FINAL TRANSCRIPT

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PRESENTATION

Unidentified Participant

Good afternoon. I hope everyone had an enjoyable lunch. Before we kick off the panel discussion with HP, I just want to invite everyone-- there are some sessions that have been enabled with real-time feedback. For those of you who have not experienced it, here's a great opportunity to have your questions heard. There's a lot of people in the room. Not everyone we'll get to relative to a mike. If you go to the URL that's on this card or shoot the QR code, or you can go through the app that you downloaded for this session to real-time feedback, it will be a private mike between you and the speakers. So take an opportunity to do that. And, the tail end, you can rate the session and give us your feedback. So, as you think of it through their conversation, anything that comes up that's top of mind, feel free to post any questions you might have to the speakers. Thank you very much.

Chris Whitmore - *Deutsche Bank - Analyst*

And, with that, we'll get started. For those of you who don't know me, I'm Chris Whitmore. I'm the IT hardware analyst here at Deutsche Bank.

I'm very pleased to have two representatives from HP here today, Leo Apotheker, CEO, and Shane Robison, who's head of strategy and technology at Hewlett.

Before we get started, HP asked me to remind everyone that this presentation may contain forward-looking statements that are subject to risks and uncertainties and to, please, refer to HP's SEC reports for a discussion of those risks.

So, with that, I think we'll go right into the Q&A.

Leo, the one question that I get, I think, most frequently is the timing of this strategy shift you're implementing. Results for the past three quarters have been disappointing here in the midst of repositioning the EDS asset and the economic environment. And outlook is as uncertain as it's ever been. So why now? Why implement such a drastic change in the strategy today?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

Well, first of all, thank you for having us.

And allow me to make a small correction to what you have said, if you don't mind. I don't think we have been changing our strategy at all. We are executing the strategy we talked about in March. When we got together with you and others in San Francisco in March, what did we say? We said we wanted to position HP as a company that is going to help people transition into the cloud, and this is doing that. There are a lot of things happening around the cloud. We said that we wanted to be significantly stronger in everything concerning data and, in particular, big data. And, for those that remember, we actually gave a demo on big data at that event. And we're executing, in particular, with the Autonomy acquisition. And then we said that we wanted to make sure that people can connect in a secure environment, and we're working on that.

So let me try to sharpen the argument now that I had the chance to reposition it and talk about two particular things. One is what we decided to announce to the market concerning PCs and, then, maybe a few words about Autonomy.

First of all, PCs. HP runs a very, very effective and impressive PC business, a $40-billion business that is doing well. We are the market leader in our space. We are the category leader. And I think we have demonstrated an uncanny capability of running this business better than anybody else on the planet.

But the entire PC landscape is changing massively. We see new form factors emerging. We see a whole new market emerging around this whole concept of end-user compute devices. And, long discussions with the board, we came to the conclusion that, in order to really be in a position to drive this in the future, the best thing to do would be to give this business the freedom to allocate its own capital, make its own decisions, so that they can actually adjust the business model and continue to lead that category as it moves forward.

And, just to be totally clear with everybody, no one is getting out of the PC business. What our preferred option right now is to spin this business off. And the reason why we went public with it, just to be clear on this as well, was because we needed to do a lot of work in looking all of the dis-synergies and making sure that we can manage that, and that involves hundreds of people. And, therefore, there's absolutely no way to do this at the back office. And, therefore, we had to come and go public with this. And it's fine. Our customers understand that. Our partners understand that. And, despite the FUD that some of our competitors are trying to introduce in the market, we're actually doing pretty well in our PC business. So that's one argument.

The second thing is Autonomy. Autonomy-- I'm sure we have many more questions on Autonomy, but, just to position that squarely in everybody's minds, the idea around Autonomy is to really strengthen HP's capabilities tremendously in this whole notion of data. We talked about data in San Francisco. We will talk a lot about data, probably, today, as well, structured and unstructured. And, therefore, Autonomy is a very important asset (inaudible).

