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HP and Autonomy: Who's Accountable?

In the fall of 2011, Hewlett-Packard (HP) purchased Autonomy Corporation (Autonomy), a British software leader in processing, managing, and delivering unstructured information for real-time analysis. Some analysts applauded the shift in strategy that the Autonomy purchase signaled for HP. "Given lackluster growth in PCs long term and increasing trends towards data and analytics," Credit Suisse analysts wrote, "the transformation is necessary."[1] Others on the street were unsure how Autonomy's cloud computing software fit HP's businesses,[2] and were less positive following the acquisition announcement and ensuing HP's stock price decline of 20%. Meanwhile, Autonomy's stock bumped up 79%[3] following the announcement (see **Exhibit 1**).

From there, events at HP suggested a sense of division and frustration between HP leadership, the board, and Autonomy executives. The board replaced HP CEO Leo Apotheker with Meg Whitman (of eBay note). For the next few quarters, Autonomy missed expected results, and by May 2012 HP removed Autonomy's CEO Michael Lynch. Shortly after that, HP wrote down the value of Autonomy by over $8 billion, driving the company to report a loss for the year, the first in 10 years. In what became an all-out "he said-she said" brawl, HP accused Lynch and Autonomy executives of cooking the books to inflate the purchase price. In turn, Autonomy responded that its accounting complied with International Financial Reporting Standards (IFRS), and the company's auditor, the well-known international firm Deloitte LLC, signed off on its financials. Instead, Autonomy executives suggested that Whitman and HP leadership were managing the business poorly and knew nothing about the software industry. What ultimately drove HP to write down Autonomy and report a loss for the year?

HP—An Overview

Unaware of the household name it would become, the two founders of HP flipped a coin to name the company they started in a Pal Alto garage in 1939. The keen and savvy businessmen grew HP from a single-product audio oscillator (for another storied U.S. firm called Disney) into a multinational IT company. That growth included the move from a vibrant garage start-up to a publicly traded company in 1957. The following year HP acquired its first company, F. L. Moseley CO., which became the basis for its printing division. HP's first computer was introduced in 1966 and sold to Woods Hole Oceanographic Institute (famous for discovering the Titanic wreck). It took two more years before the first "personal computer," as HP ads called it, hit the commercial market (it was almost more of a calculator than what we would now call a personal computer). As Palo Alto seemingly grew electronic businesses into what became known as Silicon Valley, so,

[1] Kuldinder Garcha, Deepak Sitaraman, Vlad Rom, Alban Gashi, and Talal Khan, "Hewlett-Packard," *Credit Suisse*, August 19, 2011.
[2] "HP May Oust CEO, Hire eBay Veteran," Reuters, September 22, 2011.
[3] Tim Bradshaw, Joseph Menn, Anousha Sakoui, Helen Thomas, Richard Waters, Jim Pickard, and Neil Hume, "Autonomy Shares Soar on $11bn HP Deal," *Financial Times*, August 19, 2011, https://www.ft.com/content/964fb710-c9d3-11e0-b88b-00144feabdc0 (accessed Feb. 9, 2018).

This public-sourced case was prepared by Justin J. Hopkins, Assistant Professor of Business Administration, and Gerry Yemen, Senior Researcher.

too, did HP. By the time HP had 30 years of business experience, its innovation and product lines appeared to have no limits. From LEDs to atomic clocks, business computing, and data processing, HP's capabilities grew.

HP's growth in product and offerings expanded beyond Silicon Valley and the United States. HP exerted influence on a global reach that resulted in international business revenues being greater than U.S. revenues in 1977. Three years later, HP launched its first PC and two years after that its first handheld computer—and its first mainframe. The year 1984 was full of innovation with the first HP laptop, inkjet printer, and laser printer all hitting the market (the 200 millionth laser jet printer sold in 2013). By the end of the 1980s, the first HP x86 server was launched.

As a global company, HP persisted as a market leader but faced several competitors introducing new product introductions, lowering prices, and diminishing margins in the hardware business—HP's core business. In addition, global operations meant HP was becoming increasingly subject to local and foreign regulations and laws.[4] Dynamics in the market had changed especially around PC and laptop use and in the number of low-cost competitors. Between the increased use of tablets or smart phones and the competitive landscape in hardware, HP was being squeezed.[5] In addition, the way companies managed vast amounts of information was shifting—enterprise information management was key as firms shifted from software to software for service. By 2010, HP sought to strengthen its position by growing in adjacent markets (expanding in higher margin segments), creating innovative products (with cloud computing and unstructured data trends in mind), and broadening services (connecting with more customers).

