

HEWLETT PACKARD CO  
Form 10-Q  
June 08, 2010

[QuickLinks](#) -- Click here to rapidly navigate through this document

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

---

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: April 30, 2010

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-4423

**HEWLETT-PACKARD COMPANY**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-1081436**  
(I.R.S. employer  
identification no.)

**3000 Hanover Street, Palo Alto, California**  
(Address of principal executive offices)

**94304**  
(Zip code)

**(650) 857-1501**  
(Registrant's telephone number, including area code)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of HP common stock outstanding as of May 31, 2010 was 2,334,496,184 shares.

---

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**  
**INDEX**

		<b>Page No.</b>
Part I.	Financial Information	
	Item 1. Financial Statements	3
	Consolidated Condensed Statements of Earnings for the three and six months ended April 30, 2010 and 2009 (Unaudited)	3
	Consolidated Condensed Balance Sheets as of April 30, 2010 (Unaudited) and as of October 31, 2009 (Audited)	4
	Consolidated Condensed Statements of Cash Flows for the six months ended April 30, 2010 and 2009 (Unaudited)	5
	Notes to Consolidated Condensed Financial Statements (Unaudited)	6
	Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	55
	Item 3. Quantitative and Qualitative Disclosures About Market Risk	89
	Item 4. Controls and Procedures	89
Part II.	Other Information	
	Item 1. Legal Proceedings	90
	Item 1A. Risk Factors	90
	Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	90
	Item 6. Exhibits	90
	Signature	91
	Exhibit Index	92
	<b>Forward-Looking Statements</b>	

*This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Hewlett-Packard Company and its consolidated subsidiaries ("HP") may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of revenue, margins, expenses, tax provisions, earnings, cash flows, benefit obligations, share repurchases, currency exchange rates, the impact of acquisitions or other financial items; any statements of the plans, strategies and objectives of management for future operations, including the execution of cost reduction programs and restructuring plans; any statements concerning expected development, performance or market share relating to products or services; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include macroeconomic and geopolitical trends and events; the execution and performance of contracts by HP and its customers, suppliers and partners; the challenge of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; assumptions related to pension and other post-retirement costs; expectations and assumptions relating to the execution and timing of cost reduction programs and restructuring plans; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including but not limited to the items discussed in "Factors that Could Affect Future Results" set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report, and that are otherwise described from time to time in HP's Securities and Exchange Commission reports, including HP's Annual Report on Form 10-K for the fiscal year ended October 31, 2009. HP assumes no obligation and does not intend to update these forward-looking statements.*

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Consolidated Condensed Statements of Earnings

(Unaudited)

Three months ended  
April 30

Six months ended  
April 30

2010 2009 2010 2009

In millions, except per share amounts

Net revenue:				
Products	\$ 20,570	\$ 17,418	\$ 41,573	\$ 36,047
Services	10,172	9,875	20,239	19,964
Financing income	107	90	214	179
<b>Total net revenue</b>	<b>30,849</b>	<b>27,383</b>	<b>62,026</b>	<b>56,190</b>
Costs and expenses:				
Cost of products	15,859	13,361	32,206	27,529
Cost of services	7,669	7,500	15,305	15,319
Financing interest	73	84	152	170
Research and development	722	716	1,403	1,448
Selling, general and administrative	3,064	2,880	5,996	5,773
Amortization of purchased intangible assets	347	380	677	792
In-process research and development charges				6
Restructuring charges	180	94	311	240
Acquisition-related charges	77	75	115	123
<b>Total operating expenses</b>	<b>27,991</b>	<b>25,090</b>	<b>56,165</b>	<b>51,400</b>
<b>Earnings from operations</b>	<b>2,858</b>	<b>2,293</b>	<b>5,861</b>	<b>4,790</b>
Interest and other, net	(91)	(180)	(290)	(412)
<b>Earnings before taxes</b>	<b>2,767</b>	<b>2,113</b>	<b>5,571</b>	<b>4,378</b>
Provision for taxes	567	392	1,121	801
<b>Net earnings</b>	<b>\$ 2,200</b>	<b>\$ 1,721</b>	<b>\$ 4,450</b>	<b>\$ 3,577</b>
Net earnings per share:				
Basic	\$ 0.94	\$ 0.72	\$ 1.89	\$ 1.49
Diluted	\$ 0.91	\$ 0.71	\$ 1.84	\$ 1.46
Cash dividends declared per share	\$	\$	\$ 0.16	\$ 0.16
Weighted-average shares used to compute net earnings per share:				
Basic	2,345	2,394	2,352	2,402

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Diluted	2,406	2,438	2,412	2,448
---------	-------	-------	-------	-------

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets

April 30,            October 31,  
2010                    2009  
In millions, except par value  
(Unaudited)

<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 14,131	\$ 13,279
Short-term investments	39	55
Accounts receivable	14,753	16,537
Financing receivables	2,795	2,675
Inventory	6,436	6,128
Other current assets	13,541	13,865
<b>Total current assets</b>	<b>51,695</b>	<b>52,539</b>
Property, plant and equipment	11,242	11,262
Long-term financing receivables and other assets	11,726	11,289
Goodwill	34,312	33,109
Purchased intangible assets	7,019	6,600
<b>Total assets</b>	<b>\$ 115,994</b>	<b>\$ 114,799</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable and short-term borrowings	\$ 3,934	\$ 1,850
Accounts payable	13,350	14,809
Employee compensation and benefits	3,410	4,071
Taxes on earnings	1,043	910
Deferred revenue	6,526	6,182
Accrued restructuring	700	1,109
Other accrued liabilities	13,308	14,072
<b>Total current liabilities</b>	<b>42,271</b>	<b>43,003</b>
Long-term debt	13,728	13,980
Other liabilities	16,183	17,052 <sup>(1)</sup>
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' equity		
Preferred stock, \$0.01 par value (300 shares authorized; none issued)		
Common stock, \$0.01 par value (9,600 shares authorized; 2,345 and 2,365 shares issued and outstanding, respectively)	23	24
Additional paid-in capital	14,613	13,804
Retained earnings	31,631	29,936
Accumulated other comprehensive loss	(2,756)	(3,247)
<b>Total HP stockholders' equity</b>	<b>43,511</b>	<b>40,517</b>
Noncontrolling interests	301	247 <sup>(1)</sup>

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Total stockholders' equity	43,812	40,764
Total liabilities and stockholders' equity	\$ 115,994	\$ 114,799

---

(1) Reflects the adoption of the accounting standard related to the presentation of noncontrolling interests in consolidated financial statements.

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Consolidated Condensed Statements of Cash Flows

(Unaudited)

Six months ended  
April 30

2010      2009

In millions

Cash flows from operating activities:		
Net earnings	\$ 4,450	\$ 3,577
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,346	2,367
Stock-based compensation expense	381	351
Provision for doubtful accounts    accounts and financing receivables	111	211
Provision for inventory	82	137
In-process research and development charges		6
Restructuring charges	311	240
Deferred taxes on earnings	(286)	52
Excess tax benefit from stock-based compensation	(263)	(28)
Other, net	149	61
Changes in operating assets and liabilities:		
Accounts and financing receivables	1,709	1,776
Inventory	(190)	1,987
Accounts payable	(1,548)	(3,506)
Taxes on earnings	726	904
Restructuring	(783)	(548)
Other assets and liabilities	(1,697)	(1,497)
Net cash provided by operating activities	5,498	6,090
Cash flows from investing activities:		
Investment in property, plant and equipment	(1,771)	(1,658)
Proceeds from sale of property, plant and equipment	268	250
Purchases of available-for-sale securities and other investments	(28)	(55)
Maturities and sales of available-for-sale securities and other investments	103	103
Payments made in connection with business acquisitions, net	(2,512)	(348)
Net cash used in investing activities	(3,940)	(1,708)
Cash flows from financing activities:		
Issuance (payments) of commercial paper and notes payable, net	1,855	(4,449)
Issuance of debt	50	4,778
Payment of debt	(244)	(110)
Issuance of common stock under employee stock plans	2,266	493
Repurchase of common stock	(4,511)	(2,039)
Excess tax benefit from stock-based compensation	263	28
Dividends	(385)	(385)
Net cash used in financing activities	(706)	(1,684)



Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Increase in cash and cash equivalents	852	2,698
Cash and cash equivalents at beginning of period	13,279	10,153

Cash and cash equivalents at end of period	\$ 14,131	\$ 12,851
--	-----------	-----------

Supplemental schedule of non-cash investing and financing activities:

Issuance of common stock and stock awards assumed in business acquisitions	\$ 61	\$
Purchase of assets under financing arrangement	\$	\$ 272
Purchase of assets under capital lease	\$ 92	\$ 41

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements**

**(Unaudited)**

**Note 1: Basis of Presentation and Changes in Significant Accounting Policies**

In the opinion of management, the accompanying Consolidated Condensed Financial Statements of Hewlett-Packard Company and its consolidated subsidiaries ("HP") contain all adjustments, including normal recurring adjustments, necessary to present fairly HP's financial position as of April 30, 2010, its results of operations for the three and six months ended April 30, 2010 and 2009 and its cash flows for the six months ended April 30, 2010 and 2009. The Consolidated Condensed Balance Sheet as of October 31, 2009 is derived from the October 31, 2009 audited consolidated financial statements. Certain reclassifications have been made to prior-period amounts in order to conform to the current period presentation.

The results of operations for the three and six months ended April 30, 2010 are not necessarily indicative of the results to be expected for the full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk" and the Consolidated Financial Statements and notes thereto included in Items 1A, 3, 7, 7A and 8, respectively, of the Hewlett-Packard Company Annual Report on Form 10-K for the fiscal year ended October 31, 2009.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in HP's Consolidated Condensed Financial Statements and accompanying notes. Actual results could differ materially from those estimates.

*Accounting Pronouncements*

The following disclosure on accounting pronouncements includes those that may apply to the historical financial statements.

In December 2007, the Financial Accounting Standards Board ("FASB") issued a new accounting standard related to business combinations that expands the definition of a "business" and a "business combination"; requires recognition of assets acquired, liabilities assumed, and contingent consideration at their fair value on the acquisition date and through the defined measurement period with subsequent changes recognized in earnings; requires acquisition-related expenses and restructuring costs to be recognized separately from the business combination and expensed as incurred; requires in-process research and development ("IPR&D") to be capitalized initially at fair value as an indefinite-lived intangible asset; and requires that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of provision for taxes. The standard also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. In November 2008, the FASB issued a new accounting standard related to defensive intangible assets. Defensive intangible assets are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. Under this standard, defensive intangible assets must be initially recognized at fair value and amortized over the benefit period. In April 2009, the FASB issued an accounting standard which clarified the accounting for pre-acquisition contingencies. HP adopted all of these standards in the first quarter of fiscal 2010. The impact of these standards depends on the size and nature of the business combinations completed after the effective date.

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 1: Basis of Presentation and Changes in Significant Accounting Policies (Continued)**

In December 2007, the FASB issued a new accounting standard related to noncontrolling interests. The standard establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interests, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The standard also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. In January 2010, the FASB issued Accounting Standards Update No. 2010-02, "Consolidation: Accounting and Reporting for Decreases in Ownership of a Subsidiary a Scope Clarification." This update clarifies the scope of the decrease in ownership provisions and also requires expanded disclosures. HP adopted these standards in the first quarter of fiscal 2010 with retrospective application of the presentation and disclosure requirements. Noncontrolling interests of \$247 million at October 31, 2009 were reclassified from Other liabilities to Stockholders' equity in the Consolidated Condensed Balance Sheet as of October 31, 2009. Income attributable to noncontrolling interests was immaterial for the three and six months ended April 30, 2010 and April 30, 2009.

In June 2008, the FASB issued a new accounting standard that clarifies when instruments granted in share-based payment transactions should be included in computing earnings per share ("EPS"). Under the new standard, companies are required to include unvested share-based payment awards that contain non-forfeitable rights to receive dividends in their calculation of basic EPS and are required to calculate basic EPS using the "two-class method." The two-class method of computing EPS is an earnings allocation formula that determines EPS for each class of common stock and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. HP adopted this new accounting standard on a retrospective basis in the first quarter of fiscal 2010. The adoption did not have a material impact on EPS for the three and six months ended April 30, 2010 and April 30, 2009.

**Note 2: Stock-Based Compensation**

HP's stock-based compensation plans include incentive compensation plans and an employee stock purchase plan. Incentive compensation plans include principal equity plans as well as various equity plans assumed through acquisitions. Principal equity plans include performance-based restricted units ("PRU"), stock options and restricted stock awards.

Total stock-based compensation expense before income taxes for the three and six months ended April 30, 2010 was \$200 million and \$381 million, respectively. The resulting income tax benefit for the three and six months ended April 30, 2010 was \$64 million and \$122 million, respectively. Total stock-based compensation expense before income taxes for the three and six months ended April 30, 2009 was \$191 million and \$351 million, respectively. The resulting income tax benefit for the three and six months ended April 30, 2009 was \$59 million and \$107 million, respectively.

*Performance-based Restricted Units*

In fiscal 2008, HP implemented a program that provides for the issuance of PRUs representing hypothetical shares of HP common stock. Under the PRU program, HP annually awards a target number of units at the beginning of each three-year performance period. The number of shares released at the end of the performance period will range from zero to two times the target number

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 2: Stock-Based Compensation (Continued)**

depending on performance during the period. The performance goals are based on HP's annual cash flow from operations as a percentage of revenue and average quarterly total shareholder return ("TSR") relative to the S&P 500 over the three-year performance period.

Recipients of PRU awards generally must remain employed by HP on a continuous basis through the end of the applicable three-year performance period in order to receive any portion of the shares subject to that award. The expense for these awards, net of estimated forfeitures, is recorded over the requisite service period based on the number of target shares that are expected to be earned and the achievement of the cash flow goals during the performance period.

HP estimates the fair value of a target PRU share using the Monte Carlo simulation model, as the TSR modifier contains a market condition. The following weighted-average assumptions were used to determine the weighted-average fair values of the PRU awards:

	Six months ended April 30	
	2010	2009
Weighted-average fair value of grants per share	\$ 57.13 <sup>(1)</sup>	\$ 40.56 <sup>(2)</sup>
Expected volatility <sup>(3)</sup>	38%	35%
Risk-free interest rate	0.73%	1.34%
Dividend yield	0.64%	0.88%
Expected life in months	22	30

(1) Reflects the weighted-average fair value for the third year of the three-year performance period applicable to PRUs granted in fiscal 2008, for the second year of the three-year performance period applicable to PRUs granted in fiscal 2009 and for the first year of the three-year performance period applicable to PRUs granted in fiscal 2010. The estimated fair value of a target share for the third year for PRUs granted in fiscal 2009 and for the second and third years for PRUs granted in fiscal 2010 will be determined on the measurement date applicable to those PRUs, which will be the date that the annual cash flow goals are approved for those PRUs, and the expense will be amortized over the remainder of the applicable three-year performance period.

(2) Reflects the weighted-average fair value for the second year of the three-year performance period applicable to PRUs granted in fiscal 2008 and for the first year of the three-year performance period applicable to PRUs granted in fiscal 2009.

(3) HP uses historic volatility for PRU awards as implied volatility cannot be used when simulating multivariate prices for companies in the S&P 500.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 2: Stock-Based Compensation (Continued)**

Non-vested PRUs as of April 30, 2010 and changes during the six months ended April 30, 2010 were as follows:

	Shares (in thousands)
Outstanding at October 31, 2009	24,723
Granted	7,278
Vested	
Change in units due to performance and market conditions	(531)
Forfeited	(1,041)
Outstanding at April 30, 2010	30,429
Outstanding PRUs assigned a fair value at April 30, 2010	21,526 <sup>(1)</sup>

(1)

Excludes target shares for the third year for PRUs granted in fiscal 2009 and for the second and third years for PRUs granted in fiscal 2010 as the measurement date has not yet been established. The measurement date and related fair value for the excluded PRUs will be established when the annual cash flow goals are approved.

At April 30, 2010, there was \$499 million of unrecognized pre-tax stock-based compensation expense related to PRUs with an assigned fair value, which HP expects to recognize over the remaining weighted-average vesting period of 1.4 years.

*Stock Options*

HP estimated the weighted-average fair value of stock options using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Three months ended April 30		Six months ended April 30	
	2010	2009	2010	2009
Weighted-average fair value of grants per share	\$ 14.12	\$ 11.99	\$ 14.19	\$ 13.53
Implied volatility	27%	46%	28%	49%
Risk-free interest rate	2.45%	1.84%	2.42%	1.81%
Dividend yield	0.61%	1.03%	0.61%	0.98%
Expected life in months	61	61	61	60

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 2: Stock-Based Compensation (Continued)**

Option activity as of April 30, 2010 and changes during the six months ended April 30, 2010 were as follows:

	Shares (in thousands)	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at October 31, 2009	233,214	\$ 33		
Granted and assumed through acquisition	2,320	\$ 45		
Exercised	(64,419)	\$ 34		
Forfeited/cancelled/expired	(8,790)	\$ 50		
<b>Outstanding at April 30, 2010</b>	<b>162,325</b>	<b>\$ 32</b>	<b>2.5</b>	<b>\$ 3,437</b>
Vested and expected to vest at April 30, 2010	161,355	\$ 32	2.5	\$ 3,427
<b>Exercisable at April 30, 2010</b>	<b>151,937</b>	<b>\$ 31</b>	<b>2.3</b>	<b>\$ 3,334</b>

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that option holders would have received had all option holders exercised their options on April 30, 2010. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of the second quarter of fiscal 2010 and the exercise price, multiplied by the number of in-the-money options. Total intrinsic value of options exercised for the three months and six months ended April 30, 2010 was \$0.6 billion and \$1.1 billion, respectively.

At April 30, 2010, there was \$117 million of unrecognized pre-tax stock-based compensation expense related to stock options, which HP expects to recognize over the remaining weighted-average vesting period of 1.4 years.

*Restricted Stock Awards*

Restricted stock awards are non-vested stock awards that include grants of restricted stock and grants of restricted stock units.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 2: Stock-Based Compensation (Continued)**

Non-vested restricted stock awards as of April 30, 2010 and changes during the six months ended April 30, 2010 were as follows:

	Shares (in thousands)	Weighted- Average Grant Date Fair Value Per Share
Outstanding at October 31, 2009	6,864	\$ 44
Granted and assumed through acquisition	2,409	\$ 53
Vested	(4,130)	\$ 45
Forfeited	(201)	\$ 47
<b>Outstanding at April 30, 2010</b>	<b>4,942</b>	<b>\$ 47</b>

At April 30, 2010, there was \$135 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards, which HP expects to recognize over the remaining weighted-average vesting period of 1.3 years.

**Note 3: Net Earnings Per Share**

HP calculates basic earnings per share using net earnings and the weighted-average number of shares outstanding during the reporting period. Diluted EPS includes any dilutive effect of outstanding stock options, PRUs, restricted stock units, and restricted stock.

The reconciliation of the numerators and denominators of the basic and diluted EPS calculations was as follows:

	Three months ended April 30		Six months ended April 30	
	2010	2009	2010	2009
	In millions, except per share amounts			
<b>Numerator:</b>				
Net earnings <sup>(1)</sup>	\$ 2,200	\$ 1,721	\$ 4,450	\$ 3,577
<b>Denominator:</b>				
Weighted-average shares used to compute basic EPS	2,345	2,394	2,352	2,402
Dilutive effect of employee stock plans	61	44	60	46
Weighted-average shares used to compute diluted EPS	2,406	2,438	2,412	2,448
<b>Net earnings per share:</b>				
Basic	\$ 0.94	\$ 0.72	\$ 1.89	\$ 1.49
Diluted	\$ 0.91	\$ 0.71	\$ 1.84	\$ 1.46

(1) Net earnings available to participating securities were not significant for the three and six months ended April 30, 2010 and 2009. HP considers restricted stock that provides the holder with a non-forfeitable right to receive dividends to be a participating security.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 3: Net Earnings Per Share (Continued)**

HP excludes options with exercise prices that are greater than the average market price from the calculation of diluted EPS because their effect would be anti-dilutive. For the three and six months ended April 30, 2010, HP excluded from the calculation of diluted EPS options to purchase 17 million shares and 18 million shares, respectively, compared to 110 million shares and 107 million shares, respectively, in the prior-year comparable periods. HP also excluded from the calculation of diluted EPS options to purchase an additional 2 million shares and 3 million shares in the second quarter and the first half of fiscal 2010, respectively, compared to an additional 1 million shares in the prior-year comparable periods, whose combined exercise price, unamortized fair value and excess tax benefits were greater in each of those periods than the average market price for HP's common stock because their effect would be anti-dilutive.

As discussed in Note 2, HP implemented the PRU program in fiscal 2008. HP includes the shares underlying PRU awards in the calculation of diluted EPS when they become contingently issuable and excludes such shares when they are not contingently issuable. Accordingly, for the three and six months ended April 30, 2010, HP has included 9 million shares underlying the PRU awards granted in fiscal 2009 and 2008 when calculating diluted EPS as those shares became contingently issuable upon the satisfaction of the cash flow from operations condition with respect to the first year of the three-year performance period applicable to the fiscal 2009 awards and the first and second years of the three-year performance period applicable to the fiscal 2008 awards. HP has excluded all other shares underlying the fiscal 2009 and 2008 PRU awards and all shares underlying the fiscal 2010 awards when calculating diluted EPS as those shares are not contingently issuable. For the three and six months ended April 30, 2009, HP has included 3 million shares and 2 million shares, respectively, underlying the PRU awards granted in fiscal 2008 when calculating diluted EPS as those shares became contingently issuable upon the satisfaction of the cash flow from operations condition with respect to the first year of the three-year performance period applicable to the fiscal 2008 awards. HP has excluded all other shares underlying the fiscal 2008 PRU awards and all shares underlying the fiscal 2009 awards when calculating diluted EPS as those shares were not contingently issuable.

**Note 4: Balance Sheet Details**

Balance sheet details were as follows:

*Accounts and Financing Receivables*

	April 30, 2010	October 31, 2009
	In millions	
Accounts receivable	\$ 15,306	\$ 17,166
Allowance for doubtful accounts	(553)	(629)
	\$ 14,753	\$ 16,537
Financing receivables	\$ 2,847	\$ 2,723
Allowance for doubtful accounts	(52)	(48)
	\$ 2,795	\$ 2,675



## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 4: Balance Sheet Details (Continued)**

HP has revolving trade receivables-based facilities permitting it to sell certain trade receivables to third parties on a non-recourse basis. The aggregate maximum capacity under these programs was \$507 million as of April 30, 2010. HP sold \$955 million of trade receivables during the first six months of fiscal 2010. As of April 30, 2010, HP had \$182 million available under these programs.

*Inventory*

	April 30, 2010	October 31, 2009
In millions		
Finished goods	\$ 4,311	\$ 4,092
Purchased parts and fabricated assemblies	2,125	2,036
	\$ 6,436	\$ 6,128

*Property, Plant and Equipment*

	April 30, 2010	October 31, 2009
In millions		
Land	\$ 527	\$ 513
Buildings and leasehold improvements	8,019	7,472
Machinery and equipment	13,222	12,959
	21,768	20,944
Accumulated depreciation	(10,526)	(9,682)
	\$ 11,242	\$ 11,262

**Note 5: Acquisitions**

In fiscal 2010, HP adopted a new accounting standard related to business combinations. HP has included the results of operations of the business that it acquired in fiscal 2010 in HP's consolidated results as of the date of the acquisition. HP allocates the purchase price of its acquisitions to the tangible assets, liabilities and intangible assets acquired, including IPR&D, based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. IPR&D is capitalized at fair value as an indefinite-lived intangible asset until the project is complete. Acquisition-related expenses and restructuring costs are recognized separately from the business combination and expensed as incurred. Measurement period adjustments that HP determines to be material will be applied retrospectively to the period of acquisition in HP's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected.

*3Com Acquisition*

On April 12, 2010, HP completed its acquisition of 3Com Corp ("3Com"), a global enterprise provider of networking switching, routing and security solutions, at a price of approximately \$7.90 per

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 5: Acquisitions (Continued)**

share in cash. The aggregate purchase price of approximately \$3.3 billion consisted of cash paid for outstanding common stock, vested in-the-money stock awards and the estimated fair value of earned unvested stock awards assumed by HP.

The purchase price allocation set forth in the table below reflects various preliminary fair value estimates and analyses, including preliminary work performed by third-party valuation specialists, which are subject to change within the measurement period as valuations are finalized. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of certain tangible assets and liabilities acquired, the valuation of intangible assets acquired, certain legal matters, income and non-income based taxes and residual goodwill. We expect to continue to obtain information to assist us in determining the fair value of the net assets acquired at the acquisition date during the measurement period.

	<b>In millions</b>
Cash and short-term investments	\$ 747
Accounts receivable	206
Inventory	200
Other tangible assets	81
Accounts payable, debt and other liabilities	(322)
Total net assets	912
Amortizable intangibles assets	987
In-process research and development	106
Goodwill	1,248
Total purchase price	\$ 3,253

HP reports the financial results of the 3Com business and the ProCurve Networking business in the Corporate Investments segment. Pro forma results of operations for 3Com have not been presented because the acquisition was not material to HP's consolidated results of operations. Goodwill, which represents the excess of the purchase price over the net tangible and intangible assets acquired, is not deductible for tax purposes. The amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives as follows:

	<b>In millions</b>	<b>Weighted-Average useful life</b>
Developed and core technology	\$ 619	4.0 years
Customer contracts, customer lists and distribution agreements	337	7.0 years
Product trademarks	31	4.4 years
Total amortizable intangible assets	\$ 987	

*Pending Acquisition*

On April 28, 2010, HP entered into a definitive agreement to purchase Palm, Inc. ("Palm"), a provider of smartphones powered by the Palm webOS mobile operating systems, for an enterprise value

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 5: Acquisitions (Continued)**

of approximately \$1.2 billion. The acquisition has received clearance from the U.S. Federal Trade Commission and all other required pre-closing antitrust approvals. The acquisition remains subject to other customary closing conditions, including the approval of Palm's stockholders. The transaction is expected to close during HP's third fiscal quarter of 2010.

