

# FINAL TRANSCRIPT

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## **HPQ - Hewlett-Packard Organizational Announcement Conference Call**

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Aug. 06. 2010 / 8:45PM, HPQ - Hewlett-Packard Organizational Announcement Conference Call

## CORPORATE PARTICIPANTS

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**Mike Holston**

*Hewlett-Packard Development Company, L.P. - EVP, General Counsel*

**Cathie Lesjak**

*Hewlett-Packard Development Company, L.P. - Interim CEO, CFO*

**Marc Andreessen**

*Hewlett-Packard Development Company, L.P. - Director*

## CONFERENCE CALL PARTICIPANTS

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*Cross Research - Analyst*

**Richard Gardner**

*Citigroup - Analyst*

**Toni Sacconaghi**

*Sanford C. Bernstein & Company, Inc. - Analyst*

**Keith Bachman**

*Bank of Montreal - Analyst*

**Brian Alexander**

*Raymond James & Associates - Analyst*

**Aaron Rakers**

*Stifel Nicolaus - Analyst*

**Amit Daryanani**

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**Jeff Fidacaro**

*Susquehanna Financial Group - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to HP's investor briefing.

My name is Michael and I will be your conference moderator for today. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. Jim Burns, Vice President of Investor Relations. Please proceed.

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**Jim Burns** - *Hewlett-Packard Development Company, L.P. - VP IR*

Good afternoon, and welcome to our conference call to discuss today's announced management changes. Joining me is Marc Andreessen from the search committee of the Board, as well as Cathie Lesjak, our current CFO, who will expand her role to CEO on an interim basis, and Mike Holston, HP General Counsel.

Aug. 06. 2010 / 8:45PM, HPQ - Hewlett-Packard Organizational Announcement Conference Call

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For today's call, first, Mike Holston will provide context on today's announcement. Marc Andreessen will follow Mike to give some additional insight into how we will ensure a smooth transition during the search for a permanent CEO. Cathie will then outline her interim goals and priorities for the Company, along with the reasons why HP is well positioned with sustainable, competitive advantages to maintain its business momentum.

Although we provided preliminary Q3 financial results today, which exceeded our prior guidance, and raised our full-year outlook for revenue and non-GAAP EPS, we will not be discussing these results or the outlook until our scheduled earnings call on August 19.

Following these prepared remarks, we will open the call to questions. And with that, I will now turn the call over to Mike.

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**Mike Holston** - *Hewlett-Packard Development Company, L.P. - EVP, General Counsel*

Good afternoon, and thank you for joining us on such short notice.

As you are all aware, HP announced today that Chairman and CEO Mark Hurd agreed with the Board of Directors to resign from HP effective immediately. The Board has appointed CFO Cathie Lesjak as CEO on an interim basis.

Let me provide you with the details leading up to the Board's decision. To start, Mark's resignation was in no way related to HP's operational or financial performance, both of which remain strong as evidenced in the earnings we pre-announced today.

Rather, it was the result of his professional and personal behavior that compromised his ability to lead the Company.

Several weeks ago, a former contractor for HP alleged that Mark and, as a result, HP had sexually harassed her while she worked on certain HP marketing activities. As soon as the Board of Directors was made aware of the claim, it immediately directed that an investigation be conducted. The matter was investigated by outside counsel in conjunction with HP's General Counsel's office and was overseen by the Board of Directors.

The findings of the investigation were as follows. Mark had a close personal relationship with an HP contractor who was hired by the office of the CEO and Mark never disclosed that relationship to the Board of Directors. The investigation revealed numerous instances where the contractor received compensation and/or expense reimbursement where there was not a legitimate business purpose. And the investigation found numerous instances where inaccurate expense reports were submitted by Mark or on his behalf that intended to or had the effect of concealing Mark's personal relationship with the contractor.

Based on these facts, the Board concluded Mark's conduct demonstrated a profound lack of judgment. As Mark stated himself in the press release, quote, I realized that there were instances in which I did not live up to the standards and principles of trust, respect, and integrity that I have espoused at HP, close quote.

Based on all of this, the Board concluded, and Mark agreed, it would be impossible for him to be an effective leader moving forward and that he had to step down.

