FINAL TRANSCRIPT

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PRESENTATION

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

We are going to go ahead and get started. I think before we start, Jim Burns, our esteemed director of IR, needs to read a Safe Harbor statement. Keep it brief.

Jim Burns - *Hewlett-Packard Development Company - VP of Investor Relations*

Before we get started, I really want to make sure that you are aware this presentation may contain forward-looking statements that are subject to risks and uncertainties, and please see HP's SEC reports for a discussion of those risks. Thank you.

Rich Gardner - *Citigroup - Analyst*

That was quick. It gets faster every time. My name is Rich Gardner. I cover HP for Citigroup. And we are extremely pleased to have Joe Eazor with us today.

I am not sure how many of you know Joe, but he has been the man behind the scenes with the EDS integration. He is Senior Vice President and General Manager of EDS. He is responsible for all facets of the operations and the P&L for the EDS business unit.

Before the acquisition, he was actually EDS's Executive Vice President of Corporate Strategy and Business Development, and he has worked very, very closely on the integration of the Company into HP. So I think, Joe, your visit here is very timely. Obviously things have gone very well, and you have done a great job so far. So we are looking forward to hearing your perspective.

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

Thanks for having me.

Rich Gardner - *Citigroup - Analyst*

I guess let's start, Joe, with an update on the integration process.

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

Sure. From almost every aspect, Rich, the integration has gone ahead of schedule. If you look at all the objective measures we set out in the plan of record, and what we are trying to achieve on all the different timelines we set for ourselves, we are ahead or on schedule in almost every category.

So if I just break it into a few different ones. If I look at the client side, we've lost only one of our top 200 clients. And that particular client that we lost was a competitor of HP; it was natural and planned on and expected.

Then you look to the market side, if you will. Let me go back to the client side. An important part of this that we set out in the integration was to not drop any balls related to service excellence and service delivery, something we have valued ourselves as being differentiated on than any other player in the market.

So in addition to not losing any of the other clients, we have maintained our service excellence and operational excellence levels at or above what we had on a legacy basis, even while we are going through all the change and the restructuring that's been underway. That includes management and attention on Severity One, Severity Two outages; mean time to repair the outage, as well as overall customer satisfaction and service excellence scores.

So from a client perspective, we have been able to execute the integration plan, the restructuring plan, but also keep clients, keep them happy, and continue delivering what we consider a differentiated service.

With respect to other elements of the integration, we've made great progress on aligning our cost structure to be more competitive, and thus improving our profit margins and ability to compete in the marketplace. We are more than two-thirds of the way through the reductions that we set out in the plan of record, and by the end of Q4 we will keep continuing that progress.

We have aligned our compensation on the labor side to be more competitive in the market, and tied to what we consider to be relevant market and billing rates. And so, while these have been very tough actions they have been necessary to get our labor costs aligned to what we think is going to be required to be competitive now and going forward.

From a pipeline perspective, we are very pleased to see more than a double -- we've seen more than a double-digit jump in our pipeline since the integration or the acquisition closed, the integration started.

We have two pretty important elements of that pipeline is the number of sole-source deals. These are deals that are not competitive. In other words, they've been -- HP is the lone pursuer of the work and our competition's ourself, really, has grown almost infinitely. We just closed some significant sole-source opportunities -- a sole-source deal in Latin America yet to be signed, but very significant piece of business that speaks to the value of the combination.

And we have continued to see more and more of these deals emerge in the pipeline, and we are very pleased with that progress. Not just to go through the overall pipeline, but the emergence of these sole-source deals that we didn't see as legacy EDS or legacy HP on a standalone basis.

And then, with the [section] of the pipeline, product pullthrough is probably another key element of this but we have seen -- EDS has gone out of its way not to use HP product. Declared ourselves as competitors. We have leveraged other technology providers, and we've taken a very thoughtful process in building an HP product and solutions into our portfolio and into the deals as they come in, and we've seen very good progress in them now that that product is in the pipeline.

So from the perspective of we have seen with our clients, what we've seen with our cost structure and alignment, weak margin improvement, but also as we shift from more out of the restructuring phase into the growth phase, we are pleased with what we see a pipeline and the opportunity that's sitting before us in the market.

Rich Gardner - *Citigroup - Analyst*

Very good. Just be clear, the fact that you've kept, I think, 200 of your top customers is probably even more significant, given that -- my understanding is that most of these contracts have change-of-control provisions in them whereby customers can move away --

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

Almost every one of them had a change-of-control provision.

