



TROUBLED SEAS: Perkins (aboard his superyacht last week) abruptly quit HP's board in May

Netscape and Amazon. He performs the financial alchemy of converting millions to billions when start-ups go public, in the process making VCs like himself centimillionaires. Out and about, he was the fifth husband of romance novelist Danielle Steel. He's just launched the 287-foot Maltese Falcon, the largest and most expensive private sailboat ever built; last year he wrote his own bawdy novel, "Sex and the Single Zillionaire"; in 1996 he was convicted of involuntary manslaughter for his involvement in a sailing collision off the coast of France that resulted in the death of another regatta participant (he paid a \$10,000 fine and individuals on the other boats were convicted as well).

Dunn, 53, is less prominent in the Valley's Zeitgeist, yet is a success story in her own right, as well as a profile in courage for her fight against cancer. She was raised in Las Vegas, where her father did bookings for casinos. Her mother was a showgirl at the Copacabana. While Dunn met the rich and famous, her family didn't have a lot of money. Her father died when she was 12, her mother had emotional problems, and Dunn and her sister basically raised their younger brother after they moved to the Bay Area. Dunn majored in economics and journalism at Berkeley, and—your punch line here—hoped to become an investigative reporter, her sister Debbie Lammers

says. Dunn eventually wound up as a temp typist at an investing firm that was later acquired by Barclays, at which Dunn began her career climb.

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 Barclays 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 Pattie's "willpower" and ability to "survive beyond doctors' expectations." Six weeks after her 2004 surgery, Dunn kept a promise to her family to hike across the Sydney Harbor Bridge in Australia. Before her most recent surgery, she stopped at her vacation home in Kona and played 27 holes of golf.

Dunn is demonstrably tough. Whether she was wise is a different question. "If I did anything stupid, it's not because I have cancer or was receiving chemotherapy," she

tells NEWSWEEK. Perkins himself calls her "nobody's fool"—deft at running annual meetings and a tough questioner. Early in their time together on the HP board, Perkins and Dunn got along and were actually allies: they were part of the team that lured Hurd to HP from NCR. But their different outlooks as directors could not help but emerge. Perkins, the venture capitalist, thought in broad strategic strokes, preferring to leave the details to others. Dunn thought the core of her job was to dot the I's and cross the T's—to keep her board process-driven rather than personality-driven. It drove Perkins nuts. It kept making him think 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 fixated instead on her discovery that there were inconsistencies between HP's bylaws and the Corporate Directors Handbook. Those inconsistencies then occupied hours of discussion at subsequent board meetings. "Intel might be kicking the crap out of us," Perkins says, "but that didn't seem to matter."

That's an overstatement. In the new world of corporate governance after Enron and other business implosions, good corporate governance isn't just a swell idea, but a

legal requirement. And corporate watchdogs give the HP board high marks for independence. The chairman deserves credit for the high marks. Meanwhile, the company's profits have risen, and its stock price has soared. The supreme irony now, of course, is that being a stickler for proper procedures doesn't seem to have worked out so well for Pattie Dunn. An obsession with leaks to reporters could have happened at any company, especially at one with all the intrigue HP had faced during

Carly 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 out nearly two years ago—a blow-by-blow account of 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 source and contained information that could've come only from a director. It was the last straw for Dunn, who by then had been elected non-execu-

DATA MINING

PHONE RECORDS ARE A SNAP TO SNAG. JUST ASK DAVID GANDAL.

A 'PRETEXTER' AND HIS TRICKS

BY BRAD STONE

David Gandal is a "skip tracer." His job: helping repossession firms find car owners who are late on loan payments. To get copies of phone records, home addresses or other bits of revealing information, Gandal has often pretended to be one of those owners when calling phone companies. The tactic is called "pretexting"—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"—if he needs to impersonate a woman—"I say she's in the hospital after just having throat surgery. Then I call back and *I talk like this*," he croaks. "They don't challenge me."

