

FINAL TRANSCRIPT

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HPQ - Hewlett-Packard at Morgan Stanley Technology, Media & Telecom Conference

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CORPORATE PARTICIPANTS

Cathie Lesjak

Hewlett-Packard Development Company, L.P. - EVP and CFO

PRESENTATION

Unidentified Participant

Okay, good morning. Let's go ahead and get started. I am very happy to welcome Cathie Lesjak, CFO of HP to the stage.

Prior to taking on the CFO role in 2007, Cathie held a number of treasury and financial roles throughout HP, brings a broad experience to the stage here today. She also stepped in as Interim CEO this past summer. So with that, Cathie, thank you very much for your time today.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Thank you.

Unidentified Participant

We're going to just jump right into questions. I'll make sure to leave five or 10 minutes at the end for all of you out there. But I want to start on the CEO transition.

Leo plans to host his first meeting with investors next week and we'll leave a lot of the big strategic discussions for that event. But one of often underappreciated impacts of a CEO transition is the cultural impact to the organization. So just curious to hear your thoughts. What has been the impact of Leo coming into HP or is it too early to say?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

I don't think it's too early to say, it's obviously early days. I have now been working with Leo about five months.

And I really respect and admire him in many dimensions. I think he brings a lot of good perspective to Hewlett-Packard.

And I think that's one of the benefits actually of getting an outsider to come in is that they really see things through a very different lens. Leo brings a really nice balance of both an operational focus, but also a strategic focus.

And I really think kind of the best CEOs are the ones that can kind of do both, because you really need to have that view of the long term as well as obviously be able to execute in the short term. Leo's focus is also a nice blend of focus on innovation, customer value creation as well as operational excellence and employee engagement.

Again, I think having that mix is very positive. And I guess the last thing I would say that I think is really impressive is that Leo thinks about HP as one company, and we have been operating the Company more in these silos.

So Leo is amazing. In business reviews, he rolls up his sleeves. But as much as he does that, he also can connect dots kind of technologically around the whole Company and think about what it means for the whole Company. And so I do think that those are very positive things that he bring to Hewlett-Packard.



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Unidentified Participant

Thank you for that. We look forward to hearing more from him in a little more than a week.

I would shift focus to some of the near-term news flow. HP just reported the January quarter, a modest revenue mix. It did lower the full-year revenue outlook.

Some of it was a function of the consumer PC business which really nobody should be surprised about. But there was also some execution issues in services. Some maybe to start, can you talk about why isn't HP seeing the same recovery in services as some of your peers are? What are the issues?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

So first let's talk a little bit about the revenue mix and then the change in guidance going forward. Because I think one of the misconceptions is that the revenue mix was more equally split between services and PSG.

When in fact the guidance we provided really would indicate that the mix was roughly three parts PSG and really driven by the consumer cautiousness in consumer spending and one part services. Now that's not how it looks to a lot of you because the consensus didn't come out that way.

When folks could not get to a PSG number and they saw the softness in consumer frankly before we did, they basically took the delta in PSG and put it into services. But from our perspective, the EB group, the enterprise business group in fact in total roughly met their number because the services were pretty much off by enterprise server storage and networking upside.

That being said, we definitely know that we've got work to do in the services space. It's not really about the long-term services part of the business because that is in fact going well.

Over the last number of quarters, we have actually had good signings in the long term space, that those good signings in the long term space will take a while to really get to revenue growth just because of the accounting that goes with it. But I feel really good about it because in fact it is building on a foundation, a very solid longtime resilient annuity-based revenue.

So that's a positive thing. In the short term, we actually have to focus on the short-term signings. That's really both in the IPO space from a project work basis as well as in the application services space.

And there's no question that we have got -- we're not where we want to be and there's work that we need to do there. Real quickly on the technology services side, it's a little bit different story in the sense that technology services, we made a decision not to sell some low-margin third-party hardware about a year ago and that is giving about a three-point hit on headwind each quarter in fiscal 2011. So from that perspective, technology services did rebound a bit and on kind of an apples to apples basis grew 2%.

