EXHIBIT 20

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December 17, 2013

VIA E-MAIL AND FEDERAL EXPRESS

Mr. Ralph C. Ferrara
Proskauer Rose LLP
1001 Pennsylvania Ave, N.W.
Suite 400 South
Washington, DC 20004-2533

Re: Response to Allegations by Hewlett-Packard Company

Dear Mr. Ferrara:

We represent Dr. Michael Lynch ("Dr. Lynch"), the former Chief Executive Officer of Autonomy Corporation plc ("Autonomy"). We write to you in your capacity as counsel to the Demand Review Committee (the "Committee") formed by Hewlett Packard Company's ("HP") Board of Directors, in connection with shareholder derivative litigation currently pending in the Northern District of California. We write in response to your invitation to address the Committee regarding HP's acquisition and integration of Autonomy. We request that this submission be presented to the Committee and the full HP Board of Directors and, further, that it be annexed to any report prepared for or by the Committee. While this submission is necessarily circumscribed by the limited information in our possession, we believe the evidence will demonstrate that:

- HP's allegations of pre-acquisition accounting improprieties by Autonomy are false and misleading and the product of a flawed result-oriented investigation. Autonomy's auditor, Deloitte LLP ("Deloitte"), has denied knowledge of any fraud and, we believe, will stand by Autonomy's accounts.

- HP owned and operated Autonomy for more than one year before writing-down in excess of $5 billion based on claims of pre-acquisition accounting irregularities. As such, HP was well-aware of Autonomy's accounting practices and its transparency with its auditors, as reflected in Deloitte's detailed reports to Autonomy's Audit Committee (the "Audit Committee"), which HP possessed.

- At best, HP's allegations concern a relative handful of transactions, out of thousands, and a small fraction of the business that Autonomy transacted over the relevant time period. Thus, even accepting HP's dubious allegations, those allegations do not support the claimed write-down.

- The true cause of the write-down was HP's own clear, yet to date publicly undisclosed, failure to properly develop and integrate Autonomy.

- As a result of HP's rush to blame Autonomy, it made reckless statements that are easily rebutted.

Summary

In an SEC filing on November 20, 2012, and in a barrage of press statements and media interviews in the days and weeks that followed, HP and several senior HP executives, publicly accused Autonomy's former senior management of serious accounting improprieties. HP claimed a $5 billion write-down as a result of these alleged improprieties which, it asserted, occurred prior to HP's acquisition of Autonomy. It provided no detailed explanation or documentary support for this massive claimed write-down. To this day, despite repeated requests from Dr. Lynch, HP has refused to provide access to the underlying documents and information that purportedly support its claims. As a result, Dr. Lynch, a highly awarded and recognized British scientist and businessman, has had his previously unblemished reputation tarnished while HP's claims have eluded any real critical examination. This is entirely unjust and unfair.

HP's refusal to provide Dr. Lynch with access to the information supporting its vague claims suggests that it is more interested in deflecting blame away from itself rather than understanding why its claims are simply not supported by the facts. Little is known about the investigation that led to HP's allegations. For instance, HP has never disclosed: (1) the specific "accounting improprieties" that purportedly support its claims; (2) the identity of, and information provided by, the alleged whistleblower that, according to it, led to the investigation, or a basis to assess his or her credibility; (3) who was interviewed and what documents were reviewed; (4) any report of the investigation itself; and (5) the method by which HP calculated its enormous write-down. And what is known is troubling. In its rush to judgment, HP failed to interview key members of Autonomy's senior management, Autonomy's Audit Committee, and Deloitte - Autonomy's independent auditor. We also understand that the investigation only began in earnest after the write-down.

We urge the Committee and the Board to consider the following demonstrable facts and related issues before it approves any further action by HP that will only serve to compound the trouble it already faces.

First, HP's accounting allegations are false. Autonomy maintained strong accounting controls with a sophisticated independent Audit Committee and a leading outside auditor – Deloitte. As Deloitte's comprehensive reports to the Audit Committee demonstrate, Autonomy was transparent with Deloitte and the Audit Committee. Deloitte conducted a full review of

Autonomy's year-end financial reporting. In addition, consistent with the rules of the London Stock Exchange, on which Autonomy was listed, Autonomy issued, and Deloitte reviewed, more limited quarterly reporting.

Autonomy's disclosure and revenue recognition practices were proper and fully consistent with the standards under which it reported – the International Financial Reporting Standards ("IFRS") adopted by the European Union. Those standards differ from U.S. GAAP and, in some cases, allow for the recognition of revenue earlier than under U.S. GAAP. Autonomy fully informed Deloitte of material information concerning Autonomy's hardware and software sales, which Deloitte considered carefully and uniformly issued unqualified audit opinions. Deloitte has denied any knowledge of accounting irregularities at Autonomy and we have no reason to believe its viewpoint has changed.

Second, HP blamed Autonomy for the write-down to cover-up its own failure. HP acquired Autonomy at a heavy premium in an effort to radically transform itself into an exciting and innovative company in the burgeoning information technology market. It made a rich offer for several reasons. It hoped that a high bid would help to avoid a bidding war. It also hoped that a high offer would help to close the transaction quickly and avoid rival bidders having access to sensitive competitive information pursuant to the U.K. Takeover Code. Most significantly, it offered a premium because it strongly believed there were tremendous synergies between the two companies, as well as incredible potential in the growing data analytics industry.

Unfortunately, HP's successful offer was followed by a litany of failures that stifled Autonomy. HP failed to effectively develop and integrate Autonomy's cutting edge software business into its own bureaucratic and uninspired hardware business. HP replaced the management team that shrewdly developed the acquisition strategy with one that lacked the expertise and vision necessary to make the acquisition a success. Isolated and unsupported, Autonomy fell victim to an HP that was dominated by counterproductive incentives, poor management, and infighting. This, in turn, naturally led to an exodus of key Autonomy employees across all sectors of its business, including management, sales, technology and finance. The resulting significant falloff in Autonomy's revenues and HP's failure to attain the lofty expectations that had motivated the transaction are thus hardly surprising.

Third, HP's claim that Autonomy's accounting practices were hidden until the emergence of the alleged whistleblower is false. HP had owned and operated Autonomy for a full fourteen months before it publicly accused Dr. Lynch and others of misconduct. HP and its accounting advisor, KPMG LLP ("KPMG"), consulted with Deloitte prior to the acquisition, and had the opportunity to consult with them after the acquisition. The evidence will show that it had full access to and control over Autonomy's finance team, its ledgers, books, and records, and Deloitte's detailed reports to the Audit Committee. Those reports clearly demonstrate that Autonomy was fully transparent with its auditors, who carefully considered each of the accounting issues underlying the allegations.

Fourth, even accepting HP's dubious allegations as true, they could not support the claimed write-down of over $5 billion. HP has claimed accounting improprieties that fundamentally misrepresented the state of Autonomy. HP's claims, however, fail to account for the principle of materiality. While HP has refused to identify the specific transactions at issue, we understand that, after months of investigation, and out of the thousands of transactions that Autonomy conducted over the relevant time period, HP has identified approximately two dozen deals that are potentially at issue. These few deals represent a small fraction of Autonomy's revenue and HP has not explained how they could possibly justify a $5 billion write-down. And none of HP's allegations affect key valuation metrics because there was no fictitious revenue and no impact to net profit or historical cash flow.

