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HEWLETT PACKARD CO  
Form 425  
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This filing relates to a planned merger (the "Merger") between Hewlett-Packard Company ("HP") and Compaq Computer Corporation ("Compaq") pursuant to the terms of an Agreement and Plan of Reorganization, dated as of September 4, 2001 (the "Merger Agreement"), by and among HP, Heloise Merger Corporation and Compaq. The Merger Agreement is on file with the Securities and Exchange Commission as an exhibit to the Current Report on Form 8-K, as amended, filed by Hewlett-Packard Company on September 4, 2001, and is incorporated by reference into this filing.

The following is a series of statements made in connection with the Merger by several members of HP's board of directors, including Sam Ginn, George A. Keyworth II, Richard A. Hackborn, Philip M. Condit and Robert E. Knowling, Jr. Following these statements is a series of slides summarizing presentations made at a recent Senior Leader Communication Meeting, including a presentation by Webb McKinney, HP's President, Business Customer Organization and a presentation by Susan D. Bowick, HP's Vice President and Director, Corporate Human Resources. These statements and slides were included in a package sent to HP senior managers for use in communicating with HP employees in connection with the Merger.

**"on the merger"**

**Sam Ginn:** I think the stock market sees this as two PC companies coming together as opposed to what the merger is really about. And I must admit to you the first time that we looked at it, I think myself and a number members of the board felt the same way.

The more we dealt with it, the more we got underneath all of these issues and looked at the true capabilities, I think the board got excited.

**George Keyworth:** The match with Compaq is absolutely superb. It's just a phenomenal match. Compaq has committed to and has made some real inroads in areas that we simply haven't.

**Dick Hackborn:** The reason I feel this merger is important for employees is because nobody in my past 40 years association with HP has ever been happy for very long working in an organization that's not a market success. And I think the combination of HP and Compaq will allow us to bring in to some of our very important businesses the critical mass and the experience and the expertise from several different viewpoints that we really can reach world-class status.

Back about three years ago I identified six what I call "mega" issues. And the reason I call them mega issues is if we didn't solve them, our future would be a good deal dimmer than if we did solve them. So they were really, to me, big issues.

The first one had to do with the lack of earnings in our computer systems business. And perhaps even more bothersome definitely was that I didn't feel we were at critical mass to support the multiple operating systems that we had to support.

The second mega issue had to do with our transitioning to a business model in our PC business that would allow us to compete against the new direct marketing models, of course the most obvious is Dell.

The third area that was a big mega issue for me was the fact that we were not investing in new business initiatives in our printing and imaging business and the reason we weren't is that since those businesses were earning most of the profits of the company, that was necessary to cover the lack of performance in some other areas.

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The fourth area that was of concern to me was that we had a very confused selling situation, particularly in what I would call the large and enterprise accounts. We had multiple sales forces calling on these accounts, confusing our customers. At the same time, these sales forces weren't empowered or accountable to aggressively pursue sales in a profitable manner.

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The fifth area that concerned me had to do with the whole Internet revolution and all of its implications. I felt we were behind other key companies in this area, not only our products, but even benefiting from Internet technology and infrastructures and the way we operated our company internally.

Finally the last area that concerned me, the last mega issue, was that we were on a rising tide in the late 1990s. In other words, one that raises all ships. But underneath that, in HP, we had a number of our businesses with cost structures that if we hit a down turn would prove to be a very unprofitable situation.

Now, a lot of progress has been made in the last two years on those mega issues and I'm very proud of what HP people have accomplished, but we're not there yet. We've still got a ways to go.

So my understanding of the HP-Compaq merger is we can expedite the resolution of some of these issues.

And I don't see us getting there any other way. We've looked at it from a number of different angles. Could we do more inside, could we do something with some other company, and nothing comes across as clearly as this merger with Compaq.

**Phil Condit:** What this merger really does is allow complementary product lines to come together. Complementary capabilities to come together. So that where there is a weakness in the HP line, it's filled. Where there are great strengths, they are utilized even better. It gives a broader, more capable company. And that's what a merger's about.

### "on change"

**Hackborn:** We're talking about a company with a 60-year history. We are talking about a company that has lived through all the change that has happened in the high-tech world, if we can possibly conceive of it. I mean when this company started there were vacuum tubes.

With or without the merger we've got to do things differently. And we've got to expedite, getting back to it, we've got to expedite the resolutions of some of these fundamental issues. I think we can do the long hard way, and we may never get there by ourselves, or we can use this merger as a vehicle to get there in a lot quicker time.

There's no way, in my view, that the company can stay the same, let alone go back and be the kind of company that I personally think Bill and Dave would be proud of in the future.

**Robert Knowling:** What this transaction means for the future is that we're going to have a healthier company that is more capable of competing in the broader market than we have today. The error, I believe, that the management team and the board will have made would be to do nothing.

**Condit:** The formula that worked 10 years ago or five years ago isn't the formula that's going to work five years from now. So the challenge for every business is to be where you need to be for the future.