In total for services, we think that the year, we expect the year to grow roughly in the low single digits and to ramp kind of through the year.

Unidentified Participant

So how do you fix the shortfall in short-term signings and how quickly can we expect to see results?

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Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Types of actions that we have taken, there's like three or four of them. We do expect to see them show a positive impact over the course of the year, ramping basically in the second half.

And of the actions that we took, the first one is that we really redoubled our focus in the application services space. And what do I mean by that?

What I mean is that we actually took a job that used to be application services and industry solutions and we split them. We now have equally strong leaders.

In fact we hired an external person to come in and head up the application services. So we really believe that those are key areas, growth opportunities as well as high margin or better margin services opportunities. And so we wanted to make sure that we had additional focus there.

We're continuing to invest in our capability to sell and deliver both long-term and short-term deals. We also are executing on a transformation initiative that we talked about in services last year in June, and making good progress there, and that gives us a more competitive cost structure from which to compete.

And we think that those types of items are obviously very helpful in terms of driving short-term growth. And on top of that, we have launched some cloud services.

One of the cloud services that I'll mention is that we've got a cloud development workshop. Just in Q1 in the quarter in which we announced it, we've already got a \$250 million pipeline. So it's the right set of kind of higher level, higher value shorter-term services that will help us grow in the short term.

Unidentified Participant

One of the concerns that investors have is that with a new CEO, HP might have to lower its operating margin expectations. So when you actually look at the guidance for the full year, even though revenue expectations came down, you're able to maintain the operating margin expectation. Could you just talk about why you are able to meet and beat operating margins even in an environment of revenue shortfalls?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

I think it's a really important point that you're bringing up and that's that we really have the operational rigor and the discipline to continue to expand margins and grow EPS even with the change that we have in our revenue outlook. And we're really able to do that because we have got gross margins that are expanding.

They're expanding as a result of a more favorable business mix, kind of higher margin business from storage and networking helping significantly and software as well over the longer term; and that that's obviously allowing us to invest some of that back into OpEx investments in terms of R&D and sales. And then on top of that, don't forget that we have got a number of cost initiatives that are generating new savings in fiscal 2011, some of them reaching their full run rate savings, some still have more to come in '12 and '13.

But kind of both of those really help us build capacity in the model. And then on top of that, the EPS guidance is also balanced by lower diluted share count expectations.

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Unidentified Participant

So, maybe on your point about further cost takeout, can you just walk through where are the buckets of incremental cost savings? Because I think a lot of investors feel like most of that is behind you, they don't understand where the incremental cost takeout comes.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

I have talked a lot to you all about the fact that we've got this pipeline cost savings initiative and that hasn't changed. It's worth billions of dollars. We've got items that are coming out of this pipeline that are generating their full-year run rate savings in 2011.

We've got those that are still generating savings, but it's going to take another two or three years before we get to the full run rate savings. And then we've got those that frankly are new ideas that are still being developed.

And in our business, in our industry, I expect that we're always going to have this pipeline of opportunities because we always have to be focused on continuing to improve our efficiency, productivity; and frankly, effectiveness.

So the ones we've talked a lot about, we have got the Pan-HP Supply Chain, we have got the real estate, getting our global footprint correct, working on our service delivery. Those are all worth in total billions of dollars of savings.

On top of that, Leo has decided to sponsor another program that will report directly to him that is really about making the right investments to drive quality, operational effectiveness and growth at HP. So we're in the process of basically developing the program office for that and launching the specific initiatives under that program.

Unidentified Participant

So fair to say operating margin expansion is going to come from the combination of revenue growth, mix as well as these cost takeouts?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Absolutely.

Unidentified Participant

That's what gives you the confidence in sustaining the operating margin forecast you have given?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

That's correct.

Unidentified Participant

I guess just to end that part of the conversation, over the past few years with very few exceptions, HP as a company has been able to beat and raise earnings expectations. What do you see out there over the next 12 months that potentially presents a rift? What is keeping you up at night in terms of being able to deliver on that beat and raise story?

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Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

I think it's important for you all to understand that we have a lot of confidence in our ability to deliver our outlook for fiscal 2011. In Q1 we grew revenue 4%. We grew earnings per share 27%. We grew cash flow from operations 28%.