Fifth, in HP's rush to blame Autonomy for its own failures, HP made reckless statements that are easily rebutted. What little information HP and its executives have made public reflects, at best, a fundamental misunderstanding of the relevant accounting issues. Had HP chosen to share the specific allegations and supporting documentation with Dr. Lynch and others before making public accusations of fraud, it would have recognized that its claims lacked foundation. Instead, however, HP chose to rush ahead and publicly accuse honorable people of serious misconduct. Below are some examples of public statements recklessly made by HP and several senior executives and the dispositive rebuttals to each:

Allegation	Response
HP: "Autonomy sold hardware like servers, but the company booked these as software sales in some instances, thus underplaying expenses and inflating the margins."[1]	When Autonomy reported its revenue to the market, it properly included all sales in a single category. Autonomy's cost accounting on those sales had no impact on Autonomy's operating margin because Autonomy fully expensed all costs.
HP General Counsel, John Schultz: HP was unaware of Autonomy's hardware sales and, specifically, Autonomy's sales of Dell hardware.[2]	Deloitte's reports to the Audit Committee walked the reader through the hardware sales accounting treatment. They discuss Autonomy's hardware sales, its rationale, and its accounting treatment, including sales of Dell hardware. Autonomy's ledgers plainly showed hardware revenue in a line titled "HARDWARE REVENUE."
HP CFO, Cathie Lesjak: Sales to resellers "weren't in some sense, real sales because there was no end user."[3]	Autonomy properly recognized sales to resellers because there is no IFRS revenue recognition requirement that there be an end user at the time of the sale. The reseller itself is Autonomy's customer in these cases.

1 http://dealbook.nytimes.com/2012/11/20/h-p-takes-big-hit-on-accounting-improprieties-at-autonomy.

2 http://www.bloomberg.com/news/2012-11-20/hewlett-packard-profit-forecast-8-8-billion-charge.html.

3 http://allthingsd.com/20121120/what-exactly-happened-at-autonomy.

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Allegation	Response
HP General Counsel, John Schultz: "Autonomy did not have sitting on a shelf somewhere a set of well-maintained books that would walk you through what was actually happening from a financial perspective inside the company."[4]	HP had full access to and control over Autonomy's ledgers, books, and records, including access to Deloitte's reports to the Audit Committee. As part of the reconciliation of Autonomy's and HP's accounts, HP Finance worked with these records on a detailed level.
HP CEO, Meg Whitman: "We didn't go in and question Deloitte and say, 'Are you appropriately accounting for the revenues and the operating profits.'"[5] HP CEO, Meg Whitman: Deloitte and KPMG did not see "what we now see after someone came forward to point us in the right direction."[6]	HP and KPMG consulted with Deloitte prior to the acquisition, and had the opportunity to consult with them after the acquisition. Autonomy's internal audits, accounting, and tax treatment were all fully inspected from October 3, 2011. Deloitte's reports to the Audit Committee clearly demonstrate that Autonomy was fully transparent with its auditors, who carefully considered each of the accounting issues underlying the allegations.

I. HP Acquires Autonomy at a Premium Based on Anticipated Synergies and Growth Potential, and in an Effort to Avoid Rival Bidders

Prior to HP's acquisition of Autonomy in October 2011, Autonomy was the leading software company in the U.K. Powered by innovative technology, the Intelligent Data Operating Layer ("IDOL"), Autonomy grew from a humble Cambridge start-up to a global software leader. Dr. Lynch received repeated recognition for his achievements, including being named an Officer of the Order of the British Empire.[7] Meanwhile, HP's once-mighty personal computer business was underperforming and its leaders' exploits were the source of tabloid fodder.

HP sought to reverse its fortune by acquiring Autonomy. The architects of the Autonomy acquisition at HP – its then-CEO Léo Apotheker and then-Chief Strategy and Technology Officer Shane Robison – believed that acquiring Autonomy would help to transform HP from a low-margin hardware provider to a high-margin software company and that there would be tremendous synergies between HP and Autonomy.[8]

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4 http://www.reuters.com/article/2012/11/20/us-hp-results-idUSBRE8AJ0OB20121120.

5 http://www.businessinsider.com/meg-whitman-blames-deloitte-for-autonomy-2013-1.

6 http://www.businessinsider.com/meg-whitman-hp-autonomy-blame-2012-11.

7 Dr. Lynch was also named the Confederation of British Industry's Entrepreneur of the Year, the European Business Leaders Awards' Innovator of the Year, and Management Today's Entrepreneur of the Year. He has also won an IEE Award for Outstanding Achievement.

8 HP noted in a press release that Autonomy "[c]omplements HP's existing technology portfolio and enterprise strategy" and "offers solutions that are synergistic across HP's enterprise offerings and

First, it was anticipated that Autonomy's unstructured software platform, IDOL, could be combined with HP's recently-acquired structured data software, Vertica, to create a unique dual platform solution. IDOL allows computers to process, understand and analyze unstructured information, like emails, websites, and video, while Vertica allows computers to process structured information, like databases. It was believed that the combination of the two products would be the most complete data analytics solution on the market. The head of Vertica himself, Chris Lynch, described the acquisition of Autonomy as a "game changer."

Apotheker and his successor, Meg Whitman, also recognized this potential. Apotheker heralded HP's plan, together with Autonomy, "to reinvent how both unstructured and structured data is processed, analyzed, optimized, automated and protected."[9] Whitman observed that the "exploding growth of unstructured and structured data and unlocking its value is the single largest opportunity for consumers, businesses and governments."[10]

Second, Autonomy would utilize HP's massive global sales footprint to drive Autonomy sales worldwide. During a technology conference, Apotheker recognized that HP could "leverage [its] sales force tremendously" because "Autonomy doesn't have a very large sales force" primarily selling in the "U.K. and the U.S."[11] As alluded to by Apotheker, Autonomy was underrepresented in Asia, Germany, South America, Eastern Europe, and South Africa. It had approximately 2,600 employees total. In contrast, HP had over 28,000 employees in sales alone and a strong international presence. As Whitman put it, HP would "take what is fabulous about Autonomy . . . and put it through the very powerful HP distribution system."[12]

Third, HP would utilize its complementary hardware and other lower-margin legacy assets to drive high-margin Autonomy sales. For example, HP's Enterprise Servers, Storage and Networking ("ESSN") division was a strong complement to Autonomy's substantial cloud computing presence.

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strengthens capabilities for data analytics, the cloud, industry capabilities and workflow management." http://www8.hp.com/us/en/hp-news/press-release.html?id=1056664#.Up553tJDtOU.

9 http://www8.hp.com/us/en/hp-news/press-release.html?id=1056664#.Up553tJDtOU.

