

# FINAL TRANSCRIPT

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## **HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting**

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Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

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## PRESENTATION

**Operator**

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

Ladies and gentlemen, please welcome Vice President, Investor Relations, Jim Burns.

**Jim Burns** - Hewlett-Packard Company - VP - IR

Good afternoon, everybody and welcome to HP Securities Analyst meeting, Transforming Enterprise IT -- An Attractive Opportunity. HP is making bold moves to capture the opportunity and Enterprise IT. And we are excited to share those moves with you today.

First, I want to remind everybody that this meeting is being webcast live. And we will have a webcast up on HP's investor relations website. A replay will be available for approximately one year.

Our goal for today is simple. We want you to be as convinced as we are that the attractive enterprise IT market is heading in our direction. And that there's nobody better positioned than HP to transform IT. Mark will come up and explain our strategy for attacking the Enterprise opportunity and Mark will be followed by Ann who will go up and talk about the customer needs for IT and why IT desperately needs to be transformed. And why HP is best positioned to capture this business.

Ron Rittenmeyer is currently managing the communications of the press release that you saw today about some of our announcements with headcount reductions relative to customers and employees. And we're pleased to have Joe Eazor here today. And Joe will be providing an overview of EDS and why EDS will be able to accelerate its program under the HP umbrella.

Shane then will follow and will discuss in depth the rationale for the M&A moves that we've made and why we are so confident in our EDS integration. After a short break, Cathie will come up and give you the information that most of you have been waiting for, the numbers.

And we will pass Cathie's information, it's not included in your decks now, but her information will be passed out simultaneously with her presentation. So you'll get that information at the due time. And so then after Cathie's presentation, we'll open it up for Q&A. And we'll take some Q&A and we've got a reception with the HP executives after this.

First of all I wanted to remind you all, this meeting will cover primarily historical information. Please be aware that our discussion also may include some forward-looking information that involves risks, uncertainties and assumptions as noted on this slide. In addition, earnings, operating margins and similar items at the company level are sometimes expressed on a non-GAAP basis. And have been adjusted to exclude certain items including amortization of purchase intangibles and restructuring charges.

The comparable GAAP financial information and a reconciliation of non-GAAP amounts to GAAP are included in the supplemental slides accompanying today's presentation. Please be aware that these materials include forecasts and projections that are subject to numerous uncertainties as noted on the slide.

In addition, please note the final decisions regarding the local implementation of the restructuring plans and organizational changes to be discussed today, will be subject to prior consultation with works councils and other employer representatives where required by law.

And finally, if you didn't get a chance to visit our performance optimized or POD Data Centers, they are located on the parking lot here actually, out the back of the room to the left there. And we encourage you to take a look at this. We're pretty excited about this. Packing 44,000 pounds of servers in a single container and it will be up until 7 o'clock tonight. And if you have a chance to take a quick tour, that would be great. So with that, I'll now turn over the stage to Mark here. Thank you.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

All right, hello. Boy I tell you it's going to go well, I can tell. That was a tough day on Wall Street. I hope there's a chance I can capture your attention for at least the next couple of hours to tell you a little bit about what we're working on. We've done a lot of work on this acquisition.

If I were to start and tell you the key messages of the day, they're the following three. The Enterprise is big. It's attractive for us. It's heading our way. In terms of the way we think about how the Enterprise should compute, we think we're well positioned to capture the opportunity.

Second, we're good at integrating companies. We've bought 30 companies now in the past four years. We think we do it well. Third, we'll be a bigger, stronger company by the time we get EDS integrated. And its capabilities fully integrated into the portfolio of capabilities that HP has.

Those are the key messages. You're going to hear them throughout the day. One this is big and important to us. We think we know what we're doing. You, in the end, can be the judge of that as our customers will be. And we think we're good at integrating this into a market that is coming in our direction.

Let me tell you a little bit about what's going on with customers today. And this is sort of a CEO view. I'm talking now to a CEO of a big company, not just the CEO of a big IT company. First if you don't know data is doubling every five years. So figure out how much data is on the planet earth, five years from now there's twice as much. 2% of that data is digitized today. That rate of digitization is doubling every 18 months. So the problem's big, bad news, it's going to get bigger.

Second most of our customers have consumers that are about like my 12 year old. I go in a car to pick somebody up at SFO. I want to find out what time the flight's landing. I won't tell you what airline. I get on the phone. I play ring around the rosy with the airline trying to find out some data. My daughter asks me, Dad, what are you doing? I'm on the phone trying to get some data. I'm on hold for ten minutes. She says, Don't they have Google?

No, more complicated than that, why? Well there's a lot of data. It's in a lot of different places. There's legacy applications. She says, what are legacy applications? And on top of that, could care less. She's used to getting the answers to questions about what she wants to learn on the web. And she's used to getting instant gratification.

A lot of data, more and more of a digitized, unrelenting consumers and at the same time, it's not like the CEO's going to show up and double the IT guy's budget to get out of that aging infrastructure. Filled with silos of data, locked in mainframe-like architectures, trying to be able to get access to that information, so they get the right answer to the right question at the right time and get it to the right person.

So there's got to be an eruption. There's got to be something that allows for this transformation to occur, if you're sitting in the CIO's spot, tough deal, costly proprietary architectures. We talk about the server market. \$60 billion, \$27 billion of that is "open x86" like, \$33 billion of it is not.

Storage market, you can go on and on to markets filled with proprietary architectures, complicated software stacks, very district inefficient infrastructures. Some utilization levels in the teens in terms of utilization of the infrastructure that's in place.

Moving to what we think is a highly scaled. Everything is a service, high density, very efficient infrastructure to go lay these -- this new application capability on. Market pressures to get it done. Market pressures like what we described earlier and technological innovation now allowing that interruption to occur.

And you're going to hear us talk about the fact that we bring a portfolio of capability to the effort now. Not just infrastructure, we strategically, from an acquisition, an organic R&D perspective, tried to put ourselves in a position to have the necessary

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

infrastructure, the appropriate software infrastructure. Now the service is in services delivery capability to do it on site, to outsource it or to deliver it from the Cloud. So strategically to position to give the customer what they want in a way they want it. So they can interrupt their current course of business and allow them to invest in their core business.

Quick cut on some EDS in a couple of dimensions, one, this chart if it says nothing to you, it should say very complimentary market positions. Where we're strong, EDS typically has not been. Where EDS is strong, we have typically not been. And our history is where we have an outsourcing relationship. You can see what happens to our operating performance in terms of revenue production, if you will. What we call share of wallet or market share within an account. It goes up because of the strategic nature of the relationship we have with the customer.

And we think that opportunity goes both ways. And by the time we mature the acquisition, we have a significant opportunity for revenue synergies as we mature the acquisition. Both in terms of the cross sell to EDS customers and EDS customers than HP customers.

Similarly, the combined trailing 12 months revenues of the two companies is \$135 billion. The trailing 12 months operating profit is 12, which means we spend \$123 billion. That's a lot of money. And we have an advance theory to go through all of that spending and ensure it's optimized. Whether it's in procurement, whether it's in corporate shared services, whether it's business owned expense.

You have seen part of what we're going to do in the press release we put out today about some of the headcount actions that we are having to take. I can assure you there are many other synergies that we are looking for in the acquisition, whether those are corporate shared services like IT, like real estate, whether they are the opportunity for us to get better leverage in a position where we are procuring a service or a need from some other company.

And then the opportunity for us now, what our four scaled businesses, so look at a business owned function and share that across all four of our businesses, so for us, a lot of leverage on the cost side. And I think most of you that follow us know I'm a big believer that having the most efficient cost structure directly relates to your ability to scale and to grow. You cannot scale and grow properly if you don't have an appropriate cost structure. So we will work very hard to get our cost structure right.

And I think we can see from the Company in the past four years is the better our cost structure has become, the more effective we are at dealing with growth, both competitively and our ability generate growth in our core market.

I'll end on the slide I started. The Enterprise is a large total available market is \$0.5 trillion roughly speaking. That market is big. We will integrate this acquisition. I believe we will do it well. We have spend thousands of hours of due diligence. We've had hundreds of people on the integration team. And we think we know what's necessary to get this done and to get it done right. Lastly, we believe the opportunities for us to drive material synergies out of this are real.

So what I'm going to do now is I'm going to turn it over to Ann to tell you the sort of broader view of the Enterprise, the total available market and our strategies in relationship to what the customer sees. Ann.

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**Ann Livermore** - Hewlett-Packard Company - EVP - Technology Solutions Group

Good afternoon, everybody. I'm going to take the next few minutes to walk through for you the opportunity that's in front of us. And it all has to do with four things that corporations, and as a result IT executives, are faced with that drives them to transform their IT. And these four things are needing to flip the ratio between how much money they spend just maintaining and operating IT. And move more of the money to innovation.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

The second thing is modernizing their Data Centers. So they can deal with the business demands that they have. The third thing is taking advantage of virtualization. And the fourth thing is how they can turn the information explosion into an advantage for their company.

And my goal is to demonstrate to you that HP is very well positioned to deliver against these problems that our customers have. Help them turn them into opportunities. And it's all because we've been focused on building a portfolio that helps them manage and transform IT to deliver better business outcomes. And as Mark said, we can do this by providing the technology to them and letting them do it themselves, by having them outsource it to us for us to do the transformation for them or by delivering services via the Cloud.

We talked about these market disruptions. There's not any question, as Mark was saying, digital information doubling every 18 months. And this puts a strain on the IT infrastructure. CIOs being asked by their CEOs to do more with less budget, they're hampered by aging infrastructure. And that aging infrastructure makes them unable to take advantage of the opportunities like Cloud services, or like virtualizations that are in front of them.

You look at this and it translates into, for us, a [tam] that's \$451 billion by 2010. So a huge market growing 4% to 6%. And in side of that market, there are certain technology areas, certain product and service areas that have even higher growth rates than this average. Certainly fast growth rates in software markets like where we're positioned for Enterprise management automation. Certainly higher growth rates than markets like outsourcing which EDS expands our capability to address.

Like storage, which acts as a market that's ready to be disrupted, just like the server markets have been. And we like it when markets need to be disrupted. It gives HP a real advantage. Then sub segments that some of the category servers. You all know that Blades is the fastest growing sub segment of the server market. And why this is so attractive to us is because we have a leading portfolio.

