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U.S. Securities and Exchange Commission

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 19657 / April 17, 2006

Accounting and Auditing Enforcement Release No. 2414 / April 17, 2006

SEC v. Tyco International Ltd., 06 CV 2942 (S.D.N.Y. filed April 17, 2006)

SEC Brings Settled Charges Against Tyco International Ltd. Alleging Billion Dollar Accounting Fraud

The U.S. Securities and Exchange Commission today filed a settled civil injunctive action in the United States District Court for the Southern District of New York against Tyco International Ltd. The Commission's complaint in that action alleges that, from 1996 through 2002, Tyco violated the federal securities laws by, among other things, utilizing various improper accounting practices and a scheme involving transactions with no economic substance to overstate its reported financial results by at least one billion dollars.

The Commission's complaint alleges that Tyco inflated its operating income by at least \$500 million as a result of improper accounting practices related to some of the many acquisitions that Tyco engaged in during that time. Tyco's improper acquisition accounting included undervaluing acquired assets, overvaluing acquired liabilities, and misusing accounting rules concerning the establishment and utilization of purchase accounting reserves. The complaint further alleges that, apart from its acquisition activities, Tyco improperly established and used various kinds of reserves to make adjustments at the end of reporting periods to enhance and smooth its publicly reported results and to meet earnings forecasts.

The complaint alleges that Tyco inflated its operating income by \$567 million from its fiscal year 1998 through its fiscal quarter ended December 31, 2002, by means of connection fees that Tyco's ADT Security Services, Inc. subsidiary charged to dealers from whom it purchased security monitoring contracts. Because the connection fee was fully offset by a simultaneous increase in the purchase price ADT allocated to the dealers' security monitoring contracts, the connection fee transaction lacked economic substance and should not have been recorded in Tyco's income statement. In 2003, Tyco restated its operating income and cash flow relating to the connection fees.

The complaint further alleges that, from September 1996 through early 2002, Tyco failed to disclose in its proxy statements and annual reports certain executive compensation, executive indebtedness, and related party transactions of its former senior management. Tyco also incorrectly

accounted for certain executive bonuses it paid in its fiscal years 2000 and 2001, thereby excluding from its operating expenses the costs associated with those bonuses. Finally, the complaint alleges that Tyco violated the antibribery provisions of the Foreign Corrupt Practices Act when employees or agents of its Earth Tech Brasil Ltda. subsidiary made payments to Brazilian officials for the purpose of obtaining or retaining business for Tyco.

Between 1996 and 2002, as a result of these various practices, Tyco made false and misleading statements or omissions in its filings with the Commission and its public statements to investors and analysts.

Without admitting or denying the allegations in the Commission's complaint, Tyco has consented to the entry of a final judgment permanently enjoining it from violating Section 17(a) of the Securities Act of 1933, Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), 14(a), and 30A(a) of the Securities Exchange Act of 1934, and Exchange Act Rules 10b-5, 12b-20, 13a-1, 13a-13, 13b2-1, and 14a-9. The proposed final judgment also orders Tyco to pay \$1 in disgorgement and a \$50 million civil penalty.

The Commission's investigation is continuing with respect to individuals. The Commission acknowledges the assistance and cooperation of the Manhattan District Attorney and the New York City Police Department.

See [Litigation Release No. 17722](#) / September 12, 2002; [Litigation Release No. 17896](#) / December 17, 2002; [Exchange Act Release No. 48328](#) / August 13, 2003.

► [SEC Complaint in this matter](#)

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