MANPOWER INC /WI/
Form 10-Q/A
November 04, 2002

==

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

AMENDMENT NO. 1

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended: JUNE 30, 2002

or

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from: ______to______

Commission file number: 1-10686

MANPOWER INC.

(Exact name of registrant as specified in its charter)

WISCONSIN	39-1672779
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
5301 N. IRONWOOD ROAD MILWAUKEE, WISCONSIN	53217
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (414) 961-1000

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

Yes X No

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

CLASS	SHARES OUTSTANDING AT JUNE 30, 2002
Common Stock, $.01 par value	76,546,107

EXPLANATION OF AMENDMENT

Our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 was reviewed by the Securities and Exchange Commission (the "Commission") as part of their normal review process. In response to comments received from the Commission, we have amended Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, of that filing to add additional disclosure related to the impact of acquisitions on our operating results for the three and six months ended June 30, 2002.

==

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

Consolidated Operating Results - Three Months Ended June 30, 2002 and 2001

Revenues decreased .7% to $2,602.9 million for the second quarter of 2002 from the same period in 2001. Revenues were favorably impacted by changes in foreign currency exchange rates during the second quarter of 2002 compared to 2001 due to the weakening of the U.S. Dollar relative to the currencies in most of our non-U.S. markets. At constant exchange rates, revenues would have decreased 3.3%. Revenue growth in the second quarter of 2002 included approximately $65 million attributable to acquisitions. Revenues excluding acquisitions decreased 3.1%, or 5.7% on a constant currency basis.

Gross profit decreased 4.4% to $467.6 million for the second quarter of 2002 compared to 2001. Gross profit margin decreased 70 basis points (.7%) from the second quarter of 2001 to 18.0% in 2002. This decrease was attributable to a number of factors including an increase in social costs in the United States and France, and an unfavorable change in business mix and pricing pressures experienced throughout the world. On an organic constant currency basis, gross profit decreased 11.4% in the second quarter of 2002 compared to 2001. Gross profit growth attributable to acquisitions was approximately $20 million, and acquisitions had a 40 basis point (.4%) favorable impact on the gross profit margin in the second quarter of 2002.

Selling and administrative expenses, excluding goodwill amortization during the second quarter of 2001, decreased 1.6% to $415.8 million in the second quarter of 2002. As a percent of revenues, excluding goodwill amortization in 2001, selling and administrative expenses were 16.0% in the second quarter of 2002 compared to 16.1% in the second quarter of 2001. The decrease in expense levels and the improved expense trend are the result of our cost control initiatives implemented in all countries during the past year and the leveraging impact of our increasing revenue levels throughout 2002. As a percent of gross profit, excluding goodwill amortization in 2001, selling and administrative expenses were 88.9% in the second quarter of 2002 compared to 86.4% in the second quarter of 2001. These trends are a result of the lower gross profit levels.

Operating profit decreased 17.4% for the second quarter of 2002 compared to 2001 and operating profit, as a percent of revenues, was 2.0% and 2.4% for 2002 and 2001, respectively. Excluding goodwill amortization in 2001, operating profit decreased 22.1% from 2001 (26.8% on a constant currency basis). This decrease was primarily due to the decline in the gross profit margin levels in 2002 compared to 2001. On an organic constant currency basis, excluding goodwill amortization in 2001, operating profit decreased 28.6% in the second quarter of 2002 compared to 2001.

Interest and other expense increased $1.0 million from the second quarter of 2001 to $9.6 million in the second quarter of 2002. Net interest expense, including the loss on sale of accounts receivable, was $8.5 million in the second quarter of 2002 compared to $8.0 million in the second quarter of 2001. This increase is primarily due to higher borrowing levels resulting from acquisitions made over the past year. These higher borrowing levels are somewhat offset by lower interest rate levels. Miscellaneous expenses, net, also increased $.5 million from 2001 to 2002.