We have over 50% of the market share and then at the same time, Blades are two times as likely to be deployed and virtualized environment than any other area. So it speaks to our strong pride position right In the middle of one of the most powerful trends. We've got a strong record of customer satisfaction to build on. TBR just released their latest results.

Looking at the services and the solutions around the x86 market and HP are clear number one. We also show this is many of our internal surveys and external surveys. And we're working all the time to make sure that HP can extend our lead in terms of delivering against the commitments that our customers want to much from us.

You know that we're focused on the cost reduction. Mark summarized for you how big the opportunity is to do even more. And we dropped some of that to building our shareholder value. But it also allows us to continue to invest in covering the market better and continuing to invest in the R&D that enables HP to lead.

Here's the opportunity in the market place. What this chart shows is across various industries, what the average spend on IT is as a percent of revenue.. And then what's the best. And you can see in many of these industry segments, there's a two times difference between being average and being best. And this doesn't even plot worst. So you can imagine for many CEOs, you can imagine for many CIOs, what they're asking themselves is how do I take advantage of this? How do I become best in class? What are the things I need to do? And who is it that can help me do that?

And clearly, we're positioning HP as the Company to help them do that. We think there're four main things to work on. The areas I mentioned before, forcing the ratio between operations and maintenance, the innovation. Being able to modernize their Data Center and take it to the next generation of technologies. Being able to virtualize the environment, and then finally, taking that infrastructure and being able to capitalize on the information explosion. And we've line up our services capabilities, our products, our technology investments to be strong in all these areas.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

Let me take each one and give you a bit more detail about them. The chart shows that power and cooling and management are growing at a growth rate of spend eight times faster than the growth rate of the server spend. It's just flat out too costly to operate the environments. And what that translates into is 75% of the money going to operations and management, only 25% going to innovation. So what do you have to do to be able to address this?

The first thing that the customers need to do is to standardize the technology and processes inside their environment. They need to consolidate the technology, the Data Centers and along with that, deploy virtualization technologies. And then move to the automation of the management to the environment to dramatically take out the labor, the costs of labor to run the thing. And also, by reducing the labor, you improve the quality of the operations. Because in most cases it's not the technology, it's the humans that make the mistakes in the Data Center operations.

Hp is very strongly positioned in terms of the leading technology to be able to deploy in this environment. We've made big investments as you know in our software categories. They have the leading software to manage and automate the environment, and along with that, the ISO standard processes and other things for the process standardization. Anyway the customer wants it. If they want to outsource it to us to transform it for them, great, we can do that. And we can do even more of that with EDS. Or again, just buy the technology from us and we'll help them be able to do it.

The second area specifically the limitations of the Data Center and the Data Center needing to be transformed. A really amazing statistic, 51% of the CIOs today, as it is urgent for them today to be able to transform their Data Center because it can't keep up with what their business demands are, so a huge, huge market opportunity.

Again at the heart of this, as we were discussing before, is a problem with space and a problem of energy. Again this lines up with the investments we've made. Many of you have heard us talking for the last three or four years about adaptive infrastructure. Those are the investments that HP has made. Both through M&A activities as well as our own organic R&D to be placed where the market's going. A 24 by 7, lights out, fully automated Data Center. That's what people want.

One of the moves we made to help us do this is that we closed and acquisition in February 2008 of a company called EYP Mission Critical Facilities. We acquired about 300 engineers who were the leaders in the market place, as a stand alone company, building out these next generation energy efficient Data Centers. Engineers who do the blueprints, they're now part of Hewlett-Packard in our services organization winning deals every single week. So that we can do the blueprint and the design for our customers associated with this.

Then on top of it you know our Blades position, as I mentioned, 50% market share. So we're not just standing still with our current products. We've introduced a new product that's a two in one server blade to address this energy consumption issue. It has 60% better performance per watt than any comparable configurations from our competitors. You also may remember us talking about our Dynamic Smart Cooling technologies to put in a Data Center, which helps the customer, helps the Data Center itself manage the power and cooling more efficiently. Driving for our customers 20% to 45% cost savings.

You heard Jim mention our HP POD, our performance oriented Data Center. It's a compact container. And what it is, it's a shipped to order Data Center. The one outside has 19 racks in it, fully loaded 22 racks in a container like that, and is very, very popular to many of those companies wanting to do the Cloud service provision. Already, a number of people working with us, helping with the design and early acceptance of this offering.

So as you can see, we have a full suite of solution to help customers be able to better manage the current environment and then transform it into the next generation computing infrastructure that they need.

Virtualization, everybody knows about and talks about virtualization. The obvious benefit is you that you drive better utilization of our IT assets, which is a good thing for our customers. And yet at the same time, they're creating for themselves a complex and unmanaged combination of virtual and physical resources that need to be managed. Look at the chart, really great news for HP in this chart.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

The first area where people want to deploy virtualization, and with the technology they want to deploy it, is x86 servers. This is the area where HP is number one. One out of every three servers that -- there is an x86 server is shipped by HP, so we're the lead in the area where they want to do virtualization. Linux, we have the number one position in Linux. We've had the number one position for ten years. We've shipped a Linux server every minute. If you want help with a Linux environment, virtualizing it, you should come to HP.

We talked so much about storage. We're very excited about our storage offerings with the growth and progress in our EVA and the MSA, our XP position. This is a market ready to be disrupted. And you can see the storage environment is just as important from a virtualization as is the server environment.

And finally the network devices and the investments we've made with our virtual connect technologies fit in right here. We've got ourselves positioned to where the market's moving. And it's an exciting area for us. With our Blades, we've done tuning to address some of the bottle necks that customers experience when they go to a virtualized environment. Our NAS products have been specially designed to be able to help virtualize the server storage connection.

All the way around the board, tons of investments that HPs made that are already available in the market. We talked about how hard it is to manage a mixed environment. HP is the only company that has software to provide to our customers to be able to manage a combination of a virtualized and physical environment. And for a long time, people are going to have a mixed environment.

These are the investments we've made in our BTO software portfolio. We've built our services capabilities around all these things to help our customers be able to do the planning, the design, the implementation, the operation of it. And finally our very strong position in the PC market.

[Todd's] team have tuned and developed their product to have the client that delivered the best security and reliability for the client part of the architecture for a virtualization solution. Clearly a very, very strong position in terms of our customers turning to us to take advantage of this powerful suite of solutions we've put together.

The next area is information explosion. Mark talked about this, now just incredible quantities of information. Every single customer that we talked to said I have too much information. It's too hard to find. And it's too costly to manage. They all say those things. And yet they also know that one of the biggest competitive advantages for most corporations over the next four or five years will be how they use their information. How they use it to grow new revenue streams. How they use it to interact with their customers.. How they use it to mitigate risks. How they use it to ensure compliance.

For HP, tremendous opportunity, we have the servers to process the information. We have the storage to store the information. We have the software to manage the information. And we have the services capabilities to help our customers take advantage of the information that they have. Across the board, when you look at servers and who deploys the most BI solutions onto servers, it's HP servers. Whether it's Oracle solutions, Microsoft solutions, other third-party solutions, we have the number one server platform for business intelligence.

On top of that back in June, we made a very important product announcement around our data de-duplication capabilities. One of the things customers have to do is stop carrying so many copies of the same stuff. So having software to enable data de-dupe is really critical. We introduced a new product back in June that is a disk-based back up solution. With data de-dupe capabilities. And what this does, it drives the disk utilization up by 50 times, an incredibly important solution for our customers.

On the software side, we've also invested in two very important areas in our software businesses. The first is what we call our integrated archives platform. And what this software suite enables customers to do is to index, to archive, to manage and then to rapidly retrieve information. And we've honed these solutions to industry specific solutions, such as for health care.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

And then finally, HP Neoview, HP Neoview is our Enterprise data warehouse. And for our customers, it's based on the forward going technologies, unlike what some of our competitors have. This is yet another market, the Enterprise warehouse market ready to be disrupted. And we have the technologies to do that, a pre-integrated solution with our servers, our storage, our software, the services around it, to enable customers to move to a new Enterprise data warehouse solution.

In our services organization, 2,800 professionals able to do this kind of work with our customers. And just alone in the software investments HPs made, over 350 software engineers in these particular areas. So you can see this is a solution area. It's growing. It's an area HPs investing in. It's very important to us and very important to our customers.

The great news for me both as a business executive inside HP and also someone responsible for selling this to our customers, is what [Randy] and our IT team have done with this inside HP. We have done and are in the final stages of an IT transformation that addresses all four of those things that I talked about as the opportunities. If you turn the clock back to 2005 for HP, we weren't on that earlier chart that I showed you, best in class in terms of our IT investment as a percent of ratios -- in terms of a percent of revenues. In fact we were probably on the end closer to the worst.

We had more people working in our IT organization than we did out selling to our customers. And we had a real spaghetti bowl of things. Randy and his team, along with the business team inside HP, have driven through this IT transformation. We're well on the way to completing the move to our six Data Centers. We're well along the way on the reduction of our applications. And as we move into FY'09, our spending as a percent of revenue really will be world class. We'll have made great reductions in the number of servers we had and at the same time dramatically increase the processing power.

And even more, which I certainly like is we're at a point where we'll have two times as many people serving our customers, customer-related people as we will on IT. And that was enabled partly by the reductions we made in our IT staff and labor, yet at the same time, these cost savings freeing up dollars for HP to be able to invest in more market coverage. So, it's a really great story.

And not only did we test the technology and push our technology to its limits, we also learned the process and people thing needed to do this. Our end services employees participated in this with Randy, and now they're taking those learnings out for the benefit of our customers.

Mark and I have already made comments about we can serve our customers the way they want to be served. And what this just demonstrates is again, if customers want to buy from us, our technology and our products, have us train them, help them to do it themselves, we'll operate with them that way. If they want to outsource it to HP, now with our expanded capabilities with EDS, they can outsource it to us, and we'll do the transformation for them of the environment.

And then again with the breadth of our portfolio, with the economies of scale, with the leadership position we have in servers and storage and our management software, we're very well positioned to help them where cloud service providers enable them to receive their IT delivered as a service via the cloud.

