# EXHIBIT 27 (Part 1)

James R. Gould, Jr., Derivatively on Behalf of Hewlett-Packard Co. vs. Margaret C. Whitman et al.

Leroy Noel, Derivatively on Behalf of Hewlett-Packard Co. vs. Margaret C. Whitman et al.

Santa Clara Superior Court

**HP Corporate Governance Reforms** 

Robbins Geller Rudman & Dowd LLP



#### Governance Reforms are Key to Increasing Shareholder Value for HP

- Continue to Bolster Corporate Governance Expertise on the Board
- Reforms to Mergers and Acquisitions Practices
- Improved Compensation Policies
- Risk Management Reforms



#### Governance Reforms are Key to Increasing Shareholder Value for HP

Strengthen Corporate Governance Expertise of the HP Board

- 1. Promoted Ralph V. Whitworth as "Interim" Chairman, April 2013;
- Remove "Interim" designation and designate as Chairman until at least December 2015;
- Continue moving HP directors with Corporate Governance expertise into leadership positions on the HP Board, i.e. Audit Committee, Nominating and Governance Committee, and HR and Compensation Committee, by December 2015

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### Merger and Acquisition Reforms

- Hewlett-Packard's board oversight proved ineffective during the Autonomy acquisition as well as previous recent Mergers and Acquisitions (M&A) activity.
- The proposed reforms herein would define a structure for the role of the board during M&A activity. These reforms include defining clear priorities for the Board in evaluating a potential merger or acquisition as well as impending integration.

# Merger and Acquisition Reforms: Mergers & Acquisitions (M&A) Committee

- Weak oversight and poor attention to detail during M&A activity can saddle investors with poor returns on capital for decades. For these reasons, many large U.S. companies with active acquisition programs have effectively implemented M&A committees, including EMC Corporation, CA Inc., Juniper Networks, Inc. and more than 40 others.
- The purpose of the HP M&A committee is to support the full Board with identifying, reviewing, and assessing potential acquisitions and strategic investment opportunities. Towards this end:
  - The M&A Committee shall be comprised of no fewer than three board members, including both independent and inside or outside
    related directors. Priority should be given to Board Members with extensive experience in mergers and acquisitions. Members shall
    be appointed by a majority vote of the board that will also elect a board chair. While the committee does not need to be
    independent, Independent directors will be required to meet in executive session without management present.
  - The M&A Committee shall meet no fewer than four times per year and as often as is appropriate to fulfill its duties.
  - Committee responsibilities include challenging senior management on potential transactions and associated risks. Boards can
    enhance decision making in M&A by closely challenging the inclination of management to stress income statements over balance
    sheets, obscuring the potential of a transaction. The committee shall designate rules of procedure, consistent with Company charter
    and bylaws.
  - The M&A Committee shall push management to clarify the relationship between a potential transaction and corporate strategy. The
    Committee shall assess whether the transaction would support organic-growth efforts, provide complementary sources of value
    creation, as well as assess whether the transaction is the best use of both financial and managerial resources.
  - The committee shall maintain documented meetings to be filed with meetings of the full Board.

# Merger and Acquisition Reforms: Mergers & Acquisitions (M&A) Charter

Hewlett Packard's M&A Committee Charter shall contain the following provisions:

- The M&A Committee shall adopt a disclosure code for material transactions covering key aspects of any proposed deal.
- The M&A committee shall make an annual assessment of the charter's adequacy and make recommendations to the Board for approval in the event changes are required.
- The M&A Committee shall make recommendations to the full Board regarding acquisition, divesture and investment candidates.
- The M&A committee shall make an evaluation of the execution and integration of completing the transaction and report results to the full Board.
- The M&A committee shall prepare an annual performance review of the committee in conjunction with the Company's Corporate Governance and Nominating Committee.

# Merger and Acquisition Reforms: Board Priorities during M&A Activity

While management typically provides the Board with a recommendation and relevant information, it is the Board's responsibility to decide on material M&A transactions. It is incumbent on directors to act in the best interest of the company, fulfilling a fiduciary duty to serve the interests of its shareholders. The Board is responsible for staying engaged in senior management strategy regarding all material transactions. Towards this end, the Board shall take the following steps during M&A activity:

- The Board shall be responsible for maintaining detailed records that display due diligence and process regarding all potential M&A activity.
- The Board shall review the acquisition, divestures, or investment strategies and candidates with management as appropriate.
- The Board shall review meeting minutes provided by the M&A Committee during deliberations regarding acquisitions and divestures.
- Independent directors shall meet in executive session without management present.

