

HEWLETT PACKARD CO
Form 10-Q
March 11, 2011

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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: **January 31, 2011**

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

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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 February 28, 2011 was 2,163,931,073 shares.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
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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, earnings, earnings per share, tax provisions, 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 execution of cost reduction programs and restructuring plans; any statements concerning the expected development, performance or market share relating to products or services; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on HP and its financial 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 the impact of macroeconomic and geopolitical trends and events; the competitive pressures faced by HP's businesses; the development and transition of new products and services (and the enhancement of existing products and services) to meet customer needs and respond to emerging technological trends; the execution and performance of contracts by HP and its suppliers, customers and partners; the protection of HP's intellectual property assets, including intellectual property licensed from third parties; integration and other risks associated with business combination and investment transactions; the hiring and retention of key employees; 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, 2010. 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 January 31	
	2011	2010
	In millions, except per share amounts	
Net revenue:		
Products	\$ 22,194	\$ 21,003
Services	10,002	10,067
Financing income	106	107
Total net revenue	32,302	31,177
Costs and expenses:		
Cost of products	16,798	16,347
Cost of services	7,535	7,601
Financing interest	75	79
Research and development	798	681
Selling, general and administrative	3,090	2,967
Amortization of purchased intangible assets	425	330
Restructuring charges	158	131
Acquisition-related charges	29	38
Total operating expenses	28,908	28,174
Earnings from operations	3,394	3,003
Interest and other, net	(97)	(199)
Earnings before taxes	3,297	2,804
Provision for taxes	692	554
Net earnings	\$ 2,605	\$ 2,250
Net earnings per share:		
Basic	\$ 1.19	\$ 0.95
Diluted	\$ 1.17	\$ 0.93
Cash dividends declared per share	\$ 0.16	\$ 0.16
Weighted-average shares used to compute net earnings per share:		
Basic	2,182	2,358

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Diluted	2,226	2,427
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The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

January 31, October 31,
2011 2010

In millions, except par value
(Unaudited)

ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,934	\$ 10,929
Accounts receivable	16,552	18,481
Financing receivables	2,982	2,986
Inventory	6,747	6,466
Other current assets	15,189	15,322
Total current assets	51,404	54,184
Property, plant and equipment	11,575	11,763
Long-term financing receivables and other assets	11,017	12,225
Goodwill	38,506	38,483
Purchased intangible assets	7,431	7,848
Total assets	\$ 119,933	\$ 124,503

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Notes payable and short-term borrowings	\$ 3,381	\$ 7,046
Accounts payable	13,453	14,365
Employee compensation and benefits	2,976	4,256
Taxes on earnings	789	802
Deferred revenue	6,927	6,727
Accrued restructuring	794	911
Other accrued liabilities	15,290	15,296
Total current liabilities	43,610	49,403
Long-term debt	17,022	15,258
Other liabilities	17,754	19,061
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; 2,174 and 2,204 shares issued and outstanding, respectively)	22	22
Additional paid-in capital	10,877	11,569
Retained earnings	34,005	32,695
Accumulated other comprehensive loss	(3,698)	(3,837)
Total HP stockholders' equity	41,206	40,449

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Non-controlling interests	341	332
Total stockholders' equity	41,547	40,781
Total liabilities and stockholders' equity	\$ 119,933	\$ 124,503

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)

Three months ended
January 31

2011 2010

In millions

Cash flows from operating activities:		
Net earnings	\$ 2,605	\$ 2,250
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,255	1,162
Stock-based compensation expense	180	181
Provision for doubtful accounts and financing receivables	34	51
Provision for inventory	52	41
Restructuring charges	158	131
Deferred taxes on earnings	632	(192)
Excess tax benefit from stock-based compensation	(64)	(128)
Other, net	(104)	87
Changes in operating assets and liabilities:		
Accounts and financing receivables	1,752	1,875
Inventory	(333)	(543)
Accounts payable	(912)	(1,268)
Taxes on earnings	(242)	479
Restructuring	(272)	(400)
Other assets and liabilities	(1,671)	(1,319)
Net cash provided by operating activities	3,070	2,407
Cash flows from investing activities:		
Investment in property, plant and equipment	(926)	(821)
Proceeds from sale of property, plant and equipment	543	112
Purchases of available-for-sale securities and other investments	(19)	(9)
Maturities and sales of available-for-sale securities and other investments	53	
(Payments) in connection with business acquisitions, net of cash acquired	(14)	7
Net cash used in investing activities	(363)	(711)
Cash flows from financing activities:		
(Repayment) issuance of commercial paper and notes payable, net	(3,710)	78
Issuance of debt	2,117	29
Payment of debt	(138)	(80)
Issuance of common stock under employee stock plans	430	1,319
Repurchase of common stock	(2,290)	(2,713)
Excess tax benefit from stock-based compensation	64	128
Dividends	(175)	(189)
Net cash used in financing activities	(3,702)	(1,428)