The Board has named Cathie Lesjak as interim CEO, someone in whom they and HP's employees have complete confidence to lead the Company during this transition. Cathie is a 24-year veteran of HP who has served as HP's CFO and is a member of the Company's Executive Council since January 2007.



Aug. 06. 2010 / 8:45PM, HPQ - Hewlett-Packard Organizational Announcement Conference Call

Importantly, she has been closely involved in strategy development and has played a key role in strengthening HP in creating a platform for further profitable growth. She will continue to oversee all Company financial matters and will retain her CFO responsibilities during the interim period.

I should also mention that Cathie has indicated she does not wish to be considered for the position of permanent CEO and has removed herself from being a candidate for that job.

The Company does not expect to make any additional structural changes or business executive leadership changes.

With that, I will now turn the call over to Marc.

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**Marc Andreessen** - *Hewlett-Packard Development Company, L.P. - Director*

This was a painful decision for everyone involved, given the strong leadership Mark has provided since he joined HP five years ago. But this was a necessary decision.

We on the Board gathered and analyzed all of the facts and evaluated Mark's judgment. Sadly, Mark's conduct undermined the standards we expect of our employees, not to mention the standards to which the CEO must be held, and the Board decision was unanimous.

HP is not about any one person. Let me tell you what HP is about. This Company is more than 300,000 strong. The dynamic of these amazing people around the world working together as a unified team is the driver for the success of our business. We also have a broad and deep executive bench strength that will continue to lead this Company and drive our performance-based culture.

HP is a great Company, and the reason HP is great is the people, and the people are the reason HP will continue to be great.

We have named Cathie Lesjak as interim CEO. We have complete confidence in Cathie to take the helm and lead the Company during this transition. Cathie is a 24-year veteran of HP who has served as HP's CFO, and is a member of the Company's Executive Council since 2007. She will continue to oversee all Company financial matters and will retain her CFO responsibilities during the interim period and beyond.

Cathie has indicated that she does not wish to be considered for the position of permanent CEO and has removed herself from being a candidate for that job. The Company does not expect to make any additional structural or business leadership changes.

Now, let's move forward to the CEO search. The Board of Directors has formed a CEO search committee that will consist of Larry Babbio, John Hammergren, Joel Hyatt, and me. The committee will retain an executive search firm and candidates from both inside and outside the Company will be considered. We are looking for a strong candidate who can effectively lead the great employees of this Company into the next phase of our growth and success.

With that, I'll hand the call over to Cathie.

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**Cathie Lesjak** - *Hewlett-Packard Development Company, L.P. - Interim CEO, CFO*

Thank you, Marc. As I step into the role of interim CEO, I have never been more confident in the Company's future. Our strategy of profitable growth is solid and our ability to execute is irrefutable.

HP has been built around a solid long-term strategy that remains unchanged and has a number of sustainable, competitive advantages, such as, first, our technology and market leadership; second, the industry's broadest portfolio of hardware, software,

Aug. 06. 2010 / 8:45PM, HPQ - Hewlett-Packard Organizational Announcement Conference Call

and services; third, our scale; fourth, our global reach; fifth, our strong senior leadership team and management bench; sixth, our financial strength; finally, our ability to execute, as evidenced by our most recent Q3 results.

The consistency of our execution to drive revenue and operating leverage is a reflection of the strong management systems and the operational discipline that are now an integral part of HP's DNA. The preliminary results we announced today underscore our market strength, strategy, and ability to execute.

And as a result of this, we are increasing our outlook for the full fiscal year for revenue and non-GAAP EPS.

In closing, I want to be clear to you that my principal priority as interim CEO is to continue to move the Company forward and execute the strategy that is giving us market momentum while the Board conducts the search for the next CEO.

With that, we will now open the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Shannon Cross, Cross Research.

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### Shannon Cross - Cross Research - Analyst

Cathie, can you talk a bit about some of the specific initiatives that Mark was championing, and any thoughts on -- I know this is so recent, right, so I don't know what you can say, but any thoughts on changes in sort of strategic direction or cost-cutting, anything we should look for? And also, if you can give any color on how you are going to be working with the business unit leaders going forward on a strategic basis in that and if the Board is going to be more involved.