**Note 6: Goodwill and Purchased Intangible Assets***Goodwill*

Goodwill allocated to HP's business segments as of April 30, 2010 and changes in the carrying amount of goodwill for the six months ended April 30, 2010 are as follows:

	Services	Enterprise Storage and Servers	HP Software	Personal Systems Group	Imaging and Printing Group	HP Financial Services	Corporate Investments	Total
In millions								
Balance at October 31, 2009	\$ 16,829	\$ 5,005	\$ 6,140	\$ 2,487	\$ 2,460	\$ 144	\$ 44	\$ 33,109
Goodwill acquired during the period							1,248	1,248
Goodwill adjustments	(7)	(29)	(2)	(5)	(2)			(45)
Balance at April 30, 2010	\$ 16,822	\$ 4,976	\$ 6,138	\$ 2,482	\$ 2,458	\$ 144	\$ 1,292	\$ 34,312

During the second quarter of fiscal 2010, HP recorded approximately \$1.2 billion of goodwill relating to 3Com at the date of the acquisition based on its preliminary purchase price allocation. During the six months ended April 30, 2010, HP recorded reductions to goodwill primarily for tax adjustments related to tax deductible stock-based awards for certain acquisitions for which the acquisition date was before the effective date of the new accounting standard for business combinations. The reduction to goodwill was partially offset by adjustments made for currency translation related to certain non-U.S. subsidiaries of Electronic Data Systems Corporation ("EDS") whose functional currency is not the U.S. dollar.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 6: Goodwill and Purchased Intangible Assets (Continued)

*Purchased Intangible Assets*

HP's purchased intangible assets associated with completed acquisitions are composed of:

	April 30, 2010			October 31, 2009		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	In millions					
Customer contracts, customer lists and distribution agreements	\$ 7,103	\$ (3,431)	\$ 3,672	\$ 6,763	\$ (3,034)	\$ 3,729
Developed and core technology and patents	4,789	(3,021)	1,768	4,171	(2,747)	1,424
Product trademarks	279	(228)	51	247	(222)	25
Total amortizable purchased intangible assets	12,171	(6,680)	5,491	11,181	(6,003)	5,178
IPR&D	106		106			
Compaq trade name	1,422		1,422	1,422		1,422
Total purchased intangible assets	\$ 13,699	\$ (6,680)	\$ 7,019	\$ 12,603	\$ (6,003)	\$ 6,600

Under the revised accounting standard adopted in the first quarter of fiscal 2010, IPR&D is capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. Upon completion of the development of the underlying marketable products, the capitalized IPR&D asset will be amortized over its estimated useful life.

Estimated future amortization expense related to finite lived purchased intangible assets at April 30, 2010 is as follows:

Fiscal year:	In millions
2010 (remaining six months)	\$ 759
2011	1,263
2012	1,059
2013	922
2014	584
Thereafter	904
Total	\$ 5,491

## Note 7: Restructuring Charges

*3Com Restructuring Plan*

In connection with the acquisition of 3Com on April 12, 2010, HP's management approved and initiated a \$39 million plan to restructure the operations of 3Com. During the three months ended April 30, 2010, \$15 million of severance costs were recorded related to this plan. The remaining \$24 million of costs relate to vacating duplicative facilities and other restructuring initiatives and will be paid out through fiscal 2016.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 7: Restructuring Charges (Continued)***Fiscal 2009 Restructuring Plan*

In May 2009, HP's management approved and initiated a restructuring plan to structurally change and improve the effectiveness of the Imaging and Printing Group ("IPG"), the Personal Systems Group ("PSG"), and Enterprise Storage and Servers ("ESS"). The total expected cost of the plan is \$303 million in severance-related costs associated with the planned elimination of approximately 5,000 positions. As of April 30, 2010, approximately 3,500 positions have been eliminated. HP expects the majority of the restructuring costs to be paid out by the fourth quarter of fiscal 2010.

*Fiscal 2008 HP/EDS Restructuring Plan*

In connection with the acquisition of EDS on August 26, 2008, HP's management approved and initiated a restructuring plan to streamline the combined company's services business and to better align the structure and efficiency of that business with HP's operating model. The restructuring plan is expected to be implemented over four years from the acquisition date and includes changes to the combined company's workforce as well as changes to corporate overhead functions such as real estate and IT.

The total expected cost of this restructuring plan is \$3.0 billion, consisting mainly of severance costs to eliminate approximately 25,000 positions, costs to vacate duplicative facilities and costs associated with early termination of certain contractual obligations. As of April 30, 2010, the vast majority of the positions had been eliminated. In future quarters, as part of this action, HP expects to record charges of approximately \$369 million related to the cost to vacate duplicative facilities.

Approximately \$1.5 billion of the expected costs were associated with pre-acquisition EDS and were reflected in the purchase price of EDS. These costs are subject to change based on the actual costs incurred. The remaining costs are primarily associated with HP and were recorded as a restructuring charge.

*Summary of Restructuring Plans*

The adjustments to the accrued restructuring expenses related to all of HP's restructuring plans described above for the six months ended April 30, 2010 were as follows:

	Balance, October 31, 2009	Three months ended April 30, 2010 charges	Six months ended April 30, 2010 charges	Cash payments	Non-cash settlements and other adjustments	Balance, April 30, 2010	As of April 30, 2010 Total costs and adjustments to date	Total expected costs and adjustments
In millions								
3Com Plan	\$ 0	\$ 15	\$ 15	\$	\$	\$ 15	\$ 15	\$ 39
Fiscal 2009 Plan	\$ 248	\$ 3	\$ 4	\$ (103)	\$ (9)	\$ 140	\$ 303	\$ 303
<i>Fiscal 2008</i>								
<i>HP/EDS Plan:</i>								
Severance	\$ 747	\$ 125	\$ 226	\$ (613)	\$ (34)	\$ 326	\$ 2,136	\$ 2,136
Infrastructure	\$ 419	\$ 37	\$ 66	\$ (56)	\$ (11)	\$ 418	\$ 566	\$ 935
Total HP/EDS Plan	\$ 1,166	\$ 162	\$ 292	\$ (669)	\$ (45)	\$ 744	\$ 2,702	\$ 3,071
Total restructuring plans	\$ 1,414	\$ 180	\$ 311	\$ (772)	\$ (54)	\$ 899	\$ 3,020	\$ 3,413



**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 7: Restructuring Charges (Continued)**

At April 30, 2010 and October 31, 2009, HP had \$37 million and \$51 million, respectively, of restructuring liabilities associated with previous restructuring actions that are complete but have cash payouts anticipated to occur through 2012. For the six months ended April 30, 2010, cash payouts of \$11 million and other adjustments of \$3 million were recorded against these liabilities.

At April 30, 2010 and October 31, 2009, HP included the long-term portion of the restructuring liability of \$236 million and \$356 million, respectively, in Other liabilities, and the short-term portion in Accrued restructuring in the accompanying Consolidated Condensed Balance Sheets.

*June 2010 Enterprise Services Business Restructuring Plan*

On June 1, 2010, HP announced a plan to restructure its enterprise services business, which includes its infrastructure technology outsourcing, business process outsourcing and application services business units. As part of this multi-year plan, HP intends to consolidate the enterprise services business' commercial data centers, management platforms, networks, tools, and applications. As part of that plan, HP expects to eliminate approximately 9,000 positions over that multi-year period and plans to add approximately 6,000 positions to increase its global sales and delivery resources. HP expects to record an aggregate restructuring charge related to severance costs, asset impairments and other items of approximately \$1 billion over a multi-year period ending in HP's 2013 fiscal year.

**Note 8: Fair Value**

HP adopted the provisions related to the fair value of nonfinancial assets and nonfinancial liabilities in the first quarter of fiscal 2010 for the following major categories of nonfinancial items from the Consolidated Condensed Balance Sheet: Property, plant and equipment, Goodwill, Purchased intangible assets, Accrued restructuring and the asset retirement obligations within Other accrued liabilities and Other liabilities. The provisions of the accounting standard related to estimating fair value and related disclosures are applied to nonfinancial assets and nonfinancial liabilities whenever they are required to be measured at fair value, such as when accounting for a business combination, when evaluating and/or determining impairment, or in accordance with certain other accounting pronouncements. Except for assets and liabilities acquired in a business combination, HP did not measure any material nonfinancial assets and nonfinancial liabilities at fair value on a non-recurring basis for the three and six months ended April 30, 2010.

Since the beginning of fiscal 2009, the accounting standard relating to fair value measurements and disclosures became effective for HP. This standard establishes a new framework for measuring fair value and expands related disclosures. The framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

Valuation techniques used by HP are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect HP's assumptions about market participant assumptions based on best information available.

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 8: Fair Value (Continued)**

Observable inputs are the preferred source of values. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices (unadjusted) for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

The following section describes the valuation methodologies HP uses to measure its financial assets and liabilities at fair value.

Cash Equivalents and Investments: HP holds time deposits, money market funds, commercial paper, other debt securities primarily consisting of corporate and foreign government notes and bonds, and common stock and equivalents. In general, and where applicable, HP uses quoted prices in active markets for identical assets to determine fair value. If quoted prices in active markets for identical assets are not available to determine fair value, HP uses quoted prices for similar assets and liabilities or inputs that are observable either directly or indirectly. If quoted prices for identical or similar assets are not available, HP uses internally developed valuation models, whose inputs include bid prices, and third-party valuations utilizing underlying assets assumptions.

Derivative Instruments: As discussed in Note 9, HP mainly holds non-speculative forwards, swaps and options to hedge certain foreign currency and interest rate exposures. When active market quotes are not available, HP uses industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies. In certain cases, market-based observable inputs are not available and, in those cases, HP uses management judgment to develop assumptions which are used to determine fair value.







## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 8: Fair Value (Continued)

of investment securities classified as available-for-sale with changes in fair value recorded in other comprehensive income ("OCI").

Six months ended April 30, 2010	Fair Value Measured Using Significant Unobservable Inputs (Level 3)		Total
	Other Debt Securities	Derivative Instruments	
	In millions		
Beginning balance at November 1, 2009	\$ 36	\$	\$ 36
Total losses (realized/unrealized):			
Included in earnings <sup>(1)</sup>	(3)		(3)
Included in OCI	12	17	29
Purchases, issuances, and settlements		(4)	(4)
Ending balance at April 30, 2010	\$ 45	\$ 13	\$ 58
The amount of total losses for the period included in earnings attributable to the change in unrealized losses relating to assets still held as of April 30, 2010	\$ (3)	\$	\$ (3)

(1) Included in Interest and other, net in the accompanying Consolidated Condensed Statements of Earnings.

The changes in Level 3 instruments for the three and six months ended April 30, 2010 that were measured at fair value on a recurring basis resulted in a total loss of \$2 million and \$3 million, respectively. The losses for the periods were included in earnings attributable to the changes in unrealized losses relating to assets still held as of April 30, 2010.

The changes in Level 3 instruments for the three and six months ended April 30, 2009 that were measured at fair value on a recurring basis resulted in a total loss of \$1 million and \$3 million, respectively. The losses for the periods were included in earnings attributable to the changes in unrealized losses relating to assets still held as of April 30, 2009.

HP measures certain assets including cost and equity method investments at fair value on a non-recurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. In the three and six months ended April 30, 2010 and April 30, 2009, HP did not incur any material impairment charge.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 9: Financial Instruments

*Available-for-Sale Investments*

Cash equivalents and investments at fair value as of April 30, 2010 and October 31, 2009 were as follows:

	April 30, 2010			October 31, 2009				
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
In millions								
<b>Cash Equivalents</b>								
Time deposits	\$ 9,046	\$	\$	\$ 9,046	\$ 8,870	\$	\$	\$ 8,870
Commercial paper	1,650			1,650	1,388			1,388
Money market funds	1,245			1,245	262			262
<b>Total cash equivalents</b>	<b>11,941</b>			<b>11,941</b>	<b>10,520</b>			<b>10,520</b>
<b>Investments</b>								
<b>Debt securities:</b>								
Time deposits	11			11	55			55
Money market funds	29			29				
U.S. Treasury securities	5			5	5			5
Foreign bonds	302	50		352	329	49		378
Corporate bonds and other debt securities	84		(32)	52	85		(45)	40
<b>Total debt securities</b>	<b>431</b>	<b>50</b>	<b>(32)</b>	<b>449</b>	<b>474</b>	<b>49</b>	<b>(45)</b>	<b>478</b>
Equity securities in public companies	4	2		6	3	2		5
<b>Total cash equivalents and investments</b>	<b>\$ 12,376</b>	<b>\$ 52</b>	<b>\$ (32)</b>	<b>\$ 12,396</b>	<b>\$ 10,997</b>	<b>\$ 51</b>	<b>\$ (45)</b>	<b>\$ 11,003</b>

Cash equivalents consist of investments with original maturities of ninety days or less. Available-for-sale securities consist of short-term investments which mature within twelve months or less and long-term investments with maturities longer than twelve months. Investments include primarily time deposits, fixed-interest securities, and institutional bonds. HP estimates the fair values of its investments based on quoted market prices or pricing models using current market rates. These estimated fair values may not be representative of actual values that will be realized in the future.

The gross unrealized loss as of April 30, 2010 was due primarily to declines in certain debt securities and included \$30 million that has been in a continuous loss position for more than twelve months. The gross unrealized loss as of October 31, 2009 was due primarily to declines in certain debt securities and included \$20 million that had been in a continuous loss position for more than twelve months. HP does not intend to sell these debt securities, and it is not likely that HP will be required to sell these debt securities prior to the recovery of the amortized cost. In the three and six months ended April 30, 2010, HP recognized an impairment charge of \$2 million associated with debt securities. In the three months ended April 30, 2009, HP did not recognize any impairment charge. In the six months ended April 30, 2009, HP recognized an impairment charge of \$2 million, representing credit losses associated with debt securities.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 9: Financial Instruments (Continued)

Contractual maturities of short-term and long-term investments in available-for-sale securities at April 30, 2010 were as follows:

	Available-for-Sale Securities	
	April 30, 2010	
	Cost	Estimated Fair Value
	In millions	
Due in less than one year	\$ 39	\$ 39
Due in 1-5 years	23	23
Due in more than five years	369	387
	\$ 431	\$ 449

Proceeds from sales and maturities of available-for-sale and other securities were \$103 million in the three and six months ended April 30, 2010. There were \$7 million of gross realized gains on total investments for both periods. Proceeds from sales and maturities of available-for-sale and other securities were \$57 million and \$103 million, respectively, in the three and six months ended April 30, 2009. There were no gross realized gains or losses on these securities for both periods. The specific identification method is used to account for gains and losses on available-for-sale securities.

A summary of the carrying values and balance sheet classification of all short-term and long-term investments in debt and equity securities as of April 30, 2010 and October 31, 2009 was as follows:

	April 30, 2010	October 31, 2009
	In millions	
Time deposit	\$ 5	\$ 55
Available-for-sale debt securities	34	
Short-term investments	39	55
Time deposit	6	
Available-for-sale debt securities	404	423
Available-for-sale equity securities	6	5
Equity securities in privately-held companies	146	129
Other investments	9	13
Included in long-term financing receivables and other assets	571	570
Total investments	\$ 610	\$ 625

Equity securities in privately held companies include cost basis and equity method investments. Other investments include marketable trading securities held to generate returns that HP expects to offset changes in certain liabilities related to deferred compensation arrangements. HP includes gains or losses from changes in fair value of these securities, offset by losses or gains on the related liabilities, in Interest and other, net, in HP's Consolidated Condensed Statements of Earnings. The net losses associated with these securities were \$3 million and \$5 million for the three and six months ended April 30, 2010, respectively. The net losses associated with these securities were \$3 million and \$7 million for the three and six months ended April 30, 2009, respectively.



**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 9: Financial Instruments (Continued)**

*Derivative Financial Instruments*

HP is a global company that is exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of its business. As part of its risk management strategy, HP uses derivative instruments, primarily forward contracts, option contracts, interest rate swaps, and total return swaps, to hedge certain foreign currency, interest rate and, to a lesser extent, equity exposures. HP's objective is to offset gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting fair values of assets and liabilities. HP does not have any leveraged derivatives. HP does not use derivative contracts for speculative purposes. HP designates its derivatives as fair value hedges, cash flow hedges or hedges of the foreign currency exposure of a net investment in a foreign operation ("net investment hedges"). Additionally, for derivatives not designated as hedging instruments, HP categorizes those economic hedges as other derivatives. HP recognizes all derivatives in the Consolidated Condensed Balance Sheets at fair value and reports them in Other current assets, Long-term financing receivables and other assets, Other accrued liabilities, or Other liabilities. HP classifies cash flows from the derivative programs as operating activities in the Consolidated Condensed Statements of Cash Flows.

As a result of the use of derivative instruments, HP is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, HP has a policy of only entering into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and HP maintains dollar and term limits that correspond to each institution's credit rating. HP's established policies and procedures for mitigating credit risk on principal transactions and short-term cash include reviewing and establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. Master agreements with counterparties include master netting arrangements as further mitigation of credit exposure to counterparties. These arrangements permit HP to net amounts due from HP to a counterparty with amounts due to HP from a counterparty, which reduces the maximum loss from credit risk in the event of counterparty default.

Certain of HP's derivative instruments contain credit-risk-related contingent features, such as a provision whereby the counterparties to the derivative instruments could request collateralization on derivative instruments in net liability positions if HP's credit rating falls below investment grade. As of April 30, 2010, HP was not required to post any collateral, and HP did not have any derivative instruments with credit-risk-related contingent features that were in a significant net liability position.

*Fair Value Hedges*

HP enters into fair value hedges to reduce the exposure of its debt portfolio to interest rate risk. HP issues long-term debt in U.S. dollars based on market conditions at the time of financing. HP uses interest rate swaps to modify the market risk exposures in connection with the debt to achieve primarily U.S. dollar LIBOR-based floating interest expense. The swap transactions generally involve principal and interest obligations for U.S. dollar-denominated amounts. Alternatively, HP may choose not to swap fixed for floating interest payments or may terminate a previously executed swap if it believes a larger proportion of fixed-rate debt would be beneficial. When investing in fixed-rate instruments, HP may enter into interest rate swaps that convert the fixed interest returns into variable interest returns and would classify these swaps as fair value hedges. For derivative instruments that are designated and

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 9: Financial Instruments (Continued)**

qualify as fair value hedges, HP recognizes the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item, in Interest and other, net in the Consolidated Condensed Statements of Earnings in the current period.

*Cash Flow Hedges*

HP uses a combination of forward contracts and options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted net revenue and, to a lesser extent, cost of sales, operating expense, and intercompany lease loan denominated in currencies other than the U.S. dollar. HP's foreign currency cash flow hedges mature generally within six to twelve months. However, certain leasing revenue-related forward contracts and intercompany lease loan forward contracts extend for the duration of the lease term, which can be up to five years. For derivative instruments that are designated and qualify as cash flow hedges, HP initially records the effective portion of the gain or loss on the derivative instrument in accumulated other comprehensive income or loss as a separate component of stockholders' equity and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized in earnings. HP reports the effective portion of cash flow hedges in the same financial statement line item as the changes in value of the hedged item. During the six months ended April 30, 2010, HP did not discontinue any cash flow hedge for which it was probable that a forecasted transaction would not occur.

*Net Investment Hedges*

HP uses forward contracts designated as net investment hedges to hedge net investments in certain foreign subsidiaries whose functional currency is the local currency. These derivative instruments are designated as net investment hedges and, as such, HP records the effective portion of the gain or loss on the derivative instrument together with changes in the hedged items in cumulative translation adjustment as a separate component of stockholders' equity.

*Other Derivatives*

Other derivatives not designated as hedging instruments consist primarily of forward contracts HP uses to hedge foreign currency balance sheet exposures. HP also uses total return swaps and, to a lesser extent, interest rate swaps, based on the equity and fixed income indices, to hedge its executive deferred compensation plan liability. For derivative instruments not designated as hedging instruments, HP recognizes changes in the fair values in earnings in the period of change. HP recognizes the gain or loss on foreign currency forward contracts used to hedge balance sheet exposures in Interest and other, net in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities. HP recognizes the gain or loss on the total return swaps and interest rate swaps in Interest and other, net in the same period as the gain or loss from the change in market value of the executive deferred compensation plan liability.

*Hedge Effectiveness*

For interest rate swaps designated as fair value hedges, HP measures effectiveness by offsetting the change in fair value of the hedged debt with the change in fair value of the derivative. For foreign



## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 9: Financial Instruments (Continued)

currency options and forward contracts designated as cash flow or net investment hedges, HP measures effectiveness by comparing the cumulative change in the hedge contract with the cumulative change in the hedged item, both of which are based on forward rates. HP recognizes any ineffective portion of the hedge, as well as amounts not included in the assessment of effectiveness, in the Consolidated Condensed Statements of Earnings. As of April 30, 2010, the portion of hedging instruments' gain or loss excluded from the assessment of effectiveness was not material for fair value, cash flow or net investment hedges. Hedge ineffectiveness for fair value, cash flow and net investment hedges was not material in the three and six months ended April 30, 2010.

*Fair Value of Derivative Instruments in the Consolidated Condensed Balance Sheets*

As discussed in Note 8, HP estimates the fair values of derivatives primarily based on pricing models using current market rates and records all derivatives on the balance sheet at fair value. The gross notional and fair value of derivative financial instruments in the Consolidated Condensed Balance Sheets were recorded as follows:

	As of April 30, 2010					As of October 31, 2009				
	Gross Notional <sup>(1)</sup>	Other Current Assets	Long-term Financing Receivables		Other Liabilities	Gross Notional <sup>(1)</sup>	Other Current Assets	Long-term Financing Receivables		Other Liabilities
and Other Assets			Accrued Liabilities	and Other Assets				Accrued Liabilities		
In millions										
Derivatives designated as hedging instruments										
Fair value hedges:										
Interest rate contracts	\$ 8,575	\$	\$ 367	\$	\$ 7,575	\$	\$ 346	\$	\$ 5	
Cash flow hedges:										
Foreign exchange contracts	15,621	416	62	76	31	15,056	116	12	389	33
Net investment hedges:										
Foreign exchange contracts	1,461	13	9	42	42	1,350	13	12	47	39
Total derivatives designated as hedging instruments	25,657	429	438	118	73	23,981	129	370	436	77
Derivatives not designated as hedging instruments										
Foreign exchange contracts	10,400	88	20	114	44	16,104	206	20	163	51
Interest rate contracts <sup>(2)</sup>	2,200		40		50	2,211		29		45
Other derivatives	309	3	4	2		268	2		2	
Total derivatives not designated as hedging instruments	12,909	91	64	116	94	18,583	208	49	165	96
Total derivatives	\$ 38,566	\$ 520	\$ 502	\$ 234	\$ 167	\$ 42,564	\$ 337	\$ 419	\$ 601	\$ 173

- (1) Represents the face amounts of contracts that were outstanding as of April 30, 2010 and October 31, 2009, respectively.
- (2) Represents offsetting swaps acquired through previous business combination that were not designated as hedging instruments.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 9: Financial Instruments (Continued)

*Effect of Derivative Instruments on the Consolidated Condensed Statements of Earnings*

The before-tax effect of a derivative instrument and related hedged item in a fair value hedging relationship for the three and six months ended April 30, 2010 was as follows:

Derivative Instrument	Location	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item				Location	Three months ended April 30, 2010	Six months ended April 30, 2010
		Three months ended April 30, 2010	Six months ended April 30, 2010	Hedged Item	Three months ended April 30, 2010			
		In millions				In millions		
Interest rate contracts	Interest and other, net	\$ 18	\$ 27	Fixed-rate debt	Interest and other, net	\$ (15)	\$ (24)	

The before-tax effect of a derivative instrument and related hedged item in a fair value hedging relationship for the three and six months ended April 30, 2009 was as follows:

Derivative Instrument	Location	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item				Location	Three months ended April 30, 2009	Six months ended April 30, 2009
		Three months ended April 30, 2009	Six months ended April 30, 2009	Hedged Item	Three months ended April 30, 2009			
		In millions				In millions		
Interest rate contracts	Interest and other, net	\$ (67)	\$ 249	Fixed-rate debt	Interest and other, net	\$ 57	\$ (252)	

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 9: Financial Instruments (Continued)

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three and six months ended April 30, 2010 was as follows:

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Gain Recognized in Income on Derivative <sup>(1)</sup> (Ineffective portion and Amount Excluded from Effectiveness Testing)	
	Three months ended April 30, 2010	Six months ended April 30, 2010		Three months ended April 30, 2010	Six months ended April 30, 2010
	In millions		Location	In millions	
Cash flow hedges:					
Foreign exchange contracts	\$ 230	\$ 655	Net revenue	\$ 188	\$ 58
Foreign exchange contracts	(12)	(7)	Cost of products	12	27
Foreign exchange contracts			Other operating expenses		1
Foreign exchange contracts	(5)	1	Interest and other, net	(4)	
Foreign exchange contracts	25	36	Net revenue	7	15
Total cash flow hedges	\$ 238	\$ 685		\$ 203	\$ 101
Net investment hedges:					
Foreign exchange contracts	\$ (47)	\$ (44)	Interest and other, net	\$	\$

(1) Amount of gain recognized in income on derivative represents a \$2 million gain and \$6 million gain related to the amount excluded from the assessment of hedge effectiveness in the three and six months ended April 30, 2010, respectively.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 9: Financial Instruments (Continued)

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three and six months ended April 30, 2009 was as follows:

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Location	Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)		Location	Gain Recognized in Income on Derivative <sup>(1)</sup> (Ineffective portion and Amount Excluded from Effectiveness Testing)	
	Three months ended April 30, 2009	Six months ended April 30, 2009		Three months ended April 30, 2009	Six months ended April 30, 2009		Three months ended April 30, 2009	Six months ended April 30, 2009
	In millions			In millions			In millions	
Cash flow hedges:								
Foreign exchange contracts	\$ (223)	\$ (131)	Net revenue	\$ 354	\$ 875	Net revenue	\$	\$
Foreign exchange contracts	(80)	34	Cost of products	76	81	Cost of products		
Foreign exchange contracts	(1)	(9)	Other operating expenses	(3)	(4)	Other operating expenses		
Foreign exchange contracts	(2)	(1)	Interest and other, net	(1)	(2)	Interest and other, net		
Foreign exchange contracts	1	5	Net revenue	4	5	Interest and other, net	1	2
Total cash flow hedges	\$ (305)	\$ (102)		\$ 430	\$ 955		\$ 1	\$ 2
Net investment hedges:								
Foreign exchange contracts	\$ (31)	\$ (31)	Interest and other, net	\$	\$	Interest and other, net	\$	\$

(1) Amount of gain recognized in income on derivative represents a \$1 million gain and a \$2 million gain related to the amount excluded from the assessment of hedge effectiveness in the three and six months ended April 30, 2009, respectively.