So in summary, the core trends in the marketplace are very much playing to HP's strengths. We have the best portfolio in place to solve those four biggest problems, those four biggest opportunities that every CIO in the industry is facing. EDS dramatically accelerates our ability to be the best at helping customers manage and transform their IT environment, and this positions HP very well to be the Company that our customers turn to to take them to the future.

With that, I'll close. And now, I have the pleasure to turn over the floor to Joe Eazor. As you saw, Joe's one of the senior executives from EDS and is leading the transformation activities for us.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

**Joe Eazor** - Hewlett-Packard - SVP - Transformation

Thank you, Ann. Good afternoon, everyone, and I'll discuss the combination of HP and EDS from IT services perspective. I'll begin by putting some context around EDS' business and then discussing the power of the combination of HP and EDS.

So as the founder of the IT services industry, EDS has been a leader in the industry for decades. However as most of you know, we went through a couple of tough years in '02 and '03, but since then have started to make pretty good progress.

If you look at comparison versus 2004, our operating margin is up 550 basis points. We've almost doubled our free cash flow. We've significantly enhanced our global delivery organization and operations, gone from roughly 9,000 in global Best Shore locations to over 43,000 today. We've started winning in the market again. TCD sold up -- is up by 30% over what -- where it was a few years ago. And probably even more importantly, we've started to win more than our fair share of head-to-head competitions against other industry players.

We've made significant operational improvements, service quality up significantly in almost every metric. So if you think about it today, EDS is in a much better position than it was just a few years ago with good assets and strong capabilities from which to leverage. But, EDS still lags industry leaders when it comes to key performance metrics, so there's still a great deal of work we have to do.

The combination with HP is a much-needed catalyst. It's a catalyst that allows us to accelerate the progress that was already underway and extend it significantly, not just to continue the path we are on but to rapidly get to industry leadership.

So, what does EDS bring to HP? EDS brings significant capabilities and opportunities for leverage. Looking across our segments of our business, EDS has scale in most areas. Starting with ITO, which is our largest business segment, we have tremendous scale on pretty any kind of metric you want to look at. So some examples, we manage over 3 million desktops, 300,000 plus servers, so on any kind of metric comparison with any other company, we have significant scale in the ITO business.

In the applications business, our core has been in applications management in [announce for sync] where we manage over a million applications for our customers. Many of them are mission-critical applications. And most recently, we've been adding some higher end capabilities in applications development, systems integration and industry practices.

In the BPO business, it's made up of a number of segments. We've been focusing more of our attention in recent years in BPO and those areas that better leverage our technology infrastructure and capabilities, and we'll continue to do so, but these include things like CRM, financial processing, healthcare processing where for example, we are the number one Medicaid claims processor in the US

So obviously, these capabilities fit well with HP's portfolio and its strategy, but EDS brings a number of other items to the party, opportunities for leverage, if you will. EDS brings deep customer relationships and account management capabilities with Fortune 500 and Global 1000 companies and some of the largest government agencies on the planet.

These are typically represented via multi-year contracts where EDS' average contract length for outsourcing services is about five years, which provides HP with the opportunities and the relationships to bring the broader portfolio to bear for our customers.

For these customers, EDS -- based on the role that we play for them, EDS procures, or directs the procurement of multi billions of dollars of IT spent. And we've directed very little of this towards HP, because we've been competitors in the market, so then another significant opportunity.

Additionally, EDS spends more than \$1 billion a year in capital that could potentially be financed, yet another opportunity to look at the broader portfolio of HP, leverage HP financial services to improve economics and offer customers more flexibility.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

So just in addition to these broad capabilities, EDS is a recognized leader by the top industry analysts in almost every relevant area of IT services. So, let's start with application services.

EDS is a recognized leader in applications management and outsourcing, but it's also garnered attention for its developing solar capabilities as well as its significant improvements in Best Shore delivery.

In ITO, one too many buttons, in ITO, EDS is a recognized leader in every area. It could be storage services, help desk services, desktop services, Data Center services, remote infrastructure management, RIM, you name it, EDS is a recognized leader in pretty much area of ITO. Some leading industry analysts give EDS high marks for its current capabilities across our portfolio, not just in legacy IT operations, but also in emerging areas and services.

So, I'll now shift to talk a little bit about the HP combination and starting with our position in the market. In short, together we are well positioned in an attractive -- in a very attractive market. So starting with the total addressable market, which could be about \$340 billion in 2010 growing at mid, single-digit rates, with the number of components like Ann and Mark referenced growing much faster, even in geographies like Asia-Pacific or services like cloud-related services.

But from a market share perspective, EDS was the number two player with roughly 4% share, HP the number five player with roughly 3% share, and on a combined basis, we command 7% of the total IT services market. This puts us as the clear number two player, almost double that of the number three, and it significantly closes the gap on IBM.

Therefore HP, an EDS company, is already in a leading position with leading capabilities right out of the gate, and we're not sitting still. We're already aggressively moving to push this further to where the market is headed, not where it's been.

HP brings a number of critical components to EDS on the other side. EDS receives financial capacity, operating scale and consolidation opportunities. The speed of transformation to EDS was gauged by a number of factors, one of which was the financial capacity to be able to make enough change fast enough. Through the transaction, we will have the opportunity to significantly accelerate and expand the changes that were underway at EDS and actually in both companies.

Second, HP over the recent years has had a very proven discipline and driving change and capturing cost reduction. We are bringing these disciplines to bear on the integration plan that Shane will talk about in a few minutes to make sure that we capture the synergy and the value that we're talking about here today.

Third, HP brings a tremendous amount of technology value, obviously. You heard Ann. They heard Mark. We bring significant investment in R&D that can be more closely linked to our customers, significant technology products and services that can be broken into integrated customer solutions. We're leveraged for service delivery automation and standardization, and most importantly, in many customers to our customers, they can bring the technology innovation that HP is known for that allow us to better serve our customer base.

Finally, the HP combination yields market, sales and customer presence that almost no other company can match. Together, we have a truly global presence. Mark alluded to, or actually mentioned, that we have very complementary customer lists. Let me put some perspective with that. Only 30 of EDS' top 300 accounts overlap with HP's top 100 customers. Additionally, we are expanding the EDS sales reach and coverage exponentially. The approximately 1,200 sales-related professionals at EDS will not be connected to more than 22,000 sales-related professionals at HP.

So, what are the key elements of the value proposition at -- for EDS, an HP company? First, we will absolutely be cost competitive in everything we do. We will leverage a truly global delivery system, not just an India-based offshoring strategy, and we will utilize HP's technology capabilities to accelerate the automation and standardization of our service delivery.

Second, we will have the best in industry solutions. We'll provide a full suite of HP's capability and technology via integrated, full-stack offerings, but we will also provide our customers with options and flexibility. We'll be able to provide customers like

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

Ann had mentioned. We'll be able to provide our customers with the transformation services, or managed services, or services delivered from the cloud. We'll be able to leverage our own technology. We'll be able to use the technology of one of our partners to the Agility Alliance. We'll solve for our customer needs.

Third, as I've already talked about, we will have tremendous market presence, sales coverage and account management capabilities. And fourth, we will have an unparalleled commitment to service delivery excellence. We will continue the relentless focus that EDS has put in recent years on service quality, the zero outages mindset is what we call it, and we will leverage HP's technology capabilities and bring the innovation that we're known for to our customers. In short, together we have the opportunity to set the standard in the IT services industry.

So to conclude, while it's still very early days, it's important to note that the initial response has been positive. We surveyed almost 700 customers and received positive response from more than 75% of them and negative response from less than 1%. Additionally, getting enthusiastic employee response, and one of the options or the opportunities for employees are broader career opportunities across both companies.

Finally, we have had a -- have had and will continue a successful integration over. Shane's going to talk in a lot more detail about that, but we're going to push this hard and aggressive. But we'll put customer service first, and we will achieve the benefits that we're describing today. So let me turn it over to Shane, who will now provide some strategic context as well as go into the detail for the integration plan.

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**Shane Robison** - Hewlett-Packard - EVP, Chief Strategy & Technology Officer

Thanks Joe, and good afternoon everybody. It's the seventh-inning stretch here. You've heard from Mark and Ann and Joe about the context for the EDS acquisition and some of the perspective around how that fits with the TSG and the EDS moves as we take a leadership position in the enterprise market.

So, what I'm going to do is three things. One, I want to step back from that and talk to you a little bit about a multi-year strategy that we've been executing to build our position in the enterprise space. I'm going to try and connect the dots for you. Some of this is a pretty straightforward strategy, but it always surprises me how many people haven't followed exactly what we've been doing.

Second, I'm going to talk about why and how EDS fits into the strategy, and then finally I'm going to talk about integrating EDS and a lot of the work that's been done an incredible group of hard-working employees.

So, let's start with the strategy. We've actually been working on a focused multi-year strategy to build out our position and to really take a leadership position. We've been, what I call, moving up the stack. But basically, we've been building out a comprehensive stack. So over a multi-year period, and you can see the timeline on the left, we started out with the Compaq acquisition, and again M&A simply triggers and is a catalyst for what we're going to do internally as we continue to invest close to \$4 billion a year in R&D.

This gave us scale, allowed us to focus our R&D efforts on next-generation Data Center architectures. Ann talked about our leadership position in X86, Blades, Unix, Linux, Windows, desktops, communications technology, all of which we've put together to build a foundation. So, this was a very important foundation for us as we deliver more things as a service.

At the same time, we optimize our go to market. You've heard a little bit about continuing to expand our capability to go out and serve the demand that's there in the marketplace. And as we always do, we drive efficiencies.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

But the two important points are, we have integrated this successfully, and we've done a lot of tuning as we've gone through the integration. And that has resulted in margins up 7 points from '05 to '07, so a very strong position in this foundation of our hardware infrastructure.

Then, we had to decide what to do next. So, we decided it was really important to build on our strength in OpenView and continue to expand our management position in the enterprise. So we went out and we acquired Mercury, Opsware and Peregrine, along with about a dozen other small companies that fit technology requirements that we needed as we delivered this technology.

Now at the same time internally, we doubled our R&D, so we've expanded our portfolio, both through acquisitions and through our investments in R&D. This gave us a position in distributed management software, service-oriented architecture governance, automation software and quality software. We've optimized again in the software space our go-to-market capabilities, so we have a very specialized software sales force that helps us take this to market.

