

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2005

or

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

Commission file no. 1-6686

THE INTERPUBLIC GROUP OF COMPANIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State of Incorporation)

13-1024020

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

1114 Avenue of the Americas, New York, New York 10036

(Address of Principal Executive Offices) (Zip Code)

(212) 704-1200

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's common stock outstanding as of August 31, 2005 was 427,268,023.

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES

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STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE

This report contains forward-looking statements. We may also make forward-looking statements orally from time to time. Statements in this report that are not historical facts, including statements about management's beliefs and expectations, particularly regarding recent business and economic trends, our internal control over financial reporting, impairment charges, the Securities and Exchange Commission ("SEC") investigation, credit ratings, regulatory and legal developments, acquisitions and dispositions, constitute forward-looking statements. These statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined in our 2004 Annual Report on Form 10-K under Item 1, Business — Risk Factors, and our other SEC filings. Forward-looking statements speak only as of the date they are made, and we undertake 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 risk factors include, but are not limited to, the following:

- risks arising from material weaknesses in our internal control over financial reporting, including material weaknesses in the control environment;
- potential adverse effects to our financial condition, results of operations or prospects as a result of our restatement of prior period financial statements;
- risks associated with our inability to satisfy covenants under our syndicated credit facilities;
- our ability to satisfy certain reporting covenants under our indentures;
- our ability to attract new clients and retain existing clients;
- our ability to retain and attract key employees;
- potential adverse effects if we are required to recognize additional impairment charges or other adverse accounting-related developments;
- potential adverse developments in connection with the ongoing SEC investigation;
- potential downgrades in the credit ratings of our securities;
- risks associated with the effects of global, national and regional economic and political conditions, including with respect to fluctuations in interest rates and currency exchange rates;
- developments from changes in the regulatory and legal environment for advertising and marketing and communications services companies around the world; and

Investors should carefully consider these risk factors and the additional risk factors outlined in more detail in Item 1, Business — Risk Factors, in our 2004 Annual Report on Form 10-K.

AVAILABLE INFORMATION

Information regarding our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports, will be made available, free of charge, at our website at <http://www.interpublic.com>, as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the SEC. Any document that we file with the SEC may also be read and copied at the SEC's Public Reference Room located at Room 1580, 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings are also available to the public from the SEC's website at <http://www.sec.gov>, and at the offices of the New York Stock Exchange. For further information on obtaining copies of our public filings at the New York Stock Exchange, please call (212) 656-5060.

Our Corporate Governance Guidelines, Code of Conduct and each of the charters for the Audit Committee, Compensation Committee and the Corporate Governance Committee are available free of charge on our website at <http://www.interpublic.com>, or by writing to The Interpublic Group of Companies, Inc., 1114 Avenue of the Americas, New York, NY 10036, Attention: Secretary.

EXPLANATORY NOTE

The filing of this report was delayed because of the extensive additional work necessary to compensate for our material weaknesses in our internal control over financial reporting and to complete the restatement of our previously published Consolidated Financial Statements. The restatement is set forth in our 2004 Annual Report on Form 10-K, and includes a restatement of the Consolidated Statements of Operations for the quarters ended March 31, 2004 and June 30, 2004 and Consolidated Statements of Cash Flows for the six months ended June 30, 2004. Our Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2004 and the Consolidated Statements of Cash Flows for the six months ended June 30, 2004 in this report are presented as restated. For information on the restatement and the impact of the restatement on our financial statements for the periods ended June 30, 2004, we refer you to Item 8, Financial Statements and Supplementary Data, Note 2, Restatement of Previously Filed Financial Statements, and Note 20, Results by Quarter, in our 2004 Annual Report on Form 10-K.

Part I — FINANCIAL INFORMATION

Item 1. *Financial Statements*

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

	Three Months Ended June 30,	
	2005	2004 (Restated)
REVENUE	\$ 1,616.2	\$ 1,512.8
OPERATING (INCOME) EXPENSES:		
Salaries and related expenses	955.4	898.5
Office and general expenses	537.9	552.8
Restructuring charges (reversals)	(1.9)	3.9
Long-lived asset impairment and other charges	—	3.1
Motorsports contract termination costs	—	80.0
Total operating expenses	1,491.4	1,538.3
OPERATING INCOME (LOSS)	124.8	(25.5)
EXPENSE AND OTHER INCOME:		
Interest expense	(42.7)	(42.0)
Interest income	16.5	10.4
Investment impairments	(3.6)	—
Other income	4.6	2.2
Total expense and other income	(25.2)	(29.4)
Income (loss) before provision for income taxes	99.6	(54.9)
Provision for income taxes	83.8	30.6
Income (loss) of consolidated companies	15.8	(85.5)
Income applicable to minority interests (net of tax)	(3.7)	(4.2)
Equity in net income of unconsolidated affiliates (net of tax)	2.3	1.3
Net income (loss)	14.4	(88.4)
Dividends on preferred stock	5.0	5.0
Allocation to participating securities	1.7	—
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	\$ 7.7	\$ (93.4)
Income (loss) per share of common stock:		
Basic:	\$ 0.02	\$ (0.23)
Diluted:	\$ 0.02	\$ (0.23)
Weighted average shares:		
Basic	424.8	414.6
Diluted	429.6	414.6
Cash dividends per common share	\$ —	\$ —

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

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

	Six Months Ended June 30,	
	2005	2004 (Restated)
REVENUE	\$ 2,946.5	\$ 2,902.2
OPERATING (INCOME) EXPENSES:		
Salaries and related expenses	1,929.2	1,785.2
Office and general expenses	1,065.7	1,063.5
Restructuring charges (reversals)	(8.8)	65.5
Long-lived asset impairment and other charges	—	8.8
Motorsports contract termination costs	—	80.0
Total operating expenses	2,986.1	3,003.0
OPERATING LOSS	(39.6)	(100.8)
EXPENSE AND OTHER INCOME:		
Interest expense	(89.9)	(85.9)
Interest income	31.4	20.2
Investment impairments	(3.6)	(3.2)
Other income	19.1	3.5
Total expense and other income	(43.0)	(65.4)
Loss before provision for income taxes	(82.6)	(166.2)
Provision for income taxes	44.7	1.6
Loss of consolidated companies	(127.3)	(167.8)
Income applicable to minority interests (net of tax)	(4.9)	(6.8)
Equity in net income of unconsolidated affiliates (net of tax)	2.8	2.4
Net loss from operations	(129.4)	(172.2)
Dividends on preferred stock	10.0	9.8
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	\$ (139.4)	\$ (182.0)
Loss per share of common stock:		
Basic:	\$ (0.33)	\$ (0.44)
Diluted:	\$ (0.33)	\$ (0.44)
Weighted average shares:		
Basic	424.3	413.9
Diluted	424.3	413.9
Cash dividends per common share	\$ —	\$ —

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

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

	June 30, 2005	December 31, 2004
ASSETS:		
Cash and cash equivalents	\$ 1,582.0	\$ 1,550.4
Short-term marketable securities	1.3	420.0
Accounts receivable, net allowance of \$120.4 and \$136.1	4,920.7	4,907.5
Expenditures billable to clients	445.4	345.2
Deferred income taxes	268.8	261.0
Prepaid expenses and other current assets	142.6	152.6
Total current assets	7,360.8	7,636.7
Land, buildings and equipment, net	682.5	722.9
Deferred income taxes	245.4	274.2
Investments	175.5	168.7
Goodwill	3,145.7	3,141.6
Other intangible assets, net	35.1	37.6
Other assets	284.7	290.6
TOTAL ASSETS	\$ 11,929.7	\$ 12,272.3
LIABILITIES:		
Accounts payable	\$ 6,198.9	\$ 6,128.7
Accrued liabilities	871.6	1,108.6
Short-term debt	332.6	325.9
Total current liabilities	7,403.1	7,563.2
Long-term debt	1,933.5	1,936.0
Deferred compensation and employee benefits	575.9	590.7
Other non-current liabilities	404.1	408.9
Minority interests in consolidated subsidiaries	45.5	55.2
TOTAL LIABILITIES	10,362.1	10,554.0
Commitments and contingencies (Note 15)		
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value	373.7	373.7
Common stock, \$0.10 par value	42.7	42.5
Additional paid-in capital	2,226.3	2,208.9
Accumulated deficit	(707.6)	(578.2)
Accumulated other comprehensive loss, net of tax	(290.8)	(248.6)
	1,644.3	1,798.3
Less:		
Treasury stock, at cost	(14.0)	(14.0)
Unamortized deferred compensation	(62.7)	(66.0)
TOTAL STOCKHOLDERS' EQUITY	1,567.6	1,718.3
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,929.7	\$ 12,272.3

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

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

	Six Months Ended June 30,	
	2005	2004 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss from operations	\$ (129.4)	\$ (172.2)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization of fixed assets and intangible assets	81.2	93.6
Provision for bad debt	10.3	19.6
Amortization of restricted stock awards and other non-cash compensation	17.8	16.8
Amortization of bond discounts and deferred financing costs	5.0	11.7
Deferred income tax provision	23.9	(66.0)
Equity in net loss of unconsolidated affiliates	(2.8)	(2.4)
Income applicable to minority interests	4.9	6.8
Restructuring charges — non-cash	—	6.7
Long-lived asset impairment and other charges	—	8.8
Investment impairments	3.6	3.2
Gain on sale of investments	(13.3)	(2.1)
Loss on interest rate swaps	2.1	—
Other	(8.2)	(8.7)
Change in assets and liabilities, net of acquisitions:		
Accounts receivable	(225.0)	(366.6)
Expenditures billable to clients	(108.7)	(81.9)
Prepaid expenses and other current assets	(0.7)	17.1
Accounts payable and accrued expenses	112.5	440.1
Other non-current assets and liabilities	(14.0)	(25.8)
Net cash used in operating activities	<u>(240.8)</u>	<u>(101.3)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, including deferred payments, net of cash acquired	(55.5)	(136.3)
Capital expenditures	(65.5)	(77.5)
Proceeds from sales of businesses and fixed assets	7.9	29.2
Proceeds from sales of investments	40.4	10.6
Purchases of investments	(18.4)	(10.2)
Maturities of short-term marketable securities	1,108.1	575.8
Purchases of short-term marketable securities	(688.8)	(912.9)
Net cash provided by (used in) investing activities	<u>328.2</u>	<u>(521.3)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in short-term bank borrowings	(12.1)	23.4
Payments of long-term debt	(0.6)	(244.7)
Proceeds from long-term debt	2.0	0.5
Debt issuance costs and consent fees	(9.7)	(2.3)
Issuance of common stock, net of issuance costs	13.7	0.1
Distributions to minority interests, net	(10.9)	(10.9)
Dividends from unconsolidated affiliates	3.0	6.1
Preferred stock dividends	(10.0)	(9.8)
Net cash used in financing activities	<u>(24.6)</u>	<u>(237.6)</u>
Effect of exchange rates on cash and cash equivalents	<u>(31.2)</u>	<u>(12.7)</u>
Increase (decrease) in cash and cash equivalents	31.6	(872.9)
Cash and cash equivalents at beginning of year	<u>1,550.4</u>	<u>1,871.9</u>
Cash and cash equivalents at end of period	<u>\$ 1,582.0</u>	<u>\$ 999.0</u>

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

THE INTERPUBLIC GROUP OF COMPANIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Net income/(loss)	\$ 14.4	\$ (88.4)	\$ (129.4)	\$ (172.2)
Foreign currency translation adjustment	(28.4)	(16.4)	(59.7)	(41.8)
Net unrealized holdings gain/loss on securities				
Unrealized holdings gain arising in the current period	1.8	—	17.7	1.6
Unrealized holdings loss arising in the current period	—	(0.6)	—	(0.7)
Reclassification of gain to net earnings	(0.1)	—	(0.2)	—
Reclassification of loss to net earnings	—	—	—	3.2
Net unrealized holdings gain/loss on securities	1.7	(0.6)	17.5	4.1
Comprehensive loss	\$ (12.3)	\$ (105.4)	\$ (171.6)	\$ (209.9)

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

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Millions, Except Per Share Amounts)

(Unaudited)

Note 1: Basis of Presentation

Restatement. In our 2004 Annual Report on Form 10-K, we restated certain of our prior period financial statements, including financial statements for the three and six months ended June 30, 2004. The Consolidated Statement of Operations and Comprehensive Loss for the three and six months ended June 30, 2004, and the Consolidated Statements of Cash Flow for the six months ended June 30, 2004 in this report have been presented as restated. For information on the restatement and the impact of the restatement on our financial statements for the period ended June 30, 2004, we refer you to Item 8, Financial Statements and Supplementary Data, Note 2, Restatement of Previously Issued Financial Statements, and Note 20, Results by Quarter, in our 2004 Annual Report on Form 10-K.

Basis of Presentation. The accompanying unaudited consolidated financial statements have been prepared by The Interpublic Group of Companies, Inc. pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, include all adjustments of a normal and recurring nature necessary for a fair statement of the consolidated results of operations, financial position and cash flows for each period presented. The consolidated results for interim periods are not necessarily indicative of results for the full year. These financial results should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2004.

Note 2: Earnings (Loss) Per Share

The following sets forth the computation of basic and diluted earnings (loss) per common share for income available to common stockholders:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Basic				
Net income (loss)	\$ 14.4	\$ (88.4)	\$ (129.4)	\$ (172.2)
Less: preferred stock dividends	5.0	5.0	10.0	9.8
Less: allocation to participating securities(a)	1.7	—	—	—
Net income (loss) applicable to common stockholders	<u>\$ 7.7</u>	<u>\$ (93.4)</u>	<u>\$ (139.4)</u>	<u>\$ (182.0)</u>
Weighted-average number of common shares outstanding — basic	<u>424.8</u>	<u>414.6</u>	<u>424.3</u>	<u>413.9</u>
Earnings (loss) per share — basic	<u>\$ 0.02</u>	<u>\$ (0.23)</u>	<u>\$ (0.33)</u>	<u>\$ (0.44)</u>
Diluted(b)				
Net income (loss)	\$ 14.4	\$ (88.4)	\$ (129.4)	\$ (172.2)
Less: preferred stock dividends	5.0	5.0	10.0	9.8
Less: allocation to participating securities(a)	1.7	—	—	—
Net income (loss) applicable to common stockholders	<u>\$ 7.7</u>	<u>\$ (93.4)</u>	<u>\$ (139.4)</u>	<u>\$ (182.0)</u>

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Weighted-average number of common shares outstanding — basic	424.8	414.6	424.3	413.9
Dilutive effect of restricted stock and stock options	4.8	—	—	—
Weighted-average number of common shares outstanding — diluted	429.6	414.6	424.3	413.9
Earnings (loss) per share — diluted	\$ 0.02	\$ (0.23)	\$ (0.33)	\$ (0.44)

(a) Basic and diluted earnings per share have been adjusted using the two-class method pursuant to Emerging Issue Task Force (“EITF”) 03-6, *Participating Securities and the Two — Class Method Under FASB Statement No. 128* for the three months ended June 30, 2005. The two-class method is an earnings allocation formula that attributes earnings to participating securities and common stock according to dividends declared and participation rights in undistributed earnings. Participating securities consist of our 4.50% Convertible Notes and our Series A Mandatory Convertible Preferred Stock.

There was no impact on the basic and diluted loss per share computations for the three months ended June 30, 2004 and the six months ended June 30, 2005 and 2004, as the holders of the relevant securities do not participate in our net loss.

(b) In accordance with EITF 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings per Share*, the impact of the assumed conversion of our 4.50% contingently convertible notes was and would be included in the computations of diluted earnings (loss) per share if dilutive, regardless of whether the market price conversion trigger was met, for the three months ended June 30, 2005 and for the three months ended June 30, 2004 and the six months ended June 30, 2005 and 2004, respectively. The weighted-average number of incremental shares for each of the following have been excluded from the computations of diluted earnings (loss) per share as they were anti-dilutive:

For the three months ended June 30, 2005 and 2004:

- conversion of the Series A Mandatory Convertible Preferred Stock;
- conversion of the 4.50% Convertible Notes;

For the three months ended June 30, 2004 only:

- conversion of the 1.87% Convertible Notes;
- exercise of employee stock options and conversion of both non-vested restricted stock awards and restricted stock units;

For the six months ended June 30, 2005 and 2004:

- conversion of the 4.50% Convertible Notes;
- conversion of the Series A Mandatory Convertible Preferred Stock;
- exercise of employee stock options and conversion of both non-vested restricted stock awards and restricted stock units; and

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

For the six months ended June 30, 2004 only:

- conversion of the 1.80% and 1.87% Convertible Notes.

