

News release



HP Reports Second Quarter 2004 Results

- Record revenue of \$20.1 billion, up 12% year-over-year
- Non-GAAP operating profit of \$1.3 billion, up 17% year-over-year; Non-GAAP EPS \$0.34, up 17% year-over-year
- GAAP operating profit of \$1.1 billion, up 77% year-over-year; GAAP EPS \$0.29, up 32% year-over-year
- Both Non-GAAP and GAAP earnings include a \$70 million charge for HP's settlement with the Canadian government
- Revenue in Personal Systems grew 17% year-over-year; HP Services grew 15%; Imaging and Printing grew 11%; Enterprise Storage and Servers grew 8%; Software grew 23%
- Cash flow from operations totaled \$2.6 billion

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PALO ALTO, Calif., May 18, 2004 – HP today reported financial results for its second fiscal quarter ended April 30, 2004, including record revenue of \$20.1 billion, an increase of 12% year-over-year.

Non-GAAP⁽¹⁾ operating profit was \$1.3 billion for the quarter, an increase of 17% year-over-year. Non-GAAP diluted earnings per share (EPS) was \$0.34 for the quarter, up 17% from \$0.29 last year. Non-GAAP diluted EPS and non-GAAP net earnings include a \$148 million adjustment on an after-tax basis, or \$0.05 per diluted share.

GAAP operating profit for the quarter was \$1.1 billion, an improvement of \$495 million or 77% year-over-year. GAAP diluted EPS was \$0.29 per share, up 32% from \$0.22 year-over-year.

On May 13, HP Canada agreed to reimburse the Government of Canada \$105 million in U.S. dollars. This settlement, net of a previously recorded amount of \$35 million, had an impact of approximately 2 cents per share on second quarter GAAP and non-GAAP earnings.

All non-GAAP financial information in this release is reconciled in the table below titled, "Non-GAAP Consolidated Condensed Statement of Earnings."

Q2 FY04	Y/Y Growth	Q2 FY03
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Revenue (billions)	\$20.1	12%	\$18.0
Non-GAAP operating margin ⁽¹⁾	6.7%		6.4%
GAAP operating margin	5.7%		3.6%
Non-GAAP diluted EPS ⁽¹⁾	\$0.34	17%	\$0.29
GAAP diluted EPS	\$0.29	32%	\$0.22

During the quarter, and on a year-over-year basis, revenue in the Americas grew 4% to \$8.4 billion; Europe grew 17% to \$8.3 billion; Asia Pacific grew 22% to \$2.4 billion; and Japan grew 21% to \$967 million. On a total company basis, and when adjusted for the effects of currency, second quarter revenue grew 4% year-over-year.

"HP delivered a strong quarter with solid revenue gains and continued profitability across the portfolio. We surpassed \$20 billion in quarterly revenue for the first time in our history, with record second quarter revenue in PCs, enterprise hardware, software, services and imaging and printing. Cash flow from operations totaled \$2.6 billion. These results demonstrate that we are winning and growing across the portfolio in an intensely competitive market," said Carly Fiorina, HP chairman and chief executive officer.

Technology Solutions Group

The Technology Solutions Group consists of Enterprise Storage and Servers, Software and HP Services. The group reported revenue of \$7.7 billion, up 11% from the prior year period, with each business reporting record quarterly revenue in the second quarter. Operating profit for the quarter totaled \$400 million, up \$108 million year-over-year.

Enterprise Storage and Servers

Enterprise Storage and Servers reported revenue of \$4.0 billion, up 8% year-over-year, led by 15% growth in Industry Standard Servers, which posted record revenue and unit growth of 32%. HP Superdome server orders and shipments achieved another quarterly record. Revenue in Intel® Itanium®-based HP Integrity servers almost doubled sequentially.

Storage revenue totaled \$897 million for the quarter, down 1% year-over-year, but up 7% sequentially. Strength in the high-end XP platforms and storage software was offset by discounting in the midrange and continuing declines in tape revenue.

Operating profit for the quarter totaled \$120 million, a \$62 million year-over-year improvement, but down \$34 million sequentially reflecting mix shifts within the businesses, strength in HP ProLiant server revenue and aggressive pricing.



Software

Software reported record quarterly revenue of \$222 million, an increase of 23% year-over-year. HP OpenCall revenue increased 43% over the prior year period. HP OpenView revenue increased 15% year-over-year. Software reported an operating loss of \$49 million, as the company continues to make strategic investments that support the HP Adaptive Enterprise strategy.