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(Decrease) increase in cash and cash equivalents	(995)	268
Cash and cash equivalents at beginning of period	10,929	13,279

Cash and cash equivalents at end of period \$ 9,934 \$ 13,547

Supplemental schedule of non-cash investing and financing activities:

Purchase of assets under capital lease	\$ 5	\$ 53
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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

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 January 31, 2011, its results of operations and cash flows for the three months ended January 31, 2011 and January 31, 2010. The Consolidated Condensed Balance Sheet as of October 31, 2010 is derived from the October 31, 2010 audited consolidated financial statements.

The results of operations for the three months ended January 31, 2011 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, 2010.

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.

Reclassifications and Segment Reorganization

In connection with organizational realignments implemented in the first quarter of fiscal 2011, certain costs previously reported as Cost of services have been reclassified as Selling, general and administrative expenses to better align those costs with the functional areas that benefit from those expenditures. HP has made certain segment and business unit realignments in order to optimize its operating structure. Reclassifications of prior year financial information have been made to conform to the current year presentation. None of the changes impacts HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share. See Note 16 for a further discussion of HP's segment reorganization.

Note 2: Stock-Based Compensation

HP's stock-based compensation plans include HP's principal equity plans as well as various equity plans assumed through acquisitions. HP's principal equity plans include performance-based restricted units ("PRU"), special incremental performance-based restricted units ("IPRU"), stock options and restricted stock awards.

Total stock-based compensation expense before income taxes for the three months ended January 31, 2011 and 2010 was \$180 million and \$181 million, respectively. The resulting income tax benefit for the three months ended January 31, 2011 and 2010 was \$43 million and \$58 million, respectively.

Performance-based Restricted Units

HP's PRU program provides for the issuance of PRUs representing hypothetical shares of HP common stock. Each PRU award reflects a target number of shares ("Target Shares") that may be

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

issued to the award recipient before adjusting for performance and market conditions. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on results achieved versus company performance goals and may range from 0% to 200% of the Target Shares granted. The performance goals are based on HP's annual cash flow from operations as a percentage of revenue and 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. Target Shares do not have dividend equivalent rights and do not have the voting rights of common stock until earned and issued following the end of the applicable performance period. 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 Share using a 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:

	Three months ended	
	January 31	
	2011	2010
Weighted-average fair value of grants per share	\$ 27.59 ⁽¹⁾	\$ 57.13 ⁽²⁾
Expected volatility ⁽³⁾	30%	38%
Risk-free interest rate	0.38%	0.73%
Dividend yield	0.75%	0.64%
Expected life in months	19	22

- (1) Reflects the weighted-average fair value for the third year of the three-year performance period applicable to PRUs granted in fiscal 2009, for the second year of the three-year performance period applicable to PRUs granted in fiscal 2010 and for the first year of the three-year performance period applicable to PRUs granted in the three months ended January 31, 2011. The estimated fair value of a Target Share for the third year for PRUs granted in fiscal 2010 and for the second and third years for PRUs granted in the three months ended January 31, 2011 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 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 the three months ended January 31, 2010.
- (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 January 31, 2011 and changes during the three months ended January 31, 2011 were as follows:

	Shares (in thousands)
Outstanding Target Shares at October 31, 2010	18,508
Granted	5,738
Vested	
Change in units due to performance and market conditions achievement for PRUs vested in the period	
Forfeited	(311)
Outstanding Target Shares at January 31, 2011	23,935
Outstanding Target Shares assigned a fair value at January 31, 2011	17,960 ⁽¹⁾

⁽¹⁾

Excludes Target Shares for the third year for PRUs granted in fiscal 2010 and for the second and third years for PRUs granted in the three months ended January 31, 2011 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 January 31, 2011, there was \$367 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 1.5 years.