Chris Whitmore - *Deutsche Bank - Analyst*

Just to follow up on that, I guess my question was really more centered around the operating risk tied to this portfolio change using the PC example specifically. Doesn't the pre-announcement of evaluation of a strategy impact the underlying value of that asset, particularly in the context of customer concerns, customer issues, concerns around who's going to support the device? How do you leverage the channel like you did in the past, so forth, and so on? Doesn't that add and inject a significant increase in the operational risk associated with your strategy, given all the other items that I mentioned before that you're executing upon?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

It's a great question. You always have to wonder what is the perfect time to do something. Sometimes too early is too early; sometimes too late is too late. There comes a moment where you just have to make a decision, execute on it, and then execute accordingly so that you manage and minimize whatever risk there is. And that's what we're doing.

We're having a big outreach program to all of our customers, to our consumers. There has been a lot of communication happening. We have been making it quite clear that we will continue to support our PCs. The warranties are in place. The people have nothing to worry about. All of our service agreements stay in place. Our channel partners, our retailers, our distributors, our large customers, our small customers, all of the constituents around HP know that we are here to stay, that this business will continue to be very successful. And I think we are managing rather well.

Chris Whitmore - *Deutsche Bank - Analyst*

Another couple things you discussed at that meeting was your optimism around driving further and deeper penetration into the enterprise with the PC and also bringing webOS operating system into enterprise environments pretty quickly after launch. What changed in the past six months, particularly as it relates to the PC side of the house? And did you really give webOS enough time to succeed in the market?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

Let me try to answer the webOS question. I think it did. When we invested into launching the webOS-based device, we gave ourselves and the team pretty clear guidelines and milestones that had to be reached at launch, the week after launch, two weeks after launch, et cetera.

There's two things we learned when we launched our device. The first thing we learned was we have great software-- that we have a software asset that is absolutely stunning. The reviews that came said it's elegant, it's easy to develop on. You guys have a winner with the software.

The hardware wasn't so great, and it didn't sell that well. And it would have meant that we would have had to invest big bucks in a pretty uncertain environment. And, as we are not in a casino, we were not going to do that.

So we decided that it would be safer to really focus on the asset that we have, which is the software, and we are-- and Shane can probably talk about this at length. We are looking at options on whether we can-- how we can leverage the software asset.

And the one thing that you need to bear in mind when you look at this entire space are all of the changes that occurred since February. What are they? People kind of forget because things are changing so quickly. Microsoft buys Nokia, basically. All due respect to Nokia, but Microsoft and Nokia are now joined at the hip, and it's, for all sakes and purposes, like one. Then Google buys Motorola.

So there have been some pretty significant changes in this environment, which imply that HP has to step back, look at this environment, and see how we can optimize our assets. We have a great asset, webOS. In this constellation of Microsoft and Nokia, Google and Motorola, all of these patent issues, people looking for a third option, our software, unfettered now with any particular piece of hardware, has a significant opportunity. And that's how I think you should look at it.

Chris Whitmore - *Deutsche Bank - Analyst*

Shane, did you want to take it from there and maybe give us an update on the software roadmap?

Shane Robison - *Hewlett-Packard Development Company, L.P - Head Strategy & Technology*

Yes, I would like to add a little bit. We're obviously not prepared today to announce exactly where we're going with the software roadmap. But I think it's important for people to understand what the software architecture is and what the opportunity is that we have.

The webOS operating system is the most modern Web-oriented operating system. On top of that is a development environment called Inyo, which is the only development environment out there today that is primarily focused on Web applications. Web apps are simply an app that you can run in any browser. And, by the way, to deploy those apps, you no longer need the hard structure of an app store. So it's kind of back to the future, where developers can develop for any platform.

And so we have the OS itself, which is an industry-leading Web operating system. We have the development environment called Inyo, which allows you to develop applications for webOS, but it also will allow you to develop applications for IOS or Android or Windows. So we'll have a platform which we can make available to the industry. And, just given the level of excitement that we're seeing about partnering with us or in some way participating in this, that is where the future is, this whole application layer, where developers can target multiple OS's with one development environment and deploy their applications without being required to go through the traditional app store business model.

So we're exploring that whole thing. We're looking at partnerships and other structures where we can give webOS and the development environment a life of their own in the industry. And the nice thing about this is what people really want is a much more open set of tools that allow them to participate without some of the constraints they have in today's model.