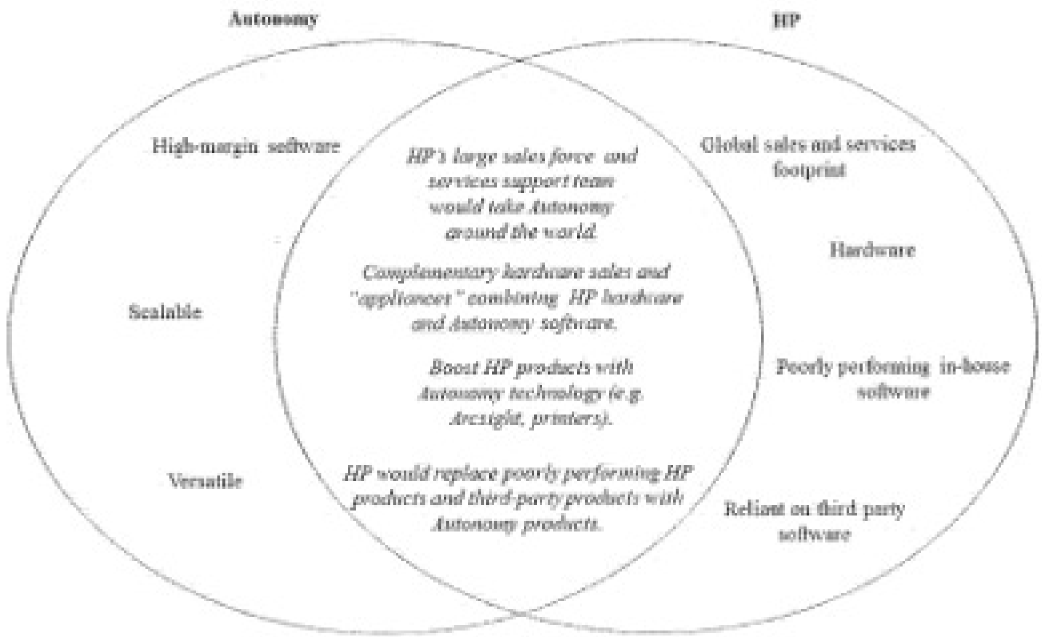
10 http://www8.hp.com/us/en/hp-news/press-release.html?id=1373462#.Up55ZtJDtOU.

11 "Hewlett Packard Co at Deutsche Bank Technology Conference – Final," September 13, 2011.

12 http://allthingsd.com/20110923/five-questions-for-hps-new-ceo-meg-whitman-and-chairman-ray-lane.

The following diagram illustrates the anticipated synergies between HP and Autonomy.

Anticipated Synergies



HP's vision was bold. It touted that Autonomy "would provide HP with the ability to reinvent the" fast growing "$55 billion business analytics software and services space."[13] HP Chairman Ray Lane observed that Autonomy "probably in the future, could [grow from a $1 billion business to] become a $4 billion or $5 billion or hopefully a $10 billion business."[14]

In view of this potential, HP was willing to pay a significant premium for Autonomy. HP also believed that a large offer would have two other positive effects. First, it would discourage potential competitors from making rival bids and triggering a bidding war. Second, it would help to swiftly bring the transaction to a close and avoid the disclosure to rivals of potentially sensitive competitive information regarding the prized impending acquisition. Under the U.K. Takeover Code, though there is no affirmative duty to disclose, any information disclosed to one bidder, including commercially sensitive information, must also be disclosed to rival bidders.

The confluence of these factors led HP to offer, and ultimately pay, a substantial premium to Autonomy's market price to acquire Autonomy. HP paid approximately $11 billion, a 64% premium to the share price.[15] The proposed acquisition was not without its detractors,

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13 http://www8.hp.com/us/en/hp-news/press-release.html?id=1056664#.Up553tJDtOU.

14 "Hewlett Packard Names Meg Whitman President and Chief Executive Officer Conference Call – Final," September 22, 2011.

15 http://www.theguardian.com/business/2011/aug/19/hewlett-packard-takeover-autonomy-software.

however. According to the Wall Street Journal, following HP's August 18, 2011 announcement of the deal, and a negative reaction in the stock market, HP attempted, without success, to withdraw from the deal.[16] HP did not disclose an attempt to exit the deal to the marketplace.

II. HP Fails to Properly Develop and Integrate Autonomy

Unfortunately, Apotheker and Robison's vision for a new HP was never realized. Their hopes, and the promise of a new HP, were thwarted by HP's colossal failure to successfully develop and integrate Autonomy. That failure was caused by a number of issues.

First, Autonomy's successful integration was undermined by the mass exodus of hundreds of critical employees.[17] On the HP side, Apotheker was fired shortly before the acquisition (but after the deal was announced) and Robison exited shortly after. On the Autonomy side, Dr. Lynch and Autonomy's former CFO, Sushovan Hussain, COO, Andy Kanter, CTO, Pete Menell, CMO, Nicole Eagan, and Vice President of Finance, Steve Chamberlain, in addition to several hundred other key personnel, resigned or were fired.

Second, HP failed to integrate IDOL and Vertica to create and develop the new product that the acquisition was, in large part, predicated upon. Following the acquisition, Autonomy worked hard to integrate with Vertica. Without warning, however, during a phone call, HP Chairman Ray Lane unilaterally cancelled the long-planned integration. Despite protests from Autonomy, Whitman later affirmed the decision.

Third, HP's incentive structure was entirely misaligned. While Whitman preached a mantra of *One HP*, HP's business units instead were incentivized to maximize their own units' numbers, even when it was to the detriment of the greater HP. In Autonomy's case, other HP business units did not receive "quota credit" or commissions for sales of Autonomy products. As a result, HP business units were incentivized to market, and sell, competing third-party software products and HP's own inferior in-house solutions rather than Autonomy software. And the ESSN staff refused to support Autonomy's efforts to use ESSN hardware because sales to Autonomy did not count against ESSN quota.

Fourth, HP's marketing efforts were counterproductive. HP prevented Autonomy from executing its own marketing strategy, and also repeatedly excluded Autonomy from participating in HP's public relations events. Moreover, HP's poor internal education efforts resulted in HP personnel, without proper knowledge and experience, improperly and ineffectively marketing Autonomy products.

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16 http://online.wsj.com/news/articles/SB10001424127887323635504578211743521976174.

17 Autonomy staff found HP's internal bureaucracy so cumbersome and painful that they compared it to "being waterboarded."

http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/9700883/Autonomys-Lynch-claims-infighting-is-wrecking-HP.html.

Fifth, though the Autonomy acquisition was premised on HP's legacy assets supporting high-margin software sales, HP ultimately hindered Autonomy sales in a number of ways:

(1) HP failed to provide needed sales and services support for Autonomy as contemplated;

(2) customers were dissatisfied – and purchased less – as a result of the loss of experienced Autonomy staff and because of their general dissatisfaction with HP;

(3) HP at times heavily discounted Autonomy products to incentivize already low-margin hardware sales, stymied Autonomy's efforts at distributing an appliance, and, at one point, refused to sell or recommend Autonomy until it was "certified" for HP hardware – a process estimated to take a year; and

(4) HP Enterprise Services ("HP ES") lobbied for control of long-time Autonomy customers and at times added a significant mark-up on Autonomy products to boost its own bottom line while delaying closure of Autonomy deals, where HP ES could not recognize revenue in that quarter.

Sixth, HP was highly dysfunctional and dominated by turf wars between its own business units, which Whitman proved unable to control. Autonomy was intended to be an independent unit that would absorb HP's Information Management ("HP IM") business unit, with Dr. Lynch leading the new unit. Robison would shepherd Autonomy's successful integration, protect its independence, and help Autonomy to navigate the much-larger and more bureaucratic HP. Autonomy was afforded this special status and independence because Autonomy's different culture and approach was critical to its continued success – a fact Whitman herself recognized. Whitman said of Autonomy, "[f]or the first year, I want to keep Autonomy autonomous enough within HP so that it can grow faster within HP than it could outside of HP. I want to see their mission advanced, not stifled by a large company acquiring an upstart revolutionary technology company that's on a good roll."[18]

HP Software ("HP SW") had other ideas. HP SW viewed Autonomy as an existential threat and sought to control it. With Autonomy trying to preserve its independence and HP SW trying to assert itself, Autonomy's position in the organization was in constant flux. This type of conflict was, unfortunately, not unique, as there was great acrimony between the HP business units.