So we know how to manage this business in a variety of revenue environments. And I think that's really important.

Our model's in tact, we've got the operational discipline to continue to expand margins, operating margins kind of year over year. I think that it's important when you think about the guidance we have provided, we did take revenue down as you know \$2 billion for the fiscal year.

Again, it's roughly three quarters from PSG and about a quarter from services. Frankly if we didn't have confidence in that revenue, we would've taken revenue down further. The difference to you all of \$2 billion or \$2.5 billion is just not meaningful. So at the end of the day, we have the confidence in the revenue outlook we provided.

The revenue outlook is more back end loaded, and that is really a result of the launch of the Web OS, the continued ramp of recovery for PSG China, as well as the services -- the investments we are making and the focus we are putting on the short-term services side as well as some of the long-term services signings start to pay off in the second half. So we see good revenue confidence, good reason to have confidence in revenues.

From an EPS perspective with the guidance that we gave which is a raised -- our EPS growth is roughly 14 to 15% on revenue growth of 3 to 4%. On top of that, we mentioned the other capacity, the cost savings that gives us capacity and then also the fact that there are diluted shares outstanding are -- we have lower expectations around that as well.

Unidentified Participant

Okay, shifting to discussing some of the business segments, you talked about where revenues missed in the January quarter. But a lot also went well in the quarter.

You mentioned that enterprise systems made up for the shortfall in services when you look at the total enterprise business. IPG performed at least in line with everybody's expectations if not a little bit better. Can you just talk about those two segments? What trends are driving the upside (inaudible) businesses?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

So in the enterprise server storage and networking business in Q1, we grew the topline 22%. We grew operating margins 150 basis points.

The strength really came from industry-standard servers, storage and networking. So let me start with industry-standard servers.

This was our fifth quarter of robust growth, 17% growth year over year. We have got a great lineup of products in our G6 and our G7 platforms. They are a great return on investment in any economic environment.

They have richer configurations, so we're getting basically AUP lift from that business as well. We are driving hard on the converged infrastructure.



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We are in a unique position to be able to provide the customers a converged infrastructure where they get one neck to choke around storage networking and servers. So we feel very confident in our industry-standard server part of the business and the intellectual property we're adding on top of the industry-standard platform.

From a storage perspective, we grew storage 14% and a big chunk of that growth came from our scale out and our data de-duplication products. So if you use some old brand names, LeftHand Networks, IBRIX in the enterprise now space, and then our own internally developed [store one] which is data de-duplication. Those three combined grew over 100% and generated a significant part of the growth.

So we're feeling good about our position in storage. Storage is a key part of the converged infrastructure. 3PAR actually had very good results as well.

Customers are excited about the product offering we have got in the 3PAR space and the actual growth rate in 3PAR accelerated significantly in Q1 and 3PAR is ahead of plan. So that is storage.

In terms of networking, what more can I say except that on an apples to apples basis, switching and routing grew over 30% in Q1. And the leader in that market, their revenue was down.

So we believe we are making great progress in solidifying our position and improving our position to gain share in calendar Q4, and our proof of concept are going well and we've added over I think it's 40 new logos to the networking space. So really good momentum in networking as well.

Unidentified Participant

And then just quickly touch on IPG as well?

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP and CFO

So IPG, I think it did a bit better than expectations. It had revenue growth of 7%. That was really driven by commercial revenue strength where it grew 13% and then supplies growth at 7% and double-digit growth in graphics.

I could rattle off all the unit numbers. I won't. What I will say is that we are continuing to invest in the strategy of basically building out an annuity business, a resilient annuity business in the printer space that has a very high percentage if not 100% connect rate on supplies. And that is really around retail photo publishing, manage print services and some of our commercial print product sets. So I think IPG has a long future of continued good performance.

Unidentified Participant

Good. You had mentioned 3PAR. There were a lot of headlines over the summer about the valuation of some of HP's acquisitions.

But as you mentioned, 3Com has been hugely successful. Can you just talk about what gives you confidence that you can replicate the 3Com success with the 3PAR asset as that matures within your business?