HP expects to reclassify a net accumulated other comprehensive gain of approximately \$207 million, net of taxes, to earnings in the next twelve months along with the earnings effects of the related forecasted transactions in association with cash flow hedges.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 9: Financial Instruments (Continued)**

The before-tax effect of derivative instruments not designated as hedging instruments on the Consolidated Condensed Statements of Earnings for the three and six months ended April 30, 2010 was as follows:

		Gain (Loss) Recognized in Income on Derivative	
		Three months ended April 30, 2010	Six months ended April 30, 2010
Location		In millions	
Foreign exchange contracts	Interest and other, net	\$ (129)	\$ (63)
Other derivatives	Interest and other, net	13	2
Interest rate contracts	Interest and other, net	6	5
<b>Total</b>		\$ (110)	\$ (56)

The before-tax effect of derivative instruments not designated as hedging instruments on the Consolidated Condensed Statements of Earnings for the three and six months ended April 30, 2009 was as follows:

		Gain (Loss) Recognized in Income on Derivative	
		Three months ended April 30, 2009	Six months ended April 30, 2009
Location		In millions	
Foreign exchange contracts	Interest and other, net	\$ (229)	\$ (211)
Other derivatives	Interest and other, net	31	9
Interest rate contracts	Interest and other, net	10	8
<b>Total</b>		\$ (188)	\$ (194)

*Other Financial Instruments*

For the balance of HP's financial instruments, accounts receivable, financing receivables, notes payable and short-term borrowings, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities. The estimated fair value of HP's short- and long-term debt was approximately \$17.8 billion at April 30, 2010, compared to a carrying value of \$17.7 billion at that date. The estimated fair value of HP's short- and long-term debt was approximately \$16.0 billion at October 31, 2009, compared to a carrying value of \$15.8 billion at that date. The estimated fair value of the debt is based primarily on quoted market prices, as well as borrowing rates currently available to HP for bank loans with similar terms and maturities.

**Note 10: Financing Receivables and Operating Leases**

Financing receivables represent sales-type and direct-financing leases resulting from the marketing of HP's and third-party products. These receivables typically have terms from two to five years and are usually collateralized by a security interest in the underlying assets. Financing receivables also include

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 10: Financing Receivables and Operating Leases (Continued)**

billed receivables from operating leases. The components of net financing receivables, which are included in financing receivables and long-term financing receivables and other assets, were as follows:

	April 30, 2010	October 31, 2009
In millions		
Minimum lease payments receivable	\$ 6,600	\$ 6,413
Allowance for doubtful accounts	(114)	(108)
Unguaranteed residual value	231	244
Unearned income	(573)	(571)
Financing receivables, net	6,144	5,978
Less current portion	(2,795)	(2,675)
Amounts due after one year, net	\$ 3,349	\$ 3,303

Equipment leased to customers under operating leases was \$3.3 billion at April 30, 2010 and \$3.0 billion at October 31, 2009 and is included in machinery and equipment. Accumulated depreciation on equipment under lease was \$1.0 billion at April 30, 2010 and \$0.9 billion at October 31, 2009.

**Note 11: Guarantees***Guarantees and Indemnifications*

In the ordinary course of business, HP may provide certain clients with subsidiary performance guarantees and/or financial performance guarantees, which may be backed by standby letters of credit or surety bonds. In general, HP would be liable for the amounts of these guarantees in the event HP or HP's subsidiaries' nonperformance permits termination of the related contract by the client, the likelihood of which HP believes is remote. HP believes that the company is in compliance with the performance obligations under all material service contracts for which there is a performance guarantee.

HP has certain service contracts supported by client financing or securitization arrangements. Under specific circumstances involving nonperformance resulting in service contract termination or failure to comply with terms under the financing arrangement, HP would be required to acquire certain assets. HP considers the possibility of its failure to comply to be remote and the asset amounts involved to be immaterial.

In the ordinary course of business, HP enters into contractual arrangements under which HP may agree to indemnify the third party to such arrangement from any losses incurred relating to the services they perform on behalf of HP or for losses arising from certain events as defined within the particular contract, which may include, for example, litigation or claims relating to past performance. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments made related to these indemnifications have been immaterial.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 11: Guarantees (Continued)***Warranty*

HP provides for the estimated cost of product warranties at the time it recognizes revenue. HP engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers; however, product warranty terms offered to customers, ongoing product failure rates, material usage and service delivery costs incurred in correcting a product failure, as well as specific product class failures outside of HP's baseline experience, affect the estimated warranty obligation. If actual product failure rates, repair rates or any other post sales support costs differ from these estimates, revisions to the estimated warranty liability would be required.

The changes in HP's aggregate product warranty liabilities for the six months ended April 30, 2010 were as follows:

	<b>In millions</b>
Product warranty liability at October 31, 2009	\$ 2,409
Accruals for warranties issued	1,437
Adjustments related to pre-existing warranties (including changes in estimates)	(35)
Settlements made (in cash or in kind)	(1,308)
Product warranty liability at April 30, 2010	\$ 2,503

**Note 12: Borrowings***Notes Payable and Short-Term Borrowings*

Notes payable and short-term borrowings, including the current portion of long-term debt, were as follows:

	<b>April 30, 2010</b>		<b>October 31, 2009</b>	
	<b>Amount</b>	<b>Weighted- Average Interest Rate</b>	<b>Amount</b>	<b>Weighted- Average Interest Rate</b>
	<b>Outstanding</b>		<b>Outstanding</b>	
	<b>In millions</b>			
Commercial paper	\$ 2,077	0.3%	\$ 294	1.2%
Current portion of long-term debt	1,428	1.2%	1,143	1.0%
Notes payable to banks, lines of credit and other	429	2.1%	413	2.0%
	\$ 3,934		\$ 1,850	

Notes payable to banks, lines of credit and other includes deposits associated with HP's banking-related activities of approximately \$327 million and \$326 million at April 30, 2010 and October 31, 2009, respectively.



## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 12: Borrowings (Continued)

*Long-Term Debt*

Long-term debt was as follows:

	April 30, 2010	October 31, 2009
	In millions	
U.S. Dollar Global Notes		
2002 Shelf Registration Statement:		
\$500 issued at discount to par at a price of 99.505% in June 2002 at 6.5%, due July 2012	\$ 499	\$ 499
2006 Shelf Registration Statement:		
\$600 issued at par in February 2007 at three-month USD LIBOR plus 0.11%, due March 2012	600	600
\$900 issued at discount to par at a price of 99.938% in February 2007 at 5.25%, due March 2012	900	900
\$500 issued at discount to par at a price of 99.694% in February 2007 at 5.4%, due March 2017	499	499
\$1,000 issued at par in June 2007 at three-month USD LIBOR plus 0.06%, due June 2010	1,000	1,000
\$1,500 issued at discount to par at a price of 99.921% in March 2008 at 4.5%, due March 2013	1,499	1,499
\$750 issued at discount to par at a price of 99.932% in March 2008 at 5.5%, due March 2018	750	750
\$2,000 issued at discount to par at a price of 99.561% in December 2008 at 6.125%, due March 2014	1,993	1,992
\$275 issued at par in February 2009 at three-month USD LIBOR plus 1.75%, due February 2011	275	275
\$1,000 issued at discount to par at a price of 99.956% in February 2009 at 4.25%, due February 2012	1,000	1,000
\$1,500 issued at discount to par at a price of 99.993% in February 2009 at 4.75%, due June 2014	1,500	1,500
2009 Shelf Registration Statement:		
\$750 issued at par in May 2009 at three-month USD LIBOR plus 1.05%, due May 2011	750	750
\$1,000 issued at discount to par at a price of 99.967% in May 2009 at 2.25%, due May 2011	1,000	1,000
\$250 issued at discount to par at a price of 99.984% in May 2009 at 2.95%, due August 2012	250	250
	12,515	12,514
EDS Senior Notes		
\$1,100 issued June 2003 at 6.0%, due August 2013	1,135	1,140
\$300 issued October 1999 at 7.45%, due October 2029	315	315
	1,450	1,455
Other, including capital lease obligations, at 3.75%-8.63%, due in calendar year 2010-2024	797	785
Fair value adjustment related to hedged debt	394	369
Less: current portion	(1,428)	(1,143)
Total long-term debt	\$ 13,728	\$ 13,980

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 12: Borrowings (Continued)**

HP may redeem some or all of the Global Notes set forth in the above table at any time at the redemption prices described in the prospectus supplements relating thereto. The Global Notes are senior unsecured debt.

HP registered the sale of up to \$3.0 billion of debt or global securities, common stock, preferred stock, depositary shares and warrants under a shelf registration statement filed with the Securities and Exchange Commission ("SEC") in March 2002 (the "2002 Shelf Registration Statement"). The 2002 Shelf Registration Statement expired on December 1, 2008, and, accordingly, HP is no longer able to issue any additional securities under this registration statement.

In May 2009, HP filed a shelf registration statement (the "2009 Shelf Registration Statement") with the SEC to enable the company to offer for sale, from time to time, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants. The 2009 Shelf Registration Statement replaced a similar registration statement filed in May 2006 that expired in May 2009.

In May 2008, HP's Board of Directors approved an increase in the capacity of HP's U.S. commercial paper program by \$10.0 billion to \$16.0 billion. HP's subsidiaries are authorized to issue up to an additional \$1.0 billion of commercial paper, of which \$500 million of capacity is currently available to be used by Hewlett-Packard International Bank PLC, a wholly-owned subsidiary of HP, for its Euro Commercial Paper/Certificate of Deposit Programme.

In October 2008, HP registered for the Commercial Paper Funding Facility ("CPFF") provided by the Federal Reserve Bank of New York. The CPFF program expired on February 1, 2010. HP did not issue any commercial paper under the CPFF program.

HP has a \$2.9 billion five-year credit facility expiring in May 2012. In February 2009, HP entered into a \$3.5 billion 364-day credit facility. The February credit facility expired in February 2010, at which time HP entered into a new \$3.5 billion 364-day credit facility maintaining the total amount available under its credit facilities at \$6.4 billion. Commitment fees, interest rates and other terms of borrowing under the credit facilities vary based on HP's external credit ratings. The credit facilities are senior unsecured committed borrowing arrangements primarily to support the issuance of U.S. commercial paper. HP's ability to have a U.S. commercial paper outstanding balance that exceeds the \$6.4 billion supported these credit facilities is subject to a number of factors, including liquidity conditions and business performance.

HP also maintains uncommitted lines of credit from a number of financial institutions that are available through various foreign subsidiaries. The amount available for use as of April 30, 2010 was approximately \$1.4 billion.

Included in Other, including capital lease obligations, are borrowings that are collateralized by certain financing receivable assets. As of April 30, 2010, the carrying value of the assets approximated the carrying value of the borrowings of \$39 million.

At April 30, 2010, HP was able to issue an unspecified amount of additional debt securities, common stock, preferred stock, depositary shares and warrants under the 2009 Shelf Registration Statement. As of that date, HP also had up to approximately \$15.8 billion of available borrowing

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 12: Borrowings (Continued)**

resources, including \$14.4 billion under its commercial paper programs, \$6.4 billion of which is supported by its credit facilities, and approximately \$1.4 billion under other programs.

**Note 13: Income Taxes**

*Provision for Taxes*

HP's effective tax rate was 20.5% and 18.6% for the three months ended April 30, 2010 and April 30, 2009, respectively, and 20.1% and 18.3% for the six months ended April 30, 2010 and April 30, 2009, respectively. HP's effective tax rate increased due to a decline in the percentage of total earnings earned in lower-tax jurisdictions and a decline in its discrete tax benefits relative to consolidated pretax earnings. HP's effective tax rate generally differs from the U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from HP's operations in lower-tax jurisdictions throughout the world. HP has not provided U.S. taxes for all of such earnings because HP plans to reinvest some of those earnings indefinitely outside the United States.

In the three and six months ended April 30, 2010, HP recorded discrete items with a net tax benefit of \$47 million and \$139 million, respectively, decreasing the effective tax rate. These amounts included net tax benefits of \$80 million and \$134 million, respectively, from restructuring and acquisition charges; and net tax expense of \$33 million and net tax benefits of \$5 million, respectively, associated with adjustments to prior year foreign income tax accruals and credits, settlement of tax audit matters, a valuation allowance release, and other miscellaneous discrete items.

In the three and six months ended April 30, 2009, HP recorded discrete items with a net tax benefit of \$46 million and \$138 million, respectively, decreasing the effective tax rate. These amounts included net tax benefits of \$56 million and \$120 million, respectively, from restructuring and acquisition charges; and net tax expense of \$10 million and net tax benefits of \$18 million, respectively, associated with adjustments to prior year foreign income tax accruals and credits, settlement of tax audit matters, a valuation allowance release, and other miscellaneous discrete items.

During the second quarter of fiscal 2010, the amount of gross unrecognized tax benefits remained at \$1.9 billion, of which up to \$890 million would affect HP's effective tax rate if realized. HP recognizes interest expense and penalties on unrecognized tax benefits within income tax expense. During the second quarter of fiscal 2010, there was no material change in the amount of accrued net interest and penalties.

HP engages in continuous discussion and negotiation with tax authorities regarding tax matters in the various jurisdictions. HP does not expect complete resolution of any Internal Revenue Service ("IRS") audit cycle within the next 12 months. However, it is reasonably possible that certain federal, foreign and state tax issues may be concluded in the next 12 months, including issues involving transfer pricing and other matters. Accordingly, HP believes it is reasonably possible that its existing unrecognized tax benefits may be reduced by an amount up to \$120 million within the next 12 months.

HP is subject to income tax in the United States and over sixty foreign countries and is subject to routine corporate income tax audits in many of these jurisdictions. In addition, HP is subject to numerous ongoing audits by state and foreign tax authorities. HP has received from the IRS Notices of Deficiency for its fiscal 1999, 2000, 2003, 2004 and 2005 tax years, and Revenue Agent's Reports

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 13: Income Taxes (Continued)**

("RAR's") for its fiscal 2001, 2002 and 2006 tax years. The IRS began an audit of HP's 2007 income tax returns in 2009, and will begin its audit of 2008 during 2010. With respect to major foreign and state tax jurisdictions, HP is no longer subject to tax authority examinations for years prior to 1999. HP believes that adequate accruals have been provided for all open tax years.

On May 10, 2010, HP received a RAR from the IRS for its fiscal 2006 tax year, which proposed a \$1 million increase in HP's tax liability for that year. In addition, the IRS's adjustments for fiscal 2006, if sustained, would reduce the tax benefits of net operating loss and tax credit carryforwards to subsequent years by approximately \$319 million. HP plans to contest certain of the adjustments proposed in the RAR. HP believes that it has provided adequate accruals for any tax deficiencies or reductions in tax benefits that could result from the IRS actions.

The breakdown between current and long-term deferred tax assets and deferred tax liabilities was as follows:

	April 30, 2010	October 31, 2009
	In millions	
Current deferred tax assets	\$ 4,413	\$ 4,979
Current deferred tax liabilities	(37)	(83)
Long-term deferred tax assets	1,957	1,751
Long-term deferred tax liabilities	(3,839)	(4,230)
<b>Total deferred tax assets net of deferred tax liabilities</b>	<b>\$ 2,494</b>	<b>\$ 2,417</b>

**Note 14: Stockholders' Equity***Share Repurchase Program*

HP's share repurchase program authorizes both open market and private repurchase transactions. In the three and six months ended April 30, 2010, HP executed share repurchases of 35 million shares and 88 million shares, respectively. For the three months ended April 30, 2010, repurchases of 35 million shares were settled for \$1.8 billion. For the six months ended April 30, 2010, repurchases of 89 million shares were settled for \$4.5 billion, which included 3 million shares repurchased in transactions that were executed in fiscal 2009 but settled in the first half of fiscal 2010. HP had approximately 2 million shares repurchased in the second quarter of fiscal 2010 that will be settled in the third quarter of fiscal 2010. HP paid approximately \$0.8 billion in connection with repurchases of approximately 24 million shares during the three months ended April 30, 2009 and paid approximately \$2.0 billion in connection with repurchases of approximately 58 million shares in the first six months of fiscal 2009.

On November 19, 2009, HP's Board of Directors authorized an additional \$8.0 billion for future share repurchases. As of April 30, 2010, HP had remaining authorization of \$7.4 billion for future share repurchases.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 14: Stockholders' Equity (Continued)

*Comprehensive Income*

The changes in the components of OCI, net of taxes, were as follows:

	Three months ended April 30	
	2010	2009
	In millions	
Net earnings	\$ 2,200	\$ 1,721
Net change in unrealized gains on available-for-sale securities:		
Change in net unrealized gains, net of tax of \$4 million in 2010 and \$4 million in 2009	7	11
Net unrealized gains reclassified into income with no tax effect in 2009		(1)
	7	10
Net change in unrealized gains (losses) on cash flow hedges:		
Unrealized gains (losses) recognized in OCI, net of tax of \$81 million in 2010 and net of tax benefit of \$106 million in 2009	157	(198)
Gains reclassified into income, net of tax of \$73 million in 2010 and \$150 million in 2009	(130)	(280)
	27	(478)
Net change in cumulative translation adjustment, net of tax of \$12 million in 2010 and \$202 million in 2009	71	137
Net change in unrealized components of defined benefit plans, net of tax of \$60 million in 2010 and net of tax benefit of \$4 million in 2009	83	(15)
Comprehensive income	\$ 2,388	\$ 1,375

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 14: Stockholders' Equity (Continued)

	Six months ended April 30	
	2010	2009
	In millions	
Net earnings	\$ 4,450	\$ 3,577
Net change in unrealized gains (losses) on available-for-sale securities:		
Change in net unrealized gains, net of tax of \$5 million in 2010 and with no tax effect in 2009	9	4
Net unrealized gains reclassified into income with no tax effect in 2009		(1)
	9	3
Net change in unrealized gains (losses) on cash flow hedges:		
Unrealized gains (losses) recognized in OCI, net of tax of \$238 million in 2010 and net of tax benefit of \$33 million in 2009	447	(69)
Gains reclassified into income, net of tax of \$31 million in 2010 and \$340 million in 2009	(70)	(615)
	377	(684)
Net change in cumulative translation adjustment, net of tax benefit of \$2 million in 2010 and \$9 million in 2009	11	(245)
Net change in unrealized components of defined benefit plans, net of tax of \$69 million in 2010 and \$55 million in 2009	94	65
Comprehensive income	\$ 4,941	\$ 2,716

The components of accumulated other comprehensive loss, net of taxes, were as follows:

	April 30, 2010	October 31, 2009
	In millions	
Net unrealized gain on available-for-sale securities	\$ 13	\$ 4
Net unrealized gain (loss) on cash flow hedges	208	(169)
Cumulative translation adjustment	(448)	(459)
Unrealized components of defined benefit plans	(2,529)	(2,623)
Accumulated other comprehensive loss	\$ (2,756)	\$ (3,247)

## Note 15: Retirement and Post-Retirement Benefit Plans

*Modifications to Defined Contribution Plans*

HP offers various defined contribution plans for U.S. and non-U.S. employees. As disclosed in our Consolidated Financial Statements for the fiscal year ended October 31, 2009, prior to April 1, 2009, HP matched employee contributions to the U.S. HP 401(k) Plan with cash contributions up to a maximum of 6% of eligible compensation for U.S. employees hired prior to August 1, 2008 and up to a maximum of 4% of eligible compensation for U.S. employees hired on or after August 1, 2008. Further, effective from January 1, 2009 through March 31, 2009, U.S. employees participating in the EDS 401(k) Plan were eligible for a 4% HP matching contribution on eligible compensation.



## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 15: Retirement and Post-Retirement Benefit Plans (Continued)**

Effective April 1, 2009, HP matching contributions under both the U.S. HP 401(k) Plan and the EDS 401(k) Plan were changed to a quarterly, discretionary, performance-based match of up to a maximum of 4% of eligible compensation for all U.S. employees, which is determined each fiscal quarter based on business results. HP matching contributions vary from 0% to 100% of the maximum 4% match, based on such factors as quarterly earnings, market share growth, and performance relative to market and economic conditions. HP's matching contributions for the quarter ended April 30, 2010 was 100% of the maximum 4% match.

HP's net pension and post-retirement benefit costs were as follows:

	Three months ended April 30					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post- Retirement Benefit Plans	
	2010	2009	2010	2009	2010	2009
	In millions					
Service cost	\$	\$ 7	\$ 82	\$ 75	\$ 3	\$ 4
Interest cost		144	148	165	12	17
Expected return on plan assets		(165)	(133)	(188)	(8)	(8)
Amortization and deferrals:						
Actuarial loss (gain)		7	(21)	53	5	2
Prior service benefit			(3)	(2)	(22)	(20)
Net periodic benefit (gain) cost		(14)	1	109	(10)	(5)
Settlement gain			(1)			
Curtailment gain					(13)	(2)
Special termination benefits			11	2		
Net benefit (gain) cost	\$	(14)	\$ 120	\$ 77	\$ (23)	\$ (7)

	Six months ended April 30					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post- Retirement Benefit Plans	
	2010	2009	2010	2009	2010	2009
	In millions					
Service cost	\$	\$ 13	\$ 168	\$ 152	\$ 6	\$ 7
Interest cost		289	296	337	24	35
Expected return on plan assets		(331)	(266)	(386)	(15)	(16)
Amortization and deferrals:						
Actuarial loss (gain)		14	(34)	109	10	3
Prior service benefit			(5)	(4)	(43)	(39)
		(28)	9	223	(18)	(10)



Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Net periodic benefit (gain) cost												
Settlement gain		(1)										
Curtailement gain				(13)		(2)						
Special termination benefits			11		3							
Net benefit (gain) cost	\$	(28)	\$	8	\$	234	\$	161	\$	(31)	\$	(12)

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 15: Retirement and Post-Retirement Benefit Plans (Continued)**

*Employer Contributions and Funding Policy*

HP previously disclosed in its Consolidated Financial Statements for the fiscal year ended October 31, 2009 that it expected to contribute approximately \$745 million to its pension plans and approximately \$30 million to cover benefit payments to U.S. non-qualified plan participants during 2010. In addition, HP expected to pay approximately \$45 million to cover benefit claims for HP's post-retirement benefit plans. HP's funding policy is to contribute cash to its pension plans so that it meets at least the minimum contribution requirements, as established by local government, funding and taxing authorities.

As of April 30, 2010, HP has made \$359 million of contributions to its pension plans, paid \$11 million to cover benefit payments to U.S. non-qualified plan participants, and paid \$14 million to cover benefit claims under post-retirement benefit plans. HP presently anticipates making additional contributions of approximately \$386 million to its pension plans and approximately \$18 million to its U.S. non-qualified plan participants and expects to pay up to \$31 million to cover benefit claims under post-retirement benefit plans during the remainder of fiscal 2010. HP's pension and other post-retirement benefit costs and obligations are dependent on various assumptions. Differences between expected and actual returns on investments will be reflected as unrecognized gains or losses, and such gains or losses will be amortized and recorded in future periods. Poor financial performance of asset markets in any year could lead to increased contributions in certain countries and increased future pension plan expense. Asset gains or losses are determined at the measurement date and amortized over the remaining service life or life expectancy of plan participants. HP's next expected measurement date is October 31, 2010.

**Note 16: Litigation and Contingencies**

HP is involved in lawsuits, claims, investigations and proceedings, including those identified below, consisting of intellectual property, commercial, securities, employment, employee benefits and environmental matters that arise in the ordinary course of business. HP records a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. HP believes it has adequate provisions for any such matters. HP reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Based on its experience, HP believes that any damage amounts claimed in the specific matters discussed below are not a meaningful indicator of HP's potential liability. Litigation is inherently unpredictable. However, HP believes that it has valid defenses with respect to legal matters pending against it. Nevertheless, it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies or because of the diversion of management's attention and the creation of significant expenses.

*Litigation, Proceedings and Investigations*

Copyright levies. As described below, proceedings are ongoing or have been concluded involving HP in certain European Union ("EU") member countries, including litigation in Germany and Belgium, seeking to impose or modify levies upon equipment (such as multifunction devices ("MFDs")), personal

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 16: Litigation and Contingencies (Continued)**

computers ("PCs") and printers) and alleging that these devices enable producing private copies of copyrighted materials. The levies are generally based upon the number of products sold and the per-product amounts of the levies, which vary. Some EU member countries that do not yet have levies on digital devices are expected to implement similar legislation to enable them to extend existing levy schemes, while some other EU member countries are expected to limit the scope of levy schemes and applicability in the digital hardware environment. HP, other companies and various industry associations have opposed the extension of levies to the digital environment and have advocated alternative models of compensation to rights holders.

VerwertungsGesellschaft Wort ("VG Wort"), a collection agency representing certain copyright holders, instituted legal proceedings against HP in June 2001 in Germany relating to whether and to what extent German copyright levies for photocopiers should be imposed on MFDs. On July 6, 2005, the Court of Appeals in Stuttgart Germany ordered HP to pay VG Wort levies based on the published tariffs for photocopiers in Germany (which range from €38.35 to €613.56 per unit), plus interest, on MFDs sold in Germany up to December 2001, and the German Federal Supreme Court later affirmed that ruling on appeal. HP subsequently appealed the decision by filing a claim with the German Federal Constitutional Court, which declined to hear HP's appeal, thus concluding these proceedings. HP has made the payments required under the court ruling.

On September 26, 2005, VG Wort filed an additional lawsuit against HP in the Stuttgart Civil Court in Stuttgart, Germany seeking assurance of full payment of levies on MFD units sold in Germany between 1997 and 2001, as well as for MFDs sold from 2002 onwards. On March 25, 2009, the German Association for Information Technology, Telecommunications and New Media e.V. entered into a settlement agreement with VG Wort and Verwertungsgesellschaft Bild-Kunst, another collection agency representing copyright holders ("VG Bild-Kunst"), that provides for the payment of levies on MFDs sold from 2002 through 2007. The levies vary from approximately €13 to €307 per unit depending on the type of device, the date sold and the copy speed and are subject to reduction if VG Wort or VG Bild-Kunst grants more favorable rates in the future to parties within Germany that are not covered by the settlement. HP has acceded to the settlement and paid all amounts due thereunder.