Gandal, 49, from Loveland, Colo., says he gave up pretexting for cell-phone records last winter when the tactic came under criticism from telephone companies and lawmakers (Gandal testified at a congressional hearing on the practice in June). But as the disclosures about the boardroom mess at Hewlett-Packard came to light, it's clear that pretexting is still employed by private detectives and information brokers.

Telcos have filed dozens of lawsuits against pretexters this year and several pending state and federal bills would make it a crime—though most security experts say it's already illegal under the Federal Trade Commission's unfair and deceptive trade practices statute. "Telephone pretexting is a cottage industry, and that is very troubling to us," says Jon Leibowitz, an FTC commissioner.

The extent of the pretexting problem is unclear. But here are some clues: in its complaint to the FTC last year outlining the problem, the Washington-based Electronic Privacy Information Center listed 40 Web sites that promoted a search of someone else's cell-phone records typically for a fee of about \$100. Most of those sites have since shut down or stopped offering the service. Separately, in its January lawsuit against a Florida firm, Verizon admitted it was duped out of "tens of thousands" of records by callers pretending to be part of a non-existent internal "special needs group," calling on behalf of voice-impaired customers. A judge forced the company to shut down.

Digging for phone records also may be business-as-usual at some companies. Yale School of Management Associate Dean



'I'VE GOT MANY VOICES: Gandal used pretexting to help repo firms

Jeffrey Sonnenfeld says he asks his students each semester about the tactic. Of the 25 percent of his students who worked in consulting before coming to graduate school, one fifth report they were put in a position of using false pretense—in most cases, pretending to be a recruiter—to get confidential information about job candidates or rival companies. "It's a widespread abuse," Sonnenfeld says.

Many phone companies are improving security measures to deal with pretexting. Verizon now requires customers to read a special code on their monthly bill if they want their phone records faxed or e-mailed to them; subscribers can also establish a special password for access to their account online. But AT&T, which was apparently the target of some pretexting calls in the HP case, still asks callers to verify their identity only with a phone number and Social Security number, which an employer would have and are

easy to obtain on the Internet. AT&T spokesman Walt Sharp says it is unfair to make AT&T's 48 million landline customers remember a password when they call customer service, particularly when the firm, he says, doesn't think pretexting is a statistically significant problem. He also argues that the information on a phone record isn't that sensitive: "Remember, we're not talking about financial data here. They can't steal your bank money. It's calling records."

The lack of uniform security policies suggests that customers who want to preserve their privacy need to be proactive. But the options are limited. Security experts say you should take two precautions: set up online access to your phone accounts yourself, so someone else doesn't do it in your name first, and change your password often. Perhaps you should even be careful about whom you call, as long as there are impersonators out there like David Gandal.

PERKINS THOUGHT IN BROAD STROKES. DUNN SAW HER JOB AS DOTTING THE I'S AND CROSSING THE T'S.

tive chairman of the board. Dunn was incensed that the drip-drip-drip of information out of the boardroom continued. She wanted to know the leaker's identity, but she would not supervise an investigation herself.

Dunn referred the matter to HP's general counsel. In turn, that office contracted out the investigation to security experts who recruited private investigators who then took the extraordinary step of spying on the phone records of all the directors (including Dunn), as well as journalists

(including the CNET reporter). These were not the records of calls from HP offices, but the records of calls made from personal accounts—like Perkins's home in Marin County. It was classic data mining: HP's consultants weren't actually listening in on calls—all they had to do was look for a pattern of contacts.

