

quarterly overview
may 14, 2002

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Calculation of Net Earnings Per Share

HP's basic earnings per share (EPS) is calculated based on net earnings and the weighted-average number of shares outstanding during the reporting period.

Diluted EPS includes additional dilution from potential issuance of common stock, such as stock issuable pursuant to exercise of stock options outstanding and the conversion of debt.

(In millions except per share amounts)
(Unaudited)

	Three months ended	
	April 30,	
	2002	2001
Numerator:		
Net earnings before extraordinary item	\$ 238	\$ 35
Adjustment for interest expense on convertible notes, net of income tax effect	<u>2</u>	<u>4</u>
Net earnings before extraordinary item, adjusted	240	39
Extraordinary item - gain on early extinguishment of debt, net of taxes	<u>14</u>	<u>12</u>
Net earnings, adjusted	<u>\$ 254</u>	<u>\$ 51</u>
Denominator:		
Weighted-average shares used to compute basic EPS	1,955	1,935
Effect of dilutive securities:		
Dilutive options and other stock-based awards	8	34
Zero-coupon subordinated convertible notes	<u>10</u>	<u>18</u>
Dilutive potential common shares	<u>18</u>	<u>52</u>

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Weighted-average shares used to compute diluted EPS	<u>1,973</u>	<u>1,987</u>
Basic net earnings per share:		
Net earnings before extraordinary item	\$ 0.12	\$ 0.02
Extraordinary item - gain on early extinguishment of debt, net of taxes	<u>0.01</u>	<u>-</u>
Net earnings	<u>\$ 0.13</u>	<u>\$ 0.02</u>
Diluted net earnings per share:		
Net earnings before extraordinary item	\$ 0.12	\$ 0.02
Extraordinary item - gain on early extinguishment of debt, net of taxes	<u>0.01</u>	<u>-</u>
Net earnings	<u>\$ 0.13</u>	<u>\$ 0.02</u>

(In millions except per share amounts)
(Unaudited)

	Six months ended	
	April 30,	
	<u>2002</u>	<u>2001</u>
Numerator:		
Net earnings before extraordinary item and cumulative effect of change in accounting principle	\$ 716	\$ 425
Adjustment for interest expense on convertible notes, net of income tax effect	<u>5</u>	<u>10</u>
Net earnings before extraordinary item and cumulative effect of change in accounting principle, adjusted	721	435
Extraordinary item - gain on early extinguishment of debt, net of taxes	20	35
Cumulative effect of change in accounting principle, net of taxes	<u>-</u>	<u>(272)</u>
Net earnings, adjusted	<u>\$ 741</u>	<u>\$ 198</u>
Denominator:		
Weighted-average shares used to compute basic EPS	1,948	1,934
Effect of dilutive securities:		
Dilutive options and other stock-based awards	9	40
Zero-coupon subordinated convertible notes	<u>11</u>	<u>22</u>
Dilutive potential common shares	<u>20</u>	<u>62</u>
Weighted-average shares used to compute diluted EPS	<u>1,968</u>	<u>1,996</u>
Basic net earnings per share:		
Net earnings before extraordinary item and cumulative effect of change in accounting principle	\$ 0.37	\$ 0.22
Extraordinary item - gain on early extinguishment of debt, net of taxes	0.01	0.02
Cumulative effect of change in accounting principle, net of taxes	<u>-</u>	<u>(0.14)</u>
Net earnings	<u>\$ 0.38</u>	<u>\$ 0.10</u>
Diluted net earnings per share:		
Net earnings before extraordinary item and cumulative effect of change in accounting principle	\$ 0.37	\$ 0.22
Extraordinary item - gain on early extinguishment of debt, net of taxes	0.01	0.02
Cumulative effect of change in accounting		

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principle, net of taxes	-	(0.14)
Net earnings	<u>\$ 0.38</u>	<u>\$ 0.10</u>

Calculation of Pro Forma Net Earnings Per Share

HP's basic pro forma earnings per share (EPS) is calculated based on pro forma net earnings and the weighted-average number of shares outstanding during the reporting period.

Diluted pro forma EPS includes additional dilution from potential issuance of common stock, such as stock issuable pursuant to exercise of stock options outstanding and the conversion of debt.

