

H-P Chairman's Uncertain Fate Casts CEO Hurd Into Spotlight

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Since taking over as Hewlett-Packard Co.'s chief executive officer 18 months ago, Mark Hurd has boosted profits at the Silicon Valley stalwart and presided over an 85% rise in its stock price. Now he faces tough questions about the methods used in an investigation of his own board that he didn't start—but didn't stop either.

Yesterday, H-P's board of directors held a special three-hour meeting by phone about the investigation, which H-P has said involved the acquisition of directors' and journalists' personal phone records through improper means. California Attorney General Bill Lockyer has said a crime was committed in the H-P probe, although his office has yet to determine who committed it.



Mark Hurd

H-P said the board's discussions, which ended without concrete action, are scheduled to resume today. The meeting was called Friday in part to review the future of H-P's non-executive chairman, Patricia Dunn, who launched the probe last year in an effort to trace the source

of boardroom leaks to the press. (See related article on page B4.)

As a company executive, Mr. Hurd wasn't involved in the investigation, which was overseen by independent directors. H-P spokesman Robert Sherbin said Mr. Hurd first learned of it in

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March in a review that dwelt on its results, rather than its methods. He focused on the fact that the investigation found the source of the leaks, Mr. Sherbin said. Only later did he come to understand that improper methods were involved, the spokesman said.

Ms. Dunn, who in interviews Friday said she knew directors' phone records were being scrutinized but didn't realize those records had been obtained improperly, recused herself from much of yesterday's board discussions, according to a person familiar with the matter. So did George Keyworth, the longtime H-P director Ms. Dunn's probe identified as a leaker, this person said.

In May, as a result of that probe, the board asked

Patricia Dunn

Mr. Keyworth to resign. He refused. H-P recently said it won't renominate him when his term as a director expires next year.

Another person close to H-P said Ms. Dunn stepped up the probe this year at the board's behest because directors were concerned about possible stock manipulation resulting from the leaks. In her comments Friday, Ms. Dunn said Mr. Hurd was kept generally abreast of the probe. He learned of its results when they were being finalized, she said, and "helped determine the best way for the results to be conveyed" to the board.

H-P has said it hired a private-investigation firm to carry out the inquiry and that that firm, still unidentified, hired a second firm that used "pretexting" to obtain phone records of H-P directors and nine reporters. Pretexting is posing as someone else to obtain that person's phone or other records.

Some corporate ethicists suggest that if Mr. Hurd knew the probe used personal phone records, he should have killed it before the results reached his board.

The board's continuing discussions leave the leadership of one of the largest U.S. technology companies distracted, and likely divided. So far, H-P's investors have appeared largely indifferent to the scandal. That could change quickly if Mr. Hurd's job appeared to be in jeopardy.

Some H-P watchers believe Mr. Hurd—riding high on H-P's success—probably will weather the boardroom crisis. He may even emerge stronger, some experts suggest, especially if he were to be given the additional title of chairman. Ms. Dunn has said she has no plans to resign but would step down as

chairman and a director if fellow board members asked her to.

Mr. Hurd also is actively involved in the board's efforts to find several new members, according to one person familiar with the situation. Among the prospects are a pair of CEOs at other concerns.

Management and government experts say, however, that Ann Baskins, H-P's longtime general counsel, might be vulnerable because her staff handled the leak investigations and oversaw the selection of the private investigators. Ms. Baskins didn't respond to inquiries for this article.

H-P's official privacy policy says it obtains personal information by "lawful and fair means." H-P not only gives notice to people whose personal information it collects, the policy says, it also gives those people a choice regarding the type of personal information and how it is used. "H-P is committed to protecting personal information against unauthorized use or disclosure," the policy states.

H-P's official Standards of Business Conduct sends a similar message. It says H-P conducts business "fairly, legally and with integrity," and that the company protects the personal informa-

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tion of business partners and employees. It cites theft and records falsification as misconduct that can end in immediate termination.

Amid the legal and boardroom wrangling, Mr. Hurd faces the challenge of uniting H-P's directors and management team behind his leadership. In an interview with *The Wall Street Journal* last year, the 47-year-old CEO said one of the principles he stressed in his 2004 management book, "The Value Factor," was that "great companies have boards, CEOs and management that all have one script."

One person who has spoken with Mr. Hurd since the scandal broke says the CEO is eager to move beyond the imbroglio as quickly as possible. Mr. Hurd considers the matter "clutter," this person says, and wants to return to the business of running H-P.

It isn't clear specifically what H-P's board is discussing and why it needs another day for its deliberations. H-P may be trying to negotiate legal resolutions, possibly with Ms. Dunn or with Mr. Keyworth and former H-P director Thomas Perkins,

who resigned his seat in May in protest over the leak investigation. In a statement this weekend, Mr. Perkins, a Keyworth ally, called for Ms. Dunn to resign and said, "Each day the hole gets deeper. Recent statements by Ms. Dunn have only served to increase both her own and the company's legal exposure."

Ms. Dunn didn't respond yesterday to several voicemails seeking comment.

A spokesman for Mr. Perkins said Mr. Perkins's attorneys have asked federal prosecutors in California and New York to look into the probe's tactics. He also said they have approached the Federal Trade Commission and Federal Communications Commission seeking investigations. According to a person familiar with the matter, the FCC sent a letter of inquiry Thursday to AT&T Inc., one of the phone carriers involved, about possible improprieties linked to H-P's probe.

Until recently, Ms. Dunn had a storied reputation in the business world. The former free-lance journalist worked for years in the finance world, rising to chief executive of Barclays Global Investors, a fund-management firm. Under Ms. Dunn, Barclays Global rode the trend of index-fund investing, which mirrors broad stock market movements rather than picking individual stocks, to become one of the world's largest fund companies in terms of assets under management.

Ms. Dunn, 53 years old, joined H-P's board in 1998. People familiar with the matter say she quickly developed a reputation as an active and outspoken board member. She was sidelined for some of her tenure while she fought melanoma and breast cancer. In 2002, amid her battle with cancer, she stepped down as CEO of Barclays Global and became a nonexecutive vice chairman of the firm.

Though a member of the H-P board when it hired Carly Fiorina as H-P's CEO in 1999, Ms. Dunn grew disillusioned with Ms. Fiorina's management, say people familiar with the matter, and was one of the directors who helped oust Ms. Fiorina in early 2005. Ms. Dunn also was one of three people on the board's search committee who recruited Mr. Hurd and has helped spearhead a drive to professionalize the board with active executives and more international talent, say executives close to H-P.

Nell Minow, a longtime shareholder activist, said the current scandal could have "a very silver lining" for Mr. Hurd, because he now may have the opportunity to fix a "dysfunctional" board by adding several new members. "This board is not normal in any respect," Ms. Minow said.

—*Christopher Lawton*
contributed to this article.