldwide and operated under the FCB Worldwide name. The restructuring initiatives also included the sale or closing of certain underperforming business units.

The restructuring program was completed during the third quarter of 2000. A summary of components of the restructuring charge is as follows (in millions):

	Severance and Termination Benefits	Lease Termination and Other Exit Costs	Impairment Loss	Total
Restructuring reserve, September 30, 1999 .	$ 41.4	$24.2	$ 9.8	$ 75.4
1999 Write-downs	--	(0.9)	(9.8)	(10.7)
1999 Cash payments	(9.7	(3.2	--	(12.9)

	)	)		
Balance, December 31, 1999	31.7	20.1	--	51.8
2000 Write-downs	--	(4.3)	--	(4.3)
2000 Cash payments	(22.5)	(9.5)	--	(32.0)
Long-term obligations secured	(9.6)	(5.3)	--	(14.9)
Excess reserve (net)	0.4	(1.0)	--	(0.6)
Balance, December 31, 2000	$ --	$ --	$ --	$ --

The involuntary severance and termination benefits portion of the charge amounted to $41.4 million and reflected the elimination of approximately 640 positions worldwide, primarily in international locations. The employee groups affected primarily included executive and regional management and administrative personnel. As of September 30, 2000, such positions were eliminated at a cost of $41.8 million, which was $0.4 million higher than the original estimate.

The charge of $24.2 million associated with lease terminations and other exit costs represented primarily the closure, abandonment and downsizing of office space globally, including approximately 30 international locations. The costs included $13.5 million of remaining lease obligations net of estimated sublease income, as well as $5.9 million of impairment charges pertaining to leasehold improvements and fixed assets that were no longer used in the combined operation. As of September 30, 2000, these facilities were abandoned or downsized at a cost of $23.2 million, which was $1.0 million lower than the original estimate.

Accordingly, the net excess restructuring reserve of $0.6 million was reversed into income on the restructuring and other charges line in the third quarter of 2000. The remaining severance liabilities of $9.6 million pertain to terminated individuals and will be paid over the next four years in accordance with contractually defined severance agreements. The remaining lease liabilities and other exit costs of $5.3 million pertain to non-cancelable lease commitments in excess of sublease income for exited facilities that will be paid out over the remaining lease periods, which range from one to five years.

The impairment loss on the sale or closing of certain business units amounts to $9.8 million and resulted from the decision to sell two business units, one in the U.S. and one in the United Kingdom, and to close four other business units and joint ventures, including the R/GA Digital Studios, which specialized in digital production for advertising and film companies. The impairment loss was computed based upon the difference between the estimated sales proceeds (if any) and the carrying value of the related assets and investments and primarily represents the impairment of goodwill associated with such units. These sales or closures were completed by September 30, 2000.

Other

In addition to the Lowe Lintas restructuring, the costs associated with the loss of the Chrysler account and other merger related costs noted above, additional charges, substantially all of which were cash costs, were recorded during 2000. These costs relate principally to the non-recurring transaction and other merger related costs arising from the acquisition of NFO.

Deutsch Transaction Costs

In connection with the acquisition of Deutsch, the Company recognized a charge related to one-time transaction costs of $44.7 million ($41.6 million 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.

Interest Expense

Interest expense was $126 million in 2000, $99 million in 1999 and $87 million in 1998. The increase in 2000 was attributable to higher debt levels and higher interest rates in 2000.

Other Income, Net

Other income, net primarily consists of interest income, investment income and net gains from equity investments. Net equity gains were $44 million, $60 million and $62 million in 2000, 1999, and 1998, respectively.

Other Items

Income applicable to minority interests increased by $4.6 million in 2000 and by $5.6 million in 1999. The 2000 and 1999 increases were primarily due to the strong performance of companies that were not wholly owned, as well as the acquisition of additional such entities during 2000 and 1999.

Equity in net income of unconsolidated affiliates decreased by $25.6 million in 2000, primarily due to the Company's share of the asset impairment and restructuring charges of Modem Media.

The Company's effective income tax rate was 42.2% in 2000, 42.5% in 1999 and 43.4% in 1998 (40.1%, 41.4% and 43.4% excluding non-recurring items).

As described in Note 4, prior to its acquisition by the Company, Deutsch had elected to be treated as an "S" Corporation and accordingly, its income tax expense was lower than it would have been had Deutsch been treated as a "C" Corporation. Deutsch became a "C" Corporation upon its acquisition by the Company. Assuming Deutsch had been a "C" Corporation since 1997, the effective tax rate, on a pro forma basis excluding non-recurring items, would have been 41.2%, 42.1% and 43.7% for 2000, 1999 and 1998, respectively.