HP Services

HP Services revenue grew 15% year-over-year to \$3.5 billion. This represents record quarterly revenue and the highest quarterly revenue growth since the merger. Managed services grew 50% over the prior year period. Revenue in customer support grew 9% and consulting and integration revenue increased 8% year-over-year. Operating profit was \$329 million, or 9.4% of revenue, down from 9.8% in the prior year period, but up 1.2 points sequentially reflecting improvements in Customer Support and Consulting and Integration margins.

Personal Systems

Personal Systems revenue totaled \$6.0 billion, up 17% year-over-year, with strong growth across all regions and categories. Desktop revenue increased 14% year-over-year, while notebooks grew 26%. This is the third consecutive quarter that PC year-over-year revenue growth surpassed HP's nearest competitor. Personal Systems reported an operating profit of \$45 million, up from \$23 million in the prior year period.

Imaging and Printing

Imaging and Printing posted record second quarter revenue of \$6.1 billion, up 11% year-over-year. During the quarter HP shipped approximately 1 million printer units a week, bringing total shipments to more than 310 million units worldwide. Supplies grew 15% over the prior year period, and business hardware grew 10%. Home hardware revenue declined 4% year-over-year as a 38% increase in all-in-one unit shipments was offset by declining sales of single-function printers and scanners. Investments in high-growth printing categories such as digital photography, total print management services and digital publishing continued to gain traction. Operating profit of \$953 million was also a second quarter record and represented 15.6% of revenue.

Financial Services

Revenue was \$469 million, down 6% year-over-year but up 6% sequentially. Operating profit was \$35 million, increased from \$21 million in the prior year period, and represented 7.5% of revenue, the highest level since the merger.

Asset Management

Cash generated from operations for the quarter was approximately \$2.6 billion after \$164 million in cash payments related to restructuring. HP exited the quarter with \$15.1 billion in gross cash, which includes cash and cash equivalents of \$14.7 billion and short- and certain long-term investments of approximately \$400 million. Inventory ended the quarter at \$6.3 billion, down \$214 million from the prior quarter and up \$530 million year-over-year. Trade receivables increased \$209 million from the prior quarter to \$8.5 billion. HP's dividend payment of \$0.08 per share in the second quarter resulted in a cash use of \$244 million. In addition, HP repurchased \$348 million of stock and paid \$562 million in net cash for acquisitions during the second

quarter.

Outlook

HP is raising its second half 2004 revenue estimates to a range of \$39.7 billion to \$40.7 billion. Current analyst estimates are \$39.7 billion. HP is also confirming second half non-GAAP earnings per share of \$0.74.

The non-GAAP EPS expectations assume after-tax exclusion for second half charges of approximately \$0.08 per share from amortization of purchased intangible assets and acquisition-related charges.

More information on this quarter's earnings is available on HP's Investor Relations site at www.hp.com/hpinfo/investor/quarters/quarters.html.

About HP

HP is a technology solutions provider to consumers, businesses and institutions globally. The company's offerings span IT infrastructure, personal computing and access devices, global services and imaging and printing. For the four fiscal quarters ended April 30, 2004, HP revenue totaled \$76.8 billion. More information about HP (NYSE, Nasdaq: HPQ) is available at www.hp.com.

⁽¹⁾ All non-GAAP numbers have been adjusted to exclude certain items. A reconciliation of specific adjustments to GAAP results for this quarter and the prior period is included in the table below titled: "Non-GAAP Consolidated Condensed Statement of Earnings." A description of HP's use of non-GAAP information is provided under "Use of Non-GAAP Financial Information."

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Use of Non-GAAP Financial Information

To supplement the company's consolidated condensed financial statements presented on a GAAP basis, HP uses non-GAAP additional measures of operating results, net earnings and earnings per share adjusted to exclude certain costs, expenses, gains and losses it believes appropriate to enhance an overall understanding of HP's past financial performance and also its prospects for the future. These adjustments to HP's GAAP results are made with the intent of providing both management and investors a more complete understanding of the underlying operational results and trends and the company's marketplace performance. For example, the non-GAAP results are an indication of HP's baseline performance before gains, losses or other charges that are considered by management to be outside of the company's core business segment operational results. In addition, these adjusted non-GAAP results are among the primary indicators management uses as a basis for planning and forecasting of future periods. The presentation of this additional information is not meant to be considered in isolation or as a substitute for net earnings or diluted earnings per share prepared in accordance with generally accepted accounting principles in the United States.

