

HEWLETT PACKARD CO
Form DEF 14A
January 23, 2004

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant /x/

Filed by a Party other than the Registrant //

Check the appropriate box:

- // Preliminary Proxy Statement
- // Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- /x/ Definitive Proxy Statement
- // Definitive Additional Materials
- // Soliciting Material Under Rule 14a-12

HEWLETT-PACKARD COMPANY

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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- /x/ No fee required.
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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

Carleton S. Fiorina
Chairman and
Chief Executive Officer

Hewlett-Packard Company
3000 Hanover Street
Palo Alto, CA 94304
www.hp.com

To our Shareowners:

I am pleased to invite you to attend the annual meeting of shareowners of Hewlett-Packard Company to be held on Wednesday, March 17, 2004 at 2 p.m., local time, at The George R. Brown Convention Center, Houston, Texas.

Details regarding admission to the meeting and the business to be conducted are more fully described in the accompanying Notice of Annual Meeting and Proxy Statement.

Your vote is important. Whether or not you plan to attend the annual meeting, I hope you will vote as soon as possible. You may vote over the Internet, as well as by telephone or by mailing a proxy or voting instruction card. Voting over the Internet, by phone or by written proxy will ensure your representation at the annual meeting regardless of whether you attend in person. Please review the instructions on the proxy or voting instruction card regarding each of these voting options.

Thank you for your ongoing support of and continued interest in Hewlett-Packard Company.

Sincerely,

2004 ANNUAL MEETING OF SHAREOWNERS

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

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HEWLETT-PACKARD COMPANY

3000 Hanover Street
Palo Alto, California 94304
(650) 857-1501

NOTICE OF ANNUAL MEETING OF SHAREOWNERS

| | |
|---------------------------------------|--|
| Time and Date | 2:00 p.m., local time, on Wednesday, March 17, 2004 |
| Place | The George R. Brown Convention Center, Houston, Texas |
| Items of Business | <ol style="list-style-type: none">(1) To elect directors(2) To ratify the appointment of independent auditors for the fiscal year ending October 31, 2004(3) To approve the Hewlett-Packard Company 2004 Stock Incentive Plan(4) To consider and vote upon a shareowner proposal entitled "Stock Option Expensing Proposal"(5) To consider such other business as may properly come before the meeting |
| Adjournments and Postponements | Any action on the items of business described above may be considered at the annual meeting at the time and on the date specified above or at any time and date to which the annual meeting may be properly adjourned or postponed. |
| Record Date | You are entitled to vote only if you were an HP shareowner as of the close of business on January 20, 2004. |
| Meeting Admission | You are entitled to attend the annual meeting only if you were an HP shareowner as of the close of business on January 20, 2004 or hold a valid proxy for the annual meeting. You should be prepared to present photo identification for admittance. In addition, if you are a shareowner of record or hold your shares through the Hewlett-Packard Company 401(k) Plan ("HP 401(k) Plan") or the Hewlett-Packard Company 2000 Employee Stock Purchase Plan (the "Share Ownership Plan"), your ownership will be verified against the list of shareowners of record or plan participants on the record date prior to being admitted to the meeting. If you are not a shareowner of record but hold shares through a broker or nominee (i.e., in street name), you should provide proof of beneficial |

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ownership as of the record date, such as your most recent account statement prior to January 20, 2004, a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership. If you do not provide photo identification or comply with the other procedures outlined above upon request, you will not be admitted to the annual meeting.

The annual meeting will begin promptly at 2:00 p.m., local time. Check-in will begin at 12:30 p.m., local time, and you should allow ample time for the check-in procedures.

Voting

Your vote is very important. Whether or not you plan to attend the annual meeting, we encourage you to read this proxy statement and submit your proxy or voting instructions as soon as possible. You may submit your proxy or voting instructions for the annual meeting by completing, signing, dating and returning your proxy or voting instruction card in the pre-addressed envelope provided, or, in most cases, by using the telephone or the Internet. For specific instructions on how to vote your shares, please refer to the section entitled *Questions and Answers* beginning on page 2 of this proxy statement and the instructions on the proxy or voting instruction card.

By Order of the Board of Directors,

ANN O. BASKINS

Senior Vice President, General Counsel and Secretary

This notice of annual meeting and proxy statement and form of proxy are being distributed on or about January 22, 2004.

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

Q: *Why am I receiving these materials?*

A: The Board of Directors (the "Board") of Hewlett-Packard Company, a Delaware corporation ("HP"), is providing these proxy materials for you in connection with HP's annual meeting of shareowners, which will take place on March 17, 2004. As a shareowner, you are invited to attend the annual meeting and are entitled to and requested to vote on the items of business described in this proxy statement.

Q: *What information is contained in this proxy statement?*

A: The information included in this proxy statement relates to the proposals to be voted on at the annual meeting, the voting process, the compensation of directors and most highly paid executive officers, and certain other required information.

Q: *How may I obtain HP's 10-K?*

A: A copy of our 2003 Form 10-K is enclosed.

Shareowners may request another free copy of the 2003 Form 10-K from:

**Hewlett-Packard Company
Attn: Investor Relations
3000 Hanover Street
Palo Alto, CA 94304
(866) GET-HPQ1 (866) 438-4771
<http://www.hp.com/hpinfo/investor/main.htm>**

HP will also furnish any exhibit to the 2003 Form 10-K if specifically requested.

Q: What items of business will be voted on at the annual meeting?

A: The items of business scheduled to be voted on at the annual meeting are:

The election of directors

The ratification of independent auditors for the 2004 fiscal year

The approval of the Hewlett-Packard Company 2004 Stock Incentive Plan

A shareowner proposal entitled "Stock Option Expensing Proposal"

We will also consider other business that properly comes before the annual meeting.

Q: How does the Board recommend that I vote?

A: Our Board recommends that you vote your shares "FOR" each of the nominees to the Board, "FOR" the ratification of independent auditors for the 2004 fiscal year, "FOR" the approval of the Hewlett-Packard Company 2004 Stock Incentive Plan and "AGAINST" the shareowner proposal.

Q: What shares can I vote?

A: Each share of HP common stock issued and outstanding as of the close of business on January 20, 2004, the *Record Date*, is entitled to be voted on all items being voted upon at the annual meeting. You may vote all shares owned by you as of this time, including (1) shares held directly in your name as the *shareowner of record*, including shares purchased through HP's Dividend Reinvestment Plan and HP's prior employee stock purchase plan and shares held through HP's Direct Registration Service, and (2) shares held for you as the *beneficial owner* through a broker, trustee or other nominee such as a bank. On the *Record Date* we had approximately 3,050,705,095 shares of common stock issued and outstanding.