In July 2004, VG Wort filed a separate lawsuit against HP in the Stuttgart Civil Court seeking levies on printers. On December 22, 2004, the court held that HP is liable for payments regarding all printers using ASCII code sold in Germany but did not determine the amount payable per unit. HP appealed this decision in January 2005 to the Stuttgart Court of Appeals. On May 11, 2005, the Stuttgart Court of Appeals issued a decision confirming that levies are due. On June 6, 2005, HP filed an appeal to the German Federal Supreme Court in Karlsruhe. On December 6, 2007, the German Federal Supreme Court issued a judgment that printers are not subject to levies under the existing law. The court issued a written decision on January 25, 2008, and VG Wort subsequently filed an application with the German Federal Supreme Court under Section 321a of the German Code of Civil Procedure contending that the court did not consider their arguments. On May 9, 2008, the German Federal Supreme Court denied VG Wort's application. In addition, VG Wort has appealed the decision by filing a claim with the German Federal Constitutional Court challenging the ruling that printers are not subject to levies. HP and the German Association for Information Technology, Telecommunications and New Media e.V. ("BITKOM") have responded to VG Wort's claim, and the parties are awaiting a decision by the court as to whether it will accept the claim for judicial review.

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 16: Litigation and Contingencies (Continued)**

In September 2003, VG Wort filed a lawsuit against Fujitsu Siemens Computer GmbH ("FSC") in the Munich Civil Court in Munich, Germany seeking levies on PCs. This is an industry test case in Germany, and HP has agreed not to object to the delay if VG Wort sues HP for such levies on PCs following a final decision against FSC. On December 23, 2004, the Munich Civil Court held that PCs are subject to a levy and that FSC must pay €12 plus compound interest for each PC sold in Germany since March 2001. FSC appealed this decision in January 2005 to the Munich Court of Appeals. On December 15, 2005, the Munich Court of Appeals affirmed the Munich Civil Court decision. FSC filed an appeal with the German Federal Supreme Court in February 2006. On October 2, 2008, the German Federal Supreme Court issued a judgment that PCs were not photocopiers within the meaning of the German copyright law that was in effect until December 31, 2007 and, therefore, not subject to the levies on photocopiers established by that law. VG Wort has filed a claim with the German Federal Constitutional Court challenging that ruling. FSC and BITKOM have responded to VG Wort's claim, and the parties are awaiting a decision by the court as to whether it will accept the claim for judicial review.

ZPU, a joint association of various German collection societies, instituted legal proceedings against HP in 2005 demanding reporting of every PC sold by HP in Germany from January 2002 through December 2005 and seeking a levy of €18.42 plus tax for each PC sold during that period. On December 23, 2009, the German industry association Bundesverband Computerhersteller ("BCH") entered into a settlement agreement with ZPU that provides for the payment of €3.15 per unit for PCs sold in Germany between 2002 and 2003 and €6.30 per unit for PCs sold in Germany between 2005 and 2007. The settlement is only valid for those companies who are members of BCH and accede to the settlement and who also agree to pay a levy of €12.15 per unit for PCs without a built-in CD-R or DVD-R and €13.65 per unit for PCs with a built-in CD-R or DVD-R sold in Germany between 2008 and 2010. HP is a member of BCH and has acceded to the settlement.

Reprobel, a cooperative society with the authority to collect and distribute the remuneration for reprography to Belgian copyright holders, requested HP by extra-judicial means to amend certain copyright levy declarations submitted for inkjet MFDs sold in Belgium from January 2005 to December 2009 to enable it to collect copyright levies calculated based on the generally higher copying speed when the MFDs are operated in draft print mode rather than when operated in normal print mode. In March 2010, HP filed a lawsuit against Reprobel in the French-speaking chambers of the Court of First Instance of Brussels seeking a declaratory judgment that no copyright levies are payable on sales of MFDs in Belgium or, alternatively, that copyright levies payable on such MFDs must be assessed based on the copying speed when operated in the normal print mode set by default in the device. The schedule for the court proceedings has not yet been determined, and no decision from the court is expected before 2011.

Based on industry opposition to the extension of levies to digital products, HP's assessments of the merits of various proceedings and HP's estimates of the units impacted and levies, HP has accrued amounts that it believes are adequate to address the matters described above. However, the ultimate resolution of these matters and the associated financial impact on HP, including the number of units impacted, the amount of levies imposed and the ability of HP to recover such amounts through increased prices, remains uncertain.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 16: Litigation and Contingencies (Continued)**

*Sky Subscribers Services Limited and British Sky Broadcasting Limited v. EDS and EDS Limited (UK)* is a lawsuit filed on August 17, 2004 by Sky Subscribers Services Limited and British Sky Broadcasting Limited against Electronic Data Systems Corporation ("EDS"), a company that HP acquired in August 2008, and EDS Limited (UK) ("EDS UK"), one of EDS's subsidiaries, alleging deceit, negligent misrepresentation, negligent misstatement and breach of contract. The claims arose out of a customer relationship management project that was awarded to EDS in 2000, the principal objective of which was to develop a customer call center in Scotland. EDS's main role in the project was as systems integrator. On November 12, 2004, EDS and EDS UK filed their defense and counterclaim denying the claims and seeking damages for monies owed under the contract. The trial of this action commenced on October 15, 2007, and final arguments concluded on July 30, 2008. At trial, the plaintiffs claimed damages in excess of £700 million, and EDS and EDS UK counterclaimed for damages of approximately £5 million. On January 26, 2010, the court issued a decision finding EDS UK liable to the plaintiffs for deceit in one area of the claim, for negligent misrepresentation and negligent misstatement in another area of the claim, and for breach of contract. The court dismissed all of plaintiffs' other claims. On March 1, 2010, the court ordered HP to make an interim payment to the plaintiffs of £70 million, which is in addition to an interim payment of £200 million that HP made voluntarily to the plaintiffs in February 2010. In June 2010, the parties settled the litigation between them and all related claims for a total amount of £318 million. As a result of the settlement, HP will be required to make a final payment to the plaintiffs of £48 million.

*Skold, et al. v. Intel Corporation and Hewlett-Packard Company* is a lawsuit in which HP was joined on June 14, 2004 that is pending in state court in Santa Clara County, California. The lawsuit alleges that HP (along with Intel) misled the public by suppressing and concealing the alleged material fact that systems that use the Intel Pentium 4 processor are less powerful and slower than systems using the Intel Pentium III processor and processors made by a competitor of Intel. The plaintiffs seek unspecified damages, restitution, attorneys' fees and costs, and certification of a nationwide class. On February 27, 2009, the court denied with prejudice plaintiffs' motion for nationwide class certification for a third time. The plaintiffs have appealed the court's decision.

*Inkjet Printer Litigation*. As described below, HP is involved in several lawsuits claiming breach of express and implied warranty, unjust enrichment, deceptive advertising and unfair business practices where the plaintiffs have alleged, among other things, that HP employed a "smart chip" in certain inkjet printing products in order to register ink depletion prematurely and to render the cartridge unusable through a built-in expiration date that is hidden, not documented in marketing materials to consumers, or both. The plaintiffs have also contended that consumers received false ink depletion warnings and that the smart chip limits the ability of consumers to use the cartridge to its full capacity or to choose competitive products.

A consolidated lawsuit captioned *In re HP Inkjet Printer Litigation* is pending in the United States District Court for the Northern District of California where the plaintiffs are seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees. On January 4, 2008, the court heard plaintiffs' motions for class certification and to add a class representative and HP's motion for summary judgment. On July 25, 2008, the court denied all three motions. On March 30, 2009, the plaintiffs filed a renewed motion for class certification. A hearing on the plaintiffs' motion for class certification scheduled for April 9, 2010 was postponed, and no new date has been scheduled.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 16: Litigation and Contingencies (Continued)**

A lawsuit captioned *Blennis v. HP* was filed on January 17, 2007 in the United States District Court for the Northern District of California where the plaintiffs are seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees. A class certification hearing was scheduled for May 21, 2010 but has been taken off of the calendar.

Four class actions against HP and its subsidiary, Hewlett-Packard (Canada) Co., are pending in Canada, one commenced in British Columbia in February 2006, two commenced in Quebec in April 2006 and May 2006, respectively, and one commenced in Ontario in June 2006, where the plaintiffs are seeking class certification, restitution, declaratory relief, injunctive relief and unspecified statutory, compensatory and punitive damages. In March 2010, one of the Quebec cases was voluntarily dismissed by the plaintiff.

*Baggett v. HP* is a consumer class action filed against HP on June 6, 2007 in the United States District Court for the Central District of California alleging that HP employs a technology in its LaserJet color printers whereby the printing process shuts down prematurely, thus preventing customers from using the toner that is allegedly left in the cartridge. The plaintiffs also allege that HP fails to disclose to consumers that they will be unable to utilize the toner remaining in the cartridge after the printer shuts down. The complaint seeks certification of a nationwide class of purchasers of all HP LaserJet color printers and seeks unspecified damages, restitution, disgorgement, injunctive relief, attorneys' fees and costs. On September 29, 2009, the court granted HP's motion for summary judgment against the named plaintiff and denied plaintiff's motion for class certification as moot. On November 3, 2009, the court entered judgment against the named plaintiff. On November 17, 2009, plaintiff filed an appeal of the court's summary judgment ruling with the United States Court of Appeals for the Ninth Circuit.

*Rich v. HP* is a consumer class action filed against HP on May 22, 2006 in the United States District Court for the Northern District of California. The suit alleges that HP designed its color inkjet printers to unnecessarily use color ink in addition to black ink when printing black and white images and text. The plaintiffs are seeking to certify a nationwide injunctive class and a California-only damages class. A class certification hearing was scheduled for May 7, 2010 but has been taken off of the calendar.

On December 27, 2001, *Cornell University* and the *Cornell Research Foundation, Inc.* filed a complaint, amended on September 6, 2002, against HP in United States District Court for the Northern District of New York alleging that HP's PA-RISC 8000 family of microprocessors, and servers and workstations incorporating those processors, infringe a patent assigned to Cornell Research Foundation, Inc. that describes a way of executing microprocessor instructions. The complaint sought declaratory and injunctive relief and unspecified damages. The patent at issue in this litigation, United States Patent No. 4,807,115, expired on February 21, 2006. Therefore, the plaintiffs are no longer entitled to seek injunctive relief against HP. This matter was tried between May 19 and May 30, 2008, and, on May 30, 2008, a jury returned a verdict in favor of the plaintiffs in the amount of \$184 million. On March 30, 2009, the trial court issued four post-trial decisions. The court denied several of HP's post-trial motions, but granted HP's motion to reduce the damages award. The court reduced the award to approximately \$53 million and subsequently entered judgment in favor of the plaintiffs in that amount. On May 15, 2009, the court awarded approximately \$17 million in pre-judgment interest and

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 16: Litigation and Contingencies (Continued)**

approximately \$1 million in costs and subsequently entered an amended judgment reflecting those awards. In May 2010, the parties entered into a settlement agreement pursuant to which HP will pay the plaintiffs an aggregate of \$75 million in exchange for the settlement of all claims brought against HP relating to the patent at issue in the litigation.

Fair Labor Standards Act Litigation. HP is involved in several lawsuits in which the plaintiffs are seeking unpaid overtime compensation and other damages based on allegations that various employees of EDS or HP have been misclassified as exempt employees under the Fair Labor Standards Act and/or in violation of the California Labor Code or other state laws. Those matters include the following:

Cunningham and Cunningham, et al. v. Electronic Data Systems Corporation is a purported collective action filed on May 10, 2006 in the U.S. District Court for the Southern District of New York claiming that current and former EDS employees involved in installing and/or maintaining computer software and hardware were misclassified as exempt employees. Two other purported collective actions, Stevens, et al. v. Electronic Data Systems Corporation, which was filed on October 23, 2007, and Azar v. Electronic Data Systems Corporation, which was filed on February 20, 2009, are also now pending in the same court alleging similar facts.

Heffelfinger, et al. v. Electronic Data Systems Corporation is a class action filed in November 2006 in California Superior Court claiming that certain EDS information technology workers in California were misclassified as exempt employees. The case was subsequently transferred to the U.S. District Court for the Central District of California, which, on January 7, 2008, certified a class of information technology workers in California. On June 6, 2008, the court granted the defendant's motion for summary judgment. The plaintiffs subsequently filed an appeal with the U.S. Court of Appeals for the Ninth Circuit, which is pending. Two other purported class actions originally filed in California Superior Court, Karlbom, et al. v. Electronic Data Systems Corporation, which was filed on March 16, 2009, and George, et al. v. Electronic Data Systems Corporation, which was filed on April 2, 2009, allege similar facts. The Karlbom case is pending in San Diego County Superior Court, and the George case is pending in the U.S. District Court for the Southern District of New York.

The United States of America, ex rel. Norman Rille and Neal Roberts v. Hewlett-Packard Company, et al. In 2004, two private individuals filed a civil "qui tam" complaint under the False Claims Act in the United States District Court for the Eastern District of Arkansas containing generalized allegations that HP and several other companies participated in an industry-wide practice of using partnership and alliance programs to make improper payments and cause the submission of false claims in connection with contracts to provide products and services to the federal government. On April 12, 2007, the U.S. Department of Justice intervened in the *qui tam* action and filed a complaint against HP (and several other companies in separate actions) on behalf of the United States containing allegations that HP violated the False Claims Act and the Anti-Kickback Act of 1986 by providing millions of dollars in kickbacks to its alliance partners, including "influencer fees" and "new business opportunity rebates." The U.S. complaint further alleges that HP violated the False Claims Act and the Anti-Kickback Act, breached its federal government contracts, induced the federal government to make payments to HP that HP was not entitled to receive under those contracts, and was unjustly enriched by expressly or impliedly making false statements, records or certifications to the federal government that it complied with and would continue to comply with the Anti-Kickback Act and by submitting claims to the

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 16: Litigation and Contingencies (Continued)**

government that allegedly were inflated because they included the amounts of the influencer fees and new business opportunity rebates. The U.S. complaint seeks treble damages plus civil penalties in connection with the alleged violations of the False Claims Act, double damages plus civil penalties in connection with the alleged violations of the Anti-Kickback Act and disgorgement of profits earned in connection with the breach of contract and unjust enrichment claims.

India Directorate of Revenue Intelligence Proceedings. On April 30 and May 4, 2010, the India Directorate of Revenue Intelligence (the "DRI") issued show cause notices to Hewlett-Packard India Sales Private Ltd. ("HPI"), seven current HP employees and one former HP employee alleging that HP has underpaid customs duties while importing products and spare parts into India and seeking to recover an aggregate of approximately \$370 million, plus penalties. On June 2, 2010, the DRI issued an additional show cause notice to HPI and three current HPI employees alleging that HP has failed to pay customs duties on the appropriate value of recovery CDs containing Microsoft operating systems and seeking to recover approximately \$5.3 million, plus penalties. HP intends to contest the show cause notices through the judicial process. HP has deposited a total of approximately \$16.7 million with the DRI and agreed to post a provisional bond in exchange for the DRI's agreement not to seize HP products and spare parts and not to interrupt the transaction of business by HP in India. HP is in the process of responding to the show cause notices.

Leak Investigation Proceedings. As described below, HP is or has been the subject of various governmental inquiries concerning the processes employed in an investigation into leaks of HP confidential information to members of the media that concluded in May 2006:

In August 2006, HP was informally contacted by the Attorney General of the State of California requesting information concerning the processes employed in the leak investigation. On December 7, 2006, HP announced that it entered into an agreement with the California Attorney General to resolve civil claims arising from the leak investigation, including a claim made by the California Attorney General in a Santa Clara County Superior Court action filed on December 7, 2006, that HP committed unfair business practices under California law in connection with the leak investigation. As a result of this agreement, which includes an injunction, the California Attorney General will not pursue civil claims against HP or its current and former directors, officers and employees. Under the terms of the agreement, HP paid a total of \$14.5 million and agreed to implement and maintain for five years a series of measures designed to ensure that HP's corporate investigations are conducted in accordance with California law and the company's high ethical standards. Of the \$14.5 million, \$13.5 million has been used to create a Privacy and Piracy Fund to assist California prosecutors in investigating and prosecuting consumer privacy and information piracy violations, \$650,000 was used to pay statutory damages and \$350,000 reimbursed the California Attorney General's office for its investigation costs. There was no finding of liability against HP as part of the settlement.

Beginning in September 2006, HP received requests from the Committee on Energy and Commerce of the U.S. House of Representatives (the "Committee") for records and information concerning the leak investigation, securities transactions by HP officers and directors, including an August 25, 2006, securities transaction by Mark Hurd, HP's Chairman and Chief Executive Officer, and related matters. HP has responded to those requests. In addition, Mr. Hurd voluntarily gave testimony to the Committee regarding the leak investigation on September 28, 2006.



**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 16: Litigation and Contingencies (Continued)**

In September 2006, HP was informally contacted by the U.S. Attorney for the Northern District of California requesting similar information concerning the processes employed in the leak investigation. HP has responded to that request.

Beginning in September 2006, HP has received requests from the Division of Enforcement of the Securities and Exchange Commission for records and information and interviews with current and former HP directors and officers relating to the leak investigation, the resignation of Thomas J. Perkins from HP's Board of Directors, HP's May 22, 2006 and September 6, 2006 filings with the SEC on Form 8-K, stock repurchases by HP and securities transactions by its officers and directors that occurred between May 1 and October 1, 2006, and HP's policies, practices and approval of securities transactions. In May 2007, HP consented to the entry of an order by the SEC ordering HP to cease and desist from committing or causing violations of the public reporting requirements of the Securities Exchange Act of 1934, as amended. HP has been advised by the staff of the Division of Enforcement that the staff has completed its investigation and does not intend to recommend that any other SEC enforcement action be brought in connection with these matters.

In September 2006, HP received a request from the U.S. Federal Communications Commission for records and information relating to the processes employed in the leak investigation. HP has responded to that request.

In addition, four stockholder derivative lawsuits have been filed in California purportedly on behalf of HP stockholders seeking to recover damages for alleged breach of fiduciary duty and to require HP to improve its corporate governance and internal control procedures as a result of the activities of the leak investigation: Staehr v. Dunn, et al. was filed in Santa Clara County Superior Court on September 18, 2006; Worsham v. Dunn, et al. was filed in Santa Clara County Superior Court on September 14, 2006; Tansey v. Dunn, et al. was filed in Santa Clara County Superior Court on September 20, 2006; and Hall v. Dunn, et al. was filed in Santa Clara County Superior Court on September 25, 2006. On October 19, 2006, the Santa Clara County Superior Court consolidated the four California cases under the caption In re Hewlett-Packard Company Derivative Litigation. The consolidated complaint filed on November 19, 2006, also seeks to recover damages in connection with sales of HP stock alleged to have been made by certain current and former HP officers and directors while in possession of material non-public information. Two additional stockholder derivative lawsuits, Pifko v. Babbio, et al., filed on September 19, 2006, and Gross v. Babbio, et al., filed on November 21, 2006, were filed in Chancery Court, County of New Castle, Delaware; both seek to recover damages for alleged breaches of fiduciary duty and to obtain an order instructing the defendants to refrain from further breaches of fiduciary duty and to implement corrective measures that will prevent future occurrences of the alleged breaches of fiduciary duty. On January 24, 2007, the Delaware court consolidated the two cases under the caption In re Hewlett-Packard Company Derivative Litigation and subsequently stayed the proceedings, as the parties had reached a tentative settlement. The HP Board of Directors appointed a Special Litigation Committee consisting of independent Board members authorized to investigate, review and evaluate the facts and circumstances asserted in these derivative matters and to determine how HP should proceed in these matters. On December 14, 2007, HP and the plaintiffs in the California and Delaware derivative actions entered into an agreement to settle those lawsuits. Under the terms of the settlement, HP agreed to continue certain corporate governance

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 16: Litigation and Contingencies (Continued)**

changes until December 31, 2012 and to pay the plaintiffs' attorneys' fees. The California court granted final approval to the settlement on March 11, 2008 and subsequently granted plaintiffs' counsel's fee application and dismissed the action. On June 12, 2008, the Delaware court granted final approval to the settlement and the plaintiffs' application for attorneys' fees and also dismissed the action. Because neither the dismissal of the California nor the Delaware derivative action was thereafter appealed, both cases are now concluded.

*Environmental*

HP is subject to various federal, state, local and foreign laws and regulations concerning environmental protection, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, the content of its products and the recycling, treatment and disposal of its products including batteries. In particular, HP faces increasing complexity in its product design and procurement operations as it adjusts to new and future requirements relating to the chemical and materials composition of its products, their safe use, the energy consumption associated with those products and product take-back legislation. HP could incur substantial costs, its products could be restricted from entering certain jurisdictions, and it could face other sanctions, if it were to violate or become liable under environmental laws or if its products become non-compliant with environmental laws. HP's potential exposure includes fines and civil or criminal sanctions, third-party property damage or personal injury claims and clean up costs. The amount and timing of costs under environmental laws are difficult to predict.

HP is party to, or otherwise involved in, proceedings brought by U.S. or state environmental agencies under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), known as "Superfund," or state laws similar to CERCLA. HP is also conducting environmental investigations or remediations at several current or former operating sites pursuant to administrative orders or consent agreements with state environmental agencies.

HP is also subject to legislation in an increasing number of jurisdictions that makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products (sometimes referred to as "product take-back legislation"). For example, the European Union ("EU") adopted the Waste Electrical and Electronic Equipment Directive in January 2003. That directive makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. The EU member states were obliged to make producers participating in the market financially responsible for implementing these responsibilities.

**Note 17: Segment Information**

*Description of Segments*

HP is a leading global provider of products, technologies, software, solutions and services to individual consumers, small and medium sized businesses ("SMBs"), and large enterprises including customers in the government, health and education sectors. HP's offerings span personal computing

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 17: Segment Information (Continued)**

and other access devices; imaging and printing-related products and services; enterprise information technology ("IT") infrastructure, including enterprise storage and server technology and networking products; software that optimizes business technology investments; financial services including leasing; and multi-vendor customer services, including technology support and maintenance, consulting and integration, information technology and business process outsourcing services and application services.

HP and its operations are organized into seven business segments for financial reporting purposes: Services, ESS, HP Software, PSG, IPG, HP Financial Services ("HPFS"), and Corporate Investments. HP's organizational structure is based on a number of factors that management uses to evaluate, view and run its business operations, which include, but are not limited to, customer base, homogeneity of products and technology. The business segments disclosed in the accompanying Consolidated Condensed Financial Statements are based on this organizational structure and information reviewed by HP's management to evaluate the business segment results. Services, ESS and HP Software are reported collectively as a broader HP Enterprise Business. In order to provide a supplementary view of HP's business, aggregated financial data for the HP Enterprise Business is presented herein.

HP has reclassified segment operating results for fiscal 2009 to conform to certain fiscal 2010 organizational realignments. None of the changes impacts HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share. Future changes to this organizational structure may result in changes to the business segments disclosed.

A description of the types of products and services provided by each business segment follows.

*HP Enterprise Business.*

Each of the business segments within the HP Enterprise Business is described in detail below.

*Services* provides consulting, outsourcing and technology services across infrastructure, applications and business process domains. Services is divided into four main business units: infrastructure technology outsourcing, applications services, business process outsourcing and technology services. Infrastructure technology outsourcing delivers comprehensive services that encompass the data center and the workplace (desktop); network and communications; and security, compliance and business continuity. HP also offers a set of managed services, providing a cross-section of its broader infrastructure services for smaller discrete engagements. Applications services help clients revitalize and manage their applications assets through flexible, project-based, consulting services and longer-term outsourcing contracts. These full lifecycle services encompass application development, testing, modernization, system integration, maintenance and management. Business process outsourcing solutions include a broad array of enterprise shared services, customer relationship management services, financial process management services and administrative services. Technology services include consulting and support services, such as mission critical services, converged infrastructure services, networking services, data center transformation services and infrastructure services, as well as warranty support across HP's product lines.

*Enterprise Storage and Servers* provides storage and server products. The various server offerings range from entry-level servers to high-end scalable servers, including Superdome servers. Industry standard servers include primarily entry-level and mid-range ProLiant servers, which run

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 17: Segment Information (Continued)**

primarily Windows®<sup>(1)</sup>, Linux and Novell operating systems and leverage Intel Corporation ("Intel") and Advanced Micro Devices ("AMD") processors. The business spans a range of product lines, including pedestal-tower servers, density-optimized rack servers and HP's BladeSystem family of server blades. Business critical systems focused on mission critical and highly scalable customer applications include: Itanium®<sup>(2)</sup>-based Integrity servers running on HP-UX, Windows®, Linux, OpenVMS and NonStop operating systems, including the high-end Integrity Superdome servers and fault-tolerant Integrity NonStop servers. HP's StorageWorks offerings include entry-level, mid-range and high-end arrays, storage area networks ("SANs"), network attached storage ("NAS"), storage management software, and virtualization technologies, as well as tape drives, tape libraries and optical archival storage.

---

(1) Windows® is a registered trademark of Microsoft Corporation.

(2) Itanium® is a registered trademark of Intel Corporation.

*HP Software* provides enterprise software and services. Enterprise IT management products and services, which are marketed as HP's business technology optimization (BTO) portfolio, help customers to manage IT infrastructure and services, operations, applications, and business processes and to automate data center operations and IT processes. Solutions are delivered in the form of traditional software licenses and, in some cases, via a software-as-a-service (SaaS) distribution model. Other software includes information management, business intelligence, and communications and media solutions. Our information management products and services automate the retention, management, search and segregation of information across the enterprise. Business intelligence solutions enable businesses to standardize on consistent data management schemes, connect and share data across the enterprise and apply analytics. Communications and media solutions enable service providers, media companies, and network equipment providers to create, deliver, and manage consumer and enterprise communications services.

HP's other business segments are described below.

*Personal Systems Group* provides commercial PCs, consumer PCs, workstations, handheld computing devices, calculators and other related accessories, software and services for the commercial and consumer markets. Commercial PCs are optimized for commercial uses, including enterprise and SMB customers, and for connectivity and manageability in networked environments. Commercial PCs include the HP Compaq, HP Pro, and HP Elite lines of business desktops and notebooks, as well as the Touchsmart PC, All in One PC, HP Mini-Note PC, HP Blade PCs, Retail POS systems, and HP Thin Clients. Consumer PCs are targeted at the home user and include the HP Pavilion and Compaq Presario series of multi media consumer desktops and notebooks, as well as the HP Pavilion Elite desktops, HP Envy Premium notebooks, Touchsmart PCs, All in One PC, HP and Compaq Mini notebooks, and the Media Smart Home Server. HP's Z series desktop workstations and HP Elitebook Mobile Workstations provide advanced graphics, computing, and large modeling capabilities, certified with applications in a wide range of industries and running both Windows® and Linux operating systems. PSG provides a series of HP iPAQ Pocket PC handheld computing devices that run on Windows® Mobile

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

**Note 17: Segment Information (Continued)**

software. These products range from basic PDAs to advanced devices with voice and data capability.

