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## HP Reports Fourth Quarter Results

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- Sequential Revenue and Pro Forma EPS Growth
- Sequential Pro Forma Expense Reduction
- Operating Cash Flow of \$1.8 Billion

PALO ALTO, Calif., Nov. 14, 2001 -- Hewlett-Packard Company (NYSE:HWP) today reported financial results for its fourth fiscal quarter ended Oct. 31, 2001.

Fourth quarter results met or slightly exceeded guidance for revenue, gross margin and expenses provided on the Aug. 16 third quarter earnings call. The company achieved 6% sequential revenue growth, 4% sequential pro forma expense reduction, pro forma earnings per share (EPS) of 19 cents and operating cash flow of \$1.8 billion.

The company reported fourth quarter revenue of \$10.9 billion compared with \$10.3 billion in the third quarter and \$13.3 billion in last year's fourth quarter. Revenues were down 18% year-over-year, 15% excluding currency effects.

Gross margin this quarter was 25.7%, essentially flat with 26.0% last quarter on a pro forma basis. Operating expenses declined 4% sequentially and 11% year-over-year on a pro forma basis. Operating expenses were 21.4% of net revenue, down from 23.6% last quarter on a pro forma basis.

Pro forma EPS on a diluted basis was 19 cents (compared with the consensus analyst estimate of 8 cents), up from pro forma EPS of 12 cents in the third quarter and down from pro forma EPS of 41 cents in the year-ago quarter. Pro forma earnings this quarter excluded a \$282 million pre-tax restructuring charge for workforce reduction, as well as several other items.

Including these items, GAAP total EPS was 5 cents per diluted share on approximately 2 billion shares of common stock and equivalents outstanding. GAAP total EPS on a diluted basis for the same period last year was 45 cents.

"In a tough environment, we stayed focused on customers and business fundamentals. We generated sequential revenue growth, expense reductions and pro forma EPS improvements, as well as \$1.8 billion in operating cash flow in the fourth quarter. Results were driven by excellent execution in imaging and printing and good performance in services. While overall computing systems results remain weak, we saw improvement in certain segments including storage and PCs. We reduced our cost structure, improved our operational effectiveness and managed inventory aggressively," said Carly Fiorina, chairman and chief executive officer.

"While executing well, we continue to focus on our long-term objectives. We are convinced that the Compaq transaction is a unique opportunity to move HP into the future and benefit our shareowners, customers and employees. We expect this transaction to create substantial earnings accretion soon after the merger closes. With Compaq's customer base and complementary products and services, we will materially strengthen key HP businesses.

"HP has always stood for a willingness to innovate and evolve in the face of changing markets. The company has successfully reinvented itself many times in the past, and we must continue to do so to deliver sustainable shareowner value.

"In 2001, we met many of the major objectives we set for HP and we thank our employees for staying the course and making sacrifices during a year of unprecedented challenges. They enabled HP to be among the select few technology companies to remain profitable throughout 2001. In recognition of their efforts, we have awarded all employees and managers, other than the Executive Council, a special cash bonus equivalent to two days' salary, with a total cost of approximately \$45 million."

## Business Segment Results

### Imaging and Printing Systems

The imaging and printing systems segment includes laser and inkjet printers, imaging devices and associated supplies. Revenues increased 16% sequentially and declined 9% year-over-year (7% in local currency) against the highest revenue quarter in IPS history last year.

Operating margin was 10.5%, compared to 8.7% last quarter and 12.6% in the fourth quarter of last year. The sequential operating margin increase reflects a strong seasonal increase in revenues and solid expense management.

The company made excellent progress during the year on key objectives. These include increasing share in low-end printers and developing new products to improve profitability, winning new business in high-end commercial printing, building on strength in the growing all-in-one market, creating new markets for digital imaging and driving usage of HP supplies.

During the fourth quarter, supplies revenues grew 16% sequentially and 6% year-over-year against a strong compare. HP LaserJet hardware revenue increased 4% sequentially and declined 18% year-over-year. Inkjet printer revenue increased 17% sequentially and declined 35% year-over-year. HP gained or maintained share in all printer hardware categories.

