

FINAL TRANSCRIPT

Thomson StreetEventsSM

HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Event Date/Time: Feb. 18. 2009 / 5:00PM ET

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

CORPORATE PARTICIPANTS

Jim Burns

Hewlett-Packard Development Company, L.P. - VP of IR

Mark Hurd

Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Cathie Lesjak

Hewlett-Packard Development Company, L.P. - EVP & CFO

CONFERENCE CALL PARTICIPANTS

Katie Huberty

Morgan Stanley - Analyst

Richard Gardner

Citigroup - Analyst

Ben Reitzes

Barclays Capital - Analyst

Tony Sacconaghi

Sanford C. Bernstein & Company, Inc. - Analyst

Bill Shope

Credit Suisse - Analyst

Brian Alexander

Raymond James & Associates - Analyst

Shannon Cross

Cross Research - Analyst

Keith Bachman

Bank of Montreal - Analyst

Mark Moskowitz

JPMorgan Chase & Co. - Analyst

Bill Fearnley

FTN Midwest Securities Corp. - Analyst

Doug Reid

Thomas Weisel Parters - Analyst

Jayson Noland

Robert W. Baird & Company, Inc. - Analyst

Scott Craig

BAS-ML - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first quarter 2009 Hewlett-Packard earnings conference call. At this time, all participants are in listen-only mode. We will conduct a question-and-answer session towards the end of this conference. (Operator Instructions). I would now like to turn the presentation over to your host for today's call, Mr. Jim Burns, Vice President of Investor Relations. Please proceed.

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Jim Burns - Hewlett-Packard Development Company, L.P. - VP of IR

Thanks, Fab. Good afternoon, and welcome to our first quarter earnings conference call with Chairman and CEO Mark Hurd, and CFO Cathie Lesjak. This call is being webcast live and a replay of the webcast will be available shortly after the call for approximately one year.

Some information provided during this call may include forward-looking statements that are based on certain assumptions and are subject to a number of risks and uncertainties and actual future results may vary materially. These refer to the risks described in HP's SEC reports, including our Form 10-K for the fiscal year ended October 31st, 2008. The financial information discussed in connection with this call, including tax-related items, reflects estimates based on information available at this time and could differ materially from the amounts ultimately reported in HP's Form 10-Q ended fiscal quarter ended January 31, 2009. 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 tables in the first quarter earnings slide presentation accompanying today's earning release, both of which are available on HP's Investor Relations webpage.

Before I turn it over to Mark, I wanted to briefly touch on a financial reporting item. Each year, as part of our first quarter annual finance revenue, we review our recorded segments and make changes to reflect any organizational shifts among our businesses. This year, we have moved the revenue and operating profit associated with portions of our former C&I business from the services segment into software and IPG. In addition, we have moved certain pursuit related costs previously reported in costs of sales to SG&A to better align them to the functional areas they support. This realignment of costs does not impact segment reporting and relates only to the line item within the P&L in which the costs are booked. A detailed reconciliation of the changes, including historical data, is available on our Investor Relations website as well as furnished on the Form 8-K filed with the SEC. I want to be very clear that the changes do not impact HP's previously reported consolidated net revenue, earnings from operations, net earnings, or EPS. This is just part of the annual finetuning of our financial reporting structure to better align it with how we manage the business. I'll now turn the call over to Mark, with a final reminder to please refrain from asking multipart questions or clarifications during the Q&A.

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Good afternoon, thank you for joining us. In Q1, HP executed well in a challenging market. We grew revenue 1% or 4% in local currency, gained share in two markets, and grew non-GAAP EPS 8%. HP is continuing to benefit from its marketing-leading portfolio and leaner cost structure. This quarter, we effectively balanced expense management with share performance and delivered on our commitments to our customers and our shareholders.

I'm particularly pleased with the results of our services segment which attained record profits of more than \$1 billion in quarter [1]. That's a big deal. We now have a second segment with significant recurring revenues generating over \$1 billion per quarter of profit and with solid room for margin expansion. The EDS integration is ahead of the operational plans we shared with you in September. At the end of Q1, we have removed more than 9,000 of the 24,700 headcount outlined in our restructuring plan. Customer response to the acquisition remains very positive, resulting in a couple of fortune 100 wins this quarter and a strong deal [fund].

Before I turn it over to Cathie to talk about the financials, I wanted to highlight a couple of reasons -- actually, three of them -- that I'm confident why HP will emerge from the current market environment as a stronger force in the industry. First, our cost structure. It's reduced. It's more variable. It's more performance oriented, and we have more opportunities ahead of us. We now have more flexibility to be more competitive, and with the actions we are taking we will be yet more competitive in the marketplace. In addition, as we have done this work, we have not cut into our muscle. We have been able to focus on our sales, R&D, and services strategies to further strengthen our capabilities in the marketplace.

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Second, our portfolio. As most of you know, our portfolio was already strong. Number one or two in virtually every market we serve. The scale we have attained relative to those positions in the market and the addition of EDS has been a strong position to our portfolio from the customer perspective. It is a significant improvement in the impact our overall portfolio has in the market. The customer reception has been strong.

Three, I would add our execution. We gained share in almost almost all of our key segments, while we lowered and variabilized our costs at the same time, while integrating EDS in an environment of volatile currency and worsening and toughening demand. And in many ways I will tell you Q1 from an execution perspective was among the strongest we have delivered. I'm going to now turn the call over to Cathie.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP & CFO*

Thanks, Mark, and good afternoon, everyone. Before I dive into the details of the Q1 performance, let me make a few comments about the business overall.

