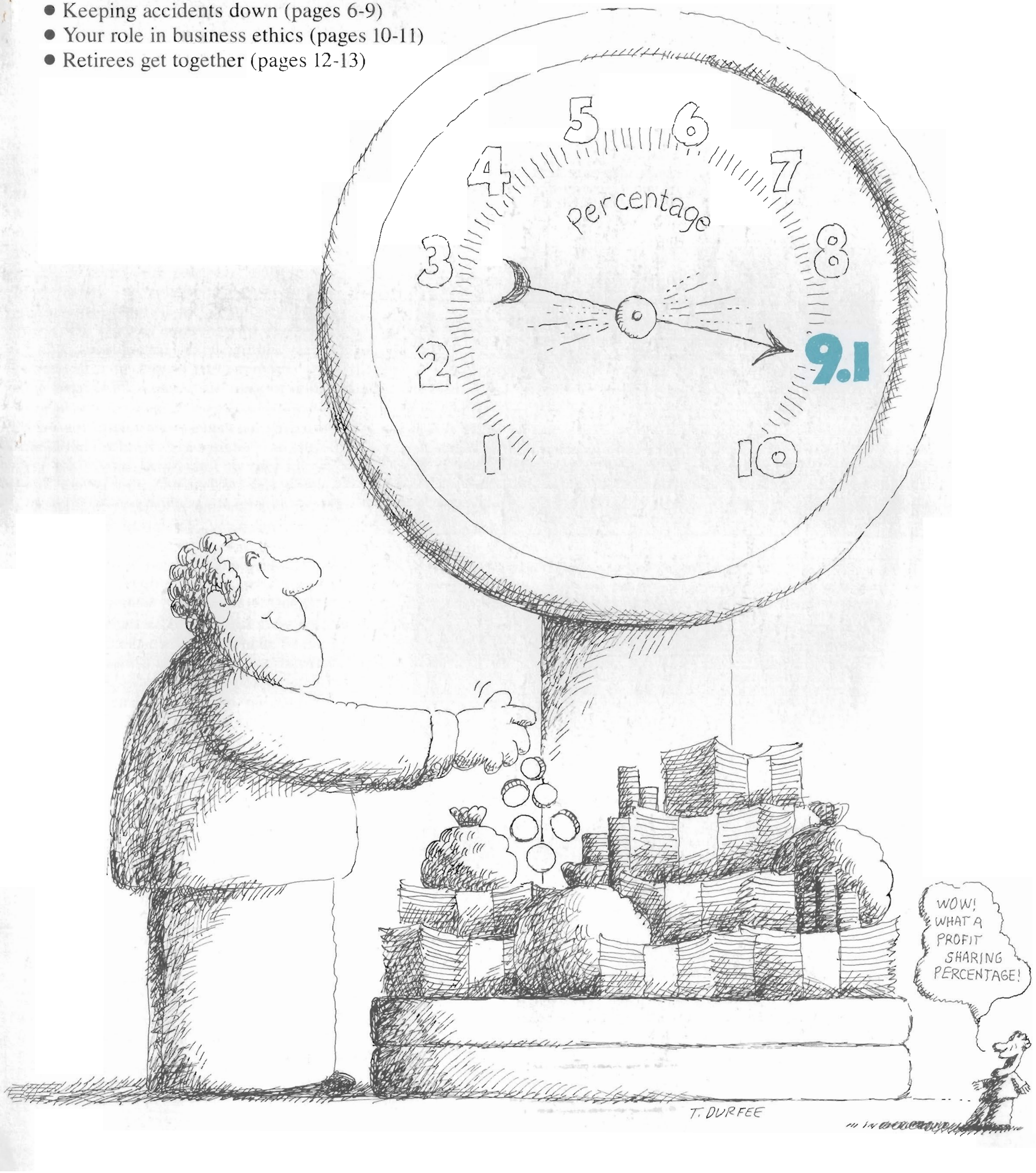
Measure

For the men and women of Hewlett-Packard/JUNE 1979



HP's profit-sharing tradition

"What it takes is a company that makes money"...

Spreading the good news on profit sharing to the HP world now calls for an extensive telecommunications network. Here, Bill Terry makes the recent announcement from the switchboard room at corporate headquarters. The two rows of telephones behind him are connected to his microphone, simultaneously carrying the message "live" to almost all HP locations in the U.S. and some overseas.

by George Climo

In announcing the recent good news on earnings and profit sharing, Vice President Bill Terry commented on some of the ways in which HP has changed since 1965, the only previous year that the percentage exceeded nine percent. He also stressed the important company traditions of strong new products, teamwork, attention to business fundamentals and corporate objectives that continue to make HP a success and our profit sharing work.

From the very beginning, a determination to share the company's success with employees was evident—but the form of sharing has taken some interesting turns. Just how interesting is revealed in the recollections of John Terry, one of the very early employees who's now retired. John recalls a meeting with Dave Packard at a company party celebrating the move into a new building. "I started to leave, and as I was going out I ran into Dave and he said, 'John, how are things going?' I said, 'Dave, you know it's wonderful the way we've come along. But there's one thing that bothers me. When there were just a few of us—at that first Christmas party—you passed out envelopes with a crisp five-dollar bill in each one. Where did you get the five-dollar bills?'"

As John Terry knew, that kind of money just wasn't around HP at the end of 1940. But somehow Dave Packard and Bill Hewlett had scratched up a "cash profit-sharing" payout to all employees.

