

FEATURE

## Investment advisory firm's relationship to HP questioned

By Linda Rosencrance

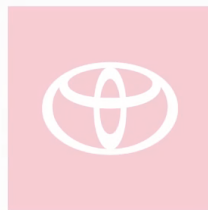
Computerworld |

APR 5, 2002 12:00 AM PST

An investment adviser has accused Hewlett-Packard Co. of misleading shareholders by failing to disclose its business relationship with a major financial backer of Institutional Shareholder Services Inc. ISS is an influential institutional investor advisory firm that supported HP's merger with Compaq Computer Corp.

In a major boost for the merger prospects, ISS, based in Rockville, Md., recommended early last month that its members vote in favor of the HP/Compaq deal (see story). Results of the March 19 vote on the merger have not yet been tabulated, although HP has already claimed victory.

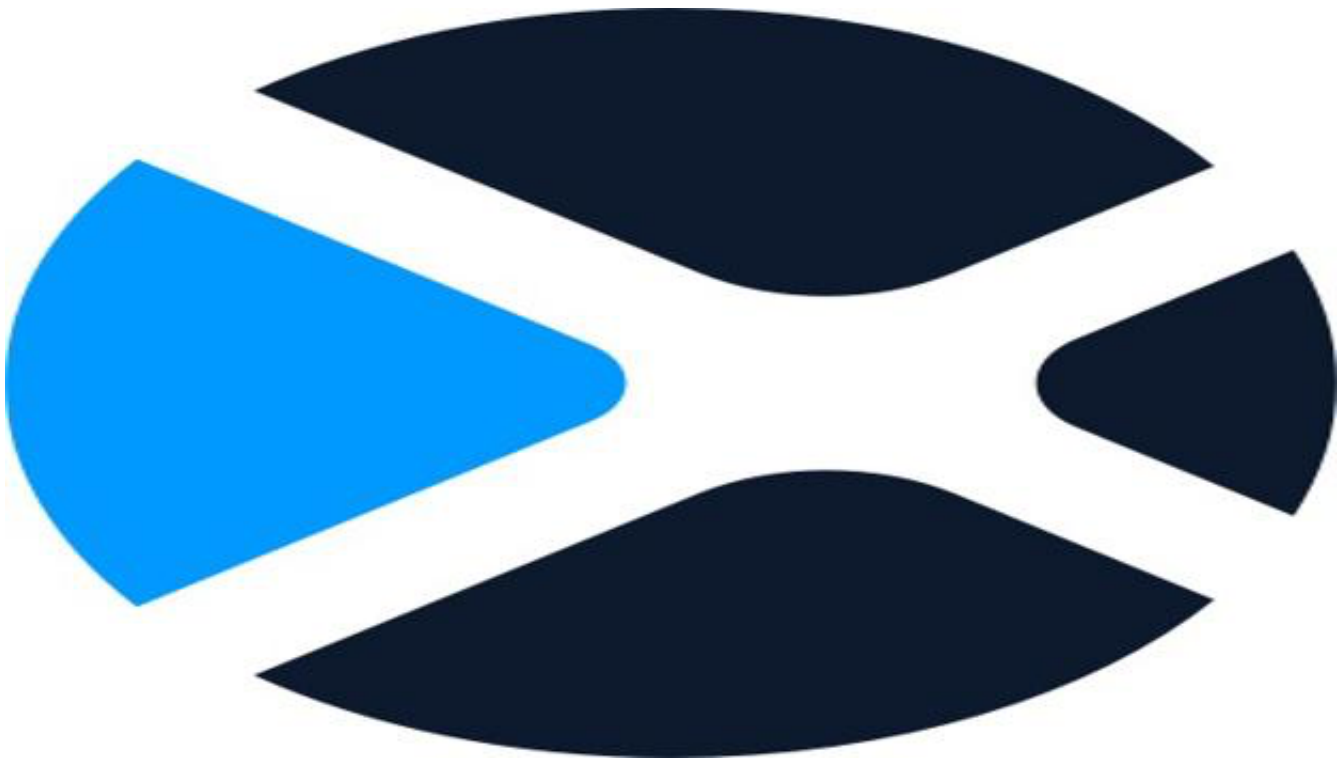
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New York-based venture capital firm Warburg Pincus LLC, which has been involved in business deals with HP, put up \$26.1 million to underwrite the purchase of ISS by New York-based proxy voting services firm Proxy Monitor. According to SocialFunds.com, Proxy Monitor paid \$45 million for ISS, buying it from Thomson Financial in New York.