It is not uncommon for companies to monitor the phones and computers of their employees. Indeed, in the wired age, most employees don't realize how much privacy they sacrifice. But pretexting goes

a step beyond. The investigators use your ID—typically, the last four digits of your Social Security number—to obtain your phone records from unwitting phone companies. 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 ago 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 "brouhaha" grew out of a personal dispute between 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-

nia attorney general will want to know if Dunn intentionally avoided knowing about the details, like a head of state who wants "plausible deniability" while ordering an assassination plot. (An ancient model, cited by old CIA hands, is Henry II. When he wanted to get rid of the Archbishop 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 directors on May 18, at HP headquarters in Palo

TROUBLE IN THE BOARDROOM

Last week controversy erupted over the revelation that Hewlett-Packard had hired private investigators to spy on its board of directors. A look at what happened and the players involved:

CARLY FIORINA
Former chairman and CEO

LARRY SONSINI
Outside counsel

PATRICIA DUNN
Chairman

TOM PERKINS
Former director

VIET DINH
Perkins's lawyer

GEORGE KEYWORTH
director

APRIL 2002 Compaq Merger

Following a bitterly fought merger with Compaq, infighting, much of it between HP chairman and CEO **Carly Fiorina** and former Compaq director **Tom Perkins**, grows increasingly heated among some of HP's board members. **Perkins** and Verizon president **Lawrence Babbio** both join HP's board through the merger.

JANUARY 2005 Office Politics

During a retreat the HP board meets to discuss issues facing the company, including concerns over **Fiorina's** leadership. A week later, the board learns that The Wall Street Journal is readying an article containing details about the talks. The law firm of prominent Silicon Valley insider **Larry Sonsini** is hired to investigate the leak, but finds no conclusive evidence.

FEBRUARY 2005 The Ouster

Still unhappy with **Fiorina's** management, the HP board fires her and reinstates **Tom Perkins**, who had previously resigned after reaching the mandatory retirement age, as a director. In the wake of **Fiorina's** dismissal, **Patricia Dunn** becomes nonexecutive chairman, and **Mark Hurd** is named the new CEO.

JANUARY 2006 Press Leaks

Details of an HP board meeting appear in an article by CNET News. The leak comes after HP, at **Dunn's** behest, hired an external firm to investigate the ongoing leaks in an effort to allay lingering concerns of the company's board members. **Dunn** says she was told that only legal methods were used.



Investigation firm

MAY 2006 The Shakeup

At a May 18 meeting, **Dunn** identifies **George Keyworth**, an HP director, as the leaker. She and others on the board, including **Babbio**, who as Verizon president worked aggressively to improve Verizon's protections against identity theft, ask **Keyworth** to resign. **Perkins** quits in protest of the board's actions. **Keyworth** refuses to resign, despite admitting that he was the culprit.



Babbio

AUGUST 2006 Aftermath

Represented by his private lawyer **Viet Dinh**, a former Bush administration official who helped draft the Patriot Act, **Perkins** formally asks the SEC to force HP to disclose his reason for leaving because he is unhappy with the way the company portrayed his departure. **Perkins** also expresses his disapproval of the way HP carried out its probe of the press leaks.

SEPTEMBER 2006 The Revelation

On Sept. 6, HP files a document with the SEC confirming that an outside consultant, acting on behalf of the company, used a legally dubious method known as "pretexting" to obtain the personal phone records of all the HP directors, including **Dunn**.

SEPTEMBER 2006 The Fallout

On Sept. 7, California Attorney General **Bill Lockyer** announces that the tactics violated two state laws, but says he is uncertain whether any HP employee or anyone contracted by HP will face civil or criminal charges.

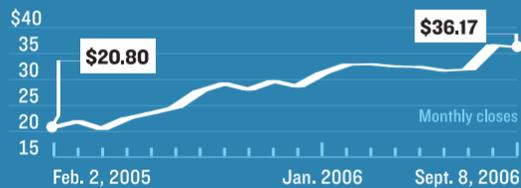


Lockyer

HP's Calm Surface

Since Hurd replaced Fiorina as CEO in February 2005, HP has performed strongly, even as acrimonious deliberations have unfolded behind closed doors in the company's boardroom.