After HP's founders stepped down from leadership roles, a variety of CEOs took the helm at HP (see **Exhibit 2**). Most recently, in 1999, Carly Fiorina was chosen to lead HP—the first female to lead a *Fortune* 50 company. Although she was not an engineer, had no experience as a CEO, and HP was a "complex company with lots of challenges in major transition," Fiorina believed the board deliberately looked outside the company and broke convention by hiring her.[6] Six years later, in 2005, amid a boardroom disagreement between Fiorina and the board about the strategic direction of the firm, Fiorina was fired with a parachute of $21 million and replaced by Mark Hurd, the former CEO of an ATM manufacturer. His cost-cutting approach stabilized HP as it bypassed IBM's rank as the largest tech company in the world. Under accusations of sexually harassing an HP marketing consultant and improper business conduct, the board asked Hurd to resign in 2010. In November of that year, Apotheker was hired as CEO, coming from the German software company SAP. After being at the top at HP for only nine months, Apotheker shook up the company by announcing the Autonomy acquisition and his intention to split HP in two. The board forced Apotheker to resign shortly thereafter and hired Whitman in the middle of the Autonomy acquisition.

Autonomy–An Overview

Many described Autonomy CEO Mike Lynch as the UK's Bill Gates, with a twist. Instead of being a college dropout, Lynch had a PhD from Cambridge in computer science. He cofounded Autonomy in 1996 and was fond of saying that Autonomy would be "the Oracle of unstructured data."[7] While most technology needed databases to access or manage data—all of which was structured—Autonomy was able to interpret unstructured data. Lynch would refer to this as "means-based computing," which used patented algorithms based in a platform called Intelligent Data Operating Layer (IDOL) that searched protocols in text pattern and language

[4] Hewlett-Packard Company annual report, 2012, 12–13.
[5] Hewlett-Packard Earnings Conference Call, August 18, 2011.
[6] Carly Fiorina, *Tough Choices*, (NY: Penguin Group, 2006), 151.
[7] Steve Silberman, "The Quest for Meaning," *Wired*, February 1, 2000, https://www.wired.com/2000/02/autonomy/ (accessed Feb. 20, 2018).

context recognition. "Autonomy's fundamental and unique means-based technology allows computers to make sense of human friendly information," Lynch described.[8]

Business grew quickly for Autonomy. Two years after its founding, Autonomy went public on the London stock exchange with a share price of EUR30 (USD39).[9] Autonomy raised $124 million from the listing to fund growth in North America and Asia. Among the firm's notable achievements was providing police the ability to make matches of fingerprints and make connections in witness/victim/villain statements and police reports in less than five minutes,[10] a task that often took months, even years, if ever, to accomplish before the IDOL software. That innovation quickly shifted from use in the public good to uses in big businesses with the realms of big unstructured data that companies produced. Autonomy could find hidden patterns within all of it. A computer at a bank, for example, could employ IDOL to flag suspicious emails that might indicate compliance issues. Or it could listen in on call center exchanges with customers and recognize patterns around product or service complaints and report it to managers in real time. Whether an email, a PDF file, a phone conversation, a video, or a text message, Autonomy could make sense out of all types of information.

The Deal

No stranger to acquisitions—HP had completed 11 in 2010 alone—the Autonomy transaction offered HP a way out of the struggling hardware business and an opportunity to shift toward the high-margin software business. HP could combine Autonomy with earlier acquisitions and position HP to manage unstructured and structured data for customers and analyze big datasets.[11] Autonomy would operate as an independent HP division with a software company called Vertica that HP had previously purchased.

However, not everyone was in favor of the deal. CFO Cathie Lesjack had earlier told the HP board she didn't support the acquisition noting the bid premium: "…a 64% premium, or 11 times sales, is far too high."[12] Following the announcement, several shareholders sent emails urging the board to abandon the deal—including UBS Asset Management. It simply said, "Terminate the agreement."[13]

The purchase of Autonomy created an accounting dilemma. HP would have to consolidate Autonomy's assets and liabilities as well as account for the $11 billion payment for the acquisition. Making the transaction more challenging from a financial reporting perspective, Autonomy invested more heavily in intangible than in tangible assets.[14] In fact, Autonomy reported $1.3 billion in intangible assets, $1.9 billion in tangible assets, and $1.2 billion in liabilities (see **Exhibit 3**). It was not quite clear exactly what HP had purchased. Luckily, three of the largest and most respected accounting firms were involved in the transaction: Deloitte served as Autonomy's auditor, Ernst & Young was HP's auditor, and KPMG conducted due diligence on the deal. HP disclosed the acquisition accounting in footnote 6 of its 2011 annual report (see **Exhibit 4**).