Services and software delivered solid operating profit growth in the quarter, with services contributing over one-thirds of the Company's profits. Services continues to execute effectively, maintaining customer service and achieving its EDS integration milestones. We saw pressure on our hardware businesses due to the slowing global economy. We reacted well in this tough market, outpacing the competition and gaining share in most segments. Operationally, we did a good job managing costs, with operating expenses down over \$0.5 billion from the prior year. We will be taking additional steps this quarter to further variabilize our cost structure and enhance our flexibility in this dynamic environment. We remain focused on optimizing our profitability, market share, and cash flow so that we can continue to drive innovation and strength own customer relationships to expand our market leadership.

Turning to our Q1 results, revenue was up 1% year-over-year as reported, or up 4% in constant currency reflecting a full quarter impact of the EDS acquisition. Looking at revenue by geography, including the addition of EDS, America's revenue increased 11% year-over-year, EMEA was down 3%, and Asia-Pacific decreased 11%. Excluding the effects of currency, revenue was up 13% in Americas, 1% in EMEA, and down 9% in Asia-Pacific. While there were pockets of organic growth, the slowdown in IT spending was global.

Gross margins for the Company were 23.4%, down 130 basis points from 24.7% one year ago. This decrease was driven primarily by the addition of EDS, which has lower gross margins. Non-GAAP operating expenses for the quarter were \$3.6 billion, down \$569 million or 14% from a year ago, despite absorbing EDS. In addition to benefiting from the stronger dollar, this decline highlights the work we have been doing over the last few years to make our cost structure leaner and more flexible.

During the quarter, we took a number of actions to reduce expenses, including extending the December holiday shutdown, significantly reducing travel, and eliminating other discretionary spending. We will continue to take actions to create a more variable cost structure, including reducing base pay and certain benefits across the Company beginning in Q2. Consistent with our philosophy for pay for performance, we intent to increase variable pay in total if HP meets its FY '09 financial objective. These actions will increase the Company's flexibility to more effectively a scale our expenses to our revenues in this difficult environment.

Non-GAAP operating profit increased 10% year-over-year to \$3.1 billion, driven by strong expense management and solid contributions from services and software. On the bottom line, this was offset by the unfavorable swing in OI&E of \$304 million, which included \$99 million in expenses due to currency hedging losses related to forecast deviations. All in all, we delivered solid non-GAAP earnings per share of \$0.93.

Now moving on to the details of our performance by business, personal systems business revenue declined 19% year on year to \$8.8 billion, while delivering operating profit of \$435 million or 5% of revenue. Total unit shipments declined 4% from a year

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

ago, with notebook unit growth of 8%, offset by desktop systems decline of 15%. Average selling prices declined more steeply this quarter due to product mix, competitive pressures, and passing through of the lower commodity costs in the form of pricing. PSG continues to execute well in this softening demand environment. We responded quickly by managing inventories and preserving margins while gaining share.

Imaging and printing revenue for Q1 was \$6 billion, down 19% year on year due to a tough economic environment. Segment operating margin increased 300 basis points to 18.5%, as favorable supplies mix and cost reductions were partially offset by hardware discounting. Compared to first quarter last year, total printer units were down 33%, and commercial and consumer hardware revenue declined 34% and 37% respectively. Supplies revenues declined 7% as lower end user demand more than offset the benefit of recent supplies price increases. Customers are extending the life of their printer, and our installed base remains stable. We maintained strong market position in printing, and will continue to invest in market-leading innovation focused on high-page value segments and drive the conversion to digital printing.

Enterprise storage and servers revenue was \$3.9 billion, down 18% year-over-year with declines across each of our business units. Operating margin was down 3.7 points to 10.3% driven by lower volumes and an unfavorable mix shift to lower margin products. ESS Blade revenue increased 4% compared to the prior year period. Storage revenue declined 7%, driven primarily by unfavorable currency exchange rates and market conditions. EVA was down 7%, with growth in the Americas offset by declines in EMEA and Asia-Pacific.

Turning to our server businesses, business critical systems revenue declined 17%, and industry standard server revenue declined 22% from the prior year, even as we gained almost 3 points of share in the x86 market in calendar Q4. Our results reflect the current market environment, and in particular the slowing we saw in January, as customers re-evaluated their spending and delayed purchases of equipment. HP software revenue declined 7% from the prior year to \$878 million due to softening enterprise spending as the quarter progressed. BPO was down 4% from the prior year and other software declined 14%. Support performance was solid across the portfolio, reflecting strong maintenance renewals and the sustained business value of our solutions.

For the quarter, software operating margins increased 10.7 points to 15.9% due to a favorable mix and solid expense management. Services including the addition of EDS delivered revenue of \$8.7 billion. On a year on year basis, operating profit in the quarter more than doubled to \$1.1 billion or 12.8% of revenue, reflecting our sustained efforts in reducing the cost of service delivery as well as the addition of EDS. Drilling down into the services businesses, we will now report subsegment revenue performance by four business units. For Q1, revenue was \$3.9 billion in IT outsourcing, \$2.5 billion in technology services, \$1.6 billion in applications services, and \$743 million in BPO, the EDS integration is ahead of schedule.

The EDS integration is ahead of schedule. We have made significant progress combining the business unit and are on track with our country level merger plan. Cumulatively through Q1, we've eliminated over 9,000 positions and are on plan to achieve the cost synergies we outlined in September. Customers are responding positively. Our total pipeline is growing, and we have already seen the benefit of our joint capabilities in wins this quarter, including significant signings at two Fortune 100 companies. Finally, HP Financial Services had revenue of \$636 million, down 1% year-over-year and generated operating margin of 6.4%. We continue to apply the same rigorous process for assessing the creditworthiness of our customers and the quality of our receivables, and the overall portfolio is performing well. We are encouraged with the growth in our financing volume despite a currency headwind.

