

# HP Software

(Fiscal year end: Oct 31)

	<b>2006e</b>	<b>% of</b>	<b>Change</b>	<b>2005</b>	<b>% of</b>	<b>Change</b>	<b>2004</b>	<b>% of</b>
	<b>(\$ Mill)</b>	<b>Rev</b>	<b>06/05</b>	<b>(\$ Mill)</b>	<b>Rev</b>	<b>05/04</b>	<b>(\$ Mill)</b>	<b>Rev</b>
<b>Revenue</b>		1%			1%			1%
<b>Business Segments (est)</b>								
OpenView	\$910	72.0%	30.0%	\$700	64.5%	19.7%	\$585	62.7%
Mercury								
OpenCall & Other	\$360	28.3%	-5.3%	\$380	35.2%	9.2%	\$348	37.3%
<b>Total Revenue</b>	<b>\$1,270</b>	<b>100.3%</b>	<b>17.6%</b>	<b>\$1,080</b>	<b>99.7%</b>	<b>15.8%</b>	<b>\$933</b>	<b>100.0%</b>
<b>4Q06 Actual</b>	<b>\$349</b>		<b>14.1%</b>	<b>\$306</b>				
<b>Costs</b>								
Cost of Revenue	\$700	55.0%	25.0%	\$560	52.0%	9.8%	\$510	55.0%
One-time Charges								
<b>Total Costs</b>	<b>\$700</b>	<b>55.1%</b>	<b>25.0%</b>	<b>\$560</b>	<b>51.9%</b>	<b>9.8%</b>	<b>\$510</b>	<b>54.7%</b>
<b>Gross Profit/Margin</b>	<b>\$570</b>	<b>44.9%</b>	<b>9.6%</b>	<b>\$520</b>	<b>48.1%</b>	<b>22.9%</b>	<b>\$423</b>	<b>45.3%</b>
<b>Expenses</b>								
Sales, General & Marketing	\$250	20.0%	-21.9%	\$320	30.0%	-15.8%	\$380	41.0%
Restr. Charges (apportioned)	\$24			\$21			\$9	
<u>Research &amp; Development</u>	<u>\$220</u>	<u>17.0%</u>	<u>22.2%</u>	<u>\$180</u>	<u>17.0%</u>	<u>-5.3%</u>	<u>\$190</u>	<u>20.0%</u>
<b>Total Expenses</b>	<b>\$494</b>	<b>38.9%</b>	<b>-5.3%</b>	<b>\$521</b>	<b>48.2%</b>	<b>-10.0%</b>	<b>\$579</b>	<b>62.1%</b>
<b>Operating Profit (Loss)</b>	<b>\$76</b>	<b>6.0%</b>	<b>-7920.8%</b>	<b>(\$1)</b>	<b>-0.1%</b>	<b>-99.4%</b>	<b>(\$156)</b>	<b>-16.7%</b>
<b>as reported</b>						<b>-100.0%</b>	<b>(\$156)</b>	<b>-16.7%</b>
<b>4Q06 Actual</b>	<b>\$3</b>	<b>0.9%</b>	<b>-250.0%</b>	<b>(\$2)</b>	<b>-0.7%</b>			
Other Income (Loss)	(\$5)	-0.4%	0.0%	(\$5)	-0.5%	1281.3%	(\$0)	-0.0%
<b>Income (Loss) Before Tax</b>	<b>\$71</b>	<b>5.6%</b>	<b>-1296.0%</b>	<b>(\$6)</b>	<b>-0.6%</b>	<b>-96.2%</b>	<b>(\$156)</b>	<b>-16.8%</b>
Income Tax (Benefit)		20.3%			20.3%			16.7%
<b>Net Income (Loss)</b>	<b>\$71</b>	<b>5.6%</b>	<b>-1296.0%</b>	<b>(\$6)</b>	<b>-0.6%</b>	<b>-96.2%</b>	<b>(\$156)</b>	<b>-16.8%</b>
Earnings per share (basic)	2.74	0.03		(0.00)			(0.06)	

## Pro Forma Valuation

	<b>P/E Ratio</b>	<b>Rev Ratio</b>	<b>Market Cap (est.)</b>			<b>Spin-off</b>	<b>Actual</b>
			<b>P/E</b>	<b>Rev</b>	<b>Combined</b>	<b>Benefit</b>	<b>(11/16/06)</b>
Industry Segment Avg	18.00	6.00	\$1.29	\$7.62	\$4.45		
HP Corp Act Prorated	23.46	1.22	\$1.68	\$1.55	\$1.41		<b>\$100.69</b>
<b>HP Software</b>	<b>15.00</b>	<b>5.00</b>	<b>\$1.07</b>	<b>\$6.35</b>	<b>\$3.71</b>	<b>\$2.31</b>	

Source: Annex Research