Special Incremental Performance-Based Restricted Units

HP granted IPRUs representing hypothetical shares of HP common stock to certain executive officers. IPRU awards contain performance and market conditions and vest over three years.

The amount of non-vested IPRUs granted and outstanding as of January 31, 2011 was 0.3 million units. At January 31, 2011, there was \$4 million of unrecognized pre-tax stock-based compensation expense related to IPRUs, which HP expects to recognize over the remaining weighted-average vesting period of 2.8 years.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

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 January 31	
	2011	2010
Weighted-average fair value of grants per share ⁽¹⁾	\$ 11.42	\$ 14.42
Implied volatility	29%	30%
Risk-free interest rate	1.75%	2.34%
Dividend yield	0.74%	0.64%
Expected life in months	60	62

⁽¹⁾ The fair value calculation was based on stock options granted during the period.

Option activity as of January 31, 2011 and changes during the three months ended January 31, 2011 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, 2010	142,916	\$ 28		
Granted	224	\$ 43		
Exercised	(14,921)	\$ 27		
Forfeited/cancelled/expired	(1,419)	\$ 40		
Outstanding at January 31, 2011	126,800	\$ 28	2.7	\$ 2,337
Vested and expected to vest at January 31, 2011	125,916	\$ 28	2.6	\$ 2,322
Exercisable at January 31, 2011	118,277	\$ 28	2.2	\$ 2,191

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 January 31, 2011. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of the first quarter of fiscal 2011 and the exercise price, multiplied by the number of in-the-money options. Total intrinsic value of options exercised for the three months ended January 31, 2011 was \$258 million.

At January 31, 2011, there was \$234 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 1.9 years.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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

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

Non-vested restricted stock awards as of January 31, 2011 and changes during the three months ended January 31, 2011 were as follows:

	Shares (in thousands)	Weighted- Average Grant Date Fair Value Per Share
Outstanding at October 31, 2010	5,848	\$ 45
Granted	7,207	\$ 43
Vested	(800)	\$ 45
Forfeited	(99)	\$ 45
Outstanding at January 31, 2011	12,156	\$ 44

At January 31, 2011, there was \$408 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 1.7 years.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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, IPRUs, 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 January 31	
	2011	2010
	In millions, except per share amounts	
Numerator:		
Net earnings ⁽¹⁾	\$ 2,605	\$ 2,250
Denominator:		
Weighted-average shares used to compute basic EPS	2,182	2,358
Dilutive effect of employee stock plans	44	69
Weighted-average shares used to compute diluted EPS	2,226	2,427
Net earnings per share:		
Basic	\$ 1.19	\$ 0.95
Diluted	\$ 1.17	\$ 0.93

(1) Net earnings available to participating securities were not significant for the first quarter of fiscal 2011 and 2010. HP considers restricted stock that provides the holder with a non-forfeitable right to receive dividends to be a participating security.

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. In the first quarter of fiscal 2011 and 2010, HP excluded from the calculation of diluted EPS options to purchase 7 million shares and 21 million shares, respectively. HP also excluded from the calculation of diluted EPS options to purchase an additional 1 million shares and 2 million shares in the first quarter of fiscal 2011 and 2010, respectively, 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.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 4: Balance Sheet Details

Balance sheet details were as follows:

Accounts and Financing Receivables

	January 31, 2011	October 31, 2010
	In millions	
Accounts receivable	\$ 17,056	\$ 19,006
Allowance for doubtful accounts	(504)	(525)
	\$ 16,552	\$ 18,481
Financing receivables	\$ 3,037	\$ 3,050
Allowance for doubtful accounts	(55)	(64)
	\$ 2,982	\$ 2,986

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 \$556 million as of January 31, 2011. HP sold \$463 million of trade receivables during the first three months of fiscal 2011. As of January 31, 2011, HP had \$261 million available under these programs.