Rich Gardner - *Citigroup - Analyst*

Not that it's easy to do, but they could if they wanted.

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

No, no, they could have launched the process. So I think that speaks well to how well -- that speaks to how well the integration has gone.

Rich Gardner - *Citigroup - Analyst*

You talked about customer attrition. Can you talk about employee attrition? Talent attrition from EDS since the deal?

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

It's been an aggressive amount of change in a short amount of time since the acquisition closed. And a lot of the actions have been tough, and tough on our employee base probably as much as anyone.

So from an involuntary perspective, obviously we are tracking down the restructuring plan that we had. From the voluntary perspective, we have been able to keep the voluntary attrition at levels we experienced before the acquisition, recognizing there's always challenges as we execute this amount of change.

As we start to shift more attention to our growth agenda, we see real progress in both our pipeline, but also our signings. As we move into the Q4, we're seeing good progress in our signings. You see that morale start to pick up and change. Because everyone wants to be part of a winning team, and so the path to get there is tough, but we see no reason that we can't be the market leader when it comes to winning deals and closing the deals that are in our pipeline.

Rich Gardner - *Citigroup - Analyst*

I wanted to ask you -- you've done a great job with the headcount cuts. So far, you're tracking way ahead of schedule. You mentioned early in the conversation that -- making sure you didn't negatively affect service levels was a huge priority for you at the beginning of the integration. How were you able to cut so many people so quickly? I think you cut, if I'm not mistaken, 12,000 or 13,000 people.

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

It's over 16,000 through the end of Q3.

Rich Gardner - *Citigroup - Analyst*

Right. 12,000 to 13,000 within the first quarter (multiple speakers). How did you do that without negatively affecting service levels?

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

Great question. Let me -- probably it's worth just a slight bit of history to understand why we could do that.

So we targeted excess capacity, first and foremost, and then synergies related to the consolidation, or the combination of the organizations. So if you go back into legacy EDS, much of our cost structure or our labor model was built by taking over client IT organizations.

And then, you know, many times that included guaranteeing employment, continuing the same comp structure they were on inside that client organization, but not necessarily taking the action necessary to align the labor costs to what the market wanted from a service provider. So we had multiple pockets of both excess capacity, as well as you might just say compensation misalignment with what the market pricing was.

So in the integration phase, we recognized that EDS had been trying to deal with it for years, but was unable to afford to do it in a very rapid fashion, so the acquisition integration provided an opportunity to restructure that on a much more rapid basis, targeting that excess capacity as well as the synergies combining the organization.

So I know that's a long-winded answer, but effectively we were able to surgically get in and go after the places where we felt like had excess capacity in the system, that weren't directly interfacing or delivering key critical client systems, and we have been able to do that so far. And again, like you noted, much of that is already behind us.

Rich Gardner - *Citigroup - Analyst*

I guess I'll ask the obvious question, which is why didn't EDS do that (multiple speakers)

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

So (multiple speakers)

Rich Gardner - *Citigroup - Analyst*

It explains a lot of why the deal was so attractive to HP.

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

I won't comment on the synergy value and so forth, but if I look back to the EDS model, and I'd been at EDS off and on for seven years. Much of that time was rebuilding out of some problems in the early 2000s with some really bad contracts. And therefore getting back to some kind of stability, but then also being able to afford the restructuring, it was needed to make those changes as quickly as we'd like just wasn't there.

So the financial capacity, we either didn't take the decision needed to execute that restructuring or didn't have the financial capacity to execute fast enough.

Rich Gardner - *Citigroup - Analyst*

Just stepping back, thinking about the integration, what's left in front of us? What's still left to do?

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

A lot. So while we've made good progress, like we've talked about on the cost alignment and profit improvement, the legal entity merges, basic blocking and tackling, and the operational integration, systems integration, much of that's behind us. Some of that is still to go.

If you looked at some of the things that have a longer lifecycle to achieve the synergy, things like infrastructure changes and real estate and IT systems, they are going to continue to require a lot of effort, and we will continue to see benefits on the cost structure and margin side from those actions over the coming months and years.

But we are at a pivot point. So this pivot point shifts from integration and restructuring to one of market focus and growth. It's not that we haven't focused on the market, but we have a huge opportunity and we have the pipeline to support it. We have an account base that is the envy of most anyone in the industry through a combination of EDS and HP.