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### Cathie Lesjak - Hewlett-Packard Development Company, L.P. - Interim CEO, CFO

Thanks, Shannon. There are a lot of questions in there.

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### Shannon Cross - Cross Research - Analyst

Yes, I know.

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### Cathie Lesjak - Hewlett-Packard Development Company, L.P. - Interim CEO, CFO

I'll try to hit some of the high ones. Fundamentally, our strategy is not changing at HP.

We have a strategy of profitable growth that is very solid. We've got a team of people to really drive that strategy and execute it, strong management talent, and frankly, we've got 300,000 employees who each and every day strive to deliver customer satisfaction and deliver shareholder returns. And at the end of the day, with all the sustainable advantages that we have, this strategy and our ability to execute, we are just very well positioned. So there's really no impetus at all for us to change this strategy.

Aug. 06. 2010 / 8:45PM, HPQ - Hewlett-Packard Organizational Announcement Conference Call

In terms of the initiatives that you asked that Mark quote unquote is championing, Mark was a strong leader, but at the end of the day, he didn't drive the initiatives. It was the organization that supported Mark that drove those initiatives, and there will be no change in those.

And we've talked about those on many, many calls around the pan-HP supply chain opportunities; the -- getting our services synergies out of the EDS acquisition, plus the additional charges and synergies that we had the opportunity to take out of the services space; driving operational excellence within our printing and imaging business; and making the right R&D investments across our entire portfolio, whether that's printing, data center, services, software, PCs with the new Web OS. So there's just a tremendous amount of opportunities that position us very well for the future, and we are behind -- we were behind every one of those and driving them under Mark's leadership, and there will be no change in that space at all.

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**Shannon Cross** - *Cross Research - Analyst*

And then, just thoughts on how you're going to be working with the various business unit leaders. Will decisions just be made sort of as they happen, I guess, over the last -- how much did Mark sort of dictate from above versus everybody drive it at the business level, and just a level of comfort that things are status quo.

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**Cathie Lesjak** - *Hewlett-Packard Development Company, L.P. - Interim CEO, CFO*

So, we were a very collaborative EC. We met very frequently and ran the Company together. Clearly, Mark had a level of leadership there as well.

But, there is really no confusion. This is a huge Company and people -- the top leaders of our businesses needed to know how to drive their own businesses. And over the last five years, frankly, we've really changed the Company dramatically.

You think about five years ago, and you think about the diversity today of our profit pool five years ago, IPG was the vast majority of our profit. Today, the segments have -- we have balanced profitability across all of our segments. We've got market leaders leading segments and we've got very strong management teams that are driving those results. And so, I don't think you're going to see us miss a beat on this.

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**Operator**

Richard Gardner, Citigroup.

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**Richard Gardner** - *Citigroup - Analyst*

I was hoping, Marc and Cathie, that you could focus on the search, and maybe just provide a little bit of additional detail on what the committee is going to be looking for in a new CEO and maybe even venture a guess as to timing on how long this is going to take.

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**Marc Andreessen** - *Hewlett-Packard Development Company, L.P. - Director*

This is Marc Andreessen. We don't have a lot to say on that today, as we just constituted the search committee.

We are going to move as fast as possible. But we are going to make sure that we get the right CEO for the Company. We do not have -- not in a position to discuss detailed criteria, but we are certainly looking for somebody with very strong leadership capabilities, with both outstanding strategic and operational skills. We will be considering both internal and external candidates.

Aug. 06. 2010 / 8:45PM, HPQ - Hewlett-Packard Organizational Announcement Conference Call

And fundamentally we are going to make sure that we pair a great CEO with this great Company. And there will be updates when we have news.

**Richard Gardner** - Citigroup - Analyst

Okay, and then, Cathie, could I just clarify that the \$1.08 that you're reporting for the quarter today, that does include the \$0.02 hit related to the DOJ settlement, is that correct?

**Cathie Lesjak** - Hewlett-Packard Development Company, L.P. - Interim CEO, CFO

That is correct. So, on an apples to apples, when you look at the consensus that was set, we delivered \$1.10.

