HEWLETT PACKARD CO
Form DFAN14A
February 20, 2002

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

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HEWLETT-PACKARD COMPANY

(Name of Registrant as Specified In Its Charter)

WALTER B. HEWLETT, EDWIN E. VAN BRONKHORST AND THE WILLIAM R. HEWLETT REVOCABLE TRUST

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

Payment of Filing Fee (Check the appropriate box):

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[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
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1 Day of announcement
2 Walter Hewlett is not a member of this committee and has no veto power over its decisions
3 Formerly Chief Investment Officer of Stanford Management Company, running Stanford s $10B endowment
4 Includes a majority of non-family members, amongst them two senior retired HP executives

Note: Stock data through 2/15/02

1 This index is comprised of companies used by Goldman Sachs in performing its Selected Companies Analysis in connection with rendering its fairness opinion to HP relating to HP s proposed merger with Compaq and includes Apple, Accenture, Computer Sciences, Dell, EDS, EMC, Gateway, IBM, KPMG Consulting, Network Appliance, Sun. Index is weighted by shares outstanding.

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1 Carly Fiorina speaking on CNBC Squawk Box 2/7/02
2 HP/Compaq multiple paid is based on Compaq FY02 EPS estimate from First Call and HP price as of February 15, 2002, based on deal ratio of 0.6325 HWP shares for each share of CPQ. Historical forward P/E ratios are based on terms of the deal as per company filings at time of announcement and target First Call EPS estimates for the next fiscal year on the day prior to the announcement of the deal.

1 Based on HP s closing share price of $20.36 on February 15, 2002, and the announced exchange ratio of 0.6325 and Compaq s First Call consensus EPS estimate of $0.27 for calendar year 2002.
2 Based on HP First Call consensus earnings estimate of $1.15 for calendar year 2002 and closing share price of $20.36 as of February 15, 2002.
3 Based on First Call estimates as of February 15, 2002
4 Based on pro forma combined EPS calculated based on standalone First Call estimates and excluding the impact of revenue losses and cost savings.
5 Based on First Call estimates as of August 31, 2001

1 For complete detail on sources, see page 49 of the Report to the Trustees of the William R. Hewlett Revocable Trust on the Proposed Merger of Hewlett-Packard filed with the SEC under cover of Schedule 14A on 11/16/2001, as amended.
2 Analysts estimates exclude Salomon Smith Barney as they are advisers to Compaq
3 Parties to Walter Hewlett proxy solicitation
4 HP Position on Compaq Merger, 12/19/01, p. 27
5 Represents post-deal 1999 performance vs. analyst estimates. For complete detail see p. 50 of reference in footnote No. 1
6 Computer company results outlined in McKinsey Quarterly, Why Mergers Fail, 2001 Number 4. (Name of actual company disguised in article). In early 2001, HP retained McKinsey & Co. to assist in HP s evaluation of strategic alternatives and potential acquisition candidates including Compaq
7 Sun 10Q, 10K, Sun 1/18/02 earnings press release. Represents 12 month period ending 12/31/01, (FY ends 6/30)
8 HP 11/14/01 earnings press release. Represents 12 month period ending 10/31/01 (excluding restructuring and merger-related costs)
9 Apple FY2001 10K. Represents 12 month period ending 9/29/01
10 Compaq earnings press release 1/16/02. Represents 12 month period ending 12/31/01 (excluding restructuring and merger-related costs)
11 Morgan Stanley, Gateway: Better Margin Structure, Lower Rev Run Rate, 1/8/02, page 3
12 FFL/Parthenon assumption based on historical experience of tech companies, revenue loss in services, and high fixed cost assumptions post planned cost synergies
13 Amendment No. 2 to HP S-4, 1/14/02, p. 53 ...weighted average contribution margin of 12%...

1 Based on assumptions similar to management s outlined on page 30 of HP Position on Compaq Merger, 12/19/01. Present values, except for core dilution and cost to achieve savings, calculated as of February 19, 2002 based on a 20x forward price-earnings multiple applied to net earnings impact in calendar year 2004. Assumes 26% marginal tax rate

2 Assumes net pre-tax cost savings in calendar year 2004 of $2.0 billion based on $2.5 billion in cost savings and $0.5 billion in lost profit on lost revenues. Lost profit calculation assumes $84.0 billion in revenue in calendar year 2004 before revenue losses, 4.9% revenue loss, 12% contribution margin.