Now onto the balance sheet and cash management. We closed the quarter a strong balance sheet, including total gross cash of \$11.3 billion. Days sales outstanding increased to 46 days in Q1 from 39 days one year ago. Days payable was 46 days, down 1 day year on year, while owned inventory was down 2 days to 31 days. With regards to channel inventory, we ended the quarter with PSG up 0.5 weeks, ESS up 1 week, and IPG up 1.5 weeks compared to a year ago. The increases in weeks of inventory were primarily due to weaker aggregate sales out compared to a year ago. Sequentially, total channel inventory dollars declined. We expect further reductions in inventory levels as we adjust to a softer demand environment.

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Gross CapEx was \$828 million, up 36% from the prior year period. On a net basis, CapEx was \$676 million, up 29% year-over-year. Increased capital expenditures were primarily related to the growth in our leasing and outsourced services business, including EDS.

Cash flow from operations was \$1.1 billion for the quarter and free cash flow was \$450 million. Q1 cash flow was unfavorably impacted by the softening economy. ESS and PSG responded quickly to the change in demand, while IPG inventory levels remained above plan. We will be working to bring down both our owned and our channel inventory in the coming quarters. Share repurchases in the first quarter totaled \$1.2 billion or approximately 34 million shares. At the end of the quarter, we had roughly \$7.9 billion remaining in the current share repurchase authorization. Finally, we paid our normal quarterly dividend, totaling \$193 million.

Now looking ahead to our outlook for Q2 and fiscal 2009, in providing our guidance for the second quarter and full year, we are assuming market conditions we saw in Q1 will persist. In addition, we expect the currency exchange rates will have a negative effect on revenue of 7 or 8 percentage points year-over-year for both the second quarter and the full year. Finally, we expect OI&E expense of approximately \$0.05 a quarter, a tax rate of approximately 21%, and a modest decline in weighted average shares outstanding.

With that in mind, our second quarter EPS guidance is based on Q2 revenue declining 2% to 3% from the prior year, including EDS. At these revenue levels, we expect our non-GAAP EPS to be approximately \$0.84 to \$0.86. For the full year, our EPS guidance is based on the assumption that our revenue may be down 2% to 5% as reported, including the benefit of EDS. At these revenue levels, we project 2009 non-GAAP EPS of approximately \$3.76 to \$3.88. While we don't know how the economy will evolve, assuming that our revenue is roughly within the ranges that I described, we remain confident in our ability to forecast EPS, given our line of sight to significant cost-saving opportunities and our increasingly variable cost structure and our track record of disciplined execution. With that, we'll open up the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions). And your first question will come from the line of Katie Huberty from Morgan Stanley.

Katie Huberty - Morgan Stanley - Analyst

Good afternoon, thanks. Mark, the rate of deceleration in BRICK countries was particularly alarming. Can you just talk about whether you did anything on the financing front or with channel inventories that exaggerated the downtick? And maybe just touch on whether you have seen a stabilization in demand in areas like China where there are some government rebates going into place?

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

A lot of questions there. No, we don't do anything to accelerate [the deceleration]. I will tell you that what we have seen is -- it is sort of remarkably consistent across the markets. There are a couple of exceptions, Brazil was an exception in the quarter, but the rest of the BRICK countries behaved pretty uniformly. I would say in China, to your point, we see a tale that's a little different. We see a little more -- I'll use the term negativity and/or softness in (inaudible) the enterprise. So your point about some of the things that have been done in China, we do see some of those impact on the enterprise, I think. Katie, we really did nothing to decelerate that. Russia was a particular issue in the quarter. I think those are the [chronicles] and we certainly saw that in Russia as well.

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Katie Huberty - Morgan Stanley - Analyst

Great. Thanks.

Operator

Your next question will come from the line of Richard Gardner with Citigroup.

Richard Gardner - Citigroup - Analyst

Thanks. The question is on EDS -- you talked about cost synergies related to the deal being ahead of plan, but can you talk about revenue dissynergies and how that is trending versus your expectations? It did look like revenue for EDS was much lower than we had expected in the quarter, given a full quarter benefit there. Thanks.

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP & CFO

If you actually look at EDS on a combined Company basis, getting them in the base for last year and also this year for the quarter, revenue declined roughly 15%. About half of that drop was due to currency, so they have a significant exposure -- or we have a significant exposure to the British pound where EDS was strong in the UK, and so we were definitely hurt by that. There was also a few points of headwind relating to the accounting policy in convergence and purchase accounting, and that was probably slightly behind what we had anticipated, and then we had -- the rest was basically real -- I would say real demand decline, and that was predominantly in the area of application services where there are more discretionary services that we saw.

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Rich, I would say to Cathie's point, I would tell you the revenue issues there, relative to local currency -- no sort of big deal. What you got was the pound didn't go in line obviously with the Euro, and so the currency hit was material. That's where it starts. That's a big part of it, and then the convergence on policy. The place where we saw a little softness was the typical add-on business that you would see on top of a contract to Cathie's point, and that was probably the only softness we saw in the quarter. Otherwise if you looked it net of net, it was roughly what we expected.

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP & CFO

And if I were to quantify that it's a few points of the 15% decline was the add-on.

Richard Gardner - Citigroup - Analyst

But you're happy with customer retention there?