Forward-Looking Statements

This press release contains forward-looking statements that involve risks and uncertainties, as well as assumptions that if they ever 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 and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of earnings, revenue, margins, synergies 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; any statements concerning proposed new products, services, developments, anticipated performance of products or services, or industry rankings; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include macroeconomic and geopolitical trends and events; intense competition within our industry; performance of contracts by suppliers, customers and partners; the possibility that proposed contracts may not be entered into or ultimately performed on the terms currently contemplated or at all; that the market for the sale of certain products and services may not develop as expected; that development and performance of products and services may not proceed as planned; employee management issues; the challenge of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; and other risks that are described from time to time in the Quarterly Report on Form 10-Q for the fiscal quarter ended Jan. 31, 2004, and other Securities and Exchange Commission reports, filed after the Annual Report on Form 10-K for the fiscal year ended Oct. 31, 2003. HP assumes no obligation and does not intend to update these forward-looking statements.



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

(In millions except per share amounts)

	Three months ended		
	April 30, 2004	January 31, 2004-	April 30, 2003 ^(a)
Net revenue	\$ 20,113	\$ 19,514	\$ 17,983
Costs and expenses:			
Cost of sales	15,045	14,564	13,103
Research and development	910	875	941
Selling, general and administrative	2,816	2,719	2,795
Amortization of purchased intangible assets	148	144	141
Restructuring charges	38	54	234
Acquisition-related charges	9	15	126
In-process research and development charge	9	-	-
Total costs and expenses	18,975	18,371	17,340
Earnings from operations	1,138	1,143	643
Interest and other, net	2	11	(20)
(Losses) gains on investments and other, net	(5)	9	(12)
Dispute settlement	(70)	-	-
Earnings before taxes	1,065	1,163	611
Provision for (benefit from) taxes	181	227	(48)
Net earnings	\$ 884	\$ 936	\$ 659
Net earnings per share:			
Basic	\$ 0.29	\$ 0.31	\$ 0.22
Diluted	\$ 0.29	\$ 0.30	\$ 0.22
Cash dividends declared per share	\$ -	\$ 0.16	\$ -
Weighted-average shares used to compute net earnings per share:			
Basic	3,043	3,050	3,047
Diluted	3,081	3,088	3,059

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

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

	Six months ended April 30,	
	2004	2003 ^(a)
Net revenue	\$ 39,627	\$ 35,860
Costs and expenses:		
Cost of sales	29,609	26,244
Research and development	1,785	1,849
Selling, general and administrative	5,535	5,520
Amortization of purchased intangible assets	292	279
Restructuring charges	92	234
Acquisition-related charges	24	212
In-process research and development charge	9	-
Total costs and expenses	37,346	34,338
Earnings from operations	2,281	1,522
Interest and other, net	13	31
Gains (losses) on investments and other, net	4	(17)
Dispute settlement	(70)	-
Earnings before taxes	2,228	1,536
Provision for taxes	408	156
Net earnings	\$ 1,820	\$ 1,380
Net earnings per share:		
Basic	\$ 0.60	\$ 0.45
Diluted	\$ 0.59	\$ 0.45
Cash dividends declared per share	\$ 0.16	\$ 0.16
Weighted-average shares used to compute net earnings per share:		
Basic	3,047	3,047
Diluted	3,086	3,062

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

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

	<u>Three months ended</u>		
	<u>April 30,</u> <u>2004 -</u>	<u>January 31,</u> <u>2004-</u>	<u>April 30,</u> <u>2003^(a)</u>
Net revenue	\$ 20,113	\$ 19,514	\$ 17,983
Costs and expenses:			
Cost of sales	15,045	14,564	13,103
Research and development	910	875	941
Selling, general and administrative	<u>2,816</u>	<u>2,719</u>	<u>2,795</u>
Total costs and expenses	<u>18,771</u>	<u>18,158</u>	<u>16,839</u>
Non-GAAP earnings from operations	1,342	1,356	1,144
Interest and other, net	2	11	(20)
Dispute settlement	<u>(70)</u>	<u>-</u>	<u>-</u>
Non-GAAP earnings before taxes	1,274	1,367	1,124
Provision for taxes	<u>242</u>	<u>287</u>	<u>247</u>
Non-GAAP net earnings	<u>\$ 1,032</u>	<u>\$ 1,080</u>	<u>\$ 877</u>
Non-GAAP net earnings per share:			
Basic	\$ 0.34	\$ 0.35	\$ 0.29
Diluted	\$ 0.34	\$ 0.35	\$ 0.29
Weighted-average shares used to compute non-GAAP net earnings per share:			
Basic	3,043	3,050	3,047
Diluted	3,081	3,088	3,059

