HEWLETT PACKARD CO
Form DFAN14A
November 16, 2001

SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO.___)

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Check the appropriate box:

[ ] Preliminary Proxy Statement
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HEWLETT-PACKARD COMPANY

(Name of Registrant as Specified In Its Charter)

WALTER B. HEWLETT

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] Fee not required.
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(2) Form, Schedule or Registration Statement No.:

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(4) Date Filed:

Source: [1] 425 Filings

Note: Stock data through 11/14/01

[1] Comparable company index consists of Accenture, Computer Sciences, Dell, EDS, EMC, Gateway, IBM, Lexmark, Sun

[1] Based on FFL analysis of analyst reports published from 9/3/01 to 11/14/01

[1] 425 Filing
[2] Based on Morgan Stanley research dated 10/2/01, FFL estimates
[3] Banc of America Securities research dated 10/11/01
[4] Before potential revenue losses

[1] Morgan Stanley research dated 10/2/01, FFL estimates, excluding non-recurring and extraordinary items allocated to segments based on revenues
[2] Banc of America Securities research dated 10/11/01
[3] Before potential cost savings and revenue losses

Note:
[1] Based on SG Cowen research dated 10/10/01; segment valuations based on revenue multiples
[2] SG Cowen estimates presented without multiple premium; SG Cowen estimated a likely multiple premium of 13%; giving a total purchase value of $26.90

Note: Historical data from 10-Ks, excluding extraordinary and non-recurring items; HP based on Morgan Stanley research dated 10/2//01, FFL estimates. Compaq based on Banc of America Securities research dated 10/11/01

Note: Historical data from 10-Ks, excluding extraordinary and non-recurring items; HP based on Morgan Stanley research dated 10/2//01, FFL estimates. Compaq based on Banc of America Securities research dated 10/11/01; Return on Assets calculated as EBIT/Total Assets; Return on Equity Calculated as Net Income/Shareholders Equity

Source: Parthenon Analysis

[1] Monochrome and Inkjet unit market share based on Sanford Bernstein 2001E estimates; Color laser unit market share based on IDC 2000 data; Scanner unit market share (flat-bed scanners) based on IDC 2000 data from Morgan Stanley; Digital Camera unit market share based on ARS Market Track March 2001 data

[2] Commercial and Consumer unit market share based on 2Q 01 IDC and Deutsche Bank PC Hardware Report, November 2001

[3] Revenue market share based on YTD 2001 IDC data

[4] Revenue market share data based on IDC 2001 full year estimates as of 11/01. Internal includes direct attached internal and internal JBOD. DAS includes direct attached external and external JBOD.

[5] Total revenue and market size data based on IDC report Worldwide IT Services Industry Forecast and Analysis: 2000-2005 and revenue share breakdown from Banc of America Securities report The HP/Compaq Merger: Piecing Together the Puzzle, 10/11/01. Position data only compared against Top 10 global providers of IT services

[6] IDC report Hewlett-Packard and Compaq Look to the Future worldwide market shares for Printing, PCs, and Servers

[7] Relative Market Share defined as HP or combined company market share divided by market share of #1 player if HP or combined company is #2 or below or divided by market share of #2 player if HP or combined company is #1

[1] Morgan Stanley research dated 10/2/01, FFL estimates, excluding non-recurring and extraordinary items allocated to segments based on revenues

[2] Banc of America Securities research dated 10/11/01

[3] Before potential cost savings and revenue losses

[4] Management projections as stated in HP SEC Form 425 filing, 10/25/01

[5] Deutsche Bank, 11/07/01

[1] Dell, Gateway, and Apple margins for full company 1998-2000 data from 10Ks, 2001 data from Prudential PC and Enterprise Hardware Report, 9/01; Compaq margins for Consumer and Commercial Personal Computing 1998-2000 data from 10Ks; 2001 data from Banc of America Securities Compaq Initiating Coverage Report, 10/11/01; HP margins for PCs only based on Morgan Stanley Equity Research as of 10/2/01; IBM margins for Personal Systems Hardware segment 1998-2000 data from Annual Report, 2001 3 quarters of data from Quarterly Financial Releases, 4th quarter assumed to be equal to 3rd quarter margin