We provided for income taxes during the second quarter of 2002 at a rate of 39.1%, which resulted in an income tax provision for the first half of 2002 of 38.5%. Based on information currently available, we estimate that our annual effective tax rate will be 38.5%. This rate is higher than the U.S. Federal statutory rate of 35% due primarily to foreign repatriations and higher foreign tax rates. For the year ended December 31, 2001, excluding the effect of goodwill amortization, we provided for income taxes at

35.1%. The estimated effective tax rate for 2002 is higher than the 2001 rate due to changes in the mix of taxable income between countries and other permanent items.

On a diluted basis, net earnings per share was $.33 in the second quarter of 2002 compared to $.45 in the second quarter of 2001. The diluted net earnings per share for the second quarter of 2002 compared to 2001 was positively impacted by $.03 due to changes in foreign currency exchange rates. Excluding the effect of goodwill amortization during the second quarter of 2001, net earnings per share on a diluted basis, was $.49.

Consolidated Operating Results - Six Months Ended June 30, 2002 and 2001

Revenues decreased 7.3% to $4,886.9 million for the first six months of 2002 compared to the same period in 2001. At constant foreign exchange rates, revenues would have decreased by 6.8%. An unfavorable impact from changes in exchange rates experienced during the first quarter of 2002 was offset by a favorable impact experienced during the second quarter of 2002. Revenue growth in the first six months of 2002 included approximately $135 million attributable to acquisitions. Revenues excluding acquisitions decreased 9.8%, or 9.3% on a constant currency basis.

Gross profit decreased 9.3% to $882.4 million for the first six months of 2002 compared to 2001. Gross profit margin decreased 40 basis points (.4%) from the first six months of 2001 to 18.1% in 2002. The gross profit margin gains experienced during the first quarter of 2002 compared to 2001 were offset by margin declines experienced during the second quarter of 2002. On an organic constant currency basis, gross profit decreased 13.2% in the first half of 2002 compared to 2001 and the gross profit margin in 2002 was 17.7%, excluding acquisitions. Gross profit growth attributable to acquisitions was approximately $40 million during the first six months of 2002.

Selling and administrative expenses, excluding goodwill amortization during the first half of 2001, decreased 4.6% to $811.9 million in the first half of 2002. As a percent of revenues, excluding goodwill amortization in 2001, selling and administrative expenses were 16.6% in the first half of 2002 compared to 16.1% in the first half of 2001. As a percent of gross profit, excluding goodwill amortization in 2001, selling and administrative expenses were 92.0% and 87.4% in the first half of 2002 and 2001, respectively. This increase in the expense ratios is due primarily to the results of the first quarter of 2002, which reflected the continued deleveraging of business, caused by the lower revenue levels. In the second quarter of 2002, we experienced increasing revenue levels along with continued cost control, resulting in improved expense ratios.

Operating profit decreased 38.6% for the first half of 2002 compared to 2001 and operating profit, as a percent of revenues, was 1.4% and 2.2% for 2002 and 2001, respectively. Excluding goodwill amortization in 2001, operating profit decreased 42.4% from 2001 (43.7% on a constant currency basis). This decrease was due to lower gross profit levels in 2002 compared to 2001 coupled with the deleveraging experienced during the first three months of 2002 due to the lower revenue levels. On an organic constant currency basis, excluding goodwill amortization in 2001, operating profit decreased 44.5% in the first half of 2002 compared to 2001.

Interest and other expense decreased $1.2 million from the first six months of 2001 to $17.6 million in the first six months of 2002. Net interest expense, including the loss on sale of accounts receivable, was $15.9 million in the first six months of 2002 compared to $16.4 million in the first six months of 2001. This decrease is primarily due to lower interest rates during 2002, offset somewhat by higher borrowing levels resulting from acquisitions made over the prior year. Translation gains were $.7 million during the first half of 2002 compared to $.2 million in 2001.

3

We provided for income taxes during the first half of 2002 at a rate of 38.5%. Based on information currently available, we estimate that our annual effective tax rate will be 38.5%. This rate is higher than the U.S. Federal statutory rate of 35% due primarily to foreign repatriations and higher foreign tax rates. For the year ended December 31, 2001, excluding the effect of goodwill amortization, we provided for income taxes at 35.1%. The estimated effective tax rate for 2002 is higher than the 2001 rate due to changes in the mix of taxable income between countries and other permanent items.