Chris Whitmore - *Deutsche Bank - Analyst*

I'm getting lots of questions coming in, so thanks, everyone. Keep them up. We'll get to the Q&A a little bit later in the session. So thank you for that.

Just moving on to some of the big strategy changes and some of the decision making, I wanted to ask why you decided to keep PCs-- or spin PCs and keep printing. Are you keeping printing for the cash flow and, essentially, as a strategy to pull the cash out of printing to do more software acquisitions? And, if that's the case, wouldn't it be more effective just to distribute that cash to shareholders?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

There's more than one question. Let me try to answer them sequentially.

First of all, IPG is a great business. You're absolutely right. It's differentiated through its entire technology stack. It's actually a vertically integrated business. And, for those that don't this, and you probably don't because it's not a well-known fact, 60% of IPG's business is enterprise or is commercial already, and only 40% is consumer. And that share is slowly but steadily declining over time.

The biggest opportunity we see for IPG, by the way, is that whole shift from analog to digital; in particular, when it comes to print. And there's about 200 billion pages a year that shift from analog to digital. And that's the biggest opportunity for IPG to capture. And by the way, that is enterprise business or commercial business. That's one element of it.

The second element of it is, as we are moving from analog to digital, there is a fantastic opportunity that IPG is actually building up in order to help people move analog processes to digital processes. A classical example in healthcare. Classical examples are in banking when it comes to more pages. Classical examples are in insurance, where there's still a lot of paper-based document flows that actually could be managed in a significantly better way if they would be digitalized. By the way, there's a lot of synergy here between IPG and Autonomy, if you look at-- if you really understand these two businesses.

So that's as far as IPG is concerned. There's absolutely no intention of spinning IPG out. In fact, what IPG is doing is at the center of our strategy, and you will remember, in San Francisco, we talked about digitalization as well.

Shane Robison - *Hewlett-Packard Development Company, L.P - Head Strategy & Technology*

Let me add just a little bit to that because there are some pieces of the portfolio that we don't talk about a lot that are important for you to think about. As people do more and more printing through print services and, especially, through print service providers, all of that goes to a backend, which, in the digital world, is primarily supplied by HP. So we have our Indigo assets, our Scitex assets, and our page-wide array assets, which is an extension of our inkjet vertically integrated technology. So we provide all that infrastructure. When you go into Walgreen's or any other print service provider and have some print work done, it goes to one of our partners, one of our big customers, and goes through an HP engine. And that's what fuels all that growth on the commercial digital side.

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

And, therefore, there's a lot of things happening in the cloud in technologies that we'd like to provide that all interconnect with our IPG business.

And maybe another data point for all of you to remember. Latest data show that print is to most sought-after application for mobile devices. 85% of mobile device users would like to be able to print off their device.

So it's a great business. It's here to stay. And we love that business. And it's very innovative, and lots of things to happen there.

Now, when we do our capital allocation, which is the other question, we always try to balance short term, medium-, and long term. So every [software] business needs to invest in order to make sure it has a medium- and a long-term value proposition for its customers and, therefore, for its shareholders, and that's how we try to balance that.

Chris Whitmore - *Deutsche Bank - Analyst*

On that last topic, a lot of questions that I get and have expressed about the valuation period for Autonomy. Back of the envelope is low, single-digit IRR on that acquisition purchase price. It seemed to be anticipating explosive growth from Autonomy going forward, yet our analysts that cover Autonomy think it's growing in the high, single-digits organically on a year-on-year basis. So it's high, single-digit growth, 35 times, plus kind of earnings multiple 12 times revenue. How does that fit into your capital allocation decision making process, and how do investors ever earn a return on that investment?

Shane Robison - *Hewlett-Packard Development Company, L.P - Head Strategy & Technology*

The first thing-- I'll let Leo talk about the capital allocation strategy.

But the right way to think about Autonomy's growth is to look at the organic growth for the IDOL engine. IDOL stands for intelligent data operating layer. And it is the platform for the 500 other functions that you then up-sell to get a complete Autonomy package. So the IDOL growth year on year is about 17%. And then we can add the rest of the packages on, as needed, depending on what the application space is that the customer is trying to address.