Cash Based Earnings

Management believes that cash based earnings are a relevant measure of financial performance as it illustrates the Company's performance and ability to support growth. The Company defines cash based earnings as net income excluding non-recurring items, adjusted to exclude amortization of intangible assets, net of tax where applicable. Cash based earnings are not calculated in the same manner by all companies and are intended to supplement, not replace, the other measures calculated in accordance with generally accepted accounting principles.

Cash based earnings for the three years ending December 31, 2000, 1999, and 1998 were as follows:

(Amounts in thousands except per share data)	2000	1999	1998
Net income as reported	$420,261	$359,509	$374,174
Non-recurring items, net of tax	149,984	100,937	1,901

Net income, as adjusted	570,245	460,446	376,075
Add back amortization of intangible assets	144,256	128,417	84,289
Less related tax effect	(17,708)	(15,734)	(7,606)
Cash based earnings (as defined above)	$696,793	$573,129	$452,758
Per share amounts (diluted)	$ 1.87	$ 1.57	$ 1.26

Liquidity and Capital Resources

The Company's financial position remained strong during 2000, with cash and cash equivalents at December 31, 2000, of $844.6 million. The ratio of current assets to current liabilities was approximately .96 to 1 at December 31, 2000. Working capital at December 31, 2000, was a negative $326 million, which was $322 million lower than the level at the end of 1999.

Total debt at December 31, 2000 was $2.1 billion, an increase of $606.4 million from December 31, 1999. The increase in debt is primarily attributable to the net effect of payments made for acquisitions and other investments.

On June 27, 2000, the Company entered into a syndicated multi-currency credit agreement under which a total of $750 million may be borrowed; $375 million may be borrowed under a 364-day facility and $375 million under a five-year facility. The facilities bear interest at variable rates based on either LIBOR or a bank's base rates, at the Company's option. As of December 31, 2000, approximately $174 million had been borrowed under the facilities. The weighted-average interest rate on the borrowings at December 31, 2000 was 6.5%. The proceeds from the syndicated credit agreement were used to refinance borrowings and for general corporate purposes including acquisitions and other investments. Some of the pre-existing borrowing facilities were subsequently terminated.

On October 20, 2000, the Company completed the issuance and sale of $500 million 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 million from the sale of the notes to repay outstanding indebtedness under its credit facilities.

Cash flow from operations and existing credit facilities, and refinancings thereof, have been the primary sources of working capital and management believes that they will continue to be so in the future. Net cash provided by operating activities was $612 million, $768 million and $623 million for the years ended December 31, 2000, 1999, and 1998, respectively. The Company's working capital is used primarily to provide for the operating needs of its subsidiaries, which includes payments for space or time purchased from various media on behalf of clients. 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 the repurchase of the Company's common stock, payment of cash dividends, capital expenditures and acquisitions.

The Company acquires shares of its stock on an ongoing basis. During 2000, the Company purchased approximately 4.8 million shares of its common stock, compared to 6.5 million shares in 1999. The Company repurchases its stock for the purpose of fulfilling its obligations under various compensation plans.

The Company, excluding pooled entities, paid $109.1 million ($.37 per share) in dividends to stockholders in 2000, compared to $90.4 million ($.33 per share) paid during 1999 and $76.9 million ($.29 per share) paid during 1998.

The Company's capital expenditures in 2000 were $259 million compared to $250 million in 1999 and $201 million in 1998. The primary purposes of these expenditures were to upgrade computer and telecommunications systems to better serve clients and to modernize offices.

During 2000, the Company paid approximately $1,667 million 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.

The Company and its subsidiaries maintain credit facilities in the United States and in countries where they conduct business to manage their future liquidity requirements. The Company's available credit facilities were approximately $1,754 million, of which $346 million were utilized at December 31, 2000, and approximately $850 million, of which $100 million were utilized at December 31, 1999.

Return on average stockholders' equity was 18.2% in 2000 and 18.6% in 1999. Excluding non-recurring items, return on average stockholders' equity was 23.5% in 2000 and 23.2% in 1999.

As discussed in Note 12, revenue from international operations was 40.9%, 43.5% and 43.7% of worldwide revenue in 2000, 1999 and 1998, respectively. The Company continuously evaluates and attempts to mitigate its exposure to foreign exchange, economic and political risks. The notional value and fair value of all outstanding forwards and options contracts at the end of the year were not significant.

The Company is not aware of any significant occurrences that could negatively impact its liquidity. However, should such a trend develop, the Company believes that there are sufficient funds available under its existing lines of credit and refinancings thereof, and from internal cash-generating capabilities to meet future needs.

Other Matters

True North Communications Inc.

