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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Hewlett-Packard conference call. My name is Jeff, and I'll be your conference moderator for today's call. At this time, all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of the conference.

(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 presentation, Mr. Steven Fieler, Vice President of Investor Relations. Please proceed.

Steve Fieler - Hewlett Packard Co - VP, Investor Relations

Thank you, operator, and thank you to everyone for joining us today. The participants on today's conference call are Ray Lane, Executive Chairman of HP; Meg Whitman, President and Chief Executive Officer of HP; and Cathie Lesjak, Chief Financial Officer of HP.

Let me remind you that this call is being webcast. A replay of the webcast will be available shortly after the call.



In addition, some information provided during this call may include forward-looking statements that are based on certain assumptions, and are subject to a number of risks and uncertainties, and actual future results may vary materially. Please refer to the risks described in HP's SEC reports, including our most recent Form 10-Q.

I will now turn the call over to Ray.

Ray Lane - Hewlett Packard Co - Executive Chairman

Thank you, Steve. And thank you for joining us; thank you all. Let me start off by saying that this Board of Directors cares deeply about Hewlett-Packard, and we are fully focused on and committed to doing what's right for HP and the future of this iconic Company. I'd also like to say that the decision to change the leadership of HP is one the Board took very, very seriously. It was a difficult decision, and one that was made after careful and thoughtful deliberation. The one the Board believes was absolutely necessary, and I'd like to explain why.

When HP was searching for a new CEO last fall, and ultimately hired Leo Apotheker, the Company had been jolted by the departure of its prior CEO. At the time, the Company was executing well, and the Board sought a candidate who could develop a strategic vision for the future. For years prior, the Company had cut costs to the point where it sacrificed innovation. In order to grow, HP needed to make strategic investments, and innovation is part of the fabric of this iconic Company that could no longer be set aside.

Leo was tasked with developing the vision for HP. We credit him for having made important contributions on that dimension, and supporting the Company's future, which resulted in a series of decisions to better position HP to capitalize on market trends. In August, we announced those decisions, and it was a significant set of initiatives to advance that strategy.

At the same time, the Board began to observe weaknesses in parts of the business. It became increasingly clear that we needed new leadership to focus on operating our businesses more effectively to meet the challenges of today's environment, and I learned it most vividly by talking to a lot of you the day after our announcements, when you focused on operational execution more than anything else.

Specifically, the Board believes that the job of our CEO requires additional attributes to successfully execute in the Company's strategic evolution, and address all of today's challenging macroeconomic conditions, which all companies are facing. Now, this includes having the leadership abilities to deliver improved execution and financial performance. That brings us to the announcement we're making today. We're fortunate to have someone of Meg's caliber and experience to step up and lead HP. We sincerely appreciate her willingness to take on this role. I know she's extremely enthusiastic about it, and I'm going to give her a chance in a second to show you that.

Meg is a technology visionary with deep experience in recognized management capabilities. We believe she will refocus the energy of our 320,000 employees on our mission, and on the performance necessary to accomplish it. As an active member of HP's Board of Directors for the past 8 months, Meg has a solid understanding of our products and of our markets.

As for me, I am moving from non-Executive Chairman to Executive Chairman. As a result, the Board intends to appoint a lead independent Director soon. As Executive Chairman, I will partner with Meg, and I will support her as she leads the management team to improve execution and enhance accountability. I think it's important to note that as CEO, Meg was both a large purchaser of information technology for the enterprise, and ran a company that depends on technology to deliver its service. I know I was one of the suppliers of that technology to eBay, and I watched her make decisions real-time when that company had tremendous success, and also in crisis situations.



We're at a critical moment. We need renewed leadership to successfully implement our strategy, and take advantage of the market opportunities ahead. Today, we took a great step in that direction. I look forward to working with Meg in driving the successful evolution of HP.

And with that, I'd like to turn it over to Meg.

Meg Whitman - Hewlett Packard Co - President and CEO

Thanks, Ray. And I'm glad to be speaking to you all today as CEO of HP. And before I share my perspective on HP's business, and our future, I really want to tell you how excited I am to be leading this Company. HP really matters. It matters to Silicon Valley, to California, to the United States, and frankly, the entire world.