3 Represents the value of the core dilution of the transaction before the realization of cost savings at HP s current 2002 calendar year price-earnings multiple of 17.7x. Calendar 2002 pro forma earnings before cost savings calculated based on First Call consensus earnings estimates of $1.11 and $1.35 for HP for fiscal years 2002 and 2003, respectively, and $0.27 for Compaq for its fiscal 2002. Under management s present value methodology, the core dilution has a value of $3.56 per share based on calendar 2004 earnings estimates.

4 Realistic case based on $1.3 billion restructuring charge established in connection with Compaq s acquisition of DEC in 1998, which also involved approximately 15,000 layoffs, and the $635 million in retention bonuses announced by management in the proposed HP/Compaq merger. In fiscal 2001, HP took a $384MM charge for a restructuring it estimated would result in annual cost savings of approximately $500MM. Downside case based on 50% premium to realistic case (11.4% of transaction value). Compaq/DEC restructuring charge as a percentage of transaction value was 13.5%. Excludes the impact of new employment agreements with Ms. Fiorina and Mr. Capellas. Assumes cash is paid out ratably over the first six months following closing

5 Realistic case based on BofA, Hewlett-Packard: Management Turns up the Heat, 12/19/01 base case of 87.8% of management estimate realized in 2003 ($1.8 billion assumed vs. management estimates of $2.1 billion). Downside based on BofA downside case 75.6% of management estimate realized in 2003 ($1.6 billion assumed vs. management estimates of $2.1 billion)

6 Realistic case based on historical experience of tech companies, revenue loss in services, and higher fixed cost assumptions post planned cost synergies. See analysis presented on p. 21-26. Downside case based on discount to Compaq/DEC transaction.

7 Realistic case assumption based on historical experience of tech companies, revenue loss in services. Downside case based on discount to McKinsey computer company example (see Revenue Loss Benchmarks on p. 12)

1 Based on First Call estimates as of August 31, 2001
2 Based on First Call estimates as of February 15, 2002
3 See page 19 of this presentation

1 Based on First Call consensus earnings estimates of $1.28 and $0.42 for HP and Compaq, respectively, as disclosed in HP 425 Filing 12/19/01, a 26.0% effective tax rate and zero net interest expense and other income.
2 Based on management estimated pre-tax cost savings of $2.1B and revenue loss of 5% with 12% contribution margin in FY 2003 as disclosed in HP 425 Filing 12/19/01.
3 $6.9B in operating income as disclosed in HP 425 Filing on 12/19/01.

1 Based on actual results from FY 2001 and segment projections from Bernstein research dated 12/18/01.
2 Based on actual results for CY 2001 for Compaq, actual results for FY 2001 for HP and segment projections for HP from Bernstein research dated 12/18/01 and segment projections for Compaq from Banc of America research dated 1/17/02.

1 Data sources for market segment growth as follows: Imaging and Printing from Lyra research and IDC report entitled U.S. Inkjet and Laser Printer Installed Base and Supplies Market Forecast and Analysis, 2000-2005, PC and Access based on IDC PC tracker forecasts.
2 Operating margins and revenue numbers based on actuals and BoA research, 2/4/02

1 The Wall Street Journal, December 17, 2001, emphasis added.

1 Adjusted for share splits and stock dividends, the Goldman Sachs Comparable Index is comprised of companies used by Goldman in performing its Selected Companies Analysis in connection with rendering its fairness opinion to HP relating to HP s proposed merger with Compaq and includes AAPL, ACN, CSC, DELL, EDS, EMC, GTW, IBM, KCIN, NTAP, SUNW, weighted by shares outstanding.

2 1998 and 1999 Standalone estimates from First Call, as of January 20, 1998(Forecast before DEC). 1998, 1999 and 2000 Combined estimates from First Call, as of August 1, 1998 (Forecast after DEC). 2002 and 2003 estimates from First Call, as of February 15, 2002. All actuals from First Call.

1 Share price performance relative to Goldman Sachs comparable company index from the day prior to transaction announcement to three years later for Compaq (Tandem and Digital) and relative to Dow Jones Industrial Average for Burroughs/Sperry.
2 Share price performance relative to Goldman Sachs comparable company index from the day prior to transaction announcement to February 15, 2002 for Compaq (Tandem and Digital) and relative to Dow Jones Industrial Average for Burroughs/Sperry.
3 Based on First Call Consensus estimates, day prior to announcement of $1.47 and $1.77 for Compaq/Tandem and Compaq/Digital, respectively and Burroughs management estimate of $2.66-$3.00 for Burroughs/Sperry. Accretion/Dilution based on Compaq EPS of $0.47 and $0.32 for FY1998 and FY1999, respectively and Unisys EPS of $2.93 for FY1987.
4 Based on First Call Consensus estimates, day prior to announcement of $1.47 and $1.77 for Compaq/Tandem and Compaq/Digital, respectively and Burroughs management estimate of $2.66-$3.00 for Burroughs/Sperry. Accretion/Dilution based on Compaq EPS of $0.97 and $0.15 in 2000 and 2001, respectively, as per First Call. Not meaningful for Burroughs/Sperry (later Unisys) due to loss of $(4.71) per share in FY1989, excluding non-recurring and extraordinary items.