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Let me give it to you another way, Rich. I would tell you we have seen a customer reaction that probably is -- make sure I keep this calibrated, but it's just better than we expected, and the funnel is strong, and in many cases the service market moves a little countercyclical to the economy. So the interest now in an IT outsource, [InterNAP] services. I would also combine that, to be open with you -- what happened with some of the companies, with Satyam for example, has created interest as well. So we have a pretty strong funnel right now. What we really have to do, Rich, is make sure, again we're very disciplined about the deals

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

that we go pursue. There are more deals than -- we need to make sure we're doing the right thing and going after deals with discipline. The funnel is strong, the customer reception is strong. And to Cathie's point and I think what we said earlier, we have gotten ahead of the integration plan which is a positive. But we have more work to do, and we know that, but we feel real good about it, though.

Richard Gardner - *Citigroup - Analyst*

Okay. Thank you.

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

Thanks, Rich.

Operator

Your next question come come from the line of Ben Reitzes with Barclays Capital.

Ben Reitzes - *Barclays Capital - Analyst*

Good afternoon. Mark, if I'm calculating this right, quickly, your revenue outlook for the year, you guys have cut off, taken the midpoints, roughly \$13 billion in revenue versus what you said three months ago, but only cut your EPS range by about \$0.12. Could you bridge the gap for us? I mean, what -- you said you had \$1 billion before you bring to the bottom line. Can you talk about how quickly that's hitting? And then anything in particular segments that you feel you are getting more efficiencies to give us confidence that you can hit this new range?

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

Listen, Ben, I think you saw how the model worked if you just do your same math in Q1, relative to that math on revenue to what it dropped in earnings. And I think it's a good question, particularly, I would say for example PSG. I hope what investors see in this quarter is the resiliency of the PSG model and the variability of that expense structure. And I would add to it, they had had another headwind in the quarter, which was the speed -- the currency impact in a normal world doesn't really have a huge impact on the results of PSG, but when the speed of the currency declines like what we saw in October and November, it can have an impact on the margin as you try to adjust price. And the PSG model is I think proven to be extremely resilient. The variabilization of that cost structure is extremely material to us -- not just in terms of earnings, Ben, but in terms of our ability to compete, and the ability it gives us in the marketplace as we go out and deal with what we have to go through.

From a services perspective, I think, you know, hopefully what you have seen in this quarter is evidence when you look at the combination of an EDS whose prior year was in the 5% and change operating margin range combined with technology services, and the fact that the combined businesses produced 12.8% operating leverage, showing the kind of leverage that we have in our services business, and now the incline in recurring revenue that we have within it. So I could go on segment by segment, but I'll give you those couple of pieces of color.

In addition to that, as we mentioned in the last call, we're taking out more costs in '09 than we were in previous years, and that has not been again a one-trick quarter thing. This is the culmination of several years of work. And as you know well, I'm not a big believer in short-term cost takeouts that you only have to put back two quarters from now. I want to be clear, there is a little bit of that in what Cathie described in the discretionary piece of some expenses like travel that sooner or later you add back into your model. But the bulk of what we're telling you is structural cost that is sustainable in our cost models, so we're not big

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

on throwing out a bunch of earnings guidance that we don't think we can make. So I think in the range that Cathie described in revenue or the range of earnings that we told you, we believe we can make, Ben.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP & CFO*

And the discretionary actions that we took in Q1 actually have a build as you go out into Q2, Q3, and Q4. They actually get larger on a year on year compare. So we have that cushion as well.

Ben Reitzes - *Barclays Capital - Analyst*

But to clarify, the number of costouts is over \$1 billion now based on all of these things you're doing?

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

Definitely. Ben -- you just happen to be the guy, so I'm going to stay on it just for a second. I want to make sure we're clear. This -- we're not taking down the number of engineers we have in R&D. We actually this quarter -- I think headcount in -- actual engineering headcount is up. Sales headcount, we're not trying to purposely take down unless we have a performance issue related to sales headcount or we're shifting people from a back-end part of sales to a front end tip of the spear part of sales. We're trying to incline and improve our level of service. So I don't want any of that cost being confused with some material part of the innovation, the creation of demand, and the servicing of demand. We're actually not only trying to reduce that cost, but shift into what we think are the core parts of the technology business, and that's what we're doing.

Ben Reitzes - *Barclays Capital - Analyst*

Thanks a lot.

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

Thanks, Ben.

Jim Burns - *Hewlett-Packard Development Company, L.P. - VP of IR*

Take the next question.

Operator

Your next question will come from the line of Tony Sacconaghi with Sanford Bernstein.

Tony Sacconaghi - *Sanford C. Bernstein & Company, Inc. - Analyst*

Yes, thank you. I wanted to follow up on your commentary about supplies. If we look at supplies growth over the last three quarters prior to this one, it had been 9% to 11%. This quarter was it minus 7%, so about a 16% to 18% swing negatively. And yet, you should have begun to enjoy 2% to 5% supplies price increases. So if your install base is the same, and the usage is ultimately what has changed, are you really seeing about a 20% change in supplies usage in one quarter? Is that effectively what you are seeing, or is there other stuff behind it?

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP & CFO

Tony, I think your math is roughly right. I mean, there is lots of puts and takes in terms of what goes into what is driving the decline in supplies. We certainly had a benefit of pricing, and we'll have that benefit in Q2 to Q4 as well -- in fact, an increasing benefit. But the bottom line is, folks, the end-user demand for supplies is down, and we actually expect with the change in channel inventories that we want to make in Q2, and that's included in our guidance already, but with that change that supplies growth will go yet even more negative than 7% in Q2 and Q3. So we do think there are significant headwinds still ahead of us on supplies growth, and that that won't turn around until the economy starts to rebound. And at that point in time, we do believe we get back to a market that's going to grow in the mid-single digits. But we do need the economy to start to turn around, so folks start printing more and frankly start stocking their pantry again, because we do think there is a certain amount of that going on in the consumer's homes as well.