And again, we have successfully integrated all these companies. Many companies act -- acquire other companies, and they don't quite get the integration done right. We focus a lot of time and energy on making sure that these are well integrated, they're part of our strategy, and we're in a position to execute. And you can see the results, margins up 14% from '05 to '07 in our software business.

Remember, software differentiates our industry standard hardware. Our strategy is to build out technology on industry standard building blocks and then to differentiate those solutions using management software.

Management software and our software stack is also the key to service delivery. It helps us automate service delivery, and it helps us more efficiently deliver the services our customers care about.

But the next step of our multi-year plan was to expand our service capacity. We knew that there was demand there. Ann was constantly coming back and saying, if I just had more capacity, we could go after more business. So what EDS gives us is the scale to expand our services business.

It gives us a leveraged go to market, which Joe talked about, and as you heard several times today, we're going to continue to drive efficiency. So, this gives us infrastructure and application outsourcing, workplace services, Data Center services, and support and training services, so again a multi-year strategy, which we have been executing very carefully to build the foundation with hardware, software that differentiates and pulls through our hardware and then services that can take advantage of the automation technology that we've built out in our software platform. So fairly straightforward strategy, but I'm always surprised at the number of people who don't know the way we've executed this.

So, I'll switch to the portfolio. Now that we've got all the pieces together, what does our portfolio look like? It's the most comprehensive set of IT solutions in the industry. We are integrating these solutions and incorporating in the industry's leading products and services.

Ann talked about things like our Dynamic Smart Cooling technology coming out of the research labs, our industry-leading, next-generation servers and storage and communications technology, the management software and then applications services, and we take that entire stack and wrap that in an automation set of tools and technologies that will ensure you get better utilization out of the all the IT that you've invested in.

We have a comprehensive set of what we call technology services. These are services that help you operate your Data Center on an ongoing basis more efficiently, support services at all levels. And now, we have the capability and the capacity to deliver all of this, if the customer chooses, through outsourced services. And as Joe said, we can leverage our financial services.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

Incredible set of capabilities, we can deliver it in the traditional context of IT, or because we've been focused on next-generation Data Center architectures, if our customers choose, we can deliver it through cloud computing services.

So, everybody has a little bit different set of definitions for the cloud, but to us, we think about as services that connect end users to the content explosion that both Mark and Ann talked about. And they -- it connects them in ways that are intuitive, allows them to take advantage of the access to that information in whatever context they're in, whether it's in consumer, SMB or in the enterprise.

But, the trick is what happens in between the end user and the data, and that's the requirement for a scalable, flexible Data Center and infrastructure -- IT infrastructure that will scale linearly with your business requirements. So in the cloud services model, you can't afford to over-provision like you did in yesterday's mainframe world. You have to be able to scale your IT infrastructure as you scale your business. That's what this set of capabilities allows us to do.

And as Ann said, if you haven't had a chance to take a look at the pod, please go take a look at it. That's an example of a scalable Data Center architecture. You can start out with one rack of blades in storage, and then you can scale it as your business grows, hard to imagine putting a mainframe in a pod. You'd probably need an extra just for the power supply.

So again, next-generation Data Center architectures are going to be based on scalable, standard, open, flexible architectures, which is the basis for the IT next-generation Data Center that we're designing.

So, I'm going to switch now from technology to some of the integration work. Why will this combination succeed? We have very complementary offerings. Joe and Mark and Ann have all talked about that, and not a lot of overlap. We have complementary cultures. Both the TSG and HP enterprise culture and the EDS cultures are cultures that come from the enterprise marketplace. They think about the same kinds of technologies. They think about the customers the same way, and they both have a lot of focus on customer service and quality.

World-class talent, we're bringing together two teams of really world-class service organizations and a strong leadership team coming from EDS to help with the new scale that we have.

More importantly, HP's got a great track record of integration. We've successfully integrated Compaq and 30 plus other acquisitions over the last few years. HP and EDS has a broad set of integration experiences, so we're going to integrate these two teams and blend these two cultures.

So now, I'll tell you a little bit about how we're doing that. I'm very confident in our integration process. We've had a very well organized, very disciplined sort of command and control integration planning office. We had 500 full-time people and over 1,000 part-time people working on this, 250 plus projects with over 10,000 milestones that we monitor on a regular basis in this integration program office, and both Joe and I are in there daily, and Mark and Ann and Ron are in there weekly.

So, we've been going through this process for the last several months. This is how we spent our summer in Plano, and we've really got an incredible amount of work done, very detailed operating plans.

The areas of focus are, as you would expect, first and foremost customer, so we've gone through the entire customer base and really analyzed not only the customers with where they're at today but what their future needs are and how we can best serve them.

Portfolio alignment, we've looked at all the service product line offerings, and we're aligning those and optimizing for the combination of the two. You know we're going to have a lot of work force actions and those come in the functions and the geographies and the lines of business, and we've got very detailed plans for what those work force actions are going to look like.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

Internal IT, we've got a great opportunity for taking EDS' internal IT and delivering that using the existing HP internal IT infrastructure. We can take advantage of that capacity and obviously realize some cost savings.

Real estate, another area where we're going to be able to work together and combine resources. Procurement savings, Joe mentioned the amount of procurement opportunity that's there and then finally, a lot in organizational integration.

So one of the questions I get is, how do we know you're going to execute this well? Because we're going to keep monitoring it very carefully as we go along. We're going to continue to have the integration program office. Mark personally chairs these meetings. It's staffed by Ann and Ron and Joe and myself, [Marcella] and a few others. We have 12 leaders in the business who've already integrated and they're accountable for the commitments that we've built into our operational plans.

And then twice a month, we're going to get together and we're going to review as many of those 10,000 milestones as we have to to make sure that this is on track and delivered faster than any integration of this size that has ever been executed.

So the key take-aways, we're delivering on a consistent, multi-year strategy so again, building up that stack that we need to lead. HP's go the most comprehensive portfolio in the industry for delivering information technology infrastructure, and we can lead our customer through the transitions that they have to make. We have a strong integration track record, and we have a very robust plan. And I can assure you, we will nail this integration. So with that, I'm going to turn it back over to Jim. Thank you.

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**Jim Burns** - Hewlett-Packard Company - VP - IR

Well, Mark has been trying to get us to be more efficient, and apparently we're being more efficient on our agenda time here too. We're running a little bit ahead of schedule, so why don't we reconvene after the break at 3.20 here rather than 3.40? And again, don't forget to check out the Data Center and some of the PC products here during the break. Thank you, everybody.

(BREAK)

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### Unidentified Company Representative

Ladies and gentlemen, please welcome Executive Vice President and Chief Financial Officer, Cathie Lesjak.

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**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

Thank you. Welcome back, everyone. This is truly an exciting day for HP and one that we've been waiting for since we announced the acquisition of EDS on May 13th. So far, you've been given a lot of context about our moves in the enterprise and how EDS fits in.

I'm going to give you a review of our capital strategy and priorities. I'll look into the impact of the EDS transaction on our financial statement and also walk you through our expectations for the services segment over the next two years as well as give you a view of the longer-term opportunity in that space.

So, let's start with the capital strategy. Our capital priorities are not changing at all. We're focused on balancing, investing in the business whether its organic or inorganic and returning cash to shareholders. If you look at this -- the chart on the slide there, you'll see how we've deployed our capital over the last five years.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

You'll also note this is a pretty significant uptick in investments and M&A in the last of couple of years while we still had a very robust share buyback program. And while we won't repeat the \$11 billion that we spent on shares last year, going forward, we do expect to be active in our shares.

We continue to be financially flexible, which on a day like today is saying something significant. The EDS deal was financed largely with debt, and we were still able to maintain our mid A credit rating from S&P and Moody's and A plus from Fitch.

We continue to make really good progress in our balance sheet management and generate significant cash flow from operations. With that, we expect to get to a net positive cash position in 12 to 18 months, even when you include the debt that we need to finance our leasing business.

We're really excited about the growth prospects of this business, but it will take us some time to get the EDS growth to a market rate. As has already been highlighted by all of the speakers today, we're confident that the combined company offers enhanced customer value.

In the near term, we need to get our cost structure in line in order to be more competitive. WE did this, if you back -- step back a bit and remember what we did in fiscal '05 and fiscal '06 with our own HP outsourced services business. What we did was we stepped back, took our foot off the accelerator for growth, focused on getting our cost structure right and then reignited growth. And that's exactly what our plan is for EDS.

In addition, there are some revenue headwinds in the short term, some revenue dis synergies. These dis synergies are in the areas that you would expect when you acquire a services business, pressure to be more competitive, deferred revenue write-offs and the impact of accounting policies convergence.

We do expect to emerge from this transformation with a very competitive cost structure and a much stronger presence within enterprise customers. Ultimately, we expect the services businesses within the -- within EDS to be non-dilutive to our growth rate and non-dilutive to our operating margin at the company level over the same timeframe.

As I mentioned, in order to realize the full benefit of the revenue opportunities in front of us, we need to get the EDS cost structure more competitive. At the same time, we're focusing on maintaining very high levels of customer service.

Now, let's look at the EDS cost structure and the opportunities that presents. As with all mergers, there are redundancies in job functions, particularly in what we called shared services like HR, legal, finance, IT and real estate. But, there also is overlap between the EDS services business and HP services businesses. We will capture those synergies.

In addition, we look to align EDS and their businesses with the initiatives that we're already executing at HP, whether that's around transforming IT, transforming real estate or the cost initiatives that we've talked about around reducing the cost of service delivery.

Before we even talked to you about acquiring EDS, we talked to you about the initiatives to reduce the cost of service delivery, and they fell in the areas of standardizing, optimizing and automating as many processes as we could in the cost of -- in the course of service delivery.

We're going to bring EDS into those initiatives. There's still a lot of opportunity even before EDS with the pre-EDS HP in that area, and this just adds additional. We're committed to realizing those cost benefits. Finally, we should be able to leverage HP scale and accrue vendor pricing for EDS, just as we've done at HP.

Now, let me put some numbers to all of these actions that I've been talking to you about. And what I'm going to do and I'm going to do this in a couple of different slides, but this first slide is really to talk to you about the long-term potential of the

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

restructuring program that we've announced today. And then, the next slide will give you a better idea of the timing, so that'll help you update your models.

