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

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

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

ACC Association of Corporate Counsel

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?

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

ACC Association of Corporate Counsel

Basic Financial Statements

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

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Rules and Rule Makers

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

Be familiar with . . .

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

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

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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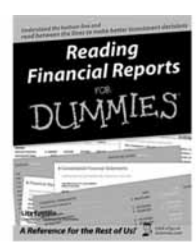
More information . . .

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



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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,		Six Months Ended June 30,	
	2001	2000	2001	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.
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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.)