Source: Parthenon Analysis, Morgan Stanley Dean Witter, Banc of America Securities, IDC, Prudential, Company annual reports

Source: Parthenon Analysis, Morgan Stanley Dean Witter research report PC Hardware: Cross Checks- PC Databook Update , issued October 16, 2001, IDC PC tracker

Note: All disadvantages come from indirect model and allocations may be interchangeable. Data used in Bernstein report included 2Q 01 results and estimates for CY 01. Operating margins for PC hardware estimated based on company interviews and backing into reported margins from data provided beyond-the-box. Margin assumptions for each product line add up to total reported margins. Once gross operating margins were established for each product line, revenue (which gives ASP), operating expense and gross margin per PC were examined. This was combined with Bernstein Surveys and Website checks, which suggested that ASPs for major vendors were similar. All of the reported difference in margins can be attributed to differences in distribution, manufacturing, and SG&A efficiencies

Source: Parthenon Analysis, Bernstein Research, Gateway Computer Report, 8/20/01, p. 4

Source: Parthenon Analysis

[1] Morgan Stanley research dated 10/2/01, FFL estimates, excluding non-recurring and extraordinary items allocated to segments based on revenues

[2] Banc of America Securities research dated 10/11/01

[3] Before potential cost savings and revenue losses

[4] Management projections as stated in HP SEC Form 425 filing, 10/25/01

[5] Estimates of Compaq s contribution to Lexmark from article on CNET (http://news.cnet.com/nes.0-1006-200-7058372.html) and Lexmark press releases

[6] Dell estimate assuming Dell peripheral sales mirror overall market from Euromonitor, *Computer Peripherals in USA 2000* and HP has similar share of Dell imaging sales as share in total market

[7] Market and segment growth rates derived as follows: Historical CAGRs represent 1997-2000. MFPs: Historical CAGRs based on Lyra Research, Inc., The 2000 Worldwide Printer Market Review and Forecast, August 2000. Inkjet and Laser Supplies: Historical CAGRs based on IDC, U.S. Inkjet and Laser Printer Installed Base and Supplies Market Forecast and Analysis, 2000-2005, June 2001. WW supplies estimated by setting supplies revenue equal to 90% of laser and inkjet printer hardware revenue, as was the average for both HP and Lexmark for each of the first three quarters of 2000 as cited in Bernstein Research note Lexmark vs. Hewlett-Packard: Lexmark Is the Better Printer Play, 11/22/2000. The derived estimate of US/WW supplies of 61% was held constant through horizon. Digital Cameras: Historical CAGRs based on IDC, Worldwide Digital Camera Market Forecast and Analysis, 2000-2005, May 2001. Scanners: Historical CAGRs based on IDC, Worldwide Scanner Forecast and Analysis, 2000-2005, August 2001. Color Laser, Inkjet, Mono Laser, and Impact Printers: Historical CAGRs based on IDC, Worldwide Printer Market Forecast and Analysis, 2000-2005, August 2001.

[8] Worldwide Inkjet and Worldwide Monochrome Laser Printer unit market shares and U.S. Inkjet MFP revenue market shares provided by Bernstein Research Call Enterprise Hardware, 10/26/00, Exhibits 6, 8, which in turn cite Dataquest, IDC, Corporate Reports, and Bernstein Estimates.