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### "on the hp way"

**Hackborn:** When we introduced the laser printers we came under some very severe criticism from internal executives in HP who said "this is not an HP way of business." They said "your R&D percentage is only 2%; typical HP businesses is 8." If you can believe people arguing today that your R&D should be more. They said we are not making any contribution; we're totally dependent upon an outside company Canon in this case. They said we shouldn't have done our interfaces to go with PCs, that we should have done them to go with HP systems because that's what was important. And they were very concerned about the business model. This was a business model they had never seen before. Fairly low gross margins, however it also had very low administrative expenses so net, that profit was very good.

In this case, both Dave Packard and Bill Hewlett talked with me about this, because I was really concerned. I didn't want to be known as running a non-HP way of business. They *loved* the business.

And I think today people should reflect on this because if we did not have their support, you can imagine an HP without any printer business and behind in terms of open, industry-standard networking. I mean it would just be an entirely different company, and probably not nearly as great a company. And the main point of all of that is that I don't think that people should predict what Dave and Bill would do in today's business environment because, frankly, we will never know.

They were the ones who said "Well, I know we did this way in the past, but shouldn't we take a fresh look at this." Or "Look what's happening outside. Shouldn't we be more aware of this?" And so they, at least in my case, my personal experience is they were always pushing me to do things in new ways if the old ways weren't working. If the old ways were working, that's great. So I find this unbelievable today, that people are

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saying, "Well, we should go back to the way Dave and Bill managed the company," because I don't think they really understood the way Dave and Bill managed the company. I think they have some rigid idea of the way the company operated in the 1980s or the 1970s and they feel that that's the way Dave and Bill would operate it today. And all I can say is, from my own personal experiences, they really are wrong.

### "on layoffs"

**Hackborn:** People forget that we have done layoffs in the past in HP. I think one example was our PC division in Sunnyvale. Dave and Bill asked me to take on PCs in the early '90s because we'd been successful with peripherals and they thought maybe this would be a good environment to put the PCs as well. Of course, as we got into it, we found they didn't have a world-class cost model and so we had way too many people in PCs for the margins that the business would tolerate, so we had to reduce, and basically the Sunnyvale site went away.

And we've done this many times. We've moved businesses around, we took businesses out of Boise to start Vancouver, we took businesses out of San Diego to start Barcelona and so on and so forth.

If the merger doesn't come off, we still have to deal with these issues. We have to get a PC business that's profitable. We have to get our overhead cost structures in line so we can compete in this very tight business environment, which I don't think will go away anytime soon.

### "on the future"

**Hackborn:** So looking forward, how do I see what's going to happen out of this merger and what would become what we call "the new HP?" I'm very excited about it. I feel it gives us the opportunity to put together some really effective business organizations.

**Keyworth:** I think we can look to a new class of access devices that are really born on the Internet. I think we can look to new devices and appliances in digital imaging.

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**Knowing:** Eighteen months from now, through all the hard work of HP employees and through the great effort of integration teams, we're going to come out of this a much healthier company. A company that has a great future. Innovation will still be the key and order of the day. We're going to be a world leader in a number of markets in a company that we're all going to be proud of.

### "to employees"

**Hackborn:** What I would have to say to HP employees is, first of all, I'm immensely proud of them. I think they have dealt with a set of really major issues that have been brewing in HP for many years. I think they really even go back to the early '90s, that we have not dealt with. They have done this in an economic environment that is the toughest that I have ever seen in my 40 years in the high-tech business far tougher than I ever had to deal with. And so I have tremendous respect for what they have accomplished. And I think going forward if we can keep that spirit and keep our business strategies focused to those areas that we are going to make a difference in, and to keep the employees totally involved, committed, feel that they are being handled fairly, including the ones who will probably not have their careers continue at HP. And that the managers really redouble their efforts to communicate with the employees; and if it means different priorities, then so be it, because I can't think than anything more important at this time.

I think at this stage it is very, very critical that we have total commitment of our employees to this merger. If there's not the commitment there we're not going to pull this merger off successfully

**Condit:** As an individual, I've been through a merger of about this size and it is difficult; it's tough. You wonder why you can't just sort of stay where you were. But as I look back on our experience, it's very clear that had we not taken that step, we would not be where we are today. Or we wouldn't be responding to the current situation nearly as well. So it's one of those times when you sort of say, "I need to understand. A lot of people have spent a lot of time really dedicated to looking at the strategy and what's the right thing, I'm going to help make it work."

I think every employee can help make it work by saying, "I am going to be part of this larger enterprise." Don't fall into the trap of us and them. It's now just us. Take advantage of the strengths. Get to know other people. That is what makes a strong company.

**Ginn:** Well, for the employees of HP, it seems to me it takes us to a whole new level. As I think about how markets operate and how markets perform, we're going to be equivalent to an IBM in many, many ways. We're going to be No. 1 in a whole number of market segments. And that gives us a wonderful position to grow and to move on from there. Now I must add that one of the key factors here is getting the implementation done properly. I mean the first year of this merger is going to be extremely important.