*Imaging and Printing Group* provides consumer and commercial printer hardware, printing supplies, printing media and scanning devices. IPG is also focused on imaging solutions in the commercial markets. These solutions range from managed print services solutions to addressing new growth opportunities in commercial printing and capturing high-value pages in areas such as industrial applications, outdoor signage, and the graphic arts business. Inkjet and Web Solutions delivers HP's consumer and SMB inkjet solutions (hardware, supplies, media) and develops HP's retail and web businesses. It includes single function and all-in-one inkjet printers targeted toward consumers and SMBs as well as retail publishing solutions, Snapfish, and Logoworks. LaserJet and Enterprise Solutions delivers products and services to the enterprise segment. It includes LaserJet printers and supplies, multi-function printers, scanners, and enterprise software solutions such as Exstream Software and Web Jetadmin. Graphics solutions include large format printing (Designjet and Scitex), large format supplies, WebPress supplies, Indigo printing, specialty printing systems and inkjet high-speed production solutions. Printer supplies include LaserJet toner and inkjet printer cartridges and other printing-related media.

*HP Financial Services* supports and enhances HP's global product and services solutions, providing a broad range of value-added financial life-cycle management services. HPFS enables HP's worldwide customers to acquire complete IT solutions, including hardware, software and services. HPFS offers leasing, financing, utility programs, and asset recovery services, as well as financial asset management services, for large global and enterprise customers. HPFS also provides an array of specialized financial services to SMBs and educational and governmental entities. HPFS offers innovative, customized and flexible alternatives to balance unique customer cash flow, technology obsolescence and capacity needs.

*Corporate Investments* includes HP Labs, network infrastructure products and certain business incubation projects. Revenue in this segment is attributable to the sale of certain network infrastructure products, which span from the data center to the edge of the network and are sold under the ProCurve, 3Com and TippingPoint brands. The segment also includes certain video collaboration products sold under the brand "Halo."

*Segment Data*

HP derives the results of the business segments directly from its internal management reporting system. The accounting policies HP uses to derive business segment results are substantially the same as those the consolidated company uses. Management measures the performance of each business segment based on several metrics, including earnings from operations. Management uses these results, in part, to evaluate the performance of, and to assign resources to, each of the business segments. HP does not allocate to its business segments certain operating expenses, which it manages separately at the corporate level. These unallocated costs include primarily amortization of purchased intangible assets, stock-based compensation expense related to HP-granted employee stock options, PRUs and the employee stock purchase plan, certain acquisition-related charges and charges for purchased IPR&D, as well as certain corporate governance costs.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 17: Segment Information (Continued)

HP does not allocate to its business segments restructuring charges and any associated adjustments related to restructuring actions.

Selected operating results information for each business segment was as follows:

	Three months ended April 30			
	Net Revenue		Earnings (Loss) from Operations	
	2010	2009 <sup>(1)</sup>	2010	2009 <sup>(1)</sup>
	In millions			
Services	\$ 8,712	\$ 8,500	\$ 1,382	\$ 1,174
Enterprise Storage and Servers	4,542	3,457	571	250
HP Software	871	880	162	157
HP Enterprise Business	14,125	12,837	2,115	1,581
Personal Systems Group	9,956	8,210	465	378
Imaging and Printing Group	6,396	5,916	1,098	1,074
HP Financial Services	755	641	69	46
Corporate Investments	315	188	12	(19)
Segment total	\$ 31,547	\$ 27,792	\$ 3,759	\$ 3,060

	Six months ended April 30			
	Net Revenue		Earnings (Loss) from Operations	
	2010	2009 <sup>(1)</sup>	2010	2009 <sup>(1)</sup>
	In millions			
Services	\$ 17,363	\$ 17,247	\$ 2,746	\$ 2,298
Enterprise Storage and Servers	8,933	7,406	1,123	656
HP Software	1,749	1,758	329	297
HP Enterprise Business	28,045	26,411	4,198	3,251
Personal Systems Group	20,540	17,002	995	814
Imaging and Printing Group	12,602	11,897	2,152	2,179
HP Financial Services	1,474	1,277	136	87
Corporate Investments	551	384	31	(38)
Segment total	\$ 63,212	\$ 56,971	\$ 7,512	\$ 6,293

(1) As a result of HP's adoption in fiscal 2009 of the revenue recognition standards related to multiple-deliverable revenue arrangements and revenue arrangements that included software, certain previously reported segment and business unit results have been restated. The adoption primarily impacted the Services, Enterprise Storage and Servers and Personal Systems Group financial reporting segments.



## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 17: Segment Information (Continued)

The reconciliation of segment operating results information to HP consolidated totals was as follows:

	Three months ended April 30		Six months ended April 30	
	2010	2009	2010	2009
	In millions			
Net revenue:				
Segment total	\$ 31,547	\$ 27,792	\$ 63,212	\$ 56,971
Elimination of inter-segment net revenue and other	(698)	(409)	(1,186)	(781)
Total HP consolidated net revenue	\$ 30,849	\$ 27,383	\$ 62,026	\$ 56,190
Earnings before taxes:				
Total segment earnings from operations	\$ 3,759	\$ 3,060	\$ 7,512	\$ 6,293
Corporate and unallocated costs and eliminations	(112)	(62)	(200)	(38)
Unallocated costs related to stock-based compensation expense	(185)	(156)	(348)	(304)
Amortization of purchased intangible assets	(347)	(380)	(677)	(792)
In-process research and development charges				(6)
Restructuring charges	(180)	(94)	(311)	(240)
Acquisition-related charges	(77)	(75)	(115)	(123)
Interest and other, net	(91)	(180)	(290)	(412)
Total HP consolidated earnings before taxes	\$ 2,767	\$ 2,113	\$ 5,571	\$ 4,378

HP allocates its assets to its business segments based on the primary segments benefiting from the asset. The total assets of PSG decreased 10% to \$13.3 billion as of April 30, 2010 from \$14.8 billion as of October 31, 2009 due primarily to a decline in accounts and other receivables as a result of improved linearity across the period. The total assets of IPG decreased 10% to \$10.6 billion as of April 30, 2010 from \$11.7 billion as of October 31, 2009 due to improved linearity in accounts and other receivables as well as reductions in property, plant and equipment and deferred income tax assets. The total assets allocated to Corporate Investments increased 26% to \$16.2 billion as of April 30, 2010 from \$12.9 billion as of October 31, 2009 mostly due to the 3Com acquisition. There have been no material changes in the total assets of HP's other segments for the six months ended April 30, 2010 as compared to the fiscal year ended October 31, 2009.



## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

## Note 17: Segment Information (Continued)

*Net revenue by segment and business unit*

	Three months ended April 30		Six months ended April 30	
	2010	2009 <sup>(1)(2)</sup>	2010	2009 <sup>(1)(2)</sup>
	In millions			
Net revenue:				
Infrastructure technology outsourcing	\$ 3,998	\$ 3,762	\$ 7,931	\$ 7,605
Technology services	2,420	2,418	4,826	4,871
Application services	1,512	1,541	3,021	3,173
Business process outsourcing	716	719	1,450	1,473
Other	66	60	135	125
Services <sup>(1)</sup>	8,712	8,500	17,363	17,247
Industry standard servers	3,056	1,989	6,002	4,311
Storage	948	818	1,837	1,731
Business critical systems	538	650	1,094	1,364
Enterprise Storage and Servers	4,542	3,457	8,933	7,406
Business technology optimization	584	568	1,175	1,162
Other software	287	312	574	596
HP Software	871	880	1,749	1,758
HP Enterprise Business	14,125	12,837	28,045	26,411
Notebooks	5,513	4,706	11,638	9,613
Desktops	3,788	2,977	7,628	6,285
Workstations	423	287	798	620
Handhelds	24	47	49	104
Other	208	193	427	380
Personal Systems Group	9,956	8,210	20,540	17,002
Supplies	4,331	4,103	8,412	8,153
Commercial hardware	1,348	1,193	2,639	2,432
Consumer hardware	717	620	1,551	1,312
Imaging and Printing Group	6,396	5,916	12,602	11,897
HP Financial Services	755	641	1,474	1,277
Corporate Investments	315	188	551	384
Total segments	31,547	27,792	63,212	56,971
Eliminations of inter-segment net revenue and other	(698)	(409)	(1,186)	(781)

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Total HP consolidated net revenue      \$ 30,849   \$ 27,383   \$ 62,026   \$ 56,190

---

- (1) Certain fiscal 2010 organizational reclassifications have been reflected retroactively to provide improved visibility and comparability. For each of the quarters in fiscal year 2009, the reclassifications resulted in the transfer of revenue among the business units within the Services segment only. There was no impact to the previously reported segment financial results.
- (2) As a result of HP's adoption in fiscal 2009 of the revenue recognition standards related to multiple-deliverable revenue arrangements and revenue arrangements that included software, certain previously reported segment and business unit results have been restated. The adoption primarily impacted the Services, Enterprise Storage and Servers and Personal Systems Group financial reporting segments.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with the Consolidated Condensed Financial Statements and the related notes that appear elsewhere in this document.*

**OVERVIEW**

We are a leading global provider of products, technologies, software, solutions and services to individual consumers, small- and medium-sized businesses, and large enterprises, including customers in the government, health and education sectors. Our offerings span:

multi-vendor customer services, including infrastructure technology and business process outsourcing, technology support and maintenance, application development and support services, and consulting and integration services;

enterprise information technology infrastructure, including enterprise storage and server technology, networking products and resources, and software that optimizes business technology investments;

personal computing and other access devices; and

imaging and printing-related products and services.

We have seven business segments for financial reporting purposes: Services, Enterprise Storage and Servers ("ESS"), HP Software, the Personal Systems Group ("PSG"), the Imaging and Printing Group ("IPG"), HP Financial Services ("HPFS"), and Corporate Investments. Services, ESS and HP Software are reported collectively as a broader HP Enterprise Business. While the HP Enterprise Business is not an operating segment, we sometimes provide financial data aggregating the segments within it in order to provide a supplementary view of our business.

Our strategy and operations are currently focused on the following initiatives:

*Competitive Positioning*

We are positioning our businesses to take advantage of important trends in the markets for our products and services. For example, we are aligning our printing business to capitalize on key market trends such as the shift from analog to digital printing and the growth in printable content by developing innovative products for consumers such as the first web-connected home printer, working to enable web and mobile printing, expanding our presence in high-usage annuity businesses including graphics and retail publishing printing, and growing our managed print services business. We are also positioning our enterprise business to capitalize on the trend towards converged infrastructure products that integrate storage, networking, servers and management software, while also delivering services for that converged infrastructure in a manner that best fits each client's needs, be it at a client site, as an outsourced service or via the Internet. In addition, we have developed IT management software offerings that seek to satisfy the increasing demand for virtualization management and increased automation.

*Driving Operational Efficiency*

We have implemented an ongoing program to optimize efficiency and reduce cost across the company. As part of those efforts, we are continuing to execute on our multi-year program to consolidate real estate locations worldwide to fewer core sites in order to reduce our IT spending and real estate costs. We are also continuing to implement the restructuring plan announced in the fourth quarter of fiscal 2008 to optimize the cost structure of our Services business and the restructuring plan

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

announced in May 2009 to structurally change and improve the effectiveness of several of our product businesses. In addition, we are beginning to implement the new restructuring plan announced on June 1, 2010 relating to our enterprise services business, which includes our infrastructure technology outsourcing, business process outsourcing and application services business units, that is intended to enhance client experience and better position the business for growth. See Note 7 to the Consolidated Condensed Financial Statements in Item 1 for further discussion of these restructuring plans and the associated restructuring charges.

### *Investing for Growth*

We are investing some of the savings derived from our efficiency initiatives for growth. For example, we are increasing our sales coverage to better address the markets we cover, including further expansion in emerging markets such as China, India and Brazil. We are creating innovative new products and developing new channels to connect with our customers, particularly in our PC business. In addition, we are expanding our portfolio of products and services that we can offer to our customers, both through acquisitions and through organic growth. A critical component of this strategy was our acquisition of Electronic Data Systems Corporation ("EDS") in August 2008, which has increased the size and breadth of our services business and enabled us to provide comprehensive IT product and services solutions to our customers. In addition, with the completion of the acquisition of 3Com Corporation in April 2010, we are accelerating our investments in networking.

In April 2010, we entered into a definitive agreement to acquire Palm, Inc., a provider of smartphones powered by the Palm webOS mobile operating system, for an enterprise value of approximately \$1.2 billion. The acquisition has received clearance from the U.S. Federal Trade Commission and all other required pre-closing antitrust approvals. The acquisition remains subject to other customary closing conditions, including the approval of Palm's stockholders. The transaction is expected to close in our third fiscal quarter of 2010.

### *Leveraging our Portfolio and Scale*

We now offer one of the IT industry's broadest portfolios of products and services, and we are working to leverage that portfolio as a strategic advantage. For example, in our enterprise business, we are able to provide servers, storage and networking products packaged with services that can be delivered to customers in the manner of their choosing, be it in-house, outsourced or as a service via the Internet. Our portfolio of management software completes the package by allowing our customers to manage their IT operations in an efficient and cost-effective manner. In addition, we are working to optimize our supply chain by eliminating complexity, reducing fixed costs, and leveraging our scale to ensure the availability of components at favorable prices even during shortages. We are also expanding our use of industry standard components in our enterprise products to further leverage our scale.

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

The following provides an overview of our key financial metrics in the second quarter and first half of fiscal 2010 and demonstrates how our execution of these initiatives has translated into financial performance:

	HP Enterprise Business							
	HP <sup>(1)</sup> Consolidated	Services	ESS	Software	Total	PSG	IPG	HPFS
<b>In millions, except per share amounts</b>								
<b>Three Months Ended April 30</b>								
Net revenue	\$ 30,849	\$ 8,712	\$ 4,542	\$ 871	\$ 14,125	\$ 9,956	\$ 6,396	\$ 755
Year-over-year net revenue % increase (decrease)	12.7%	2.5%	31.4%	(1.0)%	10.0%	21.3%	8.1%	17.8%
Earnings from operations	\$ 2,858	\$ 1,382	\$ 571	\$ 162	\$ 2,115	\$ 465	\$ 1,098	\$ 69
Earnings from operations as a % of net revenue	9.3%	15.9%	12.6%	18.6%	15.0%	4.7%	17.2%	9.1%
Net earnings	\$ 2,200							
Net earnings per share								
Basic	\$ 0.94							
Diluted	\$ 0.91							
<b>Six Months Ended April 30</b>								
Net revenue	\$ 62,026	\$ 17,363	\$ 8,933	\$ 1,749	\$ 28,045	\$ 20,540	\$ 12,602	\$ 1,474
Year-over-year net revenue % increase (decrease)	10.4%	0.7%	20.6%	(0.5)%	6.2%	20.8%	5.9%	15.4%
Earnings from operations	\$ 5,861	\$ 2,746	\$ 1,123	\$ 329	\$ 4,198	\$ 995	\$ 2,152	\$ 136
Earnings from operations as a % of net revenue	9.4%	15.8%	12.6%	18.8%	15.0%	4.8%	17.1%	9.2%
Net earnings	\$ 4,450							
Net earnings per share								
Basic	\$ 1.89							
Diluted	\$ 1.84							

(1) Includes Corporate Investments and eliminations.

Cash and cash equivalents at April 30, 2010 totaled \$14.1 billion, an increase of \$0.8 billion from the October 31, 2009 balance of \$13.3 billion. The increase for the first six months of fiscal 2010 was due primarily to \$5.5 billion of cash provided from operations, \$1.7 billion of proceeds from the net issuance of debt and \$2.3 billion of proceeds from the issuance of common stock under employee stock plans, the effect of which was partially offset by \$2.5 billion of net cash paid for business acquisitions, \$4.5 billion of cash used to repurchase common stock and \$1.5 billion of net investment in property, plant and equipment.

We intend for the discussion of our financial condition and results of operations that follows to provide information that will assist in understanding our Consolidated Condensed Financial Statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our Consolidated Condensed Financial Statements.

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

The discussion of results of operations at the consolidated level is followed by a more detailed discussion of results of operations by segment.

For a further discussion of trends, uncertainties and other factors that could impact our operating results, see the section entitled "Factors That Could Affect Future Results."

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Consolidated Condensed Financial Statements, which we have prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets,

liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of significant estimates with the Audit Committee of our Board of Directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. Except for the changes in business combination accounting policies as illustrated below, management believes that there have been no other significant changes during the six months ended April 30, 2010 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended October 31, 2009.

In fiscal 2010, we adopted a new accounting standard related to business combinations. We have included the results of operations of the business that we acquired in fiscal 2010 in our consolidated results as of the date of the acquisition. We allocate the purchase price of our acquisitions to the tangible assets, liabilities and intangible assets acquired, including in-process research and development ("IPR&D"), based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. IPR&D is capitalized at fair value as an indefinite-lived intangible asset until the project is complete. Acquisition-related expenses and restructuring costs are recognized separately from the business combination and expensed as incurred. Measurement period adjustments that HP determines to be material will be applied retrospectively to the period of acquisition in HP's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected.

#### **ACCOUNTING PRONOUNCEMENTS**

The following is a summary of certain accounting pronouncements with application to our consolidated financial statements in future periods.

In December 2008, the Financial Accounting Standards Board ("FASB") issued a new accounting standard that requires additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. We will adopt this new accounting standard effective October 31, 2010. We will present the required disclosures in the prescribed format on a prospective basis upon adoption. This new standard will only affect the notes to our consolidated financial statements.

In June 2009, the FASB issued a new accounting standard related to the consolidation of variable interest entities. It eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This new standard also requires additional disclosures about an enterprise's involvement in variable interest entities. We will adopt this new accounting standard in the first quarter of fiscal 2011. We do not expect the adoption of this standard will have a material effect on our consolidated condensed financial statements.

#### **CONSTANT CURRENCY PRESENTATION**

Revenue from our international operations has historically represented, and we expect will continue to represent, a majority of our overall net revenue. As a result, our revenue growth has been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. In order to provide a framework for assessing how each of our business segments performed

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

excluding the impact of foreign currency fluctuations, we present the year-over-year percentage change in revenue performance on a constant currency basis, which assumes no change in the exchange rate from the prior-year period. This constant currency disclosure is provided in addition to, and not as a substitute for, the year-over-year percentage change in revenue on an as-reported basis.

**RESULTS OF OPERATIONS**

Set forth below is an analysis of our financial results comparing the three and six months ended April 30, 2010 to the three and six months ended April 30, 2009. Unless otherwise noted, all comparative performance data included below reflect year-over-year comparisons.

Results of operations in dollars and as a percentage of net revenue were as follows:

	Three months ended April 30				Six months ended April 30			
	2010		2009		2010		2009	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
<b>In millions</b>								
Net revenue	\$ 30,849	100.0%	\$ 27,383	100.0%	\$ 62,026	100.0%	\$ 56,190	100.0%
Cost of sales <sup>(1)</sup>	23,601	76.5%	20,945	76.5%	47,663	76.8%	43,018	76.6%
Gross profit	7,248	23.5%	6,438	23.5%	14,363	23.2%	13,172	23.4%
Research and development	722	2.3%	716	2.6%	1,403	2.3%	1,448	2.6%
Selling, general and administrative	3,064	10.0%	2,880	10.5%	5,996	9.7%	5,773	10.3%
Amortization of purchased intangible assets	347	1.1%	380	1.4%	677	1.1%	792	1.4%
In-process research and development charges							6	
Restructuring charges	180	0.6%	94	0.3%	311	0.5%	240	0.4%
Acquisition-related charges	77	0.2%	75	0.3%	115	0.2%	123	0.2%
Earnings from operations	2,858	9.3%	2,293	8.4%	5,861	9.4%	4,790	8.5%
Interest and other, net	(91)	(0.3)%	(180)	(0.7)%	(290)	(0.4)%	(412)	(0.7)%
Earnings before taxes	2,767	9.0%	2,113	7.7%	5,571	9.0%	4,378	7.8%
Provision for taxes	567	1.9%	392	1.4%	1,121	1.8%	801	1.4%
Net earnings	\$ 2,200	7.1%	\$ 1,721	6.3%	\$ 4,450	7.2%	\$ 3,577	6.4%

(1) Cost of products, cost of services and financing interest.

*Net Revenue*

The components of the weighted net revenue change were as follows:

	Three months ended	Six months ended
	April 30, 2010	April 30, 2010
<b>Percentage Points</b>		
Personal Systems Group	6.4	6.3
Enterprise Storage and Servers	4.0	2.7
Imaging and Printing Group	1.7	1.3
Services	0.8	0.2
HP Financial Services	0.4	0.3
HP Software		
Corporate Investments/Other	(0.6)	(0.4)



## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Total HP	12.7	10.4
----------	------	------

For the three and six months ended April 30, 2010, total HP net revenue increased 12.7% and 10.4%, respectively (8.4% and 6.9%, respectively, on a constant currency basis). U.S. net revenue increased 7.2% to \$10.6 billion for the second quarter of fiscal 2010, while net revenue from outside of

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

the United States increased 15.7% to \$20.2 billion. U.S. net revenue increased 7.5% to \$21.4 billion for the first half of fiscal 2010, while net revenue from outside of the United States increased 12.0% to \$40.6 billion. As reflected in the table above, the PSG segment was the largest contributor to HP net revenue growth as a result of balanced growth across every geography. An analysis of the change in net revenue for each business segment is included under "Segment Information" below.

### *Gross Margin*

Total HP gross margin was flat for the three months ended April 30, 2010 and decreased by 0.2 percentage points for the six months ended April 30, 2010. The decline was a result of strong growth in personal computer and printer hardware revenues that have lower gross margins, the effect of which was partially offset by cost improvements in services.

PSG gross margin declined for the three and six months ended April 30, 2010 primarily as a result of higher component costs combined with a mix shift towards lower-end consumer products.

For the three and six months ended April 30, 2010, IPG gross margin declined due primarily to an increased hardware mix and correspondingly lower supplies mix, the effect of which was partially offset by hardware margin improvements mainly in commercial hardware.

For the three and six months ended April 30, 2010, HP Software gross margin increased due primarily to strong license and support mix, the effect of which was partially offset by a reduced services gross margin rate.

HPFS gross margin increased for the three and six months ended April 30, 2010 primarily as a result of higher portfolio margins due to favorable financing conditions and a favorable currency impact.

ESS gross margin increased for the three months ended April 30, 2010 due primarily to pricing, strong volume, and lower product costs, the effect of which was partially offset by product mix shifts. For the six months ended April 30, 2010, gross margin decreased slightly due primarily to product mix shifts, the effect of which was partially offset by pricing, strong volume and lower product costs.

The gross margin in Corporate Investments increased for the three and six months ended April 30, 2010 primarily as a result of lower product costs for our network infrastructure products.

The gross margin in our Services segment increased for the three and six months ended April 30, 2010 due primarily to the continued focus on cost structure improvements, including delivery efficiencies and cost controls in our technology services business, and EDS-related acquisition synergies.

### *Operating Expenses*

#### Research and Development

Total research and development ("R&D") expense increased slightly in the second quarter of fiscal 2010 and decreased in the first half of fiscal 2010. The increase in the second quarter of fiscal 2010 was due primarily to additional expenses from acquired companies. The decrease for the first half of fiscal 2010 was due primarily to continued cost controls and efficiencies as we lowered structural costs. For the three months ended April 30, 2010, R&D expense as a percentage of net revenue decreased for ESS, PSG and Corporate Investments, increased for HP Software and was flat for Services and IPG. For the six months ended April 30, 2010, R&D expense as a percentage of net revenue decreased for ESS, PSG, IPG and Corporate Investments and was flat for HP Software and Services.

#### Selling, General and Administrative

Selling, general and administrative ("SG&A") expense increased in the three and six months ended April 30, 2010 due primarily to higher field selling and marketing costs as a result of our investments in sales resources to grow revenue. For the three months ended April 30, 2010, SG&A expense as a percentage of net revenue decreased for each of our segments except for IPG and Corporate

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Investments. For the six months ended April 30, 2010, SG&A expense as a percentage of net revenue decreased for each of our segments except for IPG.

### Amortization of Purchased Intangible Assets

The decrease in amortization expense for the three and six months ended April 30, 2010 was due primarily to certain intangible assets associated with prior acquisitions reaching the end of their amortization periods.

### Restructuring Charges

Restructuring charges for the three months ended April 30, 2010 were \$180 million. These charges included \$162 million of severance and facility costs related to our fiscal 2008 restructuring plan, and \$3 million and \$15 million of severance costs associated with our fiscal 2009 and 3Com restructuring plans, respectively. Restructuring charges for the six months ended April 30, 2010 were \$311 million. These charges included \$292 million of severance and facility costs related to our fiscal 2008 restructuring plan, and \$4 million and \$15 million of severance costs associated with our fiscal 2009 and 3Com restructuring plans, respectively.

Restructuring charges for the three months ended April 30, 2009 were \$94 million, which were associated primarily with severance and facility costs related to the fiscal 2008 restructuring plan. Restructuring charges for the six months ended April 30, 2009 were \$240 million, which included \$243 million for severance and facility costs related to the fiscal 2008 restructuring plan and a reduction of \$3 million related to adjustments to other restructuring plans.

In addition to restructuring charges, as part of our ongoing business operations we incurred workforce rebalancing charges for severance and related costs within certain business segments during the first six months of fiscal 2010 and 2009. Workforce rebalancing activities are considered part of normal operations as we continue to optimize our cost structure. Workforce rebalancing costs are included in our business segment results, and we expect to incur additional workforce rebalancing costs in the future.

### Acquisition-related Charges

For the three and six months ended April 30, 2010, we recorded acquisition-related charges of \$77 million and \$115 million, respectively, primarily for consulting and integration costs associated with the EDS and 3Com acquisitions, as well as retention bonuses associated with the EDS acquisition.

For the three and six months ended April 30, 2009, we recorded acquisition-related charges of \$75 million and \$123 million, respectively, primarily for consulting and integration costs as well as retention bonuses associated with the EDS acquisition.

### *Interest and Other, Net*

For the three and six months ended April 30, 2010, interest and other, net improved by \$89 million and \$122 million, respectively. The improvements in both periods were driven primarily by lower interest expenses due to lower average debt balances and lower currency losses on balance sheet remeasurement items, the effect of which was partially offset by an increase to our litigation reserves and lower interest income as a result of lower interest rates.