As we have said, our objective is to transform the EDS cost structure to provide a foundation that we can invest and grow the business on. A significant element of this plan is to realign and streamline our workforce. As a result, the restructuring program reduces headcount by approximately 24,600 over the next three years.

Over that same time, we will be reinvesting in our workforce to better optimize our global footprint. As a result, we've -- we expect that over 50% of the headcount reductions will be replaced as we map the workforce to the global opportunities in front of us. Included in these savings are non-headcount savings from IT, real estate and procurement that I mentioned a few minutes ago.

We expect to reinvest a portion of the savings back into the business, and that will mean about a \$1.8 billion annual run rate savings flowing through earnings when we're all said and done. We expect the cost of the restructuring to be a \$1.7 billion charge in Q4 that's made up of two pieces. One piece related to EDS is the charge that'll go against goodwill of \$1.4 billion, and then the remainder will be in a restructuring charge in our GAAP P&L.

Now, let's look at how these investments take place and savings over the next couple of years. So in addition to this long-term growth in net savings, today we're providing you with our expected savings for fiscal '09 and fiscal '10.

As we look at the headcount restructuring, we've set aggressive goals for ourselves. We expect to execute approximately half of the headcount reductions in fiscal '09, and we expect to do this roughly linearly over '09.

As I mentioned before, we also expect the savings in IT, real estate and procurement that are non-headcount related, and the areas where we're transitioning our workforce will require significant reinvestment, investments to hire and train folks in advance of the headcount cuts. We expect to reinvest a portion of these savings in deal repricing, being more competitive and adding more sales reps to our sales force.

Finally, because I hear this rumored about quite a bit, I do want to highlight that we are also aligning the EDS post-retirement benefit plans to those of HP. But unlike what I hear from the rumors, there will not be a substantial financial impact as a result of that realignment, and the reason is that as we freeze the US defined benefit plan for the EDS, we are also bringing up their defined contribution plan in the -- in EDS up to the HP level with a more generous matching. And they roughly offset one another.

It's important to realize that today we're providing you with the details of the impact of the acquisition, which you should consider as additive to your pre-EDS HP financial models. As you can see, the charts show the estimated financial impact for Q4 '08, fiscal '09 and fiscal '10.

These numbers fully comprehend all the impacts that are anticipated for revenue, cost and the cost of our debt as a result of the EDS transactions. We're giving you the detail that you can incorporate into your models, but realize that going forward as we report post-Q4 '08, we will be reporting at a segment -- services segment level and not EDS specifically.

So for Q4 '08, we expect EDS revenue of roughly \$3.5 billion and the impact to non-GAAP EPS of neutral to dilutive by \$0.01. For fiscal '09, we expect incremental revenue of \$21.1 billion to \$21.3 billion and a 3% to 4% growth rate between '09 to '10. Included in this model is \$700 million to \$750 million of OI&E impact, which reflects the cost of the debt that we needed for this transaction.

Also note for the tax rates, we will have a tax rate of 35% on the EDS pretax earnings, different than at the total HP level, because the EDS revenue is predominantly in the US, so you should use this roughly 35% as a tax rate for the EDS pretax earnings. With

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

all of this, we expect that the impact of the acquisition is \$0.18 to \$0.22 accretive in fiscal '09 and \$0.38 to \$0.42 accretive in 2010 on a non-GAAP basis.

As far as fiscal '09 for the total company, per our normal process, we will update our models for currency and plan to provide you with a full-year fiscal '09 guidance for the combined company when we talk to year after our fourth call -- our fourth quarter earnings call in November. If the dollar stays at current level, we will expect downward pressure on revenue, and you need to take this into consideration as you build your models for '09.

With respect to Q4 '08, the currency has continued. As we talked about on the call at the earnings time, if it did, there would be downward pressure on the revenue, and it has continued. We're still confident in the EPS guidance that we provided on our August 19th call.

Up to now, I've talked to you specifically about the impact of EDS at the company level. Now, let's take a look at the impact of the EDS business on the combined HP services model. You'll remember that in the December [SAM] last year, our fiscal '09 model for services was an operating margin of 13% to 14%. Today, we're revising the HP services model to be 9% to 10% operating margin to incorporate the impact of EDS in '09.

By 2010, we expect the operating profit for the entire segment to spin to 11% to 13% and longer term, we believe the services segment has the potential to deliver 13% to 15% operating margins at 4% to 6% local currency growth.

To summarize, let me say that services remains a ripe opportunity for growth and margin expansion. We will attain significant value from the EDS transactions from cost synergies as well as the better positioning that gives us in our enterprise account. We're committed to a strong balance sheet and share buyback program. And finally, we're not confused. We know we need to deliver and create shareholder value day in and day out. So with that, why don't I ask Mark to join me, and we'll do Q&A?

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## QUESTIONS AND ANSWERS

**Mark Hurd** - *Hewlett-Packard Company - Chairman, President, CEO*

Enough chairs? I'm not going to sit. I'll just stand.

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**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

Do you want to open it up?

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**Mark Hurd** - *Hewlett-Packard Company - Chairman, President, CEO*

Hopefully everything was perfectly clear, no questions. I'd say Shannon, quickly? You've got your hand up, huh? Is there a process you've got Jim? Or, do you just want to go --?

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**Jim Burns** - *Hewlett-Packard Company - VP - IR*

Right over here Mark.

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**Maynard Um** - *UBS - Analyst*

Hi, thanks. Maynard Um, UBS.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

**Mark Hurd** - *Hewlett-Packard Company - Chairman, President, CEO*

Hi.

**Maynard Um** - *UBS - Analyst*

Just -- I presume the 6% to 7% EDS operating margin excludes corporate overhead. And a while back, EDS actually gave guidance to 2009, op margins of around 7%. So, it looks like there isn't a whole lot of acceleration there in terms of your restructuring. Can you just -- is that related to the current environment? Is it conservatism? Could you just help us bridge the gap between what they've said before and kind of what you're talking about today? Thanks.

**Mark Hurd** - *Hewlett-Packard Company - Chairman, President, CEO*

Well, you combine a lot of numbers there. So at the end of the day, for us, we think the business is non-dilutive to HP over all operating margins. It's really about the speed by which we affect all of that change, so I think that's the only -- what I can tell you about it. I don't exactly what they released before. I've seen some of those models, but we think that model long run is something higher than 7%. It's going to be a question of how fast we can get the work done, and this comes to a question to how fast we affect the transition and transformation we've talked about.

**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

And it's also fair to think the consensus at the time never got to the 7% to 8% operating margins. It was roughly in the 6%, 6.5% range.

**Unidentified Company Representative**

And current operating margins have been in more in the 5.5% range, so -- of what's actually been delivered. So, I think when you make the comment about acceleration, this is acceleration. But again, I don't want you to get focused on just '09. You've got to get focused on '09, '10 and eventually what we can do in '11 when we get the business fully optimized.

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

Okay. Shannon Cross, Cross Research, a couple of questions. The first one is just on opportunity from a revenue standpoint to replace what EDS was selling with HP product. You've talked about it a little bit, but if you could provide a little more granularity into where you think the biggest opportunities lie.

**Unidentified Company Representative**

So, I think you've got to go through a couple of pieces, Shannon. There was a thing called an Agility Alliance, so I'll make comments about that first. There are many partners in the Agility Alliance who are partners of HP, and many partners that will go on and go forward with us as we go forward with the business. So, I you should expect those to go forward.

Most of the partners have reacted pretty favorably, even some of those that you might think were direct competitors to us talking about ways we can work together. We've had a couple, a couple, that probably haven't been as favorable as the others. So, we'll just have to sort through all of that. We will still -- not just like we did in HP outsourcing, not demand that everybody buy HP product. We'll look for opportunities that make sense, take advantage of those.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

And so, yes, I think there are opportunities, but it won't be a cut -- everything goes this way, or everything goes that way. We will maintain the Agility Alliance, try to optimize it, look for places to synergize where it makes sense, and where there are opportunities where the customer wants HP product, we'll be perfectly willing to participate in that.

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**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

And lots of times, it's a -- an evolutionary process, so a customer the first time out of the chute would say, I want you to take over my Data Center. These are my people. This is where they are. This is the technology, and I want a control. And then as you go through renewals over time, they get more and more comfortable with what you can deliver. And obviously at the end of it, if you can get to the level where they say, Listen, I want this service level, and I don't care on what infrastructure, on what software or where you actually deliver that service. But, I want that service level at the best price.

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**Unidentified Company Representative**

Shannon, I might expand it to think of a couple other aspects as you think about the synergy piece in this area. One, there is a lot of spending and procurement that's non-traditional hardware, a lot of software that's bought to optimize infrastructure that is a tremendous leverage opportunity for us.

Second, not everything that we'll buy will be sort of post-transaction. A lot of this technology synergy is pre-transaction and the provisioning of service and the development of service, the automating of services that we deploy, which is a significant strategic opportunity for us, which is actually bigger for us than just the leverage on procurement.

There's also a lot of telecommunication spend, so think of EDS as a very, very large procurer of telecommunications. So, the opportunity for us to synergize the broader telecommunications spend across both companies is material to us.

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**Shannon Cross** - Cross Research - Analyst

(inaudible - microphone inaccessible)

-- a capital structures question, Cathie you had I think net, your OI&E was similar for fiscal '09 and fiscal '10, and yet you said your net cash balance is angling toward basically cash flow -- or cash positive. So, I'm just trying to figure out what the puts and takes are? Is that you're actually going to end up with a debt balance because you're buying back stock? Or, why didn't -- why did the interest line not change if you're generating so much cash?

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**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

The interest line that I provided to you was for EDS and the EDS-related impact. So, I haven't given you any idea of what's going on at the total company level, once you factor that in.

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**Unidentified Company Representative**

And Shannon, remember too, when we talk about our capital structure, we try to talk about it with and without the financing business. So, we look at the financing business and the assets it has, and we look at the HP industrial company and the cash position of the HP industrial company, and we look at those at the same time to make the appropriate capital decisions that we make.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

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

Toni Sacconaghi from Sanford Bernstein, I have a few questions, but I'll just ask one now.

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**Unidentified Company Representative**

What -- is it multi-part, Toni?

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

No, there are just three.

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**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

Do I need a pencil?

