

AUTONOMY v LYNCH

Anatomy of an \$11 Billion Fraud

[2022] EWHC 1178 (Ch) — Mr Justice Hildyard
Board Briefing — July 2025



Executive Overview

\$11.1bn

Acquisition
Price

£646m

FSMA Loss
Awarded

\$56m

Direct
Losses

The court's central finding indicates that the acquisition price was significantly inflated due to misleading financial disclosures, resulting in substantial direct losses and an awarded FSMA loss.

Case Chronology



The Dog-Leg Claim Structure

HP/Bidco pays \$11.1bn for Autonomy shares

HP notifies claim to Autonomy — Autonomy accepts liability of \$4.55bn to Bidco

Autonomy (now C1) **sues Defendants** as **PDMRs** under FSMA Schedule 10A

Court determines: (a) issuer liability and (b) personal 'guilty knowledge' of each Defendant

Why?

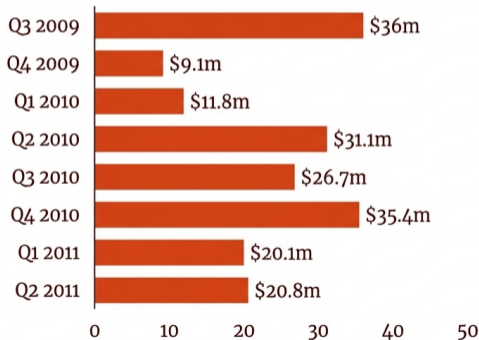
Under FSMA, only the issuer is liable to investors — HP needed recourse against the directors personally

Hardware Sales: Buying Your Own Revenue (60pt)

Analysis of Hardware Revenue Recognition and Costs

Quarterly Hardware Revenue Recognized

(Dollars in Millions)

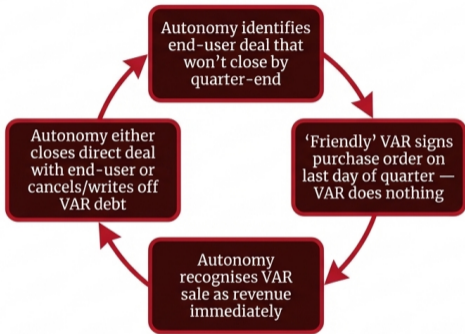


Key Findings & Analysis

- ~\$200m total pure hardware sales over **Relevant Period** (~11% of revenue)
- Almost all **sold at a loss** — costs hidden as **'Sales & Marketing'** not **COGS**
- Deloitte repeatedly **urged disclosure**; management **refused**

[Para 1593-1597; Quantum pp.193-196]

VAR Transactions: Placeholders, Not Purchasers



37 impugned transactions

88% of VAR deals over \$1m
\$176.4m total revenue booked

Reciprocal & Hosted Transactions

Reciprocal Round-Trips

Autonomy bought products it didn't need to fund counterparty's purchase of IDOL software

VMS: \$13m for data feed never used;
FileTek: \$21m+ for software never integrated

Chamberlain described them as “swap transactions” and “circular”

Hybrid Hosting

Customers paid lump-sum ‘licence fee’ for right to move data in-house – a right neither side intended to exercise

Real purpose: accelerate revenue recognition at expense of future recurring revenue

No hosted customer ever successfully used hybrid licence to move on-premises

[Para 2531-2588 (Reciprocal, Reciprocals); Para 3389-3392 (Hosting)]

OEM Revenue: Inflating the Most Valuable Metric



Nearly 80% of the OEM metric comprised revenues from **transactions lacking** the characteristics the market associated with OEM business — **no royalties, no recurring revenue, no embedded software**

Represented vs. True Position

Metric	Represented Position	Revised True Position
Total Revenue H1 2011	\$476m	\$408m (RCC basis)
Software Revenue H1 2011	\$476m (implied pure software)	\$367m (22.9% lower)
Gross Margin (typical stated)	87-90%	83-87% (hardware-adjusted)
IDOL OEM H1 2011	\$84.3m (+27% growth)	\$7.5m (-44% decline)
IDOL Cloud H1 2011	\$117m	\$78.2m
Core IDOL Mix — Cloud+OEM share	62% of Core IDOL	38% of Core IDOL

Autonomy was a smaller company with a materially less attractive revenue mix than represented

[Para 4116; Quantum pp.15-18; Q2 2011 True Figures table]

The Bidco Point: Who Actually Relied?