As discussed in Note 15, on June 22, 2001, the Company acquired True North Communications Inc., a global provider of advertising and communication services. The acquisition, which will create an industry leading combination of advertising and marketing services capabilities to offer clients on a global basis, has been accounted for as a pooling of interests.

New Accounting Pronouncements

Revenue Recognition

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. SAB 101 was adopted by the Company effective January 1, 2000. The adoption of SAB 101 had no significant effect on the Company's operating results or financial position.

Accounting for Derivatives Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which had an initial adoption date by the Company of January 1, 2000. In June 1999, the FASB postponed the adoption date of SFAS 133 until January 1, 2001. The Company will adopt the provisions of SFAS 133 effective January 1, 2001 and believes its adoption of SFAS 133 will have no impact on its financial condition or results of operations.

Equity Based Compensation

In April 2000, the FASB issued Interpretation No. 44, ("FIN 44") Accounting for Certain Transactions Involving Stock Compensation - an interpretation of APB Opinion No. 25. This interpretation, which was effective from July 1, 2000, addressed various issues including the definition of employee for the purpose of applying APB 25, criteria for determining whether a plan qualifies as a non-compensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option award and the accounting for an exchange of stock compensation awards in a business combination. The adoption of FIN 44 did not have a material impact on the Company's financial statements.

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 be between January 1, 1999, and June 30, 2002. The Company is addressing the issues involved with the introduction of the Euro. The major important issues facing the Company include: converting information technology systems, reassessing currency risk, negotiating and amending contracts and processing tax and accounting records.

Based upon progress to date, 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.

Quantitative and Qualitative Disclosures about Market Risk

The Company's financial market risk arises from fluctuations in interest rates and foreign currencies. Most of the Company's debt obligations are at fixed interest rates. A 10% change in market interest rates would not have a material effect on the Company's pre-tax earnings, cash flows or fair value. At December 31, 2000, the Company had an insignificant amount of foreign currency derivative financial instruments in place. The Company does not hold any financial instrument for trading purposes.

Interactive Assets

The Company maintains a portfolio of marketable securities and other interactive assets. The market value of these investments is subject to market volatility. The volatility, as it relates to the marketable securities, is reflected in unrealized gains and losses recorded in stockholders' equity. Management continually monitors the value of all of its investments to determine whether an "other than temporary" impairment has occurred. To the extent such an impairment occurs, provision would be made in the appropriate period.

Cautionary Statement

This Current Report on Form 8-K (the "Report"), including Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. Statements that are not historical facts, including statements about the Company's beliefs and expectations, are 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 Interpublic undertakes no obligation to update publicly any of them in light of new information, future events or otherwise.

Forward-looking statements involve inherent risks and uncertainties. The Company cautions that 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 ability of the Company to attract new clients and retain existing clients, the financial success and other developments of the clients of the Company, developments from changes in the regulatory and legal environment for advertising companies around the world, the Company's ability to effectively integrate recent acquisitions and the Company's ability to attract and retain key management personnel.

Report of Independent Accountants

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 7 present fairly, in all material respects, the financial position of The Interpublic Group of Companies, Inc. and its subsidiaries (the "Company") at December 31, 2000 and 1999, 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 of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 7 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule 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% and 5% of the related 1999 and 1998 consolidated financial statement totals. 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%, 22% and 23% of the related consolidated financial statement totals for each of the three 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 26, 2001, except as to the pooling of interests with True North, which is as of June 22, 2001

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheet of NFO Worldwide, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the two-year period 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the

financial position of NFO Worldwide, Inc. and subsidiaries as of December 31, 1999, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Our audits were 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

Deutsch, Inc. and Subsidiary and Affiliates

We have audited the combined balance sheets of Deutsch, Inc. and Subsidiary and Affiliates as of December 31, 2000 and 1999, and the related combined statements of operations, stockholder's equity and cash flows for the 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 1999, and their results of operations and cash flows for the 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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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. These financial statements are not separately presented herein and are presented prior to any adjustments related to the pooling of interest transaction with The Interpublic Group of Companies, Inc. 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 Communication 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 Communication 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 Communication, 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 1999, 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, the Company has given retroactive effect to the change in accounting for amortization of intangible assets.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP
Chicago, Illinois,
March 20, 2001

FINANCIAL STATEMENTS

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31

(Dollars in Thousands Except Per Share Data)