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

And let me just try to build on that and help you understand how we came to the valuation of Autonomy. We have a pretty rigorous process inside HP that we follow for all of our acquisitions, which is a DCF-based model, and we try to take a very conservative view at this. Just to make sure everybody understands, Autonomy will be, on day one, accretive to HP. For FY 2012, Autonomy, once we integrate it, is accretive to HP.

Now, we have identified five synergy possibilities-- five synergy leverages on how we can build up the Autonomy business and how we can synergize it between HP and Autonomy. And I can walk you through that, through these various elements. But just take it from us. We did that analysis at great length, in great detail, and we feel that we paid a very fair price for Autonomy. And it will give a great return to our shareholders.

Now, what are these five synergies? The first one is we can leverage our sales force tremendously. Autonomy doesn't have a very large sales force. They sell, essentially, in two countries, the UK and the US. It's a very tiny sales force. We have a pretty large sales force, and we can take Autonomy around the world. Straightforward, lower-hanging fruit. It doesn't require any rocket science.

The second equally low-hanging fruit is attached with our storage devices. We are a big storage vendor. Our attach rates are relatively low today, 15% or 16%. We believe that, with Autonomy, we can reach the best in class in this industry, in the mid 30s, and that will happen rather quickly. So that's straightforward synergy as well, and it's high margin business.

The third synergy I talked about earlier on the synergy we can with IPG in our digitalization effort.

The fourth synergy is a synergy along verticals. There's a lot of opportunity that we see to combine our vertical capabilities or industry-specific capabilities and those of Autonomy. And we have a great future there as well.

And, last but not least, the core essence of the acquisition of Autonomy is to actually build out the next-generation information platform. And we have high hopes for that as well.

Chris Whitmore - *Deutsche Bank - Analyst*

On that last point, should investors expect additional acquisitions to build out the platform?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

Right now, everybody at HP is focused on making Autonomy into a big success. So it's heads down, and let's make this into a great thing. The good news about software is you don't need to do many acquisitions to have a great portfolio in software. We actually want to add a lot of organic capabilities to what we have acquired through Autonomy. And, therefore, you should view Autonomy as a pretty fundamental asset that we acquired. And for the near future we are kind of focused on rebuilding pragmatically our balance sheet anyway.

Shane Robison - *Hewlett-Packard Development Company, L.P - Head Strategy & Technology*

And we did one of the small, important pieces before we did the big Autonomy move, which was Vertica. Vertica is a real-time, predictive analytics platform, which, when coupled with Autonomy, gives us a whole new set of capabilities in information management.

Chris Whitmore - *Deutsche Bank - Analyst*

There's been some third-party analysis and, I think, questions around the stickiness of the Autonomy IDOL platform-- some vendors-- software vendors moving off of it to third-party or alternative suppliers. So can you speak to the stickiness of the IDOL platform?

Shane Robison - *Hewlett-Packard Development Company, L.P - Head Strategy & Technology*

Yes. It's interesting. If you look at the actual data, there are a small number, and they're typically associated with customers using a competitor's product or a product that's been purchased by a competitor. There's no data that indicates the core OEM franchise is deteriorating. If you look at the growth for the IDOL platform, it's growing nicely and will continue.

We have-- There's been questions about how the revenue flow works. What happens is these are long, software sales cycles. So when we OEM the IDOL engine itself, it's usually a pretty small, up-front engagement. The standard size of those deals is about $200,000, and there's sort of a 4% royalty rate that goes with that. And then what happens is, over a two- to five-year period of time, people add in more of the 500 functions that they need. And, typically, the real revenue flow starts in about year two. And then, when they're redoing their software, which is typically a five-year cycle, we'll have a chance to re-up and put a new license in place.

So all these patterns are easy to explain once you actually look at the real data around how the business is performing.

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

Let me maybe add one point to what Shane has said. It's overlooked by analysts that Autonomy has accomplished something that few software companies have been able to do. They transition from an up-front license model to a cloud model, to a SaaS model. Today, more than a third of Autonomy's revenues are cloud-based (inaudible) and, therefore, the shift of up-front money and maintenance money into a annuity-based revenue stream. And they've done that very successfully, and they're probably one of the largest cloud vendors in the world today, which, by the way, ties beautifully back into our cloud strategy that we talked about in the beginning.