“ Bidco had no purpose or business nor any real part in the process except as a pocket in HP’s trousers ”

Accounting Standards: Substance Over Form

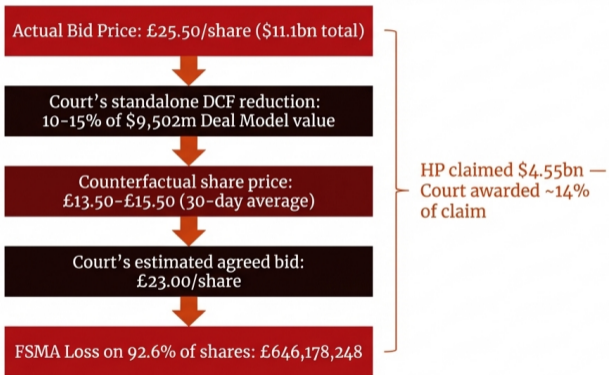
IAS 18 — The Battleground

- IAS 18.14: Revenue recognition requires transfer of significant risks and rewards — assessed by economic substance, not legal form
- Court: 'An entire agreement clause cannot negate the facts or preclude enquiry as to the underlying realities' [Para 583]
- Both experts agreed: if substance is solely paying counterparty to buy your software, no revenue should be recognised

IFRS vs. US GAAP — The Exploit

- Under IFRS: no sell-through requirement for VAR sales (unlike US GAAP SOP 97-2)
- Court: this made VAR acceleration possible but did not make it proper — IAS 18.14 criteria still required genuine transfer of risk

Quantum: The Court's Valuation Framework



[Quantum Judgment §§459-462, 606-612]

Key Witnesses: Credibility Assessments

Dr Michael Lynch — First Defendant

Cross-examined 20 days. Ran Autonomy through “a small cabal of loyal lieutenants.’ Board was ‘largely sidelined.” Approval required for all purchases over \$30,000 — “a very unusual level of control for a FTSE 100 CEO” [Para 39]. Found to be the “éminence grise” who knew HP was being deceived [Para 476]

Mr Egan — CEO Autonomy Inc

Entered DPA with US DoJ. Witness statement “over-lawyered” but oral evidence accepted as substantially reliable on institution of VAR programme and Hussain’s direction of it [Para 674]

Mr Welham — Deloitte Senior Manager

Only Deloitte witness. Confirmed Deloitte’s full knowledge of hardware details but not true purpose. “Never had a sense of fraud at senior management level” [Para 32]

Governance Red Flags for Future M&A

1 Auditor as Advocate

Deloitte's engagement partner drafted the key justification memo himself, disguised his authorship, and became "parti pris" — the court found he 'ceased to be a sceptical auditor and became an inventive wordsmith' [Para 415-416]

2 Revenue Composition Opacity

Five exclusive Supplemental Metrics categories (IDOL Product, Cloud, OEM, Services, Deferred Revenue) summed to total revenue — leaving no room for any undisclosed source. Hardware was invisible. Ask: what's NOT in these categories? [Para 280-281]

3 Quarter-End Deal Clustering

37 impugned VAR transactions — all entered on the last day of a quarter. 88% of VAR deals over \$1m were with "friendly" VARs. Pattern of quarter-end urgency is a classic indicator of channel stuffing [Para 1959]

Board Takeaways

- **FSMA Schedule 10A liability survives SPV structures — the ‘Bidco point’ is settled law**
- **Auditor approval is not a safe harbour: ‘auditors may prompt but they cannot keep the directors’ conscience’ [Para 150]**
- **Contractual form does not determine accounting substance — entire agreement clauses won’t save improper revenue recognition**
- **HP’s original \$4.55bn claim yielded £646m — litigation realism must inform board decision-making on claims**
- **‘One of the tragedies of the case is clear: an innovative and ground-breaking product, its architect and the company will probably always be associated with fraud’ [Para 4135]**

LEGAL & PROFESSIONAL STANDARDS

Authoritative Guidelines & Best Practices



Integrity
& Trust

- Ensure compliance with established legal frameworks.
- Maintain high standards of professional conduct.
- Foster trust and integrity in all operations.
- Adhere to ethical guidelines and regulations.