On a diluted basis, net earnings per share was $.42 in the first half of 2002 compared to $.80 in the first half of 2001. The diluted net earnings per share for the first half of 2002 compared to 2001 was positively impacted by $.02 due to changes in foreign currency exchange rates. Excluding the effect of goodwill amortization during the first half of 2001, net earnings per share on a diluted basis, was $.89.

We currently account for all of our fixed stock option plans and the 1990 Employee Stock Purchase Plan in accordance with APB Opinion No. 25 and related Interpretations. Accordingly, no compensation cost related to these plans has been charged to earnings. If we had determined compensation cost consistent with the method of SFAS No. 123, our reported net earnings per share, on a diluted basis, was $.32 and $.40 for the second quarter and first half of 2002, respectively.

Segment Operating Results

United States

The United States experienced a decrease in revenues of 9.3% for the second quarter of 2002 compared to 2001 due to lower customer demand resulting from the economic slowdown. However, year-over-year revenue growth trends, especially in the Light Industrial sector, continued to improve throughout the period. Franchise acquisitions had a positive impact on revenue variances. Excluding these acquisitions, revenues declined 12.7% from the second quarter of 2001. For the first six months of 2002 compared to 2001, revenues decreased 15.5%, or 18.6% excluding acquisitions.

Operating unit profit ('OUP'), as a percent of revenues, in the United States was 1.7% and 2.3% for the second quarter of 2002 and 2001, respectively, and .4% and 1.9% for the first six months of 2002 and 2001, respectively. The year-over-year OUP percentage decline in the second quarter was mainly due to lower gross profit levels. The decrease in OUP percentage for the six-month period was primarily due to the deleveraging experienced by the lower revenue levels.

France

In France, on a local currency basis, revenues contracted 5.6% during the second quarter of 2002 compared to 2001 due to lower customer demand resulting from the economic slowdown. This decline is an improvement from the first quarter of 2002, where revenues, on a local currency basis, declined 14.1% compared to the first quarter of 2001. Revenues, on a local currency basis, for the first six months of 2002 compared to 2001 were down 9.8%.

During the second quarter of 2002 and 2001, OUP, as a percent of revenues, in France was 3.5% and 3.7% respectively. Year-over-year gross profit margin decreases were largely offset by the effect of continued cost control efforts. OUP, as a percent of revenue, for the first half of 2002 was relatively consistent with that experienced in 2001.

United Kingdom

United Kingdom revenues during the second quarter of 2002, on a constant currency basis, were 12.8% below the second quarter of 2001, which represents the continued lower demand for workers in the United Kingdom. On a constant currency basis, revenues decreased 13.1% during the first six months of 2002 compared to 2001. During the second quarter of 2002, there was a reduction in contact center business with three of our more significant customers in the United Kingdom, causing part of the year-over-year revenue decline.

In the United Kingdom, OUP as a percent of revenues, for the second quarter of 2002 was 1.3% compared to 2.7% in 2001. The decrease was a direct result of the lower gross profit levels. In the first half of 2002, OUP as a percent of revenues, was 1.1% compared to 2.7% for 2001.

Other Europe

In Other Europe, revenues, on a constant currency basis, during the second quarter of 2002 were consistent with that of the same period in 2001. During the second quarter of 2002, we experienced positive year-over-year growth in southern Europe, offset by continued negative variances in central and northern Europe. During the first six months of 2002 compared to 2001, revenues, on a constant currency basis, decreased 3.5%.

OUP, as a percent of revenues, in Other Europe was 3.1% and 3.7% for the second quarter of 2002 and 2001, respectively, and 2.8% and 3.8% for the first six months of 2002 and 2001, respectively. The year-over-year OUP percentage decrease is mainly a result of lower gross profit levels, as we had higher revenue growth in the countries with lower gross profit margins. This decline was partially offset by lower selling and administrative expenses as a result of our cost control efforts.