1 In CY2001, Compaq lost $587MM on PC revenue of $15.2B and HP was projected to lose $192MM on PC revenue of $9.1B, see Definitive Proxy filed with the SEC on 2/5/02.
2 Goldman Sachs, Goldman Sachs IT Spending Survey: United States, 2/4/02, pg. 17

1 HP 425 Filing, 12/19/01, p. 44
2 UBS Warburg Alpha Customer Study, Hewlett-Packard: It s About Revenues, 12/13/01

Source: Factory Revenue as reported in IDC Server Tracker database for 1st 3 quarters of 2001. Price range categories defined by IDC: Entry is less than $100k; Mid-Range is $100,000-$999,999; High End is $1MM+

Source: IDC 2001E data based on report Worldwide Disk Storage Systems Market Forecast and Analysis, 1999-2005 , December, 2001. Internal includes internal JBOD . 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; 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

Sources: HP 10-K filed 1/29/02, Hoover s Online, HP Website

1 Compound annual stock growth from date of CEO departure until 2/15/02
2 Interim committee appointed to appoint CEO. In the interim period, Fred Anderson, executive VP and CFO, acted as CEO. Steve Jobs ended up as CEO.
3 Date of Jill Barad departure; Eckert assumed CEO position on 5/17/00
4 Departure of co-CEO David Mahoney
5 Resignation of Carl Yankowski. Eric Benhamou chosen as interim CEO

1 Based on HP 10/31/01 10-K and Bernstein research dated 12/18/01. Excludes $0.4B in restructuring and acquisition-related charges. Total EBIT includes $0.4Bn in other losses and eliminations.
2 Based on revenue growth and margin assumptions detailed on pages 36 and 37.
3 Historical FY 1998 to FY 2000 average operating income margin was 8.8%. HP reported an overall operating income margin of 6.3% in the first quarter of fiscal 2002. HP s standalone First Call estimate of $1.35, as of February 15, 2002, for fiscal 2003 implies an operating income margin of 6.9% based on a 22% effective tax rate and zero net interest expense and other income. Banc of America Securities projects an operating income margin of 7.4% in fiscal 2003 under management s current strategy and incorporates estimated impact of pre-closing negative revenue synergies.

1 Estimated potential share price in fiscal 2003. Prior presentations of the value impact of the proposed merger excluded the impact of potential multiple compression. This analysis excludes the impact of the costs to achieve potential cost savings.
2 Based on assumptions detailed on pages 36 and 37.
3 Based on First Call consensus estimate as of February 15, 2002 based on company s existing strategy.
4 Based on consensus earnings estimates for HP and Compaq of $1.35 and $0.45, respectively, for HP s fiscal 2003, $1.8 billion in pre-tax cost savings, 10% revenue loss, 25% contribution margin, and 26% effective tax rate.
5 Management assumption based on 425 filing of 12/19/01.
6 Based on current First Call consensus estimate of $1.11 for fiscal 2002 and closing share price of $20.36, as of February 15, 2002.
7 Based on HP First Call fiscal 2002 EPS estimate of $1.05 and HP s closing share price of $23.21 on August 31, 2001. The weighted average price-earnings multiple of an index of comparable companies increased from 21.6x to 26.4x from August 31, 2001 to February 15, 2002. The index of comparable companies is comprised of the same companies used by Goldman Sachs in performing its Selected Companies Analysis in connection with rendering its fairness opinion to HP on its proposed merger with Compaq, excluding EMC, Gateway, Sun Microsystems, and Network Appliance because their price-earnings ratios were not meaningful as of February 15, 2002.
8 Based on lowest end of price-earnings multiple range used in December 19, 2001, HP Position on Compaq Merger presentation, page 29.
9 Based on HP s current fiscal 2002 price-earnings multiple of 18.3x applied to HP s current First Call consensus earnings estimate of $1.35 for fiscal 2003.