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

I guess the first one is just, Cathie, if you could help explain the accounting? Typically, when we think of layoffs, we think 24,000 people are going to be laid off, we use as a rough rule of thumb, a \$50,000 charge per head, which would typically mean a restructuring charge of over \$1 billion. Can you comment on how the mechanics of the goodwill works in the restructuring portion? And why is it not -- why is the restructuring charge substantially lower than what we might think when we typically apply that metric?

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**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

What you need to take into consideration is exactly what you have asked, the accounting. When you acquire a company and then you take those types or restructuring charges, that is a charge to goodwill and to the balance sheet. So, everything related in that charge, the \$1.4 billion that's related to EDS folks and the restructuring related to that is going to an offset to goodwill. And then, the HP portion of that is the restructuring charge of the \$300 million that remained, and that's going through our GAAP P&L.

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

And then separately as a follow-up on the revenue side --

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**Unidentified Company Representative**

And Toni, just one more piece of clarification I think might be somewhat illuminating that when we went through the functions, these typical corporate services, shared services, not all of the shared services cost that would come out came out on the EDS side, which means it went to goodwill. Some of that was they synergy of HP things that actually relates in a restructuring charge.

The same thing happened on the HP outsourcing side. Not all of the headcount that comes out is EDS headcount. Some of it is HP headcount, so you've sort of got accounting actions off of a -- off of one integrated view of how we're getting the costs in headcount out.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

And that's a very point beyond the accounting. You want to make sure that you take the best of EDS and the best of HP, and you use the acquisition as an opportunity frankly to upgrade your talent.

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

And then the second question was just on the revenue side, it looks like your revenue range for 2010 is actually lower than the revenues that EDS generated in 2007. How much of this in terms of your modeling is what you believe may be customers choosing not to do business with HP rather than vice versa?

One of things that really struck me about your charts was that the EDS top 100 revenues were largely equal to the HP top 100 revenues, even though they're 20% of the size of HP, which means that they're five times more important, and so the vulnerability of losing those -- of losing any one of those hundred is obviously much more significant in EDS issues.

So back to the question, given a relatively cautious, I would say, forecast for revenue growth initially at HP, what have you built into your forecast? How much of that "caution" relative to your 4% to 6% growth longer term is -- are you saying customers are actually going to -- whether they be Agilisys partners or not, walking away from HP? Or, is it HP effectively walking away from customers?

**Unidentified Company Representative**

Right. Well, I'll start for you. Not much in the category you described of customers not doing business with us, although there are a couple that would be competitors to us, Toni. So, there's not -- but, there's not a lot in that model along the lines other than maybe a little bit of that. There are some things that we'll make decisions about over time, Toni, as it relates to contracts or pieces of revenue that we want to make sure we do our due diligence across over time. But, we feel very positive about customer reception to the combined companies in the marketplace, and I want to reiterate that.

Joe told you a lot about the feedback we've received from customers, and frankly the problem we've had at HP is our inability to bid. In many cases, our ability to not have enough service delivery capability. We've -- no bid, as Shane mentioned with Ann's comments, far more than we would ever have liked. So for us, it's merely us trying to be prudent about the timing at which we can get the combined companies and the revenue portfolio lined up in a way that we can go to get to the long-term growth.

Perhaps, perhaps, we do better than that. We're not going to forecast that. Our view is to forecast our revenue. We -- again, one more time about the way we think about how we build the company models, Toni, I know you know this, but I'll just say it again, we try to forecast our revenue in a prudent manner so that we focus on getting our cost structure and our cost of delivery and our cost of overhead right. We believe that puts us in an advantageous position that helps us with the ability for us to scale and grow.

So for us, we've got to take a, we think, thoughtful and appropriate given where we are. You've seen the cost numbers that we have to go work on basically by the headcount, so we have work ahead of us. But, we do believe the synergized companies are in a pretty damn strong market position when we get the thing to [dirt].

**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

Toni, let me throw out a little bit of numerical data to back that up. So, the baseline growth that we assumed in '10 on a constant currency growth baseline, 3%. And then, we have a roughly 5 points of revenue dissynergy. And the revenue dissynergies, just as Mark said, are not customers walking away. They're predominantly deal repricing and getting more competitive, deferred revenue write-offs and then also the accounting policy convergence impact.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

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**Unidentified Company Representative**

Hi, Bill.

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**Bill Fearnley - FTN Midwest Research - Analyst**

Hi, Bill Fearnley, FTN Midwest, if I could add a follow-up question here on the EDS pipeline, now that you've talked to clients and partners, any change to the EDS pipeline versus what you saw before and what you see now? In the previous calls for instance, when you read the transcript, they said that the pipelines were up. Are any deals dropping off here near term or any timelines being stretched out post-acquisition that are worth noting?

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**Unidentified Company Representative**

Nothing, nothing material. In fact if anything, we have an opportunity to be in more deals now, Bill, than we've had before.

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**Bill Fearnley - FTN Midwest Research - Analyst**

So, is any --

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**Unidentified Company Representative**

Again, let me go back, Bill, to one thing because I want to make sure it's clear because it's -- it is different than a product business in the context that if we want to go get deals today, we can do that. So, it's not an issue of growing revenue. It's an issue of growing revenue profitably in a long-term way, so we again -- let me go back to HP circa 2005, early '05. My concern with our services business, as Cathie referenced, was the fact that we were growing, but we were growing on contracts that, to be very frank, I wasn't as comfortable with in terms of their ability long term.

And I'll tell you this, Bill, when we look at our most -- our happiest customers, they're actually our most profitable customers, because the deals are actually well scoped, well thought through. We've gone through the due diligence to get them right, so we just want to make sure that we don't grow to grow. We want to grow in a thoughtful, constructive way where we can deliver to our customers and thrill them, and we can make money for our shareholders at the same time.

So, I want to get out of sort of the mindset that it's an issue of do customers want to see us. Let me -- most assuredly, yes. Do we get an opportunity to bid? Most assuredly, yes. Do I believe we'll have the capabilities to win many, many deals? Yes. Will we go grow just to grow? No. We will try to grow thoughtfully, leveraging our skills and capabilities. So, it's not just like a product business.

It's actually for us -- it's very similar to what we've done in outsource. And I think what you should feel good about, if you look at the facts over the past couple of years, Ann and I purposely slowed our growth in outsourcing in 2005. We talked about it on many calls. We're going to go do the work to get our costs right and get our prices right. You've seen us accelerate our growth in late '06, '07 and early '08, and you've also seen us to start to produce profits now to the bottom line as we've done it and increased our customer delight. Think of that as no different process than what we're doing here.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

**Bill Fearnley** - *FTN Midwest Research - Analyst*

Okay. And if I could shift gears just quickly on automation tools, you've talked about automation tools in the past, but you've got automation tools. We'll assume that EDS has automation tools. Do you have to wait for any of those tools to be integrated to see some of the benefit?

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**Unidentified Company Representative**

Your sort of do a little bit, Bill. They have -- the good news, if there's any place that EDS and HP did business, it was HP -- EDS doing business with Opsware. So, EDS was a very big Opsware customer for Data Center automation, the run time that sits above server management and storage management. They have not been a customer of any other customer of many other automation tools.

Now, there is again the tactical piece, and then back to Shannon's question, where we can sort of sell automation tools with our service offers. The better thing for us is to build into our service delivery capability as a natural part of what we do some of the core capability. And that takes us some time. Think of it as almost R&D like behavior that we have to integrate into the service provisioning process. There's a lot of leverage there, Bill, a lot of leverage there for us.

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**Bill Shope** - *Credit Suisse - Analyst*

Bill Shope, Credit Suisse, Mark, you've said in the past that when looking at the outsourcing industry in particular that the large headline deals tend to give you the most trouble. And I think you experienced some of that when you first came to HP. Philosophically, how do you think HP's going to approach these types of deals differently than EDS and outsourcing companies have in the past? And in your view, can you give us a concrete example of how HP will analyze these deals in a different manner than we've seen EDS in particular do in the past and maybe the old HP as well?

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**Unidentified Company Representative**

Well, I think EDS had done a lot of hard work, so I don't want to imply that I'm meant EDS was some sloppy, loosely run outfit. That's not the case at all, and nothing we saw, Bill, in our due diligence. What we had seen was some bad contracts way back, and that had really put the Company in a bit of a bind, as Joe described, in terms of being in the penalty box to some degree with investors.

I can tell you I had, as I'm sure you know from the first time we announced the acquisition, I was amazed at the memories of people from 1997 or 1998 on some meeting they'd had with somebody at EDS who's been gone for three to four generations of management, and yet those memories were there. And those things had an impact on the operating cadence of the Company.

But what we saw, while we saw cost structure opportunities that were significant, as we have announced today, we saw a fundamental cadence in the contracts themselves that were quite good. So, we did not find a slew of contracts that were poorly scoped, tons of reserves that needed to be taken on existing contracts. It's just not what we found.

If anything, I think to Joe's point, we saw EDS spending a lot of time and raising their customer delight. EDS -- the customers of EDS liked doing business with EDS. We like that, and we think that's a strong point. Now, I think the better way to describe it is we're going to continue to put a cadence across HP's outsourcing business and EDS' outsourcing business of all outsourcing deals we do because for us, it isn't just the scale.

It's the detail and rigor you go into in ensuring that you're bidding something that you can deliver. So, scale doesn't always affect it as much as it's just making sure you've got the right deal team on at the right rigor, the right processes in place and the right reviews in place and that what we're delivering is as standard a capability as we possibly can.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

So to Ann's earlier point, the more we automate those processes and deliver standard service offers, the better we generally perform. So, I can't tell you how deep in our constitution we believe this. And so for us -- back to the growth question, if you want to grow 15%, we can go grow 15%. That's not the problem of getting the deals and going to do that. There are a lot of customers today not happy with their incumbent service provider that call us up and say, please come bid.

First of all, the transition from another service provider to a new service provider has got its own set of issues, and you have to know exactly what you're going to go do. So for us, it's more important to grow at a solid growth rate but to do it with deals we know we can deliver on.

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**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

In many ways, EDS did exactly the same thing and was in the process of doing the same thing as we did in '05 and '06, stepping back, getting their cost structure right, taking on the right deals that they could run profitably and delight the customer. And when we did the analysis and due diligence before we announced the acquisition, we went through the top contracts from a size perspective, and then we also looked at the bottom contracts from a profitability perspective, and we found no red colored accounts, no accounts that were bleeding heavily.