Other Operations

Revenues of Other Operations increased 21.0%, on a constant currency basis, during the second quarter of 2002 compared to 2001. Although recent acquisitions accounted for a majority of the increase, Other Operations posted organic revenue growth of 6.8% in constant currency. Revenues increased 21.5%, on a constant currency basis, during the first six months of 2002 compared to 2001, 5.2% of which was organic.

In Other Operations, OUP as a percent of revenues, for the second quarter of 2002 was .4%, which is consistent with that of the prior year. In the first six months of 2002 and 2001, the OUP percentage was 0% and .5%, respectively. The impact of higher gross profit acquisitions has been offset by continued investments in this segment.

Liquidity and Capital Resources

Cash provided by operating activities was $38.1 million in the first six months of 2002 compared to $62.1 million for the same period in 2001. Excluding the changes in amounts advanced under the Receivables Facility, cash used by changes in working capital requirements was $38.8 million for the first half of 2002 compared to $37.6 million in cash provided during 2001. This change is primarily a result of higher accounts receivable balances in 2002 compared to 2001 due to the change in revenue growth trends, offset by a one day reduction in Days Sales Outstanding ('DSO'). Cash provided by operating activities before changes in working capital requirements was $76.9 million and $104.5 million in the first half of 2002 and 2001, respectively. This decrease is a result of lower earnings levels in 2002.

Capital expenditures were $31.0 million in the first half of 2002 compared to $43.9 million during the first half of 2001. In general, expenditures during 2002 were lower than 2001 levels due to fewer new office openings as a result of the economic slowdown. These expenditures were primarily comprised of purchases of computer equipment, office furniture and other costs related to office openings and refurbishments, as well as capitalized software costs.

During the first half of 2002, we acquired certain companies, primarily U.S. franchises, and made other acquisition-related payments totaling $29.6 million. In addition, during June 2002, we acquired an equity interest in one of our U.S. franchises in exchange for $15.0 million of our common stock (approximately 390,000 shares).

Net cash provided by borrowings was $17.3 million and $79.2 million in the six months of 2002 and 2001, respectively. This decrease relates to the decreased level of capital expenditures and acquisitions. The amounts shown as Proceeds from long-term debt and Repayment of long-term debt relate primarily to commercial paper borrowings.

As of June 30, 2002, we had aggregate commitments related to debt and operating leases that totaled $1.2 billion. We had $1.1 billion in aggregate commitments related to debt, operating leases and the forward repurchase agreement as of December 31, 2001. This increase was due primarily to an increase in foreign currency exchange rates over the respective period. During March 2002, we repurchased the remaining 900,000 shares of common stock under the forward repurchase agreement at a cost of $30.7 million. No further obligations exist under this agreement.

Accounts receivable increased to $2,226.8 million at June 30, 2002 from $1,917.8 million at December 31, 2001. Changes in foreign currency exchange rates during the first half of 2002 increased the receivable balance by approximately $163 million. The remaining increase is a result of higher business volume. There were no amounts advanced under the Receivables Facility as of June 30, 2002, or December 31, 2001. As of June 30, 2001, there was $65.0 million advanced under this facility.

As of June 30, 2002, we had borrowings of $197.1 million and letters of credit of $71.5 million outstanding under our $450.0 million five-year credit facility, and borrowings of $57.1 million outstanding under our U.S. commercial paper program. Commercial paper borrowings, which are backed by the five-year credit facility, have been classified as long-term debt due to the availability to refinance them on a long-term basis under this facility.

Our $450.0 million five-year credit facility and $300.0 million 364-day revolving credit facility require, among other things, that we comply with a Debt-to-EBITDA ratio of less than 3.75 to 1 throughout 2002 (less than 3.25 to 1 beginning in March 2003) and a fixed charge ratio of greater than 2.00 to 1. As defined in the agreement, we had a Debt-to-EBITDA ratio of 3.52 to 1 and a fixed charge ratio of 2.22 to 1 as of June 30, 2002. Based upon our forecasts for the remainder of the year, we believe we will remain in compliance with these covenants.