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

### *Provision for Taxes*

Our effective tax rate was 20.5% and 18.6% for the three months ended April 30, 2010 and April 30, 2009, respectively, and 20.1% and 18.3% for the six months ended April 30, 2010 and April 30, 2009, respectively. Our effective tax rate increased due to a decline in the percentage of total earnings earned in lower-tax jurisdictions and a decline in discrete tax benefits relative to consolidated pretax earnings. Our effective tax rate generally differs from the U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from our operations in lower-tax jurisdictions throughout the world. We have not provided U.S. taxes for all of such earnings because we plan to reinvest some of those earnings indefinitely outside the United States.

In the three and six months ended April 30, 2010, we recorded discrete items with a net tax benefit of \$47 million and \$139 million, respectively, decreasing the effective tax rate. These amounts included net tax benefits of \$80 million and \$134 million, respectively, from restructuring and acquisition charges; and net tax expense of \$33 million and net tax benefits of \$5 million, respectively, associated with adjustments to prior year foreign income tax accruals and credits, settlement of tax audit matters, a valuation allowance release, and other miscellaneous discrete items.

In the three and six months ended April 30, 2009, we recorded discrete items with a net tax benefit of \$46 million and \$138 million, respectively, decreasing the effective tax rate. These amounts included net tax benefits of \$56 million and \$120 million, respectively, from restructuring and acquisition charges; and net tax expense of \$10 million and net tax benefits of \$18 million, respectively, associated with adjustments to prior year foreign income tax accruals and credits, settlement of tax audit matters, a valuation allowance release, and other miscellaneous discrete items.

### **Segment Information**

A description of the products and services for each segment can be found in Note 17 to the Consolidated Condensed Financial Statements. Future changes to this organizational structure may result in changes to the business segments disclosed.

### ***HP Enterprise Business***

Services, ESS and HP Software are reported collectively as a broader HP Enterprise Business. We describe the results of the business segments of the HP Enterprise Business in more detail below.

### ***Services***

	<b>Three months ended April 30</b>		
	<b>2010</b>	<b>2009</b>	<b>% Increase</b>
	<b>In millions</b>		
Net revenue	\$ 8,712	\$ 8,500	2.5%
Earnings from operations	\$ 1,382	\$ 1,174	17.7%
Earnings from operations as a % of net revenue	15.9%	13.8%	

	<b>Six months ended April 30</b>		
	<b>2010</b>	<b>2009</b>	<b>% Increase</b>
	<b>In millions</b>		
Net revenue	\$ 17,363	\$ 17,247	0.7%
Earnings from operations	\$ 2,746	\$ 2,298	19.5%
Earnings from operations as a % of net revenue	15.8%	13.3%	

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

The components of the weighted net revenue increase by business unit were as follows:

	Three months ended April 30, 2010	Six months ended April 30, 2010
Percentage Points		
Infrastructure technology outsourcing	2.8	2.0
Business process outsourcing		(0.1)
Technology services		(0.3)
Application services	(0.3)	(0.9)
<b>Total Services</b>	<b>2.5</b>	<b>0.7</b>

Services net revenue increased 2.5% (decreased 2.7% when adjusted for currency) and 0.7% (decreased 4.2% when adjusted for currency) for the second quarter and first six months of fiscal 2010, respectively. The revenue increase was due mainly to an increase in signings of infrastructure technology outsourcing contracts primarily in previous quarters and favorable currency impacts. Net revenue in infrastructure technology outsourcing increased by 6.3% and 4.3% for the second quarter and first six months of fiscal 2010, respectively. The revenue increase for both periods was due to contract signings primarily in previous quarters and favorable currency impacts, the effect of which was partially offset by existing contract completion. Net revenue in business process outsourcing decreased by 0.4% and 1.6% for the second quarter and first six months of fiscal 2010, respectively. The revenue decline for both periods was due primarily to weak economic conditions in certain industries with key clients. Net revenue in technology services was flat and declined by 0.9% for the second quarter and first six months of fiscal 2010, respectively. The revenue decline for the first six months was due primarily to lower contract revenue tied to prior year reduced level of enterprise hardware sales and market weakness in the current-year period, the effect of which was partially offset by growth in consulting services and a favorable currency impact. Net revenue in application services declined by 1.9% and 4.8% for the second quarter and first six months of fiscal 2010, respectively. The revenue decline for both periods was due primarily to market weakness and existing contract completion, the effect of which was partially offset by new business.

Services earnings from operations as a percentage of net revenue for the second quarter and first six months of fiscal 2010 increased by 2.1 percentage points and 2.5 percentage points, respectively. The operating margin in our Services segment increased for both periods due primarily to continued focus on operating improvements that favorably impacted the cost structure of our enterprise services business, delivery efficiencies and cost controls in our technology services business, as well as EDS-related acquisition synergies. Operating expense for both periods declined as a result of a continued focus on cost structure improvements.

### *Enterprise Storage and Servers*

	Three months ended April 30		
	2010	2009	% Increase
In millions			
Net revenue	\$ 4,542	\$ 3,457	31.4%
Earnings from operations	\$ 571	\$ 250	128.4%
Earnings from operations as a % of net revenue	12.6%	7.2%	

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

	Six months ended April 30		
	2010	2009	% Increase
	In millions		
Net revenue	\$ 8,933	\$ 7,406	20.6%
Earnings from operations	\$ 1,123	\$ 656	71.2%
Earnings from operations as a % of net revenue	12.6%	8.9%	

The components of the weighted net revenue change by business unit were as follows:

	Three months ended	Six months ended
	April 30, 2010	April 30, 2010
	Percentage Points	
Industry standard servers	30.9	22.8
Storage	3.7	1.4
Business critical systems	(3.2)	(3.6)
Total ESS	31.4	20.6

ESS net revenue increased 31.4% (25.0% when adjusted for currency) and 20.6% (15.8% when adjusted for currency) for the three and six months ended April 30, 2010, respectively. ISS net revenue increased 54% and 39% in the three and six months ended April 30, 2010, respectively, driven primarily by unit volume growth coupled with increased average unit prices due to improving market conditions, and demand for the latest generation of ISS products. Total ESS blades revenue increased 45% and 34% in the three and six months ended April 30, 2010, respectively. Storage net revenue increased 16% and 6% in the three and six months ended April 30, 2010, respectively, driven primarily by strong performance in high-end disk products, storage networking products and products related to our acquisition of Lefthand Networks, Inc. Business critical systems net revenue decreased 17% and 20% in the three and six months ended April 30, 2010, respectively, due primarily to continued weak market conditions, competitive pressures and the planned phase-out of the PA-RISC server line.

ESS earnings from operations as a percentage of net revenue increased by 5.4 and 3.7 percentage points for the three and six months ended April 30, 2010, respectively, due primarily to decreases in operating expenses as a percentage of net revenue as a result of operating leverage benefits from increased volume and cost controls. The operating margin increase in the three months ended April 30, 2010 was also due to an increase in gross margin resulting from pricing, strong volume and lower product costs, the effect of which was partially offset by product mix shifts. Additionally, the gross margin in the second quarter of fiscal 2009 was also unfavorably impacted by a patent litigation settlement. The gross margin in the first half of fiscal 2010 decreased slightly due primarily to product mix shifts, the effect of which was partially offset by pricing, strong volume and lower product costs.

**HP Software**

	Three months ended April 30		
	2010	2009	% (Decrease) Increase
	In millions		
Net revenue	\$ 871	\$ 880	(1.0)%
Earnings from operations	\$ 162	\$ 157	3.2%
Earnings from operations as a % of net revenue	18.6%	17.8%	

	Six months ended April 30		
	2010	2009	% (Decrease) Increase
	In millions		
Net revenue	\$ 1,749	\$ 1,758	(0.5)%
Earnings from operations	\$ 329	\$ 297	10.8%
Earnings from operations as a % of net revenue	18.8%	16.9%	

The components of the weighted net revenue change by business unit were as follows:

	Three months ended	Six months ended
	April 30, 2010	April 30, 2010
	Percentage Points	
Business technology optimization	1.9	0.7
Other software	(2.9)	(1.2)
Total HP Software	(1.0)	(0.5)

HP Software net revenue decreased 1.0% (4.2% when adjusted for currency) and 0.5% (3.8% when adjusted for currency) for the three and six months ended April 30, 2010, respectively, due to weakness in sales of communication and media solutions. For both periods, the services revenue decrease was partially offset by an increase in license and support revenue. For the second quarter and first half of fiscal 2010, net revenue from business technology optimization increased 3% and 1%, respectively, due to growth in business technology optimization license and support renewals. Net revenue from our other software businesses decreased 8% and 4%, respectively, for the second quarter and first half of fiscal 2010 due to a decline in revenue from sales of communication and media solutions resulting from the weak market in the Asia Pacific region. Revenue increased in information management due to increases in license and support revenue. Revenue also increased in business intelligence solutions as a result of increases in support and services.

For the three and six months ended April 30, 2010, HP Software earnings from operations as a percentage of net revenue increased by 0.8 and 1.9 percentage points, respectively. The operating margin improvement for the three and six months ended April 30, 2010 was due primarily to an increase in gross margin resulting from a stronger license and support mix, the effect of which was partially offset by a reduced services gross margin rate. Operating expenses as a percentage of net revenue for the three months ended April 30, 2010 was approximately flat. The decrease in operating expenses as a percentage of net revenue for the six months ended April 30, 2010 was due primarily to lower field selling and acquisition integration costs. Lower field selling costs were the result of increasing sales productivity and lower commissions.

### *Personal Systems Group*

	Three months ended April 30		
	2010	2009	% Increase
	In millions		
Net revenue	\$ 9,956	\$ 8,210	21.3%
Earnings from operations	\$ 465	\$ 378	23.0%
Earnings from operations as a % of net revenue	4.7%	4.6%	

	Six months ended April 30		
	2010	2009	% Increase
	In millions		
Net revenue	\$ 20,540	\$ 17,002	20.8%
Earnings from operations	\$ 995	\$ 814	22.2%
Earnings from operations as a % of net revenue	4.8%	4.8%	

The components of the weighted net revenue change by business unit were as follows:

	Three months ended April 30, 2010	Six months ended April 30, 2010
	Percentage Points	
Notebook PCs	9.8	11.9
Desktop PCs	9.9	7.9
Workstations	1.7	1.0
Other	0.2	0.3
Handhelds	(0.3)	(0.3)
Total PSG	21.3	20.8

PSG revenue increased 21.3% (15.3% when adjusted for currency) and 20.8% (16.4% when adjusted for currency) for the second quarter and first six months of fiscal 2010, respectively. The revenue increases were primarily the result of balanced growth across every geography. PSG unit volume and net revenue increased across all business units except the handhelds business unit for both the second quarter and first six months of fiscal 2010. Unit volume was up 20% and 23% for the second quarter and first six months of fiscal 2010, respectively. The unit volume increase in notebook PCs was due in part to growth of the HP and Compaq mini notebooks. For the second quarter and first six months of fiscal 2010, net revenue for notebook PCs increased 17% and 21% while desktop PCs revenue increased 27% and 21%, respectively. For the second quarter and first six months of fiscal 2010, workstations revenue increased 47% and 29% while handhelds revenue declined 49% and 53%, respectively. For the second quarter and first six months of fiscal 2010, net revenue for consumer clients increased 25% and 26% while commercial client revenue increased 19% and 17%, respectively. The net revenue increase in other PSG for both periods was related primarily to increased sales of support services and extended warranties and increased brand licensing revenue. For the second quarter of fiscal 2010, the favorable impact from unit increases on PSG net revenue was compounded by a slight increase in average selling prices ("ASPs"). For the first six months of fiscal 2010, the favorable impact from unit increases on PSG net revenue was offset slightly by a decline in ASPs. For the second quarter and first six months of fiscal 2010, ASPs in consumer clients declined 4% and 6%, respectively. The consumer client ASP decline for both periods was due to a mix shift towards lower-end models combined with a competitive pricing environment. For the second quarter and first six months of fiscal 2010, ASPs in commercial clients increased 7% and 4%, respectively. The commercial client ASP increase for both periods was due to richer unit configurations.

PSG earnings from operations as a percentage of net revenue increased 0.1 percentage points for the second quarter of fiscal 2010 and remained flat for the first six months of fiscal 2010. The increase for the second quarter of fiscal 2010 was driven by improvements in operating expenses as a percentage of net revenue, the effect of which was partially offset by lower gross margins. The operating expenses as a percentage of net revenue decrease was due to continued effective cost controls and operating leverage benefits from increased volume. The decline in gross margin was a result of higher component costs combined with a mix shift towards lower-end models, the effect of which was partially offset by lower warranty and supply chain costs and favorable performance by our attach business.



*Imaging and Printing Group***Three months ended April 30**

	<b>2010</b>	<b>2009</b>	<b>% Increase</b>
	<b>In millions</b>		
Net revenue	\$ 6,396	\$ 5,916	8.1%
Earnings from operations	\$ 1,098	\$ 1,074	2.2%
Earnings from operations as a % of net revenue	17.2%	18.2%	

**Six months ended April 30**

	<b>2010</b>	<b>2009</b>	<b>% Increase (Decrease)</b>
	<b>In millions</b>		
Net revenue	\$ 12,602	\$ 11,897	5.9%
Earnings from operations	\$ 2,152	\$ 2,179	(1.2)%
Earnings from operations as a % of net revenue	17.1%	18.3%	

The components of the weighted net revenue change by business unit were as follows:

	<b>Three months ended April 30, 2010</b>	<b>Six months ended April 30, 2010</b>
	<b>Percentage Points</b>	
Supplies	3.8	2.2
Commercial hardware	2.6	1.7
Consumer hardware	1.7	2.0
<b>Total IPG</b>	<b>8.1</b>	<b>5.9</b>

IPG net revenue increased 8.1% (8.6% when adjusted for currency) and 5.9% (6.5% when adjusted for currency) for the three and six months ended April 30, 2010, respectively, reflecting a continued improvement in market conditions. Supplies net revenue increased 6% and 3% in the three and six months ended April 30, 2010, respectively, due primarily to strong print usage driven by volume growth. Net revenue for commercial hardware increased 13% and 9% in the three and six months ended April 30, 2010, respectively, due primarily to improved average revenue per unit. Net revenue for consumer hardware increased 16% and 18% in the three and six months ended April 30, 2010, respectively. The net revenue increases in consumer hardware for both periods were driven primarily by unit volume growth of 14% and 15% in the second quarter and first half of fiscal 2010, respectively.

IPG earnings from operations as a percentage of net revenue decreased by 1.0 and 1.2 percentage points for the three and six months ended April 30, 2010, respectively. The operating margin declines for both periods were due primarily to decreases in gross margin and increases in operating expenses as a percentage of net revenue. The declines in gross margin in the three and six months ended April 30, 2010 were driven primarily by a higher hardware mix and a correspondingly lower supplies mix. The declines in gross margin for both periods were partially offset by hardware margin improvements primarily in commercial hardware. The increases in operating expenses as a percentage of net revenue for both periods were due primarily to increased marketing activities, the effect of which was partially offset by reduced administrative expenses.

*HP Financial Services***Three months ended April 30**

	<b>2010</b>	<b>2009</b>	<b>% Increase</b>
	<b>In millions</b>		
Net revenue	\$ 755	\$ 641	17.8%
Earnings from operations	\$ 69	\$ 46	50%
Earnings from operations as a % of net revenue	9.1%	7.2%	

**Six months ended April 30**

	<b>2010</b>	<b>2009</b>	<b>% Increase</b>
	<b>In millions</b>		
Net revenue	\$ 1,474	\$ 1,277	15.4%
Earnings from operations	\$ 136	\$ 87	56.3%
Earnings from operations as a % of net revenue	9.2%	6.8%	

For the three and six months ended April 30, 2010, HPFS net revenue increased by 17.8% and 15.4%, respectively. The net revenue increase was due primarily to portfolio growth as a result of higher customer demand, a higher operating lease mix due to higher service-led financing volume, higher end-of-lease rentals and buyout activities, and favorable currency movements, the effect of which was partially offset by lower levels of remarketing sales.

For the three and six months ended April 30, 2010, earnings from operations as a percentage of net revenue increased 1.9 percentage points and 2.4 percentage points, respectively, due to an increase in gross margin and a decrease in operating expenses. For the three months ended April 30, 2010, the increase in gross margin was the result of higher portfolio margins due to favorable financing conditions, higher asset management margins associated with end-of-lease activity, buyout and remarketing activity, and a favorable currency impact, the effect of which was partially offset by higher bad debt expenses. For the six months ended April 30, 2010, the gross margin increase was due primarily to higher portfolio margins due to favorable financing conditions, higher end-of-lease margins and a favorable currency impact, the effect of which was partially offset by lower remarketing margins and higher bad debt expenses. For the three and six months ended April 30, 2010, the decrease in operating expenses was primarily driven by improved cost efficiencies.

*Financing Originations*

	<b>Three months ended April 30</b>		<b>Six months ended April 30</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>In millions</b>			
Total financing originations	\$ 1,444	\$ 1,205	\$ 2,847	\$ 2,283

New financing originations, which represent the amounts of financing provided to customers for equipment and related software and services and include intercompany activity, increased 19.8% and 24.7% in the first three and six months of fiscal 2010, respectively. The increase was driven by higher financing associated with sales of HP products and services resulting from improved integration and engagement with HP's sales efforts and a favorable currency impact.

*Portfolio Assets and Ratios*

HPFS maintains a strategy to generate a competitive return on equity by effectively leveraging its portfolio against the risks associated with interest rates and credit. The HPFS business model is asset-intensive and uses certain internal metrics to measure its performance against other financial services companies, including a segment balance sheet that is derived from our internal management reporting system. The accounting policies used to derive these amounts are substantially the same as those used by the consolidated company. However, certain intercompany loans and accounts that are reflected in the segment balances are eliminated in the Consolidated Condensed Financial Statements.

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

The portfolio assets and ratios derived from the segment balance sheet for HPFS were as follows:

	April 30, 2010	October 31, 2009
In millions		
Portfolio assets <sup>(1)</sup>	\$ 10,455	\$ 10,017
Allowance for doubtful accounts <sup>(2)</sup>	114	108
Operating lease equipment reserve	70	71
Total reserves	184	179
Net portfolio assets	\$ 10,271	\$ 9,838
Reserve coverage	1.8%	1.8%
Debt to equity ratio <sup>(3)</sup>	7.0x	7.0x

- (1) Portfolio assets include gross financing receivables of approximately \$6.3 billion at April 30, 2010 and \$6.1 billion at October 31, 2009 and net equipment under operating leases of \$2.3 billion and \$2.2 billion at April 30, 2010 and October 31, 2009, respectively, as disclosed in Note 10 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference. Portfolio assets also include capitalized profit on intercompany equipment transactions of approximately \$700 million at April 30, 2010 and October 31, 2009 and intercompany leases of approximately \$1.1 billion at April 30, 2010 and \$1.0 billion at October 31, 2009, both of which are eliminated in consolidation.
- (2) Allowance for doubtful accounts includes both the short-term and the long-term portions of the allowance on financing receivables.
- (3) HPFS debt consists of intercompany equity that is treated as debt for segment reporting purposes, intercompany debt and debt issued directly by HPFS.

Net portfolio assets at April 30, 2010 increased 4.4% from October 31, 2009. The increase resulted from higher levels of financing originations during the first six months of fiscal 2010 and a favorable currency impact. The overall reserve coverage ratio remains constant as a percentage of the portfolio assets.

For the three and six months ended April 30, 2010, HPFS recorded write-offs, net of recoveries, of \$30 million and \$42 million, respectively. For the comparable periods of fiscal 2009, write-offs, net of recoveries, were \$10 million and \$23 million, respectively.

### Corporate Investments

	Three months ended April 30		
	2010	2009	% Increase
In millions			
Net revenue	\$ 315	\$ 188	67.6%
Earnings (loss) from operations	\$ 12	\$ (19)	n/a
Earnings (loss) from operations as a % of net revenue	3.8%	(10.1)%	

	Six months ended April 30		
	2010	2009	% Increase
In millions			
Net revenue	\$ 551	\$ 384	43.5%
Earnings (loss) from operations	\$ 31	\$ (38)	n/a
Earnings (loss) from operations as a % of net revenue	5.6%	(9.9)%	

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Net revenue in Corporate Investments relates primarily to network infrastructure products sold under the brand "ProCurve Networking." For the three and six months ended April 30, 2010, revenue from ProCurve Networking increased 31.3% and 22.0%, respectively, driven by improved market demand and continued investment in sales coverage. The revenue increase in Corporate Investments was also due to revenues resulting from the acquisition of 3Com, which HP completed in April 2010.

Corporate Investments reported positive earnings from operations for the three and six months ended April 30, 2010 due primarily to higher earnings from operations generated by network infrastructure products. Gross margin rate in Corporate Investments for the three and six months ended April 30, 2010 increased primarily as a result of lower product costs in the sale of network infrastructure products, the effect of which was partially offset by increased competitive pressure. The earnings from operations in Corporate Investments for both periods were also impacted by expenses carried in the segment associated with corporate development, global alliances and HP Labs; such expenses remained flat for the three months ended April 30, 2010 and declined for the six months ended April 30, 2010.

### LIQUIDITY AND CAPITAL RESOURCES

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the United States. Most of the amounts held outside of the United States could be repatriated to the United States but, under current law, would be subject to United States federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. We have provided for the United States federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered indefinitely reinvested outside of the United States. Repatriation could result in additional United States federal income tax payments in future years. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is that cash balances would remain outside of the United States and we would meet United States liquidity needs through ongoing cash flows, external borrowings, or both. We utilize a variety of tax planning and financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

#### *FINANCIAL CONDITION (Sources and Uses of Cash)*

	Six months ended April 30	
	2010	2009
	In millions	
Net cash provided by operating activities	\$ 5,498	\$ 6,090
Net cash used in investing activities	(3,940)	(1,708)
Net cash used in financing activities	(706)	(1,684)
Net increase in cash and cash equivalents	\$ 852	\$ 2,698

#### *Operating Activities*

Net cash provided by operating activities decreased by approximately \$592 million for the six months ended April 30, 2010. The decrease was due primarily to a decline in generation of cash resources through the utilization of operating assets such as inventory, the impact of which was partially offset by the increased generation of cash resources through the utilization of operating liabilities, such as accounts payable, along with an increase in net earnings.

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Our key working capital metrics are as follows:

	Three months ended	
	April 30	
	2010	2009
Days of sales outstanding in accounts receivable	43	48
Days of supply in inventory	25	25
Days of purchases outstanding in accounts payable.	(51)	(49)
Cash conversion cycle	17	24

Days of sales outstanding in accounts receivable ("DSO") is calculated by dividing ending accounts receivable, net of allowance for doubtful accounts, by a 90-day average net revenue.

Days of supply in inventory ("DOS") measures the average number of days from procurement to sale of our product. DOS is calculated by dividing ending inventory by a 90-day average cost of goods sold.

Days of purchases outstanding in accounts payable ("DPO") is calculated by dividing ending accounts payable by a 90-day average cost of goods sold.

Our working capital requirements depend upon our effective management of the cash conversion cycle, which represents effectively the number of days that elapse from the day we pay for the purchase of raw materials to the collection of cash from our customers. The cash conversion cycle is the sum of DSO and DOS less DPO.

The decrease in DSO was due primarily to higher cash discounts and better collections as a result of improved linearity across the quarter. The increase in DPO was due primarily to purchasing linearity and improved accounts payable management. These changes contributed to the decrease in the cash conversion cycle for the three months ended April 30, 2010.

### *Investing Activities*

Net cash used in investing activities increased by approximately \$2.2 billion for the six months ended April 30, 2010 due primarily to cash payments made in connection with the 3Com acquisition in April 2010.

### *Financing Activities*

Net cash used in financing activities decreased by approximately \$978 million for the six months ended April 30, 2010. The decrease was due primarily to an increase in the issuance of debt and the cash received through more issuances of common stock under employee stock plans, the impact of which was partially offset by increased repurchases of common stock.

For more information on our share repurchase programs, see Note 14 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

## **CAPITAL RESOURCES**

### *Debt Levels*

We maintain debt levels that we establish through consideration of a number of factors, including cash flow expectations, cash requirements for operations, investment plans (including acquisitions), share repurchase activities, overall cost of capital, and targeted capital structure. Outstanding borrowings increased to \$17.7 billion as of April 30, 2010 as compared to \$15.8 billion at October 31, 2009, bearing weighted average interest rates of 2.3% and 2.7%, respectively. During the first six

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

months of fiscal 2010, we issued \$13.3 billion and repaid \$11.4 billion of commercial paper. As of April 30, 2010, we had \$39 million in total borrowings collateralized by certain financing receivable assets.

Our weighted-average interest rate reflects the average effective rate on our borrowings prevailing during the period; it factors in the impact of swapping some of our global notes with fixed interest rates for global notes with floating interest rates. For more information on our interest rate swaps, see Note 9 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

For more information on our borrowings, see Note 12 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

### *Available Borrowing Resources*

At April 30, 2010, we had the following resources available to obtain short-term or long-term financings if we need additional liquidity:

<b>At April 30, 2010</b>	
<b>In millions</b>	
2009 Shelf Registration Statement <sup>(1)</sup>	Unspecified
Commercial paper programs <sup>(1)</sup>	\$14,400
Uncommitted lines of credit <sup>(1)</sup>	\$ 1,400
Revolving trade receivables-based facilities <sup>(2)</sup>	\$ 182

(1) For more information on our available borrowings resources, see Note 12 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

(2) For more information on our revolving trade receivables-based facilities, see Note 4 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

### *Credit Ratings*

Our credit risk is evaluated by three independent rating agencies based upon publicly available information as well as information obtained in our ongoing discussions with them. The ratings as of April 30, 2010 were:

	<b>Standard &amp; Poor's Ratings Services</b>	<b>Moody's Investors Service</b>	<b>Fitch Ratings Services</b>
Short-term debt ratings	A-1	Prime-1	F1
Long-term debt ratings	A	A2	A+

We do not have any rating downgrade triggers that would accelerate the maturity of a material amount of our debt. However, a downgrade in our credit rating would increase the cost of borrowings under our credit facilities. Also, a downgrade in our credit rating could limit our ability to issue commercial paper under our current programs. If this were to occur, we would seek alternative sources of funding, including drawdowns under our credit facilities or the issuance of notes under our existing shelf registration statements.

**CONTRACTUAL AND OTHER OBLIGATIONS**

*Guarantees and Indemnifications*

For more information on liabilities that may arise from guarantees and indemnification, see Note 11 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

*Litigation and Contingencies*

For more information on liabilities that may arise from litigation and contingencies, see Note 16 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

*Off-Balance Sheet Arrangements*

As part of our ongoing business, we have not participated in transactions that generate material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of April 30, 2010, we are not involved in any material unconsolidated SPEs.

