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## hp reports 2nd quarter 2003 results

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- Non-GAAP EPS \$0.29, \$0.02 Higher Than Analyst Consensus Estimates; GAAP EPS \$0.27
- Revenue of \$18.0 Billion, Up 1% Sequentially
- Enterprise Systems Grows Sequentially, Nears Break-Even
- Cash Generated from Operations Exceeds \$2.5 Billion
- Company Affirms Second-Half Analyst Estimates for Revenue and Non-GAAP EPS

PALM SPRING, CALIF., MAY 20, 2003 - HP (NYSE:HPQ) today reported financial results for the second quarter ended April 30, 2003. Second quarter revenue totaled \$18.0 billion, compared to \$17.9 billion in the prior quarter, and non-GAAP<sup>(1)</sup> operating profit totaled \$1.14 billion, up 4% sequentially from \$1.09 billion in the prior quarter. Non-GAAP operating profit was 6.4% of revenue, up from 6.2% of revenue in the prior quarter. Non-GAAP earnings per share (EPS) for the quarter was \$0.29, in line with the company's first fiscal year guidance of \$0.29 to \$0.31 per share, and above recent analyst consensus estimates.

Non-GAAP diluted EPS and operating profit reflect a \$218 million adjustment on an after-tax basis. On an after-tax basis, the adjustment includes \$141 million of amortization of intangible assets, \$126 million for various acquisition-related items and \$234 million in tax benefits. Additionally, non-GAAP diluted EPS excludes a non-recurring tax benefit of \$131 million. Non-GAAP operating profit for the quarter was \$643 million, or 3.6% of revenue, and GAAP diluted EPS was \$0.27. Non-GAAP information in this release is reconciled in the "Non-GAAP Consolidated Cash Earnings" table below.

"HP delivered a solid quarter with sequential improvement in revenue and non-GAAP earnings," said Carly Fiorina, HP chairman and chief executive officer. "Enterprise Systems grew 3% sequentially, Imaging and Printing grew 2% sequentially, and HP Services grew 2% sequentially with solid profits. Personal Systems was flat, defying seasonal trends, with sustained profitability. And Imaging and Printing grew 1% sequentially in line with normal seasonality, with profit up 1% sequentially."

"One year after the merger, we've reduced structural costs by \$3.5 billion on an annual basis. Our new business model is generating a more balanced revenue and profit mix, and our operational capabilities - more than \$2.5 billion this quarter - are proving to be stronger than ever," said HP. "HP emerges from the integration a stronger, bolder competitor with our sights set firmly on growth."

### Summary of Financial Results

	Q2 2003	Q1 2003
Revenue	\$18.0 billion	\$17.9 billion
Non-GAAP Operating Margin <sup>(1)</sup>	6.4%	6.2%
GAAP Operating Margin	5.8%	5.6%

<b>GAAP Operating margin</b>	<b>5.0%</b>	<b>4.9%</b>
<b>GAAP diluted EPS</b>	<b>\$0.22</b>	<b>\$0.24</b>
<b>Non-GAAP diluted EPS<sup>(1)</sup></b>	<b>\$0.29</b>	<b>\$0.29</b>

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

Regionally, Americas revenue remained flat sequentially at \$8.1 billion, representing 40% of total revenue. Europe grew 1% sequentially to \$7.1 billion, representing 40% of total revenue. Asia-Pacific grew 2% sequentially to \$1.9 billion, representing 11% of total revenue. Asia-Pacific recovered from a weak first quarter and grew 7% sequentially to \$795 million in the second quarter, representing 4% of total revenue. Currency effects contributed 2 points to sequential growth during the quarter.

HP's 25 largest new business contracts in the quarter -- with an average value of \$500 million each -- represent a total long-term value of more than \$5 billion. Since 1995, 125 new business contracts have totaled more than \$12.5 billion in total long-term value.