Whitman had promised, following Robison's departure, to fill his role and address these types of issues. She proved ineffectual. Throughout his tenure at HP, Dr. Lynch warned Whitman, in detail, of myriad challenges facing Autonomy. He shared with Whitman many of the issues described above – the acrimony and conflict between the business units, the importance of retaining Autonomy's dynamic staff, and HP's interference with Autonomy

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18 http://www.streamingmedia.com/Articles/Editorial/Featured-Articles/HP-Has-Our-Swagger-Back-Declares-Whitman-at-Partner-Conference-80719.aspx.

marketing. Whitman had no meaningful response. She proved unable to control the feuding business units and was resigned to a dysfunctional HP.

HP's practices led to poor results. HP Finance's own analysis concluded that the major issue in Autonomy's performance was a sharp drop in Autonomy's historical close rates. Ultimately, by failing to properly develop and integrate Autonomy, HP missed an opportunity to capitalize on the rapidly growing "$55 billion business analytics software and services space."[19]

HP's failure to integrate Autonomy is consistent with its mismanagement of prior acquisitions. Within the same year as HP's write-down of Autonomy, HP also wrote down over $10 billion from three other prior acquisitions: (1) Compaq – a $1.2 billion write-down; (2) Palm – an $885 million write-down; and (3) EDS – an $8 billion write-down.

III. HP Blames Autonomy for its Own Failure by Claiming Pre-Acquisition Accounting Irregularities

Faced with the unpleasant prospect of explaining their responsibility for yet another failed integration to an already hostile market[20], and fearing for their own survival, HP leadership sought, and found, someone else to blame – Autonomy and its former officers.

According to HP, in May 2012, an unidentified senior Autonomy official alerted HP to accounting irregularities at Autonomy. HP did not advise Autonomy's senior management that a whistleblower had come forward, or solicit comment from them on his credibility. Nor has the alleged whistleblower's identity, position, or accounting training, if any, ever been disclosed. It is therefore unclear whether the alleged whistleblower had knowledge of the applicable IFRS accounting principles, or was even employed at Autonomy during the relevant time period.

HP then launched a flawed internal investigation that excluded those with relevant knowledge from the process. The investigation culminated in a report that purportedly found significant accounting irregularities in Autonomy's pre-acquisition accounting, yet HP failed to obtain comment from Autonomy senior management and others with pertinent knowledge regarding the report's conclusions. HP's report has never been released to the public. Nor has HP ever disclosed even basic facts regarding how the investigation was conducted, such as who was interviewed and what documents were reviewed. We urge the Board to evaluate the thoroughness of the investigation, particularly in light of the facts that: (1) the write-down conveniently occurred at year-end; and (2) we understand the investigation only began in earnest after the write-down.

On November 20, 2012, HP announced that it was writing down approximately $8.8 billion of its Autonomy purchase. It attributed over $5 billion of the write-down to accounting

[19] http://www8.hp.com/us/en/hp-news/press-release.html?id=1056664#.Up553tJDtOU.

[20] On October 3, 2011, the date of the acquisition, HP's stock price closed at $22.20. On November 19, 2012, the day before the write-down announcement, HP closed at $13.30, over a 40% drop in value.

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irregularities. HP did not, at the time, provide a public explanation or detailed accounting for that portion of the write-down. Nor has it since.[21]

Notwithstanding these claims, HP has continued to tout the power of the underlying IDOL technology that was at the core of HP's purchase. In December 2012, Whitman extolled Autonomy's "incredible technology" indicating that it would "play a significant role in [HP's] strategy going forward."[22] In an interview published on April 10, 2013, Whitman lauded IDOL as "almost magical technology."[23] HP's website, until recently, boasted that Autonomy's "ability to retrieve information surpasses even Google in the complexity and variety of data it can make connections between."

HP's allegations spurred parallel investigations by the U.S. Department of Justice, U.S. Securities & Exchange Commission, U.K. Serious Fraud Office, and U.K. Financial Reporting Council, as well as private securities and derivative suits.[24]

Dr. Lynch has made repeated demands for HP to disclose the basis for its allegations. On November 27, 2012, Dr. Lynch wrote an open letter to the HP Board requesting a detailed explanation of the write-down. On December 14, 2012, counsel for Dr. Lynch requested that HP provide a detailed explanation of its allegations and documentary support for them. On December 21, 2012, counsel for HP responded that HP "was under no obligation to respond to" Dr. Lynch's requests. In follow-up letters dated January 24, 2013 and February 14, 2013, counsel for Dr. Lynch renewed Dr. Lynch's request for such information. On August 15, 2013, we met with counsel to the Committee and requested this information. Each of these requests was denied.

The end result is a grossly unfair dynamic in which HP is free to make vague and misleading accusations while denying the subjects of those accusations access to the witnesses and documents that ostensibly underlie them. That outcome is no accident. Discovery would show that, as described above, HP's own aggressive forecasting, which resulted in a 64% market price premium paid, and failure to develop and properly integrate Autonomy were responsible for the massive write-down. And, as demonstrated below, discovery would also show that: (1) Autonomy had strong accounting controls; (2) Autonomy's accounting complied with IFRS; (3)

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21 Despite serving on the HP Board at the time of the acquisition and approving it, HP CEO Meg Whitman, disclaimed responsibility for the acquisition. Instead, Whitman blamed Apotheker and Robison. http://online.wsj.com/news/articles/SB10001424127887324352004578130712448913412 ("Whitman, who was on HP'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.").

22 http://www.v3.co.uk/v3-uk/news/2229436/hp-discover-meg-whitman-commits-to-autonomy-technology-despite-financial-headaches.

23 http://www.businessinsider.com/meg-whitman-autonomy-is-an-almost-magical-technology-2013-4.

24 On November 26, 2013, Judge Charles Breyer of the U.S. District Court for the Northern District of California granted Dr. Lynch's motion to dismiss Dr. Lynch from the securities suit. Dr. Lynch's motion was premised on the Plaintiffs' failure to allege any false or misleading statements by Dr. Lynch.

HP's write-down is unsupported and unsupportable by the allegations; (4) Autonomy's accounting policies were known to HP well in advance of the write-down and were discussed in detail by HP Finance; and (5) in its rush to blame Autonomy, HP made reckless and unsupported statements.[25]

IV. Autonomy Maintained Robust Accounting Controls

As Autonomy's outside auditor, Deloitte conducted full scope annual audits and limited scope quarterly reviews.[26] As part of its review, it was Deloitte's policy to review all sales contracts or invoices over $1 million and a sample of contracts worth more than $100,000. In addition, Autonomy's financial department provided to Deloitte a quarterly report describing, among other things, Autonomy's financial results, significant events, software and hardware sales, bad debts and cash collection.

Deloitte reported to Autonomy's independent Audit Committee. Autonomy's Audit Committee consisted of independent and distinguished directors, including executives with extensive accounting experience.

The Audit Committee had significant responsibility in ensuring appropriate accounting. It reviewed the external audit, the independence and objectivity of the external auditor, interim and annual results, and whistle blowing procedures. It ensured compliance with legal requirements and accounting standards.

