It was supposed to be an easygoing celebration of a corporate coronation. In early 2005, after Mark Hurd had been chosen to be Hewlett-Packard's new chief executive officer, he and his wife joined chairman of the board Patricia Dunn and her husband at the Marin County home of director Tom Perkins. Sitting on a lush hilltop overlooking the Golden Gate, they dined and wined in honor of what they hoped would be a new era for HP, an icon of Silicon Valley that had been through much recent turmoil, including the ouster of high-profile CEO Carly Fiorina. After dinner, they moved to the huge living room. Before a blazing hearth, looking out at the stunning view of San Francisco Bay, Dunn wanted to talk shop with Hurd. As Perkins tells the story—Dunn declined to comment—the spouses were bored silly. So was Perkins. He went off to his study to get his prized radio-controlled helicopter, and proceeded to buzz Dunn's head. The spouses were in stitches. Perkins circled the toy helicopter for another mischievous pass. Dunn just kept on talking about regulatory issues and other arcana of management. “Pattie!” Perkins asked: “Didn’t you just hear something zooming over your head?” Her answer: “I just thought it was the dishwasher running.”

The funny little vignette suggested to Perkins that he and the chairman had entirely different MOs. Little did he realize that about a year later their styles and priorities would collide to create a boardroom scandal that would shake the company that was once lionized in the Valley. At the same time, it would mesmerize corporate America, as other business leaders wondered how HP could have been involved in activity the California attorney general calls “colossally stupid,” no matter how well intentioned, and may well result in criminal charges.

HP has now admitted to spying on its own directors' personal phone records in order to root out a leaker. It did so by using private investigators who engaged in “pre-texting”—calling up phone companies and impersonating directors seeking their own records. HP last week additionally admitted to spying on the phone records of nine journalists, including at The New York Times and Wall Street Journal, some of which date to 2005. HP’s Dunn stands accused of orchestrating the investigation. Perkins quit in a rage over the surveillance and wants Dunn out as chairman; HP is painting him as an angry traitor with a vendetta against Dunn. Lying, spying, name-calling, finger-pointing—all of it is a tragicomedy that Shakespeare might've penned had he gotten an M.B.A. 

Perkins and Dunn surely are contrast- ing archetypes in the rich backstory of Silicon Valley. At 74, he's the nonpareil behind-the-scenes entrepreneur with a larger-than-life array of extracurriculars. His Kleiner Perkins Caufield & Byers firm is the Medici of the Valley, bankrolling such home runs as Genentech, Google, ...
Perkins (aboard his superyacht last week) abruptly quit HP’s board in May. The company has since wondered about the high marks. Meanwhile, the company’s profits have risen, and its stock price has soared. The question now, of course, is being that a stickler for proper procedures doesn’t seem to have worked out so well for HP. An inquiry with leaks to reporters could have happened at any company, especially at one with all the intrigue HP had faced during the trial. Carl Fiorina’s tenure. It’s not a function of Silicon Valley and it’s got nothing to do with the details of corporate minutiae. The Dunn-Perkins mess is about what drives most conflict: human emotions.

The HP board of directors has long been a leaky ship. During the embattled reign of Fiorina—HP’s flashy CEO who was forced to resign just over two years ago—the board was embroiled in a controversy over a board retreat, held off-site to discuss the company’s most sensitive problems, appeared in The Wall Street Journal.

Furious, Fiorina laid down the law to board members: the leaks had to stop. For a time it appeared that the leakers, whoever they were, had gotten the message. But then, in January 2006, the online technology site CNET published an article about HP’s long-term strategy. While the piece was upbeat and innocuous, it quoted an anonymous HP executive/regional sales manager about the job of pretexting that could’ve come only from a director. It was the last straw for Dunn, who by then had been elected non-execu-

by Brad Stone

and Gandal is a “skip tracer.” His job: helping repossession firms find car owners who are late on loan payments. Using phone records, home addresses or other bits of revealing information, Gandal has come to be trusted by those owners when calling phone companies. The tactic is called “pretending”—and Gandal is good at it. “I’ve got many voices I use with customer service reps,” he says. “I can talk as an Hispanic, a black—even an older person, which he demonstrates credibly. “If they want me to put my wife on,” he explains, “I impersonate a person,” says he. “I talk like this to customers.”

In recent years, as vice chairman of a division of Barclays, she has become wealthy enough to own property in the East Bay and Hawaii, as well as a Shiraz vineyard in Australia. But in the midst of her Barcalds and HP duties, she has faced repeated health crises. She was diagnosed with breast cancer in 2000 and melanoma two years later. Those struggles have been widely reported, but Dunn confirms that she was diagnosed with Stage IV ovarian cancer in 2004. Last month, after doctors discovered a malignant tumor in her liver, she underwent extensive surgery. Dunn says she has kept the HP board apprised of her health, and her sister says she marvels at Pattte’s “willpower” and ability “to survive beyond doctors’ expectations.” Six weeks after her 2004 surgery, Dunn kept a Promise to her family to keep the HP board process-driven rather than personality-driven. It drove Perkins nuts. It kept him thinking of that helicopter. He recalls a meeting in his office with her in which he wanted to discuss how to compete better with Dell, IBM and others. According to Perkins, she was “incredibly intelligent, thoughtful and broad in strategic terms.”