Q: What is the difference between holding shares as a shareowner of record and as a beneficial owner?

A: Most HP shareowners hold their shares through a broker or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Shareowner of Record

If your shares are registered directly in your name with HP's transfer agent, Computershare Investor Services LLC, you are considered, with respect to those shares, the *shareowner of record*, and these proxy materials are being sent directly to you by HP. As the *shareowner of record*, you have the right to grant

your voting proxy directly to HP or to vote in person at the meeting. HP has enclosed or sent a proxy card for you to use.

Beneficial Owner

If your shares are held in a brokerage account or by another nominee, you are considered the *beneficial owner* of shares held *in street name*, and these proxy materials are being forwarded to you together with a voting instruction card. As the beneficial owner, you have the right to direct your broker, trustee or nominee how to vote and are also invited to attend the annual meeting.

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Since a beneficial owner is not the *shareowner of record*, you may not vote these shares in person at the meeting unless you obtain a "legal proxy" from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting. Your broker, trustee or nominee has enclosed or provided voting instructions for you to use in directing the broker, trustee or nominee how to vote your shares.

Q: How can I attend the annual meeting?

A: You are entitled to attend the annual meeting only if you were an HP shareowner or joint holder as of the close of business on January 20, 2004 or you hold a valid proxy for the annual meeting. You should be prepared to present photo identification for admittance. In addition, if you are a shareowner of record or hold your shares through the HP 401(k) Plan or the Share Ownership Plan, your name will be verified against the list of shareowners of record or plan participants on the record date prior to your being admitted to the annual meeting. If you are not a shareowner of record but hold shares through a broker or nominee (i.e., in street name), you should provide proof of beneficial ownership on the record date, such as your most recent account statement prior to January 20, 2004, a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership. If you do not provide photo identification or comply with the other procedures outlined above upon request, you will not be admitted to the annual meeting.

The meeting will begin promptly at 2:00 p.m., local time. Check-in will begin at 12:30 p.m., local time, and you should allow ample time for the check-in procedures.

Q: How can I vote my shares in person at the annual meeting?

A: Shares held in your name as the shareowner of record may be voted in person at the annual meeting. Shares held beneficially in street name may be voted in person only if you obtain a legal proxy from the broker, trustee or nominee that holds your shares giving you the right to vote the shares. *Even if you plan to attend the annual meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the meeting.*

Q: How can I vote my shares without attending the annual meeting?

A: Whether you hold shares directly as the shareowner of record or beneficially in street name, you may direct how your shares are voted without attending the meeting. If you are a shareowner of record, you may vote by submitting a proxy. If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, trustee or nominee. For directions on how to vote, please refer to the instructions below and those included on your proxy card or, for shares held beneficially in street name, the voting instruction card provided by your broker, trustee or nominee (which is the same as the proxy card for shares held in the HP 401(k) Plan, the Agilent 401(k) Plan and the Share Ownership Plan). For shares held in the HP 401(k) Plan and the Agilent 401(k) Plan, your voting instructions must be received by 11:59 p.m. Eastern time on March 14, 2004 in order for the trustee to vote your shares in accordance with your instructions.

By Internet Shareowners of record of HP common stock with Internet access may submit proxies from any location in the world by following the "Vote by Internet" instructions on their proxy cards. Most HP shareowners who hold shares beneficially in street name

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may vote by accessing the website specified on the voting instruction cards provided by their brokers, trustee or nominees. Please check the voting instruction card for Internet voting availability.

By Telephone Shareowners of record of HP common stock who live in the United States or Canada may submit proxies by following the "Vote by Phone" instructions on their proxy cards. Most HP shareowners who hold shares beneficially in street name and live in the United States or Canada may vote by phone by calling the number specified on the voting instruction cards provided by their brokers, trustee or nominees. Please check the voting instruction card for telephone voting availability.

By Mail Shareowners of record of HP common stock may submit proxies by completing, signing and dating their proxy cards and mailing them in the accompanying pre-addressed envelopes. HP shareowners who hold shares beneficially in street name may vote by mail by completing, signing and dating the voting instruction cards provided and mailing them in the accompanying pre-addressed envelopes.

Q: Can I change my vote?

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A: You may change your vote at any time prior to the vote at the annual meeting, except that voting instructions for certain plans must be provided by 11:59 p.m. Eastern time on March 14, 2004 as described in the previous answer. If you are the shareowner of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes the earlier proxy), by providing a written notice of revocation to the HP Corporate Secretary prior to your shares being voted, or by attending the annual meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker or nominee giving you the right to vote your shares, by attending the meeting and voting in person.

Q: *Who can help answer my questions?*

A: If you have any questions about the annual meeting or how to vote or revoke your proxy, you should contact:

Innisfree M&A Incorporated
501 Madison Avenue, 20th Floor
New York, New York 10022
Shareowners: (877) 750-5838
International calls: (646) 822-7402
Banks and brokers (call collect): (212) 750-5833

If you need additional copies of this proxy statement or voting materials, please contact Innisfree M&A Incorporated ("Innisfree") as described above or send an e-mail to info@innisfreema.com.

Q: *Is my vote confidential?*

A: Proxy instructions, ballots and voting tabulations that identify individual shareowners are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within HP or to third parties, except: (1) as necessary to meet applicable legal requirements, (2) to allow for the tabulation of votes and certification of the vote, and (3) to facilitate a successful proxy solicitation. Occasionally, shareowners provide written comments on their proxy card, which are then forwarded to HP management.

Q: *How many shares must be present or represented to conduct business at the annual meeting?*

A: The quorum requirement for holding the annual meeting and transacting business is that holders of a majority of shares of HP common stock entitled to vote must be present in person or represented by proxy. Both abstentions and broker non-votes are counted for the purpose of determining the presence of a quorum.

Q: *How are votes counted?*

A: In the election of directors, you may vote "FOR" all of the nominees or your vote may be "WITHHELD" with respect to one or more of the nominees. You may also elect to cumulate your votes as described below under "Is cumulative voting permitted for the election of directors?"