## Business Segment Results

### Enterprise Systems

Enterprise Systems revenue was \$3.9 billion, up 3% sequentially on strong growth in Europe and Japan. Growth was led by industry-standard servers, up 7% sequentially, and business-critical servers, up 4% sequentially. Business-critical server revenue was down 4% sequentially, less than the overall market. Software revenue was down 2% sequentially due to continued challenges in the telecommunications market.

Enterprise Systems reduced its operating loss to \$7 million during the quarter from \$100 million in the prior quarter - a 92% improvement. The group's operating loss was 0.2% of revenue compared to 2.6% of revenue last quarter.

The quarter's highlights include the launch of 70 new and enhanced products; significant support and customer adoption for Itanium 2-based systems; a significant turnaround in NonStop server sales; and another record for HP Superdome server shipments and StorageWorks Enterprise Virtual Array storage sales, including the largest Superdome sale with the China State Administration of Taxation.

In recent weeks, Enterprise Systems also announced two moves in conjunction with its strategy to accelerate growth: 1) An organizational realignment that integrates enterprise hardware and software to streamline operations and builds a tighter go-to-market partnership with HP Software; and 2) the launch of the HP Adaptive Enterprise strategy, backed by new software, services and the Darwin Reference Architecture to help businesses measure, architect and manage their IT, creating a tighter linkage between business and IT.

### Personal Systems

Personal Systems revenue totaled \$5.1 billion, reflecting a solid performance in the second quarter.

market despite continued softness in IT spending. Growth in notebooks, commercial workstations was offset by seasonal weakness in U.S. consumer desktops and home. Balanced performance in each geography offset normal U.S. post-holiday decline.

Personal Systems operating profit was \$21 million, compared to \$33 million last quarter, representing the group's second consecutive quarter of profits. Operating profit margin was 0.6%, compared to 0.6% last quarter. HP's business model improvements, including cost structure reductions and re-engineered channel programs, have enabled HP to improve pricing in key markets while preserving solid margins.

Highlights of the quarter include significant share gains for HP's commercial and consumer notebooks, as well as new pricing strategies for low-cost consumer desktops and personal workstations; strong reception by consumers to HP's new low-cost iPAQ handhelds; and continued improvement in HP's wireless iPAQ h5450 handheld; and continued improvement in HP's business and partner programs worldwide.

### Services

HP Services revenue was \$3.0 billion, up 2% sequentially, despite a weak IT sector and continued over-capacity in the consulting market. Growth was led by customer support services, up 4% sequentially, and consulting and integration revenue, up 2% sequentially. For the strong growth quarters, managed services revenue was down 2% sequentially. Several major deals announced during the quarter will begin to be recognized in the fourth quarter.

Operating profit was \$301 million or 9.9% of revenue, down 1.6 points sequentially. Operating margin was down as a result of continued pricing pressure and increases in personnel expenses.

HP has now firmly established itself as a major player in the managed services market, winning tier-one clients and winning against top competitors. During the quarter, HP announced a \$3 billion managed services contract with Procter & Gamble that was finalized in the quarter; a 7-year, \$600 million outsourcing contract with Bank of Ireland; and a \$100 million Classroom 2000 (C2K) project in Northern Ireland to help deliver the world's best classroom implementation.

### Imaging and Printing

Imaging and Printing posted solid revenue and profit with increasing market share. Revenue totaled \$5.5 billion, up 13% year-over-year and down 1% sequentially due to seasonality. Operating profit was \$918 million, up 1% sequentially. Operating profit margin was 16.6%, compared to 16.2% last quarter. This reflects continued sustained operational efficiencies.

Supplies revenue increased 7% sequentially and 15% year over year, fueled by growth in ink and photo media. Home hardware revenue was down 5% sequentially and 1% year over year, while business hardware revenue decreased 5% sequentially and increased 9% year over year. Digital imaging revenue decreased 38% sequentially and grew 5% year over year. The category's pronounced seasonality and declines in the scanner market.