Now, I know that HP has disappointed investors in recent quarters, and we're not happy about it. Going forward, HP will have no higher priority than to do everything in our power to meet the challenges of today's macroeconomic environment, and frankly, improve our operational and financial performance. At the same time, we have to deliver the world-class products, solutions, and services our customers have come to expect from HP.

We understand that our performance is under intense scrutiny, and we will take the necessary actions to get HP back on track. That isn't something we can do overnight. It's going to take time. It's going to take a lot of hard work to bring all of the elements together. We've got to leverage the entire portfolio to bring solutions to market that solve customer problems. But I know we have the tools and the people to achieve our goals.

Now, given today's announcement, I thought you might appreciate some perspective on our current quarter. I know you're not going to be able to listen to me until you hear about the quarter, so let me turn the call over to Cathie to give you some perspective on the quarter.

Cathie Lesjak - Hewlett Packard Co - CFO

Thanks, Meg. As we discussed over the past several quarters, including in our Q3 earnings call, our businesses have been delivering mixed results. While we continue to demonstrate solid broad-based market share gains, we are also facing various macro uncertainties and business challenges across both our consumer and commercial markets. Looking at Q4, we continue to see softness in Europe, and a slowdown in public sector spending.

I feel confident about our ability to deliver the EPS guidance provided on August 18. However, we have less certainty in our revenue, and specifically with our hardware businesses, so I'm remaining cautious on our Q4 revenue outlook.

I'll now hand the call back to Meg.

Meg Whitman - Hewlett Packard Co - President and CEO

Thanks, Cathie. Evolving a Company like HP is a long-term project, but I know we can build a strong foundation for the future. By executing our strategy, we can develop higher value, more strategic relationships with our customers, while diving deeper into the business of combining discrete technologies and solutions. We'll continue to invest in our market-leading servers, storage, networking, printing, PCs, software, and service offerings. We expect that by executing on HP's strategic actions, we will deliver greater value for our stockholders, broader solutions for our customers, and enhanced opportunities for our employees.



As you all know, our plan includes the evaluation of a spin-off of PSG, a leadership position in structured and unstructured data, which is why we are doing the acquisition of Autonomy, and the discontinuation of the TouchPad, Pre, and Veer devices. I thought I'd provide an update on where we are in the process of executing against these initiatives.

First, with regard to the potential spin-off of PSG, we're committed to doing the work right now to determine the best path forward. And we expect the Board to make a determination by the end of the calendar year, if not sooner. This decision is solely based on the value to investors, and value to customers.

Second, the Autonomy acquisition, which I'm excited about, is proceeding as planned, and is expected to be completed by the end of the calendar year. And third, we continue to explore options to optimize the value of webOS software.

Now, looking ahead, we are also focused on rebuilding our balance sheet, improving our financial flexibility, and taking a balanced and disciplined approach to capital allocation. While these decisions are evaluated by the Board on a regular basis, our long-term capital allocation priorities continue to be this -- investing in the business, repurchasing shares, and paying dividends. In the near term, there is a need to moderate our share buybacks and investments so that we can rebuild the balance sheet. At the same time, we are committed to, at a minimum, maintaining zero dilution. I expect that as we execute, and as our cash position is rebuilt, our strategic priorities and balanced approach to capital allocation will remain intact.

As CEO, I'm focused on ensuring that HP delivers on its commitments to customers and partners better than anybody else. And I know we couldn't do it without the incredible people of HP. Our hallways are literally filled with the industry's brightest and most talented people. I believe we all understand that we've got a lot of hard work ahead of us, but we're committed to that challenge. We will work hard to attract and retain the most innovative workforce, and ensure that HP is a great place to work.

So let me just sum up, as I did at the beginning, why I took this job. It's because HP really matters. HP matters to Silicon Valley, to California, to the United States and the world, and now it's time to get to work.

So with that, operator, I think we're now ready to take some questions.

OUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brian Alexander with Raymond James.

Brian Alexander - Raymond James & Associates - Analyst

Thanks. It sounds like the Board fully buys into the strategy that Leo implemented and the decision was more around execution and leadership. So can you just be more specific about the areas of execution that were lacking under Leo's tenure that you expect to improve upon going forward?