To fulfill these duties, the Audit Committee met quarterly with Deloitte and with senior Autonomy financial personnel to review Autonomy's financial statements and to discuss significant accounting risks, including revenue recognition and disclosure. Consistent with U.K. best practice, Dr. Lynch did not attend these meetings. Each meeting included a session without Autonomy management present. Each quarter, Deloitte and Autonomy provided the Audit Committee with a detailed report analyzing all significant accounting decisions for the quarter or year.

From these reports, it is evident that Autonomy's accounting policies were subject to close review by Deloitte and the Audit Committee. Deloitte and the Audit Committee paid particularly close attention to revenue-recognition issues, as evidenced by the fact that revenue recognition was identified as a key focus in Deloitte's reports to the Audit Committee. In each case, the Audit Committee approved Autonomy's financial statements and Deloitte issued unqualified audit opinions on Autonomy's financial statements.

25 Our submission on all these issues is, of course, necessarily limited by HP's refusal to share relevant documents and information.

26 Autonomy had no quarterly reporting requirement under U.K. law.

V. Autonomy's Accounting Was Proper

We understand that HP has alleged five broad categories of accounting irregularities based on:

(1) Autonomy's disclosure of, and accounting for, hardware sales;

(2) Autonomy's recognition of revenue on the sale of software licenses to value added resellers;

(3) Autonomy's accounting for purchases from customers;

(4) Autonomy's recognition of revenue in hosting arrangements; and

(5) Autonomy's classification of original equipment manufacturer ("OEM") revenue.

HP's allegations are false. We set forth below the relevant accounting standards and principles at issue. A full understanding of those standards and principles will demonstrate that: (1) Autonomy's accounting and disclosure complied with IFRS – the standards under which Autonomy reported its financials; (2) Deloitte ensured compliance with those standards in all material respects; and (3) HP's claims of accounting improprieties are baseless.

A. Hardware Sales

Like many software companies, Autonomy sold hardware, and had done so for most of its existence. There is nothing improper about a software company also selling hardware. Following the 2008 global financial crisis, as part of a commercial strategy to develop and maintain direct relationships with financial institutions and hardware suppliers, Autonomy began making discounted hardware sales to significant existing and prospective software customers.

We understand that HP has alleged that: (1) Autonomy made "low-end hardware sales" while "counting those sales as software revenue."[27]; (2) Autonomy misrepresented that it was "a pure software company,"[28] when it, in fact, generated substantial revenue from hardware sales; and (3) Autonomy artificially inflated its gross margin by allocating a portion of its costs for hardware as marketing expenses. These allegations are false. They essentially reflect a dispute over whether it was proper for Autonomy to report its limited hardware revenue in the same category as its software sales and whether Autonomy appropriately accounted for the costs associated with those hardware sales, which, because Autonomy fully expensed all costs, had no impact on Autonomy's net profit.

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27 http://dealbook.nytimes.com/2012/11/20/h-p-takes-big-hit-on-accounting-improprieties-at-autonomy/; http://www.businessweek.com/news/2012-11-20/h-p-misses-forecast-cites-autonomy-in-8-dot-8b-writedown#p2.

28 http://dealbook.nytimes.com/2012/11/20/h-p-takes-big-hit-on-accounting-improprieties-at-autonomy/.

1. Disclosure

Autonomy did not count hardware sales as software sales. Autonomy properly reported all of its revenue in the category, "Sale of Goods," and had no obligation to separately disclose hardware sales.

Under IFRS 8, a particular revenue stream should be separately disclosed where two elements are met: (1) the revenue stream qualifies as an operating segment under IFRS 8.5-8.10; and (2) the revenue stream exceeds the quantitative threshold established by IFRS 8.13.[29] An operating segment, as defined by IFRS 8.5-8.10, is a corporate component that (a) engages in business activities, and may thereby earn revenues and incur expenses; (b) has operating results that are regularly reviewed by the chief corporate decision maker; *and* (c) yields discrete financial information.[30] A corporate activity whose revenues "are only incidental" to the corporation's business is conclusively not an operating segment.[31]

Autonomy's hardware sales did not qualify as an operating segment for three reasons. First, Autonomy did not operate a separate hardware sales division. Second, hardware sales were not subject to separate review by Dr. Lynch. Third, Autonomy's hardware sales were incidental sales made to drive core software sales. As a result, Autonomy had no obligation to separately disclose its hardware sales and it, like many software companies that also sell hardware, reported all sales in a single operating segment.

The evidence will show that Autonomy's hardware sales were fully disclosed to, and reviewed by, Deloitte and the Audit Committee. Deloitte concurred with Autonomy management's decision to disclose its revenues as a single segment.

Although Autonomy had no obligation to provide separately segmented hardware sales data, it did disclose that it, like most other software companies, sold some hardware. Such sales were disclosed in a number of forums including in Autonomy's 2010 Annual Report and Accounts, where it discussed its sale of appliances and noted that its license revenues reflected hardware costs, and in product datasheets.[32] Nonetheless, Autonomy's hardware sales were a small fraction of its total revenue in any financial year.

2. Pure Software Company

Autonomy did not mislead the market by referring to itself as a "pure software company." The phrase "pure software company," as used by Autonomy, is a term of art in the

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29 *See* IFRS 8.11.

30 *See* IFRS 8.5, *Operating Segments*.

31 *See* IFRS 8.6.

32 *See* Autonomy Corporation plc, Annual Report and Accounts for the year ended 31 December 2010, at 12, 51.

software industry. The term did not signify that Autonomy did not sell hardware.[33] Instead, Autonomy repeatedly used the term to distinguish itself from other software companies that derive a significant portion of their revenue from the provision of *services*.[34] As Autonomy's 2010 Annual Report, which was vetted by Deloitte, explained:

> Autonomy is one of the very rare examples of a pure software model. Many software companies have a large percentage of revenues that stem from professional services, because they have to do a lot of customisation work on the product for every single implementation. In contrast, Autonomy ships a standard product that requires little tailoring, with the necessary implementation work carried out by approved partners such as IBM Global Services, Accenture and others.[35]

3. <u>Accounting for Hardware Sales</u>

Autonomy expensed all costs associated with its hardware sales and appropriately accounted for all costs as marketing and cost of goods sold.

Autonomy's hardware sales were strategic, discounted sales intended to stimulate software sales. Under IFRS, there is no particular standard applicable to cost accounting. Instead, the more general accounting principles outlined in IAS 8 guide cost accounting. Pursuant to IAS 8.10, the underlying substance of a transaction should be considered when accounting for costs. Accordingly, to the extent a hardware transaction contains a marketing component, that component may be attributed to marketing. Autonomy properly applied that principle to its own hardware sales, appropriately booking the costs of any marketing element. Autonomy booked the remaining costs of any hardware to cost of goods sold.

The evidence will show that Autonomy's attribution of a portion of costs associated with hardware sales to marketing was transparently discussed with, and reviewed by, Deloitte, who ensured that such accounting complied with IFRS. This accounting treatment had only a minor effect on annual gross margin, which was within the disclosed normal fluctuation. And because Autonomy fully expensed its hardware costs to marketing and cost of goods sold, Autonomy's hardware accounting had no impact on net profit or earnings per share.

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[33] As discussed above, Autonomy made clear that it, like many software companies, sold some hardware.

[34] *See, e.g.*, Press Release, "Autonomy Corporation plc Announces Interim Results for the Six Months Ending 30 June 2011," at 4; Press Release, "Autonomy Corporation plc Trading Update for Quarter Ended 31 March 2011," at 2; Autonomy Corporation plc, Annual Report and Accounts for the year ended 31 December 2010, at 16.