Source: Parthenon Analysis

[1] Historical CAGRs represent 1997-2000. Projected CAGRs represent 2000-2005E. CAGRs were derived as follows: MFPs: Historical and projected CAGRs based on Lyra Research, Inc., The 2000 Worldwide Printer Market Review and Forecast, August 2000. MFP projected CAGR is for 2000-2004E. Inkjet and Laser Supplies: Historical and projected CAGRs based on IDC, U.S. Inkjet and Laser Printer Installed Base and Supplies Market Forecast and Analysis, 2000-2005, June 2001. WW supplies estimated by setting supplies revenue equal to 90% of laser and inkjet printer hardware revenue, as was the average for both HP and Lexmark for each of the first three quarters of 2000 as cited in Bernstein Research note Lexmark vs. Hewlett-Packard: Lexmark Is the Better Printer Play, 11/22/2000. The derived estimate of US/WW supplies of 61% was held constant through horizon. Digital Cameras: Historical and projected CAGRs based on IDC, Worldwide Digital Camera Market Forecast and Analysis, 2000-2005, May 2001. Scanners: Historical and projected CAGRs based on IDC, Worldwide Scanner Forecast and Analysis, 2000-2005, August 2001. Color Laser, Inkjet, Mono Laser, and Impact Printers: Historical and projected CAGRs based on IDC, Worldwide Printer Market Forecast and Analysis, 2000-2005, August 2001. Column widths reflect estimates of segment share of 2000 worldwide I&P revenue (except supplies, which are U.S. as indicated above)

[2] Operating margins were estimated as follows: Canon: net sales for business machine product group and operating profit for business machines group as stated in Canon, Inc. s 20-F SEC filings as provided by EDGAR Online, Inc. HP: I&P Operating margins as detailed in 10Ks. Lexmark: operating margins as identified in annual income statement provided by OneSource and excludes unusual income/expenses where indicated. Lexmark is nearly pure-play imaging and printing and the firm-wide operating margin was used. Ricoh: sales for office equipment product group (includes, but is not limited to copiers, printers, and related supplies) and operating income for office equipment group as stated in Ricoh s annual reports for 2001 and 1998, available on Ricoh web site (http://www.ricoh.co.jp/IR/e/results/index.html)

Source: Parthenon Analysis

[1] Worldwide Inkjet and Worldwide Monochrome Laser Printer unit market shares and U.S. Inkjet MFP revenue market shares provided by Bernstein Research Call Enterprise Hardware, 10/26/00, Exhibits 6, 8, which in turn cite Dataquest, IDC, Corporate Reports, and Bernstein Estimates. IDC includes some color laser MFPs in this estimate

[2] Worldwide Color Page Printer unit market shares for 1999 and 2000 provided by IDC Worldwide Printer Market Forecast and Analysis, 2000-2005, August 2001. Worldwide Color Page Printer unit market shares for 1998 and 1H2001 provided by IDC communication on 11/14/2001. 1998 and 1999 Other includes Tektronix (26.4% in 1998, 1999 n/a), acquired by Xerox in 2000.

[3] Worldwide MFP unit market shares provided by Lyra Research, Inc., The 2000 Worldwide Printer Market Review and Forecast, August 2000. Compaq printers are OEMed through Lexmark.

[1,2] IBM Gains in Shrinking Server Market, CNET.com, 9/13/01

[3] Compaq 10Q for quarter ended 9/30/01

[4] Based on Factory Revenues as reported in IDC Server Tracker database (2Q 01 data)

[5] HP Fighting Back in Unix Server Wars, CNET.com, 10/25/01

[6] The HP/Compaq Merger: Piecing Together the Puzzle, Banc of America Securities, 10/11/01; p. 26 for market share, p. 5 for external storage revenue

[7] Morgan Stanley research dated 10/2/01, FFL estimates, excluding non-recurring and extraordinary items allocated to segments based on revenues

[8] Banc of America Securities research dated 10/11/01

[9] Before potential cost savings and revenue losses

[10] Management projections as stated in HP SEC Form 425 filing

Source: Parthenon Analysis

[1] 2001 calendar YTD through 2Q 01. Based on 1Q 01, 2Q 01 Factory Revenues as reported by IDC in Server Tracker database. Other operating systems include IDC s Other category and OpenVMS (Compaq only)

[2] 2001 calendar YTD through 2Q 01. Based on 1Q 01, 2Q 01 Factory Revenues as reported by IDC in Server Tracker database. Price range categories defined by IDC: Entry is less than $100k; Mid-Range is $100,000-$999,999; High End is $1MM+