The following table presents the weighted-average number of incremental anti-dilutive shares excluded from the computations of diluted earnings (loss) per share for the three and six months ended June 30, 2005 and 2004:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 Restated	2005	2004 Restated
Stock options, restricted stock and restricted stock units	—	4.2	4.6	4.5
Convertible Notes	64.4	70.8	64.4	71.5
Series A Mandatory Convertible Preferred Stock	27.7	26.2	27.7	24.9
Total	<u>92.1</u>	<u>101.2</u>	<u>96.7</u>	<u>100.9</u>

Note 3: Stock-Based Compensation

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 123, *Accounting for Stock-Based Compensation*, we have accounted for our various stock-based compensation plans under the intrinsic value recognition and measurement principles of Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*.

Generally, the exercise price of stock options granted equals the market price of the underlying shares on the date of the grant and, therefore, no compensation expense is recorded. The intrinsic value of restricted stock grants and certain other stock-based compensation issued to employees and Board Members as of the date of grant is amortized to compensation expense over the vesting period. Certain stock options and restricted stock units are subject to variable accounting.

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

If compensation expense for our stock option plans and Employee Stock Purchase Plan (“ESPP”) had been determined based on the fair value at the grant dates as defined by SFAS No. 123 and amended by SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure — An Amendment of FASB No. 123*, our pro forma income (loss) from operations and income (loss) from operations would have been as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
As reported, net income (loss)	\$ 14.4	\$ (88.4)	\$ (129.4)	\$ (172.2)
Add back:				
Stock-based employee compensation expense included in net income (loss), net of tax	9.1	6.1	16.1	11.4
Less:				
Total fair value of stock-based employee compensation expense, net of tax	(14.4)	(13.9)	(27.0)	(27.1)
Pro forma net income (loss)	<u>\$ 9.1</u>	<u>\$ (96.2)</u>	<u>\$ (140.3)</u>	<u>\$ (187.9)</u>
<i>Net earnings (loss) per share</i>				
<i>Basic earnings (loss) per share</i>				
As reported	\$ 0.02	\$ (0.23)	\$ (0.33)	\$ (0.44)
Pro forma	\$ 0.02	\$ (0.23)	\$ (0.33)	\$ (0.45)
<i>Diluted earnings (loss) per share</i>				
As reported	\$ 0.02	\$ (0.23)	\$ (0.33)	\$ (0.44)
Pro forma	\$ 0.02	\$ (0.23)	\$ (0.33)	\$ (0.45)

For purposes of this pro forma information, the weighted-average fair value of the 15% discount received by employees on the date that stock was purchased under the ESPP was \$2.19 for the three months ended June 30, 2004 and \$1.97 and \$1.19 for the six months ended June 30, 2005 and 2004, respectively, and is included in the total fair value of stock-based employee compensation expense. No stock was purchased under the ESPP in the three months ended June 30, 2005.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
Expected option lives	6 years	6 years	6 years	6 years
Risk free interest rate	3.8%	4.3%	3.8%	4.1%
Expected volatility	44.4%	44.7%	44.4%	44.7%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Weighted-average option grant price	\$ 12.29	\$ 14.22	\$ 12.75	\$ 14.66
Weighted-average fair value of options granted	\$ 5.91	\$ 6.99	\$ 6.13	\$ 7.14

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

Note 4: Acquisitions and Dispositions

Acquisitions

We did not make any acquisitions during the three and six months ended June 30, 2005. We acquired one company during the six months ended June 30, 2004 for \$6.5 in cash. The results of operations of this acquired company was included in our consolidated results from its respective acquisition date. During the three months ended June 30, 2005 and 2004, we made stock payments related to acquisitions in prior years of \$9.9 and \$15.8. We also made stock payments related to acquisitions initiated in prior years of \$11.7 and \$15.8 during the six months ended June 30, 2005 and 2004, respectively. Details of cash paid for new and prior acquisitions are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Cash paid for current year acquisitions	\$ —	\$ —	\$ —	\$ 6.5
Cash paid for prior acquisitions	38.9	97.3	55.5	129.8
Net cash paid for acquisitions	<u>\$ 38.9</u>	<u>\$ 97.3</u>	<u>\$ 55.5</u>	<u>\$ 136.3</u>

Dispositions

On January 12, 2004, we completed the sale of a business comprising the four Motorsports circuits, including Brands Hatch, Oulton Park, Cadwell Park and Snetterton, owned by our Brands Hatch subsidiaries, to MotorSport Vision Limited. The consideration for the sale was approximately \$26.0. An additional contingent amount of approximately \$4.0 may be paid to us depending upon the future financial results of the operations sold.

On April 19, 2004, we reached an agreement with the Formula One Administration Limited ("FOA") to terminate and release our respective guarantee and promoter obligations relating to the British Grand Prix held at the Silverstone racetrack in the United Kingdom ("UK"). Under this agreement, we were released from our obligations following the British Grand Prix in July 2004. In exchange for the early termination of the obligations and liabilities, we paid a total of \$93.0 to the FOA in two installments of \$46.5 each on April 19, 2004 and May 24, 2004. A pre-tax charge of \$80.0 was recorded in Motorsports contract termination costs related to this transaction during the second quarter of 2004, net of approximately \$13.0 in existing reserves related to the termination of this agreement.

Note 5: Restructuring Charges (Reversals)

During the three months ended June 30, 2005 and 2004, we recorded net (income) and expense related to lease termination and other exit costs and severance and termination costs for the 2003 and 2001 restructuring programs of (\$1.9) and \$3.9, respectively, which included the impact of adjustments resulting from changes in management's estimates as described below. For the six months ended June 30, 2005 and 2004, we recorded net (income) and expense of (\$8.8) and \$65.5, respectively. The 2003 program was initiated in response to softness in demand for advertising and marketing services. The 2001 program was initiated following the acquisition of True North Communications Inc. and was designed to integrate the acquisition and improve productivity. Total inception to date net expense for the 2001 and 2003 programs

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were \$638.6 and \$225.1, respectively. Substantially all activities under the 2001 and 2003 programs have been completed. A summary of the net (income) and expense by segment is as follows:

	Three Months Ended June 30,						Total
	Lease Termination and Other Exit Costs			Severance and Termination Costs			
	2003 Program	2001 Program	Total	2003 Program	2001 Program	Total	
2005 Net Income							
IAN	\$ (0.2)	\$ —	\$ (0.2)	\$ —	\$ —	\$ —	\$ (0.2)
CMG	(0.9)	(0.1)	(1.0)	(0.1)	—	(0.1)	(1.1)
Corporate	(0.1)	(0.5)	(0.6)	—	—	—	(0.6)
Total	<u>\$ (1.2)</u>	<u>\$ (0.6)</u>	<u>\$ (1.8)</u>	<u>\$ (0.1)</u>	<u>\$ —</u>	<u>\$ (0.1)</u>	<u>\$ (1.9)</u>
2004 Net (Income) Expense (Restated)							
IAN	\$ (2.6)	\$ (4.9)	\$ (7.5)	\$ (0.7)	\$ (4.3)	\$ (5.0)	\$ (12.5)
CMG	5.2	8.0	13.2	(0.5)	(0.7)	(1.2)	12.0
Corporate	4.3	—	4.3	0.1	—	0.1	4.4
Total	<u>\$ 6.9</u>	<u>\$ 3.1</u>	<u>\$ 10.0</u>	<u>\$ (1.1)</u>	<u>\$ (5.0)</u>	<u>\$ (6.1)</u>	<u>\$ 3.9</u>

	Six Months Ended June 30,						Total
	Lease Termination and Other Exit Costs			Severance and Termination Costs			
	2003 Program	2001 Program	Total	2003 Program	2001 Program	Total	
2005 Net Income							
IAN	\$ (4.4)	\$ (0.7)	\$ (5.1)	\$ (0.2)	\$ —	\$ (0.2)	\$ (5.3)
CMG	(1.0)	(1.7)	(2.7)	(0.2)	—	(0.2)	(2.9)
Corporate	(0.1)	(0.5)	(0.6)	—	—	—	(0.6)
Total	<u>\$ (5.5)</u>	<u>\$ (2.9)</u>	<u>\$ (8.4)</u>	<u>\$ (0.4)</u>	<u>\$ —</u>	<u>\$ (0.4)</u>	<u>\$ (8.8)</u>
2004 Net (Income)Expense (Restated)							
IAN	\$ 28.6	\$ (6.5)	\$ 22.1	\$ 15.1	\$ (4.3)	\$ 10.8	\$ 32.9
CMG	16.2	7.1	23.3	5.5	(0.7)	4.8	28.1
Corporate	4.3	—	4.3	0.2	—	0.2	4.5
Total	<u>\$ 49.1</u>	<u>\$ 0.6</u>	<u>\$ 49.7</u>	<u>\$ 20.8</u>	<u>\$ (5.0)</u>	<u>\$ 15.8</u>	<u>\$ 65.5</u>

Lease Termination and Other Exit Costs

2003 Program

Net (income) and expense related to lease termination and other exit costs recorded for the three months ended June 30, 2005 and 2004 was (\$1.2) and \$6.9, respectively, comprised of charges of \$0.6 and \$17.0, offset by adjustments to management estimates of \$1.8 and \$10.1, respectively. For the six months ended June 30, 2005 and 2004, net (income) and expense was (\$5.5) and \$49.1, respectively, comprised of charges of \$1.8 and \$60.5, offset by similar adjustments of \$7.3 and \$11.4, respectively. Charges were recorded at net present value and were net of estimated sublease rental income. The discount related to lease terminations is being amortized over the expected remaining term of the related lease. In addition,

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for the three and six months ended June 30, 2004, charges were recorded for the vacating of 11 and 36 offices, respectively, located primarily in the US and Europe. Given the remaining life of the vacated leased properties, cash payments are expected to be made through 2015.

In addition to amounts recorded as restructuring charges, we recorded charges of \$2.7 and \$10.3 during the three and six months ended June 30, 2004, respectively, related to the accelerated amortization of leasehold improvements on properties included in the 2003 program. These charges were included in office and general expenses on the Consolidated Statements of Operations.

2001 Program

Net (income) and expense related to lease termination and other exit costs of (\$0.6) and \$3.1 recorded for the three months ended June 30, 2005 and 2004, respectively, resulted exclusively from the impact of adjustments to management estimates. We recorded net (income) and expense of (\$2.9) and \$0.6 for the six months ended June 30, 2005 and 2004, respectively. Given the remaining life of the vacated properties, cash payments are expected to be made through 2024.

Adjustments to Estimates

Lease termination and other exit costs for the 2003 and 2001 restructuring programs included the net impact of adjustments for changes in management estimates, which decreased the restructuring reserves by \$2.4 and \$7.0 for the three months ended June 30, 2005 and 2004, respectively. The net decrease to the restructuring reserves was \$10.2 and \$10.8 for the six months ended June 30, 2005 and 2004, respectively. Adjustments to management estimates of net lease obligations included both increases and decreases to the restructuring reserve balance as a result of several factors. The significant factors were our negotiation of terms upon the exit of leased properties, changes in sublease rental income and utilization of previously vacated properties by certain of our agencies due to improved economic conditions in certain markets, all of which occurred during the period recorded.

Severance and Termination Costs

2003 Program

Net income related to severance and termination costs of \$0.1 for the three months ended June 30, 2005, resulted exclusively from the impact of adjustments to management's estimates. Net income for the three months ended June 30, 2004 was \$1.1, comprised of charges of \$0.4, partially offset by adjustments to management estimates of \$1.5. Net income related to severance and termination costs of \$0.4 for the six months ended June 30, 2005, resulted exclusively from the impact of adjustments to management's estimates. Net expense for the six months ended June 30, 2004 was \$20.8, comprised of charges of \$24.5, partially offset by adjustments to management estimates of \$3.7. Charges related to a worldwide workforce reduction of approximately 400 employees for the six months ended June 30, 2004. The restructuring program affected employee groups across all levels and functions, including executive, regional and account management and administrative, creative and media production personnel. The majority of the severance charges related to the US and Europe, with the remainder in Asia and Latin America.

2001 Program

Net income related to severance and termination costs of \$5.0 recorded for the three and six months ended June 30, 2004, resulted exclusively from the impact of adjustments to management estimates.

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Adjustments to Estimates

Severance and termination costs associated with the 2003 and 2001 restructuring programs included the net impact of adjustments for changes in management estimates, which decreased the restructuring reserves by \$0.1 and \$6.5 for the three months ended June 30, 2005 and 2004, respectively. The net decrease to the restructuring reserves was \$0.4 and \$8.7 for the six months ended June 30, 2005 and 2004, respectively. Adjustments to management estimates of severance and termination obligations included both increases and decreases to the restructuring reserve balance as a result of several factors. The significant factors were the decrease in the number of terminated employees, change in amounts paid to terminated employees and change in estimates of taxes and restricted stock payments related to terminated employees, all of which occurred during the period recorded.

A summary of the remaining liability for the 2003 and 2001 restructuring programs is as follows:

	<u>Liability at 12/31/04</u>	<u>Charges</u>	<u>Payments</u>	<u>Adjustments(1)</u>	<u>Other(2)</u>	<u>Liability at 6/30/05</u>
2003 Program						
Lease termination and other exit costs	\$ 51.0	\$ 1.8	\$ (12.8)	\$ (7.3)	\$ (1.9)	\$ 30.8
Severance and termination costs	7.2	—	(2.7)	(0.4)	(0.4)	3.7
Total	<u>\$ 58.2</u>	<u>\$ 1.8</u>	<u>\$ (15.5)</u>	<u>\$ (7.7)</u>	<u>\$ (2.3)</u>	<u>\$ 34.5</u>
2001 Program						
Lease termination and other exit costs	\$ 37.2	\$ —	\$ (9.0)	\$ (2.9)	\$ —	\$ 25.3
Severance and termination costs	1.6	—	(0.7)	—	—	0.9
Total	<u>\$ 38.8</u>	<u>\$ —</u>	<u>\$ (9.7)</u>	<u>\$ (2.9)</u>	<u>\$ —</u>	<u>\$ 26.2</u>

(1) Amounts represent adjustments to management estimates, as discussed above.

(2) Amounts represent adjustments to the liability for changes in foreign currency exchange rates as well as liabilities that were previously maintained on the Consolidated Balance Sheet in other balance sheet accounts.

Severance amounts incurred outside the parameters of our restructuring programs are recorded in the financial statements when they become both probable and estimable. With the exception of medical and dental benefits paid to employees who are on long-term disability, we do not establish liabilities associated with ongoing post-employment benefits that may vest or accumulate as the employee provides service as we cannot reasonably predict what our future experience will be. We have recorded a liability of \$6.7 and \$6.1 as of June 30, 2005 and December 31, 2004, respectively, related to medical and dental benefits for employees who are on long-term disability.

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Note 6: Land, Building and Equipment

The following table provides a summary of the components of land, buildings and equipment:

	June 30, 2005	December 31, 2004
Land and buildings	\$ 100.7	\$ 111.1
Furniture and equipment	1,024.6	1,038.6
Leasehold improvements	561.9	571.3
	1,687.2	1,721.0
Less: accumulated depreciation	(1,004.7)	(998.1)
Land, buildings and equipment, net	<u>\$ 682.5</u>	<u>\$ 722.9</u>

Note 7: Long-Lived Asset Impairment and Other Charges

There were no impairment charges recorded during the six months ended June 30, 2005.

During the three months and six months ended June 30, 2004, we recorded \$3.1 and \$8.8 of long-lived asset impairment charges, respectively. These amounts included \$2.0 and \$6.0, respectively, primarily related to the impairment of long-lived assets of businesses sold and \$0.7 and \$2.3, respectively, related to capital expenditure outlays in our Motorsports business which were expensed as incurred.

Note 8: Expense and Other Income**Investment Impairment**

We recorded investment impairment charges of \$3.6 for the three months ended June 30, 2005 to reduce an investment to its appropriate fair value. During the six months ended June 30, 2005 and 2004, we recorded \$3.6 and \$3.2, respectively, in investment impairment charges related to a decline in value of certain available-for-sale investments that was determined to be other than temporary.

