

# FINAL TRANSCRIPT

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## **HPQ - Technology Series: Changing the rules of Networking**

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Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

## CORPORATE PARTICIPANTS

### **Mike Banic**

*Hewlett-Packard - VP, Marketing, Networking Division*

## CONFERENCE CALL PARTICIPANTS

### **Aaron Rakers**

*Stifel Nicolaus - Analyst*

### **Sanjiv Wadhvani**

*Stifel Nicolaus - Analyst*

### **Amar Maletira**

*HP Director - Investor Relations*

## PRESENTATION

### **Operator**

Good day, ladies and gentlemen, and welcome to the Hewlett-Packard Technology Series webcast hosted by Stifel Nicolaus. My name is Michael and I will be your Conference Moderator for today's call. At this time, all participants are in a listen-only mode.

Mr. Aaron Rakers and Mr. Sanjiv Wadhvani of Stifel Nicolaus will be facilitating a question and answer session after the presentation.

(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. Aaron Rakers, from Stifel Nicolaus. Mr. Rakers, please proceed.

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

Yes. Thank you, Michael. This is Aaron Rakers at Stifel. We are happy to host HP's first technology series event for 2011. In this webcast, what we'll do is discuss HP's business with Mike Banic, Vice President of Marketing for HP's Networking Division. The key areas discussed in this discussion will be HP's view of the networking market, the Company's portfolio and the value proposition to the customers.

Mike has over 20 years -- 22 years of experience in the networking industry and he brings practical understanding to how technology can solve business problems to his role at HP. Prior to HP, Mr. Banic was Vice President of Enterprise Marketing at Juniper Networks, where he led the solution development across routing, switching and the security businesses.

We now have a brief presentation by Mike and after that presentation we'll open up the floor for questions and answers. Now, I'll let Mike proceed. Thanks, Mike.

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### **Mike Banic** - *Hewlett-Packard - VP, Marketing, Networking Division*

Thank you, Aaron. I appreciate the introduction. Before I dive into the presentation, I just want to take a moment on the forward-looking statements slide. The key take-away here is that no new information on HP's financial performance will be discussed during -- on this call about our current quarter or future periods.



Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

Some of the information provided during this call may include forward-looking statements that are subject to risks and uncertainties, and actually future results may vary materially.

I'd like to turn to the first content slide here and talk about networking and the fact that it is at an inflection point. There are a lot of people out there that talk about networking being interesting again because it's at the heart of a lot of application initiatives that CIOs are driving.

And what we've done is we just separated these into different categories here for you, in terms of things that are happening in the enterprise, campus LAN and in corporations today, the data center, things that are happening with respect to security. And this is driving a lot of the key projects, which is driving revenue for HP Networking.

And if we just look at few here, they include things like unified communications and getting ahead of the video curve and implementing video projects today. Virtualization in the compute plane, in the data center. Being able to protect against unknown threats with day zero protection -- their security architectures.

And as they deal with all of these initiatives, they're faced with the fact that they have limited staff and budget, and so they're looking for ways to shift this balance. Today, a lot of enterprises are spending 70% of their budget just to keep the lights on. And what they're looking for are innovative approaches that allow them to shift the balance and be able to invest more on innovation and drive the competitive advantage of their business.

In my 22 years in this business, I know this to be a fact. I don't have to depend on independent research for this information. But it's nice to see the support from the industry analyst community telling us this.

We do know that enterprises are looking to break the status quo in networking. They are looking to change the rules of networking to make their businesses more competitive and improve -- and change -- make that shift in their spending.

And this is a huge opportunity for HP. This is a large and growing market. If we look at the market in 2010, the core markets in networking include Ethernet switching, mobility technologies like wireless LAN, routing and security. In 2010, those markets totaled \$24 billion on a global basis. They're expected to grow, in total, to \$29 billion in 2013.

This is a huge market opportunity for us to pursue. It's a market, currently, that we have 10% of the revenue share of today. And the investments that we're going to share with you, that we've made in this, will allow us to grow beyond that, along with the fact that networking is the core underpinning of our converged infrastructure that we know customers are looking for in order to enable that change in their environment.

We established leadership for HP long before our acquisition of 3Com and established a leadership at the edge of a lot of network architectures. As you look at our portfolio, prior to the acquisition, in the data center, we had a solution for server access with Virtual Connect, we had solutions for branch and campus edge environments, we had security products as well as pools for customers to manage that.

Our strategy has always been the same. We've took this organic portfolio to our enterprise customers, we developed that leadership at the campus edge with these organic products and the portfolio of Virtual Connect products in the data center. And in -- and this has actually helped us to change the game, especially with Virtual Connect, in the data center access layer.

The addition of 3Com to the Company has given us a complete portfolio, and it has demonstrated how serious HP is committed to changing the rules of networking and how serious we are as networking as a core component to our converged infrastructure.