The quarter's highlights include strong continued response to "Big Bang" consolidation.

products, and new color and personal LaserJet printers; year-over-year growth in shipments and 22% in total inkjet shipments; a 46% jump in digital camera shipments; major digital publishing wins with Volkswagen and FedEx; and the launch of the HP DesignJet Z series with more than \$100 million in customer wins.

### **Financial Services**

HP Financial Services offers leasing and financial asset management services to customers worldwide, operating as a wholly owned subsidiary. Revenue was \$501 million for the quarter versus \$440 million for the prior quarter. Operating profit was \$21 million for the quarter versus \$14 million for the prior quarter. Operating profit was 4.2% of revenue, compared to 2.7% last quarter. Portfolio turnover was 4% quarter to quarter, reflecting soft market conditions.

### **Asset Management**

HP exited the quarter with \$14.1 billion in gross cash, which includes cash and cash equivalents of \$13.5 billion and short- and certain long-term investments of \$622 million. Cash used in operations for the quarter was more than \$2.5 billion. Inventory ended the quarter at \$1.5 billion, a sequential decrease of \$348 million over the first quarter. Trade receivables increased from the prior quarter to \$7.9 billion. HP's dividend payments of \$0.08 per share for the quarter resulted in a cash use of \$244 million. In addition, HP repurchased \$19.1 million of common stock.

### **Outlook**

For the second half of fiscal 2003, HP affirmed Wall Street consensus estimates for revenue and \$0.62 in non-GAAP EPS. The non-GAAP EPS number assumes a charge in the second half totaling approximately \$0.05 to \$0.06 per share from amortization of purchased intangible assets, and an additional \$0.05 to \$0.06 per share from restructuring and investment impairment charges.

More information on this quarter's earnings is available on HP's Investor Relations website at <http://www.hp.com/hpinfo/investor/financials/quarters/>.

### **About HP**

HP delivers vital technology for business and life. The company's solutions span personal computing and access devices, global services and imaging and printing for enterprises and small and medium business. For the last four quarters, HP revenue has grown by more than \$1 billion. More information about HP is available at <http://www.hp.com>.

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#### Use of Non-GAAP Financial Information

To supplement our consolidated condensed financial statements presented on a GAAP basis, we provide additional measures of operating results, net earnings and earnings per share adjusted to exclude certain gains and losses we believe appropriate to enhance an overall understanding of our past financial performance and our prospects for the future. These adjustments to our GAAP results are made with the intent of providing management and investors a more complete understanding of the underlying operational results and marketplace performance. For example, the non-GAAP results are an indication of our baseline operating results, excluding gains, losses or other charges that are considered by management to be outside of our core business operations. In addition, these adjusted non-GAAP results are among the primary indicators management uses to evaluate our performance.

our planning and forecasting of future periods. The presentation of this additional information is considered in isolation or as a substitute for net earnings or diluted earnings per share prepared generally accepted accounting principles in the United States.

Unix is a registered trademark of the Open Group. Itanium is a registered trademark of Intel Corporation in the United States and other countries. Microsoft is a U.S. registered trademark of Microsoft Corporation.

This document contains forward-looking statements that involve risks and uncertainties, as well as 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 of historical fact are statements that could be deemed forward-looking statements, including any projections of revenues, margins, synergies or other financial items; any statements of the plans, strategies, and management for future operations, including the execution of integration and restructuring plan concerning proposed new products, services, developments, anticipated performance of product lines; any statements regarding future economic conditions or performance; statements of basic assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to include macroeconomic and geopolitical trends and events; intense competition within our industry; price fluctuations with suppliers, customers and partners; the possibility that proposed contracts may not be entered into or may not be performed on the terms currently contemplated or at all; that the market for the sale of certain products may not develop as expected; that development and performance of products and services may not be as expected; employee management issues; the challenge of managing asset levels, including inventory; the expense levels with revenue changes; and other risks that are described from time to time in HP Exchange Commission reports, including but not limited to HP's quarterly report on Form 10-Q for the quarter ended January 31, 2003, and subsequently filed reports. If any of these risks or uncertainties materialize, or if the assumptions proves incorrect, HP's results could differ materially from HP's expectations in the forward-looking statements. HP assumes no obligation to update these forward-looking statements.