Other Income

The following table sets forth the components of other income:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Gains on sales of businesses	\$ 4.4	\$ 0.8	\$ 14.0	\$ 0.7
Gains on sales of available-for-sale securities and miscellaneous investment income	0.2	1.4	5.1	2.8
Total other income	<u>\$ 4.6</u>	<u>\$ 2.2</u>	<u>\$ 19.1</u>	<u>\$ 3.5</u>

During the six months ended June 30, 2005, we sold our remaining ownership interest in Delaney Lund Knox Warren & Partners, an agency within Foote, Cone & Belding Worldwide, for a gain of approximately \$8.5.

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Note 9: Recent Accounting Standards

In May 2005, SFAS No. 154, *Accounting Changes and Error Corrections*, was issued, which replaces APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Among other changes, SFAS No. 154 requires retrospective application of a voluntary change in accounting principle to prior period financial statements presented on the new accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also requires accounting for a change in method of depreciating or amortizing a long-lived nonfinancial asset as a change in accounting estimate (prospectively) affected by a change in accounting principle. Further, the Statement requires that corrections of errors in previously issued financial statements be termed a “restatement.” The new standard is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS No. 154 to have a material impact on our Consolidated Balance Sheet or Statement of Operations.

In March 2005, FASB Interpretation (“FIN”) No. 47, *Accounting for Conditional Asset Retirement Obligations*, was issued, an interpretation of SFAS No. 143, *Accounting for Asset Retirement Obligations*. FIN No. 47 clarifies the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement are conditional on a future event. The provisions of FIN No. 47 are effective no later than December 31, 2005. We do not expect the adoption of FIN No. 47 to have a material impact on our Consolidated Balance Sheet or Statement of Operations.

In December 2004, SFAS No. 123R (revised 2004), *Share-Based Payment*, was issued, which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options and the shares issued under our employee stock purchase plan to be recognized in the financial statements based on their fair values, as of the beginning of the first fiscal year that starts after June 15, 2005. We are required to adopt SFAS No. 123R effective January 1, 2006. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. In March 2005, Staff Accounting Bulletin (“SAB”) No. 107, *Share-Based Payment*, was issued regarding the SEC’s interpretation of SFAS No. 123R and the valuation of share-based payments for public companies. We are evaluating the requirements of SFAS No. 123R and SAB No. 107. The adoption of SFAS No. 123R may have a material impact on our Consolidated Financial Statements and EPS. At adoption, we plan to use the modified prospective method which requires expense recognition for all unvested and outstanding awards and any awards granted thereafter.

In December 2004, FASB Staff Position (“FSP”) No. 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*, was issued which provides guidance under SFAS No. 109, *Accounting for Income Taxes*, with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the “Jobs Act”) on enterprises’ income tax expense and deferred tax liability. We have reviewed the provisions and, at this time, we have determined not to repatriate undistributed earnings of our foreign subsidiaries to the U.S. under this provision. Accordingly, we will not adjust our tax expense or deferred tax liability to reflect these provisions. However, we will continue to monitor our circumstances and if there is a change which will make the use of this provision advantageous, we will be able to adopt it prior to December 31, 2005.

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In December 2004, SFAS No. 153, *Exchanges of Nonmonetary Assets*, was issued, an amendment of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*. SFAS No. 153 is based on the principle that exchanges of nonmonetary assets should be recorded and measured at the fair value of the assets exchanged. APB Opinion No. 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. Under APB Opinion No. 29, an exchange of a productive asset for a similar productive asset was based on the recorded amount of the asset relinquished. SFAS No. 153 eliminates this exception and replaces it with exceptions for exchanges of nonmonetary assets that do not have reasonably determinable fair values or commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in reporting periods beginning after June 15, 2005. We are required to adopt SFAS No. 153 effective July 1, 2005. We do not expect the adoption of SFAS No. 153 to have a material impact on our Consolidated Balance Sheet or Statement of Operations.

Note 10: Effective Income Tax Rate

We recorded an income tax provision of \$44.7 and \$1.6 on pretax losses of \$82.6 and \$166.2 for the six months ended June 30, 2005 and 2004, respectively. Our effective tax rate was 54.1% and 1.0% for the six months ended June 30, 2005 and 2004, respectively. The difference between the effective tax rate and statutory rate of 35% is due to state and local taxes and the effect of non-US operations. The most significant item negatively impacting the effective tax rate was operating losses in a number of non-US jurisdictions that receive little or no tax benefit.

Valuation Allowance

As required by SFAS 109, *Accounting for Income Taxes* ("SFAS 109"), the Company evaluates the realizability of its deferred tax assets on a quarterly basis. SFAS 109 requires a valuation allowance be established when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. In circumstances where there is "sufficient negative evidence", establishment of a valuation allowance must be considered. A cumulative loss in the most recent three-year period represents sufficient negative evidence to consider a valuation allowance under the provisions of SFAS 109. As a result, the Company determined that certain of its deferred tax assets required the establishment of a valuation allowance. The deferred tax assets for which an allowance has been established relate primarily to foreign net operating loss, US capital loss, and foreign tax credit carryforwards.

The realization of the Company's remaining deferred tax assets is primarily dependent on future earnings. Any reduction in estimated forecasted results, including but not limited to any future restructuring activities may require that the Company record additional valuation allowances against the Company's deferred tax assets on which a valuation allowance has not previously been established. The valuation allowance that has been established will be maintained until there is sufficient positive evidence to conclude that it is "more likely than not" that such assets will be realized. An ongoing pattern of profitability will generally be considered as sufficient positive evidence. The Company's income tax expense recorded in the future will be reduced to the extent of offsetting decreases in the valuation allowance. The establishment and reversal of valuation allowances has had and could have a significant negative or positive impact on the future earnings of the Company.

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Note 11: Debt***Long-Term Debt***

A summary of our long-term debt is as follows:

	June 30, 2005	December 31, 2004
7.875% Senior Unsecured Notes due 2005	\$ 252.0	\$ 255.0
7.25% Senior Unsecured Notes due 2011	499.1	500.0
5.40% Senior Unsecured Notes, due 2009 (less unamortized discount of \$0.3)	249.7	249.7
6.25% Senior Unsecured Notes, due 2014 (less unamortized discount of \$1.0)	350.3	347.3
4.50% Convertible Senior Notes due 2023	800.0	800.0
Other notes payable and capitalized leases	39.9	42.1
Total long-term debt	2,191.0	2,194.1
Less: current portion	257.5	258.1
Long-term debt, excluding current portion	<u>\$ 1,933.5</u>	<u>\$ 1,936.0</u>

Long-term debt has a fair value of approximately \$2,292.8 and \$2,447.0 at June 30, 2005 and December 31, 2004, respectively.

Redemption and Repurchase of Long-Term Debt

In August 2005, we redeemed the remainder of the outstanding 7.875% Senior Unsecured Notes with an aggregate principal amount of \$250.0 at maturity at an aggregate price of approximately \$258.6, which included the principal amount of the Notes plus accrued interest to the redemption date. To redeem these Notes we used the proceeds from the sale and issuance in July 2005 of \$250.0 Floating Rate Notes due in July 2008.

Consent Solicitation

In March 2005, we completed a consent solicitation to amend the indentures governing five series of our outstanding public debt to provide, among other things, that our failure to file with the trustee our SEC reports, including our 2004 Annual Report on Form 10-K and Quarterly Reports for the first and second quarter of 2005 on Form 10-Q, would not constitute a default under the indentures until September 30, 2005.

The indenture governing our 4.50% Convertible Senior Notes was also amended to provide for: (1) an extension from March 15, 2005 to September 15, 2009 of the date on or after which we may redeem the 4.50% Notes and (2) an additional "make-whole" adjustment to the conversion rate in the event of a change of control meeting specified conditions.

Convertible Senior Notes

The 4.50% Convertible Senior Notes ("4.50% Notes") are convertible to common stock at a conversion price of \$12.42 per share, subject to adjustment in specified circumstances. They are convertible at any time if the average price of our common stock for 20 trading days immediately preceding the conversion date is greater than or equal to a specified percentage, beginning at 120% in 2003 and declining 0.5% each year until it reaches 110% at maturity, of the conversion price. They are also

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convertible, regardless of the price of our common stock, if: (i) we call the 4.50% Notes for redemption; (ii) we make specified distributions to shareholders; (iii) we become 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) or (iv) the credit ratings assigned to the 4.50% Notes by any two of Moody's Investors Service, Standard & Poor's and Fitch Ratings are lower than Ba2, BB and BB, respectively, or the 4.50% Notes are no longer rated by at least two of these ratings services. Because of our current credit ratings, the 4.50% Notes are currently convertible into approximately 64.4 shares of our common stock.

We, at the investors' option, may be required to redeem the 4.50% Notes for cash on March 15, 2008 and may also be required to redeem the 4.50% Notes at the investors' option on March 15, 2013 and March 15, 2018, for cash or common stock or a combination of both, at our election. Additionally, investors may require us to redeem the 4.50% Notes in the event of certain change of control events that occur prior to March 15, 2008, for cash or common stock or a combination of both, at our election. If at any time on or after March 13, 2003 we pay cash dividends on our common stock, we will pay contingent interest in an amount equal to 100% of the per share cash dividend paid on the common stock multiplied by the number of shares of common stock issuable upon conversion of the 4.50% Notes. At our option, we may redeem the 4.50% Notes on or after September 15, 2009 for cash. The redemption price in each of these instances will be 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest, if any. The 4.50% Notes also provide for an additional "make-whole" adjustment to the conversion rate in the event of a change of control meeting specified conditions.

Credit Arrangements

We have committed and uncommitted lines of credit with various banks that permit borrowings at variable interest rates. At June 30, 2005 and December 31, 2004, there were no borrowings under our committed facilities, however, there were borrowings under the uncommitted facilities made by several of our international subsidiaries totaling \$75.1 and \$67.8, respectively. We have guaranteed the repayment of some of these borrowings by our subsidiaries.

Our primary bank credit agreements are two credit facilities, a 364-day revolving credit facility ("364-Day Revolving Credit Facility") and a three-year revolving credit facility ("Three-Year Revolving Credit Facility" and, together with the 364-Day Revolving Credit Facility, the "Revolving Credit Facilities"). The 364-Day Revolving Credit Facility will expire on September 30, 2005. These facilities have been modified three times through waivers and amendments executed as of September 29, 2004, March 31, 2005 and June 22, 2005, and the Three-Year Revolving Credit Facility was also amended as of September 27, 2005. For a description of these waivers and amendments, see Note 11 to the Consolidated Financial Statements in our 2004 Annual Report on Form 10-K.

The current terms of our Three-Year Revolving Credit Facility do not permit us: (i) to make cash acquisitions in excess of \$50.0 until October 2006, or thereafter in excess of \$50.0 until expiration of the agreement in May 2007, subject to increases equal to the net cash proceeds received in the applicable period from any disposition of assets; (ii) to make capital expenditures in excess of \$210.0 annually; (iii) to repurchase or to declare or to pay dividends on our capital stock (except for any convertible preferred stock, convertible trust preferred instrument or similar security, which includes our outstanding 5.40% Series A Mandatory Convertible Preferred), except that we may repurchase our capital stock in connection with the exercise of options by our employees or with proceeds contemporaneously received from an issue of new shares of our capital stock; and (iv) to incur new debt at our subsidiaries, other than unsecured debt incurred in the ordinary course of business, which may not exceed \$10.0 in the aggregate with respect to our US subsidiaries.

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Our Three-Year Revolving Credit Facility was amended and restated as of September 27, 2005. The effectiveness of the amended Three-Year Revolving Credit Facility is subject to certain conditions as described below.

The amended Three-Year Revolving Credit Facility also sets forth revised financial covenants. These require that, as of the fiscal quarter ended September 30, 2005 and each fiscal quarter thereafter, we maintain:

(i) an interest coverage ratio of not less than that set forth opposite the corresponding quarter in the table below:

Fiscal Quarter Ending	Ratio
September 30, 2005	2.15 to 1
December 31, 2005	1.75 to 1
March 31, 2006	1.85 to 1
June 30, 2006	1.45 to 1
September 30, 2006	1.75 to 1
December 31, 2006	2.15 to 1
March 31, 2007	2.50 to 1

(ii) a debt to EBITDA ratio of not greater than that set forth opposite the corresponding quarter in the table below:

Fiscal Quarter Ending	Ratio
September 30, 2005	5.20 to 1
December 31, 2005	6.30 to 1
March 31, 2006	5.65 to 1
June 30, 2006	6.65 to 1
September 30, 2006	5.15 to 1
December 31, 2006	4.15 to 1
March 31, 2007	3.90 to 1

(iii) minimum levels of EBITDA for the four fiscal quarters ended of not less than that set forth opposite the corresponding quarter in the table below:

Four Fiscal Quarters Ending	Amount
September 30, 2005	\$ 435.0
December 31, 2005	\$ 360.0
March 31, 2006	\$ 400.0
June 30, 2006	\$ 340.0
September 30, 2006	\$ 440.0
December 31, 2006	\$ 545.0
March 31, 2007	\$ 585.0

The terms used in these ratios, including EBITDA, interest coverage and debt, are subject to specific definitions set forth in the agreement. Under the definition set forth in the Three-Year Revolving Credit

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Facility, EBITDA is determined by adding to net income or loss the following items: interest expense, income tax expense, depreciation expense, amortization expense, and certain specified cash payments and non-cash charges subject to limitations on time and amount set forth in the agreement. Based on our forecasts, we expect to be in compliance with all covenants under our Three-Year Revolving Credit Facility, as amended and restated, for the next twelve months.

Before agreeing to the amendments, the lenders reviewed preliminary drafts of the Consolidated Financial Statements included in our 2004 Annual Report and in our quarterly reports on Form 10-Q for the first two quarters of 2005. One condition to effectiveness of the amendments is that we have not received, on or before October 4, 2005, notice from the lenders that have a majority in amount of the revolving credit commitments, that the Consolidated Financial Statements in our 2004 Annual Report and our quarterly reports, and the financial data contained in the notes thereto, are not substantially similar to the draft Consolidated Financial Statements we provided to them. If we receive such a notice, the amended agreement will not become effective. In that event, we will continue to be subject to the financial covenants that were previously applicable under the Three-Year Revolving Credit Facility, as amended in June 2005 with respect to periods through the second quarter of 2005. We were in compliance with those covenants through June 30, 2005, but there can be no assurance that we will continue to be in compliance for the third quarter of 2005.

Note 12: Employee Benefits

The components of net periodic cost for pension and retiree medical plans are as follows:

For the Three Months Ended June 30,	Domestic Pension Plans		Foreign Pension Plans		Postretirement Benefits	
	2005	2004 (Restated)	2005	2004 (Restated)	2005	2004 (Restated)
Service cost for benefits earned	\$ 0.2	\$ 0.2	\$ 3.8	\$ 4.2	\$ 0.1	\$ 0.1
Interest accrued on benefit obligation	2.2	2.2	4.8	4.4	0.9	1.0
Expected return on plan assets	(2.4)	(2.5)	(3.3)	(2.8)	—	—
Amortization of:						
Prior service cost	(0.1)	(0.1)	0.1	0.1	—	—
Unrecognized actuarial losses	1.6	1.1	1.6	1.4	0.2	0.1
Net periodic cost	\$ 1.5	\$ 0.9	\$ 7.0	\$ 7.3	\$ 1.2	\$ 1.2

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<u>For the Six Months Ended June 30,</u>	Domestic Pension Plans		Foreign Pension Plans		Postretirement Benefits	
	2005	2004	2005	2004	2005	2004
Service cost for benefits earned	\$ 0.4	\$ 0.4	\$ 8.0	\$ 8.2	\$ 0.2	\$ 0.2
Interest accrued on benefit obligation	4.3	4.4	9.9	8.9	1.8	2.0
Expected return on plan assets	(4.8)	(5.0)	(6.8)	(5.7)	—	—
Amortization of:						
Transition obligation	—	—	—	—	0.1	0.1
Prior service cost	(0.1)	(0.2)	0.1	0.1	—	—
Unrecognized actuarial losses	3.2	2.2	3.4	2.8	0.4	0.2
Net periodic cost	<u>\$ 3.0</u>	<u>\$ 1.8</u>	<u>\$ 14.6</u>	<u>\$ 14.3</u>	<u>\$ 2.5</u>	<u>\$ 2.5</u>

During the three months ended June 30, 2005, we made contributions of \$0.3 and \$4.0 to our domestic and foreign pension plans, respectively. During the six months ended June 30, 2005, we made contributions of \$0.5 and \$9.1 to our domestic and foreign pension plans, respectively.