We now have a complete portfolio of routers, switches, wireless LAN mobility solutions, security and management for this entire portfolio that provides a single pane of glass -- something that our competitors have not been able to do. And this includes the



Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

world-class data center solution that is a key underpinning of HP's converged infrastructure, as we deliver data center solutions, including private cloud, public cloud and hybrid solutions.

This converged infrastructure strategy is extremely important to our customers. They look at HP as being the largest IT company in the world. And they understand that HP is the only company to have all the necessary intellectual properties under one roof.

There's no question in our customers' minds whether we will ensure networking will integrate with compute or storage or whether there will be a single suite of orchestration software in order to simplify things and allow them to shift the balance of spending from 70% keeping the lights on to driving more spend on innovation.

And we stand as a fantastic reference of using our own technology in our own data centers and we've announced that publicly in the past. This is our business.

As we engage with our customers, we talk about horizontal network solutions for areas of the network; the data center, the campus, branches, and mobile users, teleworkers. We talk about how each of these solutions, which encompasses switches, routers, wireless mobility products and security, plus that single pane of glass, align to those key initiatives, like unified communications and collaboration, or video, or server virtualization, or day zero protection.

And we package these solutions with our big bet partners like Microsoft for specific applications like unified communications and collaboration. When we talk about the value proposition of these horizontal and vertically integrated solutions, we talk about how they change the rules of networking on five dimensions.

First being, that they simplify -- we bring to bear simplified architectures. We remove layers of devices by simplifying from three tiers to two, which saves on capital equipment, which also saves on the ongoing operation of that environment. We talk about how that architecture is unified for wired and wireless, now and what the road map is into the future.

We talk about how that infrastructure is more secure, through the research that we make into new threats and how we provide automatic security updates, so that customers can be assured of day zero protection against those unforeseen threats and how that can be deployed in hours rather than days.

We talk about agile service delivery, how there are applications that can be embedded into the network fabric and how we've created standard-based landing pads for best-in-class partners to deploy those applications on our products, so that the box count is reduced for customers. So the integration with the network is better for our customers. And it's tested and serviced by HP and managed by that single pane of glass.

This all adds up to a lower cost of ownership, where we've allowed IDC to interview customers. And they've come back and reported that our customers experience up to a 66% lower total cost of ownership. We'll share with you some more insights into that.

And because customers need to be able to control and operate their own environment, we provide the necessary education and services around this, so that they have as -- they have a very tight understanding of how these products work and they have a complementary services from HP to deal with the fact that they have that limited staff and budget.

So I want to give you some examples today. And not just say words like we simplify architecture. So I want to give you an example of how we simplify architectures in the data center and why it's actually important to some of these IT initiatives, like federated applications and server virtualization.

So I know that you folks don't build networks for a living and so you may not necessarily know what one looks like. And so, there's a picture of one here at the center of the diagram. And you see three layers of devices. These devices are network switches.



Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

The lower device, where there's more -- the lower layer, where there's more devices, is the access layer. Those connect directly to the servers and the data center. The middle layer is called an aggregation layer and it does exactly what you think, it aggregates connections from all those access switches. And the top layer is the core, the center of all -- of the entire data center, where all traffic will ultimately flow.

This environment -- this architecture, was built in the days of client server computing. When you connected to an application. When you got to work in the morning, and you were doing something, you hit enter on your computer or a packet went into the data center, a lot of processing happened on one of those servers. And when it was done, an answer came back and was displayed on your screen.

Today the world is very different. That client server environment produced these north-south flows. That was the dominant traffic pattern. That's why the architecture existed and was designed the way it is.

Today, a majority of the traffic flows go east-west, side-to-side, between the servers and the data center. The reason for that is most of our applications today are federated. If you do something simple, like plug an address into Google Maps, and there are 11 different applications that talk to each other in the data center before an answer is presented back to you. That's why 75% of the traffic is east-west.

Another reason is most data centers are virtualized. When you have a hypervisor, you have the benefit of picking up a virtual machine and moving it to another server to do something as simple as serve as a power supply. When you move a virtual machine, you're moving tens of gigabytes of data that has to go quickly and reliably because it's a stateful move. That, again, is driving that 75% or more traffic is being -- is east-west.

There's two orange dots on this diagram, on a green server, the lower-left, and the blue server, on the lower-right. To move that orange dot from the green server to the blue server means that the traffic has to often go up, up, down, down.

Now if you're going to plan your family vacation, I'm sure when you go on Expedia, what you look for is a direct flight to whatever Caribbean island you're going to, or European or Asian destination and you're not looking to connect through three cities.

Well, why would you force all of your vital application data to do that? Why would you make it go from gate to gate and possibly have to go through security at two or three different airports along the way? Data center architects are looking for innovative ways to reduce the hops, so they get better performance for federated apps, and better performance for virtual machine mobility.

And by the way, this old architecture, where you have these three layers, 50% of those switch ports are used to do nothing, but connect servers to servers. The real purpose of a network in the data center is to connect the servers. And that's what they're looking to change.