The tradition remained, but the form changed. Many company veterans still can recall the production bonus that was added to each paycheck. It was modeled after an idea developed in 1933 by the General Radio Company in Cambridge, Massachusetts. When HP was founded in 1939, General Radio was the leader in the instrument business. In addition to being a competitor it was progressive in the area of employee relations, and liked to share its ideas.

December 1954. At the annual Christmas party in Palo Alto, Bill and Dave distribute bonus checks to 700 anxiously awaiting employees. Dave is assisted by the late Noel Eldred, former executive vice president.

General Radio had developed what it called its "K" plan in response to the pay and layoff problems created by The Great Depression. HP adopted a somewhat similar plan in 1940, basing it on the premise that employees as a group receive the full benefit of all savings made in the cost of labor. It was calculated each month and paid each payday. In calculating the production bonus, the main factor was the ratio of labor cost to production value. If more was produced for the same labor, the ratio would go down and the bonus would go up.

During most of the twenty-one years in which the bonus existed it rose dramatically. Because of this growth, the system became particularly helpful in the years of World War II. Wages were frozen, but established plans such as the HP bonus were approved, permitting the company to provide a solid incentive throughout the period of the wage freeze.

In the original calculation, the bonus was pegged at twenty percent, the percentage of base earnings to be added to each pay check. By June, 1948, the bonus had grown to eighty percent. At that point, base wage rates were increased fifty percent and the bonus adjusted to twenty percent. In April, 1953, the bonus was up again to sixty-two percent and a similar base-rate adjustment was made.

Growth of the bonus continued, but more slowly, as the company grew. The rate reached thirty-nine percent in December, 1959. This time, base pay was upped to twenty-four percent to adjust the bonus to seven percent. During the next two years, the bonus moved in a narrow range from six to eight percent. It was time for a change.

The Christmas bonus

The change would involve not only the production bonus, but also the Christmas bonus which had continued since 1940. In good years—and most of them were—this additional year-end pay always came as a more personal gift from the company founders, Bill and Dave. The amount was determined after the October close of the fiscal year, and checks were usually distributed by company officers at the annual Christmas party. Their distribution was the highlight of year-end company festivities. But here too, company size eventually caught up with us. In a letter mailed December 18, 1961, to all U.S. employees, Dave Packard explained the change to our present profit-sharing plan.

"It has always been a basic objective of our company to have our employees share in the success which they help make possible. This has been done in the past largely through our production bonus plan and our Christmas bonus, although our retirement program, stock purchase plan, hospitalization, sick leave, insurance and other employee benefits have contributed to this end.

"Our production bonus plan worked very well when we were smaller. Although it has been modified from time to time, as we have grown and as our operations have become more complex, the formula we use in computing this bonus has not worked well. As you know, the bonus has stayed at six percent every month during 1961. As we move products to Loveland, Colorado Springs, and elsewhere, and as our activities become more complex, it is even less likely the present bonus plan will work well in the future.

"Bill and I and the Executive Council have been studying the problem for a

(continued)

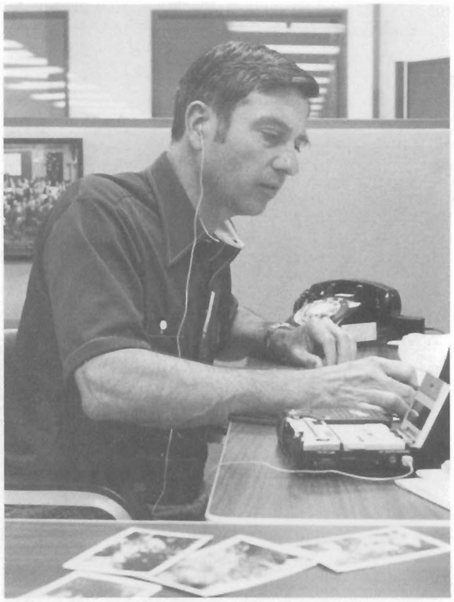
profit sharing

number of months and we have decided that we should discontinue the production bonus as of January 1, 1962. In lieu of the bonus, we will add seven percent to the base pay of everyone on the bonus and round the rates up to the next five cents or $5.00...

"We have also had a Christmas bonus for many years. This has been larger when we have had a good year and smaller when the year has not been so good. You will receive a good Christmas bonus again this year, but beginning next year we plan to substitute for the Christmas bonus a cash profit-sharing program. This will provide for you an incentive payment related more closely to the contribution you make not just in more efficient work but also in helping to save material costs, overhead costs, and in every other contribution toward increased profit..."

Thus, beginning in 1962, twelve percent of profits was set aside for cash profit sharing, in addition to the ten percent for the retirement program.

A forerunner of our New Jersey Division, Harrison Laboratories, made a similar change in its incentive pay program. Like HP, Harrison had converted a bonus program to profit sharing. Bill Harrison, company founder, explains one of the reasons for the change: "We had a weekly payroll and a monthly bonus. What is wrong with that system is, as you grow, it gets to a point where people are more interested in getting the parts into the box than they are in getting the equipment put together and tested and into the box. One Saturday I called Bud (Whitesell) and said, 'Let's go down and take a look at what we're shipping. Our warranty expense has gone up a percent.' We were doing about a half a percent then and it had gone up to one and a half. We opened cartons and we found cigarette ashes, we found that some of the equipment wasn't finished, and we stopped all production on Monday. They were so anxious to get that bonus up that it got out of hand. After that we changed it from a straight gross to a profit-sharing plan." (The usual profit sharing calculation includes all company costs, such as warranty expenses, rather than just the gross wage amount.)