Imaging revenue, which includes digital cameras, photo printers, scanners and all-in-one devices, increased 49% sequentially and 7% year-over-year.

### Computing Systems

The computing systems segment includes a broad range of Internet infrastructure systems and solutions for businesses and professionals, including workstations, desktops, notebooks, mobile devices, UNIX® and PC servers, storage and software solutions. Revenues declined 1% sequentially and declined 31% year-over-year (28% in local currency).

Operating margin was a negative 4.7%, compared to a negative 3.8% last quarter and positive 4.0% a year ago, reflecting a highly competitive market and weakening demand.

For the fourth quarter, UNIX server revenue was down 11% sequentially and 30% year-over-year, but remained a profitable business amid difficult market conditions. Superdome continued to gain increased customer acceptance and HP's low-end UNIX products continued to perform well versus competitors.

Enterprise storage revenues increased 10% sequentially and declined 22% year-over-year. High-end arrays were up 16% sequentially, driven by new products and margins stabilized in a difficult market. While software revenues declined 7% sequentially and 12% year-over-year, the HP OpenView product showed growth both sequentially and year-over-year.

PC server revenues declined 11% sequentially and 44% year-over-year. Commercial desktops declined 11% sequentially and 39% year-over-year. Home PC revenues increased 23% sequentially and declined 37% year-over-year. HP retained its leading position in home PCs and generated profits in North America while breaking even globally. Notebooks experienced sequential revenue growth of 10% and declined 12% year-over-year, significantly increasing HP's market share in the United States following the release of Windows XP.

### IT Services

The IT Services segment includes mission-critical, outsourcing, consulting and customer financing services. Support revenues grew 3% sequentially and 9% year-over-year (6% in dollars). Outsourcing revenues were up 4% sequentially and up 22% year-over-year (19% in dollars). Consulting revenues declined 5% sequentially and grew 2% year-over-year (a 2% decline in dollars). Overall revenues for the IT Services segment, including HP's financing business, grew 2% sequentially and 5% year-over-year (2% in dollars).

Operating margin was 4.5%, compared to 2.0% for the last quarter and 4.5 % for the same period last year.

### Asset Management

Net cash generated from operations for the quarter was \$1.8 billion. Inventory declined by \$600 million and was 11.5% of revenue, down from 12.2% last quarter. Trade receivables were 9.9% of revenue compared to 9.2% in the previous quarter. Net property, plant and equipment was 9.7% of revenue, unchanged from last quarter.

### Workforce Reduction

As announced in July, HP has undertaken a workforce reduction program to eliminate 6,000 jobs and result in an annualized savings of \$500 million. HP took a pre-tax restructuring charge of \$282 million in the fourth quarter of this fiscal year, covering substantially all of the planned headcount reduction. Approximately 4,000 of the 6,000 reductions have taken place as of Oct. 31, 2001. The remaining job cuts are expected to be completed in the first half of fiscal 2002.

### 2002 Outlook

Market conditions continue to be difficult and the company is not counting on an economic recovery in 2002. For the first fiscal quarter of 2002, revenues are expected to be down slightly from the fourth quarter due to normal seasonal effects. Gross margins are expected to be approximately flat with the fourth quarter, reflecting an intensely competitive environment. The company expects to hold expenses approximately flat with the fourth quarter on a pro forma basis.

### Accounting Changes

During the fourth quarter, HP adopted Securities and Exchange Commission Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements," and has restated 2001 quarterly results for the first three quarters accordingly. HP also made several other minor reporting changes for all periods presented, including a reclassification of leasing-related interest income and expense.

## About HP

Hewlett-Packard Company -- a leading global provider of computing and imaging solutions and services -- is focused on making technology and its benefits accessible to all. HP had total revenue of \$45.2 billion in its 2001 fiscal year. Information about HP and its products can be found on the World Wide Web at <http://www.hp.com>.

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UNIX is a registered trademark of the Open Group.