**Jim Burns** - Hewlett-Packard Development Company, L.P. - VP IR

Thanks, Rich. Let's take the next question, Michael.

**Operator**

Toni Sacconaghi, Sanford C. Bernstein & Company, Inc..

**Toni Sacconaghi** - Sanford C. Bernstein & Company, Inc. - Analyst

I have one for Mark and Mike and one for Cathie. Mark and Mike, you -- I think the press release indicated that Mark's departure had nothing to do with the financial integrity of the Company. However, your description of the violations of conduct did point to the fact that there were some financial transgressions in terms of payments.

What assurances can you provide us that you are confident that there are no financial transgressions that have occurred at HP? And over the last few weeks during this investigation, have you taken incremental checks and actions to ensure that there is no risks that that statement may not be true?

**Mike Holston** - Hewlett-Packard Development Company, L.P. - EVP, General Counsel

Toni, this is Mike Holston. I'll go first, and see if Mark has anything to add. First, let's be clear. The amount of the expenses we are talking about are not material to HP.

That said, it wasn't the dollar amount of the expenses that drove the Board's decision. It was the systematic pattern of improper expenses and inaccurate reports, as well as the disregard for the values of HP of trust, respect, and integrity that Mark himself admitted he didn't live up to.

So the decision that drove -- the fact that drove the decision for the Company had to do with integrity, had to do with credibility, had to do with honesty. That's what drove the decision. It wasn't driven by the dollars involved.

**Toni Sacconaghi** - Sanford C. Bernstein & Company, Inc. - Analyst

But given those values, is there not a broader question about whether the systematic pattern you alluded to -- integrity and credibility -- could have extended beyond this relationship and the financials associated to more broader financials within the Company? And have you done an incremental level of checking to be confident in that?

Aug. 06. 2010 / 8:45PM, HPQ - Hewlett-Packard Organizational Announcement Conference Call

**Mike Holston** - *Hewlett-Packard Development Company, L.P. - EVP, General Counsel*

I'm not sure I get all of that, but let me come at it this way. We did a thorough investigation and we are satisfied that this was a pattern that related to Mark's conduct with this specific individual and wasn't broader than that, and it didn't involve other individuals in the Company outside the office of the CEO.

**Toni Sacconaghi** - *Sanford C. Bernstein & Company, Inc. - Analyst*

Thank you, Mike. Question for Cathie, please. Cathie, you expressed confidence in HP's financials. I think you also used the term, not skip a beat. I know this is not an earnings call, but I can't help looking to your guidance, which on a constant currency basis sequentially is up, maybe, 4% or 5% in revenues, sequentially. Typically in your fourth fiscal quarter, you are up double digits. Is that just a healthy dose of skepticism or are you essentially baking in the potential to skip a small beat in your fourth quarter?

**Cathie Lesjak** - *Hewlett-Packard Development Company, L.P. - Interim CEO, CFO*

Toni, you know us far better than to think that we wouldn't be prudent in setting investor expectations, and that's all you're really seeing here. We don't intend to go into many of the details around either our preliminary results or our guidance. We will cover those in more detail on August 19.

But this -- frankly, this guidance is not any different than it would've been if Mark Hurd was still the CEO. And we did raise our full-year guidance at this time.

**Jim Burns** - *Hewlett-Packard Development Company, L.P. - VP IR*

Thanks, Toni. Let's take the next question, please, Michael.

**Operator**

Keith Bachman, Bank of Montreal.

**Keith Bachman** - *Bank of Montreal - Analyst*

Hi, my question was answered. Thank you.

**Operator**

Brian Alexander, Raymond James & Associates.

**Brian Alexander** - *Raymond James & Associates - Analyst*

I guess just any more color on industry background in terms of the candidate you're looking for, whether it be more enterprise-centric or services related. And then, are you still planning to hold the analyst day at the end of September? Thanks.

**Marc Andreessen** - *Hewlett-Packard Development Company, L.P. - Director*

This is Marc Andreessen. On the search, I think we've covered what we have to say today, so I'll just (technical difficulty) pass.