The Fallout

By the time the deal closed on October 31, 2011, Apotheker was no longer CEO. The board had replaced him with Whitman, and tensions immediately developed between HP and Autonomy executives. Lynch

[8] Autonomy annual report, 2010, 6.
[9] EUR = euros; USD = U.S. dollars.
[10] David Woodward, "Good Listener," *Director*, May 2011.
[11] "HP Acquires Control of Autonomy Corporation plc," Hewlett-Packard press release, October 3, 2011.
[12] Tom Barithwaite, "HP Internal Emails Provided New Details on the Crisis after the Autonomy Deal," *Financial Times*, September 27, 2015.
[13] Barithwaite.
[14] "Intangible Measures," *Economist*, August 2, 2007, http://www.economist.com/node/9601016 (accessed Nov. 17, 2017).

reportedly loathed Whitman's insistence that members of her management team pump up on Kenny Rogers's "The Gambler" before HP board meetings.[15] Lynch did not view Bill Veghte, the head of HP's software division, any more favorably. "They would basically do strange things like give Bill an hour on stage at a conference," one Autonomy manager said. "And give Mike five minutes."[16] This back and forth internal struggle seemingly continued until Lynch sent an email to Whitman on May 21, 2012, claiming that post–Q2 the HP-Autonomy interface had been underestimated, and he was fired the following day (Veghte would become the new head of Autonomy).

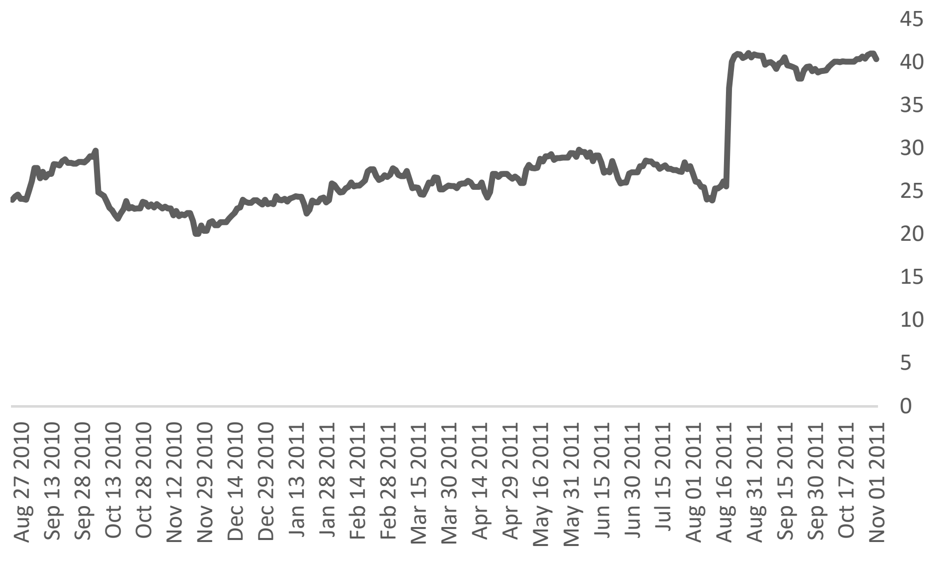
Shortly thereafter, HP released its 2012 annual report with some shocking news. HP would write-down a majority of the $11.4 billion acquisition—or, as some have called it, "the HP way out." (See **Exhibit 4** and **5** for 2012 HP financials.) HP blamed the write-down on "accounting improprieties, misrepresentations and disclosure failures."[17] (See **Exhibit 6** for footnote.) HP claimed that some of the dubious sales were cancelled and others had been bought back by Autonomy at a higher cost.[18] Based on these calculations, Whitman suggested that Autonomy's 2009 revenue was 25% lower than reported, its 2010 was 38% lower, and its 2011 was 36% lower.[19] (See **Exhibit 7** for Autonomy financials.) She noted that "the board relied on audited financials"[20] when the decision was made to purchase the company and continued to place the problem squarely on Lynch and his leadership team. In turn, Lynch denied these assertions and outlined objections in an open letter to HP shareholders stating "HP's claim…is a desperate search for a scapegoat for its own errors and incompetence."[21] The parties commenced a legal battle, and jury selection began February 5, 2018.[22]