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For the other items of business, you may vote "FOR," "AGAINST" or "ABSTAIN." If you "ABSTAIN," the abstention has the same effect as a vote "AGAINST." If you provide specific instructions with regard to certain items, your shares will be voted as you instruct on such items. If you sign your proxy card or voting instruction card without giving specific instructions, your shares will be voted in accordance with the recommendations of the Board ("FOR" all of HP's nominees to the Board, "FOR" ratification of the independent auditors, "FOR" approval of the Hewlett-Packard Company 2004 Stock Incentive Plan, and "AGAINST" the shareowner proposal and in the discretion of the proxy holders on any other matters that properly come before the meeting). If your voting instructions are not received by 11:59 p.m. Eastern time on March 14, 2004, any shares you hold in the HP 401(k) Plan or Agilent 401(k) Plan will be voted in proportion to the way the other HP 401(k) Plan and Agilent 401(k) Plan participants vote their shares.

Q: *What is the voting requirement to approve each of the proposals?*

A: In the election of directors, the nine persons receiving the highest number of "FOR" votes at the annual meeting will be elected. All other proposals require the affirmative "FOR" vote of a majority of those shares present in person or represented by proxy and entitled to vote on those proposals at the annual meeting. If you hold shares beneficially in street name and do not provide your broker with voting instructions, your

shares may constitute "broker non-votes." Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are not considered entitled to vote on that proposal. Thus, broker non-votes will not affect the outcome of any matter being voted on at the meeting, assuming that a quorum is obtained. Abstentions have the same effect as votes against the matter.

Q: Is cumulative voting permitted for the election of directors?

A: In the election of directors, you may elect to cumulate your vote. Cumulative voting will allow you to allocate among the director nominees, as you see fit, the total number of votes equal to the number of director positions to be filled multiplied by the number of shares you hold. For example, if you own 100 shares of stock, and there are nine directors to be elected at the annual meeting, you could allocate 900 "FOR" votes (nine times 100) among as few or as many of the nine nominees to be voted on at the annual meeting as you choose.

If you choose to cumulate your votes, you will need to submit a proxy card or a ballot and make an explicit statement of your intent to cumulate your votes, either by so indicating in writing on the proxy card or by indicating in writing on your ballot when voting at the annual meeting. If you hold shares beneficially in street name and wish to cumulate votes, you should contact your broker, trustee or nominee. If you sign your proxy card or voting instruction card with no further instructions, Carleton S. Fiorina and Ann O. Baskins, as proxyholders, may cumulate and cast your votes in favor of the election of some or all of the applicable nominees in their sole discretion, except that none of your votes will be cast for any nominee as to whom you instruct that your votes be withheld.

Cumulative voting applies only to the election of directors. For all other matters, each share of common stock outstanding as of the close of business on the *Record Date* is entitled to one vote.

Q: What happens if additional matters are presented at the annual meeting?

A: Other than the four items of business described in this proxy statement, we are not aware of any other business to be acted upon at the annual meeting. If you grant a proxy, the persons named as proxyholders, Carleton S. Fiorina and Ann O. Baskins, will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any unforeseen

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reason any of our nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by the Board.

Q: Who will serve as inspector of elections?

A: The inspector of elections will be a representative of IVS Associates, Inc.

Q: What should I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a shareowner of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each HP proxy card and voting instruction card that you receive.

Q: How may I obtain a separate set of voting materials?

A: If you share an address with another shareowner, you may receive only one set of proxy materials (including our annual report to shareowners, 2003 Form 10-K and proxy statement) unless you have provided contrary instructions. If you wish to receive a separate set of proxy materials now or in the future, you may write or call us to request a separate copy of these materials from:

Hewlett-Packard Company
Attn: Investor Relations
3000 Hanover Street
Palo Alto, CA 94304
(866) GET-HPQ1 (866) 438-4771

Similarly, if you share an address with another shareowner and have received multiple copies of our proxy materials, you may write or call us at the above address and phone number to request delivery of a single copy of these materials.

Q: Who will bear the cost of soliciting votes for the annual meeting?

A: HP is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. If you choose to access the proxy materials and/or vote over the Internet, you are responsible for Internet access charges you may incur. If you choose to vote by telephone, you are responsible for telephone charges you may incur. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities. We also have hired Innisfree to assist us in the distribution of proxy materials and the solicitation of votes described above. We will pay Innisfree a fee of \$15,000 plus customary costs and expenses for these services. HP has agreed to indemnify Innisfree against certain liabilities arising out of or in connection with its agreement. Upon request, we will also reimburse brokerage houses and other custodians, nominees and fiduciaries for forwarding proxy and solicitation materials to shareowners.

Q: Where can I find the voting results of the annual meeting?

A: We intend to announce preliminary voting results at the annual meeting and publish final results in our quarterly report on Form 10-Q for the second quarter of fiscal 2004.

Q: What is the deadline to propose actions for consideration at next year's annual meeting of shareowners or to nominate individuals to serve as directors?

A: You may submit proposals, including director nominations, for consideration at future shareowner meetings.

Shareowner Proposals: For a shareowner proposal to be considered for inclusion in HP's proxy statement for the annual meeting next year, the written proposal must be received by

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the Corporate Secretary of HP at our principal executive offices no later than September 24, 2004. If the date of next year's annual meeting is moved more than 30 days before or after the anniversary date of this year's annual meeting, the deadline for inclusion of proposals in HP's proxy statement is instead a reasonable time before HP begins to print and mail its proxy materials. Such proposals also will need to comply with Securities and Exchange Commission regulations under Rule 14a-8 regarding the inclusion of shareowner proposals in company-sponsored proxy materials. Proposals should be addressed to:

Corporate Secretary
Hewlett-Packard Company
3000 Hanover Street
Palo Alto, California 94304
Fax: (650) 857-4837

For a shareowner proposal that is not intended to be included in HP's proxy statement under Rule 14a-8, the shareowner must deliver a proxy statement and form of proxy to holders of a sufficient number of shares of HP common stock to approve that proposal, provide the information required by the bylaws of HP and give timely notice to the Corporate Secretary of HP in accordance with the bylaws of HP, which, in general, require that the notice be received by the Corporate Secretary of HP:

Not earlier than the close of business on November 8, 2004, and

Not later than the close of business on December 8, 2004.

If the date of the shareowner meeting is moved more than 30 days before or 60 days after the anniversary of the HP annual meeting for the prior year, then notice of a shareowner proposal that is not intended to be included in HP's proxy statement under Rule 14a-8 must be received no earlier than the close of business 120 days prior to the meeting and no later than the close of business on the later of the

following two dates:

90 days prior to the meeting; and

10 days after public announcement of the meeting date.