### Merger and Acquisition Reforms: Transactional Features

For all M&A transactions, the M&A Committee and Board shall ensure that transactions be structured to include the following protective features, or provide a compelling, transaction-specific rationale to shareholders why the Board concluded these features were not necessary.

- Fairness Opinion: When evaluating an acquisition or proposed merger, the Board will be required to seek a
  fairness opinion from their financial advisors. The fairness opinion will, among other things, consider whether
  the transaction can be regarded as fair from the financial point of view of the shareholder.
  - In addition to an opinion from the investment banks advising management on the merger, the M&A Committee will seek a second, independent fairness opinion to evaluate the transaction from the standpoint of Company shareholders and report this opinion to the Board.
  - The independent advisor shall have no other interest in the transaction or business with HP. The M&A Committee shall disclose the advisor's independence on a similar basis as auditor or compensation consultant independence is disclosed.
  - Fairness determinations shall be constructed in a document setting forth transaction terms, as well as the assumptions and qualifications used to make the fairness determination, and disclosed to shareholders in the merger proxy statement.
- Empowering the fairness opinion: For a strategic acquisition, the M&A Committee shall require that:
  - Acquisition contracts include provisions that allow HP to exit an agreement at reasonable and capped cost, not only in cases of material adverse changes, but also in cases where the fairness opinion process described above leads to a determination that the transaction should not proceed at the price offered.
  - "Reverse termination fees" shall be capped at a reasonable percentage of deal value (less than 5 percent).

HP will greatly benefit from the influence of stakeholders in the M&A decision making process. Accordingly, the Board shall adopt the following reforms in order to engage the opinions of company stakeholders for mergers and acquisitions.

#### 1. Shareholder Representation Committee

- The Company shall have a Committee of Shareowner Representatives consisting of at least three members. The Committee shall review the management of the business and affairs of the company by the board of directors and shall advise the Board of its views and the views of shareowners which are expressed to the Committee. The Committee may, at the expense of the Company, engage expert assistance and incur other expenses in a reasonable amount not to exceed in any fiscal year \$.01 multiplied by the number of common shares outstanding at the beginning of the year. The Committee shall be given the opportunity to have included in the Company's proxy statement a report of not more than 2,500 words on the Committee's activities during the year, its evaluation of the management of the Company by the directors, and its recommendations on any matters proposed for action by shareowners.
- The members of the Committee shall be elected by the shareowners by plurality vote at their annual meeting. Elections of members shall be conducted in the same manner as election of directors. Each member shall be paid a fee equal to one-half the average fee paid to nonemployee directors, shall be reimbursed for reasonable travel and other out-of-pocket expenses incurred in serving as a member, and shall be entitled to indemnification and advancement of expense as would a director.

#### Shareholder Representation Committee, cont'd:

- The Company shall include in its proxy materials used in the election of directors nominations of, and nominating statements for, members of the committee submitted by any shareowner or group of shareowners (other than a fiduciary appointed by or under authority of the directors, which has owned beneficially, within the meaning of section 13 (d) of the Securities Exchange Act of 1934), at least \$20 million in market value of common stock of the Company continuously for the three-year period prior to the nomination. Nominations must be received by the Company not less than 90 nor more than 180 days before the annual meeting of shareowners. The Company's proxy materials shall include biographical and other information regarding the nominee required to be included for nominees for director and shall also include a nominating statement of not more than 500 words submitted at the time of nomination by the nominating shareowner or group of shareowners.
- Nothing herein shall restrict the power of the directors to manage HP's business and affairs.

#### 2. Reserved Time at Annual Shareholder Meetings for M&A Discussion

- The HP Board shall implement a formal policy to encourage shareholder participation at annual meetings, especially as it pertains to M&A activity. This will ensure that a meaningful dialogue occurs between shareholders and directors. Towards this end:
- Chairmen of key committees as well as the M&A Committee should be prepared and permitted to answer questions from shareholder relevant to those committees' responsibilities.
- A reasonable amount of time at the annual shareholder meeting shall be allocated for questions and comments from shareholders, in addition to time allocated for presentation of specific agenda items.

