|  |  |  |  |  |  |  |  | $\begin{aligned} & \text { RECENT } \\ & \text { PRICE } \end{aligned} 10.80$ |  | $\left.\begin{array}{l} \text { PE } \\ \text { RATIO NMF (Trailing: } 27.7 \\ \text { Median: } 15.0 \end{array}\right)$ |  |  |  | $\begin{aligned} & \text { RELATIVE } \\ & \text { P/E RATIO } \\ & \text { NI } \end{aligned}$ |  | $\begin{array}{\|ll} D_{V I V}{ }^{2} D & 0,9 \% \\ \text { YLD } \end{array}$ |  |  | $\begin{aligned} & \text { VALUE } \\ & \text { LINE } \end{aligned}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | High: Low: | 4.5 2.4 | 4.9 1.5 | 3.3 1.5 | 5.1 2.8 | $\begin{aligned} & 8.4 \\ & 4.8 \end{aligned}$ | $\begin{array}{r} 11.4 \\ 6.2 \end{array}$ | $\begin{array}{r} 17.4 \\ 7.2 \end{array}$ | $\begin{aligned} & \hline 39.8 \\ & 14.2 \end{aligned}$ | $\begin{aligned} & 44.8 \\ & 22.9 \end{aligned}$ | $\begin{aligned} & \hline 51.3 \\ & 18.3 \end{aligned}$ | $\begin{aligned} & \hline 34.9 \\ & 14.3 \end{aligned}$ | $\begin{array}{r} 15.0 \\ 7.3 \end{array}$ |  |  | Target Price 2004 2005 | $\begin{aligned} & \text { Range } \\ & 2006 \end{aligned}$ |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 80 |
|  |  |  |  |  |  |  |  | 2 -fo |  |  |  |  |  |  |  | 80 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 60 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 40 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 32 |
|  |  |  |  |  |  |  |  |  | 111 | \% | $\|\|\|\|\|\|\mid$ |  |  |  |  | 32 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  | + |  |  |  |  |  |  |  |  |  |  | 16 |
| Insider Decision |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| - | F M A | M J J | A S O |  |  |  |  |  | 2-for-1 |  |  |  |  |  |  |  |  |  |  |  | - |  |  | 10 |
| $\begin{aligned} & \text { to Buy } \\ & \text { Ontion } \end{aligned}$ | $\begin{array}{llll}0 & 0 & 0 \\ 3 & 0 & 0\end{array}$ | $\begin{array}{llll}1 & 0 & 0 \\ 0 & 0 & 0\end{array}$ | $\begin{array}{lll}0 & 0 & 0 \\ 0 & 0 & 0\end{array}$ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | $\begin{array}{ll}3 & 0 \\ 3\end{array}$ | 000 | $\begin{array}{ll}0 & 0 \\ 0 & 1\end{array}$ |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | -6 |
| Institutional Decisions |  |  |  |  |  |  |  |  |  | I |  |  |  |  |  |  |  |  |  |  |  | \% | THIS VLIARITH. |  |
|  | 102001 | 202001 | 302001 | $\begin{aligned} & \text { Percent } 45.0 \\ & \text { shares } 30.0 \\ & \text { traded } 15.0 \end{aligned}$ |  |  |  | H11 |  |  |  |  |  |  |  |  |  |  | Stock index |  |
| to Buy | 321 | 291 | 256 |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 1 yr . | -34.6 10.9 |  |
| to Sell | 357 | 337 | 351 |  |  |  |  | 厚 | 里 |  |  |  |  |  |  |  |  |  | $\begin{array}{ll}-76.0 & 31.9 \\ -32.1 & 79.3\end{array}$ |  |
| Hld's(000) | 963331 | 952875 | 941815 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | ${ }^{\circ}$ VAL | INE PUB., INC. | 04-06 |
| . 63 | . 77 | 1.19 | 1.79 | 2.44 | 2.79 | 2.59 | 3.42 | 5.68 | 8.33 | 11.05 | 13.24 | 16.18 | 18.52 | 22.74 | 25.09 | 19.60 | 19.75 | Sales | sh | 24.10 |
| . 05 | . 07 | . 15 | . 26 | . 34 | 44 | . 31 | . 34 | . 49 | . 79 | . 93 | 1.17 | 1.75 | 1.05 | 1.16 | 1.84 | . 90 | . 95 | "Cash F | low" per sh | 1.95 |
| . 03 | . 04 | . 12 | . 20 | . 25 | . 32 | . 17 | . 20 | . 36 | . 64 | . 75 | . 93 | 1.35 | . 53 | . 34 | . 95 | . 10 | . 12 | Earning | per sh A | 1.00 |