[15] Christopher Williams, "HP's Big Fight is Just Starting," *The Sunday Telegraph*, February 23, 2014.
[16] Williams.
[17] Hewlett-Packard Company annual report, 2012, 106.
[18] Murad Ahmed, "HP Says it Overpaid by $5bn for Autonomy," *Financial Times*, May 5, 2015.
[19] Ahmed.
[20] Schumpeter, "Conflicting Accounts," *Economist*, November 20, 2012, http://www.economist.com/blogs/schumpeter/2012/11/hp-and-autonomy (accessed May 19, 2017).
[21] Ahmed.
[22] Case No. 16-cr-00462-CRB-1, United States District Court for The Northern District of California; also see https://www.bizjournals.com/sanjose/news/2017/01/13/former-autonomy-executive-pleads-not-guilty-in.html.

Exhibit 1

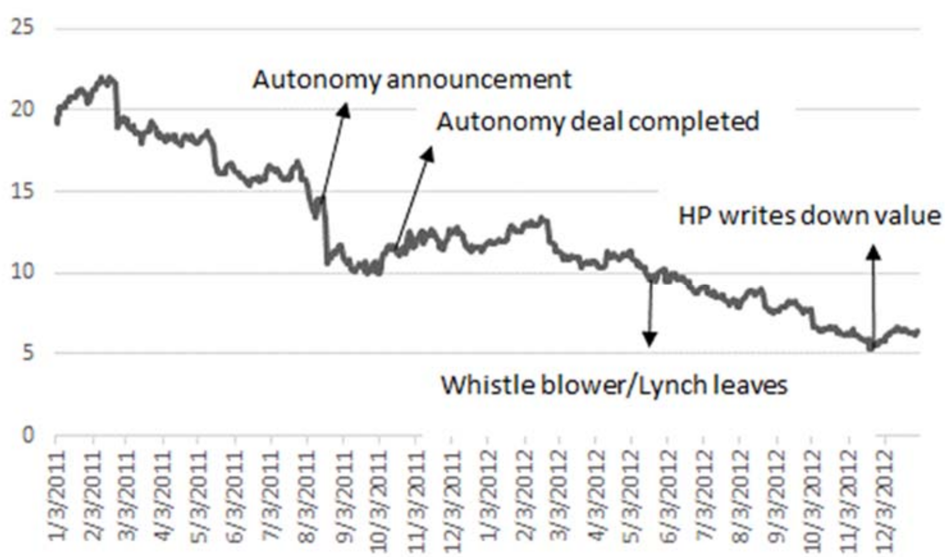
HP and Autonomy: Who's Accountable?

Autonomy Stock Chart



Source: Wharton Research Data Services.

HP Stock Chart



Source: HP 10K, 2012.

Exhibit 2

HP and Autonomy: Who's Accountable?

Leadership History

William Hewlett	**1969–1978**	**-analog Test & Measurement Equipment** **-developed digital competencies** **-computer products and systems**
John Young	1978–1992	-shifted to computer business -developed printer business
Lew Platt	1992–1999	-streamlined business around PCs, printers, and RISC/Unix operating systems -divested legacy Test & Measurement Equipment
Carly Fiorina	1999–2005	-first outside-HP CEO hire -acquired Compaq -strengthened PC and server business
Mark Hurd	2005–2010	-number one position in PCs -acquired 3Com, EDS, and Palm -established as a major player in networking
Leo Apotheker	2010–2011	-acquired Autonomy -made a move towards a leading-edge enterprise software company
Meg Whitman	2011	-write-down of Autonomy

Data source: Robert A. Burgelman, "HP's Process of Corporate Becoming - Why Strategic Leadership Matters," Working Paper no.3390, January 2016, https://www.gsb.stanford.edu/gsb-cmis/gsb-cmis-download-auth/409231.

Exhibit 3

HP and Autonomy: Who's Accountable?