We anticipate making contributions of \$0.9 and \$24.3 to our domestic and foreign pension plans, respectively.

Note 13: Derivative and Hedging Instruments

In January 2005, we entered into an interest rate swap which synthetically converted \$150.0 of fixed rate debt to floating rates. The interest rate swap effectively converted \$150.0 of the \$500.0, 7.25% Senior Unsecured Notes due August 2011 to floating rate debt and matures on the same day the debt is due. Under the terms of the interest rate swap agreement we pay a floating interest rate, based on one-month LIBOR plus a spread of 297.0 basis points, and receive the fixed interest rate of the underlying bond being hedged.

On May 25, 2005, we terminated our three long-term interest rate swap agreements executed during the fourth quarter of 2004 covering the \$350.0, 6.25% Senior Unsecured Notes due November 2014 and our long-term interest rate swap agreement covering the \$150.0 of the \$500.0, 7.25% Senior Unsecured Notes due August 2011. In connection with the termination, our net cash receipts were approximately \$1.1, which will be recorded as an offset to interest expense over the remaining life of the related debt.

Note 14: Segment Information

We are organized into five global operating divisions and a group of leading stand-alone agencies. In accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, our operating divisions are grouped into two reportable segments. The largest segment, Integrated Agency Networks (“IAN”), is comprised of McCann Worldgroup (“McCann”), The FCB Group (“FCB”), The Lowe Group (“Lowe”), Draft Worldwide (“Draft”) and our stand-alone agencies. The stand-alone agencies include Deutsch, Campbell-Ewald and Hill Holliday. IAN also includes our media agencies, Initiative Media and Magna Global which are part of our leading stand-alone agencies, and Universal McCann which is part of McCann. The second segment, Constituent Management Group (“CMG”), includes Weber Shandwick, DeVries, FutureBrand, GolinHarris, Jack Morton and Octagon Worldwide. During the period ended June 30, 2004, we had a third reportable segment comprised of the Motorsports operations, which was sold during 2004.

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Certain corporate and other charges are reported as a separate line within total segment operating income and include corporate office expenses and shared service center expenses, as well as certain other centrally managed expenses which are not allocated to operating divisions, as shown in the table below. Salaries and related expenses include salaries, pension, bonus and insurance expenses, including medical and dental, for corporate office employees. Professional fees include costs related to internal control compliance and remediation, cost of restatement efforts, financial statement audits, legal, information technology and other consulting fees, which are engaged and managed through the corporate office. Professional fees also include the cost of temporary financial professionals associated with work on our restatement activities during 2005. Rent and depreciation includes rental expense and depreciation of leasehold improvements for properties occupied by corporate office employees. Corporate insurance expense includes the cost for fire, liability and automobile premiums. Bank fees relates to debt and credit facilities managed by the corporate office. The amounts allocated to operating divisions are calculated monthly based on a formula that uses the weighted average net revenues of the operating unit. The majority of the corporate cost, including most of the costs associated with internal control compliance and remediation, are not allocated back to operating segments. The following expenses are included in Corporate and other:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Salaries and related expenses	\$ 42.9	\$ 37.7	\$ 91.8	\$ 73.0
Professional fees	30.2	42.9	82.6	59.0
Rent and depreciation	10.8	7.3	22.3	19.0
Corporate insurance	6.5	8.0	13.6	15.4
Bank fees	0.6	0.9	1.1	1.7
Other	(1.9)	5.2	3.1	3.5
Amounts allocated to operating divisions	(41.8)	(34.6)	(76.8)	(63.0)
Total Corporate and other	<u>\$ 47.3</u>	<u>\$ 67.4</u>	<u>\$ 137.7</u>	<u>\$ 108.6</u>

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Summarized financial information concerning our reportable segments is shown in the following table:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Revenue:(1)				
IAN	\$ 1,391.0	\$ 1,276.3	\$ 2,507.6	\$ 2,442.7
CMG	224.8	229.0	437.3	448.9
Motorsports	0.4	7.5	1.6	10.6
Consolidated revenue	<u>\$ 1,616.2</u>	<u>\$ 1,512.8</u>	<u>\$ 2,946.5</u>	<u>\$ 2,902.2</u>
Segment operating income (loss):				
IAN	\$ 161.4	\$ 113.9	\$ 78.7	\$ 146.5
CMG	8.6	19.2	9.4	28.3
Motorsports	0.2	(4.2)	1.2	(12.7)
Corporate and other	(47.3)	(67.4)	(137.7)	(108.6)
Total segment operating income (loss)	<u>\$ 122.9</u>	<u>\$ 61.5</u>	<u>\$ (48.4)</u>	<u>\$ 53.5</u>
Reconciliation to income (loss) before taxes:				
Restructuring charges	\$ 1.9	\$ (3.9)	\$ 8.8	\$ (65.5)
Long-lived asset impairment and other charges	—	(83.1)	—	(88.8)
Interest expense	(42.7)	(42.0)	(89.9)	(85.9)
Interest income	16.5	10.4	31.4	20.2
Investment impairments	(3.6)	—	(3.6)	(3.2)
Other income (expense)	4.6	2.2	19.1	3.5
Income (loss) before income taxes	<u>\$ 99.6</u>	<u>\$ (54.9)</u>	<u>\$ (82.6)</u>	<u>\$ (166.2)</u>
Depreciation and amortization:				
IAN	\$ 31.3	\$ 36.0	\$ 60.8	\$ 71.0
CMG	4.8	5.3	11.4	13.4
Corporate and other	4.6	2.7	9.0	9.2
Total depreciation and amortization	<u>\$ 40.7</u>	<u>\$ 44.0</u>	<u>\$ 81.2</u>	<u>\$ 93.6</u>
Total Assets:				
IAN			\$ 9,797.2	\$ 9,901.0
CMG			924.8	928.6
Corporate and other			1,207.7	1,442.7
Total assets			<u>\$ 11,929.7</u>	<u>\$ 12,272.3</u>

(1) Amounts disclosed as revenue from unaffiliated customers include immaterial amounts of intersegment revenues.

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Note 15: Commitments and Contingencies

Shares Deliverable Under Securities Class Actions

In the fourth quarter of 2004, we settled thirteen federal securities class actions against us and certain of our present and former directors and officers. Under the terms of the settlement, we have agreed to pay \$115.0, of which \$20.0 will be paid in cash and \$95.0 in shares of our common stock at a value of \$14.50 per share. On November 4, 2004, the court entered an order granting final approval of the settlement. The term of appeal for the settlement expired during the fourth quarter of 2004. During the fourth quarter of 2004, the \$20.0 cash portion of the settlement was paid into escrow and 0.8 of the settlement shares were issued to the plaintiffs' counsel as payment of their fee.

In 2003, we recorded litigation charges of \$115.0 related to the settlement of the shareholder suits discussed above. During the fourth quarter of 2004, the settlement was approved and the litigation charges were reduced by \$20.0 due to insurance proceeds received as reimbursement for the cash component of the settlement from our Directors and Officers insurance policies and by \$12.5 relating to a decrease in the share price between the tentative settlement date and the final settlement date.

SEC Investigation

In January 2003, the SEC issued a formal order of investigation related to our restatements of earnings for periods dating back to 1997. On April 20, 2005, we received a subpoena from the SEC under authority of the order of investigation requiring production of additional documents relating to the potential restatement we announced in March 2005. The SEC is investigating the restatement detailed in Note 2 to the Consolidated Financial Statements in our 2004 Annual Report on Form 10-K. We are cooperating fully with the investigation.

Other Legal Matters

We are involved in other legal and administrative proceedings of various types. While any litigation contains an element of uncertainty, we have no reason to believe that the outcome of such proceedings or claims will have a material adverse effect on our financial condition, results of operations, or our cash flows.

THE INTERPUBLIC GROUP OF COMPANIES, INC. AND SUBSIDIARIES
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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help you understand The Interpublic Group of Companies, Inc. and subsidiaries (the “Company”, “we”, “us” or “our”). MD&A is provided as a supplement to and should be read in conjunction with our financial statements and the accompanying notes. Our MD&A includes the following sections:

OVERVIEW provides an analysis of our performance, and a description of the significant events impacting three and six months ended June 30, 2005.

RESULTS OF OPERATIONS provides an analysis of the consolidated and segment results of operations for the three and six month periods ended June 30, 2005 compared to 2004.

LIQUIDITY AND CAPITAL RESOURCES provides an overview of our cash flows, financing and derivatives and hedging activities.

INTERNAL CONTROL OVER FINANCIAL REPORTING provides a description of the status of our compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and related rules.

RESTATEMENT provides an overview of our recent restatements on previously published financial statements.

CRITICAL ACCOUNTING POLICIES, by reference to our 2004 Annual Report on Form 10-K, provides a discussion of our accounting policies that require critical judgment, assumptions and estimates.

OTHER MATTERS provides a discussion of our significant non-operational items which impact our financial statements, such as the SEC investigation.

RECENT ACCOUNTING STANDARDS by reference to Note 9 to the Consolidated Financial Statements provides a description of accounting standards which we have not yet been required to implement and may be applicable to our operations, as well as those significant accounting statements which were adopted during 2005.

OVERVIEW

As part of our restatement process, we issued accounting guidelines to our agencies to strengthen adherence to Staff Accounting Bulletin 104, *Revenue Recognition*. Our policies are further explained in our revenue recognition policy discussion in both MD&A and the footnotes to our Consolidated Financial Statements. This accounting guidance governs the timing of when revenue is recognized. Accordingly, if work is being performed in a given quarter but there is insufficient evidence of an arrangement, the related revenue would be deferred to a future quarter when the evidence is obtained. However, our costs of services are primarily expensed as incurred, except that incremental direct costs may be deferred under a significant long term contract until it is complete. As revenue is deferred until completion of the contract in these circumstances and cash collection is assured and costs are primarily expensed as incurred, this will have a negative impact on our operating margin until the period in which the revenue can be recognized. While this will not affect cash flow, it will affect organic revenue growth and margins and this effect is likely to be greater in comparing quarters than in comparing full years.

In addition, the Company also issued guidelines to our business units to strengthen adherence to EITF 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*. This accounting guidance

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governs when revenues should be recorded net of external media or production cost and when it should be recorded gross. This accounting is very contract specific and can vary period to period and agency by agency. Accordingly, while this accounting will not affect cash flow and profitability, it could affect organic changes in revenue.

Three and Six Months Ended June 30, 2005 Performance

We have developed a number of financial priorities and targets that we use to measure our performance. The following are the performance priorities and analyses of our performance:

- **We seek to accelerate organic revenue growth** by strengthening collaboration among our agencies and increasing the number of marketing services used by each client. We have established a supplemental incentive plan, expanded internal tools and resources, and heightened internal communications aimed at encouraging collaboration. We analyze our performance by calculating the percentage increase in revenue related to organic growth between comparable periods.
- **We seek to improve operating margin** by increasing revenue and by controlling salaries and related expenses, as well as office and general expenses. We analyze our performance by comparing revenue to prior periods and measuring salaries and related expenses, as well as office and general expenses, as a percentage of revenue. We define operating margin as operating income divided by reported revenue.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
Organic revenue growth % (vs. prior year)	7.2%	(2.3)%	1.3%	(0.2)%
Operating margin %	7.7%	(1.7)%	1.3%	3.5%
Salaries and related expenses as a % of revenue	59.1%	59.4%	65.5%	61.5%
Office and general expenses as a % revenue	33.3%	36.5%	36.2%	36.6%

Organic revenue growth has improved over the prior year. For the six months ended June 30, 2005, domestic organic revenue growth was 1.0% while our international organic revenue growth was 1.8%. For the three months ended June 30, 2005, domestic organic revenue growth was 8.9% while our international revenue growth was 5.2%.

Operating margin for the six months ended June 30, 2004 was impacted by asset impairments and other charges of \$8.8, restructuring charges of \$65.5 and contract termination charges related to the Motorsports business of \$80.0. The increase in 2005 operating margin was impacted by increased revenues of \$44.3 and decrease of restructuring charges, long lived asset impairment and other charges and Motorsports contract termination costs of \$163.1. These increases were offset by increased salaries and related expenses of \$144.0, driven by increased staffing drive to support revenue growth, improve the accounting and control environment and develop shared services and increased office and general expense of \$2.2 driven by increased professional fees of \$41.0.

Operating margin for the three months ended June 30, 2004 was impacted by asset impairments and other charges of \$3.1, restructuring charges of \$3.9 and contract termination charges related to the Motorsports business of \$80.0. The increase in 2005 operating margin was impacted by increased revenues of \$103.4 and decreased office and general expense of \$14.9, partially offset by increased salaries and related expenses of \$56.9, driven by increased staffing drive to support revenue growth, improve the accounting and control environment and develop shared services.

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Significant Second Quarter 2005 Activity and Subsequent Events*Income Statement*

- Restructuring reversals of \$1.9 and \$8.8, respectively, were recorded for the three and six months ended June 30, 2005, respectively, related to severance and termination costs and lease termination and other exit costs under the 2003 and 2001 restructuring programs, net of \$2.5 and \$10.6, respectively, of reserve reversals for the three and six months ended June 30, 2005, respectively, due to changes in our original estimates.

Financing Activities

- We entered into waivers and amendments to our 364-Day and Three-year Revolving Credit Facilities, to waive any breach or default related to not complying in a timely manner with our reporting requirements. In addition, financial covenants with respect to our interest coverage ratio, debt to EBITDA ratio and minimum EBITDA for certain fiscal quarters were amended.

Subsequent to June 30, 2005

- In July 2005, we completed the issuance and sale of \$250.0 Floating Rate Notes maturing 2008. We used the proceeds to redeem the 7.875% Senior Unsecured Notes maturing October 2005 with an aggregate principal amount of \$250.0.
- Our Three-Year Revolving Credit Facility was amended and restated as of September 27, 2005. The effectiveness of the amended Three-Year Revolving Credit Facility is subject to certain conditions. The amendment revises certain of the negative and financial covenants under our existing Three-Year Revolving Credit Facility.
- In September 2005, we restated our previously filed financial statements and filed our delayed Annual Report on Form 10-K and our delayed Quarterly Reports on Form 10-Q for the first and second quarters of 2005.

RESULTS OF OPERATIONS**REVENUE***Three Months Ended*

The components of the change were as follows:

	Total		Domestic			International		
	\$	% Change	\$	% Change	% of Total	\$	% Change	% of Total
June 30, 2004 (Restated)	\$ 1,512.8		\$ 856.5		56.6%	\$ 656.3		43.4%
Foreign currency changes	14.5	1.0%	—	0.0%		14.5	2.2%	
Net acquisitions/ divestitures	(20.3)	(1.3)%	(4.5)	(0.5)%		(15.8)	(2.4)%	
Organic	109.2	7.2%	75.3	8.8%		33.9	5.2%	
Total change	103.4	6.8%	70.8	8.3%		32.6	5.0%	
June 30, 2005	<u>\$ 1,616.2</u>		<u>\$ 927.3</u>		<u>57.4%</u>	<u>\$ 688.9</u>		<u>42.6%</u>

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For the three months ended June 30, 2005, consolidated revenues increased \$103.4, or 6.8%, as compared to 2004, which was attributable to foreign currency exchange rate changes of \$14.5 and organic revenue growth of \$109.2, partially offset by the effect of net acquisitions and divestitures of \$20.3.

The increase due to foreign currency changes was primarily attributable to the strengthening of the Brazilian Real in relation to the US Dollar, which mainly affected our IAN segment. Net effect of acquisitions and divestitures resulted largely from a 2004 acquisition at McCann and the sale of the Motorsports business and Transworld Marketing during 2004.

During 2005, organic revenue change of \$109.2, or 7.2% was driven by an increase at IAN and a decrease at CMG. The increase at IAN was a result of client wins and additional spending by existing clients primarily in our US and European agencies, as well as an increase related to the timing of revenue recognition which was previously deferred due to lack of persuasive evidence of arrangements with our customers. At CMG, the organic revenue decreased domestically due to declines in the events business. These declines were offset slightly by growth in our public relations and sports marketing businesses.

