

quarterly overview  
august 27, 2002

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**financial statements**

- consolidated condensed statement of earnings
- combined company consolidated condensed statement of earnings
- pro forma combined company consolidated condensed statement of earnings
- combined company consolidated condensed balance sheet

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

	Three months ended		
	July 31,		
	2002 <sup>(a)</sup>	2001 <sup>(b), (d)</sup> (Combined Company)	2001 <sup>(c), (d)</sup> (Historical HP)
Net revenue	\$ 16,536	\$ 18,575	\$ 10,284
Costs and expenses:			
Cost of sales	12,419	14,090	7,620
Research and development	983	1,034	682
Selling, general and administrative	2,738	3,099	1,729
Amortization of goodwill and purchased intangible assets	147	25	49
Restructuring charges	1,612	493	-
In-process research and development charges	735	-	-
Acquisition-related charges	378	-	-
Total costs and expenses	<u>19,012</u>	<u>18,741</u>	<u>10,080</u>
Earnings from operations	(2,476)	(166)	204
Interest and other, net	20	73	42
Net investment (losses) gains	(53)	4	-
Litigation settlement	14	-	-
Loss on divestiture	<u>-</u>	<u>(131)</u>	<u>(131)</u>
Earnings before extraordinary item and taxes	(2,495)	(220)	115
Provision (benefit) for taxes	<u>(466)</u>	<u>(96)</u>	<u>-</u>
Net earnings before extraordinary item	(2,029)	(124)	115
Extraordinary item - gain on early extinguishment of debt, net of taxes	<u>-</u>	<u>8</u>	<u>8</u>
Net earnings	<u>\$ (2,029)</u>	<u>\$ (116)</u>	<u>\$ 123</u>
Basic net earnings per share: <sup>(e)</sup>			
Net earnings before extraordinary item	\$ (0.67)	\$ (0.04)	\$ 0.06
Extraordinary item - gain on early extinguishment of debt, net of taxes	<u>-</u>	<u>-</u>	<u>-</u>
Net earnings	<u>\$ (0.67)</u>	<u>\$ (0.04)</u>	<u>\$ 0.06</u>
Diluted net earnings per share: <sup>(e), (f)</sup>			
Net earnings before extraordinary item	\$ (0.67)	\$ (0.04)	\$ 0.06
Extraordinary item - gain on early extinguishment of debt, net of taxes	<u>-</u>	<u>-</u>	<u>-</u>
Net earnings	<u>\$ (0.67)</u>	<u>\$ (0.04)</u>	<u>\$ 0.06</u>
Cash dividends declared per share	\$ 0.16	\$ 0.18	\$ 0.16
Weighted-average shares used to compute net earnings per share: <sup>(e), (f)</sup>			
Basic	3,033	3,004	1,936
Diluted	3,033	3,004	1,967

- (a) The results for the three months ended July 31, 2002 included the results of Compaq from May 3, 2002 (the acquisition date).
- (b) The combined company results for the three months ended July 31, 2001 included the results of Compaq as if the merger had taken place as of the beginning of the period presented. Due to different fiscal period ends for HP and Compaq, the combined company results for the three months ended July 31, 2001 included the historical results of HP for the three months ended July 31, 2001 and the historical results of Compaq for the three months ended June 30, 2001.
- (c) The historical HP results for the three months ended July 31, 2001 included only the results of pre-merger HP.
- (d) Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.
- (e) The basic and diluted earnings per share for the combined company for the three months ended July 31, 2001 are based on the weighted average number of HP shares outstanding for the three months ended July 31, 2001 and the weighted average number of Compaq shares outstanding for the three months ended June 30, 2001 multiplied by the exchange ratio.
- (f) HP's diluted loss per share for the three months ended July 31, 2002 and the combined company's diluted loss per share for the three months ended July 31, 2001 were calculated based only on the weighted average number of shares outstanding during each of the periods as the inclusion of common stock equivalents, such as stock issuable pursuant to the exercise of stock options and the conversion of debt would have been antidilutive.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENT OF EARNINGS  
(Unaudited)