An itemized reconciliation between net earnings on a GAAP basis and non-GAAP basis is as follows:

GAAP net earnings	\$ 884	\$ 936	\$ 659
Amortization of purchased intangible assets	148	144	141
Restructuring charges	38	54	234
Acquisition-related charges	9	15	126
In-process research and development charge	<u>9</u>	<u>-</u>	<u>-</u>
Total non-GAAP adjustments to earnings from operations	204	213	501
Losses (gains) on investments and other, net	5	(9)	12
Income tax effect of reconciling items	(61)	(60)	(164)
Non-recurring income tax benefit	<u>-</u>	<u>-</u>	<u>(131)</u>
Non-GAAP net earnings	<u>\$ 1,032</u>	<u>\$ 1,080</u>	<u>\$ 877</u>

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

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

	Six months ended April 30,	
	<u>2004</u>	<u>2003^(a)</u>
Net revenue	\$ 39,627	\$ 35,860
Costs and expenses:		
Cost of sales	29,609	26,244
Research and development	1,785	1,849
Selling, general and administrative	5,535	5,520
Total costs and expenses	<u>36,929</u>	<u>33,613</u>
Non-GAAP Earnings from operations	2,698	2,247
Interest and other, net	13	31
Dispute settlement	<u>(70)</u>	<u>-</u>
Non-GAAP Earnings before taxes	2,641	2,278
Provision for taxes	<u>529</u>	<u>524</u>
Net earnings	<u>\$ 2,112</u>	<u>\$ 1,754</u>
Net earnings per share:		
Basic	\$ 0.69	\$ 0.58
Diluted	\$ 0.69	\$ 0.57
Cash dividends declared per share	\$ 0.16	\$ 0.16
Weighted-average shares used to compute net earnings per share:		
Basic	3,047	3,047
Diluted	3,086	3,062

An itemized reconciliation between net earnings on a GAAP basis and non-GAAP basis is as follows:

GAAP net earnings	\$ 1,820	\$ 1,380
Amortization of purchased intangible assets	292	279
Restructuring charges	92	234
Acquisition-related charges	24	212
In-process research and development charge	<u>9</u>	<u>-</u>
Total non-GAAP adjustments to earnings from operations	417	725
(Gains) losses on investments and other, net	(4)	17
Income tax effect of reconciling items	(121)	(237)
Non-recurring income tax benefit	<u>-</u>	<u>(131)</u>
Non-GAAP net earnings	<u>\$ 2,112</u>	<u>\$ 1,754</u>

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET

(In millions)

	April 30, 2004 (unaudited)	October 31, 2003 ^(a)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,654	\$ 14,188
Short-term investments	354	403
Accounts receivable, net	8,530	8,921
Financing receivables, net	3,016	3,026
Inventory	6,273	6,065
Other current assets	<u>7,776</u>	<u>8,351</u>
Total current assets	40,603	40,954
Property, plant and equipment, net	6,382	6,482
Long-term financing receivables and other assets	8,109	8,030
Goodwill and purchased intangibles, net	<u>19,830</u>	<u>19,250</u>
Total assets	<u>\$ 74,924</u>	<u>\$ 74,716</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	\$ 803	\$ 1,080
Accounts payable	8,268	9,285
Employee compensation and benefits	1,899	1,755
Taxes on earnings	1,484	1,599
Deferred revenue	4,279	3,665
Accrued restructuring	360	709
Other accrued liabilities	<u>8,721</u>	<u>8,545</u>
Total current liabilities	25,814	26,638
Long-term debt	6,453	6,494
Other liabilities	3,809	3,838
Stockholders' equity	<u>38,848</u>	<u>37,746</u>
Total liabilities and stockholders' equity	<u>\$ 74,924</u>	<u>\$ 74,716</u>

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



HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(Unaudited)
(In millions)