HP Financials: 2011 Consolidated Balance Sheets

	October 31 2011	October 31 2010
	In millions, except par value	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,043	$ 10,929
Accounts receivable	18,224	18,481
Financing receivables	3,162	2,986
Inventory	7,490	6,466
Other current assets	14,102	15,322
Total current assets	51,021	54,184
Property, plant and equipment	12,292	11,763
Long-term financing receivables and other assets	10,755	12,225
Goodwill	44,551	38,483
Purchased intangible assets	10,898	7,848
Total assets	$ 129,517	$ 124,503
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 8,083	$ 7,046
Accounts payable	14,750	14,365
Employee compensation and benefits	3,999	4,256
Taxes on earnings	1,048	802
Deferred revenue	7,449	6,727
Accrued restructuring	654	911
Other accrued liabilities	14,459	15,296
Total current liabilities	50,442	49,403
Long-term debt	22,551	15,258
Other liabilities	17,520	19,061
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' equity		
Preferred stock, $0.01 par value (300 shares authorized; none issued)	—	—
Common stock, $0.01 par value (9,600 shares authorized; 1,991 and 2,204 shares issued and outstanding, respectively)	20	22
Additional paid-in capital	6,837	11,569
Retained earnings	35,266	32,695
Accumulated other comprehensive loss	(3,498)	(3,837)
Total HP stockholders' equity	38,625	40,449
Non-controlling interests	379	332
Total stockholders' equity	39,004	40,781
Total liabilities and stockholders' equity	$ 129,517	$ 124,503

Source: HP 10K, 2011.

Exhibit 4

HP and Autonomy: Who's Accountable?

HP Notes to Consolidated Financial Statements
Note 6: Acquisitions

The following table presents the aggregate estimated fair values of the assets acquired and liabilities assumed, including those items that are still preliminary allocations, for all of HP's acquisitions in fiscal 2011:

	In millions
In-process research and development	$ 3
Amortizable intangible assets	4,699
Net liabilities assumed	(206)
Net assets acquired	4,496
Goodwill	6,868
Total fair value consideration	$ 11,364

Acquisition of Autonomy Corporation plc

HP's largest acquisition in fiscal 2011 was its acquisition of Autonomy Corporation plc (Autonomy). As of October 31, 2011, HP owned an approximately 99% equity interest in Autonomy, and HP expects to acquire a 100% equity interest before the end of the first quarter of fiscal 2012. Autonomy is a provider of infrastructure software for the enterprise. HP reports the financial results of the Autonomy business in the HP Software segment. The acquisition date fair value consideration of $11 billion consisted of cash paid for outstanding common stock, convertible bonds, vested in-the-money stock awards and the estimated fair value of earned unvested stock awards assumed by HP. In connection with this acquisition, HP recorded approximately $6.6 billion of goodwill and amortizable purchased intangible assets of $4.6 billion. HP is amortizing the purchased intangible assets on a straight-line basis over an estimated weighted-average life of 8.8 years.

Source: HP 10K, 2011.

Exhibit 5

HP and Autonomy: Who's Accountable?

HP Consolidated Statements of Earnings: 2012

	For the fiscal years ended October 31		
	2012	**2011**	**2010**
	In millions, except per share amounts		
Net revenue:			
Products	$ 77,887	$ 84,757	$ 84,799
Services	42,008	42,039	40,816
Financing income	462	449	418
Total net revenue	120,357	127,245	126,033
Costs and expenses:			
Cost of products	59,468	65,167	65,064
Cost of services	32,600	31,945	30,486
Financing interest	317	306	302
Research and development	3,399	3,254	2,959
Selling, general and administrative	13,500	13,577	12,822
Amortization of purchased intangible assets	1,784	1,607	1,484
Impairment of goodwill and purchased intangible assets	18,035	885	—
Restructuring charges	2,266	645	1,144
Acquisition-related charges	45	182	293
Total operating expenses	131,414	117,568	114,554
(Loss) earnings from operations	(11,057)	9,677	11,479
Interest and other, net	(876)	(695)	(505)
(Loss) earnings before taxes	(11,933)	8,982	10,974
Provision for taxes	(717)	(1,908)	(2,213)
Net (loss) earnings	$ (12,650)	$ 7,074	$ 8,761

Exhibit 5 (continued)

