Co-Founder, Former Officers Of L&H Resign From Board

By MARK MAREMONT and JOHN CARREYROU
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(See Corrections and Amplifications item below.)

Pol Hauspie, co-founder of Lernout & Hauspie Speech Products NV, resigned from the company's board along with two of his longtime lieutenants in the latest fallout from the troubles besetting the Belgian maker of speech-recognition and translation software.

The resignations, announced Thursday, came at a contentious board meeting late Tuesday. Aside from Mr. Hauspie, former L&H Chief Executive Gaston Bastiaens and former Vice Chairman Nico Willaert also resigned as directors. L&H's other founder, Jo Lernout, who relinquished his title as co-chairman two weeks ago, remains a director for now, but his status is uncertain, according to people close to the company.

Once one of Europe's high-tech stars, L&H earlier this month said it would have to revise the past two and a half years of its books after it discovered accounting "errors and irregularities." The company also is being investigated by the Securities and Exchange Commission.

Meanwhile, Messrs. Lernout and Hauspie are moving to dismantle SAIL Trust, a nonprofit foundation they set up last year to promote speech and language technology, according to a person familiar with the situation. The two L&H founders had pledged to the foundation $100 million -- money they raised through sales of L&H stock. Not all of that money was actually in the hands of the foundation, and Messrs. Lernout and Hauspie now need funds, the person said.

Jean-Luc Dehaene, a former prime minister of Belgium who was chairman of SAIL Trust, has informed Messrs. Lernout and Hauspie that he plans to resign, while Bart Verhaeghe, a SAIL Trust managing director, has resigned, these people said. As many as 40 people employed by the foundation stand to lose their jobs.

In a statement issued Thursday, L&H also shed more light on why KPMG International's Belgian member firm, its longtime auditor, failed to spot the accounting problems in its annual audits. "In the course of its investigations, the Audit Committee of the Board of Directors has identified facts which may have been concealed from its auditor," L&H said.

KPMG Belgium last week filed a notice with the SEC that it was withdrawing its audit report of L&H's 1998 and 1999 results, saying its prior clean opinion of the software maker's books "should no longer be
relied upon.” In an interview Thursday, Theo Erauw, chairman of KPMG Belgium, said he "welcomed" L&H's admission that certain facts may have been concealed from KPMG.

The U.S. law firm Bryan Cave LLP and accounting firm Arthur Andersen are spearheading the probe run by the L&H board's audit committee. People close to L&H say Messrs. Hauspie, Bastiaens and Willaert were until recently responsible for the company's financial affairs, while Mr. Lernout's role was mostly confined to the areas of strategy and technology.

The board shake-up came after intense pressure from some shareholders and bondholders to clean house, according to people close to L&H. Before trading in L&H shares was suspended earlier this month, the stock had plummeted to below $7 in Nasdaq Stock Market trading, down from a high of $72.50 in March. On the Easdaq stock exchange, a European electronic market, the stock last changed hands at $3.525.

The boardroom departures help cement the power of John Duerden, the American who became L&H's CEO in August after Mr. Bastiaens's unexpected resignation from that post. Mr. Duerden was previously CEO of Dictaphone. Mr. Duerden has vowed to clean up L&H's books and make full public disclosure of the company's past accounting problems. But until the latest departures, a majority of L&H's board members were allies of Messrs. Lernout and Hauspie, who control 30% of the company's voting rights and had, until now, the right to nominate nine of its 17 directors.

Mr. Duerden said in the statement released by L&H that the boardroom changes "represent the commitment of L&H's new management and board team to a comprehensive remedial course of action. We will continue our effort to obtain all the facts and to restore integrity and reliability to our financial reporting system."

The latest resignations follow another shuffle just two weeks ago. At that time, Messrs. Lernout, Hauspie and Willaert resigned their executive positions with the company, but kept their board seats. Mr. Lernout, a former computer sales executive with Wang Laboratories Inc.’s Belgian unit, founded L&H in the late 1980s with help from Mr. Hauspie, a former accountant. Mr. Hauspie has been ill of late, and already had taken a medical leave of absence from his board duties before his resignation.

Among the areas being investigated by the SEC are L&H's dealings with 30 start-up firms, registered in Singapore and Belgium, that in total provided 25% of L&H's revenue in 1999 and 10% in 1998. The SEC also is investigating a sudden surge in L&H's revenue in South Korea, where its sales soared to $127 million in this year's first six months, up from just $1.2 million in last year's first half.

Earlier this week, Flanders Language Valley Fund NV, an Easdaq-traded venture capital fund with close ties to L&H, said it had discovered that $30 million of its money had been improperly pledged as collateral to a Korean bank "in favor of" Joo Chul Seo, president of L&H Korea.

FLV Fund didn't say whether the funds were used to collateralize a loan. L&H has professed not to know anything about the money and suspended Mr. Seo from his duties following a trip by Mr. Duerden to Korea last week. L&H has appointed Dong-Hee Kim, formerly a vice president at one of its units, as acting president of L&H Korea.

In addition, L&H has named Joseph D. Skrzypczak as its acting chief financial officer, people familiar with the situation said. Mr. Skrzypczak was formerly chief financial officer and chief operating officer of Dictaphone, and is a close ally of Mr. Duerden. Mr. Skrzypczak succeeds Carl Dammekens, L&H's
former CFO, who resigned from that post earlier this month but remains an L&H employee.

The district attorney of Ieper, the small Belgian town where L&H has its headquarters, said Thursday that he has upgraded his informal investigation of L&H to a formal probe into allegations of forgery and breaches of accounting law. As part of the probe, the Ieper district attorney has sought help from a branch of the Belgian justice ministry to go through L&H’s annual reports and financial statements.

Write to Mark Maremont at mark.maremont@wsj.com and John Carreyrou at john.carreyrou@wsj.com

Corrections and Amplifications:

JOSEPH D. SKRZYPCZAK hasn't been named acting chief financial officer of Lernout & Hauspie Speech Products NV. The article mistakenly said Mr. Skrzypczak had taken that post, based on incorrect information provided by an L&H spokesman. Mr. Skrzypczak remains chief financial officer and chief operating officer at Dictaphone Corp., an L&H unit.

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