Aug. 06. 2010 / 8:45PM, HPQ - Hewlett-Packard Organizational Announcement Conference Call

**Cathie Lesjak** - *Hewlett-Packard Development Company, L.P. - Interim CEO, CFO*

We do intend to continue with our analyst day on September 28. We see great opportunities to take this business to the next level, and we are anxious and happy to share those with you on the 28th.

**Brian Alexander** - *Raymond James & Associates - Analyst*

That's even if a new CEO is not in place, Cathie?

**Cathie Lesjak** - *Hewlett-Packard Development Company, L.P. - Interim CEO, CFO*

That is true.

**Operator**

Aaron Rakers, Stifel Nicolaus.

**Aaron Rakers** - *Stifel Nicolaus - Analyst*

Most of my questions have been answered, but I'm going to go back to Toni's question about the guidance. Obviously, there's been a lot of talk around the market about Europe, and obviously PCs and printers. I don't know how much you can share with us today, but just curious of what in respect to your preliminary numbers here you can say about the current demand environment.

**Cathie Lesjak** - *Hewlett-Packard Development Company, L.P. - Interim CEO, CFO*

We will cover that on August 19 in our normal earnings call.

**Jim Burns** - *Hewlett-Packard Development Company, L.P. - VP IR*

Let's take the next question, please.

**Operator**

Amit Daryanani, RBC Capital Markets.

**Amit Daryanani** - *RBC Capital Markets - Analyst*

Two from me. I think you guys mentioned that Cathie has noted she doesn't want to be considered for the CEO position. Does that imply you have multiple internal candidates that have vouched their interests? And I don't expect you to give me names, but could you talk about how many internal candidates that you're looking at?

Aug. 06. 2010 / 8:45PM, HPQ - Hewlett-Packard Organizational Announcement Conference Call

**Marc Andreessen** - Hewlett-Packard Development Company, L.P. - Director

We are going to look at everybody, both internally and externally, who could potentially be both qualified for the job and be interested in the job, and we don't have anything else to say other than that.

**Amit Daryanani** - RBC Capital Markets - Analyst

Do you expect the Chairman, the CEO position to be filled by one person or is it an option to split that up in two different roles?

**Marc Andreessen** - Hewlett-Packard Development Company, L.P. - Director

We will examine that question over the course of the search and we'll provide an update, again, when we have news.

I would also point out that our lead independent director is Bob Ryan, who has led the Board through this process and has done an outstanding job, and he continues to serve as lead independent director.

**Jim Burns** - Hewlett-Packard Development Company, L.P. - VP IR

Let's take one more question.

**Operator**

Jeff Fidacaro, Susquehanna Financial Group.

**Jeff Fidacaro** - Susquehanna Financial Group - Analyst

Cathie, one last one on surrounding the analyst day. How far along are you as far as establishing that FY11 model and targets? Typically at the analyst day, we kind of expect to see that operating model. Is that in place or getting close to being pinned down so that you have that forward-looking targets?

**Cathie Lesjak** - Hewlett-Packard Development Company, L.P. - Interim CEO, CFO

As I've talked before, we have a rolling three-year plan. So, we've been working on the FY11 plan since basically the beginning of 2010. So, we are well along in that process. We are -- we basically have some dotting of some Is and some crossing of some Ts, and then, in fact, it is a done plan. And we will be prepared to give our normal guidance at our security analyst meeting on the 28th.

**Jeff Fidacaro** - Susquehanna Financial Group - Analyst

Thank you.

**Cathie Lesjak** - Hewlett-Packard Development Company, L.P. - Interim CEO, CFO

Thank you. Thank you for your questions and for attending the call on such short notice.



Aug. 06. 2010 / 8:45PM, HPQ - Hewlett-Packard Organizational Announcement Conference Call

While I know that a lot has happened suddenly, I want to keep in mind -- for you to keep in mind a few key points about HP. First, HP has a number of sustainable, competitive advantages which gives us tremendous resiliency. Our strategy is sound, our business is strong, and our execution skills are irrefutable.

Finally, I can assure you that as acting CEO, my sole focus will be to keep this great Company focused on executing our strategy.

With that, we will now wrap up the call and thank you for joining.

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#### Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a good day.

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