Six Months Ended

	Total		Domestic			International		
	\$	% Change	\$	% Change	% of Total	\$	% Change	% of Total
June 30, 2004 (Restated)	<u>\$ 2,902.2</u>		<u>\$ 1,659.9</u>		<u>57.2%</u>	<u>\$ 1,242.3</u>		<u>42.8%</u>
Foreign currency changes	39.7	1.4%	—	—		39.7	3.2%	
Net acquisitions/divestitures	(34.0)	(1.2)%	(8.9)	(0.5)%		(25.1)	(2.0)%	
Organic	38.6	1.3%	15.9	1.0%		22.7	1.8%	
Total change	44.3	1.5%	7.0	0.4%		37.3	3.0%	
June 30, 2005	<u>\$ 2,946.5</u>		<u>\$ 1,666.9</u>		<u>56.6%</u>	<u>\$ 1,279.6</u>		<u>43.4%</u>

For the six months ended June 30, 2005, consolidated revenues increased \$44.3, or 1.5% as compared to 2004, which was attributed to foreign currency exchange rate effects of \$39.7 and organic revenue growth of \$38.6, partially offset by the effect of net acquisitions and divestitures of \$34.0.

The increase due to foreign currency changes were primarily attributable to the strengthening of the Brazilian Real in relation to the US Dollar, which affected both our IAN and CMG segments. The net effect of acquisitions and divestitures resulted largely from a 2004 acquisition at McCann and the sale of the Motorsports business and Transworld Marketing in 2004.

During 2005, organic revenue change of \$38.6, or 1.3%, was driven by an increase at IAN and decrease at CMG. The increase at IAN was a result of client wins and additional spending by existing clients primarily in our US and European agencies. At CMG, the organic revenue decreased domestically due to declines in the branding and events businesses. These declines were offset slightly by growth in our sports marketing and public relations businesses.

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OPERATING EXPENSES

	Three Months Ended June 30,						Six Months Ended June 30,					
	2005		2004		\$	%	2005		2004		\$	%
	\$	% of Revenue	(Restated)	% of Revenue			(Restated)	% of Revenue	\$	% of Revenue		
Salaries and related expenses	\$ 955.4	59.1%	\$ 898.5	59.4%	\$ 56.9	6.3%	\$ 1,929.2	65.5%	\$ 1,785.2	61.5%	\$ 144.0	8.1%
Office and general expenses	537.9	33.3%	552.8	36.5%	(14.9)	(2.7)%	1,065.7	36.2%	1,063.5	36.6%	2.2	0.2%
Restructuring charges	(1.9)		3.9		(5.8)	(148.7)%	(8.8)		65.5		(74.3)	(113.4)%
Long-lived asset impairment and other charges	—		3.1		(3.1)	(100.0)%	—		8.8		(8.8)	(100.0)%
Motorsports contract termination costs	—		80.0		(80.0)	(100.0)%	—		80.0		(80.0)	(100.0)%
Total operating expenses	<u>\$ 1,491.4</u>		<u>\$ 1,538.3</u>		<u>\$ (46.9)</u>	<u>(3.0)%</u>	<u>\$ 2,986.1</u>		<u>\$ 3,003.0</u>		<u>\$ (16.9)</u>	<u>(0.6)%</u>

Salaries and Related Expenses

Salaries and related expenses are the largest component of operating expenses and consist primarily of salaries, related benefits, and performance incentives. During the three months ended June 30, 2005, salaries and related expenses decreased to 59.1% of revenue, compared to 59.4% in the prior year. During the six months ended June 30, 2005, salaries and related expenses increased to 65.5% of revenues, compared to 61.5% in the prior year. The components of the change were as follows:

	Three Months Ended			Six Months Ended		
	Total		% of Revenue	Total		% of Revenue
	\$	% Change		\$	% Change	
June 30, 2004 (Restated)	<u>\$ 898.5</u>		<u>59.4%</u>	<u>\$ 1,785.2</u>		<u>61.5%</u>
Foreign currency changes	6.3	0.7%		22.3	1.2%	
Net acquisitions/divestitures	(9.3)	(1.0)%		(18.9)	(1.1)%	
Organic	59.9	6.7%		140.6	7.9%	
Total change	56.9	6.3%		144.0	8.1%	
June 30, 2005	<u>\$ 955.4</u>		<u>59.1%</u>	<u>\$ 1,929.2</u>		<u>65.5%</u>

Three Months Ended

For the three months ended June 30, 2005, salaries and related expenses increased \$59.9, excluding the increase related to foreign currency exchange rate changes of \$6.3 and a decrease related to net acquisitions and divestitures of \$9.3.

Salaries and related expenses were impacted by changes in foreign currency rates, attributable to the strengthening of the Brazilian Real in relation to the US Dollar. The increase due to foreign currency rate

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changes was partially offset by impact of net acquisitions and dispositions, primarily the sale of the Motorsports business and Transworld Marketing during 2004.

The increase in salaries and related expenses excluding the impact of foreign currency and net acquisitions and divestitures was primarily the result of increased staffing to support revenue growth, improve the accounting and control environment and develop shared services. The increase was also driven by a timing difference in the way incentive compensation is recognized as a result of a change in compensation plans. Under the new plan, incentive compensation is formula driven, resulting in compensation expense being recorded more evenly throughout the year versus the old plan whereby the expense was recorded mostly in the last quarter of the year.

Six Months Ended

For the six months ended June 30, 2005, salaries and related expenses increased \$140.6, excluding the increase related to foreign currency exchange rate changes of \$22.3 and a decrease related to net acquisitions and divestitures of \$18.9.

Salaries and related expenses were impacted by changes in foreign currency rates, attributable to the strengthening of the Brazilian Real in relation to the US Dollar. The increase due to foreign currency rate changes was partially offset by impact of net acquisitions and dispositions, primarily the sale of the Motorsports business and Transworld Marketing during 2004.

The increase in salaries and related expenses excluding the impact of foreign currency and net acquisitions and divestitures was primarily the result of increased staffing drive to support revenue growth, improve the accounting and control environment, and develop shared services. The increase was also driven by a timing difference in the way incentive compensation is recognized as a result of a third quarter 2004 change in compensation plans. Under the new plan incentive compensation is formula driven, resulting in compensation expense being recorded based on the formula throughout the year, versus the old plan, which was discretionary, which caused more of the expense to be recorded in the fourth quarter of the year.

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Office and General Expenses

Office and general expenses primarily consists of rent, office and equipment, depreciation, professional fees, other overhead expenses and certain out-of-pocket expenses related to our revenue. During the three months ended June 30, 2005, office and general expenses decreased to 33.3% of revenue, compared to 36.5% in the prior year. During the six months ended June 30, 2005, office and general expenses decreased to 36.2% of revenue, as compared to 36.6% in the prior year. The components of the change were as follows:

	Three Months Ended			Six Months Ended		
	Total		% of Revenue	Total		% of Revenue
	\$	% Change		\$	% Change	
June 30, 2004 (Restated)	\$ 552.8		36.5%	\$ 1,063.5		36.6%
Foreign currency changes	4.8	0.9%		14.9	1.4%	
Net acquisitions/divestitures	(17.9)	(3.2)%		(33.6)	(3.2)%	
Organic	(1.8)	(0.3)%		20.9	2.0%	
Total change	(14.9)	(2.7)%		2.2	0.2%	
June 30, 2005	\$ 537.9		33.3%	\$ 1,065.7		36.2%

Three Months Ended

For the three months ended June 30, 2005, office and general expenses decreased \$1.8, excluding the increase related to foreign currency exchange rate changes of \$4.8 and a decrease related to net acquisitions and divestitures of \$17.9.

Office and general expenses were impacted by net acquisitions and divestitures activity, primarily attributable to the sale of the Motorsports business and Transworld Marketing during 2004. The decrease due to the impact of net acquisitions and divestitures activity was partially offset by the impact of changes in foreign currency rates, attributable to the strengthening of the Brazilian Real in relation to the US Dollar.

The slight decrease in office and general expenses, excluding the impact of foreign currency and net acquisition and divestitures was primarily the result of a decrease in professional fees from prior year due to significant costs in prior year associated with our ongoing efforts in internal control compliance and remediation and the development of information technology systems and processes related to our shared services initiatives.

Six Months Ended

For the six months ended June 30, 2005, office and general expenses increased \$20.9, excluding the increase related to foreign currency exchange rate changes of \$14.9 and a decrease related to net acquisitions and divestitures of \$33.6.

Office and general expenses were impacted by net acquisitions and divestitures activity, primarily attributable to the sale of the Motorsports business and Transworld Marketing during 2004. The decrease due to the impact of net acquisitions and divestitures activity was partially offset by the impact of changes in foreign currency rates, attributable to the strengthening of the Brazilian Real in relation to the US Dollar.

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The significant increase in office and general expenses, excluding the impact of foreign currency and net acquisition and divestitures was primarily the result of an increase of \$41.0 or 43.2% over prior year in professional fees driven by our ongoing efforts in internal control compliance and remediation, increased costs associated with the restatement process, increased audit fees, the development of information technology systems and processes related to our shared services initiatives.

Restructuring Charges (Reversals)

During the three months ended June 30, 2005 and 2004, we recorded net (income) and expense related to both lease termination and other exit costs and severance and termination costs related to the 2003 and 2001 restructuring programs, of (\$1.9) and \$3.9, respectively, which included the impact of adjustments resulting from changes in management's estimates. For the six months ended June 30, 2005 and 2004, we recorded net (income) and expense of (\$8.8) and \$65.5, respectively. A summary of the net (income) and expense is as follows:

	Three Months Ended June 30,					
	Lease Termination and Other Exit Costs			Severance and Termination Costs		
	2003 Program	2001 Program	Total	2003 Program	2001 Program	Total
2005 Net Income	<u>\$ (1.2)</u>	<u>\$ (0.6)</u>	<u>\$ (1.8)</u>	<u>\$ (0.1)</u>	<u>\$ —</u>	<u>\$ (0.1)</u>
2004 Net (Income) Expense (Restated)	<u>\$ 6.9</u>	<u>\$ 3.1</u>	<u>\$ 10.0</u>	<u>\$ (1.1)</u>	<u>\$ (5.0)</u>	<u>\$ (6.1)</u>

	Six Months Ended June 30,					
	Lease Termination and Other Exit Costs			Severance and Termination Costs		
	2003 Program	2001 Program	Total	2003 Program	2001 Program	Total
2005 Net Income	<u>\$ (5.5)</u>	<u>\$ (2.9)</u>	<u>\$ (8.4)</u>	<u>\$ (0.4)</u>	<u>\$ —</u>	<u>\$ (0.4)</u>
2004 Net (Income) Expense (Restated)	<u>\$ 49.1</u>	<u>\$ 0.6</u>	<u>\$ 49.7</u>	<u>\$ 20.8</u>	<u>\$ (5.0)</u>	<u>\$ 15.8</u>

Lease Termination and Other Exit Costs

Three Months Ended

Net income related to lease termination and other exit costs for the three months ended June 30, 2005 was \$1.8, comprised of charges of \$0.6, partially offset by adjustments to management estimates of \$2.4. For the three months ended June 30, 2004, these costs were \$10.0, comprised of charges of \$17.0, offset by similar adjustments of \$7.0. Charges were recorded at net present value net of estimated sublease rental income. The discount related to lease terminations is being amortized over the expected remaining term of the related lease. In addition, for the three months ended June 30, 2004, charges related to the vacating of 11 offices, located primarily in the US and Europe.

In addition to amounts recorded as restructuring charges, we recorded charges of \$2.7 during the three months ended June 30, 2004 related to the accelerated amortization of leasehold improvements on properties included in the 2003 program. These charges were included in office and general expenses on the Consolidated Statements of Operations.

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Six Months Ended

Net income related to lease termination and other exit costs for the six months ended June 30, 2005 were \$8.4, comprised of charges of \$1.8, offset by adjustments to management estimates of \$10.2. For the six months ended June 30, 2004, net expense was \$49.7, comprised of charges of \$60.5 partially offset by similar adjustments of \$10.8. Charges were recorded at net present value net of estimated sublease rental income. The discount related to lease terminations is being amortized over the expected remaining term of the related lease. In addition, for the six months ended June 30, 2004, charges were recorded for the vacating of 36 offices.

In addition to amounts recorded as restructuring charges, we recorded charges of \$10.3 during the six months ended June 30, 2004, related to the accelerated amortization of leasehold improvements on properties included in the 2003 program. These charges were included in office and general expenses on the Consolidated Statements of Operations.

Severance and Termination Costs

Three Months Ended

Net income related to severance and termination costs of \$0.1 for the three months ended June 30, 2005, resulted exclusively from the impact of adjustments to management's estimates. Net income for the three months ended June 30, 2004 was \$6.1, comprised of charges of \$0.4, offset by adjustments to management estimates of \$6.5.

Six Months Ended

Net income related to severance and termination costs of \$0.4 for the six months ended June 30, 2005, resulted exclusively from the impact of adjustments to management's estimates. Net expense for the six months ended June 30, 2004 was \$15.8, comprised of charges of \$24.5, partially offset by adjustments to management estimates of \$8.7

For additional information, see Note 5 to the Consolidated Financial Statements.

Long-Lived Asset Impairment and Other Charges

There were no impairment charges recorded during the six months ended June 30, 2005.

During the three months and six months ended June 30, 2004, we recorded \$3.1 and \$8.8 of impairment charges, respectively. These amounts included \$2.0 and \$6.0, respectively, primarily related to the impairment of long-lived assets of businesses sold, and \$0.7 and \$2.3, respectively, related to capital expenditure outlays in our Motorsports businesses which were expensed as incurred.

Motorsports Contract Termination Costs

As discussed in Note 4 to the Consolidated Financial Statements, during the period ended June 30, 2004, we recorded a pretax charge of \$80.0 related to an agreement with Formula One Administration Limited which releases us from certain guarantees and lease obligations in the United Kingdom. We have exited this business and do not anticipate any additional material changes.

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EXPENSE AND OTHER INCOME

	For the Three Months Ended June 30,		\$ Change	% Change	For the Six Months Ended June 30,		\$ Change	% Change
	2005	2004 (Restated)			2005	2004 (Restated)		
Interest expense	\$ (42.7)	\$ (42.0)	\$ (0.7)	1.7%	\$ (89.9)	\$ (85.9)	\$ (4.0)	4.7%
Interest income	16.5	10.4	6.1	58.7%	31.4	20.2	11.2	55.4%
Investment impairments	(3.6)	—	(3.6)		(3.6)	(3.2)	(0.4)	12.5%
Other income	4.6	2.2	2.4	109.1%	19.1	3.5	15.6	445.7%
Total	\$ (25.2)	\$ (29.4)	\$ 4.2	(14.3)%	\$ (43.0)	\$ (65.4)	\$ 22.4	(34.3)%

Interest Expense

The increase in interest expense of \$4.0 during the six months ended June 30, 2005 was primarily due to waiver and consent fees incurred for the amendment of our existing debt agreements in 2005, offset by net interest expense savings from the redemption of our \$250.0 1.80% Convertible Subordinated Notes in January 2004 and the redemption of our \$361.0 1.87% Convertible Subordinated Notes in December 2004.

Interest Income

The increase in interest income of \$11.2 during the six months ended June 30, 2005 was primarily due to an increase in interest rates when compared to the prior year.

Investment Impairments

During the six months ended June 30, 2005, we recorded \$3.6 in investment impairment charges to reduce an investment to its appropriate fair value. During the six months ended June 30, 2004, we recorded \$3.2 in investment impairment charges related to a decline in value of certain available-for-sale investments that were determined to be other than temporary.

Other Income

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Gains on sales of businesses	\$ 4.4	\$ 0.8	\$ 14.0	\$ 0.7
Gains on sales of available for-sale securities and miscellaneous investment income	0.2	1.4	5.1	2.8
Total other income	\$ 4.6	\$ 2.2	\$ 19.1	\$ 3.5

During the six months ended June 30, 2005, we sold our remaining ownership interest in Delaney Lund Knox Warren & Partners, an agency within Foote, Cone & Belding Worldwide, for a gain of approximately \$8.5.