George Climo, corporate historian

About the author

Uncovering 'the good old days'

The comments of early employees about the evolution of the profit-sharing program were gleaned from about 50 hours of taped interviews recorded by the author, George Climo. George—himself a 28-year HP veteran who has had a varied career in accounting and personnel—has spent much of the past two years reminiscing with HP people and retirees about the good old days. Besides the fact that he loves doing it, it's a key requirement of his current job as corporate historian in the public relations department.

Companies, like people, usually consider themselves young until a second generation comes along—and only then, when the pioneers in the business are out of the mainstream, do they develop a respect for the past and begin to document the company's early beginnings. So it was with HP. The founders were taking a less active day-to-day role, many long-time employees had retired, and some important contributors from the early days had passed away. It was decided that someone should begin piecing together HP's history from the recollections of those who made it. And George jumped at the chance.

While much of it can be gathered in the San Francisco Bay Area, George's assignment has also taken him to the Eastern U.S., where the Medical Products Group began as the Sanborn Company and where two other companies with histories of their own were acquired and became the New Jersey Division; to the South to explore the origins of the Southern Sales Region; and to Southern California to interview the founders of the company that became San Diego Division.

George can often be found at his own desk in Palo Alto, however, sifting through old photos or scratching notes as he reviews the hours of tape recordings. When the new corporate headquarters is built, he hopes to have a historical exhibit with photographs, vintage instruments and a library of documents and tapes.

But there's a lot to be done before then. The company is a hundred times larger than it was when George came aboard in 1951, and still making history. It's a bit like shooting at a moving target.

Waltham had it first

An earlier history of profit sharing begins at the Sanborn Company, acquired by HP in 1961, and forerunner of the Medical Products Group. Harry Smith was fourteen when he started work at Sanborn Company in 1918. He was under the legal age for factory work, but in those days fewer questions were asked. Now enjoying his retirement not far from the Waltham (Massachusetts) plant, Harry still drops by and visits with old friends.

Harry was quick to respond when asked recently why he went to work at Sanborn. "It was because they had profit sharing. Sanborn had started a year ahead of me."

Jim Jenks, retired board chairman of Sanborn, had a similar reason for his choice of where he went to work. He recalls that in 1925, a high school acquaintance told him about Sanborn Company—"where they had profit sharing, stock ownership, and everything else," he explained.

Thirty-four years later, Jenks was considering the merger of Sanborn with another company. He had found varying degrees of interest from a number of prominent firms, including Texas Instruments, American Hospital Supply, Motorola, Litton Industries, Beckman Instruments, Lear, and of course Hewlett-Packard. Sanborn officials evaluated all of these companies over a period of time, and according to Jenks, "The only one we really liked after visiting all of them was Hewlett-Packard. We liked Dave, we liked Bill and we thought it was the type of company we wanted—no profit-sharing plan like Sanborn's but they had a bonus system. And so we signed up with Hewlett-Packard."

In the early days at Sanborn Company, forerunner of HP's Medical Products Group, the message on company progress and profits was delivered in person at a gathering of all employees. Jim Jenks is shown making the announcement at Sanborn's Cambridge plant during the early 1950s.

Until the first public offering in 1958, all Sanborn Company stock was held by company employees. This was the result of an interesting variation by Sanborn in its profit-sharing program. Participants received only partial payment in cash and the remainder in Sanborn common stock. And for a brief period, profit shares were paid wholly in stock.

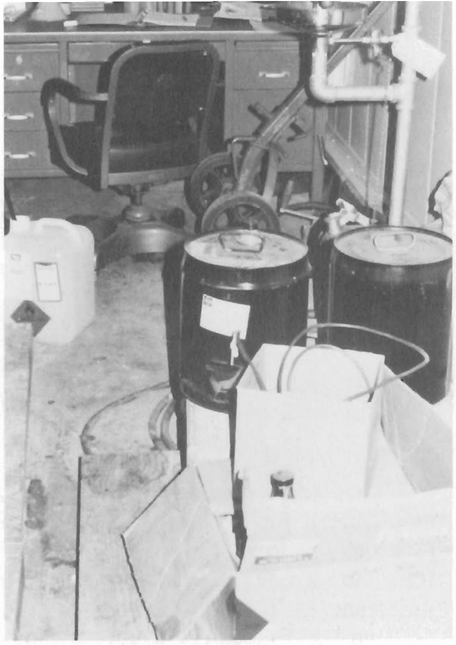
What if you wanted cash instead? The company held a semi-annual auction for employee shareholders. Anyone wishing to sell could usually find another employee anxious to buy shares at a discount from book value. Dr. Sanborn conducted the auction. Those who wanted to sell shares would submit prices and the founder would start with the lowest and ask for bids. A veteran employee observed, "Dr. Sanborn was smart as well as high principled. With the profit sharing and stock auctions he found a way to get money to keep the company growing."

In its present form the HP cash profit-sharing program is fairly standard. Hundreds of companies have similar profit-sharing plans—many of them originally attracted by HP's success. If there is a difference, what is it?