So, as we shift to the next picture, this gives you an illustration of how do we simplify that. So we approach the problem on a number of different fronts.

The first thing that we do is in traditional environments with rack servers, we use our access switches that we got through the 3Com acquisition and we use a technology that allows us to virtualize that access layer, so that traffic no longer has to go all the way up to the core when it's moving between those machines. Whether it's for virtual machine mobility or federated application, where traffic's moving between, back and forth, before the answer is delivered.

In a blade server environment, this is the value that we bring with Virtual Connect. Again, traffic can move between the machines without having to go all the way up to the core. And when traffic does need to move between those two environments, we take out two latency hops. It only has to go up to the core and back down again.



Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

That virtualization of switches that we've done at the access layer, we also do at the core. So the core can also be very extensible and scalable. We are, in fact, the first vendor to take technology for virtualization of several switches and making them look like one and delivering it across an entire portfolio of switches to be deployed in a data center.

The net result of this removes a layer of the networking, which removes a lot of capital expense. This can, on a global basis, remove \$1 billion worth of switches that are necessary in three-tier data centers. By virtualizing the access layer, we put a single hop between the servers and we reduce latency, we improve performance, we improve reliability.

As we look at how do we make environments more secure, well, one question is, what's actually breaking security in a data center environment? Well, in the old days, before server utilization servers did one thing. We called them single [work clip] machines. A server was the web front-end for an application stack or maybe it was the app server itself, or maybe it ran the database.

It was very easy, in this environment, to insert security between those physical devices. You could put an IPS device, like our TippingPoint product, on a switch. You could ensure that it inspects all traffic that goes between them. Today, in the virtualized world, this is completely different. The web front-end for the application stack and the application server could sit side-by-side on the same physical machine, as different workloads on the hypervisor.

So the big question facing architects is, how do I ensure that I have a consistent security architecture in the virtualized environment? The solution that we bring to bear greatly simplifies this as well as ensures a very secure environment.

You still see that the -- just to the right of the core switches, the same TippingPoint appliance, but in the green box, which is to represent what's going on, on a single server, you have the hypervisor with an embedded virtual switch in it. But there's this piece of software, the vController. And this allows traffic, or this actually forwards traffic, out to the security appliance to ensure that the same policies are still enforced, before that traffic moves to another workload on the same physical server.

This is what we call the Secure Virtual Framework. And it's been tested by a third-party, called Broadband Testing, to ensure that in fact all the security policies and functionality that we could enforce in the physical, single workload environment, is in fact enforced in the virtual environment. And that is available on our website.

In terms of agile service delivery, I mentioned that there are applications that can be integrated into the network fabric. We've done this through a commitment to open standards and created a landing pad inside of some switch products that have become the place that our best-in-class partners have deployed their applications.

The partners from three different programs, the ProCurve ONE, 3Com On and TippingPoint Alliance Program, are all combined into a single program today, the HP Networking Partner Program. And there are 12 partners who have delivered 14 fully integrated applications on our switch platform that have enabled better, more agile service delivery. And these combined solutions are actually fully tested by HP and the partner, and they're serviced by HP for our customers.

Two of these examples that you see on here, that I'll call out, include Microsoft, where we've integrated their OCS server and we have a survivable voice gateway for branch applications. Or Riverbed, integrating their best-in-class WAN optimization controller software to work with a device that might deploy, in a head-end, to provide improved performance across a wide area network.

I mentioned that we lower total cost of ownership. IDC published a report after interviewing several customers who are using our solutions, but they're also customers that have very direct experience with non-HP solutions.

They interviewed these and they realized that the simplified architectures that we have are deployed by customers. They're actually allowing them to save through a better implementation of their capital. They're buying fewer devices, saving on CapEx.



Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

And in the process, these architectures also eliminate old protocols, like Spanning Tree, which is a very wasteful protocol, and where redundant links may actually be shut off and sit idle. And these new architectures allow you to use parallel links simultaneously, improving throughput, eliminating waste of CapEx.

This reduced amount of CapEx has a direct impact on OpEx. If you have fewer devices, there's fewer things to buy service for. If you have fewer networking -- if you have less network gear, you have less to power.

And we've learned through this study that if you save \$1 on power, it's really \$3 to the balance sheet. There's the power for the device, the power for the backup system and then power to cool it. And saving energy is a key thing that people are looking for. It may not drive the core buying decision, but it's something that definitely tips the scale.

In terms of education, earlier this -- actually in October of 2010, we announced HP ExpertONE, that included 14 career certification tracks for networking and ten fast tracks for Cisco-certified professional to earn an HP certification. Fully respecting the knowledge they have in networking today, making it easier in terms of the time in training and testing that they would need to earn that certification.

The value of this certification is it's part of a converged infrastructure education program. It's not networking for networking's sake. It's networking to build a converged infrastructure with compute, storage, the power system and the orchestration software, all necessary to deliver on that vision.