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

I think, Tony, we do a lot of work on that as you know, and there is definitely an alignment between -- or at least some alignment between GDP and unemployment and printing. So when you get down to the end of the day, when you don't have a job, you are not printing as much is typically how it works. And we have some pretty sophisticated models. But there are also these other issues that Cathie described. We're trying to get the inventories in the right place, and with the speed that Cathie mentioned in our script, we have got some work to do. The price increase, to your point, is a positive. But to very blunt with you, I'm not entirely happy with how the inventory got distributed within the context of the quarter, meaning that we have the right thing at the right place at the right time, and we have got some work to do on that part of it. So some of it, Tony, is the external factors that Kathy went through. We have got some internal stuff to get right to as we get back to this sort of range that Cathie described.

Tony Sacconaghi - Sanford C. Bernstein & Company, Inc. - Analyst

Can you comment on aggregate supplies inventory then in dollar and weeks terms? Have they changed in the quarter? I know you made comments about printing overall in your prepared remarks. Can you make any comment on supplies, given that it sounds like that's an issue you're going to be working on? Thank you.

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP & CFO

Channel inventory weeks were up year on year across both hardware and supplies. We definitely saw channel dollars decrease sequentially, but what you are really seeing with the weeks of supply, and it applies to hardware as well as the supplies piece, is a significant decline in sales out in Q1. So typically we would see an uptick in sales out from Q4 to Q1. This time we saw double-digit declines. And part of the, frankly, the execution challenges that I think we had especially in EMEA are from the fact that we did not respond quickly enough with our channel inventories to the demand environment that was upon us in Q1. And that's a piece of the execution that we absolutely are focused on getting fixed in Q2.

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

And Tony, to add it to, I mean -- we have made the decision that we're -- the revenue guidance we're giving you is because we just don't want to bank on the fact that the economy is going to get better. I mean, we just don't see a catalyst to change it. So we have chosen to say we want to get our channel inventory levels in line with that, and to Cathie's point, most of our businesses got that done in Q1. So that's a good thing. But we want to get it done in supplies as well. Now, listen, I hope it gets better in Q2 than we're modeling. I hope it's better in Q3. I hope it's better in Q4. But that's not how we decided to run the Company. We decided to be prudent and we're deciding to lean out the channel and make sure we're in a lean position as we go forward. So that's concluded in these models that we're giving you. And, listen I guess in this context, I would say -- I hope it turns out better than what we're telling you, but right now we think it's prudent for us to go lean out the channel.

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Tony Sacconaghi - *Sanford C. Bernstein & Company, Inc. - Analyst*

Thank you.

Jim Burns - *Hewlett-Packard Development Company, L.P. - VP of IR*

Let's take the next question, please.

Operator

Your next question will come from the line of Bill Shope with Credit Suisse.

Bill Shope - *Credit Suisse - Analyst*

Thanks. Mark, I wanted to follow-up on the IPG question. Given the environment and given the falloff in consumables, how should we think about the margin profile here as we progress through 2009? I mean it looks like this quarter, you certainly had a boost in margins partially from weaker hardware performance, but I'm assuming you don't want that type of a margin boost to persist, so you don't want hardware to continue to deteriorate. So how does the math play out here? How should we think about that?

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

Good question. Listen, I think your point this quarter is in our models that we have included in the guidance that we have given you, it is probably a small softening of IPG margins as part of how you go through the year -- but still, probably given the way this economy plays out, a little higher than our traditional models give you. So I hate to give you an exact number, because we're going to be nimble in the context that if we see more units in a certain segment, we're going to try and go get them. So we maintain that flexibility in the model, but I would tell you given what we're seeing right now, and given what we have modeled, it will be a little bit higher than what you have seen in the past. In fairness, Bill, they are also benefiting from some of the lower cost structures across the whole Company, so it isn't just purely IPG. But the bulk of it -- I would say, Bill, modeling just a little bit higher than what you have seen in the past given the mix that we're seeing right now.

Bill Shope - *Credit Suisse - Analyst*

Thank you.

Operator

Your next question come will come from the line of Brian Alexander with Raymond James.

Brian Alexander - *Raymond James & Associates - Analyst*

Thank, Mark. I was wondering if you could be more specific in terms of how far ahead of plan you are in integrating EDS? At the analyst day, you talked about \$700 million [in savings]. What does that number look like now for this year, next year, and beyond?

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Brian, my quick answer would be no. So I'm not going to layout the plan anymore than we have, but to tell you that the team has done a good job, and I think we -- in May, I was excited when we announced it. In September, I was very pleased with the work that had been done, and today I'm thrilled with the work. But we have more to do. Certainly we have given ranges that would take us five to six quarters to get much of this work done. I still think, Brian we'll be doing work five to six quarters from now to get the entire model where we would like to. I do think it probably operate a little faster than we planned when we look at it against the total, meaning it's a percent of the total, but we'll have work to do as we go out over the next several quarters. But we are ahead of schedule.

Brian Alexander - Raymond James & Associates - Analyst

Maybe just a quick follow-up, Cathie, the payables were down \$1.5 billion sequentially, and had a pretty large negative impact on the cash flow in the quarter. Just a little bit more color on what is behind that and how we should think about that going forward?