HP Consolidated Balance Sheet: 2012

	October 31	
	2012	2011
	In millions, except par value	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,301	$ 8,043
Accounts receivable	16,407	18,224
Financing receivables	3,252	3,162
Inventory	6,317	7,490
Other current assets	13,360	14,102
Total current assets	50,637	51,021
Property, plant and equipment	11,954	12,292
Long-term financing receivables and other assets	10,593	10,755
Goodwill	31,069	44,551
Purchased intangible assets	4,515	10,898
Total assets	$ 108,768	$ 129,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 6,647	$ 8,083
Accounts payable	13,350	14,750
Employee compensation and benefits	4,058	3,999
Taxes on earnings	846	1,048
Deferred revenue	7,494	7,449
Accrued restructuring	771	654
Other accrued liabilities	13,500	14,459
Total current liabilities	46,666	50,442
Long-term debt	21,789	22,551
Other liabilities	17,480	17,520
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' equity		
Preferred stock, $0.01 par value (300 shares authorized; none issued)	—	—
Common stock, $0.01 par value (9,600 shares authorized; 1,963 and 1,991 shares issued and outstanding, respectively)	20	20
Additional paid-in capital	6,454	6,837
Retained earnings	21,521	35,266
Accumulated other comprehensive loss	(5,559)	(3,498)
Total HP stockholders' equity	22,436	38,625
Non-controlling interests	397	379
Total stockholders' equity	22,833	39,004
Total liabilities and stockholders' equity	$ 108,768	$ 129,517

Exhibit 5 (continued)

HP Consolidated Statements of Cash Flows: 2012

	For the fiscal years ended October 31		
	2012	2011	2010
		In millions	
Cash flows from operating activities:			
Net (loss) earnings	$ (12,650)	$ 7,074	$ 8,761
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:			
Depreciation and amortization	5,095	4,984	4,820
Impairment of goodwill and purchased intangible assets	18,035	885	—
Stock-based compensation expense	635	685	668
Provision for doubtful accounts—accounts and financing receivables	142	81	156
Provision for inventory	277	217	189
Restructuring charges	2,266	645	1,144
Deferred taxes on earnings	(711)	166	197
Excess tax benefit from stock-based compensation	(12)	(163)	(294)
Other, net	265	(46)	169
Changes in operating assets and liabilities:			
Accounts and financing receivables	1,269	(227)	(2,398)
Inventory	890	(1,252)	(270)
Accounts payable	(1,414)	275	(698)
Taxes on earnings	(320)	610	723
Restructuring	(840)	(1,002)	(1,334)
Other assets and liabilities	(2,356)	(293)	89
Net cash provided by operating activities	10,571	12,639	11,922
Cash flows from investing activities:			
Investment in property, plant and equipment	(3,706)	(4,539)	(4,133)
Proceeds from sale of property, plant and equipment	617	999	602
Purchases of available-for-sale securities and other investments	(972)	(96)	(51)
Maturities and sales of available-for-sale securities and other investments	662	68	200
Payments in connection with business acquisitions, net of cash acquired	(141)	(10,480)	(8,102)
Proceeds from business divestiture, net	87	89	125
Net cash used in investing activities	(3,453)	(13,959)	(11,359)
Cash flows from financing activities:			
(Payments) issuance of commercial paper and notes payable, net	(2,775)	(1,270)	4,156
Issuance of debt	5,154	11,942	3,156
Payment of debt	(4,333)	(2,336)	(1,323)
Issuance of common stock under employee stock plans	716	896	2,617
Repurchase of common stock	(1,619)	(10,117)	(11,042)
Excess tax benefit from stock-based compensation	12	163	294
Cash dividends paid	(1,015)	(844)	(771)
Net cash used in financing activities	(3,860)	(1,566)	(2,913)
Increase (decrease) in cash and cash equivalents	3,258	(2,886)	(2,350)
Cash and cash equivalents at beginning of period	8,043	10,929	13,279
Cash and cash equivalents at end of period	$ 11,301	$ 8,043	$ 10,929

Exhibit 5 (continued)[1]