And wrapped around all of our offerings are services. And one key value proposition is the flexibility customers have in terms of how they can purchase services from us. Some customers like to have their own hardware and provide replacement of down devices and only want to buy software services and may want to buy mission critical services for their data center.

Or, there's an SLA of a repair within a certain number of hours. They have the flexibility to pick and choose. A lot of our competitors make it an all-or-nothing decision for them, which limits their choice and flexibility. We make it easier. And I don't want you to take our word for it, that we're a leader in this industry and that we have a great opportunity to earn more of that revenue that's out there.

Two magic quadrants here from Gartner, one for enterprise LAN, which is switching technology, and another for enterprise -- sorry, and another for intrusion prevention systems. Gartner positions Hewlett-Packard in the leadership quadrant in both places. This is making a very strong statement, especially in the enterprise LAN.

Gartner is basically telling the market that it's a two-horse race. They are getting HP into the short list on a lot of deals. It's creating a lot of opportunity for the Company. And in security, intrusion prevention is one of the leading technologies customers want to deploy.

HP, with its TippingPoint portfolio, has been in the leader quadrant since it was first published by Gartner in 2005. And we have been a leader in that -- that's been cited for ease of use and filter accuracy year-on-year. It's this recognition that's helped drive our growth year-on-year, with TippingPoint, nearly four times the market forecasted rate of 13% growth.

At the end of the day, it's all about winning business, winning customers. And this just gives you a sample of them. And these are world-class customers. These are, in some cases, customers that first engaged with us with Edge -- with our Edge portfolio products and have expanded with our new core solution offerings from 3Com. And these are -- and these -- and talking about customers is something that you'll continue to hear HP do more and more.

So at this point, Aaron, I'd like to turn this back over to you for Q&A.



Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

## QUESTIONS AND ANSWERS

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

Great, Mike. Thanks a lot and good presentation. Just as a reminder, you can ask questions through the phone or we do have a question ability through the webcast.

Mike, why don't I start? I think one of the things that we hear about as we think about the competitive positioning of HP in the networking market is the army of engineers or certified engineers that exist at Cisco, and really the breadth that they have in the market.

So I think here it might be interesting just to hear HP's -- what's happened since 3Com, where you guys stand as far as engineers in the field, and really getting your enterprise sales force really kicking in gear in terms of selling what looks to be a pretty positive networking portfolio.

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**Mike Banic** - *Hewlett-Packard - VP, Marketing, Networking Division*

Thanks, Aaron. This is -- this really ties back to the value of the HP ExpertONE program. This certification program really got ignited with the 3Com acquisition, because as soon as we closed that acquisition, we knew that this -- that training and certifying professionals was a key opportunity for us.

And we put an army of people on the opportunity of creating this broad set of career certification tracks -- 14 of them. I've never worked for a company that introduced that many career certifications in such a short period of time in my 20-plus years. And it actually was a big piece of driving this new ExpertONE program.

And just to give you a sense of how it's become a bit of a lighthouse for ExpertONE, since we announced this, we've had more than 250,000 registered learners go to ExpertONE, sign up and start making selections about tracks that they want to obtain training for and certification for.

This is a huge growth year-on-year, triple-digit growth for us at HP. We launched a community site, because these people gain a lot by accessing themselves. They -- there's a social media component to the community, where people reach out and ask questions about -- I'm trying to architect the network to do the following. Has anybody had any experience doing this? And that sharing has actually helped to fuel the growth that we have with customers.

We've seen a growth in our certification in this short period of time. And we're continuing to drive this. We have very specific investments that we're making in each of the three regions, the Americas, EMEA and Asia-Pacific, to intentionally drive the growth and the number of networking certifications. So that as our customers say, HP you have a great value proposition, my guys know Cisco. Oh, there's a very easy way for them to bridge the gap, it takes a few days. Super.

What if I need to add staff? Oh. You're adding hundreds to thousands of new trained people per year? This is great. So it gives them an opportunity to ensure that the right talent is out there and gives them the comfort to make the investment.

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

Great. Sanjiv, did you want to ask a question before we get into Q&A?

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Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

Yes. Let me just -- Mike, thanks again, for the presentation. So, Mike, Cisco's products support multiple protocols, which allows switches to be deployed in, I think, various different environments. Can you talk about whether HP's products are able to do the same, essentially, multi-protocol support? Thanks.

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

Sure. One of the things we've definitely seen is in the networking market the protocols of Ethernet and IP clearly have won out. I mean, in -- even in routing technology, the hand off to businesses from their service provider today is often Ethernet.

One of the things that's probably a kept secret -- to the best secrets in the world, is the value of the HP networking, intellectual property suite.

HP being in the networking market, for the last 15 to 20 years, we've actually, because of our emphasis around industry standards have kept pace with all of the networking protocols that are out there. We support all of the same ones that our competitors do. And one of the things that we've actually seen is the moves of some competitors has actually created a protocol gap for them.

Competitors have introduced an entire new product line that doesn't support all of the old protocols that were -- that customers were using in the prior product line and that's created a deficiency gap for customers.

