104 Financial Analysis for In-house Practitioners

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2006 CORPORATE COUNSEL UNIVERSITY

12-14 February 2006
Amsterdam Marriott Hotel

Are you or is someone in your law department new to the in-house practice? If so, ACC Europe's Corporate Counsel University provides a great opportunity to gain the necessary groundwork to foster a successful, in-house career.

Open only to in-house counsel, Corporate Counsel University will teach you how to excel in your new role with a focus on the basics you need to succeed. You will learn first-hand from your in-house colleagues who have been there and share ideas with those who are there now. You will have the chance to learn from other in-house experts on such topics as how to be a successful in-house practitioner, EU competition, financial analysis, data protection and retention, and bring you up to date on all those "small" but really big issues for which no other prior education has prepared you. Plus we'll provide you with plenty of networking time to meet and talk with other members so you can establish contacts that will help you long after the meeting.

And with registration set at only €350, you can't afford not to make this investment in your career or legal department.

For more information, contact acceurope@acca.com
or call +32 2 633 60 33.
www.acca.com/acce/ccu/06

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Programme Schedule

12 February

17.00-19.30 Registration

18.00-19.30 Welcome Reception

13 February

07.00-19.00 Registration

07.00-08.30 Breakfast

08.30-10.00
HOW TO BECOME A SUCCESSFUL IN-HOUSE PRACTITIONER
Welcome to your new position. Did you know what you were getting into? Thrive in your new in-house position by learning how to provide the legal support your client needs, including how to set priorities, communicate legal concepts with management, and understand the legal issues relevant to all businesses.

10.00-10.30 Break

10.30-12.00
TRENDS IN EU COMPETITION
Corporate attorneys practicing within the EU need to be intimately familiar with competition laws and how they could affect a company's business. This overview of the trends EU competition is following will provide you with a clear understanding of the laws and guidance on how best to counsel your corporate client.

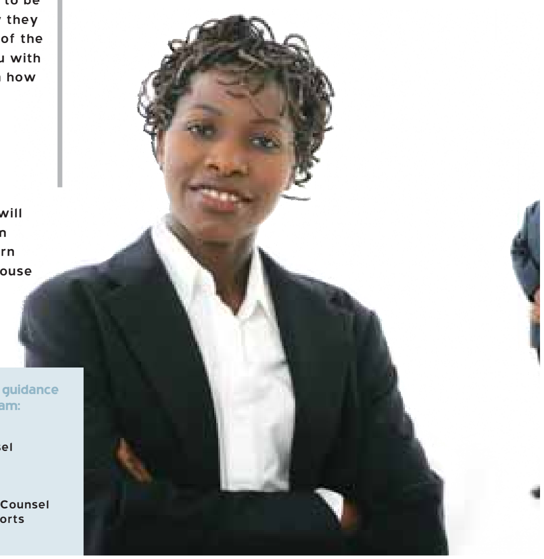
12.00-14.00 Lunch & Program:
THREE KEY LESSONS I'VE LEARNED AS CORPORATE COUNSEL
In-house counsel from several leading companies will share their experiences and thoughts that led them down the path to a gratifying in-house career. Learn how their insights can help you prosper in the in-house community.

14.00-15.30
FINANCIAL ANALYSIS FOR IN-HOUSE PRACTITIONERS
It's all a numbers game. The business people often complain that the lawyers do not understand the numbers, so come learn how to prove them wrong. Using real-world examples, this session will provide a review of legal accounting requirements, an overview of the basic financial principles of running a corporation and a checklist to become more proficient when dealing with financial matters.

15.30-16.00 Break

16.00-17.30
BUILDING/MAINTAINING RELATIONSHIPS WITH OUTSIDE COUNSEL
Everyone likes to talk about "partnerships" with outside counsel, but often we do not focus on building effective and mutually beneficial relationships. Learn how. Topics will include ethical issues and requirements for engagements, billing, and legal work product.

17.30-19.00 Reception



ACC Europe wishes to thank the advisory board for providing guidance in producing it's first ever Corporate Counsel University program:

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General Counsel
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Vice President & General Counsel
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Worldwide, Inc.

14 February

07.30-14.00 Registration

07.30-09.00 Breakfast

09.00-10.30
BUILDING BETTER NEGOTIATION SKILLS
We all have to negotiate: with other counsel, our co-workers, and more. Receive insightful guidance on successfully handling all phases of the negotiation process including acquiring information from an adversary, negotiating for a competitive advantage, and identifying the best methods for closing the deal.

10.30-11.00 Break

11.00-12.30
THREE HOT TOPICS IN 90 MINUTES
Privilege, data protection and data retention are probably THE most important issues on the minds of corporate practitioners. In this fast paced exchange of information and ideas, we'll share with you these hot topics and bring you up to speed to better counsel your client.

12.30-13.30 Lunch
Join with your peers to share solutions to persistent concerns and build your network of fellow in-house counsel to whom you can turn the next time you have a question.

13.30-14.30
250 THINGS YOU SHOULD KNOW AS IN-HOUSE COUNSEL/ BEST PRACTICES Q&A
Our outstanding panel of in-house counsel will share their list of things they were glad they knew-or wished they'd known-when starting out. Gain guidance in such key areas as employment law, intellectual property issues, corporate governance, securities law, and litigation. Plus here's your chance to ask questions about issues not covered during the meeting's other sessions.

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Registration Form

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❑ Update My Membership Record With The Above Information.

➜Rates

Registration is limited to in-house counsel and includes courses, written materials, and scheduled meals/receptions. It does not include housing, travel, or personal expenses.

❑ €350 Members ❑ €535 Non Members*
*Non member rate includes meeting registraton and membership.

➜Payment

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Indicate your need for CPD/CLE credits below:
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ACC is an approved sponsor in all jurisdictions with mandatory CPD/ CLE requirements. Be sure to complete the CPD/CLE section of this registration form and also the necessary forms onsite to apply for CPD/ CLE credts. Questions should be directed to Erica Pina: pina@acca.com.

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Participants with special needs or questions regarding Corporate Counsel University should contact ACC: Catherine Carton: +32 2633 60 33 or acceurope@acca.com.

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ACC is holding a block of rooms at the Amsterdam Marriott Hotel at the rate of €169/night (single/double). For reservations, call +31 20 6075574 and indicate you are attending ACC's Corporate Counsel University to receive the group rate. The reservation cutoff date is 30 January, 2006 however, we recommend you make your reservations now as rooms often sell out in advance of the cutoff date.

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ACC Europe will refund your registration fee, less a € 75 administrative fee, if written notice of cancellation is received by Monday, 30 January, 2006. No refunds will be made for any reason after that date. Substitutes for cancelled registrations are welcome. Registration will only be confirmed upon payment in full.

QUESTIONS?
Contact ACC Europe Chapter Administrator, Catherine Carton: +32 2633 60 33 or acceurope@acca.com.

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Stephen Faciszewski

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David Williams

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„The Essentials“-Scope

- Faciszewski-Corporate Financial Basics
- Viaene-Legal Accounting Requirements and Reporting/Regulatory framework
- Williams-Financial Checklist/Glossary for In-house Legal Professionals

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Corporate Financial Basics

- P&L
  - „Profit and Loss"—also
  - Statement of Income
- Cash Flows
- Balance Sheet
- Notes to Financial Statements
- Financial Statements Example:
  - McDonald's Corporation
    - 2005 Q3 Financial Report--http://www.mcdonalds.com/corp/invest/pub/sec.html
    - 2004 Financial Report-- http://www.mcdonalds.com/corp/invest/pub/2004_Financial_Report.html

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Profit and Loss/Income Statement

- Revenue
- Operating Costs
- Operating Income
- Non-operating Costs
  - Interest
  - Taxes
- Net Income (per share and diluted)
- Dividends

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Cash Flows

- Operating Activities
  - Net Income
  - Non-cash Charges and Credits
  - Operating Cash
- Non-operating Activities
  - Investment Activities
  - Financing Activities
- Begin and End Cash Positions

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Balance Sheet

- Assets
  - Current
  - Other Assets
    - Investments
    - Intangible
      - Goodwill
    - Physical
- Liabilities
  - Current
  - Long-term
  - Deferred
  - Shareholder‘s Equity

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Relevance to In-House Counsel

- Economics
  - Solvency
- Representation of Clients
  - Understand
    - Financial Motivators
    - Accounting/Reporting Requirements
    - Financial Concepts of Third Party Relationships
- Comprehend and Evaluate Financial Alternatives

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Corporate Financial Functions

- Accounting
- Treasury
- Finance
- Tax

The Legal Department Cost Center

- Legal Professionals/Staff
  - Generally „G&A Costs“
  - External service provider costs
- Revenue Potential
  - Intangible Assets
    - Licensing

The Budgetary Life Cycle

- Budgeting Cycles
  - Annual
  - Multi-year Extrapolations
- Expense Categories Ultimately
  - Correspond to Department/Business Needs
  - Reflected in the Financial Statements
- Quarterly Reporting/Variances
- Annual Performance Measure

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The Day-to-Day

- Financial Statements and „Notes“
  - Representations/Opinions
    - Materiality
    - Adverse Events
    - Full Disclosure
- Track with the Organization‘s Fiscal Policy
- Clients‘ Respective Financial Positions

Deal Making

- Acquisition/Divestiture
- Licensing/Joint Venture
- Debtor/Creditor Relationships
- Related Party Transactions
  - Transfer Pricing Considerations

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Service Providers

- Consultants
- Manufacture/Supply
- Distribution
- Affiliates

Points for Success

- Understand Broad Financial Concepts
  - Know How Legal Impacts Financial Statements
- Leave Complexities to Experts
- Identify Potential Financial Risks/Magnitude Early
- Manage to Budgets
- „I‘ll Follow-up on That...“ is an Acceptable Response

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Axel Viaene

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- Aim of requirements
- 1.US requirements
- 2.EU requirements
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- Q&A

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EXPECTATION SETTING

- No exhaustive overview
- Recommend boardroom reflexes
- In area of financial reporting
- For in-house counsel (supporting European business of US company)

AIM OF REQUIREMENTS

- Allowing the public (shareholders, creditors, prospective employees) an informed decision to invest, loan, apply for a job…

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1.US REQUIREMENTS

- Players
  - -Bodies (SEC, FASB, APB, PCAOB)
  - -Internal: CFO, controller, audit committee, internal audit
  - -External: external auditors, consultants
  - www.fasb.org
- Rules
  - -US GAAP
- Documents
  - -Annual Report, 8K, 10Q, 10K, 11K

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1.US REQUIREMENTS

- SARBANES-OXLEY(2002)
  - -Code of Ethics, Code of Conduct
  - -Attorney conduct rules
  - -Auditor independence
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  - -New 8-K disclosures
  - -CEO/CFO certification process (SOX 302, 906)
  - -Bonus forfeiture
  - -No loans to directors and executive officers