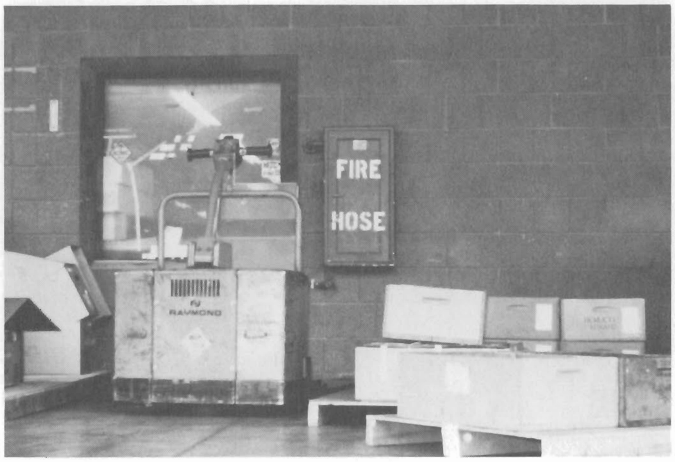
Retired HP vice president Frank Cavier remembers getting some inquiries about the HP plan. "Many other companies checked with us on how our plan works, and have adopted similar ones or wished they could," he said. "What it takes, of course, is a company that makes money. There's no sense in sharing profits if you don't *make* a significant profit. And so we had all the makings of a successful program. It won't work for everybody, but it did for us."

And it still does. □

Product quality is a key ingredient in the HP profit picture, and one that should never be sacrificed to meet production goals. Twenty years ago, a prominent chart on the production floor kept HP people mindful of quality while striving for a big production bonus. Pointing out the success of that effort is Linda Dean, now with Santa Clara Division.

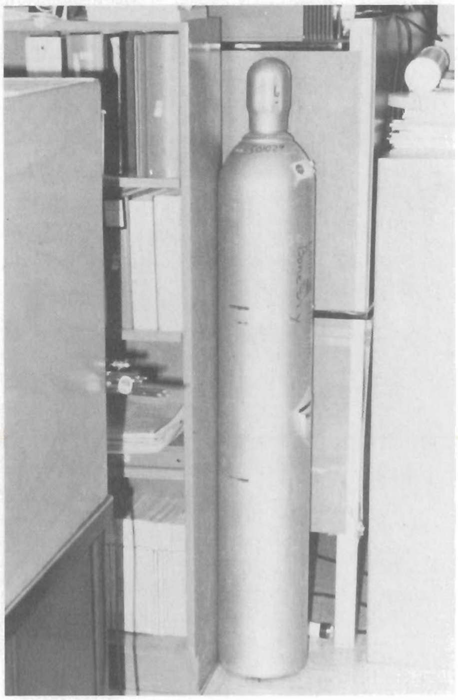


HAZARDOUS TO YOUR HEALTH:
unmarked chemical containers . . .



blocked firefighting equipment . . .

"It happened so fast..."



CHAIN REACTION: A dropped acid bottle creates a slippery floor . . . a fall . . . possible cuts, acid burns or broken bones. That's the dramatic sequence portrayed in a newly released videotape, "Chemical Carelessness," one of several produced or planned by HP-TV for the Corporate Health and Safety department. Other completed tapes include "HP's attitude on safety" based on an interview with John Young, and "Preventing back injuries" which deals with the company's most common injury. According to Larry Holbrook, Corporate Industrial Hygienist, future tapes will cover hearing conservation, eye safety, and integrated-circuit laboratory safety.

unanchored pressure cylinders . . .

The daily diet of disaster fed to us by our news sources used to be a plain and simple menu—fire, famine, flood, disease, wars, wrecks, mayhem and murder. Now the headlines confront us with the hazards of carcinogenic chemicals, radiation leaks, microwaves, pesticides and herbicides, air and water pollutants, food additives, toxic waste dumps, asbestos particles, drug addiction, and even satellites falling to earth. You can get sick just worrying about them.

Fortunately, we can do better than that—a lot better. In fact, a tremendous amount of human energy now is being devoted to forms of protection against these sophisticated new hazards. Certainly, making the workplace safe and healthy is a major goal for industry, one which Hewlett-Packard supports fully. When the Occupational Safety and Health Act went into effect in the United States during 1971, for example, Bill Hewlett expressed the company's determination to meet or exceed the OSHA standards. The result is a company-wide network of health-and-safety coordinators supported by Stan Selby's Corporate Safety, Health and Hazardous Materials Services department.

Are we performing up to Bill Hewlett's expectations? A number of measures say that we are doing very well in reducing the frequency of accidents but not as well in lowering the accident-severity rate. For example, in the matter of accident frequency (recordable accidents per 200,000 work hours), HP in 1977 reported a U.S. rate of .14 and a Santa Clara County rate of .17 versus 2.4 for all U.S. industry and 1.2 for the electronics industry. In the case of accident severity (days lost per 200,000 work hours), HP logged 32.95 lost days in its Santa Clara County operations versus 22 for the electronics industry and 45 days for industry as a whole (HP's U.S. figure is not available.). In Germany, too, the injury rate at the company's Boeblingen facility has declined fairly steadily along with national rates as a result of stepped-up vigilance.

The accounting side is one aspect of the safety story, and an important one. Nevertheless, as John Young said recently in an interview for an HP videotape on safety, the company's primary concern is to protect employees and their families from the pain and suffering of serious injuries and accidents.

Two key figures are largely responsible in that regard. First is the health and safety coordinator in your local division. The position was created in 1972 as a response to OSHA and other relevant legis-

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lation. In some cases it's a full-time job, in others it is split with other duties such as facility management, personnel, or quality assurance.

Dan Sullivan of Data Systems Division might well be seen as a prototype HP health and safety coordinator. He came to the job as an engineering aide involved in facility design and specifically concerned with environmental factors. From there it just grew.

As one quickly learns when trying to track Dan's activities, he is a believer in safety management by wandering around. Once a month each functional manager receives a written report of Dan's safety observations resulting from a walking tour of all areas. Mainly, however, he works directly with the people and supervisors responsible for local work operations that, in Dan's view, need some changes for the sake of health and safety. His interest is wide ranging. Overall is the general safety of the environment—air quality, noise levels, material handling systems, radiation control, eye protection, fire safety, emergency action planning, and electrical safety standards. Dan also pays a lot of attention to individual situations. These may involve action such as installing protective devices on machines, removing trip hazards in walkways, clearing blocks to emergency exits, identifying unmarked containers, securing pressure vessels, posting emergency call information, and putting fire extinguishers within easy view and reach.