(In millions except per share amounts)

	Nine months ended July 31,		Percent increase/ (decrease)
	<u>2002<sup>(a)</sup></u>	<u>2001<sup>(b), (c)</sup></u>	
Net revenue	\$ 38,539	\$ 34,350	12
Costs and expenses:			
Cost of sales	28,319	25,418	
Research and development	2,345	2,071	
Selling, general and administrative	6,082	5,274	
Amortization of goodwill and purchased intangible assets	251	124	
Restructuring charges	1,630	102	
In-process research and development charges	793	19	
Acquisition-related charges	556	25	
Total costs and expenses	<u>39,976</u>	<u>33,033</u>	21
Earnings from operations	(1,437)	1,317	(209)
Interest and other, net	(16)	178	
Net investment losses	(68)	(365)	
Litigation settlement	14	(400)	
Loss on divestiture	<u>-</u>	<u>(131)</u>	
Earnings before extraordinary item, cumulative effect of change in accounting principle and taxes	(1,507)	599	(352)
Provision for taxes	<u>(194)</u>	<u>59</u>	
Net earnings before extraordinary item and cumulative effect of change in accounting principle	(1,313)	540	(343)
Extraordinary item - gain on early extinguishment of debt, net of taxes	20	43	
Cumulative effect of change in accounting principle, net of taxes <sup>(d)</sup>	<u>-</u>	<u>(272)</u>	
Net earnings	<u>\$ (1,293)</u>	<u>\$ 311</u>	(516)
Basic net earnings per share:			
Net earnings before extraordinary item and cumulative effect of change in accounting principle	\$ (0.57)	\$ 0.28	
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 <sup>(d)</sup>	<u>-</u>	<u>(0.14)</u>	
Net earnings	<u>\$ (0.56)</u>	<u>\$ 0.16</u>	
Diluted net earnings per share: <sup>(e)</sup>			
Net earnings before extraordinary item and cumulative effect of change in accounting principle	\$ (0.57)	\$ 0.28	
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 <sup>(d)</sup>	<u>-</u>	<u>(0.14)</u>	
Net earnings	<u>\$ (0.56)</u>	<u>\$ 0.16</u>	
Cash dividends declared per share	\$ 0.32	\$ 0.32	
Weighted-average shares used to compute net earnings per share:			
Basic	2,314	1,935	
Diluted <sup>(e)</sup>	2,314	1,976	

- (a) Results for the nine months ended July 31, 2002 included the results of Compaq from May 3, 2002 (the acquisition date).
- (b) The historical HP results for the nine months ended July 31, 2001 included only the results of pre-merger HP.
- (c) Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.
- (d) HP adopted Securities and Exchange Commission Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements" in the fourth quarter of fiscal 2001, retroactive to November 1, 2000.
- (e) The diluted loss per share for the nine months ended July 31, 2002 was calculated based only on the weighted average number of shares outstanding during the period as the inclusion of common stock equivalents, such as stock issuable pursuant to the exercise of stock options and the conversion of debt would have been antidilutive. The calculation of diluted net earnings per share for the nine months ended July 31, 2001 included additional dilution from common stock equivalents.