|  |  |  |  |  |  |  |  |  |  |  |  |  | . 07 | . 09 | . 10 | . 10 | . 10 | Div'ds D | ecl'd per sh Ba | . 10 |
| . 05 | . 06 | . 11 | . 24 | . 31 | . 25 | . 15 | . 13 | . 11 | . 27 | . 29 | . 25 | . 48 | . 36 | . 70 | 67 | . 50 | . 50 | Cap'I | ending per sh | 1.00 |
| . 17 | . 23 | . 39 | . 70 | . 99 | 1.44 | 1.53 | 1.68 | 2.10 | 2.82 | 3.46 | 4.49 | 6.21 | 6.73 | 8.76 | 7.15 | 6.60 | 6.65 | Book | lue per sh | 8.50 |
| 793.72 | 811.34 | 1025.1 | 1156.5 | 1178.2 | 1291.3 | 1263.0 | 1197.4 | 1265.2 | 1305.0 | 1335.0 | 1368.0 | 1519.0 | 1687.0 | 1694.0 | 1689.0 | 1695.0 | 1695.0 | Comm | Shs Outst'g ${ }^{\text {c }}$ | 1700.0 |
| 10.8 | 11.7 | 12.7 | 8.9 | 11.3 | 10.3 | 16.4 | 10.8 | 10.2 | 10.8 | 11.6 | 11.9 | 18.1 | 59.2 | 82.2 | 28.1 | NMF |  | Avg A | 'IP/E Ratio | 16.0 |
| . 88 | . 79 | . 85 | . 74 | . 86 | . 77 | 1.05 | . 66 | . 60 | . 71 | . 78 | . 75 | 1.04 | 3.08 | 4.69 | 1.86 | NMF |  | Relative | P/E Ratio | 1.05 |
|  |  |  |  |  | -- | .- | .- | .- |  | .- | .- | . | .2\% | .3\% | .4\% | .7\% |  | Avg An | 'I Div'd Yield | .6\% |
| CAPITAL STRUCTURE as of 9/30/01 <br> Total Debt $\$ 2101$ mill. Due in 5 Yrs $\$ 2084$ mill. LT Debt $\$ 600$ mill. LT Interest $\$ 40.0$ mill. <br> ( $5 \%$ of Cap'l) |  |  |  |  |  | 3271.4 | 4099.8 | 7191.0 | 10866 | 14755 | 18109 | 24584 | 31251 | 38525 | 42383 | 33200 | 33500 | Sales | mill) | 41000 |
|  |  |  |  |  |  | 14.2\% | 11.8\% | 11.8\% | 13.2\% | 11.8\% | 11.9\% | 14.4\% | 6.2\% | 5.5\% | 9.1\% | 5.0\% | 6.0\% | Operat | g Margin | 10.0\% |
|  |  |  |  |  |  | 165.8 | 159.5 | 156.0 | 169.0 | 214.0 | 285.0 | 545.0 | 893.0 | 1402.0 | 1407.0 | 1375 | 1375 | Deprec | ation (\$mill) | 1600 |
|  |  |  |  |  |  | 230.2 | 248.4 | 469.8 | 867.0 | 1030.0 | 1313.0 | 2107.0 | 883.0 | 569.0 | 1700.0 | 165 | 205 | Net Pro | (\$mill) | 1725 |
|  |  |  |  |  |  | 28.3\% | 21.5\% | 25.2\% | 26.0\% | 27.9\% | 30.0\% | 30.0\% | 20.8\% | 39.1\% | 30.0\% | 29.0\% | 30.0\% | Income | Tax Rate | 30.0\% |
| Pension Liability None in '00 vs. None in '99 |  |  |  |  |  | 7.0\% | 6.1\% | 6.5\% | 8.0\% | 7.0\% | 7.3\% | 8.6\% | 2.8\% | 1.5\% | 4.0\% | .5\% | .6\% | Net Pro | it Margin | 4.3\% |
| Pfd Stock None |  |  |  |  |  | 1144.7 | 1359.1 | 2047.0 | 3145.0 | 3847.0 | 5317.0 | 6815.0 | 4434.0 | 2011.0 | 3562.0 | 3500 | 3500 | Workin | Cap'I (\$mill) | 4000 |
|  |  |  |  |  |  | 73.5 | -- | .- | 300.0 | 300.0 | 300.0 | .- | .- | .- | 575.0 | 600 | 800 | Long-T | rm Debt (\$mill) | 1500 |
| Common Stock 1,694,000,000 shs. |  |  |  |  |  | 1930.7 | 2006.7 | 2654.0 | 3674.0 | 4614.0 | 6144.0 | 9429.0 | 11351 | 14834 | 12080 | 11200 | 11250 | Shr. Eq | uity (\$mill) | 14400 |
|  |  |  |  | (95\% of | f Cap'l) | 12.4\% | 13.5\% | 17.7\% | 22.0\% | 21.2\% | 20.5\% | 22.4\% | 7.8\% | 3.8\% | 13.3\% | 2.5\% | 3.0\% | Return | n Total Cap'l | 13.0\% |
| MARKET CAP: $\$ 18.3$ billion (Large Cap) |  |  |  |  |  | 11.9\% | 12.4\% | 17.7\% | 23.6\% | 22.3\% | 21.4\% | 22.3\% | 7.8\% | 3.8\% | 14.1\% | 1.5\% | 2.0\% | Return | on Shr. Equity | 12.0\% |
| CURRENT POSITION (\$MILL.) <br> Cash Assets |  |  |  | 2000 | 9/30/01 | 11.9\% | 12.4\% | 17.7\% | 23.6\% | 22.3\% | 21.4\% | 22.3\% | $6.9 \%$ | $\begin{gathered} 2.9 \% \\ 24 \% \end{gathered}$ | $\begin{array}{r} 12.5 \% \\ 10 \% \end{array}$ | $\begin{gathered} \text { NMF } \\ 100 \% \end{gathered}$ | $.5 \%$ $83 \%$ | Retain | to Com Eq | 11.0\% |
|  |  |  | 3302 | 2569 | 3940 |  |  |  |  |  |  |  | 11\% | 24\% | 10\% |  |  |  | ds to Net Prof |  |