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What you don't want to hear…

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2.EU REQUIREMENTS

- Players
  -IASB
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- Rules
  -IFRS/IAS
  -IAS Regulation 2002
  -1/1/05 + 1/1/07
- Cooperation
  -IASB and FASB

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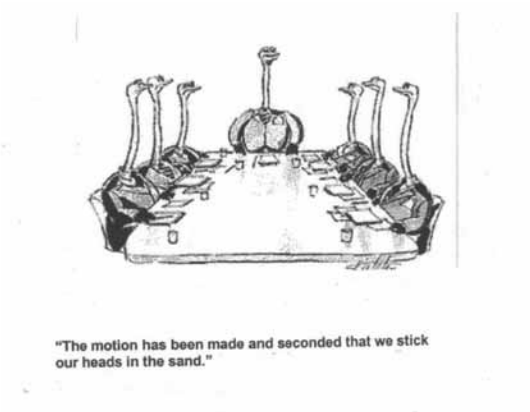
Board meeting



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3.RELEVANCE FOR IN-HOUSE COUNSEL

- Revenue recognition
- Reserves
- Accruals
- Whistleblowing policies, Codes
- Prepaids
- Option expensing
- Opinion letters
- Assets: example
- Training for CFO & team

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Becoming more proficient with finance - your checklist

1. Understanding your organisation's financial objectives
   - its shareholders; their expectations
   - your industry sector
2. Measures of financial efficiency and 'health'
   - some key ratios
3. The financially-aware business lawyer
   - aligning your energies to corporate objectives
   - the effective risk manager
4. Glossary of terms

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Your shareholders, and their expectations

Institutional investors – e.g. pensions funds, insurance companies

- year-on-year growth – either in income or capital (see below)
- quarterly earnings reports = constant scrutiny on performance

Private investors – e.g. family-owned company

- potentially less exacting on management than institutional investors?

Private equity

- rationalisation / cost-cutting with a view to sale in medium term (e.g. 3-5 years)

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Understanding your industry sector

High risk / high return

e.g. pharmaceuticals – high margins (see P&L)
e.g. biotech – high risk

Low margin / high volume

e.g. retail (see P&L)

Capital intensive

e.g. oil & gas – high levels of share capital and borrowings (see balance sheet)

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Understanding your industry sector

A sector focused on growth?

- e.g. technology, biotech
- invest now to create assets for the future
- low / no dividends

Or a sector focused on income?

- e.g. utilities, tobacco
- high dividends

Cyclical or non-cyclical?

- Cyclical: e.g. advertising agencies, IT, steel
- Non-cyclical: e.g. consumer staples, tobacco, healthcare

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Sources of information

On your industry sector

- Financial newspapers
- Analysts' reports
- Sector-specific journals
- Sector-specific investment websites

On your company

- Annual Report
- Quarterly financial results
- Company plans – 1yr; 3yr; 5yr
- Annual budget
- Your colleagues

Ratios to measure corporate efficiency / 'health'

e.g. from the P&L

- Net profit margin on sales ('net profit percentage') (see glossary)
- SG&A as a % of sales ("SG&A" - Sales, General & Administration)
- Revenue (or profit) per sales rep. / employee
- Revenue (or profit) per [thousand / million] units of product
- Effective tax rate

e.g. from the Balance Sheet

- Debt : equity ratio ("gearing")

e.g. from the P&L and Balance Sheet combined

- Return on Capital Employed ("ROCE") (see glossary)

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Financial measurements used in your sector

Example: pharmaceuticals

- Operating income as a % of sales – target 25%-30%
- SG&A as a % of sales – industry target of ≤ 40%
- R&D Expenses as % of net sales – industry target of 14-15%
- Effective tax rate – reduce to as low as possible

(e.g. see Astellas Pharma Inc. Q3 results, Jan 2006)

Example: retail

- Revenue per square foot
- Gross margin per square foot

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Aligning energies – e.g. Astellas Pharma

1. Protecting assets developed through R&D
   - obtaining patents
   - pursuing patent infringements

2. Reducing SG&A as % of sales
   - negotiation of group purchasing agreements

3. Focusing on Effective Tax Rate
   - restructuring business into low-tax jurisdictions (e.g. Rep. of Ireland)
   - assignment of contracts and business activities to Irish subsidiaries
   - use of holding companies in specific jurisdictions

Being an effective risk manager

Risk areas – examples:
- Report & Accounts – recording of transactions
- Offer documents – prospectuses, listing particulars, etc.

'Practical advice'
- "Do I understand this?" – don't be afraid to ask questions
- Could it be misleading?
- Does it represent a fair and balanced picture?
- You're not the "expert" - consult closely with others, e.g. Finance
- Don't let others shirk their own responsibility
- Your "gut feel"

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Internal “checks and balances”

Role of Legal / Company Secretarial dept.

- often, custodians of Internal Authorisations policies, Delegation of Authorities
- approvals process channelled through Legal / Co. Sec.

Scope, includes:

- Acquisitions / divestments
- Cap Ex
- Borrowings
- Guarantees to third parties
- In- / out-licensing of key IP assets
- Contracts above a specified value
- New subsidiaries

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Back-up slides

Glossary of terms

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Glossary of terms

NB 'Health Warning' – different companies use terms to mean different things. Check the way in which terms such as 'operating profit', 'net profit' and 'revenue' are used in your company.

Return on Capital Employed ("ROCE")	Expressed as a percentage, operating profit divided by net assets. <u>Operating profit</u> x 100% Capital employed 'Operating profit' often used to mean Profit (or "**<u>E</u>**arnings") **<u>b</u>**efore **<u>I</u>**nterest payments and **<u>T</u>**axation ("EBIT") 'Capital employed' = net assets
Net profit percentage	<u>Net profit</u> x 100% Turnover i.e. to provide net profit margin on sales
EBIT	Earnings (i.e. profit) before Interest and Tax
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation

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Earnings per Share ("EPS")	<u>Earnings* (i.e. profit after tax)</u> No. of ordinary shares ** NB Earnings, not dividends*
P/E ratio – Price / Earnings Ratio	<u>Market price per share</u> Earnings per share
Yield	The percentage return on a share, after direct tax (i.e. corporation tax) <u>Annual dividend per share</u> x 100% market price of the share

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Gearing	Ratio between that part of the capital of a business which is borrowed (i.e. debt) and that part which is provided by proprietors' funds (i.e. equity) 'Highly geared' company – most of its long-termed finance acquired from borrowing 'Low geared' company – most of its finance acquired from equity
Solvency	The ability of a business to meet **all** its outside liabilities from **all** its assets
Liquidity	The ability of a business to pay its **short-term** debts from readily realisable assets

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Legal Accounting Requirements and Reporting/Regulatory framework

Axel Viaene

EMEA Legal Director

Starbucks

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What you don't want to hear…

"Oh, *that* three billion dollars."

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2.EU REQUIREMENTS

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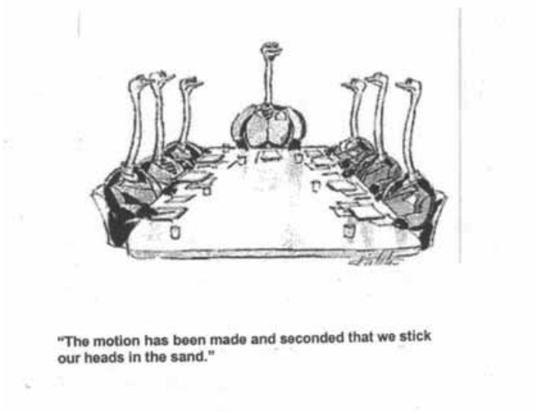

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Item 7A. **Quantitative and qualitative disclosures about market risk**

Quantitative and qualitative disclosures about market risk are included in Part II, Item 7, page 22 of this Form 10-K.

Item 8. **Financial statements and supplementary data**

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Report of independent registered public accounting firm on internal control over financial reporting	46

Consolidated statement of income

IN MILLIONS, EXCEPT PER SHARE DATA	Years ended December 31, 2004	2003	2002
REVENUES			
Sales by Company-operated restaurants	**$14,223.8**	$12,795.4	$11,499.6
Revenues from franchised and affiliated restaurants	**4,840.9**	4,345.1	3,906.1
Total revenues	**19,064.7**	17,140.5	15,405.7
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses			
Food & paper	**4,852.7**	4,314.8	3,917.4
Payroll & employee benefits	**3,726.3**	3,411.4	3,078.2
Occupancy & other operating expenses	**3,520.8**	3,279.8	2,911.0
Franchised restaurants–occupancy expenses	**1,003.2**	937.7	840.1
Selling, general & administrative expenses	**1,980.0**	1,833.0	1,712.8
Other operating expense, net	**441.2**	531.6	833.3
Total operating costs and expenses	**15,524.2**	14,308.3	13,292.8
Operating income	**3,540.5**	2,832.2	2,112.9
Interest expense–net of capitalized interest of $4.1, $7.8 and $ 14.3	**358.4**	388.0	374.1
Nonoperating (income) expense, net	**(20.3)**	97.8	76.7
Income before provision for income taxes and cumulative effect of accounting changes	**3,202.4**	2,346.4	1,662.1
Provision for income taxes	**923.9**	838.2	670.0
Income before cumulative effect of accounting changes	**2,278.5**	1,508.2	992.1
Cumulative effect of accounting changes, net of tax benefits of $9.4 and $ 17.6		(36.8)	(98.6)
Net income	**$ 2,278.5**	$ 1,471.4	$ 893.5
Per common share–basic:			
Income before cumulative effect of accounting changes	**$ 1.81**	$ 1.19	$ .78
Cumulative effect of accounting changes		(.03)	(.08)
Net income	**$ 1.81**	$ 1.16	$ .70
Per common share–diluted:			
Income before cumulative effect of accounting changes	**$ 1.79**	$ 1.18	$ .77
Cumulative effect of accounting changes		(.03)	(.07)
Net income	**$ 1.79**	$ 1.15	$ .70
Dividends per common share	**$ .55**	$ .40	$ .24
Weighted-average shares outstanding–basic	**1,259.7**	1,269.8	1,273.1
Weighted-average shares outstanding–diluted	**1,273.7**	1,276.5	1,281.5

See Notes to consolidated financial statements.