Inventory

	January 31, 2011	October 31, 2010
	In millions	
Finished goods	\$ 4,527	\$ 4,431
Purchased parts and fabricated assemblies	2,220	2,035
	\$ 6,747	\$ 6,466

Property, Plant and Equipment

	January 31, 2011	October 31, 2010
	In millions	
Land	\$ 521	\$ 530
Buildings and leasehold improvements	8,307	8,523
Machinery and equipment	14,871	13,874
	23,699	22,927
Accumulated depreciation	(12,124)	(11,164)
	\$ 11,575	\$ 11,763

On November 16, 2010, HP sold certain land and buildings for approximately \$415 million, which resulted in a gain of approximately \$286 million reported under selling, general and administrative expenses in the Consolidated Condensed Statement of Earnings. The sale was

part of the company's multi-year program to consolidate real estate locations worldwide to reduce real estate costs.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 5: Goodwill and Purchased Intangible Assets

Goodwill

Goodwill allocated to HP's business segments as of January 31, 2011 and changes in the carrying amount of goodwill for the three months ended January 31, 2011 are as follows:

	Enterprise Servers, Storage and Services	HP Software	Personal Systems Group	Imaging and Printing Group	HP Financial Services	Corporate Investments	Total	
In millions								
Balance at								
October 31, 2010	\$ 16,967	\$ 6,610	\$ 7,545	\$ 2,500	\$ 2,456	\$ 144	\$ 2,261	\$ 38,483
Goodwill adjustments	256	1,420	(251)	(2)	(1)		(1,399)	23
Balance at								
January 31, 2011	\$ 17,223	\$ 8,030	\$ 7,294	\$ 2,498	\$ 2,455	\$ 144	\$ 862	\$ 38,506

In connection with certain fiscal 2011 organizational realignments, HP reclassified goodwill related to HP's networking business from Corporate Investments to Enterprise Servers, Storage and Networking ("ESSN") and goodwill related to the communications and media solutions business from HP Software to Services. Additionally, during the three months ended January 31, 2011, HP recorded an increase to goodwill as a result of currency translation related to a 3Com subsidiary whose functional currency is not the U.S. dollar. The increase to goodwill was partially offset by tax adjustments primarily related to tax deductible stock-based awards assumed in connection with acquisitions completed prior to the effective date of the current accounting standard for business combinations.

Purchased Intangible Assets

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

	January 31, 2011			October 31, 2010		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
In millions						
Customer contracts, customer lists and distribution agreements	\$ 7,505	\$ (4,092)	\$ 3,413	\$ 7,503	\$ (3,864)	\$ 3,639
Developed and core technology and patents	5,784	(3,572)	2,212	5,763	(3,384)	2,379
Product trademarks	346	(248)	98	346	(239)	107
Total amortizable purchased intangible assets	13,635	(7,912)	5,723	13,612	(7,487)	6,125
IPR&D	286		286	301		301
Compaq trade name	1,422		1,422	1,422		1,422
Total purchased intangible assets	\$ 15,343	\$ (7,912)	\$ 7,431	\$ 15,335	\$ (7,487)	\$ 7,848

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 5: Goodwill and Purchased Intangible Assets (Continued)

Estimated future amortization expense related to finite-lived purchased intangible assets at January 31, 2011 is as follows:

Fiscal year:	In millions
2011 (remaining 9 months)	\$ 1,102
2012	1,294
2013	1,141
2014	810
2015	682
2016	534
Thereafter	160
 Total	 \$ 5,723

Note 6: Restructuring Charges

HP records restructuring charges associated with management approved restructuring plans to either reorganize one or more of HP's business segments, or to remove duplicative headcount and infrastructure associated with one or more business acquisitions. Restructuring charges can include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, and contract cancellation cost. Restructuring charges are recorded based upon planned employee termination dates and site closure and consolidation plans. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over a multi-year period. HP records the short-term portion of the restructuring liability in Accrued restructuring and the long-term portion in Other liabilities in the Consolidated Condensed Balance Sheets.

Fiscal 2010 Acquisitions

On July 1, 2010, HP completed the acquisition of Palm, Inc. ("Palm"). In connection with the acquisition, HP's management approved and initiated a plan to restructure the operations of Palm, including severance for Palm employees, contract cancellation costs and other items. The total expected cost of the plan is \$46 million. In fiscal 2010, HP recorded restructuring charges of approximately \$46 million related to the plan. No further restructuring charges are anticipated, subject to changes in the Palm integration plan. The majority of these costs are expected to be paid out by the second quarter of fiscal 2011.