Coordinators at other HP organizations echo and amplify Dan's role. Bill Dudley at New Jersey Division says his approach is to try to make health and safety attractive to people. A specific technique he employs is to make himself available to people so they feel free to speak out on health questions and safety problems. Bill also believes it is important that he be involved in reviewing the purchase of capital equipment from a safety point of view.

At Boeblingen, HP GmbH coordinator Ulrich Sattler reports that many new laws and regulations affecting safety have been developed in Europe over the past twelve years. "I guess that Germany is one of the most advanced countries for safety," he said, "except for the U.S.S.R. in respect to chemicals. Yet I don't have the feeling of being overregulated."

Ulrich noted that every HP factory area or sales office in Germany has a safety representative who conducts monthly inspections and reports findings, supplementing Ulrich's own inspections. The combination seems quite effective in terms of prevention: in 1977 the organization of some 2,000 people experienced only 25 injury accidents, of which more than half

WALKING AROUND: Dan Sullivan, health and safety coordinator at Data Systems Division, discusses safety with Len Bullard, model maker in the R & D machine shop.

occurred on the way to work, at picnics and during sports events.

It should be clear by now that the chief safety figure—other than the local coordinator—is you, whether you're in a production area, administrative function, or field sales activity. This is borne out negatively by accident reports. Dorothy Durham, manager of employee insurance programs, observes that "a lot of accidents occur because of careless little oversights." Bill Dudley expands on this by pointing out that no safety program or health measure, however thoughtful, can guarantee complete freedom from risk: "Life is full of hazards. All anyone can do is minimize the risk-taking through awareness and concern. The neck you save may be your own." □

CPR TRAINING: No, it doesn't stand for Canadian Pacific Railroad. It's a cardiopulmonary resuscitation class at Data Systems Division. Popular demand has boomed the original target of some 17 CPR-trained people to almost 200! At last report, six people at the Cupertino facility had received emergency aid from CPR-trained employees for choking or heart attacks.

ENVIRONMENTAL TESTING: Bill Dudley, safety coordinator at the New Jersey Division, collects samples of methylene chloride fumes from a vapor degreaser in Gary Martinsen's work area.

Business conduct gets the spotlight

Wonder whether you can accept a gift from a supplier? Buy from the high bidder? Refuse to sell to someone? It's all covered in an informative new booklet consolidating HP's policies on ethical conduct.

In the preamble to Hewlett-Packard's statement of corporate objectives is a paragraph stating that the company should always conduct its affairs with "uncompromising honesty and integrity." It continues with even stronger words: "People at every level should be expected to adhere to the highest standards of business ethics, and to understand that anything less is totally unacceptable."

"As a practical matter," it goes on, "ethical conduct cannot be assured by written policies or codes; it must be an integral part of the organization, a deeply ingrained tradition that is passed from one generation of employees to another."

Still, written policy memos have been issued from time to time, for the same reason the corporate objectives themselves were committed to paper 22 years ago: to make certain, as the company grows and decentralizes, that traditional HP values are fully understood by employees everywhere, and that they enter into the decision-making at all levels.

In recent years, events such as Watergate and the business bribery scandals have focused attention as never before on ethical conduct in industry and government. Many companies have published codes of conduct, and have even funded chairs of business ethics at universities. The Foreign Corrupt Practices Act, signed into law in the U.S. in 1977, imposed criminal penalties not only for bribing foreign officials, but also for not having adequate accounting procedures and internal controls to prevent such payments.

"Business lunches should be infrequent, nonlavish, for the express purpose of enhancing a business relationship . . ."

Because of the interest in the subject of ethics, HP felt the need to consolidate the various policy statements on business conduct—and to make them understandable enough that employees would not only read them, but *re-read* them periodically. "We wanted to avoid complicated legal language," adds Craig Nordlund of the general legal department.

Two documents have resulted from that. One, directly related to the Foreign Corrupt Practices Act, was initially distributed to people who deal with international trade, and will be incorporated into the accounting and financial manual.

The other document will be off the press shortly in the form of a booklet titled "Hewlett-Packard Company Standards of Business Conduct." It'll be given wide distribution, and is intended for reading by all employees. It deals with conflicts of interest, handling company information, what to avoid in the way of payments and contributions, trade regulations and the consequences of violating them, conduct involving competitors and customers, and much more.

Some samples of what it contains:

Regarding conflicts of interest, HP employees "must avoid situations where their loyalties may be divided between HP's interests and those of a customer, supplier or competitor," including not owning a "significant financial interest" in such a business, according to the booklet. It also cautions against taking a second job that might involve a conflict, or taking advantage of an opportunity for personal gain that rightfully belongs to HP.

Regarding gifts, the policy prohibits the acceptance of anything other than inexpensive advertising novelties from a customer, supplier or competitor, and advises that business lunches "should be infrequent, nonlavish, for the express purpose of enhancing a business relationship, and not simply a reciprocal payment."

On the handling of information, the policy regards all HP documents as company property, "which should not be disclosed outside HP unless released for publication." More specifically, it defines "Company Private" documents as being "solely for the use of management in making major management decisions which must not be disclosed outside HP." The designation "Company Confidential" is used if the disclosure would damage HP's interests, as in the case of bids, targets, sales forecasts or customer lists. And finally, "For Internal Use Only" means that it may be widely distributed but has some sensitivity.