Nomination of Director Candidates: You may propose director candidates for consideration by the Board's Nominating and Governance Committee. Any such recommendations should include the nominee's name and qualifications for Board membership and should be directed to the Corporate Secretary of HP at the address of our principal executive offices set forth above. In addition, the bylaws of HP permit shareowners to nominate directors for election at an annual shareowner meeting. To nominate a director, the shareowner must deliver a proxy statement and form of proxy to holders of a sufficient number of shares of HP common stock to elect such nominee and provide the information required by the bylaws of HP, as well as a statement by the nominee acknowledging that he or she will owe a fiduciary obligation to HP and its shareowners. In addition, the shareowner must give timely notice to the Corporate Secretary of HP in accordance with the bylaws of HP, which, in general, require that the notice be received by the Corporate Secretary of HP within the time period described above under "Shareowner Proposals."

Copy of Bylaw Provisions: You may contact the HP Corporate Secretary at our principal executive offices for a copy of the relevant bylaw provisions regarding the requirements for making shareowner proposals and nominating director candidates. HP's bylaws also are available on HP's website at <http://www.hp.com/hpinfo/investor/main.htm>.

Q: How may I communicate with HP's Board or the non-management directors on HP's Board?

A: You may submit an e-mail to HP's Board at bod@hp.com. All directors have access to this e-mail address. Communications intended for non-management directors should be directed to the Chair of the Nominating and Governance Committee at the e-mail address above.

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CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

HP is committed to having sound corporate governance principles. Having such principles is essential to running HP's business efficiently and to maintaining HP's integrity in the marketplace. HP's Corporate Governance Guidelines and Standards of Business Conduct are available at <http://www.hp.com/hpinfo/investor/main.htm>.

Board Independence

The Board has determined that each of the current directors standing for re-election, except the Chairman of the Board and Chief Executive Officer, and the new candidate for election as director, Robert L. Ryan, has no material relationship with HP (either directly or as a partner, shareholder or officer of an organization that has a relationship with HP) and is independent within the meaning of HP's director independence standards, which reflect exactly New York Stock Exchange ("NYSE") and NASDAQ Stock Market, Inc. ("NASDAQ") director independence standards, as currently in effect and as they may be changed from time to time. Furthermore, the Board has determined that each of the members of each of the committees has no material relationship with HP (either directly or as a partner, shareholder or officer of an organization that has a relationship with HP) and is "independent" within the meaning of HP's director independence standards.

Board Structure and Committee Composition

As of the date of this proxy statement, our Board has 11 directors and the following five committees: (1) Audit, (2) Finance and Investment, (3) HR and Compensation, (4) Nominating and Governance, and (5) Technology. The membership during the last fiscal year and the function of each of the committees are described below. Each of the committees operates under a written charter adopted by the Board. All of the committee charters are available on HP's website at <http://www.hp.com/hpinfo/investor/main.html>. During fiscal 2003, the Board held eight meetings. Each director attended at least 75% of all Board and applicable Committee meetings, except that Mr. Litvack was present at approximately 63% of applicable Board and Committee meetings. Directors are encouraged to attend annual meetings of HP shareowners. Two directors attended the last annual meeting of shareowners.

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| Name of Director | Audit | Finance and Investment | HR and Compensation | Nominating and Governance | Technology |
|--|-----------|------------------------|---------------------|---------------------------|------------|
| Non-Employee Directors: | | | | | |
| Lawrence T. Babbio, Jr. ⁽¹⁾ | X | X* | | | (X) |
| Philip M. Condit | | | X* | X | |
| Patricia C. Dunn | X* | X | | | |
| Sam Ginn | | | X | X* | |
| Richard A. Hackborn ⁽²⁾ | (X) | | | | X |
| Dr. George A. Keyworth II | X | | | | X |
| Robert E. Knowling, Jr. | X | X | | | |
| Sanford M. Litvack | X | X | | | |
| Thomas J. Perkins | | | X | | X* |
| Lucille S. Salhany | | | X | X | |
| Employee Director | | | | | |
| Carleton S. Fiorina | | | | | |
| Number of Meetings in Fiscal 2003 | 26 | 6 | 9 | 6 | 6 |

X = Committee member; * = Chair; (X) = Former Committee member;

- (1) Mr. Babbio's first meeting as a member of the Audit Committee was May 15, 2003, and his last meeting as a member of the Technology Committee was March 20, 2003.
- (2) Mr. Hackborn's last meeting as a member of the Audit Committee was March 20, 2003.

Audit Committee

HP has a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of the integrity of HP's financial statements, HP's compliance with legal and regulatory requirements, the independent auditors' qualifications and independence, the performance of HP's internal audit function and independent auditors, and risk assessment and risk management. Among other things, the Audit Committee prepares the Audit Committee report for inclusion in the annual proxy statement; annually reviews the Audit Committee charter and the committee's performance; appoints, evaluates and determines the compensation of HP's independent auditors; reviews and approves the scope of the annual audit, the audit fee and the financial statements; reviews HP's disclosure controls and procedures, internal controls, information security policies, internal audit function, and corporate policies with respect to financial information and earnings guidance; oversees investigations into complaints concerning financial matters; and reviews other risks that may have a significant impact on HP's financial statements. The Audit Committee works closely with management as well as HP's independent auditors. The Audit Committee has the authority to obtain advice and assistance from, and receive appropriate funding from HP for, outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties.

The report of the Audit Committee is included herein on page 52. The charter of the Audit Committee is available at <http://www.hp.com/hpinfo/investor/main.htm> and is also included herein as Appendix A.

Finance and Investment Committee

The Finance and Investment Committee provides oversight of the policy, strategy and results of the investment of all assets held by, and liabilities with respect to (a) HP's U.S. pension and welfare benefit plan trusts in compliance with the Employee Retirement Income Security Act of 1974, as amended, and (b) the international pension plans of HP's subsidiaries and affiliates. It provides review or oversight regarding significant treasury matters such as capital structure, derivative policy, global liquidity, fixed income investments, borrowings, currency exposure, dividend policy, share issuance and repurchase, capital spending, and risk management identification and coverage. It provides oversight and approval of investments, acquisitions, divestitures, strategic alliances, loans, loan guaranties of third party debt and obligations, and outsourcings. It reviews HP Financial Services' capitalization and operations, including residual and credit management, risk concentration, and return on invested capital. It reviews the activities of Investor Relations and coordinates with the HR and Compensation Committee regarding the cost, funding and financial impact of equity and benefits.