This news release contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of HP and its consolidated subsidiaries to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of earnings, revenues, synergies, accretion or other financial items; any statements of the plans, strategies, and objectives of management for future operations, including the execution of integration and restructuring plans and the anticipated timing of filings, approvals and closings relating to planned acquisitions; any statements concerning proposed new products, services, developments or industry rankings; any statements regarding future economic conditions or performance; statements of belief and any statement of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include the ability of HP to retain and motivate key employees; the timely development, production and acceptance of products and services and their feature sets; the challenge of managing asset levels, including inventory; the flow of products into third-party distribution channels; the difficulty of keeping expense growth at modest levels while increasing revenues; the challenges of integration and restructuring associated with acquisitions and achieving anticipated synergies; the possibility that proposed acquisitions may not close or that modifications of some aspects of proposed acquisitions may be required in order to obtain regulatory approvals; the assumption of maintaining revenues on a combined company basis following acquisitions; and other risks that are described from time to time in HP's Securities and Exchange Commission reports, including but not limited to the annual report on Form 10-K for the year ended Oct. 31, 2000, and subsequently filed reports. HP assumes no obligation and does not intend to update these forward-looking statements.

Additional Information about the Merger and Where to Find It

HP and Compaq intend to file with the SEC a joint proxy statement/prospectus and other relevant materials in connection with the merger. The joint proxy statement/prospectus will be mailed to the shareowners of HP and Compaq. Shareowners of HP and Compaq are urged to read the joint proxy statement/prospectus and the other relevant materials when they become available because they will contain important information about HP, Compaq and the merger. The joint proxy statement/prospectus and other relevant materials (when they become available), and any other documents filed by HP or Compaq with the SEC, may be obtained free of charge at the SEC's Web site at [www.sec.gov](http://www.sec.gov). In addition, shareowners may obtain free copies of the documents filed with the SEC by HP by contacting HP Investor Relations, 3000 Hanover Street, Palo Alto, California 94304, 650-857-1501. Shareowners may obtain free copies of the documents filed with the SEC by Compaq by contacting Compaq Investor Relations, P.O. Box 692000, Houston, Texas 77269-2000, 800-433-2391. Shareowners are urged to read the joint proxy statement/prospectus and the other relevant materials when they become available before making any voting or investment decision with respect to the merger.

HP, Carleton S. Fiorina, HP's chairman of the board and chief executive officer, Robert P. Wayman, HP's executive vice president and chief financial officer, and certain of HP's other executive officers and directors may be deemed to be participants in the solicitation of proxies from the shareowners of HP and Compaq in favor of the merger. The other executive officers and directors of HP who may be participants in the solicitation of proxies in connection with the merger have not been determined as of the date of this filing. A description of the interests in HP of HP, Ms. Fiorina, Mr. Wayman and HP's other executive officers and directors is set forth in the proxy statement for HP's 2001 Annual Meeting of Shareowners, which was filed with the SEC on Jan. 25, 2001. Full participant information may be found in HP's Form 425 filed with the SEC on Sept. 25, 2001. Shareowners may obtain more detailed information regarding the direct and indirect interests of Ms. Fiorina, Mr. Wayman and HP's other executive officers and directors in the merger by reading the joint proxy statement/prospectus when it becomes available.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENT OF EARNINGS  
(Unaudited)  
(In millions except per share amounts)