[35] Autonomy Corporation plc, Annual Report and Accounts for the year ended 31 December 2010, at 13.

B. Value Added Resellers

Autonomy, like many other companies in the software industry, sold its products to value added resellers, or VARs.[36] The term VARs frequently refers to companies that buy a product (such as software) to resell that product to an end user.

There are a variety of reasons why companies, like Autonomy, conduct business with VARs. Some VARs provide implementation, customization, or first-line support services to customers, or are looking for an opportunity to do so. Some bring product expertise, existing customer contacts, or geographic reach. Some have necessary government clearance. Other VARs, such as those certified under the Small Business Association's § 8(a) program, are an important channel for U.S. government contractors that have small business subcontracting obligations. Through investment in a strategic relationship with a VAR, and the cultivation of its employees' product expertise, a company could gain a valuable sales and marketing partner. Because of the value of a strong VAR relationship, it often makes economic sense to sell through a VAR, even at a cost to margin.

For VARs, there are significant benefits to working with a company like Autonomy. A VAR could earn a profit on the onward sale itself, obtain the opportunity to provide support services to the end user, and develop its own independent relationship with new customers.

We understand that HP has alleged that Autonomy falsified software license transactions with some VARs to accelerate Autonomy's revenue recognition. This is not so. Autonomy's transactions with VARs had commercial substance and were appropriately accounted for in accordance with IFRS and, in particular, IAS 18.[37]

1. IAS 18

HP's VAR allegations appear to be premised on a fundamental misunderstanding of IFRS revenue recognition requirements. Following the write-down announcement, HP CFO Cathie Lesjak indicated that sales to VARs "weren't in some sense, real sales, because there was no end user."[38] HP and Lesjak are incorrect.

There is no IFRS revenue recognition requirement that, following the sale to a VAR, there be a subsequent sale to an end user, or even that an end user be identified at the time of a

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36 *See* American Institute of Certified Public Accountants ("AICPA") Audit Guide: Auditing Review in Certain Industries [AAF-REV] 2011, at 2.16 ("*Software developers*, including providers of shrink-wrapped software, *often distribute their products through resellers . . . .*") (emphases added).

37 We note that there are differences in revenue recognition accounting under IFRS and U.S. GAAP. IFRS is generally principle-based, while U.S. GAAP is rule-based. And, as a result, there are circumstances where revenue may be recognized earlier under IFRS than under U.S. GAAP. Autonomy's transactions with VARs were appropriately accounted for under IFRS, the standard to which it was held in publishing its accounts.

38 http://allthingsd.com/20121120/what-exactly-happened-at-autonomy.

sale to a VAR. For revenue recognition purposes, it is the VAR that is Autonomy's customer, not any potential ultimate end user. A sale to a VAR may be recognized so long as the five elements of IAS 18 are satisfied:

> (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.[39]

The propriety of any revenue recognition decision is assessed based on the knowledge and circumstances at the time of the recognition decision and not with the benefit of hindsight.

2. Autonomy's Revenue Recognition Policy

Consistent with IFRS and IAS 18, Autonomy's revenue-recognition policy provided that sales of IDOL product to a VAR were recognized when the software licenses subject to the sale had been "delivered in the current period, no right of return policy exist[ed], collection [wa]s probable and the fee [wa]s fixed and determinable."[40] The policy did not require sell-through to an end user before recognizing revenue from a sale to a VAR. This policy was approved by Deloitte and the Audit Committee and disclosed in the "Notes to Consolidated Financial Statements" section of Autonomy's Annual Report.[41]

3. Autonomy Properly Applied Its Revenue Recognition Policy

Autonomy's revenue-recognition policy led to the appropriate recognition of revenue under the five element IAS 18 test.

First, Autonomy transferred the significant risks and rewards of software ownership to each VAR upon delivery of the software license key. Autonomy transacted with VARs pursuant to non-recourse agreements, under which neither the fixed price for a license nor the obligation to pay was contingent on a VAR's eventual resale of the license to an end user. Thus, each VAR

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39 IAS 18.14. *Cf.* IAS 18.20 (Rendering of Services) ("When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: (a) the amount of revenue can be measured reliably; (b) it is probable that the economic benefits associated with the transaction will flow to the entity; (c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.").

40 Autonomy Corporation plc, Annual Report and Accounts for the year ended 31 December 2010, Note 2(e)(i), at 51.

41 *Id.*

assumed the risk of not selling the software to an end user. As a further precaution, it was Deloitte's policy to obtain revenue confirmation directly from the VAR before approving Autonomy's recognition of revenue for deals over $1 million. Those letters confirmed that the VARs were on risk and that no side agreements, written or oral, were in place.

Second, Autonomy did not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold. Autonomy relinquished control over the use of that software and the VAR assumed the risks and rewards of ownership. Any post-VAR-sale involvement by Autonomy did not amount to the type consistent with ownership or control that this element contemplates. IFRS does not prohibit contact with an end user after a sale to a VAR. It permits certain post-sale contact with an end user and it is commonplace, for a variety of reasons, for software companies to maintain contact with an end user following a sale to a reseller. A reseller can designate the company it purchased from as its negotiating agent. A transaction with a reseller may be only one part of a larger contemplated deal. A company may also have a long-running relationship with the end user that is important to maintain. Such post-sale contact would not affect revenue recognition when the company has passed the risks and rewards of ownership to the VAR.

Third, Autonomy's sales to VARs were fixed with regard to price at the time of sale and were not contingent upon future events. Thus, Autonomy was able to reliably measure revenue at the time of each sale.

Fourth, Autonomy recognized revenue on a sale to a VAR only where it was probable, *i.e.*, more likely than not, that Autonomy would be paid by the VAR. Autonomy assessed collectability according to each VAR's creditworthiness based on third party credit reports, payment history, and the strength of the VAR's balance sheet. Autonomy did not consider a VAR's exposure to an end user's credit risk in making this determination. In other words, Autonomy determined whether a VAR was creditworthy in its own right. Autonomy did not recognize revenue on transactions with VARs when their ability to pay was contingent on a successful resale.

Fifth, Autonomy maintained records of all sales and thus reliably measured costs.

4. <u>Post Recognition Events</u>

On a few occasions, following a sale to a VAR and the decision to recognize revenue, a VAR unexpectedly did not ultimately complete their anticipated onward sale. This could occur because no end user purchased the software at all, because Autonomy entered into a direct transaction with the anticipated end user, or because the VAR decided to sell to another VAR. Those subsequent events do not undercut the appropriateness of recognizing revenue at the time of sale to the VAR. This is because, as discussed above, there is no end user requirement for revenue recognition and because the propriety of revenue recognition is assessed based on the circumstances at the time of recognition, and not in hindsight.

While, at times, VARs used the lack of an onward sale to try to excuse a failure of payment or to negotiate extended payment terms, these tactics did not affect the VAR's obligation to pay, or the propriety of recognizing revenue at the time of sale to the VAR. Deloitte was aware of this issue. It tracked VAR payment histories and, appropriately, considered VAR payment histories when assessing the propriety of revenue recognition.

C. Purchases from Customers

We understand that HP alleges that Autonomy improperly accounted for its purchases from customers, including VAR customers. We understand HP makes two claims. First, it claims that Autonomy did not apply fair value to its purchases from customers. Second, it claims that, in some unidentified instances, Autonomy improperly accounted for those transactions on a gross, as opposed to a net, basis.