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OTHER ITEMS

Income Taxes

We recorded an income tax provision of \$44.7 and \$1.6 on pretax losses of \$82.6 and \$166.2 for the six months ended June 30, 2005 and 2004, respectively. Our effective tax rate was 54.1% and 1.0% for the six months ended June 30, 2005 and 2004, respectively. The difference between the effective tax rate and statutory rate of 35% is due to state and local taxes and the effect of non-US operations. The most significant item negatively impacting the effective tax rate was operating losses in a number of non-US jurisdictions that receive little or no tax benefit.

Minority Interest and Unconsolidated Affiliates

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Income applicable to minority interests	\$ (3.7)	\$ (4.2)	\$ (4.9)	\$ (6.8)
Equity in net income of unconsolidated affiliates	\$ 2.3	\$ 1.3	\$ 2.8	\$ 2.4

The decrease in income applicable to minority interests during the three and six months ended June 30, 2005, was primarily due to lower operating results of majority-owned international businesses, primarily in Europe, and the sale of majority-owned businesses in Latin America.

The increase in equity in net income of unconsolidated affiliates during the three and six months ended June 30, 2005 was primarily due to increased operating results, primarily in the US and Latin America.

NET INCOME (LOSS)

	For the Three Months Ended June 30,		\$ Change	% Change	For the Six Months Ended June 30,		\$ Change	% Change
	2005	2004 (Restated)			2005	2004 (Restated)		
Net income (loss)	\$ 14.4	\$ (88.4)	\$ 102.8	116.2%	\$ (129.4)	\$ (172.2)	\$ 42.8	24.8%
Less: preferred stock dividends	5.0	5.0	—	—	10.0	9.8	0.2	2.0%
Less: allocation to participating securities	1.7	—	1.7	100.0%	—	—	—	—%
Net income (loss) applicable to common stockholders	<u>\$ 7.7</u>	<u>\$ (93.4)</u>	<u>\$ 101.1</u>	<u>108.2%</u>	<u>\$ (139.4)</u>	<u>\$ (182.0)</u>	<u>\$ 42.6</u>	<u>23.4%</u>

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Net income (Loss)

For the three months ended June 30, 2005, our net income increased by \$102.8, or 116.1%. For the six months ended June 30, 2005, our net from operations decreased by \$42.8, or 24.8%. Increase for the three months ended June 30, 2005 largely resulted from increased revenue growth of \$103.4 and a decrease in operating expenses of \$46.9. Increase for the six months ended June 30, 2005 largely resulted from increased revenue growth of \$44.3 and a decrease in operating expenses of \$16.9.

Segment Results of Operations — Three and Six Months Ended June 30, 2005 Compared to Three and Six Months Ended June 30, 2004

As discussed in Note 15 to the Consolidated Financial Statements, we have two reportable segments, our operating divisions, IAN and CMG, in addition to the Corporate group, at June 30, 2005. The largest segment, Integrated Agency Networks (“IAN”), is comprised of McCann Worldgroup (“McCann”), The FCB Group (“FCB”), The Lowe Group (“Lowe”), Draft Worldwide (“Draft”) and our stand-alone agencies. Our stand alone agencies include Deutsch, Campbell-Ewald and Hill Holiday. The second segment, Constituent Management Group (“CMG”), is comprised of Weber Shandwick, GolinHarris, Jack Morton and Octagon. During the period ended June 30, 2004, we had a third reportable segment comprised of the Motorsports operations, which was sold during 2004. The following table summarizes revenue and operating income by segment:

	For the Three Months Ended June 30,		\$ Change	% Change	For the Six Months Ended June 30,		\$ Change	% Change
	2005	2004 (Restated)			2005	2004 (Restated)		
Revenue:								
IAN	\$ 1,391.0	\$ 1,276.3	\$ 114.7	9.0%	\$ 2,507.6	\$ 2,442.7	\$ 64.9	2.7%
CMG	224.8	229.0	(4.2)	(1.8)%	437.3	448.9	(11.6)	(2.6)%
Motorsports	0.4	7.5	(7.1)	(94.7)%	1.6	10.6	(9.0)	(84.9)%
Consolidated revenue	<u>\$ 1,616.2</u>	<u>\$ 1,512.8</u>	<u>\$ 103.4</u>	<u>6.8%</u>	<u>\$ 2,946.5</u>	<u>\$ 2,902.2</u>	<u>\$ 44.3</u>	<u>1.5%</u>
Segment operating income (loss):								
IAN	\$ 161.4	\$ 113.9	\$ 47.5	41.7%	\$ 78.7	\$ 146.5	\$ (67.8)	(46.3)%
CMG	8.6	19.2	(10.6)	(55.2)%	9.4	28.3	(18.9)	(66.8)%
Motorsports	0.2	(4.2)	4.4	(104.8)%	1.2	(12.7)	13.9	(109.4)%
Corporate and other	(47.3)	(67.4)	20.1	(29.8)%	(137.7)	(108.6)	(29.1)	26.8%

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	For the Three Months Ended June 30,									
	2005					2004 (Restated)				
	IAN	CMG	Motorsports	Corporate	Consolidated	IAN	CMG	Motorsports	Corporate	Consolidated
Reconciliation to segment operating income:										
Consolidated operating income (loss)	\$161.6	\$ 9.7	\$ 0.2	\$ (46.7)	\$ 124.8	\$126.4	\$ 4.8	\$ (84.9)	\$ (71.8)	\$ (25.5)
Adjustments:										
Restructuring charges	0.2	1.1	—	0.6	1.9	12.5	(12.0)	—	(4.4)	(3.9)
Long lived asset impairment and other charges:	—	—	—	—	—	—	(2.4)	(80.7)	—	(83.1)
Segment operating income	<u>\$161.4</u>	<u>\$ 8.6</u>	<u>\$ 0.2</u>	<u>\$ (47.3)</u>	<u>\$</u>	<u>\$113.9</u>	<u>\$ 19.2</u>	<u>\$ (4.2)</u>	<u>\$ (67.4)</u>	<u>\$</u>

	For the Six Months Ended June 30,									
	2005					2004 (Restated)				
	IAN	CMG	Motorsports	Corporate	Consolidated	IAN	CMG	Motorsports	Corporate	Consolidated
Reconciliation to segment operating income:										
Consolidated operating income (loss)	\$ 84.0	\$ 12.3	\$ 1.2	\$ (137.1)	\$ (39.6)	\$ 113.6	\$ (6.3)	\$ (95.0)	\$ (113.1)	\$ (100.8)
Adjustments:										
Restructuring charges	5.3	2.9	—	0.6	8.8	(32.9)	(28.1)	—	(4.5)	(65.5)
Long lived asset impairment and other charges:	—	—	—	—	—	—	(6.5)	(82.3)	—	(88.8)
Segment operating income	<u>\$78.7</u>	<u>\$ 9.4</u>	<u>\$ 1.2</u>	<u>\$ (137.7)</u>	<u>\$</u>	<u>\$ 146.5</u>	<u>\$ 28.3</u>	<u>\$ (12.7)</u>	<u>\$ (108.6)</u>	<u>\$</u>

INTEGRATED AGENCY NETWORKS (“IAN”)

REVENUE

Three Months Ended

The components of the 2005 change were as follows:

	Total		Domestic			International		
	\$	% Change	\$	% Change	% of Total	\$	% Change	% of Total
June 30, 2004 (Restated)	<u>\$ 1,276.3</u>		<u>\$ 705.5</u>		<u>55.3%</u>	<u>\$ 570.8</u>		<u>44.7%</u>
Foreign currency changes	14.4	1.1%	—	—		14.4	2.5%	
Net acquisitions/divestitures	(9.5)	(0.7)%	(2.4)	(0.3)%		(7.1)	(1.2)%	
Organic	109.8	8.6%	82.1	11.6%		27.7	4.9%	
Total change	114.7	9.0%	79.7	11.3%		35.0	6.1%	
June 30, 2005	<u>\$ 1,391.0</u>		<u>\$ 785.2</u>		<u>56.4%</u>	<u>\$ 605.8</u>		<u>43.6%</u>

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For the three months ended June 30, 2005, IAN experienced a net increase in revenue as compared to 2004 of \$114.7, or 9.0%, which was comprised of organic revenue increases of \$109.8 and an increase in foreign currency exchange rate changes of \$14.4, partially offset by a decrease attributable to net acquisitions and divestitures of \$9.5. The increase due to foreign currency was primarily attributable to the strengthening of the Brazilian Real in relation to the US Dollar, which mainly affected the results of McCann, FCB and Lowe. This increase was partially offset by the net effect of acquisitions and divestitures, primarily related to a 2004 acquisition at McCann and the disposition of Motorsports and Transworld Marketing during 2004.

The organic revenue increase was primarily driven by increases at McCann, FCB and Draft, partially offset by decreases at Deutsch. At McCann, the organic revenue increase was as a result of client wins and additional spending from existing clients primarily in the US and, to a lesser extent, European agencies. The increase also related to the timing of revenue recognition which was previously deferred due to lack of persuasive evidence. Draft experienced growth mainly in the US and UK due to client wins and additional spending by existing clients. FCB experienced growth due to client wins outpacing client losses and increased business from continuing clients. Deutsch experienced a decline in revenues primarily due to the loss of several clients and decreased business for continuing clients.

Six Months Ended

The components of the 2005 change were as follows:

	<u>Total</u>		<u>Domestic</u>			<u>International</u>		
	<u>\$</u>	<u>% Change</u>	<u>\$</u>	<u>% Change</u>	<u>% of Total</u>	<u>\$</u>	<u>% Change</u>	<u>% of Total</u>
June 30, 2004 (Restated)	<u>\$ 2,442.7</u>		<u>\$ 1,369.8</u>		<u>56.1%</u>	<u>\$ 1,072.9</u>		<u>43.9%</u>
Foreign currency changes	36.7	1.5%	—	—		36.7	3.4%	
Net								
acquisitions/divestitures	(16.5)	(0.7)	(1.7)	(0.1)%		(14.8)	(1.4)%	
Organic	44.7	1.8%	32.1	2.3%		12.6	1.2%	
Total change	64.9	2.7%	30.4	2.2%		34.5	3.2%	
June 30, 2005	<u>\$ 2,507.6</u>		<u>\$ 1,400.2</u>		<u>55.8%</u>	<u>\$ 1,107.4</u>		<u>44.2%</u>

For the six months ended June 30, 2005, IAN experienced a net increase in revenue as compared to 2004 of \$64.9, or 2.7%, which was comprised of organic revenue increases of \$44.7 and an increase in foreign currency exchange rate changes of \$36.7, partially offset by a decrease attributable to net acquisitions and divestitures of \$(16.5). The increase due to foreign currency rate changes was primarily attributable to the strengthening of the Brazilian Real in relation to the US Dollar, which mainly affected the results of McCann, FCB and Lowe. The net effect of acquisitions and divestitures resulted largely from a 2004 acquisition at McCann as well as the disposition of Motorsports and Transworld Marketing during 2004.

The organic revenue increase was primarily driven by increases at McCann and Draft, partially offset by decreases at Deutsch, FCB and Lowe. At McCann, the organic revenues increase was as a result of client wins and additional spending from existing clients primarily in the US and, to a lesser extent, European agencies. Draft experienced growth mainly in the US and UK due to client wins and additional spending by existing clients. FCB experienced a decline in revenues primarily due to lost clients, offset

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partially by new client wins and increased revenues for entities that record revenue on a gross basis. Deutsch and Lowe both experienced a decline in revenues primarily due to lost clients and fee reductions, however, Deutsch was able to partially offset their client losses with new client wins.

SEGMENT OPERATING INCOME

	For the Three Months Ended June 30,		<u>\$ Change</u>	<u>% Change</u>	For the Six Months Ended June 30,		<u>\$ Change</u>	<u>% Change</u>
	<u>2005</u>	<u>2004 (Restated)</u>			<u>2005</u>	<u>2004 (Restated)</u>		
Segment operating income	\$ 161.4	\$ 113.9	\$ 47.5	41.7%	\$ 78.7	\$ 146.5	\$ (67.8)	(46.3)%
Operating margin	11.6%	8.9%			3.1%	6.0%		

Three Months Ended

For the three months ended June 30, 2005, IAN operating income increased by \$47.5, or 41.7%, which was the result of an increase in revenue of \$114.7, offset by an increase in salaries and related expenses of \$43.1 and increased office and general expenses of \$24.0.

Segment operating income growth, excluding the impact of foreign currency and net effects of acquisitions and divestitures, was primarily driven by increases at McCann, partially offset by decreases at FCB, Initiative Media and Deutsch. Increase in operating income at McCann was driven by the revenue increases, slightly offset by increased salary and related expenses. Operating decrease at FCB was driven by increased salary and related expenses and office expenses, partially offset by increased revenues. Operating decrease at Deutsch was driven by revenue declines, while operating income decrease at Initiative Media was driven by revenue declines and increased operating costs.

Six Months Ended

For the six months ended June 30, 2005, IAN operating income decreased by \$67.8, or 46.3%, which was the result of an increase in revenue of \$64.9, offset by an increase in salaries and related expenses of \$118.7 and increased office and general expenses of \$13.8.

The decrease in IAN's operating income, excluding the impact of foreign currency and net effects of acquisitions and divestitures, was primarily driven by decreased operating income at FCB, Deutsch, Lowe and McCann. Operating decrease at FCB was driven by the increase in salary and related expenses and office expenses. Operating decreases at Deutsch and Lowe were driven by revenue declines. The operating decrease at McCann was driven by increased salary and related expenses, partially offset by the revenue increases.

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CONSTITUENT MANAGEMENT GROUP (“CMG”)

REVENUE

Three Months Ended

The components of the 2005 change were as follows:

	Total		Domestic			International		
	\$	% Change	\$	% Change	% of Total	\$	% Change	% of Total
June 30, 2004 (Restated)	<u>\$ 229.0</u>		<u>\$ 151.2</u>		<u>66.0%</u>	<u>\$ 77.8</u>		<u>34.0%</u>
Foreign currency changes	0.3	0.1%	—	—		0.3	0.4%	
Net acquisitions/divestitures	(3.6)	(1.6)%	(1.9)	(1.3)%		(1.7)	(2.2)%	
Organic	(0.9)	(0.4)%	(7.2)	(4.8)%		6.3	8.1%	
Total change	(4.2)	(1.8)%	(9.1)	(6.0)%		4.9	6.3%	
June 30, 2005	<u>\$ 224.8</u>		<u>\$ 142.1</u>		<u>63.2%</u>	<u>\$ 82.7</u>		<u>36.8%</u>

For the three months ended June 30, 2005, CMG experienced a net decrease in revenue as compared to 2004 of \$4.2, or 1.8%, which was comprised of organic revenue decreases of \$0.9 and decreases attributable to net acquisitions and divestitures of \$3.6, partially offset by positive foreign currency exchange rate changes of \$0.3. The net effect of acquisitions and divestitures primarily related to the disposition of one small business in 2005 and three small businesses in 2004.

The decline in organic revenue change was due to the events business, offset slightly by improved conditions in our public relations business and sports marketing business. The decreased results were partially offset by organic revenue growth attributable to the events business in the Asia Pacific region and sports management business in Europe.

Six Months Ended

The components of the 2005 change were as follows:

	Total		Domestic			International		
	\$	% Change	\$	% Change	% of Total	\$	% Change	% of Total
June 30, 2004 (Restated)	<u>\$ 448.9</u>		<u>\$ 289.9</u>		<u>64.6%</u>	<u>\$ 159.0</u>		<u>35.4%</u>
Foreign currency changes	3.0	0.7%	—	—		3.0	1.9%	
Net acquisitions/divestitures	(8.3)	(1.8)%	(5.0)	(1.7)%		(3.3)	(2.1)%	
Organic operations	(6.3)	(1.4)%	(18.3)	(6.3)%		12.0	7.5%	
Total change	(11.6)	(2.6)%	(23.3)	(8.0)%		11.7	7.4%	
June 30, 2005	<u>\$ 437.3</u>		<u>\$ 266.6</u>		<u>61.0%</u>	<u>\$ 170.7</u>		<u>39.0%</u>

For the six months ended June 30, 2005, CMG experienced a net decrease in revenue as compared to 2004 of \$11.6, or 2.6%, which was comprised of organic revenue decreases of \$6.3 and decreases attributable to net acquisitions and divestitures of \$8.3, partially offset by positive foreign currency exchange rate changes of \$3.0. The net effect of acquisitions and divestitures primarily related to the disposition of small businesses in 2004.

