

HP's Autonomy claims supported by Air Force document

January 7 2014, by Steve Johnson

Hewlett-Packard Co.'s claim that it was hoodwinked into paying too much when it bought British software company Autonomy in 2011 is supported by newly released documents from Air Force investigators.

The Palo Alto, Calif., technology giant paid \$11 billion for Autonomy but later had to write off \$8.8 billion of that purchase, saying Autonomy officials falsely inflated their company's value.

The Air Force has reached a similar conclusion after investigating two companies doing business with Autonomy, according to an investigative document obtained Monday by the San Jose Mercury News. At least one of the companies investigated was a government contractor.

"From 2007-2011," the document said, "former Autonomy senior management engaged in numerous accounting and sales practices designed to deceive analysts, investors and potential purchasers into believing that Autonomy could, and would continue to, generate margins and revenues that it could not ultimately sustain due to such practices."

The Air Force document, first disclosed by The Washington Post, said its information came from Hewlett-Packard's internal investigation of the Autonomy deal. Until now, few details had been made public about that probe.

Michael Lynch, Autonomy's former chief executive who was fired by Hewlett-Packard in May 2012, denied wrongdoing in a statement posted

on his website.

"We strongly reject HP's allegations," it said. "The few examples seen to date in support of its allegations, such as those cited in the USAF letter, show that HP appears to have had a fundamental misunderstanding of (International Finance Reporting Standards) accounting practices, and we vehemently deny anything improper."

But HP spokesman Michael Thacker countered that "it is patently ridiculous to continue to claim that these very serious allegations, currently the subject of investigation by both the U.S. Department of Justice and the UK's Serious Fraud Office, are merely the result of a 'misunderstanding' " over accounting rule differences.

The disclosure that it grossly overpaid for Autonomy has been a major embarrassment for Hewlett-Packard, sparking a pending federal lawsuit on behalf of its shareholders and recently prompting a major shake-up of its board.

The two companies accused of helping Autonomy inflate its value were federal contractor MicroTech of Vienna, Va., and Capax Global of Morristown, N.J. The Air Force described both firms as value-added resellers, which buy products from some companies and sell them to others. They investigators said Autonomy claimed to have made money from transactions with the resellers "when no transaction closed at all."

Officials at MicroTech and Capax could not immediately be reached for comment.

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