The charter of the Finance and Investment Committee is available at <http://www.hp.com/hpinfo/investor/main.htm>.

HR and Compensation Committee

The HR and Compensation Committee discharges the Board's responsibilities relating to compensation of HP's executives and directors; produces an annual report on executive compensation for inclusion in HP's proxy statement; provides general oversight of HP's compensation structure, including HP's equity compensation plans and benefits programs; reviews and provides guidance on HP's HR programs; and retains and approves the terms of the retention of any compensation consultants and other compensation experts. Other specific duties and responsibilities of the HR and Compensation Committee include: evaluating human resources and compensation strategies and overseeing HP's total rewards program; reviewing the leadership development process; reviewing and approving objectives relevant to executive officer compensation, evaluating performance and determining the compensation of executive officers in accordance with those objectives; approving employment agreements for executive officers; approving and amending HP's incentive compensation and stock option programs (subject to shareowner approval if

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required); approving any changes to non-equity based benefit plans involving a material financial commitment by HP; monitoring global workforce management programs; recommending to the Board director compensation; monitoring director and executive stock ownership; and annually evaluating its performance and its charter.

The report of the HR and Compensation Committee is included herein beginning on page 45. The charter of the HR and Compensation Committee is available at <http://www.hp.com/hpinfo/investor/main.htm> and is also included herein as Appendix B.

Technology Committee

The Technology Committee assesses the health of HP's technology development and the scope and quality of HP's intellectual property. It makes recommendations to the Board as to scope, direction, quality, investment levels and execution of HP's technology strategies. It provides guidance on the execution of technology strategies formulated by HP's internal technology council and on technology as it may pertain to, among other things; market entry and exit; investments, mergers, acquisitions and divestitures; new business divisions and spin-offs; research and development investments; and key competitor and partnership strategies.

The charter of the Technology Committee is available at <http://www.hp.com/hpinfo/investor/main.htm>.

Nominating and Governance Committee

The Nominating and Governance Committee identifies individuals qualified to become Board members, consistent with criteria approved by the Board; oversees the organization of the Board to discharge the Board's duties and responsibilities properly and efficiently; and identifies best practices and recommends corporate governance principles, including giving proper attention and making effective responses to shareowner concerns regarding corporate governance. Other specific duties and responsibilities of the Nominating and Governance Committee include: annually assessing the size and composition of the Board; developing membership qualifications for Board committees; defining specific criteria for director independence; monitoring compliance with Board and Board committee membership criteria; annually reviewing and recommending directors for continued service; coordinating and assisting management and the Board in recruiting new members to the Board; annually, and together with the Chairman of the HR and Compensation Committee, evaluating the performance of the Chairman of the Board and CEO and presenting the results of the review to the Board and to the Chairman and CEO; reviewing and recommending proposed changes to HP's charter or bylaws and Board committee charters; assessing periodically and recommending action with respect to shareowner rights plans or other shareowner protections; recommending Board committee assignments; reviewing and approving any employee director standing for election for outside for-profit boards of directors; reviewing governance-related shareowner proposals and recommending Board responses; overseeing the evaluation of the Board and management; conducting a preliminary review of director independence and the financial literacy and expertise of Audit Committee members; and reviewing material or extraordinary claims for indemnification of employees. The Chair of the Nominating and Governance Committee receives communications directed to non-management directors.

The charter of the Nominating and Governance Committee is available at <http://www.hp.com/hpinfo/investor/main.htm> and is also included herein as Appendix C.

Consideration of Director Nominees

Shareowner nominees

The policy of the Nominating and Governance Committee is to consider properly submitted shareowner nominations for candidates for membership on the Board as described below under "Identifying and

Evaluating Nominees for Directors." In evaluating such nominations, the Nominating and Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and to address the membership criteria set forth under "Director Qualifications." Any shareowner nominations proposed for consideration by the Nominating and Governance Committee should include the nominee's name and qualifications for Board membership and should be addressed to:

Corporate Secretary
Hewlett-Packard Company
3000 Hanover Street
Palo Alto, CA 94304

In addition, the bylaws of HP permit shareowners to nominate directors for consideration at an annual shareowner meeting. For a description of the process for nominating directors in accordance with HP's bylaws, see "Questions and Answers about the Proxy Materials and the Annual Meeting What is the deadline to propose actions for consideration at next year's annual meeting of shareowners to nominate individuals to serve as directors?" on page 6.

Director Qualifications

HP's Corporate Governance Guidelines contain Board membership criteria that apply to Nominating and Governance Committee-recommended nominees for a position on HP's Board. Under these criteria, members of the Board should have the highest professional and personal ethics and values, consistent with longstanding HP values and standards. They should have broad experience at the policy-making level in business, government, education, technology or public interest. They should be committed to enhancing shareowner value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all director duties. Each director must represent the interests of all shareowners.

Identifying and Evaluating Nominees for Directors

The Nominating and Governance Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Nominating and Governance Committee regularly assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Nominating and Governance Committee considers various potential candidates for director. Candidates may come to the attention of the Nominating and Governance Committee through current Board members, professional search firms, shareowners or other persons. These candidates are evaluated at regular or special meetings of the Nominating and Governance Committee, and may be considered at any point during the year. As described above, the Nominating and Governance Committee considers properly submitted shareowner nominations for candidates for the Board. Following verification of the shareowner status of persons proposing candidates, recommendations are aggregated and considered by the Nominating and Governance Committee at a regularly scheduled meeting, which is generally the first or second meeting prior to the issuance of the proxy statement for HP's annual meeting. If any materials are provided by a shareowner in connection with the nomination of a director candidate, such materials are forwarded to the Nominating and Governance Committee. The Nominating and Governance Committee also reviews materials provided by professional search firms or other parties in connection with a nominee who is not proposed by a shareowner. In evaluating such nominations, the Nominating and Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board.

There is one nominee for election to our Board this year who has not previously served as an HP director, Robert L. Ryan. HP paid a fee to a professional search firm to identify and assist the Nominating and Governance Committee in identifying, evaluating and conducting due diligence on potential nominees, and

such firm identified and recommended Mr. Ryan and participated in various meetings of the Nominating and Governance Committee at which the nominee was discussed.

Executive Sessions

Executive sessions of non-management directors are held at least three times a year. The sessions are scheduled and chaired by the Chair of the Nominating and Governance Committee. Any non-management director can request that an additional executive session be scheduled.

Communications with the Board

Individuals may communicate with the Board by submitting an e-mail to HP's Board at bod@hp.com. All directors have access to this e-mail address. Communications that are intended specifically for non-management directors should be sent to the e-mail address above to the attention of the Chair of the Nominating and Governance Committee.