On April 12, 2010, HP completed the acquisition of 3Com. In connection with the acquisition, HP's management approved and initiated a plan to restructure the operations of 3Com, including severance costs and costs to vacate duplicative facilities. The total expected cost of the plan is \$42 million. In fiscal 2010, HP recorded restructuring charges of approximately \$18 million related to the plan. HP expects to record the majority of the remaining cost of this restructuring plan by the second quarter of fiscal 2011 based upon the timing of planned terminations and facility closure dates. These costs are expected to be paid out through fiscal 2016.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Restructuring Charges (Continued)

Fiscal 2010 ES Restructuring Plan

On June 1, 2010, HP's management announced a plan to restructure its Enterprise Services business, which includes its Infrastructure Technology Outsourcing, Business Process Outsourcing and Application Services business units. The multi-year restructuring program includes plans to consolidate commercial data centers, tools and applications. The total expected cost of the plan that will be recorded as restructuring charges is approximately \$1.0 billion, including severance costs to eliminate approximately 9,000 positions and infrastructure charges. For the three months ended January 31, 2011, a restructuring charge of \$97 million was recorded primarily related to severance costs. HP expects to record the majority of the remaining severance costs by the second quarter of fiscal 2011 and the majority of the infrastructure charges through fiscal 2012. The timing of the charges is based upon planned termination dates and site closure and consolidation plans. The majority of the associated cash payments are expected to be paid out through the fourth quarter of fiscal 2012. As of January 31, 2011, approximately 2,900 positions have been eliminated.

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 ESSN businesses. The total expected cost of the plan is \$292 million in severance-related costs associated with the planned elimination of approximately 4,400 positions. As of January 31, 2011, all planned eliminations had occurred, and the majority of the remaining restructuring costs are expected to be paid out through the second quarter of fiscal 2011.

Fiscal 2008 HP/EDS Restructuring Plan

In connection with the acquisition of Electronic Data Systems Corporation ("EDS") on August 26, 2008, HP's management approved and initiated a restructuring plan to combine and align HP's services businesses, eliminate duplicative overhead functions and consolidate and vacate duplicative facilities. The restructuring plan is expected to be implemented over four years from the acquisition date at a total expected cost of \$3.4 billion.

The restructuring plan includes severance cost to eliminate approximately 25,000 positions. As of January 31, 2011, all planned eliminations had occurred and the vast majority of the associated severance costs had been paid out. The infrastructure charges in the restructuring plan include facility closure and consolidation costs and the costs associated with early termination of certain contractual obligations. HP expects to record the majority of these costs through fiscal 2011 based upon the execution of site closure and consolidation plans. The associated cash payments are expected to be paid out through fiscal 2016.

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 will be recorded as a restructuring charge.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Restructuring Charges (Continued)*Summary of Restructuring Plans*

The adjustments to the accrued restructuring expenses related to all of HP's restructuring plans described above for the three months ended January 31, 2011 were as follows:

	Balance, October 31, 2010	Three months ended January 31, 2011 charges	Cash payments	Non-cash settlements and other adjustments	Balance, January 31, 2011	As of January 31, 2011 Total costs and adjustments to date	Total expected costs and adjustments
In millions							
<i>Fiscal 2010 acquisitions</i>	\$ 44	\$	\$ (21)	\$	\$ 23	\$ 64	\$ 88
<i>Fiscal 2010 ES Plan:</i>							
Severance	\$ 620	\$ 85	\$ (57)	\$ (1)	\$ 647	\$ 715	\$ 761
Infrastructure	4	12	(12)		4	32	231
Total ES Plan	\$ 624	\$ 97	\$ (69)	\$ (1)	\$ 651	\$ 747	\$ 992
<i>Fiscal 2009 Plan</i>	\$ 57	\$	\$ (33)	\$ (1)	\$ 23	\$ 292	\$ 292
<i>Fiscal 2008 HP/EDS Plan:</i>							
Severance	\$ 75	\$ 14	\$ (66)	\$ (16)	\$ 7	\$ 2,160	\$ 2,160
Infrastructure	408	47	(83)	12	384	740	1,225
Total HP/EDS Plan	\$ 483	\$ 61	\$ (149)	\$ (4)	\$ 391	\$ 2,900	\$ 3,385
Total restructuring plans	\$ 1,208	\$ 158	\$ (272)	\$ (6)	\$ 1,088	\$ 4,003	\$ 4,757

At January 31, 2011 and October 31, 2010, HP included the long-term portion of the restructuring liability of \$294 million and \$297 million, respectively, in Other liabilities, and the short-term portion in Accrued restructuring in the accompanying Consolidated Condensed Balance Sheets.

Note 7: Fair Value

HP determines fair value 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. 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.