Shane Robison - *Hewlett-Packard Development Company, L.P - Head Strategy & Technology*

And, on the OEM license side, they're about the high 90% of the market. And, for the first half of 2011, they were growing at 27%. So that is not a decline.

Chris Whitmore - *Deutsche Bank - Analyst*

I wanted to move the topic to EDS. We haven't-- We're 35 or 30 minutes into this and haven't talked about services yet.

Shane Robison - *Hewlett-Packard Development Company, L.P - Head Strategy & Technology*

(Inaudible).

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

(Inaudible).

Chris Whitmore - *Deutsche Bank - Analyst*

You're in the midst of repositioning ES. Can you talk about where you are today in that process, what the end goal is? What do you hope to turn EDS into?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

Okay. It's not EDS anymore; it's HP Enterprise Services. And the segment we report is that business, our enterprise services, and our technical services. We bring it all together in the segment service that you see in the reporting.

So, what are we trying to do? Currently, our HP EDS-- former EDS business is heavily skewed towards outsourcing. We are trying to shift this balance over time and it has to be gradual, because in service businesses, things move gradually to a more balanced portfolio approach. We will be providing on top of our outsourcing businesses-- or alongside our outsourcing businesses additional, higher-added-value service, be it clouds-- we want to put a lot of focus on clouds-- application migrations towards the clouds, application modernization, and, in fact, provide more IP for our customers as well.

So that migration is happening as we speak. We have a very strong operational cadence on this business. We look at all of our customer segments and all of our businesses. Which one makes sense? Which one doesn't make sense? How do we improve our operation execution?

And, way back in Q2, I said on the earnings call that it would take us four to six quarters to kind of turn this business around, and I'm happy to confirm today that it will take three to five because we're one quarter down the road, and we are progressing on our roadmap. We will be gradually changing that business. You'll see all of these elements coming together quarter after quarter. We're doing this in a very, very prudent type operational cadence because that business needs to continue to perform. It needs to slowly change as it continues to perform.

Chris Whitmore - *Deutsche Bank - Analyst*

So you're essentially accelerating investment in some value-add services and then hope to realize faster growth and better margins over time. Where is the trough in the margin profile of the services business? I think you guided to about 12.5% in the next year. Is that the right--? Is that a trough number? Is that the right ongoing number? Or do they have to go lower before they can improve?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

No. I think we indicated at the previous call, and I'll confirm that, that 12.5% is kind of the short-term margin that you should factor in. You should not factor in a lower number than that. And that's probably going to be the number you should be looking at for the short term. Long term, we're aiming for a better margin than that. And, long term, we're aiming also to produce in constant currency, because that's the only real measure, low, single-digit growth numbers.

Chris Whitmore - *Deutsche Bank - Analyst*

What's the risk that you surprise negatively on the margin line, given a decelerating global economy and accelerating expenses?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

Well, we're not accelerating expenses. We have the expenses reasonably well under control. And it goes without saying that all of the assumptions, where we have taken the current economic climate into account, it doesn't take into account a cataclysmic event and the world collapses. That's a different story. But I don't think that's something we should talk about today. The world isn't collapsing yet.

Chris Whitmore - *Deutsche Bank - Analyst*

I wanted to ask a couple of balance sheet questions. Pro forma, it looks like your net debt will move to $22 billion or $23 billion. Presumably, you're going to issue about $5 billion in debt and pay the rest out of cash for Autonomy. Is that the right working assumption? I think that's number one.

Number two, how long do investors have to wait for the share buyback to restart again? You mentioned you're going to rebuild the balance sheet. How long does that take? What's the right level of leverage on HP?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

We usually don't really comment on the right leverage on HP because it really depends on a lot of parameters and opportunities, capital costs, all of these great things. I think, up to $22 billion, we are more or less okay.

What we are going to do in the coming quarters is we're going to be focused very pragmatically on rebuilding our balance sheet and will, at minimum, maintain the zero dilution. Medium term, we'll come back to our traditional capital allocation policy, where we want to invest into our business, and we want to return cash to our shareholders.

Chris Whitmore - *Deutsche Bank - Analyst*

I think, at this point, maybe we can open up the session for Q&A. If there's any questions, please, raise your hand. I think there's some microphones floating around.