| Cash Assets | 3302 | 2569 | 3940 |
| :---: | :---: | :---: | :---: |
| Receivables | 6685 | 6715 | 4780 |
| Inventory (FIFO) | 2008 | 2161 | 1582 |
| Other | 1854 | 3666 | 4107 |
| Current Assets | 13849 | 15111 | 14409 |
| Accts Payable | 4380 | 4233 | 3619 |
| Debt Due | 453 | 711 | 1501 |
| Other | 7005 | 6605 | 5925 |
| Current Liab. | 11838 | 11549 | 11045 |


| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past <br> 5 Yrs. | $\begin{aligned} & \text { Est'd '98-'00 } \\ & \text { to } 044^{\prime} 06 \end{aligned}$ |
| :---: | :---: | :---: | :---: |
| Sales | 25.0\% | 21.5\% | 1.5\% |
| "Cash Flow" | 14.5\% | 13.0\% | 6.5\% |
| Earnings | 9.0\% | 1.0\% | 8.5\% |
| Dividends |  |  | 4.0\% |
| Book Value | 22.0\% | 22.0\% | 2.0\% |


| Calendar | QUARTERLY SALES (\$ mill.) |  |  |  | Full Year |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | . 31 | Jun. 30 | Sep. 30 | Dec |  |
| 1998 | 5687 | 5914 | 8791 | 10859 | 3125 |
| 1999 | 9419 | 9420 | 9208 | 10478 | 38525 |
| 2000 | 9505 | 10135 | 11217 | 11526 | 42383 |
| 2001 | 9197 | 8453 | 7476 | 8074 | 33200 |
| 2002 | 7700 | 8100 | 8600 | 9100 | 33500 |
| $\begin{aligned} & \text { Cal- } \\ & \text { endar } \end{aligned}$ | EARNINGS PER SHARE A |  |  |  | Full |
|  | Mar. 31 | Jun. 30 | Sep. 30 | ec. 31 | Year |
| 1998 | . 01 | . 02 | . 07 | . 41 | 53 |
| 1999 | . 16 | d. 10 | . 08 | . 19 | 34 |
| 2000 | . 16 | . 21 | . 30 | . 30 | 95 |
| 2001 | . 12 | . 04 | d. 07 | . 01 | 10 |
| 2002 | d. 01 | . 02 | . 04 | . 07 |  |