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OPERATING PROFIT



REVENUE BY QUARTER



Alto, Calif. Meeting in the nondescript first-floor boardroom, Dunn laid out the surveillance and pointed out the offending director, who acknowledged being the CNET leaker. He was 66-year-old George (Jay) Keyworth, a science adviser to President Reagan and the longest-serving HP director. Thunderstruck, Keyworth apologized but said to the board, "I would have told you all about this. Why didn't you just ask?" Keyworth was asked to leave the room and did so. Close to 90 minutes of discussion followed. Hurd, the CEO, reportedly was asked by one director how he would handle a leak by an employee. "I would have no choice but to fire him," Hurd replied.

Other directors were noncommittal, according to Perkins. They included Larry Babbio, the president of Verizon—the phone company that has aggressively sought to protect the privacy of its customers' records. (Babbio, through a spokesman, declined to comment.) Perkins says he was the only director who rose to take Dunn on directly. Perkins told the directors he was enraged at the surveillance, which he called illegal, unethical and a misplaced corporate priority. "Pattie, you betrayed me," he says he railed at Dunn. "You and I had an agreement that if we found out who did this, we would handle it offline without disclosing the name of the leaker."

Dunn now charges that Perkins was just trying to protect his friend Keyworth. "He's angry that I stood in his way to cover up the results of our investigation and the identity of the leaker." Perkins dismisses the charge as a red herring—corporate spin to obscure larger issues. There may indeed be deeper issues at work. Dunn tells NEWSWEEK that Perkins has been agitating to vote her out as chairman for a while. At times, he had been. Inevitably their styles just clashed. Perkins is used to being king of the hill, even though he's never been a CEO. Venture capitalists routinely call the shots from behind the scenes in Silicon Valley, and Perkins is the most powerful VC of them all.

Whatever Perkins's motivations, he acted as if he were onstage in a melodrama. After a divided board, by secret written vote, passed a motion demanding that Keyworth resign, Perkins picked up his papers, grabbed his briefcase, walked out and zoomed off in his Porsche Carrera GT. "I quit!" he said as he stalked out. "I'll not be party to this. I'm resigning." Keyworth reentered the room and learned he was being told to leave. He refused, saying it was up to shareholders to make such a decision. "We



BACK THEN: In 1938, Hewlett (left) and Packard formed their venture from this Palo Alto, Calif., garage, now considered Silicon Valley's birthplace

can ask him, but we can't make him," Ann Baskins, HP's general counsel, told the board. (Keyworth remains on the board even now, though HP announced last week it would not recommend him for reelection by shareholders come March; he declined to comment for this article.) After Perkins left the room, the rest of the board's agenda was scrapped and the meeting was thrown into chaos.

When Perkins returned to his office, he soon got a call from Sonsini, the best-known, most powerful lawyer in Silicon Valley. Baskins had called Sonsini at his nearby office and asked him to rush over. As Perkins tells it, Sonsini asked him, "How can I characterize this, Tom? May I say you're resigning for personal reasons?"

"No, Larry, you cannot."
"May I say it's a disagreement with Pattie?"
"Sure, but don't you dare say I resigned to spend more time with my children."

In media mentions a few days after the

May 18 meeting, Perkins's resignation was noted, but without explanation or any indication that his exit was a form of protest. This began nearly four months of warfare between HP and Perkins about whether the surveillance would ever come to public light. Any time a director resigns from a public corporation, federal law requires the company to disclose it in an SEC filing. If the director quits because of a major "disagreement" with the company, the reason has to be disclosed as well. HP reported Perkins's resignation but not the reason for it. It was the Perkins-Sonsini phone call, according to HP, that allowed the company to give the SEC no explanation. "I gave them the opening not to disclose," Perkins now says. "I'm no SEC lawyer." Sonsini did not return calls from NEWSWEEK.