In the meantime, I'm going to ask-- I'm going to pick one that came in on the iPad here. There are several good ones here. There's one around Autonomy, and there's issues around accounting related to-- acquisition accounting, use of provisions, and relationships with their auditor.

The bottom line question here is-- What specific steps around due diligence did HP take to investigate any concerns around accounting prior to completing or announcing the transaction?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

We have and are running an extremely tight and very professional due diligence process. I've got to tell you I have challenges with the question itself. Autonomy is a publicly traded company in the UK. And they are, therefore, audited like any other FTSE company, and they're being audited on very professional standards. And, therefore, that's where we pick up the trail and do our due-- that's the basis of our due diligence.

Chris Whitmore - *Deutsche Bank - Analyst*

Another question that came in was around your vision for security software, particularly in light of recent news. Perhaps you could spend a couple of minutes to give us an update on security.

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

Sure. We believe that security is a multifaceted issue. It isn't one particular thing that you need to do about security. You need to do a whole set of things. You need to prevent people from accessing, and you need to be able to do something about the fact that sometimes people do manage to break in. And what do you do about it? The quicker you can find them, the better.

So we have been building up an entire suite of products and solutions around security that we will actually be using also in our own public cloud services. We believe we have a very, very strong security offering. And, if you look at our software numbers over the last quarters, you can see that that portfolio is actually gaining a lot of traction and is selling extremely well.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Thanks so much for coming out and speaking to the investor group, Leo. My questions are regarding the PC business. Just a couple of questions about that.

I guess, first, why did you guys have to--? With some companies, they actually waited until they got the internal-- my understanding is you're saying you wanted the internal back office people and to start getting ready for the spinout of the PC business.

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

That's not what I said.

Unidentified Audience Member

Okay.

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

What I said is the following. Our PC business is not a tiny, microscopic, little business that you can decide among two people in a little room by running a spreadsheet to decide it's good or bad and it's easy to spin out. It's a $40-billion corporation.

Now, what would you have said if I would have said to you-- I would have said five people in a room, very smart people, used a spreadsheet and some very smart software to decide that there is no dis-synergy on spinning out PSG? I think you wouldn't have believed me, and you would have been right.

So you have to put a team of people to work on supply chain, on IT, on a whole bunch of other issues to make sure that you can carve out that business in the most professional way and that you minimize, if any, dis-synergies, which you need to identify first. That requires the work of a few hundred people, not a few people, a few hundred people on supply chain, on purchasing, on a whole bunch of other things. There's no way to do this in secret.

Unidentified Audience Member

The amount of people that you needed to get the gears in motion would have somehow leaked out? You just started-- tried to nip that in the bud.

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

You have to. It's a market-moving event. Isn't it? If you want to convince the SEC that market-moving events should not be disclosed, that's your privilege.

Chris Whitmore - *Deutsche Bank - Analyst*

We got another question along the similar lines. Leo, you're taking the number-one share PC business worldwide and spinning it out. Please, let us know. How does this not impact your cost structure in all your other hardware businesses? They go from huge scale to medium scale overnight. How do you maintain that scale benefit, if you can?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

I'd be happy to talk about that. First of all, we will be maintaining a lot of our share-- our scale benefits. People should remember that we have an architecture that Shane, among others, has been driving for quite some years. We are the number-one server vendor in the world. And that already gives us tremendous scale. If you look at what we're doing in networking and on our storage business, we're actually building off that scale as well. So we already have a lot of scale.

Second, and in response to the question I just answered, one of the things we are looking at is we are looking at the options we have around PSG. We're trying to find ways to see what options we have to keep then previous scale together. We can learn from other industries. It's entirely feasible, and we still need to work at that-- but, just as an example, other industries where people actually compete with each other have decided that they would have joint purchasing organizations to benefit from scale. And there's no reason why, theoretically, at least, we couldn't do the same thing with PSG so that the scale effect would be the same.