We take what was a fairly small focused sales force and capability inside EDS and match it up to what is 20,000-plus salesforce strength across the rest of HP. To really start to leverage our capabilities, the progress we have made, the improved cost structure, the new delivery model to win deals in the market, and we compete very effectively, in my view, against anyone willing to go head to head.

But we are also starting to see much more significant opportunities on growth or existing accounts. And that is a critical piece for us. So all that just tells you that we are focusing much more attention on growth, and increasing our share of wallet and our account base.

Rich Gardner - *Citigroup - Analyst*

You mentioned the new delivery model, can you elaborate on exactly what has changed?

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

So I'd mentioned -- if you remember, I mentioned that a lot of times we would just pick up and take over an IT organization, move it in, and -- as part of an outsourcing arrangement.

One of the changes we have made is on new deals. We solution to the labor model we want in the future. So by each service line, we can identify what type of model we want from a global delivery perspective, how much should be in a leveraged environment, how much should be offshore or best-shored. Some may be 70% offshore, 30% onshore, some may be 10% on and 90% off.

But it depends on the service line. It depends on the customer needs. So we've got a go-to model from a labor perspective, and from a global delivery perspective that we are solutioning into.

And so, that's the huge driver for us of the new delivery model, so that we don't compromise the work that we have already executed and accomplished. And it also allows us to deliver better value propositions for our clients, which is the most important thing of all this.

Rich Gardner - *Citigroup - Analyst*

Can you talk specifically regarding right shoring, about what's changed at EDS since HP completed the acquisition?

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

One of the things that was unanticipated for me in the acquisition was through HP we picked up what isn't necessarily a large, but I would put it as a best-in-class, best-offshoring global delivery capability, through something that was known in HP as GDASS -- global delivery and application services.

And so, that capability, very effective, very strong, state-of-the-art capabilities in India and China. And we have been able to match that with EDS's already growing offshore and best-shore capabilities. And really build what I consider to be an industry-leading right-shoring capability or best-shoring capability.

The key isn't just to move the work offshore, it's to put it where the best skills are for the right cost point to deliver it to the customer, and so we feel like we are much better positioned after being combined than we were each one individually.

So we have better economies of scale, we've got more locations, we've got better tools and methods and processes. We've got established capabilities, extremely referenceable clients, so very excited about the opportunity that's provided us since the acquisition closed.

Rich Gardner - *Citigroup - Analyst*

Great. Speaking of opportunity, can you talk about how the opportunities have changed for EDS since it became part of HP? What types of deals are you being invited to now that you might not have been invited to before, and how much of the double-digit growth in pipeline since the deal closed do you attribute to being part of HP?

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

I would attribute almost -- perhaps even more than the double-digit growth, given where the economy went, in our pipeline to the combination with HP.

So -- let me just kind of make it real simple. There are probably two key elements to new things that have come in that EDS would not have seen on its own, or HP wouldn't have seen on its own without the EDS capabilities.

One is around these sole-source deals I mentioned, so HP clients -- customers, perhaps only a product customer or -- with a deep and good relationship, then you have the opportunity to identify opportunities in those and have access to clients and/or the product sales guys who identify the opportunity have access to service delivery capabilities they didn't have. So we are seeing a significant pickup in opportunities that we don't have to compete against anyone, we just have to [develop] with the right guiding proposition with the client.

That is -- perhaps only IBM has had that -- that opportunity in the past. We feel like with our account base and our relationships and delivery capabilities, we will have even better opportunity. It's that huge.

Secondly is the growth on existing accounts, perhaps not large-scale mega-outsourcing deals like EDS was known for, but small, more compartmentalized, componentized managed services or outsourcing solutions that are in existing accounts. The opportunity to increase our share of wallet because of the combination has increased significantly.

We have -- share of wallet that's in -- that's in the range of single digits across the average -- across the EDS portfolio, and a one-point of improvement in share [wallet] existing accounts is several billion dollars in annual revenue.

So focus on existing and growing existing accounts, but also on these sole-source opportunities, clearly two things that we wouldn't have -- you can almost directly attribute to the combination.

Rich Gardner - *Citigroup - Analyst*

Got it. I was speaking with John Kelly at IBM a little bit earlier today. He heads up the research organization, and he mentioned that one-third of their total R&D budget now is going to -- is going to tools that help them deliver their services more efficiently and effectively.

So I guess the question is how do you win against IBM in this market? They claim that they have a couple of significant advantages in the areas of automation, automation technologies, cost-of-services delivery, and then, all of this money that they are throwing into R&D to reduce defects within the services business. (Multiple speakers)

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

I'm glad you asked this question. If I start at the broad level, our cost-of-service delivery will be as competitive as anyone in the market, I can assure you, as we progress through our restructuring and into the next phase.