We and some of our foreign subsidiaries maintain separate lines of credit with foreign financial institutions to meet short-term working capital needs. As of June 30, 2002, such lines totaled $179.0 million, of which $144.6 million was unused.

Our unsecured zero-coupon convertible debentures, due August 17, 2021 ("Debentures"), allow holders of the Debentures to require us to repurchase these Debentures at the issue price, plus accreted original issue discount, on the first, third, fifth, tenth and fifteenth anniversary dates. We have the option to settle this obligation in cash, common stock, or a combination thereof. As indicated in our press release dated July 17, 2002, we have formally elected to settle any "put" on the first anniversary date in cash. Under

6

the current economic environment, we do not anticipate that the Debentures will be "put" on the first anniversary date. However, if a "put" does become likely for a substantial amount of the Debentures, we may alter the terms of the agreement with the holders of the Debentures to prevent a "put." Our intent is to settle any future "put" in cash. In the event of a significant change in the economic environment, we may choose to settle a future "put" with common stock, which may have a dilutive effect on existing shareholders.

During June 2002, Moody's Corporation downgraded our credit rating one notch from Baa2 to Baa3. During April 2002, Standard & Poor's ('S&P') changed our credit rating outlook from neutral to negative, and then in August 2002, S&P issued a press release indicating that we have been put on "CreditWatch" with negative implications, which may result in our credit rating being downgraded later this year. Our current rating with S&P is BBB and according to the press release, "the downgrade potential is limited to one notch, to the BBB- level." The results of these actions did not have a significant impact on our credit facilities, however if S&P does downgrade our rating to BBB-, the facility fee and interest rate charged on our revolving credit agreements will increase by ..05% and .175%, respectively. Given our current debt levels, these increases will not significantly impact our total facility fees and interest expense.

Subsequent to June 30, 2002, we extended our Receivables Facility to expire in July 2003 and this agreement may be extended further with the financial institution's consent. There were no other significant changes made to the terms of this agreement.

On April 30, 2002, the Board of Directors declared a cash dividend of $.10 per share which was paid on June 14, 2002 to shareholders of record on June 3, 2002.

Regulation

During July 2002, the French government announced that they would be reviewing certain of their social programs later this year, including the 35-hour workweek, minimum working wage and social contribution subsidies. As no specific changes have been announced, we cannot currently estimate the impact, if any, on the future results of our French operations or our consolidated financial statements.

Forward-Looking Statements

Statements made in this quarterly report that are not statements of historical fact are forward-looking statements. All forward-looking statements involve risks and uncertainties. The information under the heading "Forward-Looking Statements" in our Annual Report on Form 10-K for the year ended December 31, 2001, which information is incorporated herein by reference, provides cautionary statements identifying, for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, important factors that could cause our actual results to differ materially from those contained in the forward-looking statements. Some or all of the factors identified in our Report on Form 10-K may be beyond our control. Forward-looking statements can be identified by words such as "expect", "anticipate", "intend", "plan", "may", "will", "believe", "seek", "estimate", and similar expressions. We caution you that any forward-looking statement reflects only our belief at the time the statement is made. We undertake no obligation to update any forward-looking statements to reflect subsequent events or circumstances.

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.

MANPOWER INC.

(Registrant)

Date: November 4, 2002

/s/ Michael J. Van Handel

Michael J. Van Handel
Executive Vice President, Chief Financial Officer
and Secretary (Signing on behalf of the Registrant
and as the Principal Financial Officer and
Principal Accounting Officer)

8

CERTIFICATIONS

I, Jeffrey A. Joerres, Chairman and Chief Executive Officer of Manpower Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Manpower Inc.; and

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.

Date: November 4, 2002

/s/ Jeffrey A. Joerres

By: Jeffrey A. Joerres
Title: Chairman and
Chief Executive Officer

I, Michael J. Van Handel, Executive Vice President and Chief Financial Officer of Manpower Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Manpower Inc.; and

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.

Date: November 4, 2002

/s/ Michael J. Van Handel

By: Michael J. Van Handel
Title: Executive Vice President and

Chief Financial Officer