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Consolidated balance sheet

IN MILLIONS, EXCEPT PER SHARE DATA	December 31, 2004	2003
ASSETS		
Current assets		
Cash and equivalents	**$ 1,379.8**	$ 492.8
Accounts and notes receivable	**745.5**	734.5
Inventories, at cost, not in excess of market	**147.5**	129.4
Prepaid expenses and other current assets	**585.0**	528.7
Total current assets	**2,857.8**	1,885.4
Other assets		
Investments in and advances to affiliates	**1,109.9**	1,089.6
Goodwill, net	**1,828.3**	1,665.1
Miscellaneous	**1,338.4**	1,273.2
Total other assets	**4,276.6**	4,027.9
Property and equipment		
Property and equipment, at cost	**30,507.8**	28,740.2
Accumulated depreciation and amortization	**(9,804.7)**	(8,815.5)
Net property and equipment	**20,703.1**	19,924.7
Total assets	**$27,837.5**	$25,838.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 714.3**	$ 577.4
Income taxes	**331.3**	334.2
Other taxes	**245.1**	222.0
Accrued interest	**179.4**	193.1
Accrued restructuring and restaurant closing costs	**71.5**	115.7
Accrued payroll and other liabilities	**1,116.7**	918.1
Current maturities of long-term debt	**862.2**	388.0
Total current liabilities	**3,520.5**	2,748.5
Long-term debt	**8,357.3**	9,342.5
Other long-term liabilities	**976.7**	699.8
Deferred income taxes	**781.5**	1,065.3
Shareholders' equity		
Preferred stock, no par value; authorized–165.0 million shares; issued–none		
Common stock, $.01 par value; authorized–3.5 billion shares; issued–1,660.6 million shares	**16.6**	16.6
Additional paid-in capital	**2,186.0**	1,837.5
Unearned ESOP compensation	**(82.8)**	(90.5)
Retained earnings	**21,755.8**	20,172.3
Accumulated other comprehensive income (loss)	**(96.0)**	(635.5)
Common stock in treasury, at cost; 390.7 and 398.7 million shares	**(9,578.1)**	(9,318.5)
Total shareholders' equity	**14,201.5**	11,981.9
Total liabilities and shareholders' equity	**$27,837.5**	$25,838.0

See Notes to consolidated financial statements.

Consolidated statement of cash flows

IN MILLIONS	Years ended December 31, 2004	2003	2002
Operating activities			
Net income	**$ 2,278.5**	$ 1,471.4	$ 893.5
Adjustments to reconcile to cash provided by operations			
Cumulative effect of accounting changes		36.8	98.6
Depreciation and amortization	**1,201.0**	1,148.2	1,050.8
Deferred income taxes	**(171.9)**	181.4	(44.6)
Changes in working capital items			
Accounts receivable	**(35.9)**	64.0	1.6
Inventories, prepaid expenses and other current assets	**(14.9)**	(30.2)	(38.1)
Accounts payable	**86.7**	(77.6)	(11.2)
Income taxes	**84.2**	23.5	139.0
Other accrued liabilities	**70.2**	(170.7)	309.0
Other (including noncash portion of impairment and other charges)	**405.7**	622.0	491.5
Cash provided by operations	**3,903.6**	3,268.8	2,890.1
Investing activities			
Property and equipment expenditures	**(1,419.3)**	(1,307.4)	(2,003.8)
Purchases of restaurant businesses	**(149.7)**	(375.8)	(548.4)
Sales of restaurant businesses and property	**306.3**	390.6	369.5
Other	**(120.4)**	(77.0)	(283.9)
Cash used for investing activities	**(1,383.1)**	(1,369.6)	(2,466.6)
Financing activities			
Net short-term borrowings (repayments)	**35.9**	(533.5)	(606.8)
Long-term financing issuances	**225.6**	398.1	1,502.6
Long-term financing repayments	**(1,077.0)**	(756.2)	(750.3)
Treasury stock purchases	**(621.0)**	(391.0)	(670.2)
Common stock dividends	**(695.0)**	(503.5)	(297.4)
Proceeds from stock option exercises	**580.5**	171.2	195.0
Other	**(82.5)**	(121.9)	115.9
Cash used for financing activities	**(1,633.5)**	(1,736.8)	(511.2)
Cash and equivalents increase (decrease)	**887.0**	162.4	(87.7)
Cash and equivalents at beginning of year	**492.8**	330.4	418.1
Cash and equivalents at end of year	**$ 1,379.8**	$ 492.8	$ 330.4
Supplemental cash flow disclosures			
Interest paid	**$ 370.2**	$ 426.9	$ 359.7
Income taxes paid	**1,017.6**	608.5	572.2

See Notes to consolidated financial statements.

Consolidated statement of shareholders' equity

IN MILLIONS, EXCEPT PER SHARE DATA	Common stock Issued: Shares	Common stock Issued: Amount	Additional paid-in capital	Unearned ESOP compensation	Retained earnings	Accumulated other comprehensive income (loss): Deferred hedging adjustment	Accumulated other comprehensive income (loss): Foreign currency translation	Common stock in treasury: Shares	Common stock in treasury: Amount	Total shareholders' equity
Balance at December 31, 2001	1,660.6	$ 16.6	$1,591.2	$ (106.7)	$18,608.3	$ (9.3)	$ (1,699.5)	(379.9)	$(8,912.2)	$ 9,488.4
Net income					893.5					893.5
Translation adjustments (including tax benefits of $150.5)							106.7			106.7
Fair value adjustments–cash flow hedges (including tax benefits of $3.5)						0.8				0.8
Comprehensive income										1,001.0
Common stock cash dividends ($.24 per share)					(297.4)					(297.4)
ESOP loan payment				7.4						7.4
Treasury stock purchases								(25.6)	(686.9)	(686.9)
Common equity put option expirations and forward contracts settled									500.8	500.8
Stock option exercises and other (including tax benefits of $61.3)			156.1	0.9				13.1	110.6	267.6
Balance at December 31, 2002	1,660.6	16.6	1,747.3	(98.4)	19,204.4	(8.5)	(1,592.8)	(392.4)	(8,987.7)	10,280.9
Net income					1,471.4					1,471.4
Translation adjustments (including tax benefits of $203.2)							957.8			957.8
Fair value adjustments–cash flow hedges (including taxes of $1.6)						8.0				8.0
Comprehensive income										2,437.2
Common stock cash dividends ($.40 per share)					(503.5)					(503.5)
ESOP loan payment				7.2						7.2
Treasury stock purchases								(18.9)	(438.7)	(438.7)
Stock option exercises and other (including tax benefits of $20.5)			90.2	0.7				12.6	107.9	198.8
Balance at December 31, 2003	1,660.6	16.6	1,837.5	(90.5)	20,172.3	(0.5)	(635.0)	(398.7)	(9,318.5)	11,981.9
Net income					**2,278.5**					**2,278.5**
Translation adjustments (including tax benefits of $106.3)							**554.7**			**554.7**
Fair value adjustments–cash flow hedges (including tax benefits of $3.3)						**(15.2)**				**(15.2)**
Comprehensive income										**2,818.0**

Common stock cash dividends ($.55 per share)					(695.0)					(695.0)
ESOP loan payment				7.9						7.9
Treasury stock purchases								(22.2)	(605.3)	(605.3)
Stock option exercises and other (including tax benefits of $87.3)			348.5	(0.2)				30.2	345.7	694.0
Balance at December 31, 2004	**1,660.6**	**$ 16.6**	**$2,186.0**	**$ (82.8)**	**$21,755.8**	**$ (15.7)**	**$ (80.3)**	**(390.7)**	**$(9,578.1)**	**$ 14,201.5**

See Notes to consolidated financial statements.

Notes to consolidated financial statements

Summary of significant accounting policies

Nature of business

The Company primarily operates and franchises McDonald's restaurants in the food service industry. The Company also operates Boston Market and Chipotle Mexican Grill in the U.S. and has a minority ownership in U.K.-based Pret A Manger. In December 2003, the Company sold its Donatos Pizzeria business.

All restaurants are operated either by the Company, by independent entrepreneurs under the terms of franchise arrangements (franchisees), or by affiliates operating under license agreements.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Substantially all investments in affiliates owned 50% or less (primarily McDonald's Japan) are accounted for by the equity method.

Estimates in financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain prior period amounts have been reclassified to conform to current year presentation.

Revenue recognition

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. Sales by Company-operated restaurants are recognized on a cash basis. Fees from franchised and affiliated restaurants include continuing rent and service fees, initial fees and royalties received from foreign affiliates and developmental licensees. Continuing fees and royalties are recognized in the period earned. Initial fees are recognized upon opening of a restaurant, which is when the Company has performed substantially all initial services required by the franchise arrangement.

Foreign currency translation

The functional currency of substantially all operations outside the U.S. is the respective local currency, except for a small number of countries with hyperinflationary economies, where the functional currency is the U.S. Dollar.

Advertising costs

Advertising costs included in costs of Company-operated restaurants primarily consist of contributions to advertising cooperatives and were (in millions): 2004–$619.5; 2003–$596.7; 2002–$532.3. Production costs for radio and television advertising, primarily in the U.S., are expensed when the commercials are initially aired. These production costs as well as other marketing-related expenses included in selling, general & administrative expenses were (in millions): 2004–$103.1; 2003–$113.1; 2002–$115.3. In addition, significant advertising costs are incurred by franchisees through advertising cooperatives in individual markets.

Stock-based compensation

The Company accounts for all stock-based compensation as prescribed by Accounting Principles Board Opinion No. 25. The Company discloses pro forma net income and net income per common share, as provided by Statement of Financial Accounting Standards (SFAS) No.123, as amended by SFAS No.148, *Accounting for Stock-Based Compensation.*

The pro forma information was determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No.123. The fair value of these options was estimated at the date of grant using an option pricing model. For pro forma disclosures, the options' estimated fair value was amortized over their vesting period. The following tables present the pro forma disclosures and the weighted-average assumptions used to estimate the fair value of these options.