Some policies in the booklet are intended to protect HP people from legal pitfalls they may not even be aware of. An employee in possession of "material" inside information, for instance, may violate U.S. law by buying or selling company stock before the information is disclosed to the public. The rules are imprecise, but if employees are in a position to know about a pending product announcement, acquisition, or earnings report, they're urged to be cautious about stock transactions and seek advice from HP legal experts if in doubt.

"If a competitor begins to discuss prices, terms of sale, etc., the HP representative should refuse to participate . . ."

The Foreign Corrupt Practices Act also gets some attention in the booklet. Under that law, HP people are restricted from establishing any undisclosed or unrecorded fund or asset, making false or misleading accounting entries, or making any payment without supporting documentation. No HP funds are to be donated to any U.S. federal political campaign, and other political contributions must be approved by the Executive Committee. Gifts, commissions or fees to government officials, or to "any firm in which a government official or employee is known to have an interest," are prohibited.

Trade regulation laws in the U.S. are covered by the Sherman Act, the Clayton Act, the Robinson-Patman Act, the Federal Trade Commission Act and some state laws as well. The European Economic Community also has anti-trust laws comparable to the Sherman Act. Although the provisions of these laws are complex, the greatest danger of violation involves contact with competitors. Price-fixing, boycotting, making any type of agreement not to compete are all illegal. Trade associations are useful and legitimate ways of exchanging information within an industry, but there are inherent risks, according to the HP policy statement: "If a competitor begins to discuss prices, terms of sale, etc., the HP representative should refuse to participate and leave the meeting if such a discussion is not immediately stopped."

The policy also discourages comparative advertising, and warns against making disparaging comments about competitors or their products. HP employees must not attempt to acquire a competitor's trade secrets or other confidential information through "improper means," which, according to the statement of ethics, include "industrial espionage, inducing a competitor's personnel or customers to disclose confidential information, or any other activity that is not open and above-board."

Contact with customers is also covered. If HP refuses to do business with anyone, the refusal should be in writing. Distributors must be free to establish their own resale prices, without being influenced by HP—nor can HP restrict the resale of a product through any agreement with the customer. Boycotts, reciprocal deals, and "exclusive dealing" are also prohibited. Discrimination in pricing and similar practices are prohibited by the Robinson-Patman Act, and the FTC Act forbids a number of unfair methods of competition including false claims, deceptive comparisons and misrepresenting the company's ability to fill an order.

Procurement policies are also covered in some detail in the booklet, and the policy applies to all employees who deal in any way with suppliers. In such dealings HP employees "are expected to use common sense, solid judgement and the highest level of integrity." Competitive quotations should be obtained whenever possible, and small or minority-owned businesses should be sought out as sources of supply. Bids should be evaluated on the basis of quality, service, reliability, price, and the financial stability of the supplier, but "the required quality and service need not be sacrificed for a lower price." In addition, no supplier should be dependent on HP for more than 25 percent of its business.

In order to assure that no HP funds are used for bribes or improper payments, HP must strike a cost-benefit balance in its accounting controls. "We could have controls that would provide absolute protection of HP assets, but the cost would be prohibitive," explains Craig Nordlund. "For example, some companies require two signatures on checks. HP could do that too, but with the documentation we require it probably isn't necessary. The language of the law is very general. It requires 'reasonable assurances,' for example, that funds won't be used improperly, but it's up to the company to decide what's reasonable." Both internal and external auditors have conducted reviews, according to Craig, to try to spot weaknesses in HP accounting systems.

The "Standards of Business Conduct" booklet does not contain much new information—it merely puts it all together and reaffirms what HP has always stood for. The company counts more on the honesty, integrity, fairness and common sense of its people than it does on written codes of conduct—but any type of "standard," by definition, must have some permanence.

"Bids should be evaluated on the basis of quality, service, reliability, price and the financial stability of the supplier."

And what about management-by-objectives? Doesn't any new statement of policy chip away at the freedom of HP people to set their own job goals and pursue them in their own way? "We hope not," Craig responds. "But many of these laws have both criminal and civil penalties, and they apply to individuals as well as to companies. We have to have rules to follow so people don't get themselves in trouble—because ignorance of the law is no excuse. The policies are to protect the individual as well as the company." □

Staying in touch with

For Jack Goodwin, who retired from HP last year after 36 years with the company, a visit to the Santa Rosa Division on May 2 with a busload of 50 other HP retirees from the San Francisco Bay Area was just like old home week.

The brand-new HP retirees' group (so new that a permanent name has not yet been selected) was paying a social call on Santa Rosa at the invitation of division general manager Hal Edmundson. The outing provided many people with their first look at the handsome five-year-old manufacturing facility located two hours north of the main cluster of HP sites on the San Francisco Peninsula.

But while the geographic setting might be unfamiliar, there were a lot of old friends waiting inside the division, which originally split off from the former Microwave Division in Palo Alto.

In fact, as club organizer Fred Andersen said, "Everyone hopped in and out of the plant tour to chat with people they knew, and other folks who heard we were visiting caught up with us to say hello!"

Listening to general manager Edmundson's welcoming remarks during luncheon, retiree Gladys Anenson remembered when he was her boss as head of the engraving department at Microwave for awhile. The visit stirred memories for many of the group. Retired graphics designer Rose Carson, who with Gladys was one of HP's first engravers, looked during the tour for an HP 3000—she designed all the nomenclature on the front panels.