	Three months ended October 31,		Percent increase/ (decrease)
	<u>2001</u>	<u>2000(a)</u>	
Net revenue	\$ 10,876	\$ 13,295	(18)
Costs and expenses:			
Cost of products sold and services	8,081	9,677	
Research and development	650	706	
Selling, general and administrative	1,741	1,925	
Restructuring charges	282	19	
Total costs and expenses	<u>10,754</u>	<u>12,327</u>	(13)
Earnings from operations	122	968	(87)
Interest and other, net	(7)	48	
Net investment losses	90	13	
Gains on divestitures	<u>78</u>	<u>195</u>	
Earnings before extraordinary item and taxes	103	1,198	(91)
Provision for taxes	<u>19</u>	<u>276</u>	
Net earnings before extraordinary item	84	922	(91)
Extraordinary item - gain on early extinguishment of debt, net of taxes	<u>13</u>	<u>-</u>	
Net earnings	<u>\$ 97</u>	<u>\$ 922</u>	(89)
Basic net earnings per share: <sup>(b)</sup>			
Net earnings before extraordinary item	\$ 0.04	\$ 0.47	
Extraordinary item - gain on early extinguishment of debt, net of taxes	<u>0.01</u>	<u>-</u>	
Net earnings	<u>\$ 0.05</u>	<u>\$ 0.47</u>	
Diluted net earnings per share: <sup>(b)</sup>			
Net earnings before extraordinary item	\$ 0.04	\$ 0.45	
Extraordinary item - gain on early extinguishment of debt, net of taxes	<u>0.01</u>	<u>-</u>	
Net earnings	<u>\$ 0.05</u>	<u>\$ 0.45</u>	
Cash dividends declared per share <sup>(b)</sup>	\$ -	\$ -	
Average number of shares and share equivalents: <sup>(b)</sup>			
Basic	1,936	1,955	
Diluted	1,960	2,051	

(a) Certain reclassifications have been made to previously reported results of operations for the three months ended October 31, 2000, to reflect the accounting changes more fully described in notes (b) and (c) to the Restated Consolidated Condensed Statement of Earnings.

(b) The calculation of diluted earnings per share includes the effect of common stock equivalents, such as stock options, while the calculation of basic earnings per share does not. All share and per-share amounts reflect the two-for-one stock split effective October 27, 2000.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
 CONSOLIDATED CONDENSED STATEMENT OF EARNINGS  
 (Unaudited)  
 (In millions except per share amounts)

	Twelve months ended		Percent increase/ (decrease)
	October 31, (a) (b)		
	<u>2001</u>	<u>2000</u>	
Net revenue	\$ 45,226	\$ 48,870	(7)
Costs and expenses:			
Cost of products sold and services	33,474	35,046	
Research and development	2,670	2,634	
Selling, general and administrative	7,259	7,063	
Restructuring charges	<u>384</u>	<u>102</u>	
Total costs and expenses	<u>43,787</u>	<u>44,845</u>	(2)
Earnings from operations	1,439	4,025	(64)
Interest and other, net	171	356	
Net investment losses (gains)	455	(41)	
Litigation settlement	400	-	
Losses (gains) on divestitures	<u>53</u>	<u>(203)</u>	
Earnings from continuing operations before extraordinary item, cumulative effect of change in accounting principle and taxes	702	4,625	(85)
Provision for taxes	<u>78</u>	<u>1,064</u>	
Net earnings from continuing operations before extraordinary item and cumulative effect of change in accounting principle	624	3,561	(82)
Net earnings from discontinued operations	<u>-</u>	<u>136</u>	
Net earnings before extraordinary item and cumulative effect of change in accounting principle	624	3,697	(83)
Extraordinary item - gain on early extinguishment of debt, net of taxes	56	-	
Cumulative effect of change in accounting principle, net of taxes	<u>(272)</u>	<u>-</u>	
Net earnings	<u>\$ 408</u>	<u>\$ 3,697</u>	(89)
Basic net earnings per share: <sup>(c)</sup>			
Net earnings from continuing operations before extraordinary item and cumulative effect of change in accounting principle	\$ 0.32	\$ 1.80	
Net earnings from discontinued operations	-	0.07	
Extraordinary item - gain on early extinguishment of debt, net of taxes	0.03	-	
Cumulative effect of change in accounting principle, net of taxes	<u>(0.14)</u>	<u>-</u>	
Net earnings	<u>\$ 0.21</u>	<u>\$ 1.87</u>	
Diluted net earnings per share: <sup>(c)</sup>			
Net earnings from continuing operations before extraordinary item and cumulative effect of change in accounting principle	\$ 0.32	\$ 1.73	
Net earnings from discontinued operations	-	0.07	
Extraordinary item - gain on early extinguishment of debt, net of taxes	0.03	-	
Cumulative effect of change in accounting principle, net of taxes	<u>(0.14)</u>	<u>-</u>	
Net earnings	<u>\$ 0.21</u>	<u>\$ 1.80</u>	

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Cash dividends declared per share <sup>(c)</sup>	\$ 0.32	\$ 0.32
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Average number of shares and share equivalents:<sup>(c)</sup>

Basic	1,936	1,979
Diluted	1,974	2,077

(a) As more fully described in note (a) to the Restated Consolidated Condensed Statement of Earnings, HP adopted SAB 101 in the fourth quarter of fiscal year 2001. The results of operations for the first three quarters of fiscal year 2001 have been restated to reflect this accounting change.