Ray Lane - Hewlett Packard Co - Executive Chairman

Yes, I will be happy to address that. So there were three areas or four areas that we had concerns about. One was, this is a big, big Company that requires an executive team to be on the same page. And just ad hoc witnessing of -- because I would spend time here or at Board meetings or whatever the occasion was, we didn't see an executive team that was working on the same page or working together. Second, and probably the biggest, was just the operating execution. The ability to get down deep into the businesses and understand the dynamics that were going on in the businesses, and that can land us on a quarter ahead of expectations. Thirdly, was communications. I think we struggled in the August 18 announcements, and when we communicated



to our constituents, customers, press, investors, with clear, concise communications. And so if I look at those three things, and that they were deterrents in delivering our results and look at Meg, I said, here are her strongest attributes -- leadership, team play, communications, and operating executions.

Steve Fieler - Hewlett Packard Co - VP. Investor Relations

Thanks, Brian. We'll go to the next question.

Operator

Katy Huberty with Morgan Stanley.

Kathryn Huberty - Morgan Stanley - Analyst

Thank you. Meg, as I'm sure you know when Mark Hurd left HP, the Company was pretty quick to reiterate guidance and financial goals and to state that there would not be a significant change to strategy. And as we found out, some of those promises didn't turn out to be true so the question for you is, do you plan to take the time to review financials, to review the strategic decisions that have been made recently, and to make sure that as now CEO, not just Board member, that the Company is on the right path?

Meg Whitman - Hewlett Packard Co - President and CEO

The answer to that, Katy, is yes. I am supportive of the actions that were announced on August 18. But since I am now CEO, I will be obviously deeply involved in guidance for 2012. I will review a number of these strategic initiatives, and I will obviously surface with my point of view on this. And for those sell-side analysts and others who followed me when I was CEO before, what you know is I understand the investment community, and try my very best to say what I mean and mean what I say, and I take those commitments very, very seriously. So yes, I will obviously step back and take a hard look at this but from what I know now, I think the strategy is right, the initiatives that we undertook on August 18 are right, and I'll dive in and have a more informed point of view for you probably at our next earnings call.

Ray Lane - Hewlett Packard Co - Executive Chairman

I'd like to make a comment on this. There is a difference between a Board who looks at a set of decisions that we think are smart for investors or customers. For instance, becoming a leader in unstructured information management, 85% of the world's information, which allows us to acquire \$1 billion company and start establishing a position and the synergies with HP's business, which, probably in the future, could become a \$4 billion or \$5 billion or hopefully a \$10 billion business. But that does not mean we are transforming — and that word has been stricken from our language, that we're transforming HP. Because HP is \$120 billion, and so with Autonomy's enormous success and enormous profitability and synergies that we can gain, we think we can build a heck of the business out of it but it has nothing to do with transforming. We'll hopefully see a bigger software portfolio and we'll see more value-added services at HP, but we have \$120 billion of hardware business that we care dearly about.

Steve Fieler - Hewlett Packard Co - VP, Investor Relations

Next question, please.



Operator

Tony Sacconaghi with Stanford Bernstein.

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

Yes, thank you. It's a question for Ray. Some people believe the decision to name a permanent CEO appears hasty and premature. Can you discuss why the Board decided to name a permanent CEO rather than conduct a comprehensive search of internal and external candidates? And I have a follow-up, please.

Ray Lane - Hewlett Packard Co - Executive Chairman

Good question. So as we started thinking about this and collecting data and I brought the thought process to the Board, we, of course, in processing toward a decision to decide that we should change the CEO, we had to think about what options we had. We knew we had outside options, but we had fairly recent data from a search that was conducted last year, so we knew a lot of outside candidates. There are good people out there. We had internal candidates. We have at least three people or four people on the executive committee that run major businesses, run \$20 billion to \$30 billion businesses, one that runs a \$40 billion business, and so, they could be candidates.

There was a desire to want and there is a desire forever in the future to reach inside, to bring from inside the Company a CEO anytime there needs to be a change in the CEO. That strong desire I think led us to say, do we have an internal candidate first that we could get behind and really feel like, not because they are the best candidate inside, but because we can't find anybody better outside? Obviously, there were several names that we considered. We looked at some that were not inside that were not ready. We think they are future candidates to be CEO here but they are not ready. We looked at interim; I looked at an interim role, and so we considered that. We considered other Board members. We did everything we can to drive a process, and I knew from the beginning of the process, that the strongest candidate to do this -- I didn't want to sell my fellow Board members, but I have seen Meg lead. I've seen her. She is decisive, she is a people person.