So I think that we have the evidence across HP of being able to make those changes happen, and EDS services will be no exception to that. So again, if IBM or anyone wants to talk about cost-of-service delivery, we will be glad to make those comparisons and we will see it in the market as we fight for deals.

Secondly, I think our clients will tell you our service delivery excellence, our operational effectiveness, the way we treat clients, partner with them, is a step ahead of anyone in the industry. So we have been known for that, and we have been known for widely delivering what we promise to deliver, and we will continue to differentiate on that as a means to serve our clients better and more effective anywhere.

I know that's a subtle differentiator, but again, our clients are very happy with this combination. And they see this as a huge opportunity for us to continue to differentiate on that, and also bring kind of the third element, which I would put as a better portfolio than anyone, including IBM, in the industry.

So if I look at our software suite on how to more effectively standardize, automate, virtualize IT operations in environments where our BTO portfolio inside your software, do we leverage inside EDS to deliver services. I feel very comfortable.

And I'd look our server capabilities, our storage capabilities, our PCs and our workplace services, distributing computing capabilities, and I look at our network capabilities, we are emerging through our ProCurve -- from a portfolio perspective, I think we can handle and provide better value propositions to clients across infrastructure services, bar none. And I'm glad to have that debate and discussion at any time.

[We see] that as we progress our pipeline and our signings.

I think there is work to do, though. So I think in our application services business, we have more work to do. And we can become much more competitive there. We are not at the same level, in my view, in that portfolio, and we are working hard to catch that up.

We've seen that hit hard through our discretionary expenditure reductions this year as the economy has tightened, but we should be the best applications management outsourcing organization in the world. We have very strong capabilities, we have underemphasized it perhaps in ourselves and (technical difficulty) value proposition. So you'll see us push some of these things more effectively.

But I view our portfolio to be stronger, our service delivery capabilities to be better in terms of service excellence, the way we handle our clients more effective, and we will have a cost structure that can compete with anyone.

Rich Gardner - *Citigroup - Analyst*

IBM actually generates a double-digit margin in their ITO business. Jim is probably going to shut me down on this one. But is there any reason that EDS can't get there? I mean, when you put EDS and HP together, your scale in ITO is very comparable to IBM's, and you've talked about having a very competitive (multiple speakers) delivery.

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

Absolutely no reason we won't get there.

Rich Gardner - *Citigroup - Analyst*

Okay. You touched on this (multiple speakers). I figured you would stop me. You touched on this, I think, in part because you've talked about the double-digit growth in pipeline, you've talked to -- I guess maybe the right way to say it is maybe your view into this is not crystal clear, given that there's a lot of things going on with the HP integration and acquisition. But how has ITO behaved during this particular downturn versus what you would've expected coming in? (Multiple speakers) countercyclical.

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

You've alluded to it. The dynamics of the integration make it a little tougher to assess the economy's affect on our pipeline. How much of it has come from the countercyclical nature of the ITO business and how much of it has come just through the sheer fact of the combination.

I think we've gotten a much more significant pickup in our ITO pipeline as a result of combining with HP than we have as a result of the economy. I can't put any exact numbers on that.

But obviously, deals are taking -- people are progressing deals a little slower, there are more conversations taking place. There's also more discussion about how to execute the economics of the deal. With access to HP Financial Services, we can provide some good financial structuring alternatives for our customers and clients, and still win the across the board.

And we have seen that become the very effective competitive tool for us as well, that I didn't mention earlier. So we see the nature of the deal perhaps changing -- some greater OpEx savings on what more early-stage cash or assets that we may be acquiring, etc.. So that's probably the bigger change, then, with actual volume as it relates to the economy.

Rich Gardner - *Citigroup - Analyst*

This is such a fragmented industry. And I -- I guess IBM's argument has been that a company that has all these capabilities under one roof is going to be a share gainer over time. How do you see the consolidation of the industry progressing over the next, say, three to five years?

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

I can represent what I see in this chair, but also in my previous chair where we were looking at how the industry may play out.

I think we have a strong view that good services will come with good technology. And so, we see the services companies, like ourselves now, combined with the leading technology company as being able to offer a bigger, broader, sharper value propositions to our customers.