(b) Certain reclassifications have been made to previously reported results of operations for the first three quarters of fiscal year 2001 and all four quarters of fiscal year 2000 to reflect the accounting changes more fully described in notes (b) and (c) to the Restate Consolidated Condensed Statement of Earnings.

(c) The calculation of diluted earnings per share includes the effect of common stock equivalents, such as stock options, while the calculation of basic earnings per share does not. All share and per-share amounts reflect the two-for-one stock split effective October 27, 2000.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF EARNINGS  
Excluding adjustments itemized below  
(Unaudited)  
(In millions except per share amounts)

	Three months ended		Percent increase/ (decrease)
	October 31,		
	<u>2001</u>	<u>2000</u>	
Net revenue	\$ 10,876	\$ 13,295	(18)
Costs and expenses:			
Cost of products sold and services	8,081	9,677	
Research and development	632	704	
Selling, general and administrative	<u>1,693</u>	<u>1,904</u>	
Total costs and expenses	<u>10,406</u>	<u>12,285</u>	(15)
Earnings from operations	470	1,010	(53)
Interest and other, net	<u>(7)</u>	<u>48</u>	
Earnings before extraordinary item and taxes	463	1,058	(56)
Provision for taxes	<u>102</u>	<u>216</u>	
Net earnings before extraordinary item	<u>\$ 361</u>	<u>\$ 842</u>	(57)
Net earnings per share before extraordinary item:			
Basic	\$ 0.19	\$ 0.43	
Diluted	\$ 0.19	\$ 0.41	
Average number of shares and share equivalents:			
Basic	1,936	1,955	
Diluted	1,960	2,051	
The pro forma amounts above have been adjusted to exclude the following items:			
Costs and expenses:			
Amortization of goodwill and other intangible assets	\$ 50	\$ 23	
Acquisition-related charges	16	-	
Restructuring charges	<u>282</u>	<u>19</u>	
Total adjustments to costs and expenses	348	42	
Net investment losses	90	13	
Gains on divestitures	(78)	(195)	
Income tax effect	<u>(83)</u>	<u>60</u>	
Total pro forma adjustments	<u>\$ 277</u>	<u>\$ (80)</u>	

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
 PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF EARNINGS  
 Excluding adjustments itemized below  
 (Unaudited)  
 (In millions except per share amounts)

	Twelve months ended		Percent increase/ (decrease)
	October 31,		
	<u>2001</u>	<u>2000</u>	
Net revenue	\$ 45,226	\$ 48,870	(7)
Costs and expenses:			
Cost of products sold and services	33,474	35,046	
Research and development	2,629	2,627	
Selling, general and administrative	7,066	6,928	
Total costs and expenses	<u>43,169</u>	<u>44,601</u>	(3)
Earnings from operations	2,057	4,269	(52)
Interest and other, net	<u>171</u>	<u>356</u>	
Earnings from continuing operations before extraordinary item, cumulative effect of change in accounting principle and taxes	2,228	4,625	(52)
Provision for taxes	<u>489</u>	<u>1,032</u>	
Net earnings from continuing operations before extraordinary item and cumulative effect of change in accounting principle	<u>\$ 1,739</u>	<u>\$ 3,593</u>	(52)
Net earnings per share from continuing operations before extraordinary item and cumulative effect of change in accounting principle:			
Basic	\$ 0.90	\$ 1.82	
Diluted	\$ 0.89	\$ 1.74	
Average number of shares and share equivalents:			
Basic	1,936	1,979	
Diluted	1,974	2,077	

The pro forma amounts above have been adjusted to exclude the following items:

Costs and expenses:			
Amortization of goodwill and other intangible assets	\$ 174	\$ 86	
Acquisition-related charges	60	-	
Restructuring charges	384	102	
Costs related to Agilent spin-off	-	56	
Total adjustments to costs and expenses	<u>618</u>	<u>244</u>	
Net investment losses (gains)	455	(41)	
Litigation settlement	400	-	
Losses (gains) on divestitures	53	(203)	
Income tax effect	<u>(411)</u>	<u>32</u>	
Total pro forma adjustments	<u>\$ 1,115</u>	<u>\$ 32</u>	

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEET  
(In millions)

	October 31, 2001 <u>(unaudited)</u>	October 31, 2000 <u></u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,197	\$ 3,415
Short-term investments	139	592
Accounts receivable, net	4,488	6,394
Financing receivables, net	2,183	2,174
Inventory	5,204	5,699
Other current assets	<u>5,094</u>	<u>4,970</u>
Total current assets	21,305	23,244
Property, plant and equipment, net	4,397	4,500
Long-term investments and other assets	<u>6,882</u>	<u>6,265</u>
Total assets	<u>\$ 32,584</u>	<u>\$ 34,009</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	\$ 1,722	\$ 1,555
Accounts payable	3,791	5,049
Employee compensation and benefits	1,477	1,584
Taxes on earnings	1,818	2,046
Deferred revenues	1,867	1,759
Other accrued liabilities	<u>3,289</u>	<u>3,204</u>
Total current liabilities	13,964	15,197
Long-term debt	3,729	3,402
Other liabilities	938	1,201
Stockholders' equity	<u>13,953</u>	<u>14,209</u>
Total liabilities and stockholders' equity	<u>\$ 32,584</u>	<u>\$ 34,009</u>

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
SEGMENT INFORMATION  
(Unaudited)  
(In millions)

Net revenue (which includes intersegment revenue) and earnings from operations for each segment are provided in the tables below:

	Three months ended		Percent increase/ (decrease)
	October 31, _____		
	<u>2001</u>	<u>2000</u>	
Net revenue:			
Imaging and Printing Systems	\$ 4,989	\$ 5,487	(9)
Computing Systems	3,961	5,748	(31)
IT Services	1,914	1,885	2
Other	149	450	(67)
Total Segments	<u>11,013</u>	<u>13,570</u>	
Eliminations / Other	(137)	(275)	
Total HP Consolidated	<u>\$ 10,876</u>	<u>\$ 13,295</u>	(18)
Earnings from operations:			
Imaging and Printing Systems	\$ 524	\$ 690	(24)
Computing Systems	(188)	229	(182)
IT Services	86	84	2
Other	(52)	(46)	(13)
Total Segments	<u>370</u>	<u>957</u>	
Eliminations / Other	(248)	11	
Total HP Consolidated	<u>\$ 122</u>	<u>\$ 968</u>	(87)

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
SEGMENT INFORMATION  
(Unaudited)  
(In millions)

Net revenue (which includes intersegment revenue) and earnings from operations for each segment are provided in the tables below:

	Twelve months ended		Percent
	October 31,		increase/
	<u>2001</u>	<u>2000</u>	<u>(decrease)</u>
Net revenue:			
Imaging and Printing Systems	\$ 19,447	\$ 20,468	(5)
Computing Systems	17,771	20,653	(14)
IT Services	7,599	7,150	6
Other	<u>1,010</u>	<u>1,556</u>	(35)
Total Segments	<u>45,827</u>	<u>49,827</u>	
Eliminations / Other	(601)	(957)	
Total HP Consolidated	<u>\$ 45,226</u>	<u>\$ 48,870</u>	(7)
Earnings from operations:			
Imaging and Printing Systems	\$ 1,987	\$ 2,666	(25)
Computing Systems	(450)	1,007	(145)
IT Services	342	474	(28)
Other	<u>(321)</u>	<u>(92)</u>	(249)
Total Segments	<u>1,558</u>	<u>4,055</u>	
Eliminations / Other	(119)	(30)	
Total HP Consolidated	<u>\$ 1,439</u>	<u>\$ 4,025</u>	(64)