It's actually caused customers to wake up and realize you know what? This is actually a reason to pause and take a look at other ways to solve these problems. It's creating opportunities for us in the process. And one of the things that we have -- that we make part of every conversation is because of our intense focus around industry standard protocols and our longevity in the market, we have all the right protocol support to help them bridge the gap and start to make the move to HP networking.

And products that we have, like the intelligent management center that we use for that single pane of glass, sometimes do a much better job of managing the competitor's product than the competitor does. And we're -- that helps to simplify that transition as well. So, again, as customers look at how do I shift the balance of spend, they're seeing that we have a strong value proposition that allows them to do that.

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

Great. And, Michael, why don't we see if there's any questions in the line or, I think, Amar, as far as the website as well.

**Operator**

There are no audio questions at this time.

(Operator Instructions)

**Amar Maletira** - *HP Director - Investor Relations*

And no questions on the web at this time.

Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

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

Okay. So why don't I continue and then we'll open it back up here as we go on. I'd love to understand the success that you guys have seen in the market. Obviously, HP's changing the competitive landscape quite a bit. I think in the past, you guys have talked about proof of concepts and the traction you've seen there.

Can you talk a little bit about what you've seen as far as successes with bringing both the ProCurve as well as the 3Com portfolio together, relative to your competition?

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**Mike Banic** - *Hewlett-Packard - VP, Marketing, Networking Division*

Certainly. So the proof-of-concept program is a program that we established last year and we continue on with it. We've actually refined it a little bit this year, based on some of our learnings last year, but its success continues.

The primary focus for the proof-of-concept program has always been around HP's largest global accounts. They number more than 1,000, less than 2,000 -- somewhere around there.

And the intention was to engage with them on a business case to understand how we could help to solve their problem with our converged infrastructure and the network solutions in it and move them through a deliberate process after the business case is understood. And those processes include things like the design phase, and once that's complete, implementation. And then -- you're finally done, the customer's installed and running and you go through the normal servicing of that.

We've talked about the numbers of customers that have been willing to engage with us. That number today stands greater than 400. And we are moving those customers through those phases, as I mentioned, of design implementation and, in some cases, several of them are completely closed off and running. And sometimes they look back and they want to bring us a new business case and talk about how they can use our solution offerings in other places in their business.

In many cases these -- the solutions that we design include the full portfolio. They include both organic products that we have for use at the Edge of the network, as well as acquired technology from 3Com at the core. Sometimes it uses just one of the portfolios, depending on the solution that's needed.

One of the key advantages, consistently, is the value of the intelligent management center and the fact that it does provide a single pane of glass across the full portfolio. So, there's no complexity that's exposed to the customer because they're using an organically developed product, whether it be Virtual Connect or ProCurve, or in combination with an acquired product, like one from 3Com.

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**Amar Maletira** - *HP Director - Investor Relations*

Okay, Aaron, I have a question on the web. Can I --?

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

Yes. Absolutely.

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**Amar Maletira** - *HP Director - Investor Relations*

Okay. So there's a question on the web, Mike, which says it was interesting to see HP ranked ahead of Juniper in Gartner magic quadrant for enterprise LAN. What do you believe underpins this more favorable rank?

Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

**Mike Banic** - Hewlett-Packard - VP, Marketing, Networking Division

So, there's probably a lot of components that go into the decisions that Gartner makes in the placement of that dot on the quadrant. And in some cases, it's not something that's fully understood by anybody, especially even vendors that engage with Gartner and provide the submissions that they read and review for the quadrant.

But in terms of engaging with the authors of that quadrant, Mark Fabbi and Joe Skorupa, and my conversations about HP and its value, one of the things that we talk about is we have been very aggressive about looking at opportunities to tighten the integration between network and compute.

Network and storage, and that is something that I know for a fact, working in a network-only vendor, when I -- my days at Juniper and other companies, it is very difficult when you're partnering with a server provider or a storage provider, to drive that integration. It's very, very difficult to motivate them to do what's necessary for your business.

At HP, there's no qualms. There's no conversation. We know that it is our business to do that, and we get to it. In addition to that, there's a lot of things that we've driven around innovation at the Edge.

The things that we've done with our wired to wireless integration, and the road map that we've disclosed to Gartner around that, solves an important problem that they keep calling up for the marketplace, which is wireless LANs need to stop being an overlay. Wireless LANs need to be integrated with wires.

There should be no difference in the security -- the access security that's provided on a wired port than there is on a wireless port. And I think there's a misperception in the market that wired is more secure than wireless. And I think the attention that wireless got from IT operators and managers was they get the fear of God put in them with wireless, and they put more security into the wireless system than they had in wired.

But Gartner really likes what we've done about aligning those two things, and about improving the mobility for users, and also improving the performance by offering options about where packet managed -- package management and packet handling is done in the switch versus the controller.