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP & CFO

Brian, I actually think the issue isn't the payables. The payables came down the way you would expect the payables to come down, given the revenue declines that we saw. What really was the negative impact on cash flow was that inventory didn't come down the way it needed to come down, and this gets back to the execution issue that -- and challenges that we're having with -- in the IPG business. Again, we need to get that inventory down. We did a good job in PSG and ESS, and we have got work to do to fix that in Q2 and Q3 in IPG. But that is really what the issue is with the decline in cash flow. Payables came down as you would have expected them to.

Brian Alexander - Raymond James & Associates - Analyst

Okay. Thank you.

Operator

Your next question will come from the line of Shannon Cross with Cross Research.

Shannon Cross - Cross Research - Analyst

Thank you. Good afternoon. Question on cash flow, Cathie, just to follow up on Brian. For 2009, how should we think about cash flow given the reduced guidance, but opportunities on working capital? And also how do you see the capital structure of the Company as you look through the year? Thank you.

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP & CFO

When I think about the cash conversion cycle, I really go back to what I said in Q4 when I was asked about the cash conversion cycle.

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Shannon, I think you need to close your line or something, we got a lot of feedback here.

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Shannon Cross - *Cross Research - Analyst*

I apologize. I'm actually out of the country. Just in terms of cash flow for 2009, how do you think about that?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP & CFO*

So, I --

Jim Burns - *Hewlett-Packard Development Company, L.P. - VP of IR*

Operator, can you please mute the questioner, please? We're getting a lot of feedback.

Operator

Okay. You may proceed.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP & CFO*

Thank you. Shannon, in terms of the cash conversion cycle for '09, if you remember, I talked at the Q4 earnings call about the fact that I still thought there was opportunity and I gave you some puts and takes on that. I said basically DSO was basic headwind, and we're seeing that happen. You saw DSO basically come up this quarter, and again, it's the headwind of more enterprise extended payment term type customer business, folks not taking advantage of the cash discounts in the channel. But that's basically what we built in to our plan, to be frank. And then where the opportunity is is on days of inventory. I'm talking about opportunity getting beyond just the IPG inventory fixed over the next couple of quarters. I think there are still opportunity there to really streamline our supply chain, especially in the IPG space. And then also with respect to payables, I also see there is some opportunity there. We are getting much better at managing our payables, but we have not done all of the things we can do and we're in the process of implementing. So I do think from a working capital perspective, things are going to continue to progress in '09. And then you can look at what earnings are based on the guidance that we provided to get a sense of where the cash flow should come out in 2009.

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

We think overall we'll have a good cash flow. I think one thing, Shannon -- it probably relates better to Brian's question earlier. One thing that hit us on the cash flow was we bought early in the quarter from a state of inventory perspective, and we didn't buy late. So to Cathie's point, PSG was going towards a number and then didn't as they realigned their days of inventory. So much of that cash flow comes back over time. So we would see a pretty reasonable cash flow. Again, it starts with earnings, to Cathie's point. We'll get the days of inventory, and when you look at the broader year, given that conditions stay similar to Q1 -- which to be very blunt, I hope they are better -- but if they stay similar to Q1, we'll get the days of inventory right as we go.

Operator

Your next question will come from the line of Keith Bachman with Bank of Montreal.

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Keith Bachman - Bank of Montreal - Analyst

Hi, thanks. Mark, I was hoping you could talk a little bit about the services operating margin. I know you didn't want to talk about the costs associated with it, or the opportunities for cost relief. But wanted to see if you could talk a little bit about the services operating margins -- how we should be thinking about that going forward, particularly against the next couple of weak seasonal periods? And Cathie, I wanted to see if I would add a footnote to the previous question on cash flow if I could, in that this quarter your buyback was substantially above your free cash flow. And just how do you think about the use or the free cash flow that you'll generate during the course of the year, buyback versus debt relief? Thanks.

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Keith, I'll start. So thanks for the question. We think services margins will improve. So I think that's probably not the level of detail you are looking for, but I would tell you that we have gotten deep in to this now, as you can imagine. And we started really getting inside our models in September, late August, as we closed the transaction with EDS. We obviously know a lot more, some four or five months later. I would also add this is the culmination of a lot of work in what we call our technology services business as well, which is more of our hardware support business, which we did a lot of work on in 2008. So it's really the culmination of all of that work in what we call PS, and this integration of EDS combined. And I'd tell you that while we're pleased, and I'm sure optically the 12.8% looks strong, I know it does -- we actually think there's improvement in that operating margin over time because of the work that we have done -- let me say that we have already done that we know will line up with the remainder of this year and into next year.

Keith Bachman - Bank of Montreal - Analyst

Okay.

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP & CFO

In terms of free cash flow and share repurchase, the way we think about our share repurchase program is we look at first offsetting zero dilution, and then being opportunistic, and definitely have seen the cost of zero dilution coming down, and that's why you see the share repurchases coming down a bit as well. We haven't really tied it directly to -- I'm only going to spend whatever the free cash flow is in a particular quarter. Even when we do look at free cash flow, we look at it over a longer timeframe.

Keith Bachman - Bank of Montreal - Analyst

Okay.

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP & CFO

And so that's really what drives our cash -- our share repurchase activity.

Keith Bachman - Bank of Montreal - Analyst

Okay. Thank you.

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Thanks, Keith.

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Operator

Your next question will come from the line of Mark Moskowitz with JPMorgan.

Mark Moskowitz - JPMorgan Chase & Co. - Analyst

Thank you. Good afternoon. A question Mark, or Cathie, on the defensibility of your recurring revenues. You seemed very constructive about the services contribution. I want if you can first just talk about the services contribution to your recurring revenues, and are you starting to see customers try to rescope or change the economics or the time horizons of your recurring piece there? And then what about the other parts outside of services in terms of recurring revenues? How defensible?