Pro forma disclosures

IN MILLIONS, EXCEPT PER SHARE DATA	2004	2003	2002
As reported–net income	**$2,278.5**	$1,471.4	$ 893.5
Add: Total stock-based employee compensation included in reported net income, net of related tax effects	**6.8**	4.4	—
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	**(156.3)**	(224.1)	(251.7)

McDONALD'S CORPORATION

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The following trademarks used herein are the property of McDonald's Corporation and its affiliates or the Company: Boston Market, Chipotle Mexican Grill and McDonald's.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

In millions, except per share data	(unaudited) September 30, 2005	December 31, 2004
Assets		
Current assets		
Cash and equivalents	$ 2,297.1	$ 1,379.8
Accounts and notes receivable	755.4	745.5
Inventories, at cost, not in excess of market	141.7	147.5
Prepaid expenses and other current assets	607.6	585.0
Total current assets	3,801.8	2,857.8
Other assets		
Investments in and advances to affiliates	1,049.8	1,109.9
Goodwill, net	1,934.6	1,828.3
Miscellaneous	1,305.5	1,338.4
Total other assets	4,289.9	4,276.6
Property and equipment		
Property and equipment, at cost	29,687.8	30,507.8
Accumulated depreciation and amortization	(9,935.9)	(9,804.7)
Net property and equipment	19,751.9	20,703.1
Total assets	$27,843.6	$27,837.5
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	$ 524.1	$ 714.3
Dividend payable	843.0	—
Income taxes	499.9	331.3
Other taxes	243.0	245.1
Accrued interest	159.3	179.4
Accrued payroll and other liabilities	1,150.7	1,188.2
Current maturities of long-term debt	714.7	862.2
Total current liabilities	4,134.7	3,520.5
Long-term debt	7,350.2	8,357.3
Other long-term liabilities	903.5	976.7
Deferred income taxes	939.0	781.5
Shareholders' equity		
Preferred stock, no par value; authorized – 165.0 million shares; issued – none		
Common stock, $.01 par value; authorized – 3.5 billion shares; issued – 1,660.6 million shares	16.6	16.6
Additional paid-in capital	2,661.5	2,186.0
Unearned ESOP compensation	(82.3)	(82.8)
Retained earnings	22,907.5	21,755.8
Accumulated other comprehensive income (loss)	(591.5)	(96.0)
Common stock in treasury, at cost; 402.1 and 390.7 million shares	(10,395.6)	(9,578.1)
Total shareholders' equity	14,516.2	14,201.5
Total liabilities and shareholders' equity	$27,843.6	$27,837.5

See notes to condensed Consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

In millions, except per share data	Quarters Ended September 30, 2005	Quarters Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Revenues				
Sales by Company-operated restaurants	$4,000.7	$3,664.8	$11,411.4	$10,459.7
Revenues from franchised and affiliated restaurants	1,326.4	1,260.9	3,814.2	3,594.7
Total revenues	5,327.1	4,925.7	15,225.6	14,054.4
Operating costs and expenses				
Company-operated restaurant expenses	3,389.9	3,086.3	9,761.6	8,899.2
Franchised restaurants – occupancy expenses	256.6	252.9	767.4	745.0
Selling, general & administrative expenses	547.3	474.6	1,605.0	1,428.6
Other operating (income) expense, net	(26.5)	13.0	5.5	58.4
Total operating costs and expenses	4,167.3	3,826.8	12,139.5	11,131.2
Operating income	1,159.8	1,098.9	3,086.1	2,923.2
Interest expense	86.6	88.1	264.7	267.9
Nonoperating (income) expense, net	(12.6)	5.3	(29.9)	26.1
Income before provision for income taxes	1,085.8	1,005.5	2,851.3	2,629.2
Provision for income taxes	350.4	227.1	857.6	748.6
Net income	$ 735.4	$ 778.4	$ 1,993.7	$ 1,880.6
Net income per common share	$ 0.59	$ 0.62	$ 1.58	$ 1.49
Net income per common share–diluted	$ 0.58	$ 0.61	$ 1.56	$ 1.48
Dividends declared per common share	$ 0.67	$ 0.55	$ 0.67	$ 0.55
Weighted average shares	1,253.9	1,256.7	1,260.6	1,258.1
Weighted average shares–diluted	1,271.6	1,268.4	1,277.7	1,270.6

See notes to condensed Consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

In millions	Quarters Ended September 30, 2005	Quarters Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Operating activities				
Net income	$ 735.4	$ 778.4	$ 1,993.7	$ 1,880.6
Adjustments to reconcile to cash provided by operations				
Noncash charges and credits:				
Depreciation and amortization	309.5	293.2	932.5	882.6
Deferred income taxes	(5.2)	(48.1)	(30.5)	(48.7)
Income taxes audit benefit	—	—	(178.8)	—
Share-based compensation	35.1	2.0	119.0	8.9
Other	1.2	28.2	46.3	81.0
Changes in working capital items	387.3	217.1	326.6	151.8
Cash provided by operations	1,463.3	1,270.8	3,208.8	2,956.2
Investing activities				
Property and equipment expenditures	(372.4)	(311.7)	(974.9)	(795.5)
Purchases and sales of restaurant businesses and sales of property	(81.5)	14.3	(69.7)	94.8
Other	(28.0)	(13.7)	(86.3)	(44.0)
Cash used for investing activities	(481.9)	(311.1)	(1,130.9)	(744.7)
Financing activities				
Notes payable and long-term financing issuances and repayments	(406.8)	(342.3)	(607.0)	(779.7)
Treasury stock purchases	(117.3)	(77.2)	(1,128.6)	(611.0)
Proceeds from stock option exercises	280.3	78.1	582.0	308.3
Other	(1.1)	7.8	(7.0)	(65.0)
Cash used for financing activities	(244.9)	(333.6)	(1,160.6)	(1,147.4)
Cash and equivalents increase	736.5	626.1	917.3	1,064.1
Cash and equivalents at beginning of period	1,560.6	930.8	1,379.8	492.8
Cash and equivalents at end of period	$2,297.1	$1,556.9	$ 2,297.1	$ 1,556.9

See notes to condensed Consolidated financial statements.

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ASTELLAS PHARMA INC.

Q3 RESULTS, JAN 2006

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<Supplemental Document>

Consolidated results

1.Detailed Information for Operating Results (billion yen, rounddown under 0.1 billion yen)

	Mar 05 3Q	Mar 06 3Q	Change	Mar 05 Full Year	Forecasts Mar 06 Full Year	Forecasts Change (%)
Net Sales	666.7	678.8	12.1	862.0	885.0	2.7%
Cost of Sales	219.5	208.4	-11.1	279.3		
Ratio of Net sales	32.9%	30.7%		32.4%		
Gross Profit	447.1	470.3	23.2	582.6		
SG&A	278.5	287.6	9.0	390.4		
Ratio of Net sales	41.8%	42.4%		45.3%		
Advertising and sales promotion	44.6	56.6	12.0	62.5		
Research and Development	90.1	92.5	2.3	127.6	135.0	5.8%
Other	143.8	138.4	-5.3	200.3		
Operating Income	168.5	182.7	14.1	192.2	205.0	6.6%
Ratio of Net sales	25.3%	26.9%		22.3%	23.2%	
Non Operating Income	9.2	13.6	4.3	13.1		
Non Operating Expenses	7.7	3.8	-3.9	11.1		
Ordinary Income	170.0	192.5	22.4	194.2	211.0	8.6%
Ratio of Net sales	25.5%	28.3%		22.5%	23.8%	
Special Gain	6.1	4.4	-1.6	9.9		
Special Loss	27.0	21.9	-5.1	88.9		
Merger Costs	6.5	14.2	7.6	60.3		
Other	20.4	7.7	-12.7	28.5		
Income before Income Taxes	149.0	174.9	25.8	115.2		
Income Taxes	61.1	66.0	4.9	54.3		
Net Income	86.9	107.6	20.7	59.5	117.0	96.5%
Ratio of Net sales	13.0%	15.9%		6.9%	13.2%	

- Zepharma's results of 2H/Mar. 05 (Oct.1, 2004 - Mar. 31, 2005) are not included in net sales and operating income in Mar. 05 Full Year and 3Q. (Equity method accounting)
- Extra shipment at the end of March 2005 in preparation for a temporary stop of the ordering/distribution system following the merger contributed to sales and operating income for Mar 05, 11.9 bil yen and 7.3 bil yen, respectively. Forecasts and 3Q results for Mar. 06 include the negative impacts of the extra shipment.

2.Exchange Rate (Average Rate) (yen)

	Mar 05 3Q	Mar 06 3Q	Mar 05 Full Year	Forecasts Mar 06 Full Year
Yen/USD	108	112	108	112
Yen/EUR	135	137	135	135

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3.Segment Information by Business (billion yen)

		Mar 05 3Q	Mar 06 3Q	Change	Mar 05 Full Year	Forecasts Mar 06 Full Year	Forecasts Change (%)
Sales	Consolidated	666.7	678.8	12.1	862.0	885.0	2.7%
	Pharmaceutical	651.7	670.1	18.4	841.8	873.8	3.8%
	Ratio of Net sales	97.8%	98.7%		97.7%	98.7%	
	Rx	641.9	653.2	11.3	831.9	850.8	2.3%
	Other	14.9	8.6	-6.2	20.1	11.2	-44.5%
	Ratio of Net sales	2.2%	1.3%		2.3%	1.3%	

- Zepharma's sales of 2H/Mar. 05 (Oct.1, 2004 - Mar. 31, 2005) are not included in consolidated sales and pharmaceutical sales in Mar. 05 3Q and Full Year. (Equity method accounting)
- Sales of home care business and medical supplies and systems business are not included in pharmaceutical business.

4.Segment Information by Area (billion yen)

		Mar 05 3Q	Mar 06 3Q	Change	Mar 05 Full Year	Forecasts Mar 06 Full Year	Forecasts Change (%)
Sales		666.7	678.8	12.1	862.0	885.0	2.7%
	Japan	413.4	404.4	-8.9	529.6	514.0	-3.0%
	Ratio of Net sales	62.0%	59.6%		61.4%	58.1%	
	North America	102.5	107.5	4.9	129.7	151.5	16.8%
	Ratio of Net sales	15.4%	15.8%		15.1%	17.1%	
	Europe	138.8	152.6	13.7	186.4	200.5	7.6%
	Ratio of Net sales	20.8%	22.5%		21.6%	22.7%	
	Asia	11.8	14.2	2.3	16.2	19.0	17.1%
	Ratio of Net sales	1.8%	2.1%		1.9%	2.1%	
Operating Income		168.5	182.7	14.1	192.2	205.0	6.6%
	Japan	137.7	140.0	2.2	161.1		
	Ratio of Net sales	81.7%	76.6%		83.8%		
	North America	24.5	20.6	-3.9	23.0		
	Ratio of Net sales	14.6%	11.3%		12.0%		
	Europe	11.3	24.5	13.2	11.7		
	Ratio of Net sales	6.7%	13.4%		6.1%		
	Asia	2.2	3.0	0.7	2.3		
	Ratio of Net sales	1.3%	1.7%		1.2%		
	Eliminations	-7.3	-5.5	1.8	-6.1		

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5.Overseas Sales

billion yen

		Mar 05 3Q	Mar 06 3Q	Change	Mar 05 Full Year	Forecasts Mar 06 Full Year	Change (%)
Overseas Sales		272.3	298.0	25.6	358.6	400.6	11.7%
	Ratio of Net sales	40.9%	43.9%		41.6%	45.3%	
North America		134.5	141.4	6.9	172.2		
	Ratio of Net sales	20.2%	20.8%		20.0%		
Europe		115.6	132.2	16.5	154.8		
	Ratio of Net sales	17.3%	19.5%		18.0%		
Asia		22.2	24.3	2.1	31.5		
	Ratio of Net sales	3.3%	3.6%		3.7%		