For a different taste of history, the HP group made a detour on the way home to visit the old mission town of Sonoma, where Mexican General Mariano Vallejo had his military headquarters. Retiree Fred Becker, who moved to that community last November, led a preview tour of the new Historical Society Museum which is not yet open to the public.

It was a highly successful day, everyone agreed, and the first event of a full

Members of the new San Francisco Bay Area HP retirees club arrive at the scenic Santa Rosa Division on their first outing.

Tour guide Bill Keilig (right) points out the pad for future construction of Santa Rosa Division's fourth building to a group of retirees visiting the facility for the first time.

HP

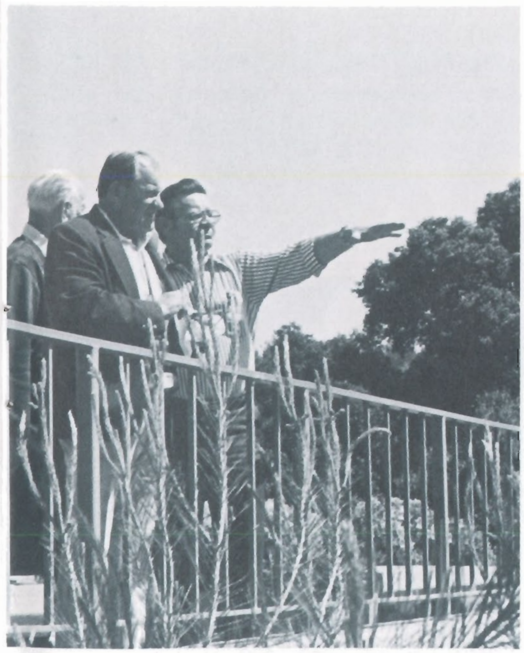
schedule of recreational and educational activities planned for the months ahead. The new group already has 75 members out of several hundred potential members settled in the Bay Area. It is open to former HP employees and their spouses who are interested in staying in touch with the company and with other people who have worked for HP, without any formal requirement for years of service.

The new retirees club is of course a mere sprigget alongside the Quarter Century Club for Waltham and Andover divisions, which traces its existence back to 1945. That group is open to both current and retired employees with 25 or more years of service with Hewlett-Packard or with the former Sanborn Company (founded in 1917) which HP acquired in 1961. The Quarter Century Club now has 73 members who currently work for HP and 35 retirees.

Look for other groups of congenial HP old-timers to form as newer company communities mature in years. □

When HP acquired the Sanborn Company in 1961, that Massachusetts firm had been in business since 1917 and already had a Quarter Century Club founded in the 1940s. Posing for the first official club photo in 1951: (front row, from left) founder Frank Sanborn and Harry Chick, who both started in 1917, Harry Smith, Tony Barbera, and Oscar Packer; (back row) George Sanderson, Marjory Moore, Frances Bernardo, Novella Adams, Jim Jenks (later Sanborn board chairman), Bill Hanney and Mary Fredman. Several of them still attend today's functions of the club for Waltham and Andover divisions.

Red tablecloths and flowers made the Santa Rosa plant's Zinfandel Room an attractive luncheon setting for HP retirees and their spouses. Among the 50 guests was Josie Jackson (center), who was HP's first woman production worker when she was hired in 1942. Facing her in the aisle are Jack Goodwin, who worked for the company for 36 years, and club organizer Fred Andersen (right).



HP News

Stock split, dividend increase, midyear results

PALO ALTO, Calif.—At their May meeting, HP's board of directors voted a two-for-one split of the company's common stock, increased the cash dividend payout by one-third and declared a regular quarterly dividend of 10 cents per share on the increased number of shares.

At the same time, the company reported that sales and earnings for the second quarter of HP's fiscal year 1979, ended April 30, increased 33 percent and 39 percent, respectively, from the second quarter a year ago. Earnings as a percent of sales were 9.0 percent versus 8.7 percent last year.

The stock split, the third since HP first publicly offered its common stock in 1957, is effective on common shares outstanding June 27. The additional shares will be mailed on or about July 30. The company's current total of 40 million authorized shares will increase to 80 million. The approximately 29 million shares outstanding will increase to about 58 million.

The dividend is payable on 58 million shares with the next regular distribution, payable July 13 to shareholders of record June 27. Since last year, HP has been paying a quarterly dividend of 15 cents, or 60 cents on an annualized basis. The new quarterly dividend is 10 cents a share, or 40 cents annually. With the stock split, however, and a doubling of shares, the total dividend payout increases by one-third.

HP sales for the second quarter totaled $553 million, compared with $415 million in the second quarter of fiscal 1978. Net earnings amounted to $50 million, or $1.70 per share on 29 million shares outstanding, against $36 million, or $1.23 a share on 29 million shares, in the corresponding quarter last year.

Incoming orders totaled $640 million in the second quarter, up 43 percent over orders of $449 million in the corresponding quarter last year.

For the six months, sales totaled $1.06 billion versus $783 million a year earlier, up 35 percent. Net income amounted to $95 million, or $3.23 per share, versus $68 million, or $2.37 per share, a gain of 40 percent. Orders were up 39 percent, to $1.22 billion from $882 million.

Preliminary figures show that, for the second quarter, HP's electronic data products accounted for approximately 45 percent of total sales. Electronic test and measurement products accounted for 41 percent, medical electronic products 9 percent, and analytical instrumentation 5 percent.

International orders continued to show good strength, with orders from customers outside the United States amounting to $320 million in the second quarter and $617 million in the first half of fiscal 1979, up 45 percent and 41 percent, respectively, from last year's levels. Domestic orders increased to $320 million for the quarter and $605 million for the half, representing gains of 40 percent and 36 percent, respectively.