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP and CFO

The comparisons between 3Com and 3PAR are pretty good in the sense that what HP brought to the 3Com acquisition and helped it be successful is exactly what we are bringing to the 3PAR. So in the case of 3Com, 3Com was heavily -- their revenue was heavily in China. In the case of 3PAR, their revenue was heavily in the US.



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They were with their position, their distribution channel and their ability to support products, they were really limited in the international markets and to be frank, with large enterprise customers. So what HP brings to that is global reach, commitment to innovation, strong routes to market.

Included in that obviously is the global enterprise sales force that we have that we can then bring to bear on the great 3PAR solution that they have. It's a combination of those two that is -- that made 3Com successful and will make 3PAR successful.

We're definitely seeing a lot of excitement and interest in the 3PAR solution from our existing installed base. And it's really what helped drive as I mentioned the significant acceleration in the growth rates of 3PAR's business.

Unidentified Participant

Now shifting back to services for a second, we talked about the investments you are making to improve the short-term business. Investors obviously have to bet on and see execution to believe in that.

But as you mentioned, you have seen very strong signings in the long-term business, and you know, putting some of the business you have exited in maintenance, you sold a lot of hardware over the last year. So we should start to see the fruits of those sales as well. Can you just talk about excluding the short-term execution issues, should we start to see the benefit of long-term signings and the hardware maintenance business start show up in the back half of this year?

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP and CFO

In terms of the long-term signings, it really as I said earlier, it really is establishing that foundation of resilient annuity revenues. And it does start to show up in the second half of the year.

But just to give you a little bit of color around this, over the last few quarters, we have had good long-term signings that are predominantly in the IPO space. Some of those signings have absolutely been renewals, but there's been a good mix of new logos.

In Q1 over half of our record megadeals in the quarter were new logos which obviously bodes very well from a growth perspective, but it takes time. And the reason why it takes -- one of the reasons why it takes time is that in the initial period of a relatively long-term IPO engagement, you don't recognize all the revenue in that timeframe.

You in fact delay it until you get into the operational piece. So in the short-term, that provides a bit of a headwind for revenue growth on the long-term side.

But over time, it certainly picks up and that's why in the short term, you've got to focus on the short-term signings. In terms of the technology services business, again if you normalize for the fact that we in fact don't sell as much low-margin third-party hardware as we did last year with that three-point headwind technology services instead of being down about 1 point, it's actually up 2 points. And so you are starting to see the technology services business pick up as a result of some of the hardware picking up last year.

Unidentified Participant

And on software, it's an area that Leo has mentioned there's work to do, your growth rate in software has lagged some of your peers in the industry. Can you just talk about why you think that is and what are some of the organic investments the Company is making to improve growth in that business?



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Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP and CFO

Just to kind of frame the discussion a bit, the software business grew 5% year over year in Q1. That was led by very strong security performance.

We are excited about kind of our security portfolio now with the acquisitions of Fortify and ArcSight. It's really put us in a position to bring unique customer solutions.

And it is really about basically taking advantage of the benefits of the traditional IT ops management and marrying it with what the information -- security information and event management information that we get to basically give a comprehensive view around how secure are you or where are your vulnerabilities. So we're very bullish on the security side.

In terms of our BTO portfolio, we in fact have a significant amount of work to include the execution in that space. A lot of that is around sales execution and make no mistake, we are very focused on that.

Unidentified Participant

Now shifting to printers, you made an interesting comment about some businesses where you think you can get 100% attach. And particularly interesting because I've looked at this space for a decade and I think historically HP's attach in some businesses has been as low as 60%.

So there is -- sounds like there's an opportunity there. But what are the other opportunities for HP to fight some of the potential secular headwinds that we might see as tablets become digital screens and help people avoid the need to print?

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP and CFO

So there's going to be a lot of changes and evolutions in the printing space going into the future. And one thing that seems pretty clear to me is that the amount of pages actually being printed or will be printed basically is going to be driven by a combination, a combination of the explosion of printable content as well as the convergence from analog to digital.