If we can do that, get the company positioned in its key markets, then I think the future is outstanding.

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**FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements that involve risks, uncertainties and assumptions. If any of these risks or uncertainties materializes or any of these assumptions proves incorrect, the results of HP and its consolidated subsidiaries could differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of earnings, revenues, synergies, accretion 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 and the anticipated timing of filings, approvals and closings relating to the Compaq transaction or other planned acquisitions; any statements concerning proposed new products, services, developments 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 the ability of HP to retain and motivate key employees; the timely development, production and acceptance of products and services and their feature sets; the challenge of managing asset levels, including inventory; the flow of products into third-party distribution channels; the difficulty of keeping expense growth at modest levels while increasing revenues; the challenges of integration and restructuring associated with the Compaq transaction or other planned acquisitions and the challenges of achieving anticipated synergies; the possibility that the Compaq transaction or other planned acquisitions may not close or that HP, Compaq or other parties to planned acquisitions may be required to modify some aspects of the acquisition transactions in order to obtain regulatory approvals; the assumption of maintaining revenues on a combined company basis following the close of the Compaq transaction or other planned acquisitions; and other risks that are described from time to time in HP's Securities and Exchange Commission reports, including but not limited to the annual report on Form 10-K for the year ended Oct. 31, 2000, and subsequently filed reports. HP assumes no obligation and does not intend to update these forward-looking statements.

**ADDITIONAL INFORMATION ABOUT THE MERGER AND WHERE TO FIND IT**

On November 15, 2001, HP filed a Registration Statement with the SEC containing a preliminary joint proxy statement/prospectus regarding the Merger. Investors and security holders of HP and Compaq are urged to read the preliminary joint proxy statement/prospectus filed with the SEC on November 15, 2001 and the definitive joint proxy statement/prospectus when it becomes available and any other relevant materials filed by HP or Compaq with the SEC because they contain, or will contain, important information about HP, Compaq and the Merger. The definitive joint proxy statement/prospectus will be sent to the security holders of HP and Compaq seeking their approval of the proposed transaction. The preliminary joint proxy statement/prospectus filed with the SEC on November 15, 2001, the definitive joint proxy statement/prospectus and other relevant materials (when they become available), and any other documents filed by HP or Compaq with the SEC, may be obtained free of charge at the SEC's web site at [www.sec.gov](http://www.sec.gov). In addition, investors and security holders may obtain free copies of the documents filed with the SEC by HP by contacting HP Investor Relations, 3000 Hanover Street, Palo Alto, California 94304, 650-857-1501. Investors and security holders may obtain free copies of the documents filed with the SEC by Compaq by contacting Compaq Investor Relations, P.O. Box 692000, Houston, Texas 77269-2000, 800-433-2391. Investors and security holders are urged to read the definitive joint proxy statement/prospectus and the other relevant materials when they become available before making any voting or investment decision with respect to the Merger.

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HP, Carleton S. Fiorina, HP's Chairman of the Board and Chief Executive Officer, Robert P. Wayman, HP's Executive Vice President, Finance and Administration and Chief Financial Officer, and certain of HP's other executive officers and directors may be deemed to be participants in the solicitation of proxies from the stockholders of HP and Compaq in favor of the Merger. The other executive officers and directors of HP who may be participants in the solicitation of proxies in connection with the Merger have not been determined as of the date of this filing. A description of the interests of Ms. Fiorina, Mr. Wayman and HP's other executive officers and directors in HP is set forth in the proxy statement for HP's 2001 Annual Meeting of Stockholders, which was filed with the SEC on January 25, 2001. Investors and security holders may obtain more detailed information regarding the direct and indirect interests of Ms. Fiorina, Mr. Wayman and HP's other executive officers and directors in the Merger by reading the preliminary joint proxy statement/prospectus filed with the SEC on November 15, 2001 and the definitive joint proxy statement/prospectus when it becomes available.

Compaq and Michael D. Capellas, Compaq's Chairman and Chief Executive Officer, and certain of Compaq's other executive officers and directors may be deemed to be participants in the solicitation of proxies from the stockholders of Compaq and HP in favor of the Merger. The other executive officers and directors of Compaq who may be participants in the solicitation of proxies in connection with the Merger have not been determined as of the date of this filing. A description of the interests of Mr. Capellas and Compaq's other executive officers and directors in Compaq is set forth in the proxy statement for Compaq's 2001 Annual Meeting of Stockholders, which was filed with the SEC on March 12, 2001. Investors and security holders may obtain more detailed information regarding the direct and indirect interests of Mr. Capellas and Compaq's other executive officers and directors in the Merger by reading the preliminary joint proxy statement/prospectus filed with the SEC on November 15, 2001 and the definitive joint proxy statement/prospectus when it becomes available.

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