Policy regarding Shareowner Rights Plan

On July 21, 2003, the Board announced that it had adopted a policy that HP would submit any shareowner rights plan (also known as a "poison pill") to a shareowner vote, subject only to the ability of the Board to act on its own to adopt a rights plan if the Board, exercising its fiduciary duties under Delaware law, determines that such a submission would not be in the best interests of shareowners under the circumstances. HP's announcement followed the approval of a shareowner proposal at HP's 2003 annual meeting requesting that HP (1) redeem any poison pill previously issued, if applicable, and (2) not adopt or extend any poison pill unless such adoption or extension has been submitted to a shareholder vote. HP does not have a rights plan in place, having terminated its previously-existing rights plan effective January 21, 2003.

Policy regarding Future Severance Agreements with Senior Executives

On July 21, 2003, the Board also announced that it had adopted a policy (the "HP Severance Policy") that HP will seek shareowner approval for future severance agreements, if any, with senior executives that provide specified benefits in an amount exceeding 2.99 times the sum of the executive's current annual base salary plus annual target cash bonus, in each case as in effect immediately prior to the time of such executive's termination. In implementing the HP Severance Policy, the Board may elect to seek shareowner approval after the material terms of the relevant severance agreement are agreed upon. Senior executives subject to the HP Severance Policy are HP's executive officers for purposes of Section 16 of the Securities Exchange Act of 1934, as amended ("Senior Executives"). HP's announcement followed the approval of a shareowner proposal at HP's 2003 annual meeting requesting that the Board seek shareowner approval for future severance agreements with Senior Executives in an amount exceeding 2.99 times the executive's base salary plus bonus received. For a further description of the HP Severance Policy and related shareowner proposal considered at HP's 2003 annual meeting, see "Employment Contacts, Termination of Employment and Change-in-Control Arrangements HP Severance Policy for Senior Executives" on page 40.

DIRECTOR COMPENSATION AND STOCK OWNERSHIP GUIDELINES

The following table provides information on HP's compensation and reimbursement practices during fiscal 2003 for non-employee directors, as well as the range of compensation paid to non-employee directors who served during 2003 fiscal year. Ms. Fiorina did not receive any separate compensation for her Board activities.

| NON-EMPLOYEE DIRECTOR COMPENSATION TABLE FOR FISCAL 2003 | |
|--|-----------------------|
| Annual retainer | \$100,000 |
| Minimum percentage of annual retainer to be paid in HP securities ⁽¹⁾ | 75% ⁽²⁾ |
| Additional retainer for Chair of any committee | \$5,000 |
| Reimbursement for expenses attendant to Board membership | Yes |
| Range of total compensation earned by directors (for the year) | \$100,000 - \$105,000 |

(1) Each director may elect to receive the securities portion of the annual retainer in a grant of stock or stock options.

(2) Under special circumstances, less than 75% may be paid in securities.

Under HP's stock ownership guidelines for directors, all directors are required to accumulate over time shares of HP stock equal in value to at least twice the value of the annual retainer.

In November 2003, upon the recommendation of the HR and Compensation Committee following its review of market data and other considerations, the Board approved an increase in director compensation. The increase in compensation will be effective upon the election of directors at the HP 2004 annual meeting of shareowners. At that time, the annual retainer will be \$200,000, the additional retainer for the Chair of the Audit Committee will be \$15,000 and for the Chair of other committees will be \$10,000, and directors will receive an additional \$2,000 for each Board or committee meeting attended in excess of six per year.

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PROPOSALS TO BE VOTED ON

PROPOSAL NO. 1

ELECTION OF DIRECTORS

There are nine nominees for election to our Board this year. All of the nominees except Robert L. Ryan have served as directors since the last annual meeting. Information regarding the business experience of each nominee is provided below. Each director is elected annually to serve until the next annual meeting and until his or her successor is elected. There are no family relationships among our executive officers and directors.

If you sign your proxy or voting instruction card but do not give instructions with respect to the voting of directors, your shares will be voted for the nine persons recommended by the Board. If you wish to give specific instructions with respect to the voting of directors, you may do so by indicating your instructions on your proxy or voting instruction card.

You may cumulate your votes in favor of one or more directors. If you wish to cumulate your votes, you will need to indicate explicitly your intent to cumulate your votes among the nine persons who will be voted upon at the annual meeting. See "Questions and Answers About the Proxy Materials and the Annual Meeting Is cumulative voting permitted for the election of directors?" on page 5 for further information about how to cumulate your votes. Carleton S. Fiorina and Ann O. Baskins, as proxyholders, reserve the right to cumulate votes and cast such votes in favor of the election of some or all of the applicable nominees in their sole discretion, except that a shareowner's votes will not be cast for a nominee as to which such shareowner instructs that such votes be withheld.

The Board expects that all of the nominees will be available to serve as directors. In the event that any nominee should become unavailable, however, the proxyholders, Carleton S. Fiorina and Ann O. Baskins, will vote for a nominee or nominees designated by the Board, unless the Board chooses to reduce the number of directors serving on the Board.

The Board has approved an amendment to HP's bylaws, effective upon the election of directors at the annual meeting, to provide that the exact number of directors shall be nine. Votes may not be cast for a greater number of director nominees than nine.

Our Board recommends a vote FOR the election to the Board of the each of the following nominees.

Vote Required

The nine persons receiving the highest number of "for" votes represented by shares of HP common stock present in person or represented by proxy and entitled to be voted at the annual meeting will be elected.

Lawrence T. Babbio, Jr.
Director since 2002
Age 59

Mr. Babbio has served as Vice Chairman and President of Verizon Communications, Inc. (formerly Bell Atlantic Corporation) since 2000. In 1997 he was elected President and Chief Operating Officer Network Group, and Chairman Global Wireless Group of Bell Atlantic. Mr. Babbio was a director of Compaq from 1995 until the date of the Compaq acquisition. Mr. Babbio is also a director of ARAMARK Corporation.

Patricia C. Dunn
Director since 1998
Age 50

Ms. Dunn was elected Vice Chairman of Barclays Global Investors (BGI) in 2002 and served as its Co-Chairman, Chairman and Chief Executive Officer from October 1995 through June 2002. Ms. Dunn advises on strategy and key business issues for BGI, the world's largest institutional investment manager. She joined the firm's predecessor organization, Wells Fargo Investment Advisors, in 1978.