As an initial matter, it is common for companies in the technology sector to both sell to, and buy from, another company. Indeed, it is our understanding that HP itself engages in such transactions. On the small number of occasions when Autonomy did so, it properly accounted for them. IAS 18 permits revenue recognition in these circumstances based on the fair value of consideration received for a sale, so long as the sale has commercial substance and is not merely an exchange of goods or services of a similar nature and value.

In instances where Autonomy both bought from and sold to a customer, the exchanges had commercial substance and involved dissimilar goods and services. As a result, Autonomy properly recognized revenue from a sale based on its fair value and netting was not required.

Deloitte ensured that these elements were met on purchases from customers. Deloitte diligently evaluated the commercial substance of, and fair value allocated to, any goods or services purchased from VARs. To do so, it considered reports from Autonomy, obtained quotes from third-party suppliers, and, on some occasions, even utilized its own information technology experts. Through this process, Deloitte ensured deals were negotiated at arm's length and received appropriate accounting treatment.

D. Hosting

We understand that HP has alleged that Autonomy restructured multi-year data hosting agreements to include discounted up-front license fees and recognized those fees up front in lieu of traditional monthly payments that would be recognized ratably. We further understand that HP has alleged that this gave investors the impression that Autonomy's revenues came from higher-margin software license transactions. This is a surprising allegation because the market generally values services-derived revenue streams more highly than license revenue. Contrary to these allegations, Autonomy's accounting for hosting revenue appropriately reflected the commercial substance of the hosting arrangements and was proper.

Autonomy began offering hosting products after it purchased Zantaz in 2007. After acquiring Zantaz, Autonomy embedded its own IDOL software into Zantaz's hosted products, which greatly increased their functionality. At the time, storage costs had dropped precipitously as data storage had become increasingly commoditized. Autonomy's storage costs were even cheaper, as its advanced technology allowed lower storage rates. Autonomy offered its customers hosting products in two models, both of which were disclosed to the market.[42]

First, Autonomy offered its customers hosting products under the "software-as-a-service" model. Under this model, customers would pay a data capture fee (due on day one), for which their data would be uploaded to a data center, and an archiving fee, either for the period of their contract or on a monthly "pay-as-you-go" basis, which represented the software "rental." Under the software-as-a-service model, the data capture fee was recognized up front when the service was provided and the archiving fee was recognized ratably over the period or on a usage basis. There is no allegation that this revenue was recognized improperly.

Second, Autonomy offered its customers the ability to purchase a software license and the option to archive the data with Autonomy or at another location of their choosing. For these transactions, Autonomy recognized revenue on the license component up front at the time of the sale and any archiving and after-sale support component ratably. It determined the fair value of each component through the residual method. Under that method, the fair value of the data storage component was determined based on the standard rate for data and the fair value of the license component was calculated based on the difference between the total sales price and the data storage component. This was appropriate under IAS 18.9, IFRIC 13.BC14, and IAS 18.IE11 because: (1) the separation of these components correctly reflected the substance of the arrangement, as Autonomy sold each component separately; (2) the residual method is a proper method to determine fair value; and (3) each component was recognized in accordance with IAS 18, as Autonomy deferred revenue recognition on the components for which it had an ongoing obligation.

There was a strong commercial rationale for Autonomy's decision to offer customers hosting licenses. Software-as-a-service customers made no commitment to Autonomy and could cancel at any time. In contrast, license sales helped to safeguard the relationship between Autonomy and its customers. Customers that buy such licenses make a commitment to Autonomy and are therefore incentivized to invest in, and develop, their infrastructure around its software. This, in turn, made the likelihood of a long-term commitment to Autonomy higher and afforded Autonomy significant opportunity to up-sell additional IDOL functionality.

For customers, a license purchase offered two distinct advantages. It offered protection from sharp rate increase and also allowed customers, if they chose, to host their data themselves or with a provider of their choosing.

The evidence will show that Autonomy's accounting treatment for these transactions was reviewed and approved by Autonomy's Audit Committee. Additionally, Deloitte reviewed these transactions and ensured that all related accounting complied with IFRS. And, as discussed in more detail below, HP Finance itself was aware of, and approved, Autonomy's hosting-related accounting.

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[42] *See* Autonomy Corporation plc, Annual Report and Accounts for the year ended 31 December 2010 at 12, 51, n.2e(i).

E. OEM

We understand that HP has alleged that Autonomy falsely classified revenue as OEM revenue.

An OEM sale is one in which a company licenses technology – in this case, Autonomy's – in order to embed that technology in their own products. Given the "almost magical" nature of Autonomy's core product, IDOL, other companies frequently sought to embed Autonomy's technology in their own products through a variety of contractual arrangements. Following these sales, Autonomy would have the opportunity to "up-sell" additional functionality to either the original OEM purchaser (*i.e.*, the entity that embedded IDOL into its own product) or directly to the entity that had purchased the product from Autonomy's OEM customer. Any follow-on license sale – whether to the original OEM customer or to that OEM customer's customer – was considered OEM derived revenue by Autonomy because the follow-on sale occurred as a result of (*i.e.*, was derived from) the initial OEM sale.

While there is no official OEM revenue accounting definition, Autonomy properly disclosed the basis for its OEM revenue reporting. It disclosed that: (1) OEM sales occurred in a variety of forms; (2) its OEM revenue figures captured all sales that "derived" from OEM sales; and (3) its figures were a matter of accounting judgment.

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In sum, Autonomy's hardware, reseller, customer purchase, hosting, and OEM disclosures and accounting were appropriate and, as confirmed by Deloitte, compliant with IFRS. Deloitte has categorically denied "any knowledge of any accounting misrepresentations in Autonomy's financial statements,"[43] and we have no reason to believe anything other than that Deloitte continues to believe that Autonomy's accounts represented a "true and fair" view of the company.

VI. HP's Claims Do Not Support the Claimed Write-Down

As discussed above, HP has not offered an explanation for the $5 billion write-down figure despite repeated requests. But, even if HP's allegations were credited, they do not support the massive claimed write-down. None of the allegations would materially affect Autonomy's valuation.

First, there was no fictitious revenue. If Autonomy had been booking fictitious revenue, its bad debts would have been abnormally high and there likely would have been cash missing. This was not the case. Autonomy's bad debt, which was reviewed in detail by Deloitte, was stable and in line with industry levels. There has been no report of any cash missing.

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[43] http://dealbook.nytimes.com/2012/11/21/deloitte-denies-knowledge-of-fraud-at-autonomy/?_r=0.

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While HP has claimed that Autonomy falsely "create[d] revenue"[44] through sales to VARs, those allegations largely concern the timing of revenue recognition, not the receipt of revenue. And, in any event, the reseller deals at issue concern a small number of the thousands of deals Autonomy conducted each year during the relevant time period, and a small fraction of Autonomy's total revenues. They could not account for the claimed write-down.

Second, there is no allegation that Autonomy's operating profit on that revenue was inaccurate. HP's hardware allegations, which were a fraction of Autonomy's total revenues, do not affect operating profits as all expenses, including marketing expenses, are deducted to calculate operating profit.[45]

Third, the allegations would not have had any effect on Autonomy's historic cash flow.