Source: Parthenon Analysis

[1] Based on 2Q 01 and 2Q 00 Factory Revenues as reported by IDC in Server Tracker database

Source: Parthenon Analysis

[1] Average server prices calculated by dividing Customer Revenues for all servers, as reported by IDC in Server Tracker database by total server units, as reported in IDC Server Tracker database

[2] 2.25-year CAGR calculated from 1Q 99 to 2Q 01

[3] US Distribution Channel Trends, 1998, Gartner/Dataquest, report product code DCPC-WW-MT-9901, 7/99, p.27

[4] Dell Company Highlights and Investment Profile, Goldman Sachs Equity Research, 6/7/01

Source: Parthenon Analysis

IDC. Draft, Worldwide Disk Storage Systems Market Forecast and Analysis, 1999-2005 , November 13, 2001

[1] Internal includes internal JBOD

Notes: SAN is Storage Attached Network, NAS is Network Attached Storage, DAS is direct attached storage. Compaq is $20MM in NAS. External Direct Attached is direct attached storage excluding external JBOD and all other internal direct attached storage

Source: Parthenon Analysis

[1] IDC Report: Worldwide IT Services Industry Forecast and Analysis, 2000-2005, July 2001

[2] Banc of America Securities report: The HP/Compaq Merger: Piecing Together the Puzzle, 10/11/01. Projects support mix to be 54%, with consulting and outsourcing at 29%. The remaining 17% is projected to be financing revenue

[3] Banc of America Securities Report: Compaq Computer Corporation: Transitioning the Business Model, 10/11/01, p. 20-21 Compaq s business critical servers revenue is projected at $2.5B in 2001, a 21% decline from 2000, and is projected to decline by 18% to $2.0B in 2002

[4] IDC Report: Worldwide IT Services Industry Forecast and Analysis, 2000-2005, July 2001

[5] Morgan Stanley research dated 10/2/01, FFL estimates, excluding non-recurring and extraordinary items allocated to segments based on revenues

[6] Banc of America Securities research dated 10/11/01

[7] Before potential cost savings and revenue losses

[8] Management projections as stated in HP SEC Form 425 filing, 10/25/01

Source: Parthenon Analysis; Company 2000 service revenues, market size and segmentation from IDC Report: Worldwide IT Services Industry Forecast and Analysis, 2000-2005, July 2001. Company services allocation from analyst reports and company 10-Ks

[1] IDC Report: Worldwide IT Services Industry Forecast and Analysis, 2000-2005, July 2001
Note: Condensed IDC s eleven services categories into four. Support includes Hardware support and installation and Packaged software support and installation" Outsourcing includes: Processing Services, IS Outsourcing, Application Outsourcing, and NetworkInfrastructure Management segments as defined by IDC. IT Consulting includes: IT Consulting and IT Training and Education as defined by IDC. Systems Integration includes Systems Integration, Custom application development and maintenance, Network consulting and integration as defined by IDC. Growth rates represent weighted averages of the re-categorized groups, p. 16-31

Source: Parthenon Analysis

[1] IDC Report: Worldwide IT Services Industry Forecast and Analysis, 2000-2005, July 2001
Note: Condensed IDC s eleven services categories into four. Support includes only Hardware support and installation. Packaged software support and installation has a CAGR of 15.9% over the same time period. Outsourcing includes: Processing Services, IS Outsourcing, Application Outsourcing, and Network Infrastructure Management segments as defined by IDC. IT Consulting includes: IT Consulting and IT Training and Education as defined by IDC. Systems Integration includes Systems Integration, Custom application development and maintenance, Network consulting and integration as defined by IDC. Growth rates represent weighted averages of the re-categorized groups, p. 16-31