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 7: Fair Value (Continued)

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. 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 8, 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.

The following table presents HP's assets and liabilities that are measured at fair value on a recurring basis:

	As of January 31, 2011				As of October 31, 2010				
	Fair Value Measured Using			Total Balance	Fair Value Measured Using			Total Balance	
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3		
In millions									
Assets									
Time deposits	\$	\$ 6,082	\$	\$ 6,082	\$	\$ 6,598	\$	\$ 6,598	
Commercial paper		97		97					
Money market funds		515		515	971			971	
Marketable equity securities		11	3	14	11	3		14	
Foreign bonds		7	368	375	8	365		373	
Corporate bonds and other debt securities		3	2	49	54	3	6	50	
Derivatives:									
Interest rate contracts			535	535		735		735	
Foreign exchange contracts			141	7	148	150	32	182	
Other derivatives			4	7	11	5	6	11	
Total Assets	\$	\$ 536	\$ 7,232	\$ 63	\$ 7,831	\$ 993	\$ 7,862	\$ 88	\$ 8,943
Liabilities									
Derivatives:									
Interest rate contracts	\$	\$ 66	\$	\$ 66	\$	\$ 89	\$	\$ 89	
Foreign exchange			775	9	784	880	10	890	

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contracts

Other derivatives	2	2
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Total Liabilities	\$	\$	843	\$	9	\$	852	\$	\$	969	\$	10	\$	979
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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments

Cash Equivalents and Available-for-Sale Investments

Cash equivalents and available-for-sale investments at fair value as of January 31, 2011 and October 31, 2010 were as follows:

	January 31, 2011			October 31, 2010				
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
In millions								
Cash Equivalents								
Time deposits	\$ 6,055	\$	\$	\$ 6,055	\$ 6,590	\$	\$	\$ 6,590
Commercial paper	97			97				
Money market funds	515			515	971			971
Total cash equivalents	6,667			6,667	7,561			7,561
Available-for-Sale Investments								
Debt securities:								
Time deposits	27			27	8			8
Foreign bonds	310	65		375	315	58		373
Corporate bonds and other debt securities	76		(22)	54	89		(30)	59
Total debt securities	413	65	(22)	456	412	58	(30)	440
Equity securities in public companies	5	4		9	5	4		9
Total cash equivalents and available-for-sale investments	\$ 7,085	\$ 69	\$ (22)	\$ 7,132	\$ 7,978	\$ 62	\$ (30)	\$ 8,010

Cash equivalents consist of investments in time deposits, commercial paper and money market funds with original maturities of ninety days or less. Time deposits were primarily issued by institutions outside the U.S. as of January 31, 2011 and October 31, 2010. 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 January 31, 2011 was due primarily to declines in certain debt securities and included \$22 million that has been in a continuous loss position for more than twelve months. The gross unrealized loss as of October 31, 2010 was due primarily to declines in the fair value of certain debt securities and included \$28 million that has 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. For the three months ended January 31, 2011 and 2010, HP did not recognize any impairment charge associated with debt securities.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

Contractual maturities of short-term and long-term investments in available-for-sale debt securities at January 31, 2011 were as follows:

	Available-for-Sale Securities	
	January 31, 2011	
	Cost	Estimated Fair Value
	In millions	
Due in 1-5 years	\$ 30	\$ 30
Due in more than five years	383	426
	\$ 413	\$ 456

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 January 31, 2011 and October 31, 2010 was as follows:

	January 31, 2011	October 31, 2010
	In millions	
Available-for-sale debt securities	\$ 5	\$ 5
Included in Other current assets		5
Available-for-sale debt securities	456	435
Available-for-sale equity securities	9	9
Equity securities in privately-held companies	54	154
Other investments	9	9
Included in long-term financing receivables and other assets	528	607
Total investments	\$ 528	\$ 612

Equity securities in privately held companies include cost basis and equity method investments. Other investments include marketable trading securities. 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 impact associated with these securities were not material for the three months ended January 31, 2011 and 2010.

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 and 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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

hedges"). Additionally, for derivatives not designated as hedging instruments, HP categorizes those economic hedges as other derivatives. HP recognizes all derivatives, on a gross basis, 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 the same counterparty.