There were some that were not as good a -- on a profitability level as the plan called for, and it was very clear when we went through the due diligence process that they had a mitigation plan for that. We've got a lot of confidence around the rigor, the contract management and the line managers from going through this contract review. And so, we're actually planning on leveraging that in HP as well.

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**Unidentified Company Representative**

I think to Cathie's point, I don't want to underestimate this for you, when you're growing 0.6% of 1% and 1%, you operate at a certain cadence that's different than when you're HP. So for us, I can tell you they -- of course naturally, they'd say, we don't want to shrink. We want to show good numbers to the street. So, decisions go at a certain pace.

I think they've been trying to transition, as Joe said, the organization at the speed by which they felt they could. We want to accelerate that change, back to Toni's earlier question to say, we want to get to that spot that we feel is the baseline so that we can grow at the appropriate rate as fast as we can. For us, it start with we're going to get the cost structure right. We're going to get that done. We're going to get the cost out and get the business in a competitive position so that it can go to the market and win. And then, we'll let the revenue come as we are able to go deliver on great contracts in the market.

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**Katy Huberty** - Morgan Stanley - Analyst

Thanks, Katy Huberty, Morgan Stanley.

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

Hi.

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**Katy Huberty** - Morgan Stanley - Analyst

Mark, given the scope of the integration you announced today, what's your appetite for additional acquisitions? And is there any limitation on timing or size?

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

This second, Katy, we're not working on any big acquisitions at this second. I think you should expect us to continue to do what you've seen us do with sort of tuck-in acquisitions that align to one of our strategies and one of our businesses. So, that's sort of a current state of where we are in the M&A world. Listen, I'll never say never as I've tried not to in the past. But right now, our focus is to integrate EDS, to focus on M&A activities that make sense in the context of the capital strategy that Cathie described to you.

Now, you asked the question different way to was, is there anything we wouldn't consider if and when -- I think it depends what it is. Does it make strategic sense to -- for us? Can we financially deal with it? And can we integrate it? When you went to the EDS acquisition, just so you go through our thinking, we strategically, to Shane's point, knew exactly what we wanted to get done as we started. So, we did not have a long strategic debate on the value of EDS to the combined company.

We felt strong about the financials. Frankly, the cost situation we looked at as a benefit, the fact that it actually gave us tremendous opportunity to go align the business we brought into the market. Our biggest decision all along was always around the third piece on the integration piece, bringing it together, the time, could we put the resources, as Shane described, this was a big process for us to take 500 people out of the combined companies and say, let's go spend several months going through the details. It starts with do you have the people? Do you have the rigor? Do you have the patience? All of this requires resource, so I think a credit to that to get it done. But, that really was where our decision --

We would go through, Katy, the exact same process, and we do it even on small acquisitions that we make. So I won't say never, but right now, we're focused on getting this integrated, focused on executing our plan. We feel very good about the situation of the current non-EDS HP Co., and we've got transformation work still -- and then just to give you an idea of the work we've got ahead of us at HP still, in 2008, in overhead costs of the Company, we took out twice as much cost as we did in 2007. In 2009, we will take out more costs than we did 2008.

We've got major transformations in IPG. We've still got transformations in HP services, not part of our outsourcing business or EDS. We've got growth to go get the emerging markets, so it's not like we're shortage on things to go do during the day. So for us right now, we feel very good about executing the HP plan, executing this integration and seeing where we go from there, so that's our current focus.

**David Bailey** - Goldman Sachs - Analyst

Yes, David Bailey, Goldman Sachs. You've had a lot of success in the past, taking costs out of the business, but EDS is a little bit different because it's a people-heavy business. So, can you talk a little bit about what differences there are in taking costs out of EDS versus what you've done historically?

**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

I don't think we want to claim any skill at the people side of it, although we had a large people reduction in 2005, so double-digit, thousands of people, significant for us. And I want to make sure, David, because I hear that a lot, this is a really tough day for us. So, we're announcing a big action. As easy as it is to put numbers on a piece of paper, there's a human aligned to every one of these actions, and we've got to go do tough stuff. We've got to do tough stuff, and that's -- and we're going to go do it, but it's tough.

I think we know what we're doing though, in terms of the -- not only how many, not only how, but to make sure it's done right, and I mean right in multiple dimensions, done right for the people involved, done right for the customers, done right for the

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

performance of the Company. So, I would not -- I don't think that's something that if I were in your chair, I'd worry about. We're going to go do this work.

We're going to do it thoughtfully. We've had to deal with taking thousands of people out before, and not only taking thousands of people out, but taking them out globally across multiple business functions, because when you get into this, these are not just US actions we're talking about here. These are global actions.

There's also a rehiring process in some areas as well, so I'm not trying to make your point accentuated, but I will, that there a number of different dimensions to this. Not only the take-out action, making sure the rehire is appropriate but the timing of the two lines up right as it relates to service delivery, as it relates to the estimates that Cathie described here.

Imagine that we thought all that through by timeframe, by region, by type of job involved, by level of job involved, how does it relate to our labor model. How does it relate to our job architecture? How does it relate to our cost by job category? How that relates to our charge to goodwill, et cetera. Imagine that we've actually tried to think through every piece of that as we execute this. So, we've done a lot of work.

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**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

And it's not as if we haven't been focused on getting our cost of service delivery down in our HP services business as well, which is obviously also a very people-intensive business, so we've been working through that since probably '05, late '05 as well. And that has a lot of the same dimensions of having to hire and train in advance as you shift position locations for jobs and then bringing those folks up and then doing the cut, and that's all along obviously maintaining high levels of customer satisfaction.

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

So imagine, David, too that HP services is approaching a \$20 billion business. HP services has 85,000 to 90,000 employees pre-EDS. So, you are -- the mix is a little different of the services business, but the people intensity of the businesses have many similar dynamics.

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**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

And then the only other thing -- I also get lots of questions about it's very difficult to acquire a people-intensive business, and they specifically talk about services and they seem to touch mostly on consulting and integration. This is a very different business from a typical consulting and integration business because this is really a contract business. This isn't a -- an intellectual capital and therefore if you don't satisfy those people and they walk out the door, your product walks out the door. So, it is a very different services integration than, let's say, a PWC would be.

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

I think to Joe's point, average contract length five years, different than in many consulting businesses where the average backlog may last five months or six months and the people have to go back and resell the business. This is a much longer-term contract business, but people are still extremely important to the quality of service delivery. Thanks, David.

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**Keith Bachman** - Banc of America Securities - Analyst

Hi, Mark and Cathie, [Keith Bachman] over here. I wanted to see if, Cathie, you could address how you think the cash flow on a pro forma basis is going to be impacted relative to HP standalone, any direction you could give us there or thoughts, both near

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

term and long term because the restructuring may have some charges involved? But, I'm more interested in the operational aspects? And related, how does that make you think about your buyback activities over the next 12 months? Thanks.

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**Cathie Lesjak** - *Hewlett-Packard - EVP, CFO*

So, you said longer term and then you said 12 months. So, when I think of longer term, I think kind of post two or three years. So over the next two or three years, EDS, the cash flow that EDS will generate, or the free cash flow that EDS will generate will go predominantly to the cash that's needed in the restructuring charges. So, I think of that as being relatively new neutral, hence the OI&E impact being relatively flat in '09 and '10 for EDS.

If you then step back at the company level and you think about the cash flow from operations, we've made a lot of progress in our balance sheet management, and you see that in a significant uptick, both in cash flow from operations as well as in free cash flow. And if you look at free cash flow at the HP level on a year-to-date basis at the end of our third quarter, our free cash flow is up 125% over last year, so making good progress there.

Then, the other real important question is, what do we do with the cash flow, the free cash -- or, the cash flow, how much CapEx? And we think of CapEx in kind of two categories, capital that we're going to invest to save in the infrastructure and then CapEx that we're going to invest to grow in the business.

And clearly, an outsourced services business is a more capital-intensive business from that perspective, and to the extent that the growth opportunities are there and they make sense, we're going to plough the capital in there to generate the returns so that we can generate more cash flow in the future to basically employ -- to deploy more capital.

In terms of shares and share repurchase, we will be active this year in our share repurchase activity. It will be less than last year, as I mentioned, because we do have -- we have deployed a lot of capital this year in the EDS acquisition. And I expect that it'll take us 12, 15 months to work through that. And then, we'll be looking at the opportunities going forth after that.

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**Mark Hurd** - *Hewlett-Packard Company - Chairman, President, CEO*

I think you should still expect us to be active in our shares. That's clearly a place we're going to be active, but there is one point. We are try and be more transparent on what Cathie described, so I think it's important you know that we do think of CapEx in two very, very different buckets, CapEx to grow and CapEx to drive our infrastructure, just like we think of operating cash flow as a debt.

We think of debt different than we do in the financing business versus what we do in the industrial company, and that relates back to the CapEx model that we've described. So, we're very focused on optimizing cash flow in the context of driving our capital structure, so big thing for us.

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

Hi, it's Brian Alexander with Raymond James. On the slide, Mark, where you talked about share of wallet --

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**Mark Hurd** - *Hewlett-Packard Company - Chairman, President, CEO*

Yes?

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

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

There was a clear improvement in share of wallet for customers with outsource service relationships when it came to servers and storage. I think it went up about 2x from 12% to 25%. And also for non-outsourced services, it was up about seven times. But for software, there wasn't much of an impact. So, will incorporating EDS allow the software share of wallet to materially improve from the 10% to 12% you've historically --?

**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

Right.

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

-- achieved, and if so, what's going to be the key driver --?

**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

So, great -- I think that's a great question, Brian. First, the management category that Ann described is one of the most, if not the most, fragmented software category in the industry. Everybody's got a plethora of tools that they use, and we're arguably, depending on how you look at the management category, we've got roughly 18% share, and we're number one. And all of us that have been doing this for a while don't see the leader with 18% share. So, there's a lot of opportunity -- a very fragmented market with a lot of different players in the game. So, I think that's opportunity one.