Independent analysts agree that the $5 billion write-down could not have been caused by the accounting allegations. Bloomberg News columnist Jonathan Weil put it plainly, "HP's explanation [of the write-down] doesn't make any sense."[46] Lynn Turner, former chief accountant for the SEC, said of HP, "What they've said to date about the fraud doesn't correspond to why half the value in the company disappeared."[47] CEO and Editor of Business Insider Henry Blodget wrote, "attributing $5 billion of the writedown to the fraud just doesn't make sense." Anup Srivastava, an assistant professor at the Kellogg School of Management at Northwestern University, said "I can't justify it."[48]

We believe any reduction in Autonomy's value post-acquisition was caused by HP's own failure to effectively develop and integrate Autonomy. As discussed above, the value of Autonomy to HP was highly dependent on aggressive anticipated synergies. HP's failure to realize such synergies would have resulted in lower operating margins, slower growth, and a reduction in projected future cash flows. Further, the combined effect of HP stock's fall in trading value and headwinds against synergies and marketplace performance would have increased the rate used to discount Autonomy's projected future cash flows. These factors would cause a significant reduction in Autonomy's value unrelated to any alleged accounting improprieties.

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44 http://www8.hp.com/us/en/hp-news/press-release.html?id=1334263#.UqY_A9JDtOU.

45 Moreover, if Autonomy had reported its hardware sales as a separate operating segment, it would have increased Autonomy's gross margin on its software sales.

46 http://www.bloomberg.com/news/2012-11-21/hp-s-explanation-still-makes-no-sense.html.

47 http://www.mercurynews.com/ci_22044970/fbi-opens-criminal-probe-hewlett-packard-deal-british.

48 http://dealbook.nytimes.com/2012/11/21/does-hewletts-big-charge-add-up.

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VII. HP Was Aware Of Autonomy's Accounting Well Before the Write-Down

The timing of HP's allegations, first asserted following the write-down in November 2012, over a year after the acquisition, further undercut the credibility of HP's claims. By the time of the write-down, HP had controlled Autonomy's books and records for fourteen months and raised no concerns to senior Autonomy management.

HP has attempted to explain away this delay. It has suggested that it did not discover the claimed fraud earlier because of a lack of access to documents, opaque financial records, and because it did not discuss the accounting at issue with Deloitte. According to HP General Counsel John Schultz, "Autonomy did not have sitting on a shelf somewhere a set of well-maintained books that would walk you through what was actually happening from a financial perspective inside the company."[49] HP CEO Meg Whitman said, "We didn't go in and question Deloitte and say, 'Are you appropriately accounting for the revenues and the operating profits'"[50]

Those statements are belied by the record. As demonstrated below, HP had access to the relevant records (which were readily available and straightforward), consulted with Deloitte on Autonomy's accounting from the outset, and, more fundamentally, was well-aware of Autonomy's accounting long in advance of the November 2012 announcement. These statements are particularly incredulous given that Deloitte's reports to the Audit Committee clearly demonstrate that Autonomy was fully transparent with its auditors, who carefully considered and described in detail each of the accounting issues underlying the allegations. We urge the Board to read these reports. We question whether they were reviewed by HP senior management prior to their remarks in connection with the write-down.

Prior to the acquisition, HP underwent a pre-transaction due diligence process with a team of advisors including accountants from KPMG, lawyers from Freshfields LLP and Gibson, Dunn & Crutcher LLP, and bankers from Barclays and Perella Weinberg Partners. Following the write-down, former CEO Apotheker described that process as "meticulous and thorough."[51]

As of October 3, 2011, HP kept and controlled Autonomy's books and records and Autonomy Finance reported directly to HP, not Autonomy management. Immediately following the acquisition, Ernst & Young on behalf of HP independently reviewed Deloitte's audit files on Autonomy, covering most of the matters now raised. KPMG, Ernst & Young, and HP's own Mergers, Acquisition Divestitures, and Outsourcing team all reviewed Autonomy's finance journals on the opening balance sheet, converted Autonomy's accounts so that they conformed to U.S. GAAP, and completed a revenue and tax analysis. HP had full access to line item level trial balances and HP Finance reviewed detailed financial information. No concerns were raised by HP at that time.

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49 http://www.reuters.com/article/2012/11/20/us-hp-results-idUSBRE8AJ0OB20121120.

50 http://www.businessinsider.com/meg-whitman-blames-deloitte-for-autonomy-2013-1#ixzz2mvolfmNM.

51 http://blogs.wsj.com/digits/2012/11/20/leo-apotheker-due-diligence-of-autonomy-was-meticulous.

With respect to hardware sales, such sales were no surprise to HP. Following the write-down, HP General Counsel John Schultz claimed ignorance of Autonomy's "low-end hardware sales," and, in particular, Dell sales.[52] His claim too is belied by the record. Immediately following the acquisition, HP had access to Deloitte's reports to Autonomy's Audit Committee and trial balances. Deloitte's Q3 2009 to Q2 2011 reports to the Audit Committee discussed Autonomy's discounted hardware sales, including its Dell sales, and their accounting treatment. They specifically discussed the cost allocation of the sales and that the revenue was disclosed as part of Autonomy's single segment disclosure. And Autonomy's trial balances explicitly broke out hardware revenue under the title "HARDWARE REVENUE." In addition, HP was aware that Autonomy continued making the same type of hardware sales post-acquisition.

Similarly, with respect to reseller sales, following the acquisition, HP and its advisors undertook a thorough and detailed examination of Autonomy's receivables and its history of provisioning and write-offs. HP Finance scrutinized Autonomy's reseller sales and revenue recognition practices as part of its accounting reconciliation process. HP Finance also focused on reseller transactions in connection with customary post-acquisition efforts to write-down pre-acquisition debts. And, again, HP had access to Deloitte's reports to the Audit Committee. Those reports specifically discussed Autonomy's VAR accounting and significant purchases from VARs.

With respect to hosting sales, Autonomy continued to structure hosting transactions post-acquisition in the same manner as pre-acquisition. The appropriate accounting for such deals was considered and discussed by HP Finance, which took no issue with Autonomy's pre-acquisition hosted accounting, and other key personnel. While HP Finance ultimately departed from Autonomy's recognition policy, the evidence will show it did so for business, not accounting, reasons.

Notably, in January 2012, after HP had full access to Autonomy's books and records, and audit work papers, HP commissioned an independent asset valuation that confirmed HP's $11 billion asset valuation.

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52 http://dealbook.nytimes.com/2012/11/20/h-p-takes-big-hit-on-accounting-improprieties-at-autonomy/?_r=0; http://www.businessweek.com/news/2012-11-20/h-p-misses-forecast-cites-autonomy-in-8-dot-8b-writedown#p2.

VIII. In Its Rush to Blame Autonomy, HP Made Reckless Statements

In its rush to blame Autonomy, HP and its senior management made a number of reckless and unsupportable statements. Fundamentally, HP and its senior management recklessly blamed Autonomy's accounting for the write-down and failed to disclose its own failure to properly develop and integrate Autonomy. As demonstrated above, Autonomy's accounting was, in fact, proper, not the cause of the write-down, and was disclosed to HP a year before the write-down. HP's statements were also misleading because, even if its underlying factual allegations were credited, those allegations would not support the massive claimed write-down.

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For all these reasons, the Committee should carefully consider the credibility and viability of HP's claims. We submit that, with appropriate independent consideration and evaluation by the Committee, the Committee will conclude that HP's allegations are false.

Very truly yours,

Reid H. Weingarten
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