Because if analog pages go away, just go away, or analog pages go from analog to digital, that's good for HP. Because at the end of the day, HP is a leader in digital print.

In terms of the specific question around tablets, I mean we're in very early innings in the tablet business, and so it's really hard to draw really firm conclusions about what that's going to mean from a printing perspective. What I can say is that what has been important to a lot of tablet users is having print functionality.

It's been a pain point, an early pain point from the early entrants in the tablet market. Kind of an early mover in that space moved very quickly to make sure that they were able to enable printing on their tablet.

Market research shows that 85% of all smartphone users in fact want to have the opportunity to print, and probably most of that content is content that in the past had not been printed, and so there again is an example of the fact that the printable content, the digital printable content is actually growing. And obviously HP is putting innovation around its printers in order to enable Web-connected printers and the ability to print from any type of connected device.

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Unidentified Participant

You had mentioned that part of the reason you're confident that revenues come back in the back half of the year is China in the PC business. Can you talk about why the PC quality issues in China were such a significant issue for HP and not really talked about as much by your competitors? And maybe touch on what have you done to fix this and how do you rebuild the brand so that we can see some difference in the numbers in the next few quarters.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

We are absolutely recovering and in recovery mode from a couple of quality issues from our component suppliers that basically came to the forefront about a year ago in the March/April timeframe last year. We have addressed the issues and we believe they are largely behind us.

But just to provide a little bit of color and help with understanding of why it takes so long is that when you talk about a distribution in China out to Tier 4 and Tier 5 cities, the channel structure in that environment is multilayered and therefore it takes quite a while for us to basically work through the inventory that is out there in the channel. In Q1, we made a lot of good progress in basically cleaning up the channel from having older SKUs and getting those moved through the channel.

And that basically allowed us to put some newer product into the channel in Q1 and has set -- we believe set the channel up better for some March refresh that we have got on products. And it's really that new set of products that is helping us rebuild the channel.

In Q1 we're making progress. In Q1 we saw sequential revenue growth basically Q4 to Q1 of 25% in China.

So that kind of says to us we are on the right path. We're not where we want to be and there's more work that needs to be done, but we are we are on the right path and we do expect that the improvement of the recovery in China continues to ramp through the second half of 2011 for us.

Unidentified Participant

Okay, I'm going to ask two more financial questions and then I'll see if there are any in the audience.

Free cash flow, if you look over the past five or six quarters has tracked below net income. You had mentioned the free cash flow numbers were strong in this recent quarter.

Is that a start of a trend? And do you think we can get back to a point where free cash flow is much closer to not just GAAP but eventually non-GAAP earnings?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

Just to kind of throw out a couple numbers, cash flow from ops of \$3.1 billion in Q1, that is a strong Q1 for us. Our free cash flow was \$2.7 billion, up 59% year over year.

Keep in mind that in Q1 is when we pay our annual incentive bonus, and so Q1 from a cash flow perspective tends to be one of the tougher quarters. So generating \$3.1 billion in cash flow is a very strong result.

The free cash flow is much better aligned to our GAAP net income in Q1. We will still have differences, timing differences where we have got charges in one period and the cash implications in another period.

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But over time, that really smooths out. And then also keep in mind just from a free cash flow perspective that as we continue to drive growth in our HP financial services business, that business grew 15% from a revenue perspective year on year, it uses CapEx in its operating lease mix and therefore that dampens a little bit the free cash flow. If you would normalize for that, we have been tracking GAAP net income for some time.

Unidentified Participant

Just lastly, how do you think about the trade-off of share repurchases versus keeping your powder dry to do acquisitions? Obviously there's some concern out there that maybe HP goes and does a very large acquisition. How do you think about that trade-off?

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP and CFO

Our capital priorities have not changed. At the end of the day, our number one priority is to invest back into the business both from an organic perspective as well as an inorganic perspective.

That's really why -- in my personal opinion that's why investors want to invest in Hewlett-Packard is in the opportunities that we have to basically grow our topline and ultimately expand our EPS as well. Our secondary priority is to basically give back cash to shareholders mostly in the form of repurchases but also to a certain extent to dividends.