Opportunity two, there certainly things for us to go do as it relates to that chart, but I would argue to you, there's also the opportunity for us to align our software business more closely with our services business and build those software capabilities into the service delivery category. If we go to the chart that Joe described about desktop services, servers that are managed by EDS, you could go down to passive storage, all of those opportunities to automate the service delivery process. We think our capabilities lend very well to those.

So actually, not just thinking of it as selling as a license, but actually building the capability into the service is at least as much of our focus as going after the share of wallet to a customer sort of post-sale. But yes, the opportunity is there.

One thing about our software business as well as it's performing, we grew 29% in Q3, we are still integrating all the pieces in the software business, so when you look at even some of our portfolio today, we are still integrating Opsware with OpenView, with Mercury, with Peregrine, so there still is work going down at the underpinning that as well as they're doing, we believe there's just a lot more we can do in the software business over time, leveraging our services business and also integrating our portfolio and making it even easier for customers to procure our software. I don't know. Ann, do you have anything you want to add to that?

**Ann Livermore** - Hewlett-Packard Company - EVP - Technology Solutions Group

No.

**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

All right.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

**Unidentified Audience Member**

Thank you. (inaudible - microphone inaccessible), Cowen & Company. My question is on India-type IT software outsourcing. The US companies have been slow to go after this. EDS finally started to get aggressive. They did an acquisition out there. So in evaluating EDS, can you give us a view, how their positioning is out there?

And where does it -- does this fall, because you obviously have a lot of things that you're going to do, given it's obviously a very good business? Is it going to be high on the list or something that's going to come a little bit more to the tail end of the integration?

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

Well, can I tell you one more -- if you could give me just really specifically what the question is to make sure I answer the right thing?

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**Unidentified Audience Member**

Sure. It's outsourcing -- software outsourcing, India-type emphasis with [growths] of the competition there in the sense that CSC, EDS, IBM have been very slow in being aggressive at going out with that and actually giving up business, so obviously the Indian companies are letting them in, and it's -- could be --

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

I see.

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**Unidentified Audience Member**

Obviously a very good business for you all, and that was the emphasis acquisition --

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

I don't know if -- Joe, do you want to answer -- take a shot at that? Or, Ann?

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**Ann Livermore** - Hewlett-Packard Company - EVP - Technology Solutions Group

You go first.

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

Okay. So, listen. My view of this would be, we're looking to be competitive as a global service provider. We're not interested in being competitive with part of the market and seeding part of the market. When you -- we talk about our cost structure as an example, when I say that we view our cost structure being a competitive advantage in the industry, I don't mean it for like part of the industry. I mean it for everybody in the industry. On a rate basis, I believe that we will have an advantage cost structure to compete from a service delivery perspective with anybody on the planet.

So, I think for -- when we look at the market, we're not going to size it up and try to not compete. I think our biggest issue is to say, what are the markets we want to compete in? Where do we want to lead? Where do we want to be strong? And, we want

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

to compete with everybody in those markets, and we want to win. So, I don't subscribe to the thought of seeding part of the market to this market -- this company or the other.

I do think when you think of how you get to the optimal labor deployment, we are not focused on any one country as the optimal place to have resources. We try to deploy our resources globally. We try to deploy them where we think there are significant growth and revenue opportunities as well as getting the advantage of skills and cost. So, we're not just let's go to this one country and grow the headcount to the biggest number we can. In fact, we actually think that's not the right strategy. So for us, we're looking to the much broader mix of countries and labor pools and skill pools than just one.

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**Jayson Noland** - Robert W. Baird & Co., Inc. - Analyst

Jayson Noland with Baird --

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

What we're going to do -- I think Joe's going to add something here.

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**Joe Eazor** - Hewlett-Packard - SVP - Transformation

Well, I was just going to say that at -- in EDS' approach and the one that we're looking at in the integration, you don't want to look at a destinations as the end game. So I think, as Mark said, for example we're setting up financial services capabilities and software capabilities in certain locations.

Maybe in India, we'll have a good financial services capability, in China maybe a good manufacturing capabilities, so it's truly a global delivery system, not one that's just trying to send work to one location like India. So, we've already started that in EDS. HP's already doing the same thing, [toning] them together, just natural integration.

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

Thanks, [Lou].

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**Jayson Noland** - Robert W. Baird & Co., Inc. - Analyst

Jayson with Baird, Ann mentioned a number of categories, virtualization, storage, blades, you have an interesting asset called ProCurve that we don't talk much about, now a very large services offering. Is HP offering customers a single, cohesive strategy? Or, is that even possible? Can some day we imagine an HP shop through and through?

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

So, I don't think the market today lends itself to any one company doing every single thing that a customer wants. There are many elements to the technology stack that we think customers need going forward. Just to Shane's point about all the potential services that can be delivered via the cloud, there are a ton of services that can be delivered via the cloud that we're never going to own all of the intellectual property involved in being able to deploy all those applications.

That said, we believe there are some very critical categories that we need to lead. And so for us in those critical categories, and I think you heard Ann talk about it, I tried to talk about it, in the context that with all that digital content out there, the more we get this requirement for instant gratification of answers to questions and the movement of content, all of that content has to

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

be processed. It's got to be stored. It's got to be moved. It's got to be visualized. It's shared. We love it when it's printed, and we want to own and drive and lead that ecosystem underneath it.

Now that said, there are going to be partners that we have and always have and will want to attract to help complement that ecosystem. And I do think one thing that HP as a company is good at is the notion of being able to cooperate and collaborate and partner with many, many different companies simultaneously to build out its ecosystem. I truly believe it's a strength of the Company.

We're very, very comfortable, even collaborating with a company that in some cases we might compete with in some other transaction. And I think it's a necessary part of the industry that we're in. That said, we are trying to put ourselves in the position where we have many of the important pieces to be able to go attack that \$0.5 trillion, slightly under \$0.5 trillion total available market in the enterprise.

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**Rod Bourgeois** - Sanford C. Bernstein & Co., Inc. - Analyst

Great, Rod Bourgeois here. I wanted to follow up on Toni's question on the revenue front. In plighting your plan, it seems like you're going to be moving about 12,000 people to offshore or lower-cost locations. And the rough map on that would suggest you -- that could cost, in terms of revenue deflation, as much as \$1 billion in revenues, if my math is directionally correct. And so, I'm wondering if that level of revenue deflation is embedded in your plan? And is that what you mean by deal repricing?

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

So, you guys got two seats to this.

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**Rod Bourgeois** - Sanford C. Bernstein & Co., Inc. - Analyst

That's right.

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

I see, okay. And then you go and -- up the size of --

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**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

Well, let me give the math, and then --

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**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

Okay, first.

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**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

-- and then, you can add to it. So again in 2010's plan, we assumed constant currency growth on revenue for the baseline plan as 3%, and we have 5 points of revenue disynergies that are going against that. Okay? That's what -- within those 5 points of revenue disynergies, we have the repricing. We also have deferred revenue write-off, and then we have the accounting convergence impact as well.

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

So, we each had to think about it.

**Rod Bourgeois** - Sanford C. Bernstein & Co., Inc. - Analyst

Got it.

**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

We think we understand the model.

**Rod Bourgeois** - Sanford C. Bernstein & Co., Inc. - Analyst

Great, thank you.

**Cathie Lesjak** - Hewlett-Packard - EVP, CFO

Well, we'll take one more question.

**Jeff Fidacaro** - Merrill Lynch - Analyst

Hey Mark, Jeff Fidacaro from Merrill Lynch.

**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

Hi, Jeff.

**Jeff Fidacaro** - Merrill Lynch - Analyst

Or, formerly. Just a quick question, if you can go back to the wallet share slide when you talk about the top 100 accounts, can you give us a little bit more color on the revenue synergies? In other words, are those top 100 different customer sets? Are they different service offerings or different end markets? And how -- help us understand, how do you integrate those two buckets? And how should we think about those?

**Mark Hurd** - Hewlett-Packard Company - Chairman, President, CEO

So, I think for us it is a statistically relevant sample of our biggest customers, and I think that to not make it too complicated, it is a by-product of what happens over time with a relationship that isn't just as straightforward as, hey, you've got a bunch of PCs. Why don't you not have those and use ours? It isn't really quite the rudimentary. What happens over time is that when you're at the table with a customer talking about where their business is headed, much of that opportunity for share of wallet, it comes out of innovation ideas.

We have customers that are doing things that quite frankly, we wouldn't even have been talking to them about two or three, four years before. And part of the reason is because of the breadth of our portfolio. So, I don't think it's a -- EDS has a certain

Sep. 15. 2008 / 5:00PM, HPQ - Hewlett-Packard Company Enterprise-Focused Securities Analyst Meeting

capability that it brought to the customer. Now that said, most of that capability was finite. It was sort of measured by the capabilities in the portfolio that EDS has.

The -- what you've seen with our portfolio is when we get an outsourcing customer, and I've used the example before, I'll use it again, we have a customer that prints labels and puts them on things. They print those labels now on our digital press printers. We wouldn't have imagined that at the original time that we did the outsourcing contract with them, and it bore itself out of discussions on innovation of how to apply our portfolio to help change their manufacturing process.

And again, those are the opportunities that present themselves as you develop a relationship that goes deeper over time. And so, our objective is to incent our teams to look for those innovation opportunities where we can bring more and more of our capabilities into that account to help them change the answer. I think to be very frank with a customer, just saying, hey, I know you were buying that. Why don't you just buy this from me instead?

That's interesting to me, but it's not fascinating to me, because you want something that's going to change my business, so while I think there could be opportunities like that for the [gun], we really want to look for ideas that are going to really change that customer's perception of HP. So, those numbers are there though, and they are a relevant sample size of our biggest 100 customers. That's not just a one-customer, two-customer, three-customer thing. It is what happens to us over time.

I want to wrap up. Okay. Well, I guess I'd just wrap up by saying thank you all for coming. I go back to the original premise that we got started. The priorities of our business haven't changed on bit. We're very focused on operating the core HP plan. We believe there's tremendous opportunities for us to improve the core HP. We've got costs to take out, as we've described. We've got growth to get across many emerging markets in our core businesses.

But, we now have a new pillar of our business in EDS, and we're going to go execute the plan that we described here. Our confidence level is high. We've been doing a lot of work, and we plan to get on with getting it done. And if you've got any questions, please get to Jim and get to Investor Relations. We'll do our best to make sure we get any questions you've got and get them answered. Okay? Thank you.

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