I predict that the HP employees are going to get on her side, because she is going to get on their side really, really quickly. So while we went through a process, it was almost like weeks ago, I knew where the process would come out because of her leadership. The question is, would she change her life to do this? And when she told me that she wanted to do this, and knew how to do this and laid out what she thinks she would do in the next six months to a year, we became convinced that this was our best choice and there was not a better choice on the outside. If we thought there was a better choice on the outside, we would have conducted the search.

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

Thank you for that. I have one follow-up, Ray. It appears as though investor confidence in the Board is very low. And I'd like to see if you could discuss whether you believe the Board is functioning well in its current composition and whether you expect any additional changes beyond the election of a lead independent director? And I suppose if not, the question would be, why?

Ray Lane - Hewlett Packard Co - Executive Chairman

So, thank you for the question, because I'm going to give you an answer right from my heart, okay? It's going to come right directly from my heart. In January, I added five Board members to this Board. This is not the Board that was around for pre-texting. This is not the Board that fired Mark Hurd. This is not the Board that did everything you want to write about that the press writes about every day. It's just like Open Season to write about this Board. It's not this Board. This Board is with Ann Livermore, and Leo, was eight new members as it functioned this year. Eight people that weren't here before last January or November for Leo



and myself. Strong individuals, Gary Reiner from GE. I don't have to go through it; CEOs, lots of CEOs. They work really well together.

I watched the executive staff come into the first Board meeting and watched the openness, the tough questions. They knew immediately it was a different Board. We carefully considered decisions when we make the -- we are embarrassed about the communications of these decisions. It could have been done much better, but we carefully considered the decisions made on August 18 to help augment HP's business. So look, I'm really proud of this Board and I don't know how to tell you anything else on a call like this, but I'm proud of the individuals on this Board and the way they work together. And I think the Company and the shareholders are well served by this Board. It is our operating execution that needs to improve. And we made a decision in Meg Whitman to lead us to that better performance.

Steve Fieler - Hewlett Packard Co - VP, Investor Relations

Okay, operator, we'll move to next question, please.

Operator

Keith Bachman of BMO Capital Markets.

Keith Bachman - BMO Capital Markets - Analyst

Hi, thanks very much. I want to follow-up on Toni's question if I can. Ray, you expressed enthusiasm and confidence in the Board and yet at the same time, one of the Board's key roles is selecting leaders. I think this is going to be one of the records for hiring and termination of a leader. It still begs the question about, A) I think in many respects, people had concerns about Leo's operational skills when you brought him in and now you're suggesting his operational skills were his own doing. And yet, at the same time, it appears you're making a very quick transition to a new leader and it really begs the question, have you really vetted this process, given what's happened over the last five years, not just what's happened over the last 11 months? So how do investors gain confidence in the Board and how do we really understand that you've gone through this serious process here, because it feels more reactionary than proactive?

Ray Lane - Hewlett Packard Co - Executive Chairman

So I go back to my last answer. This Board, good or bad, I don't think we ought to be going back in history. This Board did not select Leo, okay? So remember, more than one-half of this Board is new after Leo and I remember responding to tough questions about, did Leo select this Board? Are these a bunch of his buddies? You remember all those reports?

Keith Bachman - BMO Capital Markets - Analyst

Yes, but Ray, just a -- go ahead please.

Ray Lane - Hewlett Packard Co - Executive Chairman

No wait. So now this is a Board who objectively evaluated whether he was the right guy to operate the business. And we came to the conclusion he was not. And we chose someone who is a great operator, who executed in her business for years and has a track record of leadership. I am hard-pressed,— I can't think of a name out there today I would select over Meg as CEO of this Company.



Meg Whitman - Hewlett Packard Co - President and CEO

Keith, let me answer that question. I think the way we have to rebuild the confidence of investors, the confidence of employees is we have to execute. We have to say what we're going to, we have to mean it, and we have to deliver the results. In the end, the only thing that will rebuild confidence in this Company is delivering the results and that's what I intend to do.

Keith Bachman - BMO Capital Markets - Analyst

Okay. Well, let me sneak one in then, Meg, as part of that if I can, is if you are still undertaking the evaluation of the PC business, and yet at the same time it seems that, that process by itself inflicts share loss on the PC business. Any thoughts on how you plan -- this execution challenge, how do you plan on managing that process in particular?