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

	Nine months ended		Percent increase/ (decrease)
	July 31,		
	<u>2002<sup>(a)</sup></u>	<u>2001<sup>(b), (c)</sup></u>	
Net revenue	\$ 54,298	\$ 62,937	(14)
Costs and expenses:			
Cost of sales	40,750	47,445	
Research and development	2,923	3,165	
Selling, general and administrative	8,505	9,722	
Amortization of goodwill and purchased intangible assets	288	176	
Restructuring charges	1,630	758	
In-process research and development charges	793	19	
Acquisition-related charges	627	25	
Total costs and expenses	<u>55,516</u>	<u>61,310</u>	(9)
Earnings from operations	(1,218)	1,627	(175)
Interest and other, net	(48)	308	
Net investment losses	(62)	(1,998)	
Litigation settlement	14	(400)	
Loss on divestiture	<u>-</u>	<u>(131)</u>	
Earnings before extraordinary item, cumulative effect of change in accounting principles and taxes	(1,314)	(594)	(121)
Provision (benefit) for taxes	<u>(138)</u>	<u>(312)</u>	
Net earnings before extraordinary item and cumulative effect of change in accounting principles	(1,176)	(282)	(317)
Extraordinary item - gain on early extinguishment of debt, net of taxes	20	43	
Cumulative effect of change in accounting principles, net of taxes <sup>(d)</sup>	<u>-</u>	<u>(492)</u>	
Net earnings	<u>\$ (1,156)</u>	<u>\$ (731)</u>	(58)
Basic net earnings per share: <sup>(e)</sup>			
Net earnings before extraordinary item and cumulative effect of change in accounting principle	\$ (0.39)	\$ (0.09)	
Extraordinary item - gain on early extinguishment of debt, net of taxes	0.01	0.01	
Cumulative effect of change in accounting principles, net of taxes <sup>(d)</sup>	-	(0.16)	
Net earnings	<u>\$ (0.38)</u>	<u>\$ (0.24)</u>	
Diluted net earnings per share: <sup>(e), (f)</sup>			
Net earnings before extraordinary item and cumulative effect of change in accounting principle	\$ (0.39)	\$ (0.09)	
Extraordinary item - gain on early extinguishment of debt, net of taxes	0.01	0.01	
Cumulative effect of change in accounting principles, net of taxes <sup>(d)</sup>	-	(0.16)	
Net earnings	<u>\$ (0.38)</u>	<u>\$ (0.24)</u>	
Cash dividends declared per share	\$ 0.35	\$ 0.37	
Weighted-average shares used to compute net earnings per share:			
Basic <sup>(e)</sup>	3,026	3,004	
Diluted <sup>(e), (f)</sup>	3,026	3,004	

- (a) The combined company resulted for the nine months ended July 31, 2002 included the results of Compaq as if the merger had taken place as of the beginning of the periods presented. Due to different fiscal period ends for HP and Compaq, the combined company consolidated condensed statement of earnings for the nine months ended July 31, 2002 included the results of HP (standalone) for the nine months ended July 31, 2002 and the historical quarterly results of Compaq for the six months ended March 31, 2002 and for the period from May 3, 2002 (the acquisition date) to July 31, 2002.
- (b) The combined company resulted for the nine months ended July 31, 2001 included the results of Compaq as if the merger had taken place as of the beginning of the periods presented. Due to different fiscal period ends for HP and Compaq, the combined company results for the nine months ended July 31, 2001 included the historical results of HP for the nine months ended July 31, 2001 and the historical results of Compaq for the nine months ended June 30, 2001.
- (c) Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.
- (d) The cumulative effect of change in accounting principles, net of taxes resulted from HP's adoption of Securities and Exchange Commission Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements" in the fourth quarter of fiscal 2001, retroactive to November 1, 2000 and Compaq's adoption of Emerging Issues Task Force Issue 01-9 (EITF 01-9) "Accounting for Consideration Given by a Vendor to a Customer of a Reseller of a Vendor's Products" in Compaq's fourth quarter of fiscal 2001, retroactive to January 1, 2001.
- (e) The basic and diluted earnings per share for the nine months ended July 31, 2002 are based on the weighted average number of HP shares outstanding for the nine months ended July 31, 2002 and the weighted average number of Compaq shares outstanding for the six months ended March 31, 2002 multiplied by the exchange ratio. The basic and diluted earnings per share for the nine months ended July 31, 2001 were based on the weighted average number of HP shares outstanding for the nine months ended July 31, 2001 and the weighted average number of Compaq shares outstanding for the nine months ended June 30, 2001 multiplied by the exchange ratio.
- (f) The diluted loss per share for the nine months ended July 31, 2002 and 2001 were calculated based only on the weighted average number of shares outstanding during each of the periods as the inclusion of common stock equivalents, such as stock issuable pursuant to the exercise of stock options and the conversion of debt would have been antidilutive.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
PRO FORMA COMBINED CONSOLIDATED CONDENSED STATEMENT OF EARNINGS  
Excluding adjustments itemized below  
(Unaudited)

