

News release



HP Recovers More Than \$1.8 Million in Gray Market Fraud Case

Recovery Closes Ohio Civil Case

PALO ALTO, CALIF., AUG. 14, 2003 – HP (NYSE:HPQ) has recovered more than \$1.8 million as part of its civil lawsuit against S-Systems Inc and its owner, Leroy Anthony Sallee. Defendant Sallee recently pleaded guilty to federal charges for his participation in an alleged scheme to fraudulently acquire computer equipment at substantial discounts and then resell the products on the “gray market” (the sale of authentic products through unauthorized channels).

In the alleged scheme, Sallee unlawfully obtained computer equipment at substantial discounts from Compaq Computer Corporation, resold the equipment on the gray market, received payment for the equipment, and deposited the money into two bank accounts in Butler County, Ohio. More than \$5.7 million in computer equipment was obtained by the defendant for \$3.1 million via a special educational discount.

Compaq filed the Ohio lawsuit in May 2002 to recover money and property damages against defendants S-Systems, Inc., Sallee and Robert Hill, Jr.

“The recovery of funds represents another victory in the battle to fight gray market fraud. HP continues to closely monitor and pursue individuals and corporations that engage in fraudulent behavior to obtain equipment for resale in the gray market,” said Nikolaj Sjoqvist, director, brand protection and pricing, HP Global Operations. “This case is an important reminder to customers to buy from authorized distribution channels to ensure the highest levels of product quality and brand integrity.”

Sallee, of Ashtabula, Ohio, plead guilty on July 22, 2003, in U.S. District Court, Boston, to 14 counts of mail and wire fraud and one count of interstate and foreign shipment of stolen goods. He faces a maximum sentence of five years in prison on each fraud count, a fine of \$250,000, and restitution and forfeiture of any criminally derived proceeds. The interstate shipment count carries a maximum penalty of 10 years in prison.

Massachusetts Warehouse Seizure Led to Product, Trail of Funds

In March 2002, Compaq filed a complaint in Middlesex County, Mass., against S-Systems Inc. and its owner, Sallee, alleging that the defendants made false representations to Compaq to fraudulently obtain equipment for Case Western Reserve University, located in Cleveland.

According to the complaint, the alleged fraud began in late February 2002

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when Compaq received a large purchase order on letterhead from Case Western with instructions to ship approximately \$5 million in computer products to its systems integrator, S-Systems in Tewksbury, Mass. Upon contacting Case Western for verification of the order, Compaq learned from school officials that the university had not issued the purchase order.

Pursuant to an order granted by the Massachusetts Superior Court, investigators conducted a raid on a warehouse in Massachusetts leased by Sallee. At that time, Compaq learned that Sallee had already sold some of the equipment and subsequently learned that the funds were sent to bank accounts in Ohio where Sallee and S-Systems maintained a business office.

Investigators also found documentation outlining the gray market scheme by Sallee and two individuals not employed by S-Systems or Sallee. Based upon this information, Compaq filed an amended complaint in April 2002, naming Cates and McIntosh as additional defendants in the alleged fraudulent scheme.

Recovery of the funds closes HP's civil case in Ohio against the defendants. The original civil complaint filed by Compaq against defendants in Middlesex County is still pending.

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