To further mitigate credit exposure to counterparties, HP may enter into collateral security arrangements with its counterparties. These arrangements require HP to hold or post collateral, referred to as "restricted cash," when the derivative fair values exceed contractually established thresholds. The restricted cash is comprised of U.S. dollars, and it is held by a third party. HP reports all collateral arrangements on a gross basis and classifies restricted cash received from its counterparties in Other current assets on HP's Consolidated Condensed Balance Sheets with a corresponding amount recorded under Other accrued liabilities. As of January 31, 2011, the fair value of all derivative instruments under these collateralized arrangements were in a net asset position of approximately \$51 million for which \$41 million of restricted cash had been deposited by the counterparties.

Certain of HP's derivative instruments contain credit risk-related contingent features, such as provisions whereby HP and the counterparties to the derivative instruments could request collateralization on derivative instruments in net liability positions if HP's or the counterparties' credit ratings fall below certain thresholds. As of January 31, 2011 and 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 mitigate 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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

interest returns and would classify these swaps as fair value hedges. For derivative instruments that are designated and 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 three months ended January 31, 2011 and 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.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

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 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 January 31, 2011 and 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 months ended January 31, 2011 and 2010.

Fair Value of Derivative Instruments in the Consolidated Condensed Balance Sheets

As discussed in Note 7, 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 January 31, 2011					As of October 31, 2010				
	Gross Notional ⁽¹⁾	Other Current Assets	Long-term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities	Gross Notional ⁽¹⁾	Other Current Assets	Long-term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities
In millions										
Derivatives designated as hedging instruments										
Fair value hedges:										
Interest rate contracts	\$ 8,575	\$	\$ 478	\$	\$	\$ 8,575	\$	\$ 656	\$	\$
Cash flow hedges:										
Foreign exchange contracts	17,613	72	18	405	86	16,862	98	20	503	83
Net investment hedges:										
Foreign exchange contracts	1,504	8	4	58	60	1,466	8	2	58	62
Total derivatives designated as hedging instruments	27,692	80	500	463	146	26,903	106	678	561	145
Derivatives not designated as hedging instruments										
Foreign exchange contracts	11,177	44	2	131	44	13,701	51	3	129	55
Interest rate contracts ⁽²⁾	2,200		57		66	2,200		79		89
Other derivatives	415	4	7	2		397	5	6		
Total derivatives not designated as hedging instruments	13,792	48	66	133	110	16,298	56	88	129	144

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Total derivatives \$ 41,484 \$ 128 \$ 566 \$ 596 \$ 256 \$ 43,201 \$ 162 \$ 766 \$ 690 \$ 289

- (1) Represents the face amounts of contracts that were outstanding as of January 31, 2011 and October 31, 2010, respectively.
- (2) Represents offsetting swaps acquired through a previous business combination that were not designated as hedging instruments.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: 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 months ended January 31, 2011 and 2010 was as follows:

Derivative Instrument	Location	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item		Location	Three months ended January 31, 2011
		Three months ended January 31, 2011	Hedged Item		
		In millions		In millions	
Interest rate contracts	Interest and other, net	\$ (178)	Fixed-rate debt	Interest and other, net	\$ 174

Derivative Instrument	Location	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item		Location	Three months ended January 31, 2010
		Three months ended January 31, 2010	Hedged Item		
		In millions		In millions	
Interest rate contracts	Interest and other, net	\$ 9	Fixed-rate debt	Interest and other, net	\$ (9)

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three months ended January 31, 2011 and 2010 was as follows:

	Gain (Loss) Recognized in Other Comprehensive Income ("OCI") on Derivative (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Three months ended January 31, 2011	Gain Recognized in Income on Derivative ⁽¹⁾ (Ineffective portion and Amount Excluded from Effectiveness Testing)	Three months ended January 31, 2011
	In millions		In millions		In millions
Cash flow hedges:					
Foreign exchange contracts	\$ 100	Net revenue	\$ (24)	Net revenue	\$
Foreign exchange contracts	(9)	Cost of products	26	Cost of products	
Foreign exchange contracts	(2)	Other operating expenses	1	Other operating expenses	
Foreign exchange contracts	16	Interest and other, net	7	Interest and other, net	
Foreign exchange contracts	(13)	Net revenue	4	Interest and other, net	2
Total cash flow hedges	\$ 92		\$ 14		\$ 2
Net investment hedges:					
Foreign exchange contracts	\$ (6)	Interest and other, net	\$	Interest and other, net	\$