Goodwill and Purchased Intangible Assets

Goodwill and purchased intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually. HP reviews goodwill and purchased intangible assets with indefinite lives for impairment annually at the beginning of its fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. For goodwill, HP performs a two-step impairment test. In the first step, HP compares the fair value of each reporting unit to its carrying value. HP determines the fair values of its reporting units using a weighting of fair values derived most significantly from the income approach and to a lesser extent the market approach. Under the income approach, HP calculates the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. Under the market approach, HP estimates the fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with similar operating and investment characteristics as the reporting unit. The weighting of the fair value derived from the market approach ranges from 0% to 50% depending on the level of comparability of these publicly-traded companies to the reporting unit. When market comparables are not meaningful or not available, HP may estimate the fair value of a reporting unit using only the income approach. In order to assess the reasonableness of the calculated fair values of its reporting units, HP also compares the sum of the reporting units' fair values to HP's market capitalization and calculates an implied control premium (the excess of the sum of the reporting units' fair values over the market capitalization). HP evaluates the control premium by comparing it to control premiums of recent comparable transactions. If the implied control premium is not reasonable in light of these recent transactions, HP will reevaluate its fair value estimates of the reporting units by adjusting the discount rates and/or other assumptions. As a result, when there is a significant decline in HP's stock price, as occurred during fiscal 2012, this reevaluation could correlate to lower estimated fair values for certain or all of HP's reporting units. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired, and no further testing is required. If the fair value of the reporting unit is less than the carrying value, HP must perform the second step of the impairment test to measure the amount of impairment loss, if any. In the second step, the reporting unit's fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss.

[1] Notes in case exhibits from the HP 10K are selected and incomplete. For full notes please see HP 10K, 2012.

Exhibit 5 (continued)

Note 7: Goodwill and Purchased Intangible Assets

Goodwill

Goodwill allocated to HP's reportable segments as of October 31, 2012 and 2011 and changes in the carrying amount of goodwill during the fiscal years ended October 31, 2012 and 2011 are as follows:

	Personal Systems	Printing	Services	Enterprise Servers, Storage and Networking	Software	HP Financial Services	Corporate Investments	Total
				In millions				
Net balance at October 31, 2010	$ 2,500	$ 2,456	$ 16,967	$ 6,610	$ 7,545	$ 144	$ 2,261	$ 38,483
Goodwill acquired during the period	—	16	66	—	6,786	—	—	6,868
Goodwill adjustments/reclassifications	(2)	(1)	247	1,460	(268)	—	(1,423)	13
Impairment loss	—	—	—	—	—	—	(813)	(813)
Net balance at October 31, 2011	$ 2,498	$ 2,471	$ 17,280	$ 8,070	$ 14,063	$ 144	$ 25	$ 44,551
Goodwill acquired during the period	—	16	—	—	—	—	—	16
Goodwill adjustments/reclassifications	—	—	(40)	(308)	580	—	(25)	207
Impairment loss	—	—	(7,961)	—	(5,744)	—	—	(13,705)
Net balance at October 31, 2012	$ 2,498	$ 2,487	$ 9,279	$ 7,762	$ 8,899	$ 144	$ —	$ 31,069

During fiscal 2012, HP determined that sufficient indicators of potential impairment existed to require an interim goodwill impairment analysis for the [enterprise servers (ES)] reporting unit. These indicators included the recent trading values of HP's stock, coupled with market conditions and business trends within ES. The fair value of the ES reporting unit was based on the income approach. The decline in the fair value of the ES reporting unit resulted from lower projected revenue growth rates and profitability levels as well as an increase in the risk factor that is included in the discount rate used to calculate the discounted cash flows. The increase in the discount rate was due to the implied control premium resulting from recent trading values of HP stock. The resulting adjustments to discount rates caused a significant reduction in the fair value for the ES reporting unit. Based on the step one and step two analyses, HP recorded an $8.0 billion goodwill impairment charge in fiscal 2012, and there is no remaining goodwill in the ES reporting unit as of October 31, 2012. Prior to completing the goodwill impairment test, HP tested the recoverability of the ES long-lived assets (other than goodwill) and concluded that such assets were not impaired.

The decline in the fair value of the Autonomy reporting unit and Autonomy intangibles, as well as fair value changes for other assets and liabilities in the step two goodwill impairment test, resulted in an implied fair value of goodwill substantially below the carrying value of the goodwill for the Autonomy reporting unit. As a result, HP recorded a goodwill impairment charge of $5.7 billion, which resulted in a $1.2 billion remaining carrying value of Autonomy goodwill as of October 31, 2012. Both the goodwill impairment charge and the purchased intangible assets impairment charge, totaling $8.8 billion, were included in the Impairment of Goodwill and Purchased Intangible Assets line item in the Consolidated Statements of Earnings.