Chris Whitmore - *Deutsche Bank - Analyst*

Let's play devil's advocate for a moment. In 2005, IBM spun their PC business. And, for the following three years, each successive year, they lost market share in the X86 server market; arguably, due to scale dis-synergies, channel dis-synergies, et cetera. Looking at their experience, what lessons did you learn or can you learn from that experience to prevent the same from happening in your server business?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

Well, first of all, we are not really comparable to IBM from that aspect because our server business is significantly larger. If you look at the X86-based servers, we have about 50% market share. So it's hard to get more scale from a server perspective. So I don't think we have a real issue on the scale side. We already-- We have enough scale in the rest of our businesses so that we don't really need additional scale to get a marginally better price point. And, if we need that, then we still have the option to really purchase, together with IPG, with the PSG so that we can actually keep the entire, current scale in place.

Where there are other things that we need to work over is through this joint logistics and joint warehousing, a few joint plants and things like that, and we are working through all of these issues.

Chris Whitmore - *Deutsche Bank - Analyst*

I'll poll the audience again at this time.

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

Maybe one important point that people should know. From that perspective, we kind of confused people in communication. Just to be clear, I expect that a decision-- a final decision on how this will be done-- if and how it will happen this calendar year. And the whole process, including the final act, could be completed in 12 months.

Unidentified Audience Member

Leo, when you were discussing the Autonomy acquisition, you brought up the five synergies. And the question I had for you was-- on those five synergies, those are all things that HP brings to the table to Autonomy as opposed to vice versa. So, when looking at that purchase price, why did you have to pay up to that level, because, again, those are the benefits of HP that they bring-- that you bring to Autonomy?

And, secondly, when looking at the acquisition and the opportunities, why did you choose to go this way on the software side versus maybe advancing your scale on the networking side? Thank you.

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

Okay. Well, we bought a software company that generates 40% margin, which is pretty unique even for a software company. And we bought a software company that has probably one of the richest IP portfolios in the industry, and that has tremendous value. So the entire IDOL platform that Shane talked about earlier on is basically all of Autonomy's own IP.

And, if you understand that the future of information technology is all about unstructured data, 85% of the world's data is unstructured growing at 50% CAGR compared to the structured side of the equation, which is only 15% of the data and that grows at significantly lower growth rates, you understand that the asset that is capable of managing unstructured data has tremendous value.

Now, the fact that we bring scale, essentially scale and complementarity to that asset only makes it an even more palpable asset for us because it gives us the opportunity to really provide a return very quickly for our shareholders, or as quickly as possible and, on top of that, leverage the change and the transformation of HP. So that's one argument.

Now, why this and not something else? Well, I'd like to remind you that we did a major acquisition in networking not that long time ago 3COM, which, by the way, is paying out very nicely. Thank you very much. We are growing fast in networking. It's a great business. To use the American expression-- forgive me if I use this term here-- we're kicking someone's butt in a significant fashion. We're gaining market share every quarter. And it's-- the thing we are focusing on on networking is to actually make it grow organically as well. It's time for HP also to use its own R&D capabilities to grow businesses.

Chris Whitmore - *Deutsche Bank - Analyst*

Any other questions from the audience?

Unidentified Audience Member

Amongst the industry virtualization that has seemed to be the path to cloud for many enterprises, could you talk a little bit about Hewlett's strategy around virtualization and how you can be a big player in that without owning your own virtualization platform?

Shane Robison - *Hewlett-Packard Development Company, L.P - Head Strategy & Technology*

I can't see you, but I'll try and answer your question.

Let me start by outlining our cloud strategy because I think it's important to understand the whole strategy and put virtualization in that context. We have a whole range of services and, I think, a pretty nice position, if not a leadership position, in the market. And we start with a services position, where we can come into a big customer and do an assessment of their readiness to move their applications and their data to a cloud-based business model. We can move from there into private cloud implementation, which-- typically, these private cloud implementations are a function of legacy applications that may not have yet been re-architected to be suitable for a cloud deployment. And, in many of those cases, virtualization is a key piece of technology.

We can help them transform their applications to get ready for more of a public or commercial cloud deployment, but, in that context, with our cloud systems approach and our blade matrix, which is a combination of servers, storage, networking, and the management software, including virtualization, which we will partner with the major industry leaders in that space, we can give them a complete private cloud solution.