New Taiwan office

TAIPEI—HP Taiwan has moved to a new expanded sales office in Taipei. The 20,000-square-foot facility occupies the entire fifth floor of the recently completed 12-story Bank Tower in the commercial district. It consolidates sales activities previously conducted in three smaller outlets in the downtown area.

Colorado Springs Operation

COLORADO SPRINGS, Colo.—A Logic Analyzer Operation has been formed within the Colorado Springs Division. Heading the new operation is Charles (Chuck) House, who pioneered research and development efforts in logic state analysis at the Colorado Springs Division in 1973. House joined HP in 1962.

The Logic Analyzer Operation will embrace a product line consisting of more than 20 logic analyzers and related equipment, and will have worldwide market responsibility.

Vancouver Division

PALO ALTO, Calif.—Jim Doub has been named general manager for the new Vancouver Division, which will be located near Vancouver, Washington, as part of the Computer Systems Group. The initial product line will include printing terminal products.

Doub joined HP in 1965 and has been R&D manager for the Data Terminals Division for the last four years. Replacing Doub in that position is Ed Olander, formerly engineering manager for the Calculator Products Group.

HP hopes to initiate some manufacturing activity in the Vancouver area by the end of the summer, probably in a leased facility.

Correction: In last month's report on HP marathoners, MEASURE credited Walt Bassinger with two runs in "under three minutes." Of course we meant "hours," and we apologize. Walt and all marathoners deserve all the credit coming to them, but the under-three-minute record belongs to a fellow named Clark Kent.

From the president's desk

I was very pleased, as I'm sure you were, to see the excellent operating results for the first half of our current fiscal year. Comparisons against last year's first half are very favorable, with orders up 39 percent, sales up 35 percent, and net profit up 40 percent. Even more important, we were able to meet our shipment goals, while bettering our production costs and expense targets.

The profit-sharing figure reflects this strong company-wide performance. At 9.1 percent, it is the highest first-half payout ever and the second highest percentage distribution in company history.

Congratulations to everyone for this fine effort.

Along with reporting our first-half financial results, we also announced that the company's board of directors had voted a two-for-one split of the company's common stock, and a change in the dividend rate. Let me comment briefly on each of these board actions.

The stock split which is effective on common shares outstanding as of June 27 is the third split since the company first offered its common stock in 1957. The previous splits were in 1960 and 1970. Since it has been nearly ten years since the last split, some of you may be wondering what prompted the board to consider splitting the stock, and why the decision was made at this particular time.

There are a number of reasons why companies might want to split their stock, but essentially they reduce to wanting to maintain a share value that promotes broad investor interest. This helps improve marketability and provides a strong shareholder community with knowledge of and support for company policies. An HP study conducted earlier this year showed that HP was one of the highest priced common stocks traded on the New York Stock Exchange. In fact, of the more than 1,500 companies listed on the Exchange, only six, including HP, had common stock selling above $90 at the beginning of 1979. This high price not only tended to restrict the number of interested investors in the market, it also made it more difficult for HP people to participate in the stock purchase plan. The directors agreed, therefore, that a stock split (and the resultant reduction in price) was a timely and appropriate step to help remedy both situations.

If our sales and earnings grow at historic rates, and our stock continues to appreciate in value, it is my view that further stock splits may be appropriate in the future to help maintain our stock in a desirable price range.

With regard to the dividend rate, it was the feeling of the board that dividend growth should more closely track earnings growth. This was reflected in the board's action last year when it adopted the policy of paying dividends quarterly rather than semiannually and declaring a quarterly cash dividend of 15 cents. These actions effectively increased the annual dividend rate by 50 percent. Similarly, the directors' recent decision to declare a quarterly dividend of 10 cents on the increased number of shares resulting from the stock split effectively increases the dividend payout by one-third.

While these percentage growth figures are high, the payout is only 10 percent of earnings. Therefore, we can continue to maintain our long-standing policy of financing the company's growth with internally generated funds.

As we move into the last half of our fiscal year, it's important that we make a consistent effort to improve shipment levels. Our backlog has continued to grow, and at the end of the second quarter stood at $556 million, the largest in our history. Our challenge is to reduce backlog and improve customer deliveries while at the same time keeping pace with the incoming order rate. If we can meet the challenge, we have the opportunity for a really outstanding second half.

John Young

After McMinnville Division presented Laura Benson with a $1,000 HP scholarship during the weekly Thursday coffeebreak, she went on a tour of the plant where her father is a master glassblower. (From left) Personnel manager Chuck Walker, Laura, and her parents Rosemary and Howard Benson watch Debbie West winding transformers.

Dollars for scholars

As anyone who supports a young person in college knows full well these days, higher education absorbs a considerable and continuing outlay of cash.

For 153 sons and daughters of HP employees, $1,000 HP scholarships awarded this spring will go a long way toward helping with expenses when they enter college next fall. That's the largest number of scholarships ever awarded in the program, which was begun in 1951 when it was decided to convert a Christmas party fund into something more lasting and meaningful. (One $500 scholarship was awarded to a high school senior that first year.)

The bulk of the money given in scholarships comes right from HP employees themselves, supplemented with some income from a continuing scholarship trust fund and company donations. This year 10,713 HP people contributed a total of $123,265 to three area-wide drives (in the San Francisco Bay Area, Northern Colorado, and Boise) and to 13 individual division or region drives.

Now those welcome scholarships have been handed to 1979 award winners at special events in HP localities throughout the United States—along with sincere wishes for a happy and successful first year in academia. □

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