[2] KPMG CY 2000 overall operating margin from Morgan Stanley Dean Witter, KPMG Consulting, 08/08/01, p. 11. KPMG margins are of net revenue, not gross revenue. ACN overall operating margin estimated for CY 2002 by UBS Warburg Report: Accenture: Initiating Coverage, 09/19/01, p. 59. Note: ACN s margins for the year ended 2/28/01 based on the S-1 Registration statement, 04/19/01, p. 41, were 23%. This is excluding payments of partner distributions. Maximus margins estimated by Dain Rauscher Wessels report: Maximus: Initiating Coverage, 08/16/01, p. 2. The margins are estimated for Systems work specifically. This was the only systems integration margin we could conclusively isolate. EDS overall pro forma 2000 operating margins from 2000 10-K, p. 17. CSC overall 2001 FY margins (FY ends in March) from Merrill Lynch Capital Markets report: Computer Sciences Corporation, 08/02/01, p. 6-7. CPQ overall service operating margins in 2000 estimated by Banc of America Securities report: Compaq Computer Corporation: Transitioning the Business Model, 10/11/01, p. 20. Unable to break out support-focused margins, but since Compaq is mostly support we used this as a proxy. HP support-specific margins estimated by Morgan Stanley Equity Research/Parthenon correspondence, 11/08/01

[3] Compaq estimate includes services revenue from DEC/Tandem legacy systems, which may have higher margins than the majority of their service revenue

Note: HP and Compaq include financing in services revenue while others do not. Note: Services revenues are from IDC report cited below to maintain consistency across companies. Estimates might conflict with management s numbers

Source: Parthenon Analysis; Services revenues are from IDC report Worldwide IT Services Industry Forecast and Analysis, 2000-2005, July 2001, p. 71. Banc of America Securities report: The HP/Compaq Merger: Piecing Together the Puzzle, 10/11/01, p. 18, estimated HWP, Compaq and the combined company revenue breakdowns into categories of support, outsourcing, consulting and financing. Assumed that 2/3 consulting revenue w systems integration for CPQ and for HP because they perform systems integration and because Banc of America Securities Report: Compaq Computer Corporation: Transitioning the Business Model, 10/11/01, p. 20-21 calls a business unit of Compaq systems integration and does not mention consulting. Goldman, Sachs report: Details: IBM s Services Business Seems to be Tracking to Plan, 08/14/01, p. 2, estimates IBM s breakdown as 10% consulting, 15% SI, 40% outsourcing. Estimated that the remainder was in support/maintenance. Merrill Lynch report: International Business Machines, 09/27/01, p.18, claims that in 2000 IBM had 35% revenue in outsourcing, 24% revenue in SI, 6% revenue in consulting, and 36% revenue in product support & services, network services and maintenance. Used a straight average of the two numbers. UBS Warburg report: Accenture: Initiating Coverage, 09/19/01, p. 15, estimated that 15-20% of revenues was in outsourcing, 35-45% systems integration, and 40-50% for consulting. Estimated 15% for outsourcing, 40% for systems integration, and 45% consulting. EDS s 2000 10-K (p. 12-13) breaks down revenue and claims that 77% of revenues are in information solutions or outsourcing, 12% of its revenues are in consulting, and 14% are in BPM (a form of outsourcing). It does not appear that companies other than HP and Compaq count financing revenue among their services revenue. If this is not the case, these estimates may omit financing revenues

[1] 425 Filings; The Economist

[2] San Francisco Chronicle, November 14, 2001

[1] Banc of America Securities research dated 10/11, Morgan Stanley research dated 10/2/01, FFL estimates

[2] Banc of America Securities research dated 9/6/01

[3] Market Attractiveness Score based on composite of profitability (50% weighting), market growth (25%), and market size (25%)

[4] Competitive Position Score based on composite of Relative Market Share (40%) and Business Model Effectiveness (60%)

Source: Parthenon Analysis, IDC, Morgan Stanley, Banc of America Securities, Electronic Engineering Times, Company 10Ks, Hoover s, Company Financial Releases, SG Cowen, Parthenon estimates

Notes: [1] Financial Times 9/10/01, page 15

Notes: [1] Ashok Kumer, US Bancorp Piper Jaffray, quoted in San Jose Mercury News, Sept 9, 2001
[2] Bernstein research dated 9/19/01