In terms of share repurchases, if I talk a little bit about Q1, it will probably give you some insight maybe into what we would be thinking about doing in Q2. In Q1, we basically bought back shares, were very active in our shares, and we bought back our shares heavily loaded in the first half of Q1 when we saw the price as being particularly attractive. So if you think about that price in the beginning of Q1 and you look at where we are basically today or now, you can imagine that we're still very excited about doing share repurchase and we will continue to be active in our shares.

Unidentified Participant

Let me stop there. We have about five minutes left if there are any questions in the audience.

QUESTIONS AND ANSWERS**Unidentified Audience Member**

Just one on the services margin side. You had a nice improvement on the margin side, but now it has been stable around 15% for a while now. How much room is there for the margin expansion more on the services side as you try to grow that business?

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP and CFO

I'm sorry, I didn't hear the question.

Unidentified Participant

He's asking how much room is there for services margins to improve here.

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Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

What we talked about last June when we announced a significant restructuring charge for the services business that over time kind of out in fiscal 2014 and it would ramp over that time period that we would have savings in the \$500 million to \$700 million range in the services space which obviously says there's still room to grow from a services margin perspective.

Unidentified Participant

Any other questions here?

Unidentified Audience Member

I have two questions. Can you give us color on your headcount plan for the year? Are you going to be net positive or net negative?

And the second question is (multiple speakers) headcount plans. The second question is do you have any view on the tax holiday conversation that's taking place around a repatriation of foreign cash you may have?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

In terms of headcount and the growth in headcount, so we are seeing growth in headcount. That comes from a lot of the services fields.

When we basically do a big IPO data center deal, typically what we do is we acquire the people that are running that business for our company today, and basically bring them into HP. And our headcount is roughly a little over 300,000. And I'm sorry, I didn't hear the second question.

Unidentified Participant

What was the second question on cash?

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Unidentified Participant

Repatriation of the cash.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP and CFO*

There's obviously a lot of talk around what's going to happen from a tax perspective. It's still very uncertain at this point.

Obviously we've got a number of lobbying efforts, and our lobbying efforts are really focused on making sure that what happens legislatively doesn't put US multinationals at a disadvantage, that as long as everyone has basically got the same set of rules, I think that we can get comfortable with that and know that we can be very competitive. But we've got to make sure that US multinationals are not disadvantaged.



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Unidentified Participant

We have time for one more question, in the back here.

Unidentified Audience Member

Just in looking at your services business and exiting, reselling, could you give us a bit more color on what sort of things you're moving in and out of? Are you bringing your own products through into the services reselling game? How does that play out? And secondly, could you tell us when or if you're going to be introducing a backlog indicator for the Company?

Unidentified Participant

So the first part -- what was the first part of the question?

Unidentified Audience Member

Just understanding what it is you are exiting from, let's say, in the reselling game.

Unidentified Participant

The question is what businesses are you exiting from in the services business, the reselling of low-margin third-party, and then when and if you'll announce a backlog number in services.

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP and CFO

In terms of the kind of low-margin third-party hardware, there's a certain amount of hardware that goes with a lot of our services engagements. We're looking on a case-by-case basis at whether or not that is -- third-party hardware has a good enough margin for us to want to continue to be in that business.

When it becomes not interesting to us, then we want to enter into a different type of relationship and not put the -- and not actually be the prime for that hardware pull-through, and that's what we did obviously, the decision that we made last year for a certain amount of the hardware. In terms of announcing a backlog, what we feel is the best indicator or metric to provide you in the services space is really around the topline growth and the operating margin.

The services business as I'm sure you all are learning with all of the different discussions that have been taking place both within HP but also across our competitors in this space is that services is very complicated. There isn't really one metric you can provide that provides that really gives you good insight into how to model the business. And so what we do is we basically say listen, let's talk to you about the topline and the operating margins and we will figure out kind of the stuff in between.

Unidentified Participant

Cathie, thank you so much for your time.

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP and CFO

Thank you.

Mar. 01. 2011 / 6:45PM, HPQ - Hewlett-Packard at Morgan Stanley Technology, Media & Telecom Conference

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