

The Shenanigans Actions of the Hewlett Packard Company

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Financial shenanigans are accounting or disclosure techniques used to create a misleading impression of an organization's economic performance, financial position, or cash generation. They may involve early or fictitious revenue, delayed expense recognition, unusual classification, nonrecurring transactions presented as sustainable operations, or the manipulation of estimates. The original essay applies seven categories of financial shenanigans to Hewlett-Packard. Its useful purpose is to demonstrate how an analyst could investigate warning signs, but its conclusion that HP itself used every listed technique is not supported by the evidence presented. Capability is not proof. A large technology company has complex contracts, channel sales, subscriptions, acquisitions, restructuring charges, and estimates that could create accounting risk, yet an allegation requires transaction-level evidence, authoritative findings, and careful distinction among related entities and time periods (Schilit et al., 2018).

The best-known context for this assignment is Hewlett-Packard's 2011 acquisition of Autonomy. HP later recorded an approximately \$8.8 billion impairment and stated that a substantial portion related to accounting improprieties, disclosure failures, and misrepresentations at Autonomy before and in connection with the acquisition. Several legal proceedings followed and produced different outcomes. Former Autonomy chief financial officer Sushovan Hussain was convicted in the United States; a former U.S. Autonomy executive settled SEC charges; a U.K. civil court found substantially in favor of Autonomy-related companies that had become part of the HP group; and a U.S. jury acquitted former Autonomy chief executive Michael Lynch and finance executive Stephen Chamberlain in 2024. These outcomes require precise language. They do not justify describing all HP financial reporting as fraudulent, nor do they eliminate questions about Autonomy's historic accounting, audit evidence, valuation, due diligence, and acquisition governance.

How Financial Shenanigans Should Be Investigated

Financial-statement analysis begins with a hypothesis, not a verdict. An unusual increase in receivables may indicate early revenue recognition, but it may also reflect business growth, billing timing, customer mix, or acquisition effects. Capitalized costs may hide expenses, or they may satisfy accounting requirements for an asset that will provide future benefit. An analyst should compare statements over several periods, read accounting policies and footnotes, reconcile earnings with operating cash flow, identify changes in estimates, and review auditor and regulatory disclosures. Management explanations should be tested against contract terms, shipment data, customer confirmations, subsequent collections, and independent evidence.

It is also necessary to identify the reporting entity. The historic Hewlett-Packard Company later separated into HP Inc. and Hewlett Packard Enterprise. Autonomy-related subsidiaries and claims have appeared in filings connected with the successor organizations. A statement about “HP” can therefore become inaccurate if it combines events from different companies, periods, and legal capacities. This essay retains the original seven-shenanigan framework but treats each item as a forensic question rather than an unsupported accusation (Hewlett-Packard Company, 2016).

Shenanigan One: Recording Revenue Too Soon

Premature revenue recognition occurs when a company records revenue before it has satisfied the relevant performance obligation or before important contingencies are resolved. In a technology business, warning areas may include software licenses signed near quarter-end, subscriptions with cancellation rights, reseller arrangements, side agreements, incomplete acceptance testing, and products billed before delivery. The original essay suggests that subscriptions might be recorded before payment, but nonpayment alone does not prove early recognition. Many legitimate sales are made on credit. The key questions are whether a valid contract exists, the company has transferred the promised goods or services, collectability is probable under the applicable framework, and any return, refund, or acceptance condition has been properly considered.

An investigation would select transactions near period-end and trace them from contract to invoice, shipment or service evidence, customer acceptance, cash collection, credit memo, return, and cancellation. Analysts should compare revenue growth with accounts receivable and deferred or unearned revenue. A sharp rise in days sales outstanding may be a warning but requires explanation. They should also examine whether sales reversed shortly after the reporting date. Confirmation directly from customers is stronger evidence than an internal spreadsheet.

Shenanigan Two: Recording Bogus Revenue

Bogus revenue has no genuine customer transaction behind it or is created through arrangements lacking economic substance. Examples include fictitious customers, round-trip transactions, undisclosed side letters, or reciprocal deals designed mainly to create reported sales. The DOJ’s allegations concerning pre-acquisition Autonomy included claims about backdated agreements, contracts affected by side arrangements, reciprocal transactions, and the characterization of hardware sales. Allegations and convictions concerning particular individuals should not be generalized to unrelated HP operations. Nevertheless, the case illustrates why an acquirer must investigate the substance of unusual revenue rather than rely solely on reported totals.

Forensic procedures include verifying customer existence, obtaining external confirmations, reviewing cash movement, and identifying whether funds return to the customer through another agreement. Analysts should compare sales personnel correspondence with executed contracts and search for side

letters that change payment, return, or acceptance terms. Revenue from related parties or newly created distributors deserves attention. A sale that produces no meaningful change in risk, control, or cash may lack economic substance even when paperwork exists.