	Three Months Ended April 30, <u>2004-</u>	Six Months Ended April 30, <u>2004</u>
Cash flows from operating activities:		
Net earnings	\$ 884	\$ 1,820
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	626	1,191
Provision for bad debt and inventory	72	166
Losses (gains) on investments and other, net	5	(4)
In-process research and development charge	9	9
Acquisition-related charges	9	24
Restructuring charges	38	92
Deferred taxes on earnings	24	125
Other, net	(14)	56
Changes in assets and liabilities:		
Accounts and financing receivables	83	750
Inventory	161	(359)
Accounts payable	1,259	(1,058)
Taxes on earnings	24	(78)
Other assets and liabilities	(382)	483
Restructuring	(164)	(435)
Net cash provided by operating activities	<u>2,634</u>	<u>2,782</u>
Cash flows from investing activities:		
Investment in property, plant and equipment, net	(385)	(678)
Purchases of investments	(139)	(353)
Maturities and sales of investments	147	579
Net cash paid for business acquisitions, net of acquisition costs	(562)	(786)
Net cash used in investing activities	<u>(939)</u>	<u>(1,238)</u>
Cash flows from financing activities:		
Decrease in notes payable and short-term borrowings, net	(29)	(118)
Issuance of long-term debt	-	9
Payment of long-term debt	(23)	(174)
Issuance of common stock under employee plans	27	297
Repurchase of common stock	(348)	(604)
Dividends	(244)	(488)
Net cash used in financing activities	<u>(617)</u>	<u>(1,078)</u>
Increase in cash and cash equivalents	1,078	466
Cash and cash equivalents at beginning of period	<u>13,576</u>	<u>14,188</u>
Cash and cash equivalents at end of period	<u>\$14,654</u>	<u>\$14,654</u>

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, which include a reconciliation to HP's consolidated condensed statement of earnings:

	Three months ended		
	April 30, 2004	January 31, 2004	April 30, 2003 ^(a)
Net revenue:			
Enterprise Storage and Servers	\$ 3,979	\$ 3,717	\$ 3,679
Software	222	200	180
HP Services	<u>3,492</u>	<u>3,161</u>	<u>3,043</u>
Technology Solutions Group	7,693	7,078	6,902
Imaging and Printing Group	6,098	5,910	5,512
Personal Systems Group	5,991	6,187	5,127
Financing	469	441	501
Corporate Investments	<u>114</u>	<u>102</u>	<u>84</u>
Total segments	20,365	19,718	18,126
Eliminations of intersegment net revenue and other	<u>(252)</u>	<u>(204)</u>	<u>(143)</u>
Total HP Consolidated	<u>\$ 20,113</u>	<u>\$ 19,514</u>	<u>\$ 17,983</u>
Earnings from operations:			
Enterprise Storage and Servers	\$ 120	\$ 154	\$ 58
Software	(49)	(46)	(63)
HP Services	<u>329</u>	<u>258</u>	<u>297</u>
Technology Solutions Group	400	366	292
Imaging and Printing Group	953	968	925
Personal Systems Group	45	62	23
Financing	35	29	21
Corporate Investments	<u>(48)</u>	<u>(35)</u>	<u>(44)</u>
Total segments	1,385	1,390	1,217
Corporate and unallocated costs, and eliminations	(43)	(34)	(73)
Restructuring charges	(38)	(54)	(234)
Amortization of purchased intangible assets	(148)	(144)	(141)
Acquisition-related charges	(9)	(15)	(126)
In-process research and development charge	(9)	-	-
Interest and other, net	2	11	(20)
(Losses) gains on investments and other, net	(5)	9	(12)
Dispute Settlement	<u>(70)</u>	<u>-</u>	<u>-</u>
Total HP Consolidated Earnings Before Taxes	<u>\$ 1,065</u>	<u>\$ 1,163</u>	<u>\$ 611</u>

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



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, which include a reconciliation to HP's consolidated condensed statement of earnings:

	Six months ended April 30,	
	2004	2003 ^(a)
Net revenue:		
Enterprise Storage and Servers	\$ 7,696	\$ 7,231
Software	422	363
HP Services	6,653	6,015
Technology Solutions Group	14,771	13,609
Imaging and Printing Group	12,008	11,110
Personal Systems Group	12,178	10,269
Financing	910	1,018
Corporate Investments	216	160
Total segments	40,083	36,166
Eliminations of intersegment net revenue and other	(456)	(306)
Total HP Consolidated	\$ 39,627	\$ 35,860
Earnings from operations:		
Enterprise Storage and Servers	\$ 274	\$ 31
Software	(95)	(118)
HP Services	587	636
Technology Solutions Group	766	549
Imaging and Printing Group	1,921	1,836
Personal Systems Group	107	56
Financing	64	35
Corporate Investments	(83)	(91)
Total segments	2,775	2,385
Corporate and unallocated costs, and eliminations	(77)	(138)
Restructuring charges	(92)	(234)
Amortization of purchased intangible assets	(292)	(279)
Acquisition-related charges	(24)	(212)
In-process research and development charge	(9)	-
Interest and other, net	13	31
Gains (losses) on investments and other, net	4	(17)
Dispute settlement	(70)	-
Total HP Consolidated Earnings Before Taxes	\$ 2,228	\$ 1,536

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

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