6.Research and Development Expenses

billion yen

		Mar 05 3Q	Mar 06 3Q	Change	Mar 05	Forecasts Mar 06	Change (%)
Research and Development		90.1	92.5	2.3	127.6	135.0	5.8%
	Ratio of Net sales	13.5%	13.6%		14.8%	15.3%	
Parent		65.6	69.1	3.4	92.4	100.0	8.2%

7.Detailed Pharmaceutical Segment Information

1)Consolidated sales of major products

billion yen

	Mar 05 3Q	Mar 06 3Q	Change	Mar 05 Full Year	Forecasts Mar 06 Full Year
Prograf	96.1	109.8	13.7	122.8	141.9
Sales by Astellas	92.6	105.6	13.0	118.0	136.6
Japan*	8.0	10.9	2.8	10.5	13.7
North America	51.6	56.3	4.6	63.5	73.0
Europe	29.0	32.8	3.7	38.4	42.9
Asia	3.7	5.5	1.7	5.4	7.0
Exports to third parties(Europe)	3.5	4.2	0.7	4.8	5.3
Harnal	103.2	105.2	1.9	135.9	134.9
Sales by Astellas	74.5	78.7	4.2	98.8	100.1
Japan	37.7	36.1	-1.6	49.4	47.0
Europe	33.5	38.3	4.8	44.8	47.6
Asia	3.2	4.2	1.0	4.5	5.5
Bulk and Royalties (Europe)	28.7	26.4	-2.2	37.0	34.8
Funguard/Mycamine	10.6	12.0	1.4	13.8	18.6
Japan*	10.6	11.4	0.7	13.8	16.0
North America	-	0.6	0.6	-	2.6
Protopic	16.4	10.5	-5.8	21.4	16.7
Japan*	1.9	1.9	-0.0	2.6	3.0
North America	10.0	4.6	-5.3	12.9	8.2
Europe	4.0	3.7	-0.3	5.5	5.3
Asia	0.3	0.2	-0.1	0.4	0.3
Vesicare	0.8	9.3	8.5	2.7	17.2
North America	-	4.5	4.5	1.1	10.0
Europe	0.8	4.8	4.0	1.5	7.2

- Mar 05 sales of products marked by (*) in Japan are shown on a net sales basis, while those of other products and Mar 06 figures of all products are on a gross sales basis.

10

	Q1 FY 2004	Q2 FY 2004	Q3 FY 2004	Q4 FY 2004	FY 2004	FY 2005	FY 2006
SALARIES & BENEFITS							
SALARIES & WAGES	$159,075	$159,075	$159,075	$159,075	$636,300	$668,115	$701,521
OVERTIME SALARIES & WAGES					$0		
FRINGE BENEFITS	$75,000	$75,000	$75,000	$75,000	$300,000	$315,000	$330,750
HOLIDAY PAY					$0		
SICK PAY					$0		
RELOCATION BONUS	$0	$0	$0	$0	$0	$0	$0
LONG SERV. LEAVE **(?)**					$0		
BONUS				$0	$0	$0	$0
CAR ALLOWANCE							
SUPERANNUATION							
PAYROLL TAX					$0	$0	$0
TOTAL SALARIES & BENEFITS	$234,075	$234,075	$234,075	$234,075	$936,300	$983,115	$1,032,271
TRAVEL EXPENSES							
TRAVEL-- LOCAL							
AIR	$26,250	$26,250	$26,250	$26,250	$105,000	$110,250	$115,763
OTHER					$0	$0	$0
TRAVEL-- OVERSEAS							
AIR					$0	$0	$0
OTHER					$0	$0	$0
MEETINGS & CONVENTIONS							
ANNUAL FEES					$0		
OTHER					$0	$0	$0
MEALS & ENTERTAINMENT					$0	$0	$0
TOTAL TRAVEL EXPENSES	$26,250	$26,250	$26,250	$26,250	$105,000	$110,250	$115,763

1 of 4

	Q1 FY 2004	Q2 FY 2004	Q3 FY 2004	Q4 FY 2004	FY 2004	FY 2005	FY 2006
FACILITY EXPENSES							
OFFICE RENTAL - Legal's share	$15,875	$15,875	$15,875	$15,875	$63,500	$66,675	$70,009
APARTMENT RENTAL AND FEES -incl utilities and servicing					$0	$0	$0
UTILITIES - Office, Legal's share							
CLEANING					$0	$0	$0
MINOR REPAIRS					$0	$0	$0
FACILITY MAINTENANCE						$0	$0
TELEPHONE							
MOBILE PHONES					$0	$0	$0
FAX					$0	$0	$0
OTHER					$0	$0	$0
OFFSITE STORAGE					$0	$0	$0
TOTAL FACILITY EXPENSES	$15,875	$15,875	$15,875	$15,875	$63,500	$66,675	$70,009

	Q1 FY 2004	Q2 FY 2004	Q3 FY 2004	Q4 FY 2004	FY 2004	FY 2005	FY 2006
OFFICE RELATED EXPENSES							
POSTAGE							
STAMPS					$0	$0	$0
COURIER FEES (includes stamps)					$0	$0	$0
OFFICE SUPPLIES							
PRINT					$0	$0	$0
STATIONERY	$8,250	$8,250	$8,250	$8,250	$33,000	$34,650	$36,383
GENERAL PUBLICATIONS					$0	$0	$0
COMPUTER SUPPLIES (ACCESSORIES, NOT HARD/SOFTWARE)	$2,925	$2,925	$2,925	$2,925	$11,700	$12,285	$12,899
TOTAL OFFICE RELATED EXPENSES	$11,175	$11,175	$11,175	$11,175	$44,700	$46,935	$49,282

	Q1 FY 2004	Q2 FY 2004	Q3 FY 2004	Q4 FY 2004	FY 2004	FY 2005	FY 2006
EQUIPMENT EXPENSES							
PROGRAM & SYSTEM FEES					$0	$0	$0
HARDWARE- OTHER PURCHASES					$0		
SOFTWARE PURCHASES					$0		
DEPRECIATION	$5,525	$5,525	$5,525	$5,525	$22,100	$23,205	$24,365
OFFICE EQUIPMENT RENTAL					$0	$0	$0
EQUIPMENT MAINTENANCE					$0	$0	$0
OTHER REPAIRS & MAINTENANCE					$0	$0	$0
OFFICE FURNITURE & FITTING (PURCHASES)					$0		
SUPERANNUATION **(SALVAGE VALUE?)**					$0		
OTHER RENTAL					$0	$0	$0
TOTAL EQUIPMENT EXPENSES	$5,525	$5,525	$5,525	$5,525	$22,100	$23,205	$24,365

	Q1 FY 2004	Q2 FY 2004	Q3 FY 2004	Q4 FY 2004	FY 2004	FY 2005	FY 2006
PERSONNEL EXPENSES							
TRAINING & DEVELOPMENT					$0	$0	$0
STAFF RECRUITMENT					$0		
PROFESSIONAL MEMBERSHIP					$0	$0	$0
SOCIAL EVENTS					$0	$0	$0
STAFF AMENETIES					$0	$0	$0
PERSONNEL TRANSFER					$0		
TEMPORARY HELP					$0	$0	$0
RELOCATION					$0		
EMPLOYEE MEALS					$0		
CANTEEN					$0	$0	$0
TUITION REIMBURSEMENT					$0	$0	$0
EMPLOYEE MEDICAL FEES							
TOTAL PERSONNEL EXPENSES	$0	$0	$0	$0	$0	$0	$0

	Q1 FY 2004	Q2 FY 2004	Q3 FY 2004	Q4 FY 2004	FY 2004	FY 2005	FY 2006
GENERAL AUTO EXPENSES							
AUTO MAINTENANCE					$0	$0	$0
AUTO INSURANCE					$0	$0	$0
AUTO LEASE EXPENSE	$7,125	$7,125	$7,125	$7,125	$28,500	$29,925	$31,421
MOTOR VEHICLE ACCIDENT					$0		
MOTOR VEHICLE PETROL							
MOTOR VEHICLE REGO (?)					$0	$0	$0
TOTAL GENERAL AUTO EXPENSES	$7,125	$7,125	$7,125	$7,125	$28,500	$29,925	$31,421
OTHER EXPENSES							
CONSULTANT FEES	$850	$850	$850	$850	$3,400	$3,570	$3,749
PROFESSIONAL FEES	$0				$0	$0	$0
LEGAL SERVICES	$1,188,000	$1,188,000	$1,188,000	$1,188,000	$4,752,000	$4,989,600	$5,239,080
FILING FEES					$0		
ACCOUNTING FEES					$0	$0	$0
WORKER'S COMPENSATION	$0	$0	$0	$0	$0		
INSURANCE GENERAL					$0	$0	$0
SECURITY SERVICES					$0		
SPECIAL PROJECTS					$0		
CHARITABLE CONTRIBUTION					$0		
OTHER FEES & SERVICES					$0		
MISCELLANEOUS EXP	$3,425	$3,425	$3,425	$3,425	$13,700	$14,385	$15,104
LOBBYIST FEES							
TOTAL OTHER EXPENSES	$1,192,275	$1,192,275	$1,192,275	$1,192,275	$4,769,100	$5,007,555	$5,257,933
TOTAL	**$1,492,300**	**$1,492,300**	**$1,492,300**	**$1,492,300**	**$5,969,200**	**$6,267,660**	**$6,581,043**

Association of Corporate Counsel

Tuesday, May 17
2:00–3:30 pm

701 Financial Analysis for In-house Practitioners: Reading Between the Headlines
New to In-house Track

Timothy M. Donovan
Corporate Secretary
NEC Laboratories America, Inc.

Christopher J. Kearns
Senior Vice President, General Counsel
Hot Topic, Inc.

701 Financial Analysis for In-house Practitioners: Reading Between the Headlines

Timothy Donovan
Christopher Kearns

ACC's 3rd Annual Corporate Counsel University: New Challenges/New Solutions

May 15-17, Westin Bonaventure Hotel Los Angeles

ACC's 2005 Corporate Counsel University

May 15-17 Westin Los Angeles

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The Accountants in Your Life

- Securities Exchange Commission
- Audit Committee Members
- CFO
- Controller
- Internal Audit
- Independent Auditors
- Consultants (M&A deals, forensic audits)
- Business Partners

ACC's 2005 Corporate Counsel University May 15-17 Westin Los Angeles

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Accounting Events in Your Life

- SEC Filings
- Annual report to Stockholders
- M&A Transactions
- Contracts w/ Gov't
  - FAR's
  - Municipal contracts
- Strategic Planning
- Raising capital
  - Borrowing
  - Leases
- Capital Spending
  - Depreciation
  - Amortization
- Budgets & Forecasts
  - Accruals
  - Reserves
  - Write offs

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What *should* Financials Tell You?