The decline in organic revenue change was due to the branding and events businesses, offset slightly by improved conditions in our public relations business.

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SEGMENT OPERATING INCOME

	For the Three Months Ended June 30,		<u>\$ Change</u>	<u>% Change</u>	For the Six Months Ended June 30,		<u>\$ Change</u>	<u>% Change</u>
	<u>2005</u>	<u>2004</u> (Restated)			<u>2005</u>	<u>2004</u> (Restated)		
Segment operating income	<u>\$ 8.6</u>	<u>\$ 19.2</u>	<u>\$ (10.6)</u>	<u>(55.2)%</u>	<u>\$ 9.4</u>	<u>\$ 28.3</u>	<u>\$ (18.9)</u>	<u>(66.8)%</u>
Operating margin	<u>3.8%</u>	<u>8.4%</u>			<u>2.1%</u>	<u>6.3%</u>		

Three Months Ended

For the three months ended June 30, 2005, CMG operating income decreased by \$10.6, or 55.2%, which was the result of a decrease in revenue of \$4.2 and increased salaries and related expenses of \$11.3, offset by decreased office and general expenses of \$4.9.

The decrease in segment operating income, excluding the impact of foreign currency and net effects of acquisitions and divestitures, was primarily driven by decreased operating income in the public relations business and events business. Operating decrease in the branding and events business was driven by revenue decrease and increased salary and related expenses. Operating decrease at our public relations business was driven by increased salary and related expenses.

Six Months Ended

For the six months ended June 30, 2005, CMG operating income decreased by \$18.9, or 66.8%, which was the result of a decrease in revenue of \$11.6 and increased salaries and related expenses of \$12.1, offset by decreased office and general expenses of \$4.7.

The decrease in segment operating income, excluding the impact of foreign currency rate and net effects of acquisitions and divestitures, was primarily driven by decreased operating income at the branding and events businesses as well as decreased operating income at the public relations business. Operating decrease at the branding and events businesses was driven by revenue decreases coupled with relatively flat operating expenses.

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CORPORATE AND OTHER

Certain corporate and other charges are reported as a separate line within total segment operating income and include corporate office expenses and shared service center expenses, as well as certain other centrally managed expenses which are not allocated to operating divisions, as shown in the table below. Salaries and related expenses includes salaries, pension, and bonus and insurance expenses, including medical and dental for corporate office employees. Professional fees include costs related to internal control compliance and remediation, cost of restatement efforts, financial statement audits, legal, information technology and other consulting fees, which are engaged and managed through the corporate office. Rent and depreciation includes rental expense and depreciation of leasehold improvements for properties occupied by corporate office employees. Corporate insurance expense includes the cost of fire, liability and automobile premiums. Bank fees relate to debt and credit facilities managed by the corporate office. The amounts allocated to operating divisions are calculated monthly based on a formula that uses the weighted average net revenues of the operating unit. The majority of the corporate costs, including most of the costs associated with internal control compliance and remediation are not allocated back to operating segments. The following expenses are included in Corporate & Other:

	For the Three Months Ended June 30,		\$ Change	% Change	For the Six Months Ended June 30,		\$ Change	% Change
	2005	2004 (Restated)			2005	2004 (Restated)		
Salaries and related expenses	\$ 42.9	\$ 37.7	\$ 5.2	13.8%	\$ 91.8	\$ 73.0	\$ 18.8	25.8%
Professional fees	30.2	42.9	(12.7)	(29.6)%	82.6	59.0	23.6	40.0%
Rent and depreciation	10.8	7.3	3.5	47.9%	22.3	19.0	3.3	17.4%
Corporate insurance	6.5	8.0	(1.5)	(18.8)%	13.6	15.4	(1.8)	(11.7)%
Bank	0.6	0.9	(0.3)	(33.3)%	1.1	1.7	(0.6)	(35.3)%
Other	(1.9)	5.2	(7.1)	(136.5)%	3.1	3.5	(0.4)	(11.4)%
Amounts allocated to operating division	(41.8)	(34.6)	(7.2)	20.8%	(76.8)	(63.0)	(13.8)	21.9%
Total corporate and other	<u>\$ 47.3</u>	<u>\$ 67.4</u>	<u>\$ (20.1)</u>	<u>(29.8)%</u>	<u>\$ 137.7</u>	<u>\$ 108.6</u>	<u>\$ 29.1</u>	<u>26.8%</u>

LIQUIDITY AND CAPITAL RESOURCES**CASH FLOW OVERVIEW***Operating cash flow*

Our cash used by operating activities was \$240.8 for the six months ended June 30, 2005, compared to \$101.3 for the six months ended June 30, 2004. The increase in cash used by operating activities for the six months ended June 30, 2005 was primarily attributable to the year-over-year changes in receivables and liabilities.

We conduct media buying on behalf of clients, which affects our working capital and operating cash flow. In most of our businesses, we collect funds from our clients which we use, on their behalf, to pay production costs and media costs. The amounts involved substantially exceed our revenues, and the current assets and current liabilities on our balance sheet reflect these pass-through arrangements. Our assets include both cash received and accounts receivable from customers for these pass-through arrangements, while our liabilities include amounts owed on behalf of customers to media and production suppliers. Generally, we pay production and media charges after we have received funds from our clients, and our risk from client nonpayment has historically not been significant.

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Funding Requirements

Our most significant funding requirements include: non-cancelable operating lease obligations, capital expenditures, payments in respect of past acquisitions, interest payments, preferred stock dividends, and taxes. We have not paid dividends on our common stock since 2002.

We have no scheduled maturities of long-term debt until 2008, as a result of transactions undertaken in 2005. Our outstanding debt is described below under Long-Term Debt. In July 2005 we refinanced \$250.0 of debt through July 2008 as described below under Redemption and Repurchase of Long-Term Debt.

Our capital expenditures are primarily to upgrade computer and telecommunications systems and to modernize offices. Our principal bank credit facility limits the amounts we can spend on capital expenditures in any calendar year to \$210.0. Our capital expenditures were \$65.6 for the six months ended June 30, 2005.

Certain media companies in various locations outside the U.S. require advertising agencies to post a letter of credit to support commitments to purchase media placements. Primarily, we obtain these letters of credit from our principal bank syndicate under the credit facilities described under Credit Arrangements below. The outstanding amount of letters of credit were \$159.2 and \$165.4 as of June 30, 2005 and December 31, 2004, respectively. These letters of credit have not been drawn upon in recent years.

Sources of funds

At June 30, 2005 our total of cash and cash equivalents plus short-term marketable securities was \$1,583.3. The total was \$1,970.4 at December 31, 2004.

We have financed ourselves through access to the capital markets by issuing debt securities, convertible preferred stock and common stock. Our outstanding debt securities are described under Long-Term Debt and Convertible Senior Notes below. As a result of the disclaimer of opinion by PwC on Management's Assessment on Internal Control over Financial Reporting, see Item 9A, Controls and Procedures in our 2004 Annual Report on Form 10-K, the SEC considers our SEC filings not to be current for purposes of certain of the SEC's rules. As a result, we are unable to use "short-form" registration (registration that allows us to incorporate by reference our Form 10-K, Form 10-Q and other SEC reports into our registration statements) or, for most purposes, shelf registration, until twelve complete months have passed after we file an annual report containing an audit report on internal control over financial reporting that does not disclaim an opinion.

In July 2005, we issued \$250.0 of Floating Rate Notes due 2008 in a placement to refinance maturing debt, as described below.

We have committed and uncommitted credit lines, and the terms of our revolving credit facilities are described below. We have not drawn on our committed facilities during 2005 or 2004, although we use them to issue letters of credit, as described above. Our outstanding borrowings under uncommitted credit facilities were \$75.1 and \$67.8 as of June 30, 2005 and December 31, 2004, respectively. We use uncommitted credit lines for working capital needs at some of our operations outside the United States. If we lose access to these credit lines, we may be required to provide funding directly to some overseas operations. We maintain our committed credit facilities primarily as stand-by short-term liquidity.

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FINANCING*Long-Term Debt*

A summary of our long-term debt is as follows:

	June 30, 2005	December 31, 2004
7.875% Senior Unsecured Notes due 2005	\$ 252.0	\$ 255.0
7.25% Senior Unsecured Notes due 2011	499.1	500.0
5.40% Senior Unsecured Notes, due 2009 (less unamortized discount of \$0.3)	249.7	249.7
6.25% Senior Unsecured Notes, due 2014 (less unamortized discount of \$1.0)	350.3	347.3
4.50% Convertible Senior Notes due 2023	800.0	800.0
Other notes payable and capitalized leases	39.9	42.1
Total long-term debt	2,191.0	2,194.1
Less: current portion	257.5	258.1
Long-term debt, excluding current portion	<u>\$ 1,933.5</u>	<u>\$ 1,936.0</u>

Redemption and Repurchase of Long-Term Debt

In August 2005, we redeemed the remainder of the outstanding 7.875% Senior Unsecured Notes with an aggregate principal amount of \$250.0 at maturity at an aggregate price of approximately \$258.6, which included the principal amount of the Notes plus accrued interest to the redemption date. To redeem these Notes we used the proceeds from the sale and issuance in July 2005 of \$250.0 Floating Rate Notes due in July 2008.

Convertible Senior Notes

The 4.50% Convertible Senior Notes ("4.50% Notes") are convertible to common stock at a conversion price of \$12.42 per share, subject to adjustment in specified circumstances. They are convertible at any time if the average price of our common stock for 20 trading days immediately preceding the conversion date is greater than or equal to a specified percentage, beginning at 120% in 2003 and declining 0.5% each year until it reaches 110% at maturity, of the conversion price. They are also convertible, regardless of the price of our common stock, if: (i) we call the 4.50% Notes for redemption; (ii) we make specified distributions to shareholders; (iii) we become 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) or (iv) the credit ratings assigned to the 4.50% Notes by any two of Moody's Investors Service, Standard & Poor's and Fitch Ratings are lower than Ba2, BB and BB, respectively, or the 4.50% Notes are no longer rated by at least two of these ratings services. Because of our current credit ratings, the 4.50% Notes are currently convertible into approximately 64.4 shares of our common stock.

We, at the investors' option, may be required to redeem the 4.50% Notes for cash on March 15, 2008 and may also be required to redeem the 4.50% Notes at the investors' option on March 15, 2013 and March 15, 2018, for cash or common stock or a combination of both, at our election. Additionally, investors may require us to redeem the 4.50% Notes in the event of certain change of control events that occur prior to March 15, 2008, for cash or common stock or a combination of both, at our election. If at

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any time on or after March 13, 2003 we pay cash dividends on our common stock, we will pay contingent interest in an amount equal to 100% of the per share cash dividend paid on the common stock multiplied by the number of shares of common stock issuable upon conversion of the 4.50% Notes. At our option, we may redeem the 4.50% Notes on or after September 15, 2009 for cash. The redemption price in each of these instances will be 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest, if any. The 4.50% Notes also provide for an additional "make-whole" adjustment to the conversion rate in the event of a change of control meeting specified conditions.

Credit Arrangements

We have committed and uncommitted lines of credit with various banks that permit borrowings at variable interest rates. As of June 30, 2005 and December 31, 2004, there were no borrowings under our committed facilities, however, there were borrowings under the uncommitted facilities made by several of our international subsidiaries totaling \$75.1 and \$67.8, respectively. We have guaranteed the repayment of some of these borrowings by our subsidiaries.

Our primary bank credit agreements are two credit facilities, a 364-day revolving credit facility ("364-Day Revolving Credit Facility") and a three-year revolving credit facility ("Three-Year Revolving Credit Facility" and, together with the 364-Day Revolving Credit Facility, the "Revolving Credit Facilities"). The 364-Day Revolving Credit Facility will expire on September 30, 2005. These facilities have been modified three times through waivers and amendments executed as of September 29, 2004, March 31, 2005 and June 22, 2005, and the Three-Year Revolving Credit Facility was also amended as of September 27, 2005, respectively. For a description of these waivers and amendments, see Note 11 to the Consolidated Financial Statements in our 2004 Annual Report on Form 10-K.

The terms of our amended Three-Year Revolving Credit Facility do not permit us: (i) to make cash acquisitions in excess of \$50.0 until October 2006, or thereafter in excess of \$50.0 until expiration of the agreement in May 2007, subject to increases equal to the net cash proceeds received in the applicable period from any disposition of assets; (ii) to make capital expenditures in excess of \$210.0 annually; (iii) to repurchase or to declare or to pay dividends on our capital stock (except for any convertible preferred stock, convertible trust preferred instrument or similar security, which includes our outstanding 5.40% Series A Mandatory Convertible Preferred), except that we may repurchase our capital stock in connection with the exercise of options by our employees or with proceeds contemporaneously received from an issue of new shares of our capital stock; and (iv) to incur new debt at our subsidiaries, other than unsecured debt incurred in the ordinary course of business, which may not exceed \$10.0 in the aggregate with respect to our US subsidiaries.

The Three-Year Revolving Credit Facility was amended and restated as of September 27, 2005. The effectiveness of the amended Three-Year Revolving Credit Facility is subject to certain conditions as described below.

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The amended Three-Year Revolving Credit Facility also sets forth revised financial covenants. These require that, as of the fiscal quarter ended September 30, 2005 and each fiscal quarter thereafter, we maintain:

(i) an interest coverage ratio of not less than that set forth opposite the corresponding quarter in the table below:

Fiscal Quarter Ending	Ratio
September 30, 2005	2.15 to 1
December 31, 2005	1.75 to 1
March 31, 2006	1.85 to 1
June 30, 2006	1.45 to 1
September 30, 2006	1.75 to 1
December 31, 2006	2.15 to 1
March 31, 2007	2.50 to 1

(ii) a debt to EBITDA ratio of not greater than that set forth opposite the corresponding quarter in the table below:

Fiscal Quarter Ending	Ratio
September 30, 2005	5.20 to 1
December 31, 2005	6.30 to 1
March 31, 2006	5.65 to 1
June 30, 2006	6.65 to 1
September 30, 2006	5.15 to 1
December 31, 2006	4.15 to 1
March 31, 2007	3.90 to 1

and (iii) minimum levels of EBITDA for the four fiscal quarters then ended of not less than that set forth opposite the corresponding quarter in the table below:

Four Fiscal Quarters Ending	Amount
September 30, 2005	\$ 435.0
December 31, 2005	\$ 360.0
March 31, 2006	\$ 400.0
June 30, 2006	\$ 340.0
September 30, 2006	\$ 440.0
December 31, 2006	\$ 545.0
March 31, 2007	\$ 585.0

The terms used in these ratios, including EBITDA, interest coverage and debt, are subject to specific definitions set forth in the agreement. Under the definition set forth in the Three-Year Revolving Credit Facility, EBITDA is determined by adding to net income or loss the following items: interest expense, income tax expense, depreciation expense, amortization expense, and certain specified cash payments and non-cash charges subject to limitations on time and amount set forth in the agreement. Based on our

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forecasts we expect to be in compliance with all covenants under our Three-Year Revolving Credit Facility, as amended and restated, for the next twelve months.

Before agreeing to the amendments, the lenders reviewed preliminary drafts of the Consolidated Financial Statements included in our preliminary 2004 Annual Report and in our quarterly reports on Form 10-Q for the first two quarters of 2005. One condition to effectiveness of the amendments is that we have not received, on or before October 4, 2005, notice from the lenders that have a majority in amount of the revolving credit commitments that the Consolidated Financial Statements in our 2004 Annual Report and our quarterly reports, and the financial data contained in the notes thereto, are not substantially similar to the draft Consolidated Financial Statements we provided to them. If we receive such a notice, the amended agreement will not become effective. In that event, we will continue to be subject to the financial covenants that were previously applicable under the Three-Year Revolving Credit Facility, as amended in June 2005 with respect to periods through the second quarter of 2005. We were in compliance with those covenants through June 30, 2005, but there can be no assurance that we will continue to be in compliance for the third quarter of 2005.

DERIVATIVES AND HEDGING ACTIVITIES

In January 2005, we entered into an interest rate swap which synthetically converted \$150.0 of fixed rate debt to floating rates. The interest rate swap effectively converted \$150.0 of the \$500.0, 7.25% Senior Unsecured Notes due August 2011 to floating rate debt and matures on the same day the debt is due. Under the terms of the interest rate swap agreement we pay a floating interest rate, based on one-month LIBOR plus a spread of 297.0 basis points, and receive the fixed interest rate of the underlying bond being hedged.

