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Boardroom Fallout

Dunn Resigns as H-P Chairman Amid Furor Over Phone Probes

CEO Hurd to Take Her Post;

California's Lockyer Warns

Insiders May Be Charged

Role of a Boston Investigator

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Hewlett-Packard Co. named Chief Executive Officer Mark Hurd to succeed its embattled chairman, but the computer maker faced a graver legal threat as California's attorney general said he has enough evidence to bring criminal charges against people at the company.

Mr. Hurd will succeed Patricia Dunn, H-P's nonexecutive chairman, in mid-January 2007. Her efforts to catch boardroom leakers last year led the Palo Alto, Calif., company to hire a contractor that scrutinized the private phone records of H-P's own directors and nine journalists.

H-P has said those records were improperly obtained by outside investigators through the use of "pretexting," or masquerading as the directors and journalists in order to request their records from phone companies. Mr. Hurd and Ms. Dunn apologized for the company snooping yesterday, though Ms. Dunn reiterated boardroom leaks had been a substantial problem for H-P.

In addition, H-P said George Keyworth, a former presidential science adviser and H-P's longest-serving director, resigned from the board. Mr. Keyworth was identified in Ms. Dunn's probe as a leaker of information to the press.

A spokesman for California Attorney General Bill Lockyer, confirming a remark made by Mr. Lockyer in an interview on the NewsHour with Jim Lehrer, said state investigators have "sufficient evidence to bring criminal charges against individuals inside Hewlett-Packard as well as outside the company." In the interview, Mr. Lockyer said: "People's identities were taken falsely, and it's a crime. People accessed computer records that have personal information. That's a crime."

Yesterday's resignations reflected a tense compromise worked out among some of H-P's disaffected board members, brokered by Mr. Hurd and H-P's outside attorney, Lawrence Sonsini. The compromise addressed the bitter infighting on H-P's board but it failed to deal with many of the questions that lie behind a host of investigations, including Mr. Lockyer's.

Among the welter of questions still unanswered: Besides Ms. Dunn, who knew within the company and the board that personal phone records were being scrutinized? Why didn't that practice raise alarm bells, even if it wasn't clear that the records were obtained via "pretexting"? Why didn't Mr. Hurd, who was given the results of the investigation two months before they were presented to the board in May, kill the probe before it blew up?

An H-P spokesman said Mr. Hurd focused only on the leaker when he first heard the results, not the methods used in the investigation. The CEO found out only in recent weeks that pretexting was involved and that journalists were targeted, and he worked with the board to turn the matter over to outside lawyers for investigation, the spokesman said.

People familiar with the matter said H-P has told them one of the outside investigators it used is Ronald R. DeLia of a small Boston firm called Security Outsourcing Solutions Inc. An H-P spokesman reiterated that the company isn't commenting on who did its investigative work.

The H-P board met by phone Sunday morning and the meeting ended inconclusively after about three hours. The directors couldn't figure out how to satisfy both Ms. Dunn and her two main adversaries -- Mr. Keyworth and Thomas Perkins, a venture capitalist and former H-P director.

Outside the boardroom on Sunday and Monday, negotiations continued among high-powered lawyers representing the principals. The board reconvened Monday night with Ms. Dunn apparently resistant to the notion of her stepping down.

To break the impasse, H-P agreed to issue two statements yesterday. In the first, H-P announced Ms. Dunn's resignation as chairman -- the main demand of the Keyworth-Perkins side. She will stay on as a director after the resignation takes effect in January. Ms. Dunn apologized for the methods used in the leak probe, saying they "went beyond what we understood." She defended the probe itself as an "important investigation that was required after the board sought to resolve the persistent disclosure of confidential information from within its ranks."

The second H-P statement, delayed several minutes yesterday morning as the lawyers haggled over final wording, announced Mr. Keyworth's resignation. It included explicit regrets from Mr. Hurd and Ms. Dunn for violating the privacy of Messrs. Keyworth and Perkins. The two are old friends, and Mr. Perkins resigned from H-P's board in May to protest the leak investigations.

The second statement also described Mr. Keyworth's role in leaking information, without H-P authorization, to a reporter with CNET News in January. The statement said H-P's board recognized that Mr. Keyworth was trying to "further H-P's interests." The statement added that Mr. Keyworth often had met with reporters at H-P's request. He was described as "an important member of the H-P family."

H-P announced no action yesterday against Ann Baskins, its general counsel. Her office handled the leak investigation with outside private investigators. She is married to a partner at Wilson Sonsini, the company's outside law firm.

A U.S. House of Representatives committee is seeking information from H-P about the leak investigation, including the identity of private investigators that H-P used.

A spokeswoman for the Federal Bureau of Investigation said yesterday an investigation started by the agency on Monday hasn't determined whether anyone in the case violated federal laws. LaRae Quy, a special agent in the FBI's office in San Francisco, said the investigation is focused on how the confidential information was obtained, not on H-P itself. The FBI normally doesn't discuss ongoing investigations but made an exception because there is "such a national interest," Ms. Quy said. H-P says it is fully cooperating with all the investigations.