- Liquidity and Solvency
  - Measure capacity to pay bills and claims
- Credit Risk *or* Leverage
  - Should we provide loans ?
- Profitability
- Operations or Asset Management
  - Do they manage AR, Inventory, effectively?

Basic Financial Statements

- Balance Sheet
- Statement of Income
- Statements of Cash Flow
- Notes to Financial Statements
- MD&A
- Interim Financials

Rules and Rule Makers

- GAAP
- GAAS
- FASB
- PCAOB
- AICPA
- SEC
  - Regulation SK
  - Regulation SX
  - CorpFin
- IRS
- NBA

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Be familiar with . . .

- Audited vs. Unaudited
- Cash vs. Accrual Methods
- Review vs. Audit
- Opinion Letters
- Contingent Liabilities
- Deferred Revenues /Accrued Expenses

ACC's 2005 Corporate Counsel University May 15-17 Westin Los Angeles

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Be familiar with . . .cont'd

- Recognition of Revenue/Expense (*Peregrine Systems*)
- Order Receipt vs. Sale
- Capitalize vs. Expense (World Com)
- ISO's and Non-Statutory Options
- COGS

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Important Ratios to Know . . .

- Return on Investment/Assets
- Earnings Per Share
- EBITDA
- Inventory Turnover Days
- AR Turnover Days
- Operating Margin%
- Pro Forma Ratios
- What's important to your industry?

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More about ratios

- www.toolkit.cch.com/text/P06_7000.asp
- www.onlinewbc.gov/docs/finance/fs_ratio1.html
- http://edwardlowe.org (Entrepreneur Resource Center)
- http://cpaclass.com/fsa/ratio-01a.htm

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Pop Quiz

1. Where do stock options appear on the books?
2. Why is high inventory level a red flag?
3. How can you move debt off the balance sheet without paying for it?
4. What is channel stuffing?
5. What's wrong with related party transactions? TYCO
6. What is the general ledger?
7. What is the ACFE?
8. What is "burn rate"?

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Tips for the Novice

- Learn industry hot spots and conventions
  - Software Industry – Percentage of Completion and Revenue Recognition (Computer Associates)
  - Internet Advertising – Unique Visitors
  - Consumer Products – Inventory Buybacks
  - Retailers - Same store sales increases
  - Energy – Oil/Gas reserves (Royal Dutch Shell)
- In house counsel role is closer to the Outside Auditor than the CFO
- Review Financial Policies and Controls
- Find a friendly accountant who speaks your language

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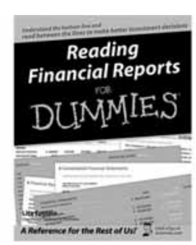
More information . . .

- SEC
  www.sec.gov/investor/pubs/begfinstmtguide.htm
- ACC Infopaks
- FASB
- ACFE www.acfe.net
- Barron's Dictionary of Finance and Investment Terms



ACC's 2005 Corporate Counsel University May 15-17 Westin Los Angeles

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
ENRON CORP. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
(In Millions, Except Per Share Amounts)
(Unaudited)

<CAPTION>

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
<s>	<c>	<c>	<c>	<c>
Revenues	$50,060	$16,886	$100,189	$30,03
Costs and Expenses				
Cost of gas, electricity, metals and other products	48,173	15,324	96,332	27,21
Operating expenses	1,027	892	2,020	1,63
Depreciation, depletion and amortization	240	192	453	36
Taxes, other than income taxes	78	59	166	12
	49,518	16,467	98,971	29,34
Operating Income	542	419	1,218	69
Other Income and Deductions				
Equity in earnings of unconsolidated equity affiliates	100	55	174	31
Gains on sales of non-merchant assets	18	72	50	9
Other income, net	133	63	146	13
Income Before Interest, Minority Interests and Income Taxes	793	609	1,588	1,23
Interest and Related Charges, net	215	196	416	35
Dividends on Company-Obligated Preferred Securities of Subsidiaries	18	21	36	3
Minority Interests	30	39	70	7
Income Tax Expense	126	64	256	13
Net Income Before Cumulative Effect of Accounting Changes	404	289	810	62
Cumulative Effect of Accounting Changes, net of tax	-	-	19	
Net Income	404	289	829	62
Preferred Stock Dividends	21	21	41	4
Earnings on Common Stock	$ 383	$ 268	$ 788	$ 58
Earnings Per Share of Common Stock				
Basic				
Before Cumulative Effect of Accounting Changes	$ 0.51	$ 0.37	$ 1.02	$ 0.8
Cumulative Effect of Accounting Changes	-	-	0.02	
Basic Earnings per Share	$ 0.51	$ 0.37	$ 1.04	$ 0.8
Diluted				
Before Cumulative Effect of Accounting Changes	$ 0.45	$ 0.34	$ 0.92	$ 0.7
Cumulative Effect of Accounting Changes	-	-	0.02	
Diluted Earnings per Share	$ 0.45	$ 0.34	$ 0.94	$ 0.7
Average Number of Common Shares Used in Computation				
Basic	757	733	755	72
Diluted	891	862	882	85

ITEM 1. FINANCIAL STATEMENTS - (Continued)
ENRON CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In Millions)
(Unaudited)

<CAPTION>

	June 30, 2001	December 31, 2000
ASSETS		
<s>	<c>	<c>
Current Assets		
Cash and cash equivalents	$ 847	$ 1,374
Trade receivables (net of allowance for doubtful accounts of $453 and $133, respectively)	11,234	10,396
Other receivables	1,347	1,874
Assets from price risk management activities	8,815	12,018
Inventories	913	953
Deposits	2,412	2,433
Other	756	1,333
Total Current Assets	26,324	30,381
Investments and Other Assets		
Investments in and advances to unconsolidated equity affiliates	5,934	5,294
Assets from price risk management activities	9,023	8,988
Goodwill	3,527	3,638
Other	7,843	5,459
Total Investments and Other Assets	26,327	23,379
Property, Plant and Equipment, at cost		
Natural gas transmission	6,287	6,916
Electric generation and distribution	3,784	4,766
Fiber-optic network and equipment	926	839
Construction in progress	809	682
Other	2,481	2,256
	14,287	15,459
Less accumulated depreciation, depletion and amortization	3,546	3,716
Property, Plant and Equipment, net	10,741	11,743
Total Assets	$63,392	$65,503

<FN>
The accompanying notes are an integral part of these consolidated financial statements.
</TABLE>

<PAGE>
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PART I. FINANCIAL INFORMATION - (Continued)
ITEM 1. FINANCIAL STATEMENTS - (Continued)
ENRON CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In Millions)
(Unaudited)

<CAPTION>

	June 30, 2001	December 31, 2000

LIABILITIES AND SHAREHOLDERS' EQUITY

<s>	<c>	<c>
Current Liabilities		
Accounts payable	$ 9,646	$ 9,777
Liabilities from price risk management activities	7,470	10,495
Short-term debt	3,457	1,679
Customers' deposits	1,820	4,277
Other	1,920	2,178
Total Current Liabilities	24,313	28,406
Long-Term Debt	9,355	8,550
Deferred Credits and Other Liabilities		
Deferred income taxes	1,758	1,644
Liabilities from price risk management activities	10,062	9,423
Other	2,866	2,692
Total Deferred Credits and Other Liabilities	14,686	13,759
Minority Interests	2,395	2,414
Company-Obligated Preferred Securities of Subsidiaries	903	904
Shareholders' Equity		
Second preferred stock, cumulative, no par value	116	124
Mandatorily Convertible Junior Preferred Stock, Series B, no par value	1,000	1,000
Common stock, no par value	9,416	8,348
Retained earnings	3,827	3,226
Accumulated other comprehensive income	(1,606)	(1,048)
Common stock held in treasury	(861)	(32)
Restricted stock and other	(152)	(148)
Total Shareholders' Equity	11,740	11,470
Total Liabilities and Shareholders' Equity	$63,392	$65,503

PART I. FINANCIAL INFORMATION - (Continued)
ITEM 1. FINANCIAL STATEMENTS - (Continued)
ENRON CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(In Millions)
(Unaudited)

<CAPTION>

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
<s>	<c>	<c>
Cash Flows From Operating Activities		
Reconciliation of net income to net cash provided by (used in) operating activities		
Net income	$ 829	$ 627
Cumulative effect of accounting changes, net of tax	(19)	-
Depreciation, depletion and amortization	453	364
Deferred income taxes	188	31
Gains on sales of non-merchant assets	(50)	(90)
Changes in components of working capital:		
Net margin deposit activity	(2,342)	(350)
Other working capital	(800)	(174)
Net assets from price risk management activities	782	(799)
Merchant assets and investments:		
Realized (gains) losses on sales	(64)	29
Proceeds from sales	479	553
Additions	(175)	(1,206)
Unrealized losses	21	111
Other, net	(639)	357
Net Cash Used in Operating Activities	(1,337)	(547)
Cash Flows From Investing Activities		
Capital expenditures	(1,200)	(1,009)
Equity investments	(1,088)	(390)
Proceeds from sales of non-merchant assets	1,423	105
Acquisitions of subsidiary stock	-	(485)
Business acquisitions, net of cash acquired	(34)	(358)
Other investing activities	(262)	(117)
Net Cash Used in Investing Activities	(1,161)	(2,254)
Cash Flows From Financing Activities		
Issuance of long-term debt	2,864	2,479
Repayment of long-term debt	(1,782)	(431)
Net increase in short-term borrowings	1,169	1,301
Issuance of common stock	185	264
Issuance (redemption) of preferred securities of subsidiaries	-	(95)
Dividends paid	(256)	(265)
Acquisition of treasury stock	(209)	(129)
Other financing activities	-	107
Net Cash Provided by Financing Activities	1,971	3,231
Increase (Decrease) in Cash and Cash Equivalents	(527)	430
Cash and Cash Equivalents, Beginning of Period	1,374	288
Cash and Cash Equivalents, End of Period	$ 847	$ 718
Changes in Components of Other Working Capital		
Receivables	$ (937)	$(2,615)
Inventories	(114)	36
Payables	(139)	2,319
Other	390	86

Total	$ (800)	$ (174)