Shenanigan Three: Boosting Results Through Unsustainable or One-Time Activities

A company may report genuine income that is unlikely to recur while allowing investors to interpret it as ordinary operating performance. Gains from asset sales, litigation, tax items, pension adjustments, acquisition accounting, or temporary cost reductions can inflate a period without strengthening the core business. The original essay also raises the issue of low-margin hardware being presented in a way that supports the appearance of higher-quality software revenue. Revenue classification matters because investors may value recurring, high-margin software differently from hardware resale.

The appropriate investigation separates recurring operations from unusual items using the income statement, segment disclosures, cash-flow statement, and footnotes. Analysts should calculate margins by segment and compare reported growth with unit volume, price, and acquisition effects. Management's non-GAAP measures require reconciliation and consistent treatment. Excluding a cost as "nonrecurring" year after year can make an adjusted measure misleading even when the reconciliation is technically provided. A one-time gain is not fraudulent simply because it improves profit; the concern is whether its nature and sustainability are clear.

Shenanigan Four: Shifting Current Expenses to Later Periods

Expenses can be deferred by recording them as assets and recognizing them over future periods. Legitimate capitalization is fundamental to accrual accounting: equipment, qualifying software development, and certain contract costs may benefit future periods. Manipulation occurs when ordinary operating costs are capitalized without meeting the relevant criteria, useful lives are unreasonably extended, impairment is delayed, or reserves are understated. Technology firms require judgment regarding internal-use software, product development, acquired intangible assets, warranty obligations, and inventory obsolescence.

An analyst should compare capital expenditures and capitalized development costs with peers and with earlier periods. Rising assets accompanied by weak cash generation may indicate aggressive capitalization. The useful lives and amortization methods of intangibles should be reviewed, especially after acquisitions. Impairment testing is important because optimistic forecasts can delay recognition of a decline in value. HP's large Autonomy-related impairment demonstrates the consequences when an acquired business cannot support its recorded goodwill and intangible value, although an

impairment by itself does not prove that the buyer previously falsified expenses.

Shenanigan Five: Hiding Losses or Expenses Through Classification and Estimates

Losses may be obscured through restructuring classifications, acquisition reserves, off-balance-sheet arrangements, optimistic assumptions, or netting unrelated items. The original essay claims that omitted marketing expense would prove concealment, but external financial statements usually present expenses in aggregated categories rather than listing every internal cost. Absence of a separate line does not mean the expense was excluded. The investigation must reconcile the amount to general-ledger records and applicable presentation rules.

Analysts should read restructuring and acquisition footnotes, track reserve balances, and compare cash payments with charges recognized. Large “other” accounts deserve decomposition. Warranty, returns, bad debt, inventory, tax, litigation, and pension estimates can shift earnings when assumptions change. Changes may be reasonable, but management should explain material effects. A pattern in which estimates consistently improve results near targets is more concerning than one isolated revision supported by evidence.

Shenanigan Six: Shifting Current Income to a Later Period

Income can be deferred to create reserves for future periods or smooth volatility. A company may record excess liabilities, delay revenue that has been earned, or use conservative assumptions during a strong year and release them when performance weakens. This practice is sometimes called cookie-jar accounting. It differs from early revenue recognition because current results are understated rather than overstated. The original article correctly recognizes that financial shenanigans can reduce current income as well as inflate it.

To investigate, analysts should examine deferred revenue, rebate and return reserves, restructuring provisions, and changes in estimates. A reserve that grows without a matching increase in underlying exposure and is later released into earnings may indicate smoothing. However, subscription and service businesses normally report significant deferred revenue because cash can be received before performance. Analysts must understand the contract and revenue policy before interpreting the balance.

Shenanigan Seven: Shifting Future Expenses into an Earlier Period

Management may accelerate expenses into a period that is already poor so future performance appears stronger. A “big bath” can include aggressive impairment, restructuring charges, inventory write-downs, or reserves established during a leadership transition or acquisition. Some charges may be economically necessary and properly recognized; the shenanigan arises when management deliberately overstates them or combines ordinary future costs with a current exceptional event.

The original essay assigns this category a high potential benefit because recognizing future costs early can improve later earnings. Investigation requires tracking the utilization and reversal of reserves. If liabilities created during a loss year are released to support later profit, analysts should ask whether the original estimate was reasonable. They should also compare restructuring plans with actual employee departures, facility closures, contract terminations, and cash payments. The accounting should follow evidence, not a desired earnings pattern.

The Autonomy Acquisition as a Case Study

HP announced the acquisition of Autonomy in 2011 and recorded the major impairment in 2012. The dispute became a prominent case because it combined accounting judgments, software-versus-hardware classification, acquisition valuation, audit reliance, due diligence, and post-acquisition performance. HP filings stated that investigations identified pre-acquisition accounting improprieties and misrepresentations. The SEC reported that former Autonomy U.S. executive Stouffer Egan settled charges connected with an accounting scheme to meet targets. Sushovan Hussain was convicted in 2018, and the conviction was affirmed. The English High Court’s civil proceedings reached conclusions substantially favorable to the claimant companies on liability (Courts and Tribunals Judiciary, 2022; U.S. Department of Justice, 2023; U.S. Securities and Exchange Commission, 2016).