They also like what we've done with single pane of glass management. It goes beyond what anyone else has talked about. It offers management modules for competitive products. We go into a customer meeting and the initiative that might be driving the conversation is the replacement of the edge switches to enable IP telephony. And they say we really like the value proposition that you're offering us, but we -- that means we have to use a new management console.

And we ask them, well what are you using at the core? Well, if you're using the Catalyst 6500, we have a management module for that. It matches up with the ones we use to manage our products. So you can -- you start to get that single pane of glass even in the multi-vendored environment. We're solving a problem for them that a current vendor isn't solving.

So, I believe those are just three things that really strongly attributed to our position in the quadrant versus others, along with the fact that Gartner really believes that HP is -- has a strong ability to execute.

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**Sanjiv Wadhvani** - Stifel Nicolaus - Analyst

Mike, it's Sanjiv. Can I ask you a quick question?

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Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

**Mike Banic** - Hewlett-Packard - VP, Marketing, Networking Division

Yes, you may.

**Sanjiv Wadhvani** - Stifel Nicolaus - Analyst

So, you spoke a little bit about a simplified architecture. You've gone -- where you've sort of implemented a two-tier architecture. Juniper has this product called -- it's code named Stratus that's coming out in the second half of this year, where they actually talk about going from three layers to one layer. And I'm curious just to get your thoughts around that, and I'm wondering if HP's headed in that direction.

Basically, what I'm trying to figure out, what is your next generation data center strategy as far as core switches are concerned?

**Mike Banic** - Hewlett-Packard - VP, Marketing, Networking Division

Well, we won't be announcing any new products on the call. So, I'll relieve you of that worry already. But I will say that the approach of having this notion of the big, single flat network is actually not one that everybody will use. And even if you talk to executives at Juniper, that's one of the things that they'll say as well, is it's really targeted to a certain segment of the market.

The lion's share of the market is actually very well served with a two-tier collapsed network. And the two-tier network can actually dissolve in terms of its appearance and look like a single layer. That's something that we've already demonstrated an ability to do with our intelligent, resilient framework, IRF.

We have implemented IRF as an underlying technology on the full range of switches that we offer in the data center, so that we can virtualize large blocks of switching. We were the first vendor to offer IRF or a virtualization technique on core switches. And we'll be moving quickly to expand on that.

So that's one of the things we really watch, is what we do to take the core, underlying technology and expand how it plays a role in our two-tier architectures to continue to drive that level of simplification.

Now technology -- or, initiatives like Juniper Stratus are ones that you might hear similar from any other vendor, only are really solving one problem. And that's the connectivity. That's the -- it gives you less latency because it's one hop between the servers and -- or two hops between the servers.

And maybe it does something to change performance as they incorporate 40 gig and other things, but it doesn't solve the orchestration problem. And that's one of the key advantages that we bring. Customers really love the fact that we have the ability, with IMC being a service-oriented architected software suite, so it's modular, it can be mashed up.

We have the right orchestration today for compute and for storage. We are in the best position to provide the complete suite of orchestration. That solves the huge complexity problems that are really driving up the large cost of OpEx.

That and the fact that we have compute, storage and network under one roof, we can create a tighter integration in between those that stand-alone networking vendors, like Juniper, aren't really in a position to do. It's an uphill -- it is a challenge to convince third-party manufacturers and servers to get on the same priority with getting network done. Here we don't have that problem.

Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

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

Mike, why don't I ask one other question, then we'll see if there's any other questions in the queue? When I think about 3Com and the acquisition of 3Com, one of the things that continues to resonate in my mind was the underrepresentation within the US market -- obviously, a great presence in China.

Maybe you can help us understand, from a marketing go-to-market and even a compensation perspective for your enterprise -- significantly large enterprise sales force -- where we stand on that front, when we start to really see that kick in and possibly when we should maybe see 3Com really start to penetrate the domestic market here.

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**Mike Banic** - *Hewlett-Packard - VP, Marketing, Networking Division*

Certainly. So in 2010, one of the things that we did to get broader exposure was the proof of concept program. It was a way for our networking sales teams to directly engage the account general managers of HP's largest enterprise accounts. And you saw the metrics around our effectiveness with that.

And in this fiscal year, that started November 1, one of the additional changes that we made was we ensured that all of the sellers within ESSN were able to retire quota when they had an opportunity to sell networking. So, it provided the financial incentive for them to do that.

And you have to imagine, if there's a guy that's out there carrying a bag for servers and he's competing with the small company that is also in the networking business, that introduced a server line, it's a great opportunity to bring to bear the value of the full portfolio and converged infrastructure strategy to talk about greater value, fully under the control of one company, serviced by one company, bringing greater value to the customer. And now if he's getting paid on it, he's definitely incented to do it.

This will have a positive impact in revenue growth for us over time. But you can imagine, there's also a ramp associated with that. Because we're putting in place the right tools, the right education so that it's just second nature for these people to communicate the value proposition and deal with the second and third layer of questions that they're going to get on their own.