So does that mean every service provider will be acquired by a product company? I don't think so, but I do think there will likely continue to be consolidation in the industry as we start to demonstrate the value proposition that we have. IBM has demonstrated the value proposition they have, and I think that will continue to put pressure on the consolidation in the industry.

I don't want speak about any specific players.

Rich Gardner - *Citigroup - Analyst*

Fair enough. Any questions from the room?

QUESTIONS AND ANSWERS

Unidentified Audience Member

Can you elaborate on the sole-source contract (inaudible question - microphone inaccessible) sole-source contract?

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

One of the major reasons, it happens to simply be trusted relationships. So if I look at it -- if I just use the statistics, for example, EDS had a few hundred accounts, legacy EDS prior to the acquisition, had a few hundred very sizable accounts and a sales force that numbered in the hundreds, or maybe up just over 1,000.

HP has thousands of accounts with relationships with pretty much every enterprise and government organization in the world. And a thirst to have more business with those organizations. So a lot of these were identified before but HP perhaps didn't have the service delivery capabilities to field them, or actually win them.

And so with the combination, the account teams that are out there across the rest of HP, identifying opportunities to provide a connect point back to what EDS brought to the table in service delivery, and now you have a combination that actually can -- not just identify the opportunity, but to close the deal and deliver the value. So I think that's probably the biggest driver is just access. For lack of a better word.

Unidentified Audience Member

Just given reports of morale being down, and all the issues around the compensation reductions, and so forth, what gives you confidence that you haven't cut too much, and that as the labor market stabilizes, you're going to be able to retain and attract talent throughout the organization?

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

I'm not sure (technical difficulty) some things out that will probably get me in trouble here. But the actual amount of -- the actual compensation reductions that took place for on a fairly small percentage of the employee base across EDS.

So I just want to make -- I'm not going to give you the exact number, but it wasn't -- it wasn't -- 80% of our workforce had compensation alignment. There was a minority, a small minority.

So, not that that makes it any less awful or tough or relevant to the people that were affected. And those people that are affected obviously can create -- you need some encouragement and see us being able to win as a result of that, and then also being -- seeing us being able to have a higher variable compensation component, which is HP's compensation philosophy.

So the better we perform, the more variable compensation we will have, and so winning allows everyone to get back -- whatever potential compensation that was put at risk or at least an opportunity to gain some of that back, based on performance.

Now, having said all that, our clients are what really tell us whether we've cut too deep or not. Leading indicators for me are our service excellence metrics. So whether it be outages, Severity One or Severity Two outages, [recent] client surveys, there are a variety of things that we look at from both the account team and client teams. And in the client itself to understand where the pulse is.

So we monitor those, and so far it's an indication that we pushed but we haven't crossed the line.

Unidentified Audience Member

A quick question on as you've gone through the EDS portfolio and analyzed whether it makes sense to own all of that portfolio under the HP umbrella. Are there things that you see in the portfolio that you'd rather not own that are candidates for divestiture?

And a separate question, which is in the same vein, is could you explain the logic behind the recent buying in of the accelerated HRO business?

Joe Eazor - *Hewlett-Packard Development Company - Sr. VP and General Manager, EDS*

Yes. So we are doing a strategic review of our portfolio, as you might expect, as the next phase of the integration. So we are not just looking at any one element of our portfolio, but inside ITO we have a variety of service lines and offerings. Inside apps, same thing, inside DTO.

So we are conducting a review to see which ones fit with the broader HP strategy and which ones drive the best value for the corporation.

Clearly, we like those things that go across just services. So if we can have -- let's take DTO as an example. Parts of our DPO portfolio leverage our own intellectual property, they leverage our infrastructure, and we provide it as a full end-to-end spectrum of services that are delivered on some kind of an outcome-based pricing.

And those tend to perform very well for us. So we are looking at that portfolio, but we are going to focus on those areas that provide the greatest amount of leverage, both for HP, but also most importantly we are starting with the customer value proposition to see where we are falling short in our portfolio that they would like to see from the HP-EDS combination.

On your second part of the question, the simple answer is any kind of joint venture structure tends to complicate things. Not always, but in this particular case, we felt like to have the greatest flexibility and how to either -- to do what we want to do with that business, whether to invest or grow or manage differently was to have that ownership back in-house.

And to pick the parts of that business that are most strategic and relevant to us, and figure out what we were going to do with the rest of our portfolio.

Rich Gardner - *Citigroup - Analyst*

I think we are out of time. But Joe, I'd like to thank you very much for joining us. It's been very insightful. And Jim, thanks for coming along. Thank you all.
