

HP Software

May-06

(Fiscal year end: Oct 31)

	2006e	% of	Change	2005	% of	Change	2004	% of
	(\$ Mill)	Rev	06/05	(\$ Mill)	Rev	05/04	(\$ Mill)	Rev
Revenue		1%			1%			1%
Business Segments (est)								
OpenView	\$810	65.0%	15.7%	\$700	64.5%	19.7%	\$585	62.7%
OpenCall & Other	\$440	35.2%	15.8%	\$380	35.2%	9.2%	\$348	37.3%
Total Revenue	\$1,250	100.2%	15.7%	\$1,080	99.7%	15.8%	\$933	100.0%
2Q06 Actual	\$330		20.4%	\$274				
Costs								
Cost of Revenue	\$630	50.0%	12.5%	\$560	52.0%	9.8%	\$510	55.0%
One-time Charges								
Total Costs	\$630	50.4%	12.5%	\$560	51.9%	9.8%	\$510	54.7%
Gross Profit/Margin	\$620	49.6%	19.2%	\$520	48.1%	22.9%	\$423	45.3%
Expenses								
Sales, General & Marketing	\$380	30.0%	0.0%	\$380	35.0%	0.0%	\$380	41.0%
Restr. Charges (apportioned)	\$23			\$21			\$9	
<u>Research & Development</u>	<u>\$210</u>	<u>17.0%</u>	<u>16.7%</u>	<u>\$180</u>	<u>17.0%</u>	<u>-5.3%</u>	<u>\$190</u>	<u>20.0%</u>
Total Expenses	\$613	49.1%	5.5%	\$581	53.8%	0.3%	\$579	62.1%
Operating Profit (Loss)	\$7	0.5%	-111.3%	(\$61)	-5.6%	-60.9%	(\$156)	-16.7%
as reported						-100.0%	(\$156)	-16.7%
2Q06 Actual	\$3	0.9%	-250.0%	(\$2)	-0.7%			
Other Income (Loss)	(\$5)	-0.4%	0.0%	(\$5)	-0.5%	1281.3%	(\$0)	-0.0%
Income (Loss) Before Tax	\$2	0.1%	-102.8%	(\$66)	-6.1%	-57.8%	(\$156)	-16.8%
Income Tax (Benefit)		20.3%			20.3%			16.7%
Net Income (Loss)	\$2	0.1%	-102.8%	(\$66)	-6.1%	-57.8%	(\$156)	-16.8%
Earnings per share (basic)	2.81	0.00		(0.02)			(0.06)	

Pro Forma Valuation

	P/E Ratio	Rev Ratio	Market Cap (est.)			Spin-off	Actual
			P/E	Rev	Combined	Benefit	(5/15/06)
Industry Segment Avg	17.00	6.00	\$0.03	\$7.50	\$3.77		
HP Corp Act Prorated	27.72	0.95	\$0.05	\$1.19	\$1.23		\$89.46
HP Software		2.00		\$2.50	\$2.50	\$1.27	

Source: Annex Research