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
 RESTATED CONSOLIDATED CONDENSED STATEMENT OF EARNINGS  
 (Unaudited)  
 (In millions except per share amounts)

	Jan. 31, 2001 <u>(Restated)</u>	April 30, 2001 <u>(Restated)</u>	July 31, 2001 <u>(Restated)</u>
Net revenue	\$ 12,398	\$ 11,668	\$ 10,284
Costs and expenses:			
Cost of products sold and services	9,060	8,724	7,609
Research and development	673	685	662
Selling, general and administrative	1,793	1,916	1,809
Restructuring charges	102	-	-
Total costs and expenses	<u>11,628</u>	<u>11,325</u>	<u>10,080</u>
Earnings from operations	770	343	204
Interest and other, net	97	39	42
Litigation settlement	-	400	-
Net investment losses	365	-	-
Loss on divestiture	-	-	131
Earnings before extraordinary item, cumulative effect of change in accounting principle and taxes	502	(18)	115
Provision (benefit) for taxes	<u>112</u>	<u>(53)</u>	<u>-</u>
Net earnings before extraordinary item and cumulative effect of change in accounting principle	390	35	115
Extraordinary item - gain on early extinguishment of debt, net of taxes	23	12	8
Cumulative effect of change in accounting principle, net of taxes	(272)	-	-
Net earnings	<u>\$ 141</u>	<u>\$ 47</u>	<u>\$ 123</u>
Basic net earnings per share:			
Net earnings before extraordinary item and cumulative effect of change in accounting principle	\$ 0.20	\$ 0.02	\$ 0.06
Extraordinary item - gain on early extinguishment of debt, net of taxes	0.01	-	-
Cumulative effect of change in accounting principle, net of taxes	(0.14)	-	-
Net earnings	<u>\$ 0.07</u>	<u>\$ 0.02</u>	<u>\$ 0.06</u>
Diluted net earnings per share:			
Net earnings before extraordinary item and cumulative effect of change in accounting principle	\$ 0.20	\$ 0.02	\$ 0.06
Extraordinary item - gain on early extinguishment of debt, net of taxes	0.01	-	-
Cumulative effect of change in accounting principle, net of taxes	(0.14)	-	-
Net earnings	<u>\$ 0.07</u>	<u>\$ 0.02</u>	<u>\$ 0.06</u>
Cash dividends declared per share	\$ 0.16	\$ -	\$ 0.16
Average number of shares and share equivalents:			
Basic	1,930	1,935	1,936
Diluted	1,996	1,987	1,967

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The amounts previously reported in HP's Quarterly Reports on Form 10-Q have been adjusted for the following items to reflect the restated amounts presented above:

Net revenue:			
SAB 101 (a)	\$ 387	(23)	48
EITF 00-25 (b)	(40)	(15)	(11)
Financing interest income (c)	<u>103</u>	<u>99</u>	<u>100</u>
	450	61	137
Cost of products sold and services:			
SAB 101 (a)	280	2	33
Financing interest expense (c)	<u>77</u>	<u>55</u>	<u>56</u>
	357	57	89
Operating expense:			
EITF 00-25 (b)	(40)	(15)	(11)
Interest and other, net:			
Financing interest income (c)	(103)	(99)	(100)
Financing interest expense (c)	<u>77</u>	<u>55</u>	<u>56</u>
	(26)	(44)	(44)
Income tax effect	<u>22</u>	<u>(5)</u>	<u>3</u>
Total adjustments before cumulative effect of change in accounting principle	85	(20)	12
Cumulative effect of change in accounting principle, net of taxes	<u>(272)</u>	<u>-</u>	<u>-</u>
Total restatement adjustments	<u>\$ (187)</u>	<u>\$ (20)</u>	<u>\$ 12</u>