#### 3. Implementation of Multi-Stakeholder Initiatives

- HP shall engage its stakeholders on M&A activity through multi-stakeholder initiatives, including, but not limited to:
  - Takeover panels in markets such as the U.K. and Brazil have demonstrated that formal, fully independent oversight of M&A transactions adds value to transactions.
  - Stakeholder Surveys: In Scotland, for example, Stakeholder Surveys are used by the Scottish
    Government (SG) to find out more on their perceptions and attitudes of working with SG
    officials. The aim of one particular survey was to collect data from a wide-range of
    stakeholders to understand new approached and highlight best practices. HP would be wellserved by implementing a Stakeholder-Survey approach to solicit feedback when undertaking
    large M&A activity.
  - Stewardship Code: The UK Stewardship Code "aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders." HP would greatly benefit from a similar Stewardship Code outlining how stakeholders could act to protect and enhance company value as it pertains to M&A activity. The Stewardship Code should contain clear guidelines on the code, application of the code, and principles of the code.

#### 4. Investor Town Hall Meetings

Town Hall meetings are not uncommon for public companies in conducting certain business. Given the HP board's failures in the recent past to successfully identify, evaluate, and incorporate M&A activity at HP, the Company and shareholders would benefit from Investor Town Hall Meetings regarding M&A activity. Accordingly, as soon as is practical, the M&A Committee will conduct a Town Hall Meeting with key stakeholders upon identifying potential M&A activity. Suggestions from key stakeholders will be recorded with meeting minutes available along with board meeting minutes. If necessary, a second Town Hall Meeting will be held in the even that M&A talks progress significantly.

To manage the risks associated with HP's acquisition program, executive compensation programs should incorporate a number of features to tie compensation explicitly to the success of the acquisition, and avoid either paying for failure or inappropriately incentivizing acquisitions.

Towards this end, to the extent that M&A activity is part of the Company's strategy, the Compensation Committee shall design a program that demonstrates its commitment. The provisions of this program, shall include the following:

- Long-term incentive policy shall specify that in any year with a transaction, a component of long-term incentive pay should be explicitly tied to the long-term success of the transaction. This component shall typically be no less than one percent of transaction value, and should be carved out of the Company's typical targeted long-term incentive awards, and not serve as an extra component on top of long-term pay.
- For significant strategic acquisitions, where one percent of transaction value is larger than a typical annual long-term incentive award, multiple years of incentive awards should be tied to the long-term success of this transaction.

Critically, these performance-based awards should pay out only upon the achievement of preestablished performance goals, with no opportunity for payout in the absence of performance, and upside for performance beyond goals.

- The goals should be prospectively disclosed in the CD&A for named officers and be chiefly measured by objective financial metrics that account for the cost of the acquisition as well as its benefits, such as Economic Profit or ROIC.
- The metrics specified in the long-term incentive plan should be amended to focus on these meaningful economic goals and remove the long list of possible performance metrics, which includes: (i) cash flow; (ii) earnings (including gross margin, earnings before interest and taxes, earnings before taxes, and net earnings); (iii) earnings per share; (iv) growth in earnings or earnings per share; (v) stock price; (vi) return on equity or average shareowners' equity; (vii) total shareowner return; (viii) return on capital; (ix) return on assets or net assets; (x) return on investment; (xi) revenue; (xii) income or net income; (xiii) operating income or net operating income; (xiv) operating profit or net operating profit; (xv) operating margin; (xvi) return on operating revenue; (xvii) market share; (xviii) contract awards or backlog; (xix) overhead or other expense reduction; (xx) growth in shareowner value relative to the moving average of the S&P 500 Index or a peer group index; (xxi) credit rating; (xxii) strategic plan development and implementation; (xxiii) improvement in workforce diversity, and (xxiv) any other similar criteria.
- If the board desires more flexibility in making awards with other performance metrics it should amend the
  plan subject to shareholder approval. Committee discretion to adjust awards should be removed, such as the
  ability to make some or all of the outstanding Incentive Stock Options granted to the Awardee become fully
  vested and exercisable.