That does take time, but it's what we're making an investment in, in fiscal year '11.

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

So to be clear, there -- they are carrying quota as of November 1st?

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**Mike Banic** - *Hewlett-Packard - VP, Marketing, Networking Division*

Right.

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

Or, they're just compensated on any --?

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**Mike Banic** - *Hewlett-Packard - VP, Marketing, Networking Division*

They're compensated. I -- yes, that's the way to look at it. They're compensated for selling networking as of November 1st.

Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

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

Okay. Michael, why don't we see if there are any questions in the queue?

**Operator**

There are no audio questions at this time.

**Amar Maletira** - *HP Director - Investor Relations*

Aaron, there's a question on the web. Can I ask that question?

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

Sure. Absolutely.

**Amar Maletira** - *HP Director - Investor Relations*

Okay. This is regarding FCoE, Mike. So I do not believe you support FCoE in the data center with your own products right now. When will this change?

**Mike Banic** - *Hewlett-Packard - VP, Marketing, Networking Division*

So I want to clarify that. We actually announced a product last year that's an access product in the data center that does support FCoE. And one of the reasons why your perception might be that we don't have one of those today is we aren't necessarily actively out there promoting it.

The reason for that is we're going through the process of full verification and certification testing with our StorageWorks division. And that is an important component of helping customers feel comfortable adopting a new technology, like FCoE.

When customers buy Fibre Channel today, they only buy it after it's been certified by the manufacturer of the Array, because they want to make sure that this very important part of their business is going to work properly.

Now FCoE is so -- we're in the midst of testing that and you'll hear more from us promoting that product once we can provide that proper certification for customers. And one thing I do want to say about FCoE in general is it's a converging technology, right? It's a little bit akin to IP telephony. And so, there's some lessons you could learn from that history.

If you look back to IP telephony, in -- and you look at something, a tool like Gartner's Hype Cycle, it landed on the technology trigger -- IP telephony landed on the technology trigger of Gartner's IT Hype Cycle in 1998. It didn't access the Hype Cycle until 2008. It took ten years to make the journey up the technology trigger to the peak of inflated expectations, the trough of disillusionment, the peak -- the slope of enlightenment and plateau of productivity.

That's a long time to make that journey for something that -- the networking technologists just seemed really simple because there's a lot of complexities that sit behind that innovative technology and there's a lot of change, especially on the people front.



Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

Now I always tell the story, if the CIO picks up his IP telephony phone and he dials somebody and the call drops because the call manager software had a problem or the connection on the network went down, what did he do? He hit redial. If somebody is performing a data migration of critical records and something were to happen in that process, the consequences are much more severe.

So data center architects and IT managers are actually being much more careful about the decisions they're making with new converging technologies like FCoE and in a lot of cases, it may not be an all-or-nothing decision that they make. They may only decide to deploy FCoE for specific cases.

They may continue to decide to use Fibre Channel for others. They might actually make a completely different shift and go to iSCSI. And also, another thing we're seeing is the shift in network attached storage that's being driven a lot by multimedia content.

So FCoE is, by no means, a silver bullet for anything. Those are important aspects to factor into your thoughts about how FCoE as a technology may impact networking vendors and the networking landscape.

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**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

Mike, it's Sanjiv. I had a two-part question. Layer four through seven, for lack of a better word, is a hot market right now. And you have this HP AllianceONE, where you have partnerships with F5 and Riverbed.

We haven't really seen a lot happening as far as HP is concerned, with those partnerships or in the layer four through seven market in general. Can you just talk about what you guys are doing there? There was also a blade, I think, that was supposed to be developed by Riverbed for HP ProCurve switches. I don't know where that is in the process.

And then the second question I have on wireless LANs, you bought Colubris and then you also bought 3Com that had a wireless LAN solution also. I'm just curious whether both are being sold in the market, how you're positioning one versus the other.

Thanks.

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**Mike Banic** - *Hewlett-Packard - VP, Marketing, Networking Division*

All right. So two-part question. First part, around partnerships, like F5 and for layer four through seven and Riverbed. And the second part, around wireless LAN. So let's address the first question and then come back to the second. So I'll take the first -- the Riverbed part first, so -- because that's an easy piece.

We announced the Riverbed module -- the Riverbed software running on the open architecture module in the 5400 and 8200 switches in October of 2010. So we announced that on October 7th. We had a launch event in Barcelona that was webcast globally. So in a -- it was a little early on the -- in the United States for some people, maybe, to have seen that or joined that webcast.

But, there's a press release that's on the website that actually talks about the partner participation in that announcement, including the Riverbed part. So that allows the RiOS software to run on the open architecture cart.

The optimal use of that is where the 5400 is in a remote office. And there's an existing wide area connection back to a corporate data center or a headquarters. And at that headquarters or data center location, a large high-end Riverbed appliance would be deployed to terminate the session or the connection from the RiOS software running on the 5400 in the branch.



Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

And the primary driver for an enterprise customer to do that might be to get ahead of the video curve, so that they can actually reduce the amount of bandwidth that existing applications are using on that wide area network link to make room for new apps. Or, it might actually be just to improve the performance of applications that are using TCP protocols or Microsoft protocols to the server. And through protocol emulation that's on the RiOS software.

So the value of a partnership like that is it allows us to have an industry standard mechanism for partners to deploy their software, it's a standard-based landing pad, and it -- and running Linux. And that's the basic operating system that most of these appliance vendors like to run on top of. And then, the other value is it allows us to focus on our core markets.

We have 10.5% of the Ethernet switch market, according to Dell'Oro from their last reporting. And there's a lot of headroom for us to grow. So by partnering with best-in-class vendors like Riverbed and F5, it allows us to keep that focus and not get distracted.

There may not be a lot of things that I can say today for you about F5, but that's a partner that we talk to. And, again, we're not going to share any news about new products or technology today, so I won't go any deeper than that.

So maybe since I spoke for a little while on your first question, could you just restate your second question?

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**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

Yes. Just on the wireless LAN side, I think you have two products now, one from 3Com and one from the acquisition that you made earlier of Colubris. I'm just curious whether both are being sold in the market and how is one positioned versus the other?

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**Mike Banic** - *Hewlett-Packard - VP, Marketing, Networking Division*

Yes. So there is -- both of these products are being sold into the market. They are actually positioned based on the type of functionality customers expect and the kind of scale that they expect. It's not a complete cookie cutter of if this, then you'd use the Colubris products, which are part of the E-Series family from HP Networking. Of if it's this -- if you want this other kind of application, you do this.

It's based on the customer requirements, in terms of what kind of features and functions do they want, and what kind of scale do they need. And that's how we're positioning it today. And that's working just fine. The long term is to provide a single solution for wireless.

And, again, we're not going to disclose, today, the details of how we'll do that or what it will look like. But that is the intent. We have done an exceptional job of innovating around integration of wireless and wired in our Edge, prior to the 3Com acquisition and that's an advantage we have that you can be sure we don't want to lose.

And so just -- to have that thought in mind when you think about how we will look at integrating the wireless technology, go out from 3Com, with what we had prior.

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

Great. Why don't we see if there is any questions -- or are any questions on the phone? If not, I will ask one last question and then I think we'll be done.

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**Operator**

There are no audio questions at this time.

Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

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

So, I get the pleasure of asking the last question. So my last question, I'm still just interested in, obviously, the ramp of Cisco -- or 3Com and the competition dynamics. And I think one of the big levers that I have to believe we're at the tip of the iceberg on, is the ability to leverage the EDS piece of HP, the fact that you guys manage, I think it was, 200-plus different data centers and where we stand, leveraging EDS and leveraging the HP Networking portfolio across that strong data center presence you guys have.

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**Mike Banic** - *Hewlett-Packard - VP, Marketing, Networking Division*

So, Aaron, on that front, we're in the early innings, probably in -- just finished the first inning of that game. And there's -- we're just at the tip of the iceberg.

EDS has an incredible responsibility to its customers. We run some incredible mission critical services and applications. And so, if there's a place where you could say they measured twice and cut once, that would clearly be it.

We have actually worked very closely with the teams within EDS to have them evaluate data center designs, campus blueprints, to understand how they would start to take advantage of those, how they would actually start to use them in places where we're delivering services to customers and our managed data centers and network environments.

And so that's why I say we're the -- we finished the first inning, just at the tip of the iceberg of that opportunity and -- clearly a great channel for our network offerings.

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

Great. Well, I will end it there. I just want to say thanks to Mike for hosting this call, and HP in general. Greatly appreciate it.

Mike, I think maybe you want to say a last few comments?

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**Mike Banic** - *Hewlett-Packard - VP, Marketing, Networking Division*

Yes. Just three things I would like to leave everybody with. Just -- as you walk away from the call today, just know we're attacking a very large opportunity. This is a ripe, huge market for us, one that hasn't had any stiff competition before, one where customers are looking for innovation and for HP to come out and change the rules of networking.

We have a portfolio that is broad, that is second to none, that enables us to bring about these offerings, aligned to their IT needs and we're competing on the basis of architecture. We're talking about how we can design the network better, to serve their IT needs, their IT initiatives with consuming fewer devices -- using fewer devices, consuming less CapEx, lowering the OpEx.

We want to shift the balance of spend for our customers to put them in a power -- in the position of power to not just win the race, but change their rules. And finally, this is an opportunity for HP to continue to move up the margin stack. This is going to contribute to the margin of ESSN. It's going to help us to drive greater R&D and go-to-market investments, which will further empower us to win in the market.

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

Great. Thank you, very much.

Jan. 13. 2011 / 7:00PM, HPQ - Technology Series: Changing the rules of Networking

**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

Thanks, Mike.

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

Operator?

**Operator**

Ladies and gentlemen, this concludes our call for today. Thank you.

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