Exhibit 5 (continued)

Note 7: Goodwill and Purchased Intangible Assets

Purchased Intangible Assets

HP's purchased intangible assets associated with completed acquisitions for each of the following fiscal years ended October 31 are composed of:

	October 31, 2012				October 31, 2011			
	Gross	Accumulated Amortization	Accumulated Impairment Loss	Net	Gross	Accumulated Amortization	Accumulated Impairment Loss	Net
	In millions							
Customer contracts, customer lists and distribution agreements	$ 5,807	$ (2,625)	$ (856)	$ 2,326	$ 6,409	$ (2,390)	(49)	$ 3,970
Developed and core technology and patents	6,580	(2,501)	(2,138)	1,941	7,226	(1,944)	—	5,282
"Compaq" trade name	1,422	(18)	(1,227)	177	1,422	—	—	1,422
Other product trademarks	310	(137)	(109)	64	367	(129)	(23)	215
In-process research and development ("IPR&D")	7	—	—	7	9	—	—	9
Total purchased intangible assets	$ 14,126	$ (5,281)	$ (4,330)	$ 4,515	$ 15,433	$ (4,463)	(72)	$ 10,898

For fiscal 2012, the majority of the decrease in gross intangibles was related to $944 million of fully amortized intangible assets that have been eliminated from both the gross and accumulated amounts and a first quarter $293 million decrease in the estimated fair value of Autonomy's purchased intangible assets recognized in conjunction with the finalization of the purchase price allocation. Additionally, HP recorded total intangible asset impairment charges of $4.3 billion, of which $3.1 billion is related to the Autonomy reporting unit as described above. The remaining $1.2 billion is related to a change in the Compaq branding strategy as discussed below.

Source: HP 10K, 2011.

Exhibit 6

HP and Autonomy: Who's Accountable?

Autonomy Write-down Announcement

8-K Announcement

Following the completion of its annual review of its goodwill and purchased intangible assets for impairment, on November 20, 2012, HP announced that it recorded a non-cash charge for the impairment of goodwill and intangible assets within its Software segment of approximately $8.8 billion in the fourth quarter of its 2012 fiscal year. The majority of this impairment charge relates to accounting improprieties and disclosure failures at Autonomy Corporation plc ("Autonomy") that occurred prior to HP's acquisition of Autonomy, misrepresentations made to HP in connection with its acquisition of Autonomy, and the impact of those improprieties, failures and misrepresentations on the expected future financial performance of the Autonomy business over the long-term. The balance of the impairment charge relates to the recent trading value of HP stock. HP does not expect the impairment charge to result in any future cash expenditures.

Source: HP 10K, 2012.

Exhibit 7

HP and Autonomy: Who's Accountable?

Autonomy Consolidated Balance Sheet at December 31, 2010 Financials

In $'000	**2010**	**2009**
Non-current assets		
Goodwill	1,361,900	1,287,042
Other tangible assets	400,372	399,277
Property, plant, and equipment	42,554	33,886
Equity and other investments	68,600	16,608
Deferred tax asset	1,6263	2,4015
Total non-current assets	1,889,689	1,760,828
Current assets		
Trade and other receivables	330,117	275,450
Inventories	116	486
Cash and cash equivalents	1,060,600	242,791
Total current assets	1,390,833	518,727
Total assets	3,280,522	2,279,555
Current liabilities		
Trade and other payables	(75,411)	(69,443)
Bank loan	(78,745)	(52,375)
Tax liabilities	(633,210)	(43,338)
Deferred revenue	(170,256)	(164,931)
Provisions	(1,661)	(2,731)
Total current liabilities	(359,283)	(332,818)
Net current assets	1,031,550	185,909
Non-current liabilities		
Bank loan	(66,407)	(145,152)
Convertible loan notes	(681,791)	-
Deferred tax liabilities	(91,072)	(85,087)
Deferred revenue	(7,421)	(8,576)
Other payables	(3,702)	(1,020)
Provisions	(3,597)	(5,123)
Total non-current liabilities	(853,990)	(244,958)
Total liabilities	(1,213,273)	(577,776)
Net assets	2,067,249	1,701,779
Shareholders' equity		
Share capital	1,344	1,333
Share premium account	1,247,907	1,130,767
Capital redemption reserve	135	135
Own shares	(788)	(845)
Merger reserve	27,589	27,589
Stock compensation reserve	27,881	21,959
Revaluation reserve	47,415	4,499
Translation reserve	(30,161)	(12,032)
Retained earnings	745,927	528,374
Total equity	2,067,249	1,701,779

Source: Autonomy annual report, 2010.