SocialFunds.com is the Web site of SRI World Group Inc. in Brattleboro, Vt. It offers coverage of social mutual funds, community investing, shareowner action and daily social investment news.

Proxy didn't reveal the exact amount it paid for ISS. The \$45 million price tag was based on rumors reported by SocialFunds.com.

In an SEC filing, Warburg is listed as being a general partner in ISS. And three of Warburg Pincus' partners, Mark Colodny, Pat Hackett and Sidney Lapidus, sit on the eight-member ISS board of directors, according to SEC filings.

Warburg and HP are both investors in several ventures, including:

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- Santa Clara, Calif.-based software company WebGain Inc. Last year, in the second round of funding, HP invested \$10 million in WebGain. In a previous round of funding, Warburg Pincus invested \$62.5 million, according to IPO.com, which tracks the financing activity of emerging growth companies across the public and private equity markets.
- San Jose-based application server software maker BEA Systems Inc. Warburg Pincus is an investor in the company and over the past three years, HP has invested \$100 million in BEA to jointly develop a range of application integration and component software aimed at helping users quickly build and deploy electronic-commerce applications ([see story](#)).
- Dublin-based [Eontec](#), a developer of Java-based banking software. Last year, Warburg Pincus invested \$25 million in Eontec. HP and BEA are Eontec's partners.

The relationship troubled analysts and business ethicists who said any connections between HP and a major financial backer of ISS should have been disclosed to shareholders.

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Bill Parish, a registered investment adviser with Parish & Co. in Portland, Ore., said HP and ISS should have made investors aware of the relationship between the two entities. He has asked the U.S. Securities and Exchange Commission to step in and require new disclosures in the matter and to extend the HP voting deadline by two weeks.

The SEC said it doesn't comment on correspondence from individuals.

Parish said HP and Warburg Pincus have been involved in various business dealings together.

Warburg declined to comment. An HP spokeswoman said, "There is more information about this merger available to shareowners than for any other merger in history, and therefore, any suggestions that shareowners may have been misled are without basis."



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ISS also didn't respond to requests for cor

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HP and Warburg Pincus LLC should have been disclosed before the merger vote.

"The SEC should look at the overall problem and issue guidance for the future to make sure the stockholder [is protected]," said Rob Enderle, an analyst at Giga Information Group Inc. in Cambridge, Mass.

Enderle, who said the news about the alleged relationship between ISS and HP came as a surprise to him, said when such information isn't disclosed and is then uncovered after the fact, it looks improper, even if it wasn't done intentionally.

Walter Winnitzki, a financial analyst at First Albany Corp. in New York, said, "In view of the Fair Disclosure Law, this information should have been disclosed as openly as possible."

Mark Gomes, a financial analyst at AMR Research Inc. in Boston, said in this situation as much information as possible should have been disclosed, especially when other shareholders are involved.

W. Michael Hoffman, executive director at the Center for Business Ethics in Waltham, Mass., said, "It would seem the information should have been disclosed at least to the ISS members, especially if those investors relied on the advice of ISS."

Hoffman said ISS should have told its members about its relationship to Warburg Pincus and Warburg's business relationship with HP to avoid the appearance of a conflict of interest.

The State Teachers Retirement System of Ohio, which is a member of ISS, voted in favor of the merger. But Laura Ecklar, a representative of the organization, said the staff of the teachers' fund made its own decision and didn't rely on the ISS recommendation.

Stuart Gilman, president of The Ethics Resource Center in Washington, said it raises ethical problems if the information was not disclosed.

"On the face of it, it seems that reasonable people could question the independence of the group," Gilman said. "By concealing the information, it raises concerns."

One outspoken critic of the merger, Walter Hewlett, the son of one of HP's co-founders, has filed a lawsuit against HP asking the court to block the merger or order a new vote. HP filed a motion to dismiss the lawsuit, which was heard April 7 in the Delaware Chancery Court ([see story](#)).

Todd Glass, a spokesman for Hewlett, said Hewlett couldn't comment on the matter because he was focused on the hearing on the dismissal action and on the process of getting the merger votes counted.

The voting results are being processed by Newark, Del.-based independent vote-counting firm IVS Associates Inc.

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