- (a) HP adopted Securities and Exchange Commission Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements" in the fourth quarter of fiscal year 2001. This accounting change was adopted effective as of the first quarter of fiscal year 2001. Accordingly, HP has restated its consolidated results of operations for the first three quarters of fiscal year 2001, including a cumulative effect of change in accounting principle, which was recorded as a reduction of net income as of the beginning of the first quarter of fiscal year 2001.
- (b) HP adopted Emerging Issues Task Force Issue No. 00-25 ("EITF 00-25"), "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products" in the fourth quarter of fiscal year 2001. HP has restated its consolidated results of operations for all periods presented to reflect this accounting change.
- (c) HP adopted a new accounting policy in the fourth quarter of fiscal year 2001 related to the classification of financing interest income and expense. Previously, HP recorded financing interest and expense as non-operating interest income and expense, respectively. Under the new policy, financing interest income and expense are classified as revenue and costs of products sold and services, respectively. HP has restated its consolidated results of operations for all periods presented to reflect this change in accounting policy.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
 RESTATED PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF EARNINGS  
 (Unaudited)  
 (In millions except per share amounts)

	Jan. 31, 2001 (Restated)	April 30, 2001 (Restated)	July 31, 2001 (Restated)
Net revenue	\$ 12,398	\$ 11,668	\$ 10,284
Costs and expenses:			
Cost of products sold and services	9,060	8,724	7,609
Research and development	654	683	660
Selling, general and administrative	1,742	1,869	1,762
Total costs and expenses	<u>11,456</u>	<u>11,276</u>	<u>10,031</u>
Earnings from operations	942	392	253
Interest and other, net	<u>97</u>	<u>39</u>	<u>42</u>
Earnings before extraordinary item, cumulative effect of change in accounting principle and taxes	1,039	431	295
Provision for taxes	<u>227</u>	<u>95</u>	<u>65</u>
Net earnings from continuing operations before extraordinary item and cumulative effect of change in accounting principle	<u>\$ 812</u>	<u>\$ 336</u>	<u>\$ 230</u>
Earnings per share before extraordinary item and cumulative effect of change in accounting principle:			
Basic	\$ 0.42	\$ 0.17	\$ 0.12
Diluted	\$ 0.41	\$ 0.17	\$ 0.12
Cash dividends declared per share	\$ 0.16	\$ -	\$ 0.16
Average number of shares and share equivalents:			
Basic	1,930	1,935	1,936
Diluted	1,996	1,987	1,967

The amounts previously reported in HP's Quarterly Reports on Form 10-Q have been adjusted for the following items to reflect the restated amounts presented above:

Net revenue:			
SAB 101 (a)	\$ 387	\$ (23)	\$ 48
EITF 00-25 (b)	(40)	(15)	(11)
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	450	61	137
Cost of products sold and services:			
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Financing interest expense (c)	<u>77</u>	<u>55</u>	<u>56</u>
	357	57	89
Operating expense:			
EITF 00-25 (b)	(40)	(15)	(11)
Interest and other, net:			
Financing interest income (c)	(103)	(99)	(100)
Financing interest expense (c)	<u>77</u>	<u>55</u>	<u>56</u>
	(26)	(44)	(44)
Income tax effect	<u>22</u>	<u>(5)</u>	<u>3</u>
Total restatement adjustments before cumulative effect of change in accounting principle	<u>\$ 85</u>	<u>\$ (20)</u>	<u>\$ 12</u>

- (a) HP adopted Securities and Exchange Commission Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements" in the fourth quarter of fiscal year 2001. This accounting change was adopted effective as of the first quarter of fiscal year 2001. Accordingly, HP has restated its consolidated results of operations for the first three quarters of fiscal year 2001, including a cumulative effect of change in accounting principle, which was recorded as a reduction of net income as of the beginning of the first quarter of fiscal year 2001.
- (b) HP adopted Emerging Issues Task Force Issue No. 00-25 ("EITF 00-25"), "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products" in the fourth quarter of fiscal year 2001. HP has restated its consolidated results of operations for all periods presented to reflect this accounting change.
- (c) HP adopted a new accounting policy in the fourth quarter of fiscal year 2001 related to the classification of financing interest income and expense. Previously, HP recorded financing interest and expense as non-operating interest income and expense, respectively. Under the new policy, financing interest income and expense are classified as revenue and costs of products sold and services, respectively. HP has restated its consolidated results of operations for all periods presented to reflect this change in accounting policy.

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