He thought the core of her job was to dot the i’s and cross the t’s—”to keep her HP board process-driven rather than personality-driven,” he recalls. “They don’t challenge me.”

Gandal, 49, from Loveland, Colo., says he grew up pretexting for cell-phone records last winter when the tactics came under criticism from telecom companies and lawmakers (Gandal testified at a congressional hearing on the practice in June.) But as the discus- sions about the boardroom meetings flared to light, it’s clear that pretexting is still employed by private detectives and information brokers.

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that Dunn brought up the idea of to becomes nonexecutive quits in protest both join HP's formally asks the and former says she was told that phone records from unwitting phone com-
panies. Last week California Attorney General Bill Lockyer said he has decided a crime was committed, though he hasn't concluded by whom.

In an interview with NEWSWEEK, Dunn says she was aware HP was obtaining the phone records of suspected leakers as long as 2005. But she says she didn't know about the pretexting until late June, when she saw an e-mail to Perkins from HP's outside counsel, Larry Sonsini. "I was told it was all legal," she says. She now acknowledges that HP's tactics were "appalling" and "embarrassing," but says the current "trou-
haha" grew out of a personal dispute be-
 tween her and Perkins.

Dunn insists Perkins was just as eager to learn the identity of the leaker as she was. "Tom was the most hawkish member of the board for plugging the leaks, which he thought were coming from management. He advocated the use of lie-detector tests." Perkins disagrees. He tells NEWSWEEK that Dunn brought up the idea of lie-detector tests and that he volunteered to take one. "I thought it would be a kick—great for my next novel," he says. But he pointed out that if word leaked out an HP director had to take a lie-
detector test, it would be a "catastrophe."

It remains unclear exactly what Dunn knew and when she knew it. The Califor-
ia attorney general will want to know if Dunn intentionally avoided knowing about the details, like a head of state who wants "plausible deniability" while order-
ing an assassination plot. (An ancient
case, cited by old CIA hands, is Henry II. When he wanted to get rid of the Arch-
bishop of Canterbury, he simply muttered in front of his knights, "Will no one rid me of this troublesome priest?")

In any case, Dunn sprang the identity of the leaker at a meeting of her fellow direc-
tors on May 18, at HP headquarters in Palo
In 1938, Hewlett (left) and Babbage, the president of Verizon—the phone company that has aggressively sought to protect the privacy of its customers’ records. (Babbage, through a spokesperson, declined to comment.) Perkins says he was the only director who rose to take Dunn on directly. Perkins told the director he was engaged at the surveillance, which he called illegal, unethical and a misuse of AT&T resources. “Fattie, you betrayed me,” he says he railed at Dunn. “You and I had an agreement that if we found out who was the leaker, I would have no choice but to fire him,” Hurd replied.

But Perkins was hardly all-alone in his objections to Dunn’s investigation. Dunn decided to find the leaker. The AT&T pretense in January 2006, just at the time Perkins had obtained the first e-mail. The AT&T letter explains that the unnamed pretexter who got details about Perkins’s home-telephone usage spelled out in nautical-speak: “Rarely does one have the privilege to witness vul-
erable electronic gear, listening devices, etc.” In its SEC filing last week, HP stated that the outside counsel had concluded that the use of pretexting “was not generally unlawful,” but that counsel “could not con-
firm that the techniques used by pretext-

ers in the HP investigation “complied in all respects with applicable law.”

Sonsini’s legal tip-toeing intrigued Perkins for two reasons: it seemed to raise so many non-issues in Perkins’s mind, and Perkins had also never heard of the pre-
texting that Sonsini admitted to. It was only after he says HP then refused his re-
peated requests to take action that he even-
ually decided to approach a host of government agen-
cies, as well as prosecutors in California and New York. By early September, HP scram-
bled to go on the offensive, and made it clear last week to the SEC, laying out the pretexting story for public consumption. The story ex-
ploded in the press (first in a piece on Newsweek.com). Dunn called an emergency board meeting, which—by the time this story appears—may have called for his resigna-
tion. Dunn, interviewed by Newsweek on Saturday, was philosophical about his job, which was to help the board overcome its conflicts. I was unsuccessful. I wanted to show that two sides could work together. That was naive.”

Next week Dunn is scheduled to be absent at the annual gathering of the Bay Area Hall of Fame, Perkins is already a member. Maybe the two adversaries can reconvene at the induction ceremony—and exchange phone numbers. With Karen Brennan, Brad Stone, Madame la Déesse and Dana Jacquod

Editor’s Note: David K. Kaplan is writing a book for HarperCollins about Perkins’s supervest.

Don’t you dare say I resigned to spend more time with my children,” Perkins says he told Sonsini.