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

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PEREGRINE SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	December 31, 2001 (unaudited)	March 31, 2001 (audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 180,558	$ 286,658
Short-term investments	28,836	—
Accounts receivable, net of allowance for doubtful accounts of $14,784 and $11,511, respectively	190,096	180,372
Other current assets	77,326	57,044
Total current assets	476,816	524,074
Property and equipment, net of accumulated depreciation of $75,234 and $45,699, respectively	105,845	82,717
Goodwill, net of accumulated amortization of $533,924 and $334,178, respectively	1,417,199	1,192,855
Other intangible assets, investments and other, net of accumulated amortization of $52,227 and $24,015, respectively	348,170	204,120
	$ 2,348,030	$ 2,003,766
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 25,216	$ 36,024
Accrued expenses	202,628	200,886
Current portion of deferred revenue	126,875	86,653
Current portion of long-term debt	2,361	1,731
Revolving line of credit	100,000	—
Total current liabilities	457,080	325,294
Deferred revenue, net of current portion	16,111	8,299
Other long-term liabilities	10,096	17,197
Long-term debt, net of current portion	4,035	884
Convertible subordinated notes	263,196	262,327
Total liabilities	750,518	614,001
Stockholders' Equity:		
Preferred stock, $0.001 par value, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.001 par value, 500,000 shares authorized, 192,308 and 160,359 shares issued and outstanding, respectively	192	160
Additional paid-in capital	3,235,859	2,342,235
Accumulated deficit	(1,595,062)	(917,104)
Unearned portion of deferred compensation	(28,027)	(22,151)
Cumulative translation adjustment	(5,107)	(3,950)
Treasury stock, 492,677 and 414,154 shares held at cost, respectively	(10,343)	(9,425)

Total stockholders' equity	1,597,512	1,389,765
	$ 2,348,030	$ 2,003,766

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

PEREGRINE SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share and share amounts)

(unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2001	2000	2001	2000
Revenues:				
Licenses	$ 75,145	$ 99,543	$ 263,221	$ 249,380
Services	100,010	57,064	258,984	144,266
Total revenues	175,155	156,607	522,205	393,646
Costs and Expenses:				
Cost of licenses	861	435	3,063	1,445
Cost of services	50,458	30,211	129,968	77,779
Amortization of purchased technology	7,669	3,321	18,305	7,862
Sales and marketing	83,575	60,362	222,711	150,326
Research and development	39,808	19,138	93,482	50,450
General and administrative	20,299	13,001	49,375	34,923
Acquisition costs and other	64,536	103,090	671,481	306,886
Total costs and expenses	267,206	229,558	1,188,385	629,671
Loss from operations before interest (net) and income tax benefit (expense)	(92,051)	(72,951)	(666,180)	(236,025)
Interest income (expense), net	(3,823)	224	(6,209)	307
Loss before income tax benefit (expense)	(95,874)	(72,727)	(672,389)	(235,718)
Income tax benefit (expense)	7,574	(11,114)	(5,568)	(26,078)
Net loss	$ (88,300)	$ (83,841)	$ (677,957)	$ (261,796)
Net loss per share — basic and diluted:				
Net loss per share	$ (0.46)	$ (0.58)	$ (3.90)	$ (1.95)
Shares used in computation	191,801	145,590	173,964	134,111

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

PEREGRINE SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended December 31, 2001	Nine Months Ended December 31, 2000
Cash flows from operating activities:		
Net loss	$ (677,957)	$ (261,796)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization, acquisition costs and other	719,320	331,288
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	9,332	(63,749)
Other current assets	(15,134)	(18,876)
Other assets	(18,591)	(10,958)
Accounts payable and other liabilities	(19,709)	5,488
Accrued expenses	(98,582)	(19,009)
Deferred revenue	(2,236)	11,165
Net cash used in operating activities	(103,557)	(26,447)
Cash flows from investing activities:		
Acquisitions and investments, net of cash acquired	(96,272)	11,265
Purchases of property and equipment	(34,190)	(37,502)
Net cash used in investing activities	(130,462)	(26,237)
Cash flows from financing activities:		
Issuance of note receivable	—	(1,000)
Issuance of long-term debt, net	103,781	260,569
Issuance of common stock	26,213	14,047
Treasury stock purchased	(918)	(5,619)
Net cash provided by financing activities	129,076	267,997
Effect of exchange rate changes on cash and cash equivalents	(1,157)	47
Net increase (decrease) in cash and cash equivalents	(106,100)	215,360
Cash and cash equivalents, beginning of period	286,658	33,511
Cash and cash equivalents, end of period	$ 180,558	$ 248,871
Cash paid during the period for:		
Interest	$ 19,987	$ 364
Income taxes	$ 6,641	$ 1,547
Supplemental Disclosure of Noncash Investing Activities:		
Stock issued and other noncash consideration for acquisitions and investments	$ 877,090	$ 1,601,880

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

Tyco - 1/02

RELATED PARTY TRANSACTIONS

The 1983 Key Employee Corporate Loan Program, as amended, funded by Tyco International (US) Inc., is designed to encourage ownership of Tyco common shares by executives and other key employees. Loans under the program may be used for the payment of taxes due as a result of the vesting of ownership of shares granted under Tyco's restricted share ownership plan.

The Compensation Committee administers the loan program. The Committee authorizes loans, which may not exceed the amount allowable under any regulation of the United States Treasury or other state or federal statute. Loans may be required to be secured by Tyco common shares owned by the borrower or may be unsecured. Loans under the loan program generally bear interest at Tyco's incremental short-term borrowing rate (which was 3.7% for 2001). The loans are generally repayable in ten years or when the borrower reaches age 69, whichever occurs first, except that earlier payments must be made in the event that the borrower's employment with Tyco or its subsidiaries terminates. The borrower is also required to make loan payments upon the sale or other disposition of Tyco common shares with respect to which loans have been granted, other than gifts to certain family members.

At September 30, 2001, the amount of loans outstanding under the loan program totaled $11,230,192, of which $0 was outstanding for Mr. Kozlowski, $231,718 was outstanding for Mr. Boggess, $20,702 was outstanding for Mr. Meelia and $0 was outstanding for Mr. Swartz. The largest amount of indebtedness under the program during fiscal 2001 for each of the named officers was $23,009,703 for Mr. Kozlowski, $6,500,000 for Mr. Swartz, $20,702 for Mr. Meelia and $231,718 for Mr. Boggess. Dr. Gromer did not have a loan under the program during fiscal 2001.

Mr. Walsh, a director, was instrumental in bringing about the acquisition by a subsidiary of the Company of The CIT Group, Inc. (now Tyco Capital Corporation) of Livingston, New Jersey. For his services, Tyco paid Mr. Walsh a fee of $10 million. In addition, at Mr. Walsh's request, Tyco contributed $10 million to a charitable fund established under The Community Foundation of New Jersey. Mr. Walsh, as trustee of this fund, recommends the public charities to which contributions are made. At the time of the acquisition, Mr. Walsh owned 50,000 shares of common stock of The CIT Group, Inc., which were converted to 34,535 Tyco common shares at the exchange ratio applicable to all stockholders of CIT.

Certain Tyco directors and executive officers owned TyCom shares or TyCom options, which were converted to Tyco shares and Tyco options upon the amalgamation of a subsidiary of Tyco with TyCom at the exchange ratio applicable to all holders of TyCom shares and options. See footnote (1) in "Proposal Number One--Nominees for Director" and footnote (1) in "Security Ownership of Certain Beneficial Owners and Management" for information regarding their holdings as of November 30, 2001.

Tyco 2/03

RELATED PARTY TRANSACTIONS

Tyco has amounts due related to loans and advances issued to employees under Tyco's Key Employee Loan Program, relocation programs and other advances made to executives. Loans were provided to employees under Tyco's Key Employee Loan Program for the payment of taxes upon the vesting of common shares granted under our restricted share ownership plans. The loans are unsecured and bear interest, payable annually, at a rate based on the six month LIBOR rate, calculated annually as the average of the 12 rates in effect on the first day of the month. Loans are generally repayable in ten years, except that earlier payments are required under certain circumstances. In addition, Tyco made loans secured by mortgages to certain employees under employee relocation programs. These loans are generally payable in 15 years and are secured by the underlying property. During fiscal 2002, the maximum amount outstanding under these programs was $117.5 million. Loans receivable under these programs, as well as other unsecured advances outstanding, were $88.1 and $93.4 million at September 30, 2002 and 2001, respectively. Certain of the above loans totaling $30.3 million and $33.7 million at September 30, 2002 and 2001, respectively, are non-interest bearing. Interest income on interest bearing loans totaled $5.5 million, $1.3 million, and $3.7 million in fiscal 2002, fiscal 2001 and fiscal 2000, respectively.

During fiscal 2002, Mr. Kozlowski had outstanding loans from Tyco. The rate of interest charged on such loans was 1.91%. The maximum amount outstanding under these loans during fiscal 2002 was $51.0 million plus accrued interest of $3.2 million, and the amount outstanding at September 30, 2002 was $47.0 million. During fiscal 2001 and 2000, Mr. Kozlowski had outstanding loans from Tyco under our Key Employee Loan Program. The maximum amount of such loans previously reported in each of fiscal 2001 and 2000 were understated by approximately $25 million, plus accrued interest at the time. In addition, during fiscal 2001 and fiscal 2000, Mr. Kozlowski received $9,719,696 and $19,439,392 in unauthorized mortgage loans that were later forgiven without proper approval. Mr. Kozlowski also received an unauthorized gross-up payment to cover taxes payable due to income associated with such forgiveness. See footnote 21 to the SUMMARY COMPENSATION TABLE set forth in the caption entitled "Executive Compensation" above.

During fiscal 2002, Mr. Swartz had outstanding loans from Tyco. The rate of interest charged on such loans was 2.11%. The maximum amount outstanding under these loans during fiscal 2002 was $25.0 million plus accrued interest of $1.6 million and such loans were repaid in full prior to September 30, 2002. During

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fiscal 2001 and 2000, Mr. Swartz had outstanding loans from Tyco under our Key Employee Loan Program. The maximum amount of such loans previously reported in each of fiscal 2001 and 2000 were understated by approximately $12.5 million, plus accrued interest at the time. In addition, during fiscal 2001 and fiscal 2000, Mr. Swartz received $4,896,000 and $9,792,000, respectively, in unauthorized mortgage loans that were later forgiven without proper approval. Mr. Swartz also received an unauthorized gross-up payment to cover taxes payable due to income associated with such forgiveness. See footnote 22 to the SUMMARY COMPENSATION TABLE set forth in the caption entitled "Executive Compensation" above.

During fiscal 2002, Mr. Belnick had outstanding loans from Tyco. The maximum amount outstanding under these loans during fiscal 2002 was $16.5 million and the amount outstanding at September 30, 2002 was $14.8 million. Of the $14.8 million, $14.5 million is a non-interest bearing mortgage loan and

$0.3 million is in the form of an interest bearing promissory note. The interest rate on the promissory note was 2.78% for fiscal 2002. We have filed a civil complaint against Mr. Belnick for breach of fiduciary duty and other wrongful conduct. More information with respect to this action was reported on September 17, 2002 in a Current Report on Form 8-K and is set forth in Item 3 "Legal Proceedings" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2002.