Note: [1] The McKinsey Quarterly, 2001 Number 4, Why Mergers Fall
[2] Booz-Allen & Hamilton. Merger Integration Delivering on the Promise 2001
[3] Study by Steve Kaplan of University of Chicago as cited in Wall Street Journal, 9/05/01

Note: [1] Management, September 2001, 425 Filings

Note: Deals since 1987 involving public targets, deal value greater than $500M and target TTM revenues greater than $100M

Source: Parthenon Analysis, Thomson Financial Mergers and Acquisitions database, 2001 revenue estimates for HP and Compaq from Banc of America report, 10/11/01, Compaq 1997 10K, Compaq S-4 filed 7/30/97, HP 1997 10K, HP earnings press release, 11/17/98

[1] SG Cowen research report 10/10/01

[2] Bernstein Research, 9/7/01 Hewlett-Packard and Compaq: Merger could shrink entity materially ; CNETnews.com 9/5/01 The starting line: Lexmark can live without Compaq ; Computer Reseller News, 6/29/98 Dell to Buy Printers Direct from HP , Euromonitor report Computer Peripherals in the USA 2000, Raymond James & Associates equity research

[1] Based on discount in Morgan Stanley s Pro Forma, Best and Worst case scenarios from sum of Morgan Stanley s standalone 2003 revenue estimates for HP and Compaq

[2] Based on Salomon Smith Barney s estimate of $1B lost for the first six quarters post deal (Q3 2002 Q4 2003)

[3] AT&T/NCR lost sales in Product and Systems Division mainly due to the loss of sales from some products that were phased out after the 1991 merger of AT&T and NCR Corporation : AT&T 1993 Annual Report

[4] Estimated sales lost Q2 1997 vs. Q2 1998 based on Dataquest PC unit market share figures found in press releases, 7/28/97, 7/27/98

[5] Average of Parthenon midpoint, Morgan Stanley 2003 Pro Forma case (12.1%), the midpoint of Bernstein s base and downside case, SG Cowen s base case (12%), Banc of America s 2003 base case (8%), and SSB estimate

[6] Average of two values shown

Source: Parthenon Analysis, Cowen Report, 10/10/01, Bernstein Research, 9/7/01, Banc of America Securities 10/11/01, Morgan Stanley Research 9/5/01, Salomon Smith Barney Research 10/4/01, AT&T 1993 Annual Report, Dataquest PC unit market share figures from press releases, 7/28/97, 7/27/98

[1] Adjusted for the removal of a gain from the sale of Compaq s investment in Altavista for $1.2B and a restructuring charge of $868 million, and assuming the same tax rate of 39.1%

[2] Adjusted for the removal of a restructuring charge

[3] Average includes Painewebber s low case ($1.85) and MSDW s base case ($1.65)

Source: Parthenon Analysis, CSFB report, 5/12/98; DLJ report, 7/12/98; Painewebber, 5/7/98; MSDW, 8/19/98; H&Q, 5/7/98; Compaq 1999 Annual Report

[1] HP 425 filing dated 9/4/01

[2] Compaq 425 filing dated 10/15/01

[3] NCR 10-12B filing dated 9/26/96

[4] Business Week, 8/28/89 *Information Processing: This is Hardly the Turning Point Unisys Had in Mind*, Unisys 2000 annual report

[5] Credit Card Management *Verifone s Rivals Step Up the Pressure* found on Hypercom website, Computerworld, 5/14/01, page 10

[6] Chronology of Workstation Computers, 2001, Electronic Business Buyer, 6/94, page 36, Upside 4/98, page 4

[7] Compaq S-4, 5/6/98, Compaq 1998 and 2000 annual reports

[1] Reuters, 9/5/01, *Sun CFO says HP-Compaq is a gold mine for his firm*

[2] Wall Street Journal, 9/6/01, *H-P, Compaq Have Sorting to Do Before Combining Across Europe*