Meg Whitman - Hewlett Packard Co - President and CEO

The best thing we can do is to get to a decision on PSG as fast as possible. This decision is not like fine wine. It's not going to get better with age. We've got to do the analysis, get to the decision and then tell our customers and the market what it is we're going to do. And then I want to reiterate our commitment to the hardware business. It doesn't matter what the outcome of that is. The vast majority of this revenue of the Company is still in the hardware business, whether it's servers, networking equipment, you name it. So we will get to this decision as fast as we can. We'll communicate that decision and that will remove a lot of uncertainty and then I want to make sure that we underscore our commitment to the hardware business.

Keith Bachman - BMO Capital Markets - Analyst

Thank you very much.

Steve Fieler - Hewlett Packard Co - VP, Investor Relations

Thanks Keith. Operator, we have time for one more question here.

Operator

Shannon Cross with Cross Research.

Shannon Cross - Cross Research - Analyst

Thank you very much. Ray, one thing that might help investors feel a little bit more confident is if you could walk through to some extent the timeline of when you started to have discussions with the Board regarding an executive change and then how long you have been looking at this? And then I had a follow-up. Thank you.

Ray Lane - Hewlett Packard Co - Executive Chairman

I'm not sure it's important to dwell on the timeline of this, because I probably worked in terms of the Board members closest on this, and it just sufficient it was last week, it wasn't a month ago, it just is a question of you don't deliver a quarter, you don't deliver another quarter, and then you make some important announcements that get communicated poorly. It was an incremental -- and then you have to make the tough call of how long do go along with that? How -- do you help? Do you surround? Do you replace? And so I'm not sure the exact time frames are really important.



Shannon Cross - Cross Research - Analyst

Okay. That was helpful. And then Meg, could you just give us an idea, have you spoken with your key reports and how are you thinking about retention and any conversations you've had with them at this point? Thank you.

Meg Whitman - Hewlett Packard Co - President and CEO

So I have had a meeting with what we call the Executive Council here at HP. We had a very good discussion on how we want to work together; how we need to reenlist not only executives but employees; how we've got to communicate with customers. And we are going to function as a team in a way that I think we haven't in quite some time here. And I feel confident. We've got a great set of leaders at this Company, the employees want to be led, they are enthusiastic about HP.I will tell you this organization has been through a lot. There is no question about it. But I think they bleed HP blue. They are excited about this; they want very much for this Company, which is an icon in Silicon Valley to succeed. And we may not keep everyone. But I think we will keep the vast majority of people who want to believe that we can restore HP to its proper position in Silicon Valley and in technology.

Ray Lane - Hewlett Packard Co - Executive Chairman

Can I go back and just make one comment on the PSG question? It's important to understand that our intent all along that got poorly communicated, but all along was to look at whether there was a benefit to investors or to customers. In fact, I even imagined that a spun-off PSG would carry an HP brand with it. We didn't make that decision but that's what we do, and that would be stronger for customers than inside. Meg and I have talked about it a lot, that is still our desire. If it cannot be stronger on the outside in terms of delivering better equipment and better technology than our competitors, it stays inside. And the same thing is true on investors. If investors feel like they're going to benefit from this, it is, I think, going to be easiest decision we've ever had because the decision is going to be handed to us. It's going to be based upon what investors and customers tell us. There's no intent -- we will not do anything that reduces service to customers or reduces value to investors.

Steve Fieler - Hewlett Packard Co - VP, Investor Relations

Before wrapping this call, maybe I'll ask the Meg if she has any last thoughts here.

Meg Whitman - Hewlett Packard Co - President and CEO

Well, thank you so much for joining the call. And I am looking forward to getting to know each of you. I believe that this business is about relationships. You've got to get to know me, reacquaint yourself with members of the management team you may not have met. I know many of you know Ray. This is about relationships and we're going to invest in those relationships and I look forward to meeting with many of you over the next several months. So thanks so much, and stay tuned.

Ray Lane - Hewlett Packard Co - Executive Chairman

I'd also like to thank you for your feedback after August 18. That was very valuable to me.

Stephen Taylor - Dolmen Securities - Analyst

Thanks, everyone. We're finished, operator.



Operator

Ladies and gentlemen, this concludes our call for today. Thank you for your participation. You may now disconnect.

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