On May 25, 2005, we terminated our three long-term interest rate swap agreements executed during the fourth quarter of 2004 covering the \$350.0, 6.25% Senior Unsecured Notes due November 2014 and our long-term interest rate swap agreement covering the \$150.0 of the \$500.0, 7.25% Senior Unsecured Notes due August 2011. In connection with the termination, our net cash receipts were approximately \$1.1, which will be recorded as an offset to interest expense over the remaining life of the related debt.

INTERNAL CONTROL OVER FINANCIAL REPORTING

We have identified numerous material weaknesses in our internal control over financial reporting, as set forth in greater detail in Management's Assessment of Internal Control Over Financial Reporting, in Item 8, Consolidated Financial Statements and Supplementary Data, to our 2004 Annual Report on Form 10-K. Each of our material weaknesses results in more than a remote likelihood that a material misstatement in our annual or interim financial statements will not be prevented or detected. As a result, we have concluded that our internal control over financial reporting was not effective as of December 31, 2004.

The report of PricewaterhouseCoopers LLP ("PwC"), our independent registered public accounting firm, on our internal control over financial reporting disclaims an opinion on management's assessment and on the effectiveness of our internal control over financial reporting as of December 31, 2004. Until we file an annual report containing an audit report on our internal control over financial reporting that does not disclaim an opinion on our assessment or on the effectiveness of our internal control over financial reporting, we are subject to certain limitations under the US federal securities laws as further described in Item 1, Risk Factors, in our 2004 Annual Report on Form 10-K.

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We are in the process of developing and implementing remedial measures to address the material weaknesses in our internal control over financial reporting. However, because of our decentralized structure and our many disparate accounting systems of varying quality and sophistication, we have extensive work remaining to remedy these material weaknesses. While we have made considerable progress, we have yet to complete the formal work plan for remedying the identified material weaknesses. At present, there can be no assurance as to when the remediation plan will be completed or when it will be implemented. Until our remedial efforts are completed, we will continue to incur the expenses and management burdens associated with the manual procedures and additional resources required to prepare our Consolidated Financial Statements. There will also continue to be a substantial risk that we will be unable to make future SEC filings on time. These developments, and the effect on our actual or perceived liquidity and credit standing, could have material adverse effects on our financial condition and further adverse effects on our business or our liquidity that we cannot predict. We discuss these risks under Item 1, Risk Factors, in our 2004 Annual Report on Form 10-K.

RESTATEMENT

The filing of this report was delayed because of the extensive additional work necessary to compensate for our material weaknesses in our internal control over financial reporting. These weaknesses resulted in a restatement of our previously published consolidated financial statements in our 2004 Annual Report on Form 10-K, including a restatement of the Consolidated Statement of Operations for the quarter ended June 30, 2004 and Consolidated Statement of Cash Flows for the six months ended June 30, 2004. The Consolidated Statements of Operations for the quarter and six months ended June 30, 2004, and the Consolidated Statement of Cash Flows and Comprehensive Loss for the six months ended June 30, 2004 in this report are presented as fully restated. The restatement is a result of accounting errors related to the following:

- Revenue Recognition
- Accounting for Acquisitions
- Internal Investigations
- International Compensation Arrangements
- Accounting for Lease Related Expenses
- Goodwill and Investment Impairment
- Other

For information on the restatement and the impact of the restatement on our financial statements for the period ended June 30, 2004, we refer you to Item 8, Financial Statements and Supplementary Data, Note 2, Restatement of Previously Filed Financial Statements, and Note 20, Results by Quarter, in our 2004 Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2004 included in the 2004 Form 10-K. Further, and as summarized in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2004 Form 10-K, we believe that certain of these policies are critical because they are both important to the presentation of our financial condition and results and they require management's most difficult,

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subjective or complex judgments, often as a result of the need to estimate the effect of matters that are inherently uncertain. We base our estimates on historical experience and on other factors that we consider reasonable under the circumstances. Estimation methodologies are applied consistently from year to year and there have been no significant changes in the application of critical accounting policies since December 31, 2004. Actual results may differ from these estimates under different assumptions or conditions.

OTHER MATTERS

SEC Investigation

In January 2003, the SEC issued a formal order of investigation related to our restatements of earnings for periods dating back to 1997. On April 20, 2005, we received a subpoena from the SEC under authority of the order of investigation requiring production of additional documents relating to the potential restatement we announced in March 2005. The SEC is investigating the restatement detailed in Note 2 to the Consolidated Financial Statements in our 2004 Annual Report on Form 10-K filed with the SEC. We are cooperating fully with the investigation.

RECENT ACCOUNTING STANDARDS

Please refer to Note 9 to our Consolidated Financial Statements for a complete description of recent accounting pronouncements that have affected us or may affect us.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, we are exposed to market risks related to interest rates and foreign currency rates. From time to time, we use derivatives, pursuant to established guidelines and policies, to manage some portion of these risks. Derivative instruments utilized in our hedging activities are viewed as risk management tools, involve little complexity and are not used for trading or speculative purposes. See Note 13 to the Consolidated Financial Statements.

Interest Rates

Our exposure to market risk for changes in interest rates relates primarily to our debt obligations. At June 30, 2005, a significant portion (96.5%) of our debt obligations bore interest 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 approximately \$24.7 if market rates were to increase by 10% and would increase by approximately \$25.3 if market rates were to decrease by 10%. For that portion of the debt that bore interest at variable rates, based on outstanding amounts and rates at June 30, 2005, interest expense and cash out-flow would increase or decrease by approximately \$0.4 if market rates were to increase or decrease by 10%, respectively. From time to time we have used interest rate swaps to manage the mix of our fixed and floating rate debt obligations. In May 2005, we terminated all our existing long-term interest rate swap agreements, and currently have none outstanding.

Foreign Currencies

We face translation and transaction risks related to changes in foreign currency exchange rates. Amounts invested in our foreign operations are translated into US Dollars at the exchange rates in effect at the balance sheet date. Our foreign subsidiaries generally collect revenues and pay expenses in currencies other than the US Dollar, mitigating transaction risk. Since the functional currency of our 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 US Dollars depending upon whether the US Dollar weakens or strengthens against other currencies. Therefore, changes in exchange rates may either positively or negatively affect our consolidated revenues and expenses (as expressed in US 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 and were not significant in the period ended June 30, 2005. We have 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.

Item 4. Controls and Procedures

Disclosure controls and procedures

We have carried out an evaluation under the supervision of, and with the participation of, our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2005. Our evaluation has disclosed numerous material weaknesses in our internal control over financial reporting as noted in Management's Assessment on Internal Control over Financial Reporting in Item 8, Financial Statement and Supplementary Data, to our 2004 Annual Report on Form 10-K. Material weaknesses in internal controls may also constitute deficiencies in our disclosure controls. Based on an evaluation of these material weaknesses, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of June 30, 2005. However, based on significant work performed to date, management believes that there are no material inaccuracies or omissions of material fact in this report. Management, to the best of its knowledge, believes that the financial statements contained in this report are fairly presented in all material respects.

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There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Changes in internal controls

In connection with the evaluation of our internal control over financial reporting, we are in the process of developing a remediation plan to address our deficiencies and expect that this plan will extend into the 2006 fiscal year.

PART II — OTHER INFORMATION**Item 1. Legal Proceedings**

We are involved in legal and administrative proceedings of various types. While any litigation contains an element of uncertainty, we have no reason to believe that the outcome of such proceedings or claims will have a material adverse effect on our financial condition except as described below.

SEC Investigation

In January 2003, the SEC issued a formal order of investigation related to our restatements of earnings for periods dating back to 1997. On April 20, 2005, we received a subpoena from the SEC under authority of the order of investigation requiring production of additional documents relating to the potential restatement we announced in March 2005. The SEC is investigating the restatement detailed in Note 2 to the Consolidated Financial Statements in our 2004 Annual Report on Form 10-K filed with the SEC. We are cooperating fully with the investigation.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) The information provided below describes various transactions occurring during the quarter in which we issued shares of our common stock, par value \$.10 per share, that were not registered under the Securities Act of 1933, as amended, (the "Securities Act").

1. On April 1, 2005 we issued 201,786 shares of our common stock, to nineteen shareholders of a company whose assets we acquired through a subsidiary in the third quarter of 2000 as a deferred payment of the purchase price. The shares of our common stock had a market value of \$2,392,374 as of the date of issuance and were issued without registration in reliance on Section 4(2) under the Securities Act, based on the sophistication of each of the nineteen shareholders. The shareholders had access to all our SEC filings.

2. On April 27, 2005, we issued 457,444 shares of our common stock to one company, in connection with the sale of substantially all of the assets of an affiliate of such company to one of our subsidiaries in the fourth quarter of 2000 as a deferred payment of the purchase price. The shares had a market value of \$5,965,070 as of the date of issuance and were issued without registration in reliance on Section 4(2) under the Securities Act, based on the status of the company as an accredited investor.

3. On May 12, 2005, we issued 115,312 shares of our common stock to a former shareholder of a company that was acquired by us in the fourth quarter of 2000 as a deferred payment of the purchase price. The shares had a market value of \$1,498,821 as of the date of issuance and were issued without registration in an "offshore transaction" and solely to "non-U.S. persons" in reliance on Rule 903(b)(3) of Regulation S under the Securities Act.

(c) The following table provides information regarding our purchases of our equity securities during the period from April 1, 2005 to June 30, 2005:

	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)(2)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1-30	77,951 shares	\$ 12.56	—	—
May 1-31	45,803 shares	\$ 12.59	—	—
June 1-30	27,310 shares	\$ 12.48	—	—
Total(1)	151,064 shares	\$ 12.55	—	—

(1) Consists of restricted shares of our common stock withheld under the terms of grants under employee stock compensation plans to offset tax withholding obligations that occurred upon vesting and release of restricted shares during each month of the first quarter of 2005 (the "Withheld Shares").

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(2) The average price per month of the Withheld Shares was calculated by dividing the aggregate value of the tax withholding obligations for each month, by the aggregate number of shares of common stock withheld each month.

(d) The terms of our revolving credit facilities (among other things) place certain restrictions on the use of our working capital and our ability to declare or pay dividends. Our revolving credit facilities restricted our ability (i) to make cash acquisitions in excess of \$5.0 million annually until July 12, 2005 (ii) to make capital expenditures in excess of \$225 million annually, provided that amounts unused in any year up to \$50 million could be rolled over to the next year, and (iii) to repurchase and to declare or pay dividends on our capital stock until July 12, 2005, except that we could make repurchases of our capital stock in connection with employees' exercise of options and pay \$45.0 million as dividends on our convertible preferred stock. On June 22, 2005, in return for certain waivers of our financial and reporting covenants under our revolving credit facilities, the terms of the facilities were amended to extend until October 1, 2005 the above restrictions on our ability to make cash acquisitions and to repurchase and to declare or pay dividends on our capital stock; except that the amendments increased the limit on our ability to make cash acquisitions to \$7.5 million.

Refer to Item 2, Management's Discussion and Analysis, Liquidity and Capital Resources, for a description of the current terms of our Three-Year Revolving Credit Facility, which, as further amended and restated continue to place certain restrictions on the use of our working capital and our ability to declare and pay dividends.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
4(v)(A)	Fifth Supplemental Indenture, dated as of July 25, 2005, to the Indenture, dated as of November 12, 2004, between The Interpublic Group of Companies ("Interpublic") and SunTrust Bank, with respect to the issuance of the Floating Rate Notes due 2008, is incorporated by reference to Exhibit 4.1 to Interpublic's Current Report on Form 8-K, filed with the Securities and Exchange Commission (the "SEC") on July 26, 2005.
4(v)(B)	Seventh Supplemental Indenture, dated as of August 11, 2005, to the Indenture, dated as of October 20, 2000, between Interpublic and The Bank of New York, as modified by the Third Supplemental Indenture, dated as of March 13, 2003 and the Sixth Supplemental Indenture, dated as of March 30, 2005, with respect to the 4.5% Senior Unsecured Notes due 2023, is incorporated by reference to Exhibit 4.1 to Interpublic's Current Report on Form 8-K, filed with the SEC on August 15, 2005.
10(i)(A)	Amendment No. 3, dated as of June 22, 2005, to the 364-Day Credit Agreement, dated as of May 10, 2004, among Interpublic, the Initial Lenders Named Therein, and Citibank, N.A., as Administrative Agent ("Citibank"), as amended by Amendment No. 1, dated as of September 29, 2004, and Amendment No. 2, dated as of March 31, 2005, is incorporated by reference to Exhibit 10.1 of Interpublic's Current Report on Form 8-K, filed with the SEC on June 28, 2005.
10(i)(B)	Amendment No. 3, dated as of June 22, 2005, to the 3-Year Credit Agreement, dated as of May 10, 2004, among Interpublic, the Initial Lenders Named Therein, and Citibank, as amended by Amendment No. 1, dated as of September 29, 2004, and Amendment No. 2, dated as of March 31, 2005, is incorporated by reference to Exhibit 10.2 of Interpublic's Current Report on Form 8-K, filed with the SEC on June 28, 2005.
10(i)(C)	Letter Agreement, dated as of June 22, 2005, between Interpublic and the Lenders party to the 364-Day Credit Agreement, waiving breaches of the 364-Day Credit Agreement, is incorporated by reference to Exhibit 10.3 of Interpublic's Current Report on Form 8-K, filed with the SEC on June 28, 2005.
10(i)(D)	Letter Agreement, dated as of June 22, 2005, between Interpublic, and the Lenders party to the 3-Year Credit Agreement, waiving breaches of the 3-Year Credit Agreement, is incorporated by reference to Exhibit 10.4 of Interpublic's Current Report on Form 8-K, filed with the SEC on June 28, 2005.

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<u>Exhibit No.</u>	<u>Description</u>
10(i)(E)	Amended and Restated 3-Year Credit Agreement, dated as of May 10, 2004, amended and restated as of September 27, 2005, among Interpublic, the Initial Lenders Named Therein, and Citibank, N.A., as Administrative Agent is incorporated by reference to Exhibit 10(i)(G) to Interpublic's Annual Report on Form 10-K for the year ended December 31, 2004.
10(iii)(A)(1)	Employment Agreement, made as of July 13, 2005, by and between Interpublic and Frank Mergenthaler, is incorporated by reference to Exhibit 10.1 of Interpublic's Current Report on Form 8-K, filed with the SEC on July 19, 2005.
10(iii)(A)(2)	Executive Severance Agreement, dated as of August 1, 2005, between Interpublic and Frank Mergenthaler, is incorporated by reference to Exhibit 10.2 to Interpublic's Current Report on Form 8-K, filed with the SEC on July 19, 2005.
31.1	Certification, dated as of September 30, 2005 and executed by Michael I. Roth, under Section 302 of the Sarbanes-Oxley Act of 2002 ("S-Ox").
31.2	Certification, dated as of September 30, 2005 and executed by Frank Mergenthaler, under Section 302 of S-Ox.
32	Certification, dated as of September 30, 2005 and executed by Michael I. Roth and Frank Mergenthaler, furnished pursuant to Section 906 of S-Ox.

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.

By /s/ Michael I. Roth

Michael I. Roth
Chairman and Chief Executive Officer

Date: September 30, 2005

By /s/ Frank Mergenthaler

Frank Mergenthaler
Executive Vice President and
Chief Financial Officer

Date: September 30, 2005

INDEX TO EXHIBITS

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32	Certification, dated as of September 30, 2005 and executed by Michael I. Roth and Frank Mergenthaler, furnished pursuant to Section 906 of S-Ox.

CERTIFICATION

I, Michael I. Roth, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Interpublic Group of Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 30, 2005

/s/ Michael I. Roth

Michael I. Roth
Chairman and Chief Executive Officer

CERTIFICATION

I, Frank Mergenthaler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Interpublic Group of Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 30, 2005

/s/ Frank Mergenthaler

Frank Mergenthaler
Executive Vice President and
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of The Interpublic Group of Companies, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The quarterly report on Form 10-Q for the quarter ended March 31, 2005 of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the quarterly report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 30, 2005

/s/ Michael I. Roth

Michael I. Roth
Chairman and Chief Executive Officer

Dated: September 30, 2005

/s/ Frank Mergenthaler

Frank Mergenthaler
Executive Vice President and
Chief Financial Officer