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## **Non-GAAP Consolidated Condensed Statement of Earnings**

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, 2003</u>	<u>January 31, 2003</u>
Net revenue	\$ 17,983	\$ 17,877
Costs and expenses:		
Cost of sales	13,103	13,141
Research and development	941	908
Selling, general and administrative	2,795	2,725
Total costs and expenses	<u>16,839</u>	<u>16,774</u>
Non-GAAP earnings from operations	1,144	1,103
Interest and other, net	<u>(20)</u>	<u>51</u>
Non-GAAP earnings before taxes	1,124	1,154
Provision for taxes	<u>247</u>	<u>277</u>
Non-GAAP net earnings	<u>\$ 877</u>	<u>\$ 877</u>
Non-GAAP net earnings per share:		
Basic	\$ 0.29	\$ 0.29
Diluted	\$ 0.29	\$ 0.29
Weighted-average shares used to compute non-GAAP net earnings per share:		
Basic	3,047	3,048
Diluted	3,059	3,065

An itemized reconciliation between net earnings on a GAAP basis and non-GAAP

GAAP net earnings	659	721
Restructuring charges	234	-
Amortization of purchased intangible assets	141	138
Acquisition-related charges	<u>126</u>	<u>86</u>
Total non-GAAP adjustments to earnings from operations	501	224
Net investment losses and other, net	12	5
Non-recurring income tax benefit	(131)	-
Income tax effect of reconciling items	<u>(164)</u>	<u>(73)</u>
Non-GAAP net earnings	<u>\$ 877</u>	<u>\$ 877</u>

## Consolidated Condensed Statement of Earnings

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

	Three months ended		
	April 30, 2003	January 31, 2003	
Net revenue	\$ 17,983	\$ 17,877	\$
Costs and expenses:			
Cost of sales	13,103	13,141	
Research and development	941	908	
Selling, general and administrative	2,795	2,725	
Restructuring charges	234	-	
Amortization of goodwill and purchased intangible assets	141	138	
Acquisition-related charges	126	86	
In-process research and development	-	-	
Total costs and expenses	<u>17,340</u>	<u>16,998</u>	<u>---</u>
Earnings from operations	643	879	
Interest and other, net	(20)	51	
Net investment (losses) gains and other, net	<u>(12)</u>	<u>(5)</u>	<u>---</u>
Earnings before taxes	611	925	
(Benefit from) provision for taxes	<u>(48)</u>	<u>204</u>	<u>---</u>
Net earnings	<u>\$ 659</u>	<u>\$ 721</u>	<u>\$</u>
Net earnings per share:			
Basic	\$ 0.22	\$ 0.24	\$
Diluted	\$ 0.22	\$ 0.24	\$
Cash dividends declared per share	\$ -	\$ 0.16	\$
Weighted-average shares used to compute net earnings per share:			
Basic	3,047	3,048	
Diluted	3,059	3,065	

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

(b) The results for the three months ended April 30, 2002 include the results of the acquisition of Compaq.