Carleton S. Fiorina
Director since 1999
Age 49

Ms. Fiorina serves as Chairman of the Board and Chief Executive Officer of HP. She became Chairman of the Board in September 2000 after serving as President, Chief Executive Officer and director since July 1999. Prior to joining HP, she spent nearly 20 years at AT&T Corp. and Lucent Technologies, Inc. where she served as Executive Vice President, Computer Operations for Lucent and oversaw the formation and spin-off of Lucent from AT&T. She also served as Lucent's President, Global Service Provider Business and President, Consumer Products.

Richard A. Hackborn
Director since 1992
Age 66

Mr. Hackborn served as HP's Chairman of the Board from January 2000 to September 2000. He was HP's Executive Vice President, Computer Products Organization from 1990 until his retirement in 1993 after a 33-year career with HP.

Dr. George A. Keyworth II
Director since 1986
Age 64

Dr. Keyworth was Science Advisor to the President and Director of the White House's Office of Science and Technology Policy from 1981 to 1986. He has been Chairman and Senior Fellow with The Progress & Freedom Foundation, a public policy research institute, since 1995. He is a director of General Atomics. Dr. Keyworth holds various honorary degrees and is an honorary professor at Fudan University in Shanghai, People's Republic of China.

Robert E. Knowling, Jr.
Director since 2000
Age 48

In January 2003, Mr. Knowling became Chief Executive Officer of the New York City Leadership Academy at the New York City Board of Education. From February 2001 to January 2003, Mr. Knowling served as the Chairman and Chief Executive Officer of Simdesk Technologies Inc., a software development company specializing in ASP-based productivity suites provided through the Internet. From July 1998 through October 2000, he was President and Chief Executive Officer of Covad Communications Company, a national broadband service provider of high speed Internet and network access using DSL technology. He also served as Chairman of Covad from September 1999 to October 2000. In August 2001, Covad filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. Mr. Knowling is a director of Ariba, Inc. and Heidrick & Struggles International, Inc. He also serves as a member of the advisory board for both Northwestern University's Kellogg Graduate School of Management and the University of Michigan Graduate School of Business.

Sanford M. Litvack
Director since 2002
Age 67

Mr. Litvack has been a partner with Quinn Emanuel Urquhart Oliver & Hedges, LLP, a law firm, since January 2003. From March 2001 to December 2002 he was of counsel with the law firm of Dewey Ballantine LLP. Mr. Litvack served as Vice Chairman of the Board of The Walt Disney Company from 1999 to 2000. From 1994 until his appointment as Vice Chairman, he served as Senior Executive Vice

President and Chief of Corporate Operations at Disney. Mr. Litvack was a director of Compaq from 2001 until the date of the Compaq acquisition.

Robert L. Ryan
Director Nominee
Age 60

Robert L. Ryan has been Senior Vice President and Chief Financial Officer of Medtronic, Inc., a medical technology company, since 1993. He is currently a director of Abbott Northwestern Hospital, UnitedHealth Group and Brunswick Corporation.

Lucille S. Salhany
Director since 2002
Age 57

Ms. Salhany has been the President and CEO of JHMedia, a consulting company, since March 2002. Ms. Salhany has consulted for such clients as Macy's, NASA and Chris Craft Industries. From 1999 to March 2002, she was President and CEO of LifeFX Networks, Inc. In May 2002, LifeFX Networks Inc. filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. From 1997 to 1999, Ms. Salhany started and was President and CEO of JHMedia. Ms. Salhany was a director of Compaq from 1997 until the Compaq acquisition. She is also a director of Boston Restaurant Associates. She is a trustee of The Hillside School and Emerson College.

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PROPOSAL NO. 2

RATIFICATION OF INDEPENDENT AUDITORS

The Audit Committee of the Board has appointed Ernst & Young LLP as independent auditors to audit HP's consolidated financial statements for the fiscal year ending October 31, 2004. During fiscal 2003, Ernst & Young served as HP's independent auditors and also provided certain tax and other audit related services. See "Principal Auditor Fees and Services" on page 51. Representatives of Ernst & Young are expected to attend the meeting, where they are expected to be available to respond to appropriate questions and, if they desire, to make a statement.

Our Board recommends a vote FOR the ratification of the appointment of Ernst & Young LLP as HP's independent auditors for the 2004 fiscal year. If the appointment is not ratified, the Board will consider whether it should select other independent auditors.

Vote Required

Ratification of the appointment of Ernst & Young LLP as HP's independent auditors for fiscal 2004 requires the affirmative vote of a majority of the shares of HP common stock present in person or represented by proxy and entitled to be voted at the meeting.

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PROPOSAL NO. 3

APPROVAL OF THE HEWLETT-PACKARD COMPANY 2004 STOCK INCENTIVE PLAN

On January 15, 2004, the HR and Compensation Committee of the Board approved the Hewlett-Packard Company 2004 Stock Incentive Plan (the "Stock Plan") under which 180,000,000 shares of common stock will be reserved for issuance (approximately 6% of the outstanding shares as of December 31, 2003). The Stock Plan will not become effective until it is approved by HP's shareowners. In accordance with applicable stock exchange listing standards, the Board is asking HP shareowners to approve the Stock Plan so that HP may use the shares of the Stock Plan to assist HP in achieving its goals of increasing profitability and shareowner value, while also receiving a federal income tax deduction for certain compensation paid under the Stock Plan under Section 162(m) of the Internal Revenue Code, as amended, (the "Code") and for qualifying such shares for special tax treatment under section 422 of the Code.

The Stock Plan has a number of special terms and limitations, including:

the exercise price of an option may not be reduced without shareowner approval (other than in connection with a change in HP's capitalization);

shares subject to awards that are canceled, forfeited or expired will not be available for re-grant in the Stock Plan;

only 5 million shares of the 180 million shares subject to the Stock Plan may be granted as options with an exercise price of no less than 75% of the fair market value of the common stock on the grant date;

only 100 million shares of the 180 million shares subject to the Stock Plan may be granted pursuant to stock awards;

no employee may be granted, in any calendar year, awards covering more than 1,500,000 shares, except that, in connection with his or her initial employment with HP, an employee may be granted awards covering up to an additional 1,500,000 shares;

non-employee directors may not participate in the Stock Plan; and

shareowner approval is required for certain types of amendments to the Stock Plan.

Our Board recommends a vote FOR the approval of the Hewlett-Packard Company 2004 Stock Incentive Plan.