**FACTORS THAT COULD AFFECT FUTURE RESULTS**

Because of the following factors, as well as other variables affecting our operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

*Competitive pressures could harm our revenue, gross margin and prospects.*

We encounter aggressive competition from numerous and varied competitors in all areas of our business, and our competitors may target our key market segments. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, reputation, distribution, range of products and services, ease of use of our products, account relationships, customer training, service and support, security, availability of application software, and Internet infrastructure offerings. If our products, services, support and cost structure do not enable us to compete successfully based on any of those criteria, our operations, results and prospects could be harmed.

Unlike many of our competitors, we have a portfolio of businesses and must allocate resources across these businesses while competing with companies that specialize in one or more of these product lines. As a result, we may invest less in certain areas of our businesses than our competitors do, and these competitors may have greater financial, technical and marketing resources available to them than our businesses that compete against them. Industry consolidation also may affect competition by creating larger, more homogeneous and potentially stronger competitors in the markets in which we compete, and our competitors also may affect our business by entering into exclusive arrangements with existing or potential customers or suppliers.

We may have to continue to lower the prices of many of our products and services to stay competitive, while at the same time trying to maintain or improve revenue and gross margin. The markets in which we do business, particularly the personal computer and printing markets, are highly competitive, and we encounter aggressive price competition for all of our products and services from numerous companies globally. Over the past several years, price competition in the market for personal computers, printers and related products has been particularly intense as competitors have aggressively cut prices and lowered their product margins for these products. In addition, competitors in some of the markets in which we compete with a greater presence in lower-cost jurisdictions may be able to

offer lower prices than we are able to offer. Our results of operations and financial condition may be adversely affected by these and other industry-wide pricing pressures.

Because our business model is based on providing innovative and high quality products, we may spend a proportionately greater amount on research and development than some of our competitors. If we cannot proportionately decrease our cost structure on a timely basis in response to competitive price pressures, our gross margin and, therefore, our profitability could be adversely affected. In addition, if our pricing and other factors are not sufficiently competitive, or if there is an adverse reaction to our product decisions, we may lose market share in certain areas, which could adversely affect our revenue and prospects.

Even if we are able to maintain or increase market share for a particular product, revenue could decline because the product is in a maturing industry. Revenue and margins also could decline due to increased competition from other types of products. For example, refill and remanufactured alternatives for some of HP's LaserJet toner and inkjet cartridges compete with HP's supplies business. In addition, other companies have developed and marketed new compatible cartridges for HP's LaserJet and inkjet products, particularly in jurisdictions outside of the United States where adequate intellectual property protection may not exist. HP expects competitive refill and remanufacturing and cloned cartridge activity to continue to pressure margins in IPG, which in turn has a significant impact on HP margins and profitability overall.

*If we cannot continue to develop, manufacture and market products and services that meet customer requirements for innovation and quality, our revenue and gross margin may suffer.*

The process of developing new high technology products and services and enhancing existing products and services is complex, costly and uncertain, and any failure by us to anticipate customers' changing needs and emerging technological trends accurately could significantly harm our market share and results of operations. We must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. After we develop a product, we must be able to manufacture appropriate volumes quickly and at low costs. To accomplish this, we must accurately forecast volumes, mixes of products and configurations that meet customer requirements, and we may not succeed at doing so at all or within a given product's life cycle. Any delay in the development, production or marketing of a new product could result in us not being among the first to market, which could further harm our competitive position.

In the course of conducting our business, we must adequately address quality issues associated with our products and services, including defects in our engineering, design and manufacturing processes, as well as defects in third-party components included in our products. In order to address quality issues, we work extensively with our customers and suppliers and engage in product testing to determine the cause of the problem and to determine appropriate solutions. However, we may have limited ability to control quality issues, particularly with respect to faulty components manufactured by third parties. If we are unable to determine the cause, find an appropriate solution or offer a temporary fix (or "patch"), we may delay shipment to customers, which would delay revenue recognition and could adversely affect our revenue and reported results. Finding solutions to quality issues can be expensive and may result in additional warranty, replacement and other costs, adversely affecting our profits. If new or existing customers have difficulty operating our products, our operating margins could be adversely affected, and we could face possible claims if we fail to meet our customers' expectations. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our brand and reputation, which could have a material adverse effect on our operating results.



## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

*Economic weakness and uncertainty could adversely affect our revenue, gross margin and expenses.*

Our revenue and gross margin depend significantly on worldwide economic conditions and the demand for computing and imaging products and services in the markets in which we compete. Economic weakness and uncertainty have resulted, and may result in the future, in decreased revenue, gross margin, earnings or growth rates and difficulty managing inventory levels. Sustained uncertainty about current global economic conditions may result in our customers continuing to postpone spending, which could adversely affect demand for our products and services. Economic weakness and uncertainty also make it more difficult for us to make accurate forecasts of revenue, gross margin and expenses.

We also have experienced, and may experience in the future, gross margin declines in certain businesses, reflecting the effect of items such as competitive pricing pressures, inventory write downs and increases in component and manufacturing costs resulting from higher labor and material costs borne by our manufacturers and suppliers that, as a result of competitive pricing pressures or other factors, we are unable to pass on to our customers. In addition, our business may be disrupted if we are unable to obtain equipment, parts and components from our suppliers and our suppliers from their suppliers due to the insolvency of key suppliers or the inability of key suppliers to obtain credit.

Economic weakness and uncertainty could cause our expenses to vary materially from our expectations. Any renewed financial turmoil affecting the banking system and financial markets or any significant financial services institution failures could negatively impact our treasury operations, as the financial condition of such parties may deteriorate rapidly and without notice in times of market volatility and disruption. Poor financial performance of asset markets could lead to increased pension and post-retirement benefit expenses. Other income and expense could vary materially from expectations depending on changes in interest rates, borrowing costs, currency exchange rates, hedging expenses and the fair value of derivative instruments. Economic downturns also may lead to restructuring actions and associated expenses.

*We depend on third-party suppliers, and our revenue and gross margin could suffer if we fail to manage suppliers properly.*

Our operations depend on our ability to anticipate our needs for components, products and services and our suppliers' ability to deliver sufficient quantities of quality components, products and services at reasonable prices in time for us to meet critical schedules. Given the wide variety of systems, products and services that we offer, the large number of our suppliers and contract manufacturers that are dispersed across the globe, and the long lead times that are required to manufacture, assemble and deliver certain components and products, problems could arise in planning production and managing inventory levels that could seriously harm us. Other supplier problems that we could face include component shortages, excess supply, risks related to the terms of our contracts with suppliers, risks associated with contingent workers, and risks related to our relationships with single source suppliers, as described below.

*Shortages.* Occasionally we may experience a shortage of, or a delay in receiving, certain components as a result of strong demand, capacity constraints, supplier financial weaknesses, inability of suppliers to borrow funds in the credit markets, disputes with suppliers (some of whom are also customers), disruptions in the operations of component suppliers, other problems experienced by suppliers or problems faced during the transition to new suppliers. In particular, our PC business relies heavily upon outsourced manufacturers ("OMs") to manufacture its products and is therefore dependent upon the continuing operations of those OMs to fulfill demand for our PC products. HP represents a substantial portion of the business of some of these OMs, and any changes to the nature or volume of business transacted by HP with a particular OM could adversely affect the operations and financial condition of the OM and lead to shortages or delays in receiving products from that OM. If shortages or delays persist, the

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

price of these components may increase, we may be exposed to quality issues or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build products or provide services in a timely manner in the quantities or according to the specifications needed. Accordingly, our revenue and gross margin could suffer as we could lose time-sensitive sales, incur additional freight costs or be unable to pass on price increases to our customers. If we cannot adequately address supply issues, we might have to reengineer some products or service offerings, resulting in further costs and delays.

*Oversupply.* In order to secure components for the provision of products or services, at times we may make advance payments to suppliers or enter into non-cancelable commitments with vendors. In addition, we may purchase components strategically in advance of demand to take advantage of favorable pricing or to address concerns about the availability of future components. If we fail to anticipate customer demand properly, a temporary oversupply could result in excess or obsolete components, which could adversely affect our gross margin.

*Contractual terms.* As a result of binding price or purchase commitments with vendors, we may be obligated to purchase components or services at prices that are higher than those available in the current market and be limited in our ability to respond to changing market conditions. In the event that we become committed to purchase components or services for prices in excess of the current market price, we may be at a disadvantage to competitors who have access to components or services at lower prices, and our gross margin could suffer. In addition, many of our competitors obtain products or components from the same OMs and suppliers that we utilize. Our competitors may obtain better pricing and other terms and more favorable allocations of products and components during periods of limited supply, and our ability to engage in relationships with certain OMs and suppliers could be limited. The practice employed by our PC business of purchasing product components and transferring those components to its OMs may create large supplier receivables with the OMs that, depending on the financial condition of the OMs, may have risk of uncollectability. In addition, certain of our OMs and suppliers may decide in the future to discontinue conducting business with us. Any of these actions by our competitors, OMs or suppliers could adversely affect our future operating results and financial condition.

*Contingent workers.* We also rely on third-party suppliers for the provision of contingent workers, and our failure to manage our use of such workers effectively could adversely affect our results of operations. We have been exposed to various legal claims relating to the status of contingent workers in the past and could face similar claims in the future. We may be subject to shortages, oversupply or fixed contractual terms relating to contingent workers, as described above. Our ability to manage the size of, and costs associated with, the contingent workforce may be subject to additional constraints imposed by local laws.

*Single source suppliers.* Our use of single source suppliers for certain components could exacerbate our supplier issues. We obtain a significant number of components from single sources due to technology, availability, price, quality or other considerations. For example, we rely on Intel Corporation to provide us with a sufficient supply of processors for many of our PCs, workstations, handheld computing devices and servers, and some of those processors are customized for our products. New products that we introduce may utilize custom components obtained from only one source initially until we have evaluated whether there is a need for additional suppliers. Replacing a single source supplier could delay production of some products as replacement suppliers initially may be subject to capacity constraints or other output limitations. For some components, such as customized components and some of the processors that we obtain from Intel, alternative sources may not exist or those alternative sources may be unable to produce the quantities of those components necessary to satisfy our production

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

requirements. In addition, we sometimes purchase components from single source suppliers under short-term agreements that contain favorable pricing and other terms but that may be unilaterally modified or terminated by the supplier with limited notice and with little or no penalty. The performance of such single source suppliers under those agreements (and the renewal or extension of those agreements upon similar terms) may affect the quality, quantity and price of components to HP. The loss of a single source supplier, the deterioration of our relationship with a single source supplier, or any unilateral modification to the contractual terms under which we are supplied components by a single source supplier could adversely affect our revenue and gross margins.

*Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.*

Our worldwide operations could be subject to earthquakes, power shortages, telecommunications failures, water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics or pandemics and other natural or manmade disasters or business interruptions, for which we are predominantly self-insured. The occurrence of any of these business disruptions could seriously harm our revenue and financial condition and increase our costs and expenses. Our corporate headquarters, and a portion of our research and development activities, are located in California, and other critical business operations and some of our suppliers are located in California and Asia, near major earthquake faults. In addition, all six of our worldwide IT data centers are located in the southern United States, making our operations more vulnerable to natural disasters or other business disruptions occurring in that geographical area. The manufacture of product components, the final assembly of our products and other critical operations are concentrated in certain geographic locations, including Shanghai, Singapore and India. We also rely on major logistics hubs primarily in Asia to manufacture and distribute our products and in the southwestern United States to import products into the Americas region. Our operations could be adversely affected if manufacturing, logistics or other operations in these locations are disrupted for any reason, including natural disasters, information technology system failures, military actions or economic, business, labor, environmental, public health, or political issues. The ultimate impact on us, our significant suppliers and our general infrastructure of being located near major earthquake faults and being consolidated in certain geographical areas is unknown, but our revenue, profitability and financial condition could suffer in the event of a major earthquake or other natural disaster.

*System security risks, data protection breaches and systems integration issues could disrupt our internal operations or information technology services provided to customers, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.*

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and the efforts to address these problems could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business. In addition, our outsourcing services business routinely processes, stores and transmits

large amounts of data for our clients, including sensitive and personally identifiable information. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our clients, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us, our customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. We also could lose existing or potential customers for outsourcing services or other information technology solutions or incur significant expenses in connection with our customers' system failures or any actual or perceived security vulnerabilities in our products. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions have adversely affected in the past, and in the future could adversely affect, our financial results, stock price and reputation.

*The revenue and profitability of our operations have historically varied, which makes our future financial results less predictable.*

Our revenue, gross margin and profit vary among our products and services, customer groups and geographic markets and therefore will likely be different in future periods than our current results. Our revenue depends on the overall demand for our products and services. Delays or reductions in IT spending could materially adversely affect demand for our products and services, which could result in a significant decline in revenues. Overall gross margins and profitability in any given period are dependent partially on the product, customer and geographic mix reflected in that period's net revenue. In particular, IPG and certain of its business units such as printer supplies contribute significantly to our gross margin and profitability. In addition, our services business has contributed significantly to our revenue and operating profit in recent periods. Competition, lawsuits, investigations and other risks affecting those businesses therefore may have a significant impact on our overall gross margin and profitability. Certain segments, and ESS in particular, have a higher fixed cost structure and more variation in gross margins across their business units and product portfolios than others and may therefore experience significant operating profit volatility on a quarterly basis. In addition, newer geographic markets may be relatively less profitable due to investments associated with entering those markets and local pricing pressures, and we may have difficulty establishing and maintaining the operating infrastructure necessary to support the high growth rate associated with some of those markets. Market trends, competitive pressures, commoditization of products, seasonal rebates, increased component or shipping costs, regulatory impacts and other factors may result in reductions in revenue or pressure on gross margins of certain segments in a given period, which may necessitate adjustments to our operations.

*HP's stock price has historically fluctuated and may continue to fluctuate, which may make future prices of HP's stock difficult to predict.*

HP's stock price, like that of other technology companies, can be volatile. Some of the factors that could affect our stock price are:

speculation in the press or investment community about, or actual changes in, our business, strategic position, market share, organizational structure, operations, financial condition, financial reporting and results, effectiveness of cost cutting efforts, value or liquidity of our

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

investments, exposure to market volatility, prospects, business combination or investment transactions, or executive team;

the announcement of new products, services, technological innovations or acquisitions by HP or its competitors;

quarterly increases or decreases in revenue, gross margin, earnings or cash flow from operations, changes in estimates by the investment community or guidance provided by HP, and variations between actual and estimated financial results;

announcements of actual and anticipated financial results by HP's competitors and other companies in the IT industry; and

the timing and amount of share repurchases by HP.

General or industry specific market conditions or stock market performance or domestic or international macroeconomic and geopolitical factors unrelated to HP's performance also may affect the price of HP common stock. For these reasons, investors should not rely on recent trends to predict future stock prices, financial condition, results of operations or cash flows. In addition, following periods of volatility in a company's securities, securities class action litigation against a company is sometimes instituted. If instituted against HP, this type of litigation could result in substantial costs and the diversion of management time and resources.

*Our revenue, cost of sales, and expenses may suffer if we cannot continue to license or enforce the intellectual property rights on which our businesses depend or if third parties assert that we violate their intellectual property rights.*

We rely upon patent, copyright, trademark and trade secret laws in the United States, similar laws in other countries, and agreements with our employees, customers, suppliers and other parties, to establish and maintain intellectual property rights in the technology and products we sell, provide or otherwise use in our operations. However, any of our direct or indirect intellectual property rights could be challenged, invalidated or circumvented, or such intellectual property rights may not be sufficient to permit us to take advantage of current market trends or otherwise to provide competitive advantages, either of which could result in costly product redesign efforts, discontinuance of certain product offerings or other competitive harm. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions we may be unable to protect our proprietary technology adequately against unauthorized third-party copying or use; this too could adversely affect our competitive position.

Because of the rapid pace of technological change in the information technology industry, much of our business and many of our products rely on key technologies developed or licensed by third parties. We may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms, or such third parties may demand cross-licenses to our intellectual property. In addition, it is possible that as a consequence of a merger or acquisition, third parties may obtain licenses to some of our intellectual property rights or our business may be subject to certain restrictions that were not in place prior to the transaction. Consequently, we may lose a competitive advantage with respect to these intellectual property rights or we may be required to enter into costly arrangements in order to terminate or limit these rights.

Third parties also may claim that we or customers indemnified by us are infringing upon their intellectual property rights. For example, individuals and groups frequently purchase intellectual property assets for the sole purpose of asserting claims of infringement and attempting to extract settlements from large companies such as HP. The number of these claims has increased significantly in recent periods and may continue to increase in the future. If we cannot or do not license the infringed technology at all or on reasonable terms, or substitute similar technology from another source, our

operations could be adversely affected. Even if we believe that the claims are without merit, they can be time-consuming and costly to defend and may divert management's attention and resources away from our business. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlement or license agreements, pay costly damage awards, or face a temporary or permanent injunction prohibiting us from importing, marketing or selling certain of our products. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations to us.

Finally, our results of operations and cash flows have been and could continue to be affected in certain periods and on an ongoing basis by the imposition, accrual and payment of copyright levies or similar fees. In certain countries (primarily in Europe), proceedings are ongoing or have been concluded involving HP in which groups representing copyright owners sought to impose upon and collect from HP levies upon equipment (such as PCs, multifunction devices and printers) alleged to be copying devices under applicable laws. Other such groups have also sought to modify existing levy schemes to increase the amount of the levies that can be collected from HP. As discussed in Note 16 to the Consolidated Condensed Financial Statements, matters that have been concluded have resulted in the payment of per unit levies on certain MFDs and PCs sold in Germany. Other countries that have not imposed levies on these types of devices are expected to extend existing levy schemes, and countries that do not currently have levy schemes may decide to impose copyright levies on these types of devices. The total amount of the copyright levies will depend on the types of products determined to be subject to the levy, the number of units of those products sold during the period covered by the levy, and the per unit fee for each type of product, all of which are affected by several factors, including the outcome of ongoing litigation involving HP and other industry participants and possible action by the legislative bodies in the applicable countries, and could be substantial. Consequently, the ultimate impact of these copyright levies or similar fees, and the ability of HP to recover such amounts through increased prices, remain uncertain.

*Due to the international nature of our business, political or economic changes or other factors could harm our future revenue, costs and expenses and financial condition.*

Sales outside the United States make up approximately 66% of our net revenue. In addition, an increasing portion of our business activity is being conducted in emerging markets, including Brazil, Russia, India and China. Our future revenue, gross margin, expenses and financial condition could suffer due to a variety of international factors, including:

ongoing instability or changes in a country's or region's economic or political conditions, including inflation, recession, interest rate fluctuations and actual or anticipated military or political conflicts;

longer accounts receivable cycles and financial instability among customers;

trade regulations and procedures and actions affecting production, pricing and marketing of products;

local labor conditions and regulations;

managing a geographically dispersed workforce;

changes in the regulatory or legal environment;

differing technology standards or customer requirements;

import, export or other business licensing requirements or requirements relating to making foreign direct investments, which could increase our cost of doing business in certain jurisdictions, prevent us from shipping products to particular countries or markets, affect our

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

ability to obtain favorable terms for components, increase our operating costs or lead to penalties or restrictions;

difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws; and

fluctuations in freight costs, limitations on shipping and receiving capacity, and other disruptions in the transportation and shipping infrastructure at important geographic points of exit and entry for our products and shipments.

The factors described above also could disrupt our product and component manufacturing and key suppliers located outside of the United States. For example, we rely on manufacturers in Taiwan for the production of notebook computers and other suppliers in Asia for product assembly and manufacture.

As approximately 66% of our sales are from countries outside of the United States, other currencies, particularly the euro, the British pound, Chinese Yuan Renminbi and the Japanese yen, can have an impact on HP's results (expressed in U.S. dollars). Currency variations also contribute to variations in sales of products and services in impacted jurisdictions. Accordingly, fluctuations in foreign currency rates, most notably the strengthening of the dollar against the euro, could have a material impact on our revenue growth in future periods. In addition, currency variations can adversely affect margins on sales of our products in countries outside of the United States and margins on sales of products that include components obtained from suppliers located outside of the United States. We use a combination of forward contracts and options designated as cash flow hedges to protect against foreign currency exchange rate risks. The effectiveness of our hedges depends on our ability to accurately forecast future cash flows, which is particularly difficult during periods of uncertain demand for our products and services and highly volatile exchange rates. As a result, we could incur significant losses from our hedging activities if our forecasts are incorrect. In addition, our hedging activities may be ineffective or may not offset any or more than a portion of the adverse financial impact resulting from currency variations. Gains or losses associated with hedging activities also may impact our revenue and to a lesser extent our cost of sales and financial condition.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act. Although we implement policies and procedures designed to facilitate compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our business and reputation.

*If we fail to manage the distribution of our products and services properly, our revenue, gross margin and profitability could suffer.*

We use a variety of distribution methods to sell our products and services, including third-party resellers and distributors and both direct and indirect sales to both enterprise accounts and consumers. Successfully managing the interaction of our direct and indirect channel efforts to reach various potential customer segments for our products and services is a complex process. Moreover, since each distribution method has distinct risks and gross margins, our failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our revenue and gross margins and therefore our profitability. Other distribution risks are described below.

Our financial results could be materially adversely affected due to channel conflicts or if the financial conditions of our channel partners were to weaken.

Our future operating results may be adversely affected by any conflicts that might arise between our various sales channels, the loss or deterioration of any alliance or distribution arrangement

or the loss of retail shelf space. Moreover, some of our wholesale and retail distributors may have insufficient financial resources and may not be able to withstand changes in business conditions, including economic weakness and industry consolidation. Many of our significant distributors operate on narrow product margins and have been negatively affected by business pressures. Considerable trade receivables that are not covered by collateral or credit insurance are outstanding with our distribution and retail channel partners. Revenue from indirect sales could suffer, and we could experience disruptions in distribution if our distributors' financial conditions, abilities to borrow funds in the credit markets or operations weaken.

Our inventory management is complex as we continue to sell a significant mix of products through distributors.

We must manage inventory effectively, particularly with respect to sales to distributors, which involves forecasting demand and pricing issues. Distributors may increase orders during periods of product shortages, cancel orders if their inventory is too high or delay orders in anticipation of new products. Distributors also may adjust their orders in response to the supply of our products and the products of our competitors and seasonal fluctuations in end-user demand. Our reliance upon indirect distribution methods may reduce visibility to demand and pricing issues, and therefore make forecasting more difficult. If we have excess or obsolete inventory, we may have to reduce our prices and write down inventory. Moreover, our use of indirect distribution channels may limit our willingness or ability to adjust prices quickly and otherwise to respond to pricing changes by competitors. We also may have limited ability to estimate future product rebate redemptions in order to price our products effectively.

*If we do not effectively manage our product and services transitions, our revenue may suffer.*

Many of the industries in which we compete are characterized by rapid technological advances in hardware performance and software features and functionality; frequent introduction of new products; short product life cycles; and continual improvement in product price characteristics relative to product performance. Among the risks associated with the introduction of new products and services are delays in development or manufacturing, variations in costs, delays in customer purchases or reductions in price of existing products in anticipation of new introductions, difficulty in predicting customer demand for the new offerings and effectively managing inventory levels so that they are in line with anticipated demand, risks associated with customer qualification and evaluation of new products and the risk that new products may have quality or other defects or may not be supported adequately by application software. If we do not make an effective transition from existing products and services to future offerings, our revenue may decline.

Our revenue and gross margin also may suffer due to the timing of product or service introductions by our suppliers and competitors. This is especially challenging when a product has a short life cycle or a competitor introduces a new product just before our own product introduction. Furthermore, sales of our new products and services may replace sales, or result in discounting of some of our current offerings, offsetting the benefit of even a successful introduction. There also may be overlaps in the current products and services of HP and portfolios acquired through mergers and acquisitions that we must manage. In addition, it may be difficult to ensure performance of new customer contracts in accordance with our revenue, margin and cost estimates and to achieve operational efficiencies embedded in our estimates. Given the competitive nature of our industry, if any of these risks materializes, future demand for our products and services and our results of operations may suffer.



## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

*Our revenue and profitability could suffer if we do not manage the risks associated with our IT services business properly.*

The size and significance of the IT services portion of our business has increased in recent periods. The risks that accompany that business differ from those of our other businesses and include the following:

The pricing and other terms of some of our IT services agreements, particularly our long-term IT outsourcing services agreements, require us to make estimates and assumptions at the time we enter into these contracts that could differ from actual results. Any increased or unexpected costs or unanticipated delays in connection with the performance of these engagements, including delays caused by factors outside our control, could make these agreements less profitable or unprofitable, which would have an adverse affect on the profit margin of our IT services business.

Some of our IT services agreements require significant investment in the early stages that is expected to be recovered through billings over the life of the agreement. These agreements often involve the construction of new IT systems and communications networks and the development and deployment of new technologies. Substantial performance risk exists in each agreement with these characteristics, and some or all elements of service delivery under these agreements are dependent upon successful completion of the development, construction and deployment phases. Any failure to perform satisfactorily under these agreements may expose us to legal liability, result in the loss of customers and harm our reputation, which could decrease the revenues and profitability of our IT services business.

Some of our outsourcing services agreements contain pricing provisions that permit a client to request a benchmark study by a mutually acceptable third-party. The benchmarking process typically compares the contractual price of our services against the price of similar services offered by other specified providers in a peer comparison group, subject to agreed upon adjustment and normalization factors. Generally, if the benchmarking study shows that our pricing has a difference outside a specified range, and the difference is not due to the unique requirements of the client, then the parties will negotiate in good faith any appropriate adjustments to the pricing. This may result in the reduction of our rates for the benchmarked services performed after the implementation of those pricing adjustments, which could decrease the revenues and profitability of our IT services business.

*If we fail to comply with our customer contracts or government contracting regulations, our revenue could suffer.*

Our contracts with our customers may include unique and specialized performance requirements. In particular, our contracts with federal, state, provincial and local governmental customers are subject to various procurement regulations, contract provisions and other requirements relating to their formation, administration and performance. Any failure by us to comply with the specific provisions in our customer contracts or any violation of government contracting regulations could result in the imposition of various civil and criminal penalties, which may include termination of contracts, forfeiture of profits, suspension of payments and, in the case of our government contracts, fines and suspension from future government contracting. In addition, we are currently, and in the future may be, subject to *qui tam* litigation brought by private individuals on behalf of the government relating to our government contracts, which could include claims for up to treble damages. Further, any negative publicity related to our customer contracts or any proceedings surrounding them, regardless of its accuracy, may damage our business by affecting our ability to compete for new contracts. If our customer contracts are terminated, if we are suspended from government work, or if our ability to

compete for new contracts is adversely affected, we could suffer a material reduction in expected revenue.

