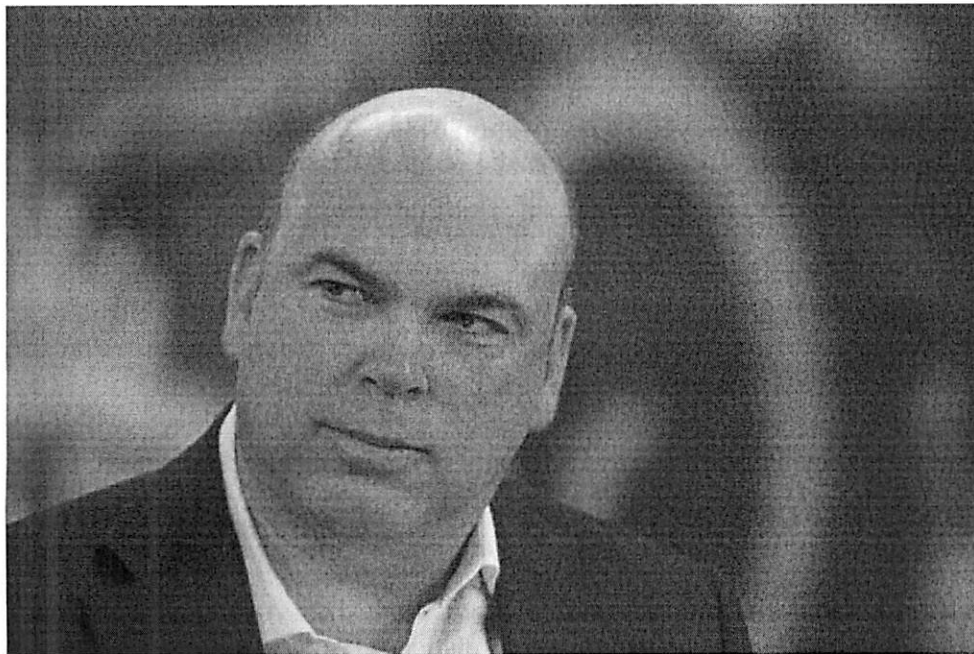


U.S. Charges Autonomy Founder With Fraud Over Hewlett-Packard Deal

U.S. prosecutors allege that British entrepreneur Mike Lynch and his lieutenants artificially inflated revenue at Autonomy



Mike Lynch, the former chief executive of Autonomy, could face up to 20 years in prison if he's convicted on the 14 counts of conspiracy and wire fraud. Photo: Chris Ratcliffe/Bloomberg News

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By

Stu Woo

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LONDON—The U.S. government has charged one of Britain's best-known tech entrepreneurs with fraud related to a software firm he founded and which Hewlett-Packard HPQ 0.59% bought, only to discover alleged accounting issues.

In criminal charges filed to the U.S. District Court in Northern California on Thursday, prosecutors alleged that Mike Lynch, the former chief executive of Autonomy Corp., and his lieutenants used false and misleading documents to make the business-software maker more attractive to a potential purchaser.

Hewlett-Packard in 2011 bought Autonomy for \$11.1 billion. A year later it took an \$8.8 billion write-down related to the deal and said it was duped into overpaying because of what it said appeared to be willfully inflated financial statements.

In 2015, Hewlett-Packard filed a lawsuit in London against Mr. Lynch and Autonomy's former finance chief seeking \$5.1 billion in damages. The case is still winding through British courts. In April, a U.S. federal jury found Autonomy's former finance chief, Sushovan Hussain, guilty of falsifying financial statements and exaggerating the company's value. Mr. Hussain has denied wrongdoing and is appealing.

Mr. Lynch's lawyers on Friday said they rejected the U.S. government's charges and said the matter should be resolved in British courts.

"The claims amount to a business dispute over the application of U.K. accounting standards, which is the subject of a civil case with H-P in the courts of England, where it belongs," said Chris Morvillo, of Clifford Chance, and Reid Weingarten, of Steptoe & Johnson, in a joint statement.

Mr. Lynch's lawyers said "there was no conspiracy at Autonomy" and that Hewlett-Packard "has a long history of failed acquisitions" and was trying to blame Autonomy "for its own crippling errors."

After acquiring Autonomy, Hewlett-Packard in 2015 split into two companies, hardware company HP Inc. and corporate-computing giant Hewlett-Packard Enterprise Co. The Autonomy business went with HPE.

An HPE spokesman said Friday that the company was "pleased" that Mr. Lynch and others had been criminally charged and that it "looks forward to seeing justice served."

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U.S. prosecutors alleged in the court filings that Mr. Lynch and his lieutenants artificially inflated revenue through a variety of methods, including by backdating written agreements to record revenue in earlier periods. They also say Mr. Lynch and others at Autonomy made false and misleading statements to independent auditors, analysts and regulators.

The filings say Mr. Lynch, as well as Autonomy's former vice president of finance, could face up to 20 years in prison and a \$250,000 fine if convicted on the 14 counts of conspiracy and wire fraud.

Mr. Lynch currently runs a venture-capital firm in Britain called Invoke Capital.

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H-P Says It Was Duped in Deal, Takes \$8.8 Billion Charge

Continued from Page One

Autonomy purchase, was forced out in 2011 and replaced by Ms. Whitman.