[3] Computer Reseller News, 11/12/01, *HP & Compaq: How They Stack Up*

[4] Business Line s eWorld, 9/19/01, *And promises to keep*

[5] NetworkWorldFusion, 9/4/01, *HP/Compaq merger brings opportunity for competitors*

[6] Computerworld, 10/15/01 *IT Managers Wary of HP/Compaq Merger*

[1] Source: 425 Filings

[1] The McKinsey Quarterly 2001 Number 1, Deals that Create Value

[2] Comparable Company Index consists of Accenture, Computer Sciences, Dell, EDS, EMC, Gateway, IBM, Lexmark, and Sun

[1] First Call mean estimates as of 8/31/01

[2] First Call mean estimates as of 11/14/01

Note: [1] Implied ownership for revenue, EBITDA, EBITDA-Capex and EBIT calculated based on contribution to aggregate value assuming equivalent aggregate value multiples, net debt for HP of $1.1Bn as of 10/31/01 and net cash for Compaq of $1.8Bn as of 9/30/01

[2] LTM data for HP as of 10/31/01 and 9/30/01 for Compaq, excluding non-recurring and extraordinary items

[3] LTM Capex for HP as of 7/31/0

[4] CY01E for HP based on Morgan Stanley research dated 10/2/01, FFL estimates

[5] Based on Banc of America Securities research dated 10/11/01

[6] Based on First Call mean estimates as of 11/14/01

Notes:

1) Based on First Call consensus EPS estimates for HP of $1.05 for FY2002 (October) and $1.60 for FY2003 that have been calendarized for December year end ($1.14 for CY2002 and $1.63 for CY2003)

2) Based on First Call consensus EPS estimates for Compaq of $0.66 for CY2002 and $0.88 for CY2003

3) Based on management estimated pre-tax synergies of $390MM in HP FY2002, $2.0Bn in FY2003, $2.4Bn in FY2004 ($658MM for CY2002 and $2.1Bn for CY2003) and a 26% effective tax rate

4) Assumes revenue loss of 5.0% in 2002 and 2003 based on management comments; estimated combined revenues of $75.2Bn in CY 2002 and $80.6Bn in CY 2003 before revenue losses based on Banc of America Securities research dated 10/11/01; assumes a 25.0% contribution margin and a 26.0% effective tax rate

5) Based on First Call consensus EPS estimates for HP of $0.84 for FY2002 (October) and $1.24 for FY2003 that have been calendarized for December year end ($0.91 for CY2002 and $1.26 for CY2003)

6) Based on First Call consensus EPS estimates for Compaq of $0.15 for CY2002 and $0.35 for CY2003

Notes:

[1] Based on First Call consensus EPS estimates for HP of $0.84 for FY2002 (October) and $1.24 for FY2003 that have been calendarized for December year end ($0.91 for CY2002 and $1.26 for CY2003)

[2] Based on First Call consensus EPS estimates for Compaq of $0.15 for CY2002 and $0.35 for CY2003

[3] Based on management estimated pre-tax synergies of $390MM in HP FY2002, $2.0Bn in FY2003, $2.4Bn in FY2004 ($658MM for CY2002 and $2.1Bn for CY2003) and a 26% effective tax rate

[4] Based on estimated combined revenues of $75.2Bn in CY 2002 and $80.6Bn in CY 2003 before revenue losses based on Banc of America Securities research dated 10/11/01; assumes a 25.0% contribution margin and a 26.0% effective tax rate

Note: Management, September 2001

Note: [1] Based on Morgan Stanley research dated 10/2/01; FFL estimates

[2] Banc of America research dated 10/11/01

[3] Based on predicted beta from Bara research weighted by market cap

[4] PC Index consists of Apple, Gateway and Dell

[5] Printers & Services Index consists of Accenture, Canon, CSC, EDS, Xerox and Lexmark

[1] S&P and Moody s announced possible ratings upgrades for Compaq on September 4, 2001 and September 5, 2001, respectively

[2] Based on CY01E EBIT, Morgan Stanley research dated 10/2/01, FFL estimates, and Banc of America research dated 10/11/01