On the public side, we've just quietly announced this week-- and the reason I say quietly is because this is in private data-- a public cloud offering which is-- I call it a commercial cloud offering. So, basically, it's a public cloud that allows our big customers to burst into a public cloud as needed or for those applications where they aren't constrained to keeping either the app or the data on premise. And that is based on the open-stack architecture that is becoming the industry leader. And, in most of these big, public clouds, they don't use virtualization. It's a whole different mechanism for provisioning.

So we'll have a position in the public cloud space, which I call commercial cloud, which allows us to have an offering but will also allow our customers, if they want to deploy their own public cloud, to, in effect, white label that entire stack and deploy a public cloud there.

And you might say-- well, why do we want to do that? The important thing among these public clouds is that they be able to smoothly and seamlessly interoperate. And then we will be in the best position to help people then follow up and interoperate with their private clouds.

So, long story short, services to support and assess cloud readiness, products and services to supply private clouds, and I think we have the industry lead there, a public cloud offering, which will be commercially available the first part of this next calendar year, and the ability to give them hybrid cloud infrastructure so that they can tie their public cloud to the private cloud-- a pretty exciting position for us. And then we'll deploy a lot of our existing software assets, like Snapfish and other things on these public clouds.

It's an exciting opportunity for us, as well, for Autonomy. A big part of Autonomy's go-forward business strategy is to become more and more cloud deployed. Today, 30% of their business is deployed on cloud infrastructure. So you can buy Autonomy by the drink, not just by the licensing model. And we see this as sort of a comprehensive strategy that positions HP in kind of a unique way.

Chris Whitmore - *Deutsche Bank - Analyst*

We probably have time to sneak one last one in here.

Unidentified Audience Member

Just a question, again, here on the PC spin. I think you made reference earlier to just the idea that your competitors are out there in the marketplace saying that they're going to gain share, or they have the potential to gain share now. And there's a dislocation, potentially, with your customer base, with your supply chain, et cetera, because of the announcement. What's your preference, I guess? When you look at this business and when you look at maintaining the integrity of this business as you go through this process and try to figure out whether or not it's possible to divest it, clearly, you've got a number-one market share position. You've got very strong cash flow in this business, and you've got very good margins in this business. Of those three, and I guess they're somewhat intertwined, which would you think would be most important to protect as you go through this transition, because it would seem like the easy sales call for any of your competitors to make is-- hey, HP, you know-- we don't know what's going on with those guys, so you need to come to us right now. And that would cause, I would think, a little bit of disruption.

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

We're in the fortunate position that we don't need to make that arbitrage. Despite all of the fuss that one of the PC grantees would like to make, customers are smarter than that. They understand that our PSG business is part of HP and that it has a real future on whatever form it might take from an ownership perspective going forward.

In the meantime, we deal with that really well. We have clarified communications with all of our customers. We haven't lost business. Our distributors haven't seen any real shrinkage in the amount. There has been a couple of weeks of kind of what's going on, but people now know that they have a partner in HP in PSG for many years to come. And I don't want to say it's business as usual, but it's not that far removed from that.

Unidentified Audience Member

I guess the question is more along the lines of if your competitors decided to get more aggressive on pricing. So it's not just a messaging from the competitors, but it's also, look, the pricing environment has been okay recently. Component pricing is obviously down. If there was ever a time-- If you're Dell, for example, that you wanted to attack-- and let's assume that they've been in the pruning mode for the last several quarters in terms of that business, that they might start to use component pricing and things like that to get more aggressive on price. Would you be willing to compete on price with-- whether it was with the direct customers or with the distribution channels, just to maintain business during this transition period? Or do you feel like that's not something you would want to respond to?

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

Well, (a) that's something I would never respond to in a public forum. And (b)--

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Unidentified Audience Member

I meant respond to strategically, not the question.

Leo Apotheker - *Hewlett-Packard Development Company, L.P - CEO*

I just gave you the answer. And I just want to point out that, when it comes to being capable of addressing supply chain and having responsiveness in the supply chain, HP is better positioned than anybody else to do that.

Unidentified Audience Member

Thank you.

Chris Whitmore - *Deutsche Bank - Analyst*

Thank you, everyone. That does conclude this presentation. Thank you, Leo. Thank you, Shane. I very much appreciate it.