H-P General Counsel John Schultz said the internal investigation into the Autonomy deal began in May when he told Ms. Whitman he had just spoken with a senior executive in the Autonomy software business, who had alleged that executives at Autonomy had been cooking the books before the acquisition. The identity of that senior executive couldn't be determined.

A spokesman for Autonomy's accounting firm, Deloitte LLP, said Tuesday: "Deloitte UK categorically denies that it had any knowledge of any accounting improprieties or any misrepresentations in Autonomy's financial statements, or that it was complicit in any accounting improprieties or misrepresentations."

Mr. Lynch, the former Autonomy CEO, said H-P is "completely and utterly wrong." He said of Autonomy: "It is a business we spent 10 years building. It was a world leader. It was destroyed in less than a year by the petty infighting at H-P."

The accounting-fraud allegations punctuated another grim set of financial results for H-P, one of the world's largest sellers of personal computers, printers and other technology products and services. In recent years, it has been hurt by executive turnover, cost cuts, mounting debt and slowing demand for some products.

H-P said Tuesday it swung to a \$6.9 billion loss for its fiscal fourth quarter ended Oct. 31, while revenue fell 7% from a year earlier. The charge for writing down Autonomy totaled \$8.8 billion, of which more than \$5 billion is related to the account-



'There appears to have been a willful sustained effort by some Autonomy employees to inflate the underlying financial metrics....with the intent to mislead investors and potential buyers.'

MEG WHITMAN
H-P CEO



'I'm both stunned and disappointed to learn of Autonomy's alleged accounting improprieties. The developments are a shock to the many who believed in the company, myself included.'

LEO APOTHEKER
Former H-P CEO



'We completely reject the allegations....I can't understand how you can write down \$9 billion of value and say somehow this was all caused by something you didn't notice when you did due diligence with 300 people.'

MICHAEL LYNCH
Founder of Autonomy

Britain's biggest software company and second-largest in Europe, after Germany's SAP AG. Its customers include intelligence agencies, big corporations, banks and law firms. H-P said then that Autonomy was key to its transformation into a higher-margin seller of software.

H-P said Tuesday that Autonomy, before it was acquired, had mischaracterized some sales of low-margin hardware as software and had recognized some deals with partners as revenue, even when a customer never

bought the product.

At least one year before the H-P acquisition, an Autonomy executive brought concerns about the company's accounting practices to U.S. regulators including the SEC, according to people familiar with the matter. Autonomy didn't trade on U.S. exchanges prior to the H-P deal, so it is unclear whether U.S. agencies had jurisdiction.

H-P's internal team was aware of talk about accounting irregularities at the time the deal was struck, people familiar with the

matter have said. At the time, one of these people said, H-P was looking for a way to unwind the deal before it closed, but couldn't find any material accounting issues.

Mr. Lynch, in an interview at the time, denied any accounting irregularities. On Tuesday, he blamed any problems at Autonomy on poor management by H-P and executive turnover.

Ms. Whitman said Tuesday the company relied on Autonomy's regular auditor Deloitte and had hired KPMG for an additional review before the deal closed. Neither firm found any irregularities then, she said. KPMG declined comment.

Mr. Schultz, H-P's general counsel, said H-P was shown "significant documentation from former Autonomy executives refuting the allegations" of any accounting issues. In hindsight, "it's fair to say those refutations were questionable," he said.

After H-P completed the deal, Autonomy's sales suffered. On several occasions, H-P said the unit didn't meet expectations.

In May 2012, Mr. Lynch left H-P. Shortly after, the unidentified Autonomy senior executive approached Mr. Schultz. Mr. Schultz said that during a phone call to discuss other matters, the Autonomy executive asked to speak with him in person.

The pair met in a conference room at H-P's Palo Alto headquarters, where the executive provided an outline of the alleged accounting fraud, Mr. Schultz said. The executive later provided some emails and financial information that Mr. Schultz said substantiated the claim.

Working with auditing firm PricewaterhouseCoopers LLP, an H-P team re-created Autonomy's

books. People familiar with the investigation said that the team found that for at least two years, Autonomy booked sales of low-margin hardware products as software and would label the cost of that hardware as marketing or other expenses, which made products appear faster growing and more profitable than they really were.

In late June 2012, Mr. Lynch met with H-P to discuss issues including "transition and obligations to the company," said Mr. Lynch's spokeswoman. She added that at the meeting, he was asked about the operation of a small number of deals, which he explained.

Mr. Lynch, who founded Autonomy in 1996 and took it public in 1998, said Tuesday he was saddened by the allegations and that he hasn't been contacted by regulatory authorities.

Ms. Whitman, who was on H-P's board when the Autonomy deal was announced, blamed the acquisition on her predecessor, Mr. Apotheker, and the company's former strategy chief, Shane Robison. "The two people who should have been held responsible are gone," she said. Mr. Robison didn't respond to requests for comment.

In a statement, Mr. Apotheker said he was "both stunned and disappointed" to learn of H-P's allegations. He said "the due diligence process was meticulous and thorough, and included two of the world's largest and most respected auditing firms working on behalf of H-P." He added that he will assist H-P and the authorities "to get to the bottom of this."

—Ben Rooney, Joann S. Lublin, Justin Scheck and Jean Eaglesham contributed to this article.