(In millions except per share amounts)

	Three months ended		Percent increase/ (decrease)
	July 31,		
	<u>2002<sup>(a)</sup></u>	<u>2001<sup>(b)</sup></u>	
Net revenue	\$ 16,536	\$ 18,575	(11)
Costs and expenses:			
Cost of sales	12,282	14,090	
Research and development	983	1,034	
Selling, general and administrative	<u>2,738</u>	<u>3,099</u>	
Total costs and expenses	<u>16,003</u>	<u>18,223</u>	(12)
Earnings from operations	533	352	51
Interest and other, net	<u>20</u>	<u>73</u>	
Earnings before extraordinary item and taxes	553	425	30
Provision for taxes	<u>133</u>	<u>105</u>	
Net earnings before extraordinary item	<u>\$ 420</u>	<u>\$ 320</u>	31
Net earnings per share before extraordinary item: <sup>(c)</sup>			
Basic	\$ 0.14	\$ 0.11	
Diluted	\$ 0.14	\$ 0.11	
Weighted-average shares used to compute net earnings per share: <sup>(c)</sup>			
Basic	3,033	3,004	
Diluted	3,047	3,045	
The pro forma amounts above have been adjusted to exclude the following items:			
Cost of sales:			
Acquisition-related inventory write-down	\$ 137	\$ -	
Other costs and expenses:			
Amortization of goodwill and purchased intangible assets	147	25	
Restructuring charges	1,612	493	
In-process research and development charges	735	-	
Acquisition-related charges:			
Employee retention charges	322	-	
Other acquisition-related charges	<u>56</u>	<u>-</u>	
Total acquisition-related charges	<u>378</u>	<u>-</u>	
Total adjustments to other costs and expenses	<u>2,872</u>	<u>518</u>	
Net investment losses (gains)	53	(4)	
Litigation settlement	(14)	-	
Loss on divestiture	-	131	
Income tax effect	<u>(599)</u>	<u>(201)</u>	
Total pro forma adjustments	<u>\$ 2,449</u>	<u>\$ 444</u>	

- (a) The pro forma combined results for the three months ended July 31, 2002 included the results of Compaq from May 3, 2002 (the acquisition date).
- (b) The pro forma combined results for the three months ended July 31, 2001 included the results of Compaq as if the merger had taken place as of the beginning of the periods presented. Due to different fiscal period ends for HP and Compaq, the pro forma combined results for the three months ended July 31, 2001 included the results of HP for the three months ended July 31, 2001, and the results of Compaq for the three months ended June 30, 2001.
- (c) The pro forma basic and diluted earnings per share for the combined company for the three months ended July 31, 2001 are based on the weighted average number of HP shares outstanding for the three months ended July 31, 2001 and the weighted average number of Compaq shares outstanding for the three months ended June 30, 2001 multiplied by the exchange ratio.