During fiscal 2002, Mr. Boggess had an outstanding loan under the Key Employee Loan Program. The rate of interest charged on such loan was 2.03%. The maximum amount outstanding under this loan during fiscal 2002 was $0.4 million and such loan was repaid in full prior to September 30, 2002.

During fiscal 2002, Mr. Mead had an outstanding loan under the Key Employee Loan Program. The rate of interest charged on such loan was 2.03%. The maximum amount outstanding under this loan during fiscal 2002 was $0.9 million and such loan was repaid in full prior to September 30, 2002.

During fiscal 2002, Mr. Meelia had an outstanding loan under the Key Employee Loan Program. The rate of interest charged on such loan was 2.06%. The maximum amount outstanding under this loan during fiscal 2002 was $1.7 million and the amount outstanding at September 30, 2002 was $18,200.

During the fourth quarter of fiscal 2002, the Board and our new senior corporate management team adopted a policy under which no new loans are allowed to be granted to any officers of Tyco and existing loans are not allowed to be extended or modified.

Certain Tyco directors and executive officers owned TyCom Ltd. common shares or options, which were converted to Tyco common shares and Tyco options upon the amalgamation of a subsidiary of Tyco with TyCom Ltd. on December 18, 2001 at the exchange ratio applicable to all holders of TyCom Ltd. common shares and options.

Joshua M. Berman was a director of Tyco until December 5, 2002. From March 1, 2000 through July 31, 2002, Tyco also engaged Mr. Berman to render legal and other services. During this period, Tyco compensated Mr. Berman at an annual rate of $360,000 and provided Mr. Berman with health benefits, secretarial assistance, a cell phone and electronic security services for his homes. Tyco also reimbursed Mr. Berman for legal fees and expenses incurred by him in connection with matters relating to Tyco pursuant to indemnification provisions applicable to all directors of Tyco. Mr. Berman is a retired counsel to the law firm Kramer Levin Naftalis & Frankel LLP, which provided legal services to us in fiscal 2002.

Mr. York is a director of Tyco. Mr. York is the Chief Executive Officer of MicroWarehouse, Inc., a specialty catalog and online retailer and direct marketer of brand name computers and related technology. MicroWarehouse sells products to Tyco and its subsidiaries. Tyco and its subsidiaries paid MicroWarehouse approximately $2.3 million for products in 2002, which represents less than 0.25% of MicroWarehouse's total sales in 2002.

Mr. O'Neill has been nominated for election to Tyco's Board. Mr. O'Neill is the Chief Executive Officer and a director of Imperial Chemical Industries PLC, a manufacturer of a wide range of industrial and consumer products and materials. ICI sells products and materials to Tyco and its subsidiaries. Tyco

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and its subsidiaries paid ICI approximately $19.6 million for products and

materials in 2002, which represents less than 0.25% of ICI's total sales in 2002.

Ms. Wijnberg has been nominated for election to Tyco's Board. Ms. Wijnberg is a Senior Vice President and Chief Financial Officer of Marsh & McLennan Companies, Inc., a professional services firm with insurance and reinsurance brokerage, consulting and investment management businesses. Marsh & McLennan and its subsidiaries provide insurance, consulting and investment management products and services to Tyco and its subsidiaries. Tyco and its subsidiaries paid Marsh & McLennan and its subsidiaries approximately $19.1 million for products and services in 2002, which represents less than 0.25% of Marsh & McLennan and its subsidiaries' total revenue in 2002.

As previously reported in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2002, and our Annual Report on Form 10-K for the fiscal period ended September 30, 2002, Tyco and certain of our current and former directors are defendants in four pending actions purporting to bring suit derivatively on behalf of Tyco against certain former officers and certain current and former directors of Tyco and against Tyco as a nominal defendant in connection with alleged improper conduct of former officers of Tyco relating to the use of our funds, our Key Employee Loan Program and assets. The ultimate resolution of these actions is not yet determinable.

As previously reported on September 17, 2002 and October 8, 2002 in our Current Reports on Form 8-K, Tyco has filed civil complaints against Mr. Kozlowski and Mr. Belnick, and an arbitration claim against Mr. Swartz, for breach of fiduciary duty and other wrongful conduct relating to alleged abuses of our Key Employee Loan Program and relocation program, unauthorized bonuses, unauthorized payments, self-dealing transactions or other improper conduct.

As previously reported on September 17, 2002 in our Current Report on Form 8-K, on June 17, 2002, Tyco filed a civil complaint against our former director Frank E. Walsh, Jr. for breach of fiduciary duty, inducing breaches of fiduciary duty and related wrongful conduct involving a $20 million payment by Tyco, $10 million of which went to Mr. Walsh with the balance going to a charity of which Mr. Walsh is trustee. The payment was purportedly made for Mr. Walsh's assistance in arranging our acquisition of The CIT Group, Inc. On December 17, 2002, Mr. Walsh pleaded guilty to a felony violation of New York law in the Supreme Court of the State of New York, (New York County) and settled a civil action for violation of federal securities laws brought by the Securities and Exchange Commission in United States District Court for the Southern District of New York. Both the felony charge and the civil action were brought against Mr. Walsh based on such payment. The felony charge accused Mr. Walsh of intentionally concealing information concerning the payment from Tyco's directors and shareholders while engaged in the sale of Tyco securities in the State of New York. The SEC action alleged that Mr. Walsh knew that the registration statement covering the sale of Tyco securities as part of the CIT acquisition contained a material misrepresentation concerning fees payable in connection with the acquisition. Pursuant to the plea and settlement, Mr. Walsh paid $20 million in restitution to Tyco on December 17, 2002. Our claims against Mr. Walsh are still pending.

Tyco has filed a civil complaint against Messrs. Kozlowski and Swartz pursuant to Section 16(b) of the Securities Exchange Act of 1934 for disgorgement to Tyco of short-swing profits from transactions in our common shares believed to exceed $40 million. The action seeks disgorgement of profits, interest, attorneys' fees and costs.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Sample Auditor Opinion

To the Shareholders of WorldCom, Inc.:

We have audited the accompanying consolidated balance sheets of WorldCom, Inc. (a Georgia corporation) and subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, shareholders' investment and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WorldCom, Inc. and subsidiaries as of December 31, 2000 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2000, the Company changed its method of accounting for certain activations and installation fee revenues and expenses.

ARTHUR ANDERSEN LLP

Jackson, Mississippi
March 7, 2002

(Financial Statements ultimately were revealed to be problematic.)

Financial & Accounting Essentials for In-house Counsel

Wayne R. Lewis
Senior Vice President & Corporate Legal Counsel
Affiliated Computer Services, Inc.

Nancy Richardson
CFO
Beal Bank

Reading Financial Statements

Presented by:

Nancy A. Richardson, Esq., CPA

1. Statement of Income
   - A. Revenue
   - B. Cost of Goods Sold
   - C. Operating Expense
   - D. Other Revenue and Expense
   - E. Items Below the Operations Line
     - i. Extraordinary Items
     - ii. Discontinued Operations
     - iii. Restructuring
     - iv. Change in Accounting Estimate
     - v. Change in Accounting Method
     - vi. Change in Reporting Entity

2. Balance Sheet
   - A. Assets
     - i. Current Assets
     - ii. Inventories
     - iii. Long Term Investments
     - iv. Property and Equipment
     - v. Intangibles Assets and Other Deferred Costs
   - B. Liabilities
     - i. Current Liabilities
     - ii. Income Taxes – Payable and Deferred
     - iii. Long Term Debt
     - iv. Other Liabilities
   - C. Stockholders' Equity
     - i. Preferred and Common Stock
     - ii. Stock Options
     - iii. Additional Paid In Capital
     - iv. Retained Earnings
     - v. Accumulated Other Comprehensive Income
     - vi. Treasury Stock

3. Statement of Retained Earnings or Changes in Stockholders' Equity

4. Statement of Cash Flows

    i. Cash flows from operating activities
        a. Amount represent the cash effects of transactions or events
        b. Amounts result from a company's normal operations for delivering or producing goods for sale and/or providing services
        c. Amounts are derived from activities that enter into the determination of net income
    ii. Cash flows from investing activities
        a. Lending money and collecting on loans
        b. Acquiring and selling or disposing of available for sale or held to maturity securities
        c. Acquiring and selling or disposing of productive assets that are expected to generate revenue over a long period of time
    iii. Cash flows from financing activities
        a. Obtaining resources from owners and providing them with a return on, and a return of, their investment
        b. Borrowing money and repaying amounts borrowed, or otherwise settling the obligation
        c. Obtaining and paying for other resources from creditors on long term credit
    iv. Net change in cash during the period

5. Notes to the financial statements

    A. Summary of Significant Accounting Policies
    B. Related Party Transactions
    C. Commitments and contingencies

6. Industry Specific Challenges

7. Other concepts to understand: audited
   materiality

FINANCIAL REPORTING

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES "GAAP"

1. What is it?
2. What are sources?

Source:
Miller GAAP Guide

ACCOUNTING PRINCIPLES BOARD
"APB"

1. History
2. APB Opinions

FINANCAIL ACCOUNTING STANDARDS BOARD
"FASB"

1. FASB Statements
2. Emerging Issues Task Force ("ETIF")

SECURITIES AND EXCHANGE COMMISSION
"SEC"

1. Rules, Interpretive Releases, Staff Accounting Bulletins

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD
"PCAOB"

1. Formation

2. PCAOB Pronouncements

ANNUAL REPORTS

1. Purpose
2. Current Trend - wraps

8-K

1. Purpose
2. New Disclosures

10-Q

1. Purpose
2. When filed

10-K

1. Purpose
2. When filed

11-K

1. Purpose

Reg S-X

1. Purpose of Regulation

Reg S-K

1. Purpose of Regulation

CEO/CFO Certification Process
(SOX 302 & 906)

1. The “new world”
2. Form of 302 certification
3. Purpose of 906 certification
4. What due diligence does CEO/CFO perform

SEC ISSUES

SARBANES-OXLEY

1. Scope of act
2. Section 404
3. Attorney Standards
4. New 8-K Disclosures

ACCOUNTING ISSUES

1. Revenue Recognition
2. Reserves
3. Accruals
4. Prepaids
5. Option Expensing

Handy Resources:

Dictionary of Accounting Terms, Siegel and Shim, Barron's

Accounting Handbook, Siegel and Shim, Barron's

The Vest Pocket CPA, Dauber, Siegel and Shim, Prentice Hall

Finance and Accounting for Nonfinancial Managers, Weaver and Weston, McGraw Hill

Barron's Business Review Books Accounting, Eiser, Barron's

Portable MBA in Finance and Accounting, Livingstone and Grossman, Wiley

And if you really need some basics:

The Accounting Game, Mullis and Orloff, Sourcebooks Inc.