Vote Required

Approval of the Stock Plan requires the affirmative vote of a majority of the shares of HP common stock present in person or represented by proxy and entitled to be voted on the proposal at the annual meeting.

SUMMARY OF THE STOCK PLAN

GENERAL. The purpose of the Stock Plan is to encourage ownership in HP by key personnel whose long-term employment is considered essential to HP's continued progress and thereby align participants' and shareowners' interests. Stock options and stock awards, including stock units and cash awards, may be granted under the Stock Plan. Options granted under the Stock Plan may be either "incentive stock options," as defined in Section 422 of the Code, or non-statutory stock options.

ADMINISTRATION. The Stock Plan may be administered by the Board, a Committee

appointed by the Board or its delegate (as applicable, the "Administrator").

ELIGIBILITY. Awards may be granted under the Stock Plan to employees of HP and its affiliates. Incentive stock options may be granted only to employees of HP or its subsidiaries. There are approximately 142,000 employees eligible to receive awards under the Stock Plan. The Administrator, in its discretion, selects the employees to whom awards may be granted, the time or times at which such awards are granted, and the terms of such awards.

SECTION 162(m) LIMITATIONS. Section 162(m) of the Code generally disallows a tax deduction to public companies for compensation in excess of \$1 million paid to HP's Chief Executive Officer or any of the four other most highly compensated officers. Certain performance-based compensation is specifically exempt from the deduction limit if it otherwise meets the requirements of Section 162(m). One of the requirements for equity compensation plans is that there must be a limit to the number of shares granted to any one individual under the plan. Accordingly, the Stock Plan provides that no employee may be granted more than 1,500,000 shares in any calendar year, except that an

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employee may be granted awards covering up to an additional 1,500,000 shares in connection with his or her initial employment with HP. The maximum amount payable pursuant to that portion of a cash award granted under the Stock Plan for any fiscal year to any employee that is intended to satisfy the requirements for "performance-based compensation" under Section 162(m) of the Code may not exceed U.S. \$15,000,000. Shareowner approval of this proposal will constitute shareowner approval of these limitations for Section 162(m) purposes.

OTHER LIMITATIONS: No more than 180,000,000 shares may be issued under the Stock Plan pursuant to incentive stock options. No more than 100,000,000 shares may be granted under the Stock Plan as stock awards. No more than 5,000,000 shares may be granted under the Stock Plan as discounted non-statutory stock options.

TERMS AND CONDITIONS OF OPTIONS. Each option is evidenced by a stock option agreement between HP and the optionee and is subject to the following additional terms and conditions.

Exercise Price. The Administrator determines the exercise price of options at the time the options are granted. The exercise price of an incentive stock option may not be less than 100% of the fair market value of the common stock on the date such option is granted. The exercise price of a non-statutory stock option may not be less than 75% of the fair market value of the common stock on the date such option is granted, although certain replacement options with lower exercise prices may be granted to service providers of entities acquired by HP. The fair market value of the common stock is determined as the average of the highest and lowest quoted sales prices for the common stock on the date the option is granted (or if no sales were reported that day, the last preceding day a sale occurred). As of December 31, 2003, the average of the highest and lowest quoted sales prices of common stock was \$22.89 per share. No option may be repriced to reduce the exercise price of such option without shareowner approval (except in connection with a change in HP's capitalization).

Exercise of Option; Form of Consideration. The Administrator determines when options become exercisable and in its discretion may accelerate the vesting of any outstanding option. The means of payment for shares issued upon exercise of an option are specified in each option agreement. The Stock Plan permits payment to be made by cash, check, wire transfer, other shares of common stock of HP (with some restrictions), broker assisted same-day sales, any other form of consideration permitted by applicable law, or any combination thereof.

Term of Option. The term of an option may be no more than ten years from the date of grant or 10¹/₂ years in certain jurisdictions outside of the United States. No option may be exercised after the expiration of its term.

Termination of Employment. If an optionee's employment terminates for any reason (other than as described below), then all options held by the optionee under the Stock Plan generally will terminate immediately upon the optionee's termination.

Death, Disability or Retirement Due to Age. Generally, if an optionee's employment terminates as a result of the optionee's death, then all

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invested options will immediately vest and all options may be exercised for one year following the optionee's death. Generally, if an optionee's employment terminates as a result of the optionee's disability or retirement due to age, then all unvested options will immediately vest and the optionee may exercise the option within three years of the date of such disability or retirement for a non-statutory stock option, and within three months of the date of such disability or retirement for an incentive stock option, provided that no option may be exercised after the expiration of its term.

Voluntary Severance Incentive Program. Generally, if an optionee ceases to be an employee as a result of participation in voluntary severance incentive program of HP or a subsidiary, all unvested options will immediately vest and all outstanding options will be exercisable for three months following the optionee's termination.

Divestitures or Workforce Restructuring. If an employee ceases to be a participant because of a divestiture by HP or termination as part of a workforce restructuring program, as determined by the Administrator, the Administrator will have the sole discretion to accelerate the vesting of outstanding options and determine the time period for exercise.

Other Provisions. The stock option agreement may contain other terms, provisions and conditions not inconsistent with the Stock Plan, as may be determined by the Administrator.

TERMS AND CONDITIONS OF STOCK AWARDS. Each stock award agreement will contain provisions regarding (1) the number of shares subject to such stock award or a formula for determining such number, (2) the purchase price of the shares, if any, and the means of payment for the shares, (3) the performance criteria, if any, and level of achievement versus these criteria that will determine the number of shares granted, issued, retainable and vested, as applicable, (4) such terms and conditions on the grant, issuance, vesting and forfeiture of the

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shares, as applicable, as may be determined from time to time by the Administrator, (5) restrictions on the transferability of the stock award, and (6) such further terms and conditions, in each case not inconsistent with the Stock Plan, as may be determined from time to time by the Administrator.

Termination of Employment. In the case of stock awards, including stock units, unless the Administrator determines otherwise, the restricted stock or restricted stock unit agreement will provide that the unvested stock or stock units will be forfeited upon the awardee's termination of employment for any reason (except death, disability, retirement, or participation in a voluntary severance incentive program). Upon disability or retirement due to age, the forfeiture provisions of the restricted stock and restricted stock units may continue to lapse under certain circumstances. Upon the death of an awardee, or if an awardee's employment is terminated due to a voluntary severance incentive program of HP or a subsidiary, then the forfeiture provisions lapse as to a prorated amount based on the awardee's length of service since the grant of the restricted stock or restricted stock units. If an employee is terminated