1 On 9/5/01, Moody s downgraded HP from Aa3 to A2, and placed Compaq under review for possible upgrade from Baa2. S&P placed ratings watch on HP with negative implications and on Compaq with positive implications on 9/4/01.
2 Compaq missed its 2000 and 2001 earnings forecasts at the beginning of each year by 11.0% and 87.3% whereas HP missed by 1.1% and 63.5% for the same periods.
3 Based on average next twelve months price earnings multiple from StockVal data from 10/25/91 to 8/31/01.
4 Based on management projections contained in 425 filing dated 12/19/01.
5 Based on realistic case pro forma EPS (see page 36 and 37 for detailed assumptions) excluding pro forma amortization of intangibles.
6 Based on monthly Barra predicted beta from 12/92 to 9/01.
7 Based on First Call revenue estimates for each company s fiscal 2003 as of 2/15/02.

1 Management projected long-term growth estimates for the combined company from HP 425 Filing 10/25/01.
2 Management combined company segment growth estimates before revenue losses calculated based on segment operating incomes, segment operating margins and segment revenue losses from HP 425 Filing 12/19/01.
3 Based on weighted average projected growth rates from IDC for the following segments: inkjet hardware (1.8%), monolaser hardware (4.3%), color laser hardware (14.7%), inkjet supplies (11.9%), laser supplies (15.5%), digital cameras (12.5%) and scanners (7.5%). Also includes growth of Multi- Function printers from Lyra research (2.7%). Growth rates weighted by 2001 market sizes of inkjet hardware ($10.1B), monolaser hardware ($9.9B), color laser hardware ($7.0B), inkjet supplies ($13.6B), laser supplies ($14.3B), digital cameras ($6.8B), scanners ($4.5B), and MFPs ($7.7B)
4 Imaging & Printing grown at a premium to management estimated growth rate due to strategic focus on that business.
5 Market growth rate based on average of IDC growth rates for Unix servers (8.4%), NT servers (16.9%), and storage (1.7%), weighted by 2001 segment revenues estimated by Bernstein research dated 12/01, for Unix servers ($3.3B), PC Servers ($1.7B) and storage ($2.6B)
6 Based on 0.5x market growth in NT servers and 1.25x market growth in Unix servers from segment focus. Storage grown at IDC projected rate of 1.7% from 2001 to 2003.
7 Market growth rates based on average for IDC growth rates for outsourcing (12.3%), consulting (11.9%), systems integration (14.2%), and support (6.1%), weighted by segment revenue in outsourcing ($0.5B), consulting ($0.6B), systems integration ($0.8B), and support ($3.9B)
8 Based on average of (i) 1.75x IDC sub-segment growth rates for outsourcing (12.3%), consulting (11.9%), and systems integration (14.2%) (equivalent to addition of 3,600 consultants at $250K per consultant per year) and (ii) Bernstein estimates for HP 2000 to 2001 growth rate in support (6.1%), weighted by segment revenue in outsourcing ($0.5B), consulting ($0.6B), systems integration ($0.8B), and support ($3.9B). Financing ($1.9B) projected with flat growth to 2003.
9 Market growth based on IDC 2001 PC Tracker.
10 Based on HP growth at IDC 2001 PC Tracker segment growth rates for consumer and notebook segments, and assuming a 50% contraction of business desktops based on focus strategy.

1 Estimated operating margin target pro forma for the proposed merger. Based on HP 425 Filing dated 10/25/01.
2 Based on HP 10-K filings, excluding non-recurring and extraordinary items.
3 Based on Bernstein research dated 12/18/01.
4 From HP earnings release dated 2/13/02.
5 Based on midpoint of HP 2001 margin and Banc of America Securities 2003 estimate of 13.4% from 2/4/01.
6 From HP earnings release dated 2/13/02. Management noted that UNIX was profitable. Therefore, losses likely stemming from NT servers, software and storage.
7 Based on Bernstein research 12/18/01 estimates of 12.5% Unix operating margin for 2001. Also based on operating NT servers and storage at breakeven and reducing estimated losses in software business by 50%
8 Estimated operating margin target pro forma for the proposed merger. Based on HP 425 Filing dated 12/19/01.
9 Includes financing business as reported by HP 2/13/02.
10 Based on continued strong performance of services business as reflected in Q1 FY2002 reported numbers. Finance projected at break-even. Management anticipates steady state profitability in Finance of 8% to 10%
11 Based on average of 12/18/01 Bernstein research 2000 and 2001 estimated Access segment operating margins, weighted by segment revenue breakdown, and accounting for 50% reduction in commercial PCs per footnote 10 in prior slide.