ASSETS

	2000	1999
CURRENT ASSETS:		
Cash and cash equivalents (includes certificates of deposit: 2000-$110,919; 1999-$150,343)	$ 844,634	$ 1,147,341
Marketable securities	39,957	55,699
Receivables (net of allowance for doubtful accounts: 2000-$85,718; 1999-$75,857)	5,735,655	5,462,488
Expenditures billable to clients	437,929	407,281
Prepaid expenses and other current assets	237,843	164,016
Total current assets	7,296,018	7,236,825
OTHER ASSETS:		
Investment in unconsolidated affiliates	178,858	95,537
Deferred taxes on income	380,306	62,110
Other investments and miscellaneous assets	525,395	757,711
Total other assets	1,084,559	915,358
FIXED ASSETS, AT COST:		
Land and buildings	174,079	165,687
Furniture and equipment	1,103,741	1,030,333
Leasehold improvements	427,856	367,515
	1,705,676	1,563,535
Less: accumulated depreciation	(879,218)	(813,465)
Total fixed assets	826,458	750,070

Intangible assets (net of accumulated amortization: 2000-$861,487; 1999-$724,790)	3,154,977	2,323,556
TOTAL ASSETS	$12,362,012	$11,225,809

FINANCIAL STATEMENTS

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31

(Dollars in Thousands Except Per Share Data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	2000	1999
CURRENT LIABILITIES:		
Payable to banks	$ 549,260	$ 389,366
Accounts payable	5,751,335	5,664,395
Accrued expenses	1,111,060	1,003,739
Accrued income taxes	210,303	183,126
Total current liabilities	7,621,958	7,240,626
NONCURRENT LIABILITIES:		
Long-term debt	998,687	566,749
Convertible subordinated notes	533,104	518,490
Deferred compensation and reserve for termination allowances	464,329	424,208
Accrued postretirement benefits	55,197	56,477
Other noncurrent liabilities	105,686	140,922
Minority interests in consolidated subsidiaries	100,580	152,014
Total noncurrent liabilities	2,257,583	1,858,860
STOCKHOLDERS' EQUITY:		

Preferred Stock, no par value shares authorized: 20,000,000 shares issued: none		
Common Stock, $10 par value shares authorized: 550,000,000 shares issued: 2000 - 377,270,758; 1999 - 371,618,819	37,727	37,162
Additional paid-in capital	1,514,709	1,170,985
Retained earnings	1,667,499	1,406,304
Accumulated other comprehensive loss, net of tax	(411,581)	(96,302)
	2,808,354	2,518,149
Less:		
Treasury stock, at cost: 2000 - 5,462,809 shares; 1999 - 8,909,904 shares	194,758	312,930
Unamortized expense of restricted stock grants	131,125	78,896
Total stockholders' equity	2,482,471	2,126,323
Commitments and contingencies		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$12,362,012	$11,225,809

Prior periods have been restated to reflect the aggregate effect of the acquisitions accounted for as poolings of interests.

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

FINANCIAL STATEMENTS

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31

(Amounts in Thousands Except Per Share Data)

	2000	1999	1998
Revenue	$7,182,688	$6,417,237	$5,492,941
Salaries and related expenses	4,035,178	3,617,389	3,146,496
Office and general expenses	1,976,439	1,862,504	1,586,402
Amortization of intangible assets	144,256	128,417	84,289
Restructuring and other merger related costs	133,041	159,537	3,278
Deutsch transaction costs	44,715	--	--
Total operating expenses	6,333,629	5,767,847	4,820,465
Income from operations	849,059	649,390	672,476
Interest expense	(126,322)	(99,469)	(86,538)
Other income, net	103,705	122,034	109,867
Income before provision for income taxes	826,442	671,955	695,805
Provision for income taxes	348,789	285,260	301,702
Income of consolidated companies	477,653	386,695	394,103
Income applicable to minority interests	(42,795)	(38,152)	(32,547)
Equity in net (loss) income of unconsolidated affiliates	(14,597)	10,966	12,618
Net Income	$ 420,261	$ 359,509	$ 374,174
Per Share Data:			
Basic EPS	$ 1.17	$ 1.02	$ 1.08
Diluted EPS	$ 1.14	$ 0.99	$ 1.04
Weighted average shares:			
Basic	359,615	351,966	346,909
Diluted	370,577	364,632	359,397

Prior periods have been restated to reflect the aggregate effect of the acquisitions accounted for as poolings of interests.

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

FINANCIAL STATEMENTS
THE INTERPUBLIC GROUP OF COMPANIES, INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31
(Dollars in Thousands)

	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 420,261	$ 359,509	$ 374,174
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization of fixed assets	192,595	168,048	142,917
Amortization of intangible assets	144,256	128,417	84,289
Amortization of restricted stock awards	36,693	25,926	20,272
Provision for (benefit of) deferred income taxes	(551)	16,875	6,548
Equity in net (income) loss of unconsolidated affiliates			