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Mark, I was just trying to make sure I got your first one right. Did you say extensibility?

Mark Moskowitz - JPMorgan Chase & Co. - Analyst

No, defensibility.

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Okay. Okay.

Mark Moskowitz - JPMorgan Chase & Co. - Analyst

Sorry about that.

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Listen, in terms of the market right now ,most of that services revenue is contracted. So when you say change scope, no -- in fact, if anything, what you have got in the market right is customers trying to -- I'm making a generalization, Mark, so I'm not talking for every single customer. But more customers are trying to add things on. So what customers will be doing, saying -- instead of just doing this, could you do this. And of course, customers are always looking for three things every time you get into a service transaction. They want to know how can you lower my cost, how can you accelerate my transformation and how can you get me higher service levels -- and those three things always trade off with each other any time you go at a services transaction. So customers right now are leaning harder on the cost takeout piece than perhaps they would have 1.5 years ago, so that actually gets a bit of an incline in your funnel as you look at it.

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP & CFO

And then with respect to recurring revenue, when we said last quarter that roughly one-third of our revenue was reoccurring, and it generated over half of the profits of the Company, what we did was we actually didn't add -- just take services and add in supplies and add in HP Financial Services. We actually scrubbed those numbers. Because if you add up the revenue in those two segments, you would get something on the order of 40% odd recurring. What we did was we scrubbed them, and specifically with respect to services and consumables on the IPG side of the house is that we basically looked at how they have acted in

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

the past recessions, and scaled them back, and came up with that one-third. So I actually feel very comfortable that the one-third is, or roughly one-third is very defensible.

Mark Moskowitz - JPMorgan Chase & Co. - Analyst

Thank you.

Operator

Your next question will come from the line of Bill Fearnley with FTN Equity Capital.

Bill Fearnley - FTN Midwest Securities Corp. - Analyst

Good afternoon, Mark, had a question for you. When you look at PSG, how do you look at the whole netbook segment now when you look at the average selling price? Is it being cannibalized? Are the netbooks cannibalizing your mainstream notebook business? How is it affecting ASPs and margins this quarter? And then how do you think it is going to affect you here in the next few quarters?

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

Well, Bill, it's an interesting question. I mean, I have seen in print from people who claim expertise that 80% of netbooks is net new, no pun intended, and 20% is a cannibalization of the low end of the netbook market. We'll have to see over time how that evolves. I say this, we feel pretty good about our lineup of netbooks, and it has done well for us in what we have done so far. Now we're just out, so just out being defined as the last several months. So I think we have got some time before I can really give you a good metric and good consumer data back on where this lands. So I hate to duck your question, but I would like to have a bit more data before I just -- before I give you anything, and I hate to recite to you what industry people are saying, because I'm not giving you any new insight.

Bill Fearnley - FTN Midwest Securities Corp. - Analyst

But you had hinted to average selling price declines in PCs then, so with sharp declines in your traditional products on the netbook side --

Mark Hurd - Hewlett-Packard Development Company, L.P. - Chairman, CEO & President

I wouldn't go there, Bill, because I think you have different factors occurring when you look at the overall ASP of PSG, ASPs in the marketplace. You have a mix issue even within the mix. So what you're really seeing is not a move to notebooks that's cannibalizing certainly in this quarter of results. What you have is somebody who was buying a more thickly configured notebook now buying a more thinly configured notebook, and we're seeing mixes within the mix actually changing, and that's what is driving most of the ASP, not a shift down to netbook. That data I give you within the context of our quarter, so there's no significant phenomenon of ASPs in the HP lineup caused by netbooks.

Cathie Lesjak - Hewlett-Packard Development Company, L.P. - EVP & CFO

The other items affecting ASPs on a year to year basis are currency, as well as just general pricing. So the commodity environment, commodity prices have come down, and that is getting taken in the prices down to the street. And that wasn't happening as

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

much as a year ago, where some of the softness in the commodity cost environment was actually, basically being -- stayed in our pocket, and didn't go to the street.

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

But, again, Bill, when we say price, I want to make sure I'm clear with this. We're not seeing any abnormal competitor pricing environment. This is more of a mix within the product family and the commodities now adjusting as we have gone through time. So, again, I know I am giving you a complicated answer, because there's a lot of data here, but it is not a netbook phenomenon driving those ASPs. It's more the mix within the mix that's really behind this, Bill.

Bill Fearnley - *FTN Midwest Securities Corp. - Analyst*

Thanks for the detail.

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

Sure.

Operator

Your next question come will come from the line of Doug Reid with Thomas Weisel Partners.

Doug Reid - *Thomas Weisel Parters - Analyst*

Thanks for taking my question. Just wondered if you could comment on the degradation in operating margin in the ESS segment? Year-over-year it looks like it's down 370 basis points. Wondered if you could give some color on the breakout there -- competitive pricing, product mix, and maybe currency impact?

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP & CFO*

So the margins were down mostly because of the -- on a year on year basis, mostly because of competitive pricing environments. It was -- again, if you look at last year, we had a situation where the commodity pricing environment was just not as competitive. So you were able to keep a lot of the commodity pricing -- I mean the commodity cost declines and maintain your prices. This year, we're passing way more of that through to the customer, and we also have a change in mix, where again like PCs, it's moving -- more customers are moving to lower-end, less configured, less business-critical systems, mix, that type of thing that drives margins down as well.