The legal history is not uniform. In June 2024, a U.S. jury acquitted Michael Lynch and Stephen Chamberlain of the criminal charges tried against them. Civil and criminal proceedings apply different legal standards, involve different parties and evidence, and can reach different outcomes. A fair analysis must report both the acquittal and the other findings rather than presenting allegations as universal proof. It should also distinguish misconduct attributed to former Autonomy personnel from HP’s separate responsibilities as acquirer, including valuation, integration planning, board oversight, and the depth of due diligence (Associated Press, 2024).

Due Diligence and Acquisition Governance

Even when a seller provides misleading information, an acquirer must evaluate revenue quality,

customer concentration, recurring versus nonrecurring sales, margins, cash conversion, intellectual property, and management representations. Software acquisitions are particularly vulnerable to valuation error because much of the price may depend on expected growth and intangible assets. A high purchase premium requires strong evidence that future cash flows can support goodwill.

Due diligence should include contract sampling, direct customer evidence, analysis of unusual quarter-end transactions, reconciliation of revenue with cash, examination of hardware resale, and assessment of auditor work. The board should understand which assumptions drive valuation and how sensitive the price is to lower growth or margins. Integration risk also matters: loss of key employees, strategic conflict, or failure to combine sales systems can reduce value even when the historical accounting was accurate. The Autonomy case therefore teaches both forensic-accounting and corporate-governance lessons.

Red Flags in Revenue and Cash Flow

One of the most useful tests is comparing net income with cash flow from operations. Revenue that grows much faster than cash collection can signal extended terms, disputed invoices, channel loading, or early recognition. Analysts should monitor receivable days, contract assets, deferred revenue, returns, bad-debt allowance, and operating cash flow. No single ratio proves manipulation. Technology companies may experience timing differences because of subscriptions, annual billing, hardware cycles, or large enterprise contracts. The value comes from a consistent pattern combined with weak explanations or contradictory evidence.

Quarter-end concentration is another warning. Analysts can compare fourth-quarter sales with earlier quarters, subsequent returns, and customer payment timing. Unusual reseller growth may indicate legitimate channel expansion or channel stuffing. The investigation should determine whether distributors have independent demand, meaningful payment obligation, return rights, price protection, and inventory levels consistent with sell-through.

Auditor and Analyst Responsibilities

Auditors provide reasonable, not absolute, assurance that financial statements are free of material misstatement. Complex fraud can involve collusion, altered documents, or management override. Auditors should maintain professional skepticism, test estimates and controls, obtain external evidence, and respond to fraud risk. Analysts should not assume that an unmodified audit opinion eliminates every concern, but they should also avoid accusing a company solely because a ratio looks unusual.

The original essay states that accountants and auditors cannot detect shenanigans. A more accurate conclusion is that detection can be difficult, but disciplined procedures improve the probability. Whistleblower systems, strong audit committees, independent directors, internal controls, data

analytics, and regulatory review all contribute. Tone at the top matters because employees are more likely to manipulate timing or classification when compensation and status depend heavily on short-term targets.

An Evidence-Based Assessment of HP

HP, like other large technology companies, has the operational capability to encounter every general accounting risk described in the framework. It sells products and services through channels, uses estimates, completes acquisitions, recognizes subscription revenue, restructures operations, and reports non-GAAP measures. That capability warrants normal analytical scrutiny; it does not establish wrongdoing. The appropriate assessment is transaction-specific. Autonomy-related records provide documented examples of disputed and, in some proceedings, adjudicated accounting conduct associated with Autonomy before acquisition. HP's own filings and acquisition decisions raise separate questions about oversight and valuation.

Therefore, the original numerical scores should be treated only as a classroom risk-ranking exercise, not factual measures of HP's misconduct. A defensible score would require defined criteria, comparable companies, evidence, and a clear period. Unsupported numbers create an appearance of precision without analytical foundation.

Conclusion

Financial shenanigans can overstate revenue, invent sales, elevate one-time gains, defer expenses, hide losses, shift income between periods, or accelerate future costs. The seven categories in the original essay provide a useful forensic checklist, but they must be applied with evidence and careful language. The HP-Autonomy history illustrates why analysts should examine contract substance, cash conversion, revenue classification, acquisition assumptions, and management representations. It also shows why legal outcomes must not be simplified: individuals and entities faced different proceedings, one executive was convicted, another settled SEC charges, an English civil court found substantially for the claimant companies, and a U.S. jury acquitted Lynch and Chamberlain. The strongest conclusion is not that HP automatically committed every shenanigan. It is that investors, boards, auditors, and acquirers should test accounting quality before relying on reported growth and should distinguish suspicion, allegation, civil finding, criminal conviction, and acquittal.

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