

In re Micro Focus International, plc Securities Litigation

COURT: United States District Court for the Southern District of New York
CASE NUMBER: 18-cv-06763
CLASS PERIOD: 09/01/2017 - 03/19/2018
CASE LEADERS: James A. Harrod

On September 12, 2018, Iron Workers' Local No. 25 Pension Fund was appointed as Lead Plaintiff, and BLB&G was appointed Lead Counsel, in this action brought in the United States District Court for the Southern District of New York (the "New York Action") covering a class period from September 1, 2017 through March 19, 2018, inclusive.

Plaintiff alleged in the New York Action that Micro Focus, a global enterprise software provider, made false statements and omissions concerning its merger with the software business of ("HPE"), which was announced on September 7, 2016. In the merger, the Company issued American Depositary Shares ("ADS") representing more than 222 million Micro Focus shares to HPE shareholders under a prospectus filed on August 22, 2017.

Leading up to the merger, Micro Focus and its senior executives touted the transaction as an opportunity to increase the Company's scale and breadth and to enhance earnings. Defendants also told investors that the merger would yield significant cost benefits and add a substantial recurring revenue base. Defendants, however, knew or recklessly disregarded that even before the merger closed, HPE's software business was experiencing significant difficulties, including disruptions in global customer accounts as a result of its split from the larger HPE entity. These difficulties materially decreased Micro Focus's ability to recognize synergies from the merger. At the same time, Micro Focus was experiencing worsening revenue trends and massive employee attrition, which adversely affected the Company's operational capabilities.

The merger ultimately closed on September 1, 2017, and in the ensuing months, Defendants assured investors that the integration of the two companies was going smoothly and that the Company was on track to meet its revenue and earnings goals. Defendants, however, knew or recklessly disregarded that there were significant problems with integration and that these integration problems were causing an acceleration in the declining of Micro Focus's revenues.

Investors began to learn the truth on January 8, 2018, when the Company disclosed significant deterioration in virtually every aspect of its business, as well as problems with the integration of HPE. The truth was then fully disclosed on March 19, 2018, when the Company disclosed significant issues within HPE due to its separation from the larger HPE entity, the Company's difficulty executing sales, and significant employee attrition. This news caused the price of the Company's ADSs to drop sharply, causing investors to incur substantial losses. In total, the price of Micro Focus's ADSs declined more than 55% over the class period alleged in the New York Action.

Lead Plaintiff filed its amended complaint in November 2018. Defendants filed a motion to dismiss in January 2019. Lead Plaintiff filed its opposition to the motion to dismiss in March 2019, and Defendants filed their reply in further support of the motion to dismiss in April 2019. While the motion to dismiss was pending, Micro Focus made additional disclosures implicating the same topics that were alleged to be false in the original amended complaint. Lead Plaintiff sought to incorporate those additional allegations into its case and, after informing the Court of that

intention, filed a further amended complaint in September 2019. Defendants filed a motion to dismiss the Second Amended Complaint in November 2019, Plaintiff filed its opposition in December 2019, and Defendants filed their reply in January 2020.

In September 2020, the Court granted Defendants' motion to dismiss on the basis that the Second Amended Complaint does not adequately allege that Defendants made materially false statements or misleading omissions. We filed a notice of appeal in October 2020 and our opening brief was filed in February 2021. Following a mediation in March 2021, Lead Plaintiff and Defendants reached an agreement to settle the New York Action for \$15 million. We moved for preliminary approval of the settlement of the New York Action in June 2021, but the plaintiffs in a separate case alleging claims against Micro Focus and its officers and directors under the Securities Act brought in California state court (the "California Action") filed papers in our case opposing preliminary approval of the settlement. We and defendants responded supporting preliminary approval of the settlement of the New York Action. In November 2021, the Court of Appeals granted a joint motion by Defendants and us in the Court of Appeals to remand our action for the District Court to decide whether to approve the settlement. In February 2022, the District Court denied our motion for preliminary approval of the settlement without prejudice. The District Court also directed us either to reinstate our appeal from dismissal of the action or to move in the District Court to vacate the dismissal in order to enable the District Court to consider the settlement. In March 2022, we moved in the District Court to vacate the dismissal of the action, and that motion was fully briefed on May 11, 2022. In December 2022, while our motion to vacate was pending, we reached an agreement in principle on a global settlement of the New York Action and the related California Action alleging claims under the Securities Act. The proposed global settlement was for a total payment to the class of \$107.5 million, covering a class period from September 1, 2017 through August 28, 2019, inclusive. The parties informed Judge Carter of the agreement, and he granted our request that he stay this action while the parties present the proposed settlement to the California state court for preliminary approval, notice to the class, and final approval. The California state court preliminarily approved the proposed settlement on February 7, 2023, and granted final approval of the settlement on July 27, 2023. More information about the settlement is available at www.microfocusclassaction.com.

Case Documents

- Notice of Proposed Settlement of Class Action
- July 27, 2023 - Judgment and Order Granting Final Approval, Approving Plan of Allocation, and Awarding Attorneys' Fees and Reimbursement of Expenses, and Approving Service Awards
- September 30, 2019 - Second Amended Class Action Complaint for Violations of the Federal Securities Laws
- March 28, 2018 - Stipulation of Settlement