*We make estimates and assumptions in connection with the preparation of HP's Consolidated Financial Statements, and any changes to those estimates and assumptions could have a material adverse effect on our results of operations.*

In connection with the preparation of HP's Consolidated Financial Statements, we use certain estimates and assumptions based on historical experience and other factors. Our most critical accounting estimates are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. In addition, as discussed in Note 16 to the Consolidated Condensed Financial Statements, we make certain estimates, including decisions related to provisions for legal proceedings and other contingencies. While we believe that these estimates and assumptions are reasonable under the circumstances, they are subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material adverse effect on our results of operations.

*Unanticipated changes in HP's tax provisions, the adoption of a new U.S. tax legislation or exposure to additional income tax liabilities could affect our profitability.*

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our tax liabilities are affected by the amounts we charge for inventory, services, licenses, funding and other items in intercompany transactions. We are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. In addition, our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of deferred tax assets, which are predominantly in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, President Obama's administration has announced proposals for new U.S. tax legislation that, if adopted, could adversely affect our tax rate. Also, the American Jobs and Closing Tax Loopholes Act, which is currently pending before the United States Congress, could affect our tax rate and the carrying value of deferred tax assets. Any of these changes could affect our profitability.

*Our sales cycle makes planning and inventory management difficult and future financial results less predictable.*

In some of our segments, our quarterly sales often have reflected a pattern in which a disproportionate percentage of each quarter's total sales occur towards the end of such quarter. This uneven sales pattern makes prediction of revenue, earnings, cash flow from operations and working capital for each financial period difficult, increases the risk of unanticipated variations in quarterly results and financial condition and places pressure on our inventory management and logistics systems. If predicted demand is substantially greater than orders, there will be excess inventory. Alternatively, if orders substantially exceed predicted demand, we may not be able to fulfill all of the orders received in the last few weeks of each quarter. Other developments late in a quarter, such as a systems failure, component pricing movements, component shortages or global logistics disruptions, could adversely

impact inventory levels and results of operations in a manner that is disproportionate to the number of days in the quarter affected.

We experience some seasonal trends in the sale of our products that also may produce variations in quarterly results and financial condition. For example, sales to governments (particularly sales to the United States government) are often stronger in the third calendar quarter, consumer sales are often stronger in the fourth calendar quarter, and many customers whose fiscal and calendar years are the same spend their remaining capital budget authorizations in the fourth calendar quarter prior to new budget constraints in the first calendar quarter of the following year. European sales are often weaker during the summer months. Demand during the spring and early summer also may be adversely impacted by market anticipation of seasonal trends. Moreover, to the extent that we introduce new products in anticipation of seasonal demand trends, our discounting of existing products may adversely affect our gross margin prior to or shortly after such product launches. Typically, our third fiscal quarter is our weakest and our fourth fiscal quarter is our strongest. Many of the factors that create and affect seasonal trends are beyond our control.

*Any failure by us to execute on our strategy for operational efficiency successfully could result in total costs and expenses that are greater than expected.*

We have adopted an operating framework that includes a disciplined focus on operational efficiency. As part of this framework, we have adopted several initiatives, including a multi-year program announced in 2006 to reduce real estate costs by consolidating several hundred HP real estate locations worldwide to fewer core sites, and a multi-year process of examining every function and every one of our businesses and functions in order to optimize efficiency and reduce cost. We have also implemented a workforce restructuring program in fiscal 2008 relating to our acquisition of EDS, a workforce restructuring program in fiscal 2009 relating to our product businesses and a multi-year restructuring plan in the third quarter of fiscal 2010 relating to our enterprise services business.

Our ability to achieve the anticipated cost savings and other benefits from these initiatives within the expected time frame is subject to many estimates and assumptions, including estimates and assumptions regarding the cost of consolidating real estate locations, the amount of accelerated depreciation or asset impairment to be incurred when we vacate facilities or cease using equipment before the end of their respective lease term or asset life, and the costs and timing of other activities in connection with these initiatives. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. In addition, there are significant risks associated with our workforce restructuring programs, including potential delays in the implementation of those programs in highly regulated locations outside of the United States, particularly in Europe and Asia, decreases in employee morale, and the failure to meet operational targets due to the loss of employees. If these estimates and assumptions are incorrect, if we experience delays, or if other unforeseen events occur, our business and results of operations could be adversely affected.

*In order to be successful, we must attract, retain and motivate key employees, and failure to do so could seriously harm us.*

In order to be successful, we must attract, retain and motivate executives and other key employees, including those in managerial, technical, sales, marketing and IT support positions. Hiring and retaining qualified executives, engineers, skilled solutions providers in the IT support business and qualified sales representatives are critical to our future, and competition for experienced employees in the IT industry can be intense. The failure to hire executives and key employees or the loss of executives and key employees could have a significant impact on our operations.

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

*Changes to our compensation and benefit programs could adversely affect our ability to attract and retain employees.*

Like other companies, HP has implemented changes to its compensation programs intended to reduce fixed costs, create a high performance culture at all levels and provide an opportunity for employees to earn significant rewards if HP delivers strong financial results. These changes included reducing base pay for many employees; lowering the cap on matching contributions under the HP 401(k) Plan; making the funding of the HP 401(k) Plan matching contributions fully discretionary depending on quarterly business results; and eliminating the purchase price discount for shares purchased under the HP Share Ownership Plan, all of which were announced in February 2009. HP also has reduced the total number of share-based payment awards granted to employees and the number of employees who receive share-based payment awards. Due to these changes in our compensation programs, we may find it difficult to attract, retain and motivate employees, and any such difficulty could materially adversely affect our business. Moreover, any difficulty relating to obtaining stockholder approval of equity compensation plans could limit our ability to grant share-based payment awards to employees in the future.

*Terrorist acts, conflicts and wars may seriously harm our business and revenue, costs and expenses and financial condition and stock price.*

Terrorist acts, conflicts or wars (wherever located around the world) may cause damage or disruption to HP, our employees, facilities, partners, suppliers, distributors, resellers or customers. The potential for future attacks, the national and international responses to attacks or perceived threats to national security, and other actual or potential conflicts or wars, including the ongoing military operations in Iraq and Afghanistan have created many economic and political uncertainties. In addition, as a major multinational company with headquarters and significant operations located in the United States, actions against or by the United States may impact our business or employees. Although it is impossible to predict the occurrences or consequences of any such events, they could result in a decrease in demand for our products, make it difficult or impossible to deliver products to our customers or to receive components from our suppliers, create delays and inefficiencies in our supply chain and result in the need to impose employee travel restrictions. We are predominantly uninsured for losses and interruptions caused by terrorist acts, conflicts and wars.

*Any failure by us to identify, manage, complete and integrate acquisitions, divestitures and other significant transactions successfully could harm our financial results, business and prospects, and the costs, expenses and other financial and operational effects associated with managing, completing and integrating acquisitions may result in financial results that are different than expected.*

As part of our business strategy, we frequently acquire complementary companies or businesses, divest non-core businesses or assets, enter into strategic alliances and joint ventures and make investments to further our business (collectively, "business combination and investment transactions"). In order to pursue this strategy successfully, we must identify suitable candidates for and successfully complete business combination and investment transactions, some of which may be large and complex, and manage post-closing issues such as the integration of acquired companies or employees. We may not fully realize all of the anticipated benefits of any business combination and investment transaction, and the timeframe for achieving benefits of a business combination and investment transaction may depend partially upon the actions of employees, suppliers or other third parties. In addition, the pricing and other terms of our contracts for business combination and investment transactions require us to make estimates and assumptions at the time we enter into these contracts, and, during the course of our due diligence, we may not identify all of the factors necessary to estimate our costs accurately. Any increased or unexpected costs, unanticipated delays or failure to meet contractual obligations could make these transactions less profitable or unprofitable. Moreover, if we fail to identify and successfully

## Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

complete business combination and investment transactions that further our strategic objectives, we may be required to expend resources to develop products and technology internally, we may be at a competitive disadvantage or we may be adversely affected by negative market perceptions, any of which may have a material adverse effect on our revenue, gross margin and profitability.

Integration issues are complex, time-consuming and expensive and, without proper planning and implementation, could significantly disrupt our business. The challenges involved in integration include:

combining product offerings and entering into new markets in which we are not experienced;

convincing customers and distributors that the transaction will not diminish client service standards or business focus, preventing customers and distributors from deferring purchasing decisions or switching to other suppliers (which could result in our incurring additional obligations in order to address customer uncertainty), minimizing sales force attrition and coordinating sales, marketing and distribution efforts;

consolidating and rationalizing corporate IT infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code;

minimizing the diversion of management attention from ongoing business concerns;

persuading employees that business cultures are compatible, maintaining employee morale and retaining key employees, engaging with employee works councils representing an acquired company's non-U.S. employees, integrating employees into HP, correctly estimating employee benefit costs and implementing restructuring programs;

coordinating and combining administrative, manufacturing, research and development and other operations, subsidiaries, facilities and relationships with third parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures;

achieving savings from supply chain integration; and

managing integration issues shortly after or pending the completion of other independent transactions.

Managing business combination and investment transactions requires varying levels of management resources, which may divert our attention from other business operations. These business combination and investment transactions also have resulted, and in the future may result, in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, asset impairment charges, charges from the elimination of duplicative facilities and contracts, in-process research and development charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans. Moreover, HP has incurred and will incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with business combination and investment transactions, and, to the extent that the value of goodwill or intangible assets with indefinite lives acquired in connection with a business combination and investment transaction becomes impaired, we may be required to incur additional material charges relating to the impairment of those assets. In order to complete an acquisition, we may issue common stock, potentially creating dilution for existing stockholders. In addition, we may borrow to finance an acquisition, and the amount and terms of any potential future acquisition-related borrowings, as well as other factors, could affect our liquidity and financial condition and potentially our credit ratings. Any potential future downgrades in our credit rating associated with an acquisition could adversely affect our ability to borrow and cost of borrowing and result in more restrictive borrowing terms. In addition, HP's effective tax rate on an ongoing basis is uncertain, and business combination and investment transactions could impact our effective tax rate. We also may experience risks relating to the challenges and costs of closing a business combination and investment transaction and the risk that an announced



business combination and investment transaction may not close. As a result, any completed, pending or future transactions may contribute to financial results that differ from the investment community's expectations in a given quarter.

*Unforeseen environmental costs could impact our future net earnings.*

We are subject to various federal, state, local and foreign laws and regulations concerning environmental protection, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, the content of our products and the recycling, treatment and disposal of our products including batteries. In particular, we face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the chemical and materials composition of our products, their safe use, the energy consumption associated with those products and product take-back legislation. We could incur substantial costs, our products could be restricted from entering certain jurisdictions, and we could face other sanctions, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws. Our potential exposure includes fines and civil or criminal sanctions, third-party property damage, personal injury claims and clean up costs. Further, liability under some environmental laws relating to contaminated sites can be imposed retroactively, on a joint and several basis, and without any finding of noncompliance or fault. The amount and timing of costs under environmental laws are difficult to predict.

*Some anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.*

We have provisions in our certificate of incorporation and bylaws, each of which could have the effect of rendering more difficult or discouraging an acquisition of HP deemed undesirable by our Board of Directors. These include provisions:

authorizing blank check preferred stock, which HP could issue with voting, liquidation, dividend and other rights superior to our common stock;

limiting the liability of, and providing indemnification to, HP's directors and officers;

specifying that HP stockholders may take action only at a duly called annual or special meeting of stockholders and otherwise in accordance with our bylaws and limiting the ability of our stockholders to call special meetings;

requiring advance notice of proposals by HP stockholders for business to be conducted at stockholder meetings and for nominations of candidates for election to our Board of Directors;

requiring a vote by the holders of two-thirds of HP's outstanding shares to amend certain bylaws relating to HP stockholder meetings, the Board of Directors and indemnification; and

controlling the procedures for conduct of HP Board and stockholder meetings and election, appointment and removal of HP directors.

These provisions, alone or together, could deter or delay hostile takeovers, proxy contests and changes in control or management of HP. As a Delaware corporation, HP also is subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders from engaging in certain business combinations without approval of the holders of substantially all of HP's outstanding common stock.

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control of HP could limit the opportunity for our stockholders to

receive a premium for their shares of HP common stock and also could affect the price that some investors are willing to pay for HP common stock.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

For quantitative and qualitative disclosures about market risk affecting HP, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended October 31, 2009, which is incorporated herein by reference. Our exposure to market risk has not changed materially since October 31, 2009.

**Item 4. Controls and Procedures.**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to HP, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to HP's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our principal executive officer and principal financial officer concluded that there has not been any change in our internal control over financial reporting during that quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

The information set forth above under Note 16 contained in the "Notes to Consolidated Condensed Financial Statements" is incorporated herein by reference.

**Item 1A. Risk Factors.**

A description of factors that could materially affect our business, financial condition or operating results is included under "Factors that Could Affect Future Results" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in Item 2 of Part I of this report. This description includes any material changes to the risk factor disclosure in Item 1A of Part I of our 2009 Annual Report on Form 10-K and is incorporated herein by reference.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****Recent Sales of Unregistered Securities**

On April 29, 2010, HP issued 351,740 shares of common stock to each of two indirect wholly owned subsidiaries, Hewlett-Packard Berlin B.V. and Hewlett-Packard Munich B.V. The issuances of these shares were a component of an internal corporate reorganization implemented in connection with the legal integration of 3Com. The issuances of these shares were exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as sales of securities not involving any public offering.

**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
In thousands, except per share amounts				
<b>Month #1</b>				
(February 2010)	11,523	\$ 48.72	11,523	\$ 8,680,330
<b>Month #2</b>				
(March 2010)	12,437	\$ 52.05	12,437	\$ 8,033,035
<b>Month #3</b>				
(April 2010)	10,985	\$ 53.66	10,985	\$ 7,443,534
<b>Total</b>	<b>34,945</b>	<b>\$ 51.46</b>	<b>34,945</b>	

HP repurchased shares in the second quarter of fiscal 2010 under an ongoing program to manage the dilution created by shares issued under employee stock plans as well as to repurchase shares opportunistically. This program, which does not have a specific expiration date, authorizes repurchases in the open market or in private transactions. All shares repurchased in the second quarter of fiscal 2010 were purchased in open market transactions.

As of April 30, 2010, HP had remaining authorization of \$7.4 billion for future share repurchases under the \$8.0 billion repurchase authorization approved by HP's Board of Directors on November 19, 2009.

**Item 6. Exhibits.**

The Exhibit Index beginning on page 92 of this report sets forth a list of exhibits.



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEWLETT-PACKARD COMPANY

/s/ CATHERINE A. LESJAK

---

Catherine A. Lesjak  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial Officer and Authorized Signatory)*

Date: June 8, 2010

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**  
**EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
3(a)	Registrant's Certificate of Incorporation.	10-Q	001-04423	3(a)	June 12, 1998
3(b)	Registrant's Amendment to the Certificate of Incorporation.	10-Q	001-04423	3(b)	March 16, 2001
3(c)	Registrant's Amended and Restated By-Laws effective September 17, 2009.	8-K	001-04423	3.1	September 17, 2009
4(a)	Form of Senior Indenture.	S-3	333-30786	4.1	March 17, 2000
4(b)	Form of Registrant's Fixed Rate Note and Floating Rate Note and related Officers' Certificate.	8-K	001-04423	4.1, 4.2 and 4.4	May 24, 2001
4(c)	Form of Registrant's 6.50% Global Note due July 1, 2012, and form of related Officers' Certificate.	8-K	001-04423	4.2 and 4.3	June 27, 2002
4(d)	Form of Registrant's Fixed Rate Note and form of Floating Rate Note.	8-K	001-04423	4.1 and 4.2	December 11, 2002
4(e)	Indenture, dated as of June 1, 2000, between the Registrant and J.P. Morgan Trust Company, National Association (formerly Chase Manhattan Bank), as Trustee.	S-3	333-134327	4.9	June 7, 2006
4(f)	Form of Registrant's Floating Rate Global Note due March 1, 2012, form of 5.25% Global Note due March 1, 2012 and form of 5.40% Global Note due March 1, 2017.	8-K	001-04423	4.1, 4.2 and 4.3	February 28, 2007
4(g)	Form of Registrant's Floating Rate Global Note due June 15, 2009 and Floating Rate Global Note due June 15, 2010.	10-Q	001-04423	4(l)	September 7, 2007
4(h)	Form of Registrant's Floating Rate Global Note due September 3, 2009, 4.50% Global Note due March 1, 2013 and 5.50% Global Note due March 1, 2018.	8-K	001-04423	4.1, 4.2 and 4.3	February 29, 2008
4(i)	Form of Registrant's 6.125% Global Note due March 1, 2014 and form of related Officers' Certificate.	8-K	001-04423	4.1 and 4.2	December 8, 2008
4(j)	Form of Registrant's Floating Rate Global Note due February 24, 2011, 4.250% Global Note due February 24, 2012 and 4.750% Global Note due June 2, 2014 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	February 27, 2009

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
4(k)	Form of Registrant's Floating Rate Global Note due May 27, 2011, 2.25% Global Note due May 27, 2011 and 2.95% Global Note due August 15, 2012 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	May 28, 2009
4(l)	Speciman certificate for the Registrant's common stock.	8-A/A	001-04423	4.1	June 23, 2006
9	None.				
10(a)	Registrant's 2004 Stock Incentive Plan.*	S-8	333-114253	4.1	April 7, 2004
10(b)	Registrant's 2000 Stock Plan, amended and restated effective September 17, 2008.*	10-K	001-04423	10(b)	December 18, 2008
10(c)	Registrant's 1997 Director Stock Plan, amended and restated effective November 1, 2005.*	8-K	001-04423	99.4	November 23, 2005
10(d)	Registrant's 1995 Incentive Stock Plan, amended and restated effective May 1, 2007.*	10-Q	001-04423	10(d)	June 8, 2007
10(e)	Registrant's 1990 Incentive Stock Plan, amended and restated effective May 1, 2007.*	10-Q	001-04423	10(e)	June 8, 2007
10(f)	Compaq Computer Corporation 2001 Stock Option Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(f)	January 21, 2003
10(g)	Compaq Computer Corporation 1998 Stock Option Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(g)	January 21, 2003
10(h)	Compaq Computer Corporation 1995 Equity Incentive Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(h)	January 21, 2003
10(i)	Compaq Computer Corporation 1989 Equity Incentive Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(i)	January 21, 2003
10(j)	Compaq Computer Corporation 1985 Nonqualified Stock Option Plan for Non-Employee Directors.*	S-3	333-86378	10.5	April 18, 2002
10(k)	Amendment of Compaq Computer Corporation Non-Qualified Stock Option Plan for Non-Employee Directors, effective September 3, 2001.*	S-3	333-86378	10.11	April 18, 2002

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(l)	Compaq Computer Corporation 1998 Former Nonemployee Replacement Option Plan.*	S-3	333-86378	10.9	April 18, 2002
10(m)	Registrant's Excess Benefit Retirement Plan, amended and restated as of January 1, 2006.*	8-K	001-04423	10.2	September 21, 2006
10(n)	Hewlett-Packard Company Cash Account Restoration Plan, amended and restated as of January 1, 2005.*	8-K	001-04423	99.3	November 23, 2005
10(o)	Registrant's 2005 Pay-for-Results Plan.*	8-K	001-04423	99.5	November 23, 2005
10(p)	Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	8-K	001-04423	10.1	September 21, 2006
10(q)	First Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(q)	June 8, 2007
10(r)	Employment Agreement, dated March 29, 2005, between Registrant and Mark V. Hurd.*	8-K	001-04423	99.1	March 30, 2005
10(s)	Employment Agreement, dated June 9, 2005, between Registrant and R. Todd Bradley.*	10-Q	001-04423	10(x)	September 8, 2005
10(t)	Employment Agreement, dated July 11, 2005, between Registrant and Randall D. Mott.*	10-Q	001-04423	10(y)	September 8, 2005
10(u)	Registrant's Amended and Restated Severance Plan for Executive Officers.*	8-K	001-04423	99.1	July 27, 2005
10(v)	Form letter to participants in the Registrant's Pay-for-Results Plan for fiscal year 2006.*	10-Q	001-04423	10(w)	March 10, 2006
10(w)	Registrant's Executive Severance Agreement.*	10-Q	001-04423	10(u)(u)	June 13, 2002
10(x)	Registrant's Executive Officers Severance Agreement.*	10-Q	001-04423	10(v)(v)	June 13, 2002
10(y)	Form letter regarding severance offset for restricted stock and restricted units.*	8-K	001-04423	10.2	March 22, 2005
10(z)	Form of Indemnity Agreement between Compaq Computer Corporation and its executive officers.*	10-Q	001-04423	10(x)(x)	June 13, 2002

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>Incorporated by Reference File No.</b>	<b>Exhibit(s)</b>	<b>Filing Date</b>
10(a)(a)	Form of Stock Option Agreement for Registrant's 2004 Stock Incentive Plan, Registrant's 2000 Stock Plan, as amended, Registrant's 1995 Incentive Stock Plan, as amended, the Compaq Computer Corporation 2001 Stock Option Plan, as amended, the Compaq Computer Corporation 1998 Stock Option Plan, as amended, the Compaq Computer Corporation 1995 Equity Incentive Plan, as amended and the Compaq Computer Corporation 1989 Equity Incentive Plan, as amended.*	10-Q	001-04423	10(a)(a)	June 8, 2007
10(b)(b)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan, Registrant's 2000 Stock Plan, as amended, and Registrant's 1995 Incentive Stock Plan, as amended.*	10-Q	001-04423	10(b)(b)	June 8, 2007
10(c)(c)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(c)(c)	June 8, 2007
10(d)(d)	Form of Stock Option Agreement for Registrant's 1990 Incentive Stock Plan, as amended.*	10-K	001-04423	10(e)	January 27, 2000
10(e)(e)	Form of Common Stock Payment Agreement and Option Agreement for Registrant's 1997 Director Stock Plan, as amended.*	10-Q	001-04423	10(j)(j)	March 11, 2005
10(f)(f)	Form of Restricted Stock Grant Notice for the Compaq Computer Corporation 1989 Equity Incentive Plan.*	10-Q	001-04423	10(w)(w)	June 13, 2002
10(g)(g)	Forms of Stock Option Notice for the Compaq Computer Corporation Non-Qualified Stock Option Plan for Non-Employee Directors, as amended.*	10-K	001-04423	10(r)(r)	January 14, 2005
10(h)(h)	Form of Long-Term Performance Cash Award Agreement for Registrant's 2004 Stock Incentive Plan and Registrant's 2000 Stock Plan, as amended.*	10-K	001-04423	10(t)(t)	January 14, 2005
10(i)(i)	Amendment One to the Long-Term Performance Cash Award Agreement for the 2004 Program.*	10-Q	001-04423	10(q)(q)	September 8, 2005
10(j)(j)	Form of Long-Term Performance Cash Award Agreement for the 2005 Program.*	10-Q	001-04423	10(r)(r)	September 8, 2005

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(k)(k)	Form of Long-Term Performance Cash Award Agreement.*	10-Q	001-04423	10(o)(o)	March 10, 2006
10(l)(l)	Second Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(l)(l)	December 18, 2007
10(m)(m)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	8-K	001-04423	10.1	January 24, 2008
10(n)(n)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California).*	8-K	001-04423	10.2	January 24, 2008
10(o)(o)	Form of Agreement Regarding Confidential Information and Proprietary Developments (Texas).*	10-Q	001-04423	10(o)(o)	March 10, 2008
10(p)(p)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(p)(p)	March 10, 2008
10(q)(q)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(q)(q)	March 10, 2008
10(r)(r)	Form of Stock Option Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(r)(r)	March 10, 2008
10(s)(s)	Form of Special Performance-Based Cash Incentive Notification Letter.*	8-K	001-04423	10.1	May 20, 2008
10(t)(t)	Form of Option Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(t)(t)	June 6, 2008
10(u)(u)	Form of Common Stock Payment Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(u)(u)	June 6, 2008
10(v)(v)	Third Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(v)(v)	December 18, 2008
10(w)(w)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-K	001-04423	10(w)(w)	December 18, 2008
10(x)(x)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	10-K	001-04423	10(x)(x)	December 18, 2008
10(y)(y)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-K	001-04423	10(y)(y)	December 18, 2008



Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(z)(z)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-K	001-04423	10(z)(z)	December 18, 2008
10(a)(a)(a)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(a)(a)(a)	March 10, 2009
10(b)(b)(b)	First Amendment to the Hewlett-Packard Company Excess Benefit Retirement Plan.*	10-Q	001-04423	10(b)(b)(b)	March 10, 2009
10(c)(c)(c)	Fourth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(c)(c)(c)	June 5, 2009
10(d)(d)(d)	Fifth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(d)(d)(d)	September 4, 2009
10(e)(e)(e)	Amended and Restated Hewlett-Packard Company 2004 Stock Incentive Plan.*	8-K	001-04423	10.2	March 23, 2010
11	None.				
12	Statement of Computation of Ratio of Earnings to Fixed Charges.				
15	None.				
18-19	None.				
22-24	None.				
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance Document.§				
101.SCH	XBRL Taxonomy Extension Schema Document.§				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.§				

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>Incorporated by Reference</b>		<b>Filing Date</b>
			<b>File No.</b>	<b>Exhibit(s)</b>	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.§				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.§				

---

\*  
Indicates management contract or compensatory plan, contract or arrangement.

Filed herewith.

Furnished herewith.

§  
Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

The registrant agrees to furnish to the Commission supplementally upon request a copy of (1) any instrument with respect to long-term debt not filed herewith as to which the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of the registrant and its subsidiaries on a consolidated basis and (2) any omitted schedules to any material plan of acquisition, disposition or reorganization set forth above.

QuickLinks

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES Consolidated Condensed Statements of Earnings (Unaudited)

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES Consolidated Condensed Balance Sheets

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES Consolidated Condensed Statements of Cash Flows (Unaudited)

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES Notes to Consolidated Condensed Financial Statements (Unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Item 4. Controls and Procedures.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Item 1A. Risk Factors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Item 6. Exhibits.

SIGNATURE

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES EXHIBIT INDEX