- All awards under the long-term incentive plan should have goals with a multi-year horizon with cliff vesting; the plan should be amended to require performance conditions for all awards, including stock option awards.
- The long-term incentive plan should be amended to require that unvested awards should not accelerate unless performance conditions are met (no pay for failure), regardless of termination scenario, and provide only for prorata vesting based on to-date achievement under double-trigger change in control scenarios.

#### Short-Term Incentives

Integration and other operational goals in conjunction with acquisitions should be separately incentivized in the short-term program. These goals should be specific and quantified, with specific thresholds, targets, and maximum performance levels disclosed in the CD&A. Critically, the short-term incentives and performance metrics should not overlap with the long-term incentive structure.

#### Clawbacks

In addition, both short- and long-term M&A incentives should contain a clawback or "malus" provision for significant write-downs in value of the transaction, where value destruction from a failed acquisition is significant enough to warrant action beyond forfeiture of the long- and short-term incentives directly tied to the acquisition.

- Clawback should be triggered by any material write-down beyond planned goodwill write-offs, not just those due to fraud or misstatements.
- All unvested equity awards and short-term incentive payouts should be subject to forfeiture under the clawback.
- Any severance payouts in case of termination are also subject to forfeiture under the clawback.

The clawback evaluation should be done in conjunction with impairment testing. The base amount to be clawed back out of other unvested or unpaid compensation vehicles should be 1 percent of any amount written down.



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#### Compensation

- In addition to the M&A clawback, the Board shall implement a strict liability clawback, applicable regardless of how clawbacks are implemented under Dodd-Frank rule making, whereby executive officers shall disgorge any incentive payments or profits predicated on financial performance if HP restates its financials due to material noncompliance with financial reporting requirements.
- The Board shall disclose any decision by the Compensation Committee to recover any particular award of compensation in an SEC filing on Form 8-K.



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#### **Business Strategy Review**

- To address concerns the viability of HP's business strategy, the Board shall provide shareholders, in writing, a clear, plain-English explanation of how each of the 17 acquisitions it has made in 2009-2011 are intended to complement one another and the Company's pre-2009 capacities, and how the resulting company has the potential to function as an integrated whole.
- Further, the Board shall provide shareholders, in writing, specific evidence, including a quantitative assessment, that the breadth of HP's offerings is in fact delivering a competitive advantage, and that businesses it acquires tend to function better combined than apart.
- Additionally, the Board shall provide shareholders, in writing, a clear, plain-English explanation of management's views on further growth through acquisition vs. through organic investment in the immediate future; and if it is considering further acquisitions, the specific measures it has put in place to lessen the likelihood of future large write-downs of their value.

# Robbins Geller Rudman & Dowd LLP

Darren J. Robbins Travis E. Downs III Shawn A. Williams Benny C. Goodman III Aelish Baig



#### **Hewlett-Packard**



#### **Hewlett-Packard**

- Delaware corporation
- Headquartered in Palo Alto, California
- Sells printers, laptops, desktops, storage solutions, cloud solutions, servers, and enterprise services
- Once Silicon Valley's most prestigious corporation