| Cal- | QUARTERLY DIVIDENDS PAID B <br> endar |  |  | Mar.31 | Full <br> Year |
| :---: | :---: | :---: | :---: | :---: | :---: | ---: |
| 1998 | .015 | .015 | .015 | .015 | .06 |
| 1999 | .02 | .02 | .02 | .02 | .08 |
| 2000 | .025 | .025 | .025 | .025 | .10 |
| 2001 | .025 | .025 | .025 | .025 | .10 |
| 2002 | .025 |  |  |  |  |
|  |  |  |  |  |  |

BUSINESS: Compaq Computer Corp. manufactures enterprise computing products such as servers, desktop and portable personal computers, and communications products, and provides related professional and customer services. Market breakdown: enterprise computing, $34 \%$ of ' 00 total; commercial personal computer, $31 \%$; consumer products, $18 \%$; services, $17 \%$. Acquired Tandem Com-
The fate of the proposed acquisition of Compaq by Hewlett-Packard is uncertain. Members of both the Hewlett and Packard families and related foundations, which together hold about 18\% of H-P shares, have announced plans to vote against the merger, making it difficult, but still not impossible, to win the approval of the majority of shareholders needed to seal the deal. (In a tax-free transaction originally valued at $\$ 25$ billion, each Compaq share would be exchanged for $0.6325 \mathrm{H}-\mathrm{P}$ share.) As we went to press, no date had been set yet for shareholders of both companies to vote on the combination. More over, Wall Street's doubts that the transaction will be consummated seem to have increased, since Compaq shares now trade at more than a $25 \%$ discount to their value in the merger, versus at about a $12 \%$ discount at the time of our October report. Compaq's unprofitable personal computer business seems to be the main stumbling block to winning support for the deal. The business was hurt by a price war launched by rival Dell Computer in late 2000 (which is still ongoing), by efforts to reduce inventory, and by the eco-
puters, 8/97; Digital Equipment, 6/98. R\&D: 3.5\% of sales. '00 depreciation rate: 19.9\%. Had 66,000 employees on $9 / 30 / 01$; 91,000 stockholders on 1/31/01. Officers \& directors control less than $1 \%$ of stock (4/01 Proxy). Chairman, President, \& CEO: Michael D. Capellas. Inc.: DE. Address: 20555 SH 249, Houston, TX 77070. Telephone: 281-370-0670. Internet: www.compaq.com.

## nomic slowdown in the U.S. H-P's post-

 merger exposure to the PC business would rise, but Compaq probably would benefit from the merger, as its PC exposure would fall from $48 \%$ of revenues to $33 \%$, and it would diversify further via the addition of H-P's profitable printer business.On its own, Compaq's near-term earnings prospects remain weak. In addition to the problems in the PC sector, price discounting has intensified in industrystandard servers, which may be becoming a more commodity-like business. And the uncertainty surrounding the merger might cause Compaq to lose some customers. But efforts to lower costs and stronger demand should support modest bottom-line improvement by the second half of 2002.
With the odds of the merger being completed declining, and with a meaningful pickup in Compaq's earnings possibly still a few quarters away, investors probably should stay on the sidelines. Compaq shares, unranked for Timeliness due to the proposed combination, could lose some support should the merger plan fall through. Theresa Brophy

J anuary 18, 2002

Included: '99Q3, \$0.01. Quarterly earnings in 98, '99 \& '00 do not equal total due to rounding. Next earnings report due mid-January.
late March. Approximate dividend payment dates: 20th of Jan., April, July, and Oct. ■ Dividend reinvestment plan available. dend reinvestment plan available.
(C) In millions, adjusted for stock splits

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