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

We saw a lot of movements, Doug, in the quarter from people buying a 2P industry standard server now buying a 1P. Somebody buying a less configured Blade. So to Cathie's point, very similar phenomenon you see in PSG. So, again, when you look at the margin of the actual product that was being sold and compared it to the margin of the exact same product a quarter ago, you did not see a material erosion in that margin. What you see is a shift of what is being sold within the overall portfolio of revenue shifting to the lower end. And so these are all things that we have taken in to consideration in the model that we have given you, that you actually see people that are trying to buy -- actually trying to buy as little as they can buy in the context of getting what they need to get done. So that's -- I will also tell you -- take the industry standard servers that Cathie described. We gained

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

2.5 points a share, I think, in the quarter. And to be very frank, we weren't pushing hard on the street price. So I think you have got an environment that really is demand driven, and it's demand driving a different mix that is having an impact.

Doug Reid - *Thomas Weisel Parters - Analyst*

Helpful, thanks.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP & CFO*

We did have a bit of an offset to that in the fact that we did manage our expenses very well, and did get operating leverage. Expenses were actually down year on year more than revenue was down. So we had -- did a good job on that side as well trying to offset some of the margin pressure.

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

Yes, I think that too. I'll just get on this one. I think ESS probably is going to go out gaining share in virtually every segment that they compete. And they did a pretty good job in the quarter. Maybe not quite as quick as PSG got its inventory and its channel inventory lined up, but they were running a close second with them. So they came off getting their expense structure lined up, gaining share. It wasn't for us operationally a bad quarter in ESS at all.

Doug Reid - *Thomas Weisel Parters - Analyst*

Thank you.

Jim Burns - *Hewlett-Packard Development Company, L.P. - VP of IR*

Why don't we take two more questions, please?

Operator

Your next question will come from the line of Jayson Noland with Robert Baird.

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

Thanks, just a question on the hardware refresh delays -- Mark, if you could talk about visibility that you are given from customers. Do they just say it's indefinite? Do they say it's going to be a few quarters? Just generally across PC server and print.

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

I could tell you lots of long stories about what they tell you, but I'll give you a data point. I think there was a question earlier about recurring revenues. One of the data points we saw early in the quarter was the renewal rate in technology services, and that being our hardware support business, the renewal rates were very high. And we have -- we service material, obviously part of the HP base, and we actually service third party hardware as well. So I think you have got a lot of Company saying I'm going to hang on to my install base longer. Now they can only do that for so long, but I think you have got a couple of factors going on right now. New projects are being scrutinized very, very hard for ROI and short-term ROI. Second, people are taking their existing base and telling the IT department or the CIO, can't you just do without a refresh a month longer or two months longer,

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

or three months longer? And they'll continue to do that until the TCL makes sense. Now at some point, this will create a big refresh opportunity, and obviously we want to be in a position to capture this. But this second, I can't give you a date or specific metric on when this thing is going to turn. It will turn, and we hope to be in a position to garner a material piece of it.

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

Makes sense. Thanks.

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

Thank you.

Operator

Your final question will come from the line of Scott Craig with Banc of America.

Scott Craig - *BAS-ML - Analyst*

Thanks, good afternoon. Just on the inventory side, Mark, you spent a lot of time talking with the IPG group there and the issues, but both [EDS and PSG] were up 1 week and 0.5 week respectively. So when you think about a normal range of channel inventories for those two groups, where are we there? Are we towards the higher end? Are we at the mid end? Low end? If you would provide a little color, there it would be appreciated. Thanks.

Cathie Lesjak - *Hewlett-Packard Development Company, L.P. - EVP & CFO*

So with respect to PSG channel inventory, the year on year compare, we are up 1 week, but last year we were at the very low end of our range, and so we feel good about the PSG channel inventory. There are no concerns on the PSG channel inventory. It is up only 0.5 weeks. ESS, being up 1 week, it's near the top of the range. And so we would like to bring that down, and we have got that factored into the operational plans for Q2 as well as in our guidance.

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

We'll get all of the channel inventory stuff we'll get nailed, and that's all within the guidance that we have given you.

Scott Craig - *BAS-ML - Analyst*

Okay. Thank you.

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

Thanks.

Operator

That does conclude today's question-and-answer session. I would now like to turn the call back over to Mr. Mark Hurd for closing comments.

Feb. 18. 2009 / 5:00PM, HPQ - Q1 2009 Hewlett-Packard Earnings Conference Call

Mark Hurd - *Hewlett-Packard Development Company, L.P. - Chairman, CEO & President*

Sure, listen, appreciate all of your time on the call. I think we had solid performance in a tough market. We gained share in most segments, while delivering margins and driving our cost structure we think into a more advantaged position, both lowering it and variabilizing it. We're ahead of plan on the EDS integration and our service businesses delivered as planned. Our strategic moves and operational execution, we think position services as a significant player in our overall portfolio.

In terms of the market, we have modeled the market to get really no better for the rest of the year. We view it what we saw in Q1 is roughly what we'll see for the rest of the year. We see the opportunity here for us to put the Company in a better position, to level the strength of our model, expand our penetration in the market, and accelerate our cost actions.

I want you to be confident in our ability to execute and deliver the EPS guidance within the revenue ranges that we have spelled out. The questions I think you brought up about cash flow, cash flow will come back as we execute on the capital metrics that we have set in place. We have baked in basically all of the factors we've described, including the supplies factor that we described earlier, into the models that we have given you. So we're going to go about the job of executing, and we'll talk to you at the end of Q2. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a wonderful day.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2009, Thomson Financial. All Rights Reserved.