A few days later, Perkins was off to south Florida to promote his bawdy novel. His publisher had set up a contest with Romantic Times magazine, with the lucky winners getting a chance to have

Italian Riviera in mid-July.) But Perkins was hardly all-consumed with the battle. The day before his \$100 million sailboat departed for its maiden voyage, the government of Turkey threw him a reception at the Imperial Palace. Perkins decked out the Falcon with signal flags adorning the deck from bow to stern, across the tops of the three 190-foot masts. The playful message spelled out in nautical-speak: "Rarely does one have the privilege to witness vulgar ostentation displayed on such a scale."

Perkins came to learn more about HP's use of pretexting. He discovered that he himself was hacked. In an Aug. 11 letter to Perkins that he demanded, an AT&T attorney explained that Perkins was a victim of pretexting in January 2006, just at the time Dunn decided to find the leaker. The AT&T letter explains that the unnamed pretexter who got details about Perkins's home-telephone usage was able to provide the last four digits of Perkins's Social Security number, and that was sufficient identification for AT&T. The impersonator then persuaded a customer-service rep to send the records electronically to an e-mail account, mike@yahoo.com, that on its face had

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and that it was "done through a third party that made pre-text calls to phone-service providers." That was the first time Perkins had heard the word "pretexting."

Sonsini's e-mail emphasized that the consultants engaged in "no electronic surveillance," "no phone recording or eavesdropping" and "no recording, review or monitoring of director e-mail." His initial legal defense of pretexting was that it is "apparently a common investigatory method" and that "there was no 'secret spying,' i.e., no 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 confirm that the techniques" used by pretexters in the HP investigation "complied in all respects with applicable law."

Sonsini's legal tiptoeing 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 pretexting that Sonsini admitted to. But it was only after he says HP then refused his repeated requests to take action that he eventually

decided to approach a host of government agencies, as well as prosecutors in California and New York. By early September, HP scrambled to go on the offensive, and made a filing last week to the SEC, laying out the pretexting story for public consumption. The story exploded 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 her resignation. Dunn, interviewed by NEWSWEEK on Saturday,



dinner with bachelor Tom. From Daytona Beach he was off to Istanbul, where he was preparing his superyacht for its sail trials in the Mediterranean. He fumed that the reason for his resignation had not yet come out, and he felt constrained from going public himself. Over time, in e-mails with Sonsini and communications with the board, he escalated his attempts to force SEC disclosure, as well as to get federal and state officials to investigate HP's spying on personal phone records; the FTC, FCC and federal prosecutors have now begun investigations. Perkins hired his own lawyer, Viet Dinh, a former Bush administration lawyer who had helped draft the Patriot Act.

Perkins had concluded that Dunn had to go. He even e-mailed her so. According to Perkins, she told him no. (Dunn recalls only that "Tom wrote to disinvite me from the launch party of his boat" on the

nothing to do with Perkins. Records for Perkins's long-distance AT&T account were similarly obtained, but it was by redsox9855@yahoo.com. Both e-mail accounts are registered to the same Internet Protocol address, but AT&T says it doesn't know the identity of the user.

In mid-June, according to a letter Perkins sent to the full HP board, Perkins contacted Sonsini and asked him to look into the Dunn investigation. In an e-mail to Perkins obtained by NEWSWEEK, Sonsini acknowledged that Dunn's security consultants "did obtain information regarding phone calls made and received by the cell or home numbers of directors"

was philosophical. "My goal in this job was to help the board overcome its conflicts. I was unsuccessful. I wanted to show that two people at opposite ends of the spectrum could work together. That was naive."

Next week Dunn is scheduled to be inducted into the Bay Area Business Hall of Fame. Perkins is already a member. Maybe the two adversaries can reconnect at the induction ceremony—and exchange phone numbers.

With KAREN BRESLAU, BRAD STONE, NADINE JOSEPH, DANIEL MCGINN and DANA GORDON

Editor's Note: David A. Kaplan is writing a book for HarperCollins about Perkins's superyacht.

'DON'T YOU DARE SAY I RESIGNED TO SPEND MORE TIME WITH MY CHILDREN,' PERKINS SAYS HE TOLD SON SINI.