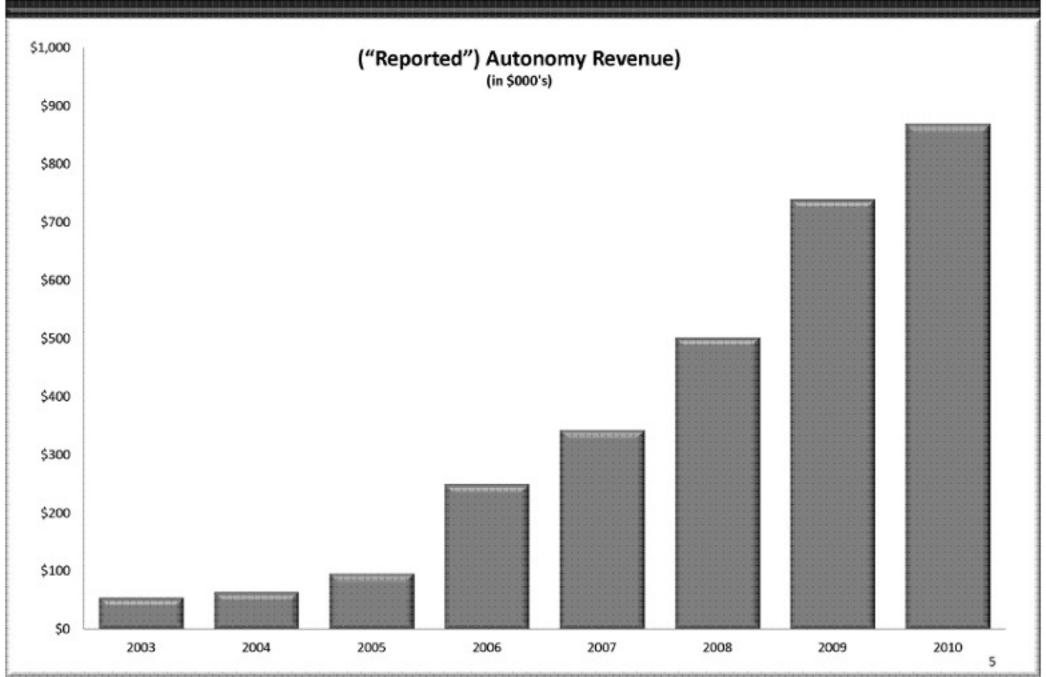


### **Autonomy Corporation**

- Based in Cambridge, UK and San Francisco, USA
- Intelligent search and data analysis company
- Founded by Michael Lynch in 1996
- Purportedly enjoyed strong revenue and earning growth
- Position HP as a leader in the next-generation information management and analytics solutions business

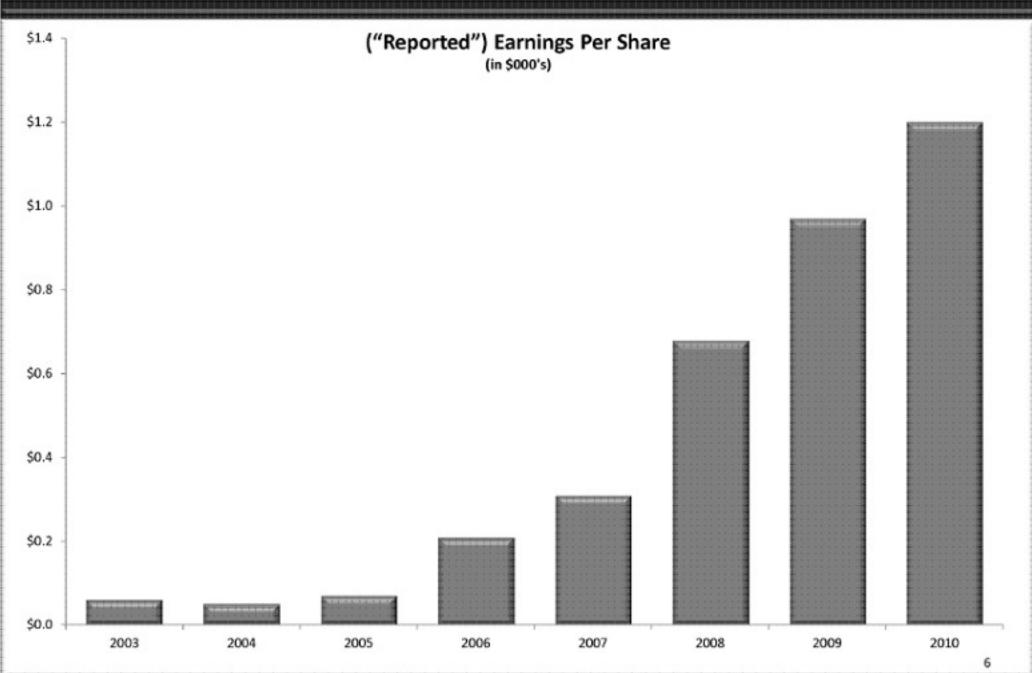


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# **HP Defendants**



#### **HP Defendants**

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Margaret C. Whitman



Leo Apotheker



Raymond J. Lane



Marc L. Andreessen



Shumeet Banerji



G. Kennedy Thompson



Rajiv L. Gupta



John H. Hammergren



Ann M. Livermore



Gary M. Reiner



Patricia F. Russo