(In millions except per share data)
(Unaudited)

	Three months ended	
	April 30,	
	<u>2002</u>	<u>2001</u>
Numerator:		
Net earnings before extraordinary item	\$ 498	\$ 336
Adjustment for interest expense on convertible notes, net of income tax effect	<u>2</u>	<u>4</u>
Net earnings before extraordinary item, adjusted	<u>\$ 500</u>	<u>\$ 340</u>
Denominator:		
Weighted-average shares used to compute basic EPS	1,955	1,935
Effect of dilutive securities:		
Dilutive options and other stock-based awards	8	34
Zero-coupon subordinated convertible notes	<u>10</u>	<u>18</u>
Dilutive potential common shares	<u>18</u>	<u>52</u>
Weighted-average shares used to compute diluted EPS	<u>1,973</u>	<u>1,987</u>
Net earnings per share before extraordinary item:		
Basic	\$ 0.25	\$ 0.17
Diluted	\$ 0.25	\$ 0.17

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

Cost of sales:		
Amortization of purchased intangible assets	\$ 8	\$ -
Operating expenses:		
Amortization of goodwill and purchased intangible assets	45	49
Acquisition-related charges	140	-
In-process research and development charges	59	-
Restructuring charges	<u>18</u>	<u>-</u>
Total adjustments to operating expenses	262	49
Net investment losses	16	-
Litigation settlement	-	400
Income tax effect	<u>(26)</u>	<u>(148)</u>
Total pro forma adjustments	<u>\$ 260</u>	<u>\$ 301</u>

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(In millions except per share data)
(Unaudited)

	Six months ended	
	April 30,	
	2002	2001
Numerator:		
Net earnings before extraordinary item and cumulative effect of change in accounting principle	\$ 1,062	\$ 1,148
Adjustment for interest expense on convertible notes, net of income tax effect	<u>5</u>	<u>10</u>
Net earnings before extraordinary item and cumulative effect of change in accounting principle, adjusted	<u>\$ 1,067</u>	<u>\$ 1,158</u>
Denominator:		
Weighted-average shares used to compute basic EPS	1,948	1,934
Effect of dilutive securities:		
Dilutive options and other stock-based awards	9	40
Zero-coupon subordinated convertible notes	<u>11</u>	<u>22</u>
Dilutive potential common shares	<u>20</u>	<u>62</u>
Weighted-average shares used to compute diluted EPS	<u>1,968</u>	<u>1,996</u>
Net earnings per share before extraordinary item and cumulative effect of change in accounting principle:		
Basic	\$ 0.55	\$ 0.59
Diluted	\$ 0.54	\$ 0.58

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

Cost of sales:		
Amortization of purchased intangible assets	\$ 13	\$ -
Operating expenses:		
Amortization of goodwill and purchased intangible assets	90	75
Acquisition-related charges	178	25
In-process research and development charges	59	19
Restructuring charges	<u>18</u>	<u>102</u>
Total adjustments to operating expenses	345	221
Net investment losses	16	365
Litigation settlement	-	400
Income tax effect	<u>(28)</u>	<u>(263)</u>
Total pro forma adjustments	<u>\$ 346</u>	<u>\$ 723</u>

Selected Financial Information

(In millions except for ratios)
(Unaudited)

	Three months ended	
	April 30,	
	2002	2001
Investment in property, plant and equipment	\$ 379	\$ 405
Disposition of property, plant and equipment	\$ 134	\$ 99

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Depreciation and amortization	\$	381	\$	346
Issuance of common stock (including non-cash issuances)	\$	627	\$	31
Repurchase of common stock	\$	-	\$	202
Dividends paid	\$	156	\$	155

	Six months ended			
	April 30,			
	<u>2002</u>	<u>2001</u>		
Investment in property, plant and equipment	\$	709	\$	889
Disposition of property, plant and equipment	\$	208	\$	262
Depreciation and amortization	\$	696	\$	632
Issuance of common stock (including non-cash issuances)	\$	818	\$	656
Repurchase of common stock	\$	204	\$	838
Dividends paid	\$	311	\$	310

	<u>April 30,</u>	<u>Jan. 31,</u>	<u>April 30,</u>			
	<u>2002</u>	<u>2002</u>	<u>2001</u>			
Long-term cash investments	\$	558	\$	523	\$	512
Trade and current financing receivables as a percentage of net revenue	14.3%	14.4%	14.9%			
Inventory as a percentage of net revenue	9.3%	10.1%	12.3%			
Net property, plant and equipment as a percentage of net revenue	10.0%	9.9%	9.3%			

Geographic Revenue Growth Comparison

(Unaudited)

	<u>% Growth</u>	<u>% Growth</u>
	<u>Q2'02 vs Q2'01</u>	<u>Q2'02 vs Q1'02</u>
U.S.	(16)%	(11)%
Europe	2%	(6)%
Asia Pacific	(13)%	(2)%
Latin America	(12)%	3%
Canada	(8)%	2%
HP Total	(9)%	(7)%