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

	Nine months ended July 31,		Percent increase/ (decrease)
	<u>2002<sup>(a)</sup></u>	<u>2001<sup>(b)</sup></u>	
Net revenue	\$ 54,298	\$ 62,937	(14)
Costs and expenses:			
Cost of sales	40,613	47,428	
Research and development	2,923	3,165	
Selling, general and administrative	8,505	9,641	
Total costs and expenses	<u>52,041</u>	<u>60,234</u>	(14)
Earnings from operations	2,257	2,703	(17)
Interest and other, net	<u>(48)</u>	<u>308</u>	
Earnings before extraordinary item, cumulative effect of change in accounting principle and taxes	2,209	3,011	(27)
Provision for taxes	<u>521</u>	<u>764</u>	
Net earnings before extraordinary item and cumulative effect of change in accounting principle	<u>\$ 1,688</u>	<u>\$ 2,247</u>	(25)
Net earnings per share before extraordinary item and cumulative effect of change in accounting principle: <sup>(c)</sup>			
Basic	\$ 0.56	\$ 0.75	
Diluted	\$ 0.56	\$ 0.74	
Weighted-average shares used to compute net earnings per share: <sup>(c)</sup>			
Basic	3,026	3,004	
Diluted	3,049	3,059	
The pro forma amounts above have been adjusted to exclude the following items:			
Cost of sales:			
Acquisition-related inventory write-down	\$ 137	\$ -	
Litigation settlement	<u>-</u>	<u>17</u>	
Total adjustments to cost of sales	137	17	
Other costs and expenses:			
Amortization of goodwill and purchased intangible assets	288	176	
Restructuring charges	1,630	758	
In-process research and development charges	793	19	
Acquisition-related charges:			
Employee retention charges	322	-	
Other acquisition-related charges	<u>305</u>	<u>25</u>	
Total acquisition-related charges	627	25	
Litigation settlement	<u>-</u>	<u>81</u>	
Total adjustments to other costs and expenses	3,338	1,059	
Net investment losses	62	1,998	
Litigation settlement	(14)	400	
Loss on divestiture	-	131	
Income tax effect	<u>(659)</u>	<u>(1,076)</u>	
Total pro forma adjustments	<u>\$ 2,864</u>	<u>\$ 2,529</u>	

- (a) The pro forma combined results for the nine months ended July 31, 2002 included the results of Compaq as if the merger had taken place as of the beginning of the periods presented. Due to different fiscal period ends for HP and Compaq, the pro forma combined results for the nine months ended July 31, 2002 included the results of HP (standalone) for the nine months ended July 31, 2002 and the historical quarterly results of Compaq for the six months ended March 31, 2002 and for the period from May 3, 2002 (the acquisition date) to July 31, 2002.
- (b) The pro forma combined results for the nine months ended July 31, 2001 included the results of Compaq as if the merger had taken place as of the beginning of the periods presented. Due to different fiscal period ends for HP and Compaq, the pro forma combined results for the nine months ended July 31, 2001 included the historical results of HP for the nine months ended July 31, 2001 and the historical results of Compaq for the nine months ended June 30, 2001.
- (c) The pro forma basic and diluted earnings per share for the nine months ended July 31, 2002 are based on the weighted average number of HP shares outstanding for the nine months ended July 31, 2002 and the weighted average number of Compaq shares outstanding for the six months ended March 31, 2002 multiplied by the exchange ratio. The basic and diluted earnings per share for the nine months ended July 31, 2001 are based on the weighted average number of HP shares outstanding for the nine months ended July 31, 2001 and the weighted average number of Compaq shares outstanding for the nine months ended June 30, 2001 multiplied by the exchange ratio.

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

	<u>July 31,</u> 2002 (unaudited)	<u>October 31,</u> 2001 (a)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,092	\$ 4,197
Short-term investments	137	139
Accounts receivable, net	8,171	4,488
Financing receivables, net	3,272	2,183
Inventory	5,568	5,204
Other current assets	<u>8,118</u>	<u>5,094</u>
Total current assets	36,358	21,305
Property, plant and equipment, net	7,109	4,397
Long-term investments and other assets	7,183	6,126
Goodwill and other purchased intangible assets	<u>20,262</u>	<u>756</u>
Total assets	<u>\$ 70,912</u>	<u>\$ 32,584</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	\$ 2,003	\$ 1,722
Accounts payable	6,699	3,791
Employee compensation and benefits	2,031	1,477
Taxes on earnings	2,160	1,818
Deferred revenues	3,322	1,867
Accrued restructuring	1,574	82
Other accrued liabilities	<u>7,123</u>	<u>3,207</u>
Total current liabilities	24,912	13,964
Long-term debt	6,388	3,729
Other liabilities	3,271	938
Stockholders' equity	<u>36,341</u>	<u>13,953</u>
Total liabilities and stockholders' equity	<u>\$ 70,912</u>	<u>\$ 32,584</u>

(a) Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.