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## FEDS PROBE THEFT OF HP SOFTWARE

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By Denny Walsh Bee Staff Writer

--In one of the nation's largest computer frauds, the Hewlett-Packard Co. has been victimized by bribery, deceit and theft of a closely guarded trade secret, according to federal prosecutors. The rip-off has cost the company "tens of millions of dollars," says Tim O'Neill, an HP investigator and former Roseville police expert in high-tech crimes.

The scandal, emerging in Sacramento's federal court, has prompted the firing of two Hewlett-Packard managers who have not yet been criminally charged but are being sued by the company for allegedly accepting bribes.

Put simply, the case involves stealing top-secret HP software, copying it, selling it, then using it to upgrade computer servers - which are powerful computers that feed information to a network of other computers, typically workstations.

Upgrades can cost customers hundreds of thousands of dollars and HP is the only company authorized to use its secret software, SS.Config, for enhancing a server's performance and allowing access by more users concurrently.

Police raids in the past nine months of used-computer brokerages around the country have turned up as many as a half dozen pirated copies of SS.Config, O'Neill says in a court declaration.

The nationwide investigation targets a number of individuals and companies that have not yet been charged.

The most recent development in the case came Friday, when John T. Adamson pleaded guilty to mail fraud. He has agreed to cooperate in the government's ongoing probe of the computer resale industry, according to First Assistant U.S. Attorney Matthew Jacobs.

Adamson admitted using the stolen software for about 18 months to upgrade used computer servers purchased from Hewlett-Packard. He also admitted bribing two HP managers to ensure a continuing supply of the servers.

Adamson and his brother, Richard J. Adamson, owned a now-defunct used-computer brokerage in Dallas called Hardwarehouse.

A Sacramento law firm headed by former U.S. Attorneys Charles Stevens and **George O'Connell**

recently named the Adamsons and Hardwarehouse as defendants in one of two civil lawsuits seeking unspecified damages for HP.

John Adamson and criminal defense attorney Johnny Griffin III, a former federal prosecutor, declined to comment Friday as they left the courtroom. Adamson's sentencing is set for July 9.

Here is the story as alleged in the civil suits' papers and in a written plea agreement:

The Adamsons paid off Deborah Balon, a manager in HP's Equipment Management and Remarketing Division in Mountain View, and Marc Loriau, Balon's fiance and a project manager in HP's Corporate Development unit.

Balon circumvented the usual auction process and sold servers from the HP 9000 and 3000 series of computers - typically used by large companies - directly to Hardwarehouse at well below market value.

She also aided Hardwarehouse's acquisition, from HP in Roseville, of bogus user licenses for illegally upgraded servers.

The equipment was misrepresented to Hardwarehouse customers as properly licensed by HP.

The Adamsons paid Balon and Loriau, who live together in Saratoga, "well over \$100,000" between 1996 and late last year. The payoffs took the form of:

- \* Cash - \$1,500 a week delivered by overnight courier in 1998.
- \* Trips to Paris; Tahiti; St. Barts; Aspen, Colo., and Dallas.
- \* Home furnishings and appliances, including Oriental rugs, a Jacuzzi and alarm system.
- \* Personal luxury items such as a \$7,500 mink coat and \$4,000 diamond tennis bracelet.

Balon initially denied involvement in the scheme, but finally admitted to law enforcement officials that she accepted bribes from Hardwarehouse, according to a sworn court declaration of O'Neill.

Balon was fired by HP in December and Loriau in January.

Barry Rekoon, attorney for Balon and Loriau, said Friday his clients will have no comment.

"Mr. Adamson can say whatever he wants," Rekoon added. "If the government believes him, my clients would have been indicted or offered a plea agreement."

"The fact is, this has been under investigation for months and the government has no evidence to implicate my clients in crimes."

John Adamson's plea agreement also describes Hardwarehouse's retention of Derrick Eisenbeis to upgrade HP servers with an illicit copy of SS.Config, which is copyrighted and considered by HP to be one of its most valuable properties.

Eisenbeis, 32, a computer technician who until recently operated his own company Byron, Contra Costa County, was charged a month ago in a Sacramento federal grand jury indictment with transporting stolen goods. He has not yet been arraigned.

The charge stems from Eisenbeis taking a copy of SS.Config - with its password protection disabled - on a March 1997 trip to Dallas, then using the software to modify several HP servers at Hardwarehouse.

He was interviewed by Special Agent Fred Adler of the Sacramento Valley High-Tech Crimes Task Force during a November search of his home and now-defunct business.

Eisenbeis admitted stealing a copy of SS.Config from a Livermore company when he was fired in August 1995, according to Adler's report.

Eisenbeis also admitted that he regularly used the software to modify HP servers for brokers and made copies of it, the report says.

He sold two copies for about \$10,000 each, including one to John Adamson, Eisenbeis said.

Adamson's plea agreement says he and his brother purchased the SS.Config from Eisenbeis in March 1997, then used it to illegally reconfigure HP servers until a search warrant was executed at their business last November.

Richard Adamson and Eisenbeis could not be reached Friday.

Outlaw brokers have cheated HP out of tens of millions of dollars in licensing fees and other charges associated with upgrading and reconfiguring servers, O'Neill says in his declaration.

HP does not sell SS.Config and it is generally available only to certain company employees and customer engineers.

Besides the Adamsons, HP has named Balon, Loriau and Eisenbeis as defendants in a suit alleging racketeering, copyright infringement, misappropriation of trade secrets, fraud and unfair competition. They all deny the charges.

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