## Consolidated Condensed Balance Sheet

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

	April 30, 2003 (unaudited)	October 31, 2002 <sup>(a)</sup>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 13,476	\$ 11,192
Short-term investments	254	237
Accounts receivable, net	7,900	8,456
Financing receivables, net	3,378	3,453
Inventory	5,743	5,797
Other current assets	<u>7,688</u>	<u>6,940</u>
Total current assets	38,439	36,075
Property, plant and equipment, net	6,692	6,924
Long-term investments and other assets	8,245	7,758
Goodwill	14,846	15,089
Purchased intangible assets	<u>4,617</u>	<u>4,864</u>
Total assets	<u>\$ 72,839</u>	<u>\$ 70,710</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable and short-term borrowings	\$ 1,745	\$ 1,793
Accounts payable	7,052	7,012
Employee compensation and benefits	1,723	2,012
Taxes on earnings	1,597	1,529
Deferred revenues	3,610	3,260
Accrued restructuring	895	1,309
Other accrued liabilities	<u>8,557</u>	<u>7,395</u>
Total current liabilities	25,179	24,310
Long-term debt	6,726	6,035
Other long-term liabilities	4,042	4,103
Stockholders' equity	<u>36,892</u>	<u>36,262</u>
Total liabilities and stockholders' equity	<u>\$ 72,839</u>	<u>\$ 70,710</u>

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

## Consolidated Condensed Statement of Cash Flows



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

	Three months ended April 30, 2003	Six m end Apri 2003
Cash flows from operating activities:		
Net earnings	\$ 659	\$ 1
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	630	1
Provision for bad debt and inventory	142	
Losses on investments and other, net	12	
Acquisition-related charges	126	
Restructuring charges	234	
Deferred taxes on earnings	(299)	
Other, net	4	
Changes in assets and liabilities:		
Accounts and financing receivables	259	
Inventory	220	
Accounts payable	718	
Taxes on earnings	10	
Other assets and liabilities	(156)	
Net cash provided by operating activities	<u>2,559</u>	<u>3</u>
Cash flows from investing activities:		
Investment in property, plant and equipment, net	(464)	
Purchases of investments	(169)	
Maturities and sales of investments	136	
Payments for acquisition, net of cash acquired	-	
Net cash used in investing activities	<u>(497)</u>	<u>-</u>
Cash flows from financing activities:		
Decrease in notes payable and commercial paper, net	(1,284)	(1)
Issuance of debt	516	1
Payment of debt	(28)	-
Issuance of common stock under employee plans	4	1
Repurchase of common stock	(191)	(1)
Dividends	(244)	(1)
Net cash used in financing activities	<u>(1,227)</u>	<u>-</u>
Increase in cash and cash equivalents	835	2
Cash and cash equivalents at beginning of period	<u>12,641</u>	<u>11</u>
Cash and cash equivalents at end of period	<u>\$13,476</u>	<u>\$ 13</u>

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

## Segment Information

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

Net revenue (which includes intersegment revenue) and earnings from operations of each segment are provided in the tables below, which includes a reconciliation of consolidated condensed statement of earnings:

	<u>Three months ended</u>	
	<u>April 30,</u> <u>2003</u>	<u>January 31,</u> <u>2003</u>
<b>Net revenue:</b>		
Imaging and Printing Group	\$ 5,526	\$ 5,610
Personal Systems Group	5,124	5,143
Enterprise Systems Group	3,862	3,736
HP Services	3,031	2,960
Financing	501	517
Corporate Investments	84	77
Total segments	<u>18,128</u>	<u>18,043</u>
Eliminations of intersegment net revenue and other	<u>(145)</u>	<u>(166)</u>
Total HP Consolidated	<u>\$ 17,983</u>	<u>\$ 17,877</u>
<b>Earnings from operations:</b>		
Imaging and Printing Group	\$ 918	\$ 907
Personal Systems Group	21	33
Enterprise Systems Group	(7)	(83)
HP Services	301	341
Financing	21	14
Corporate Investments	(44)	(47)
Total segments	<u>1,210</u>	<u>1,165</u>
Corporate and unallocated costs, and eliminations	(66)	(62)
Restructuring charges	(234)	-
Amortization of purchased intangible assets	(141)	(138)
Acquisition-related charges	(126)	(86)
Interest and other, net	(20)	51
Net investment losses	<u>(12)</u>	<u>(5)</u>
Total HP Consolidated Earnings Before Taxes	<u>\$ 611</u>	<u>\$ 925</u>

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