- (1) Amount of gain recognized in income on derivative represents a \$2 million gain related to the amount excluded from the assessment of hedge effectiveness in the three months ended January 31, 2011.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

	Gain Recognized in OCI on Derivative (Effective Portion) Three months ended January 31, 2010 In millions	Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion) Location	Three months ended January 31, 2010 In millions	Gain Recognized in Income on Derivative ⁽¹⁾ (Ineffective portion and Amount Excluded from Effectiveness Testing) Location	Three months ended January 31, 2010 In millions
Cash flow hedges:					
Foreign exchange contracts	\$ 425	Net revenue	\$ (130)	Net revenue	\$
Foreign exchange contracts	5	Cost of products	15	Cost of products	
Foreign exchange contracts		Other operating expenses	1	Other operating expenses	
Foreign exchange contracts	6	Interest and other, net	4	Interest and other, net	
Foreign exchange contracts	11	Net revenue	8	Interest and other, net	4
Total cash flow hedges	\$ 447		\$ (102)		\$ 4
Net investment hedges:					
Foreign exchange contracts	\$ 3	Interest and other, net	\$	Interest and other, net	\$

(1) Amount of gain recognized in income on derivative represents a \$4 million gain related to the amount excluded from the assessment of hedge effectiveness in the three months ended January 31, 2010.

HP expects to reclassify a net accumulated other comprehensive loss of approximately \$168 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.

The before-tax effect of derivative instruments not designated as hedging instruments on the Consolidated Condensed Statements of Earnings for the three months ended January 31, 2011 and 2010 was as follows:

	Gain (Loss) Recognized in Income on Derivative Three months ended January 31, 2011 In millions
Location	
Foreign exchange contracts	\$ (77)
Other derivatives	(2)
Interest rate contracts	2
Total	\$ (77)

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

	Location	Gain (Loss) Recognized in Income on Derivative
		Three months ended January 31, 2010 In millions
Foreign exchange contracts	Interest and other, net	\$ 66
Other derivatives	Interest and other, net	(11)
Interest rate contracts	Interest and other, net	(1)
Total		\$ 54

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 and carrying value of HP's short- and long-term debt was approximately \$20.4 billion at January 31, 2011. The estimated fair value of HP's short- and long-term debt was approximately \$16.0 billion at January 31, 2010, compared to a carrying value of \$15.9 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 9: Financing Receivables and Operating Leases

Financing receivables represent sales-type and direct-financing leases resulting from the placement of HP 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 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:

	January 31, 2011	October 31, 2010
	In millions	
Minimum lease payments receivable	\$ 7,239	\$ 7,094
Allowance for doubtful accounts	(124)	(140)
Unguaranteed residual value	213	212
Unearned income	(615)	(596)
Financing receivables, net	6,713	6,570
Less current portion	(2,982)	(2,986)
Amounts due after one year, net	\$ 3,731	\$ 3,584

Equipment leased to customers under operating leases was \$3.6 billion and \$3.5 billion at January 31, 2011 and October 31, 2010, respectively, and is included in machinery and equipment. Accumulated depreciation on equipment under lease was \$1.0 billion at January 31, 2011 and at October 31, 2010.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financing Receivables and Operating Leases (Continued)

In July 2010, the Financial Accounting Standards Board issued Accounting Standards Update No. 2010-20, "Disclosures about Credit Quality of Financing Receivables and the Allowance for Credit Losses." This update requires disclosures related to the credit risk inherent in an entity's portfolio of financing receivables and how that risk is analyzed and assessed in arriving at the allowance for credit losses. The new standard also requires enhanced disclosures related to changes in the allowance for credit losses and the reasons for those changes. HP adopted this new standard in the first quarter of fiscal 2011.

Due to the homogenous nature of the leasing transactions, HP manages its financing receivables on an aggregate basis when assessing and monitoring credit risk. Credit risk is generally diversified due to the large number of entities comprising HP's customer base and their dispersion across many different industries and geographical regions. The credit quality of an obligor is evaluated at lease inception and monitored over the term of a transaction. Risk ratings are assigned to each lease based on the creditworthiness of the obligor and other variables that augment or diminish the inherent credit risk of a particular transaction. Such variables include the underlying value and liquidity of the collateral, the essential use of the equipment, the term of the lease, and the inclusion of guarantees, letters of credit, security deposits or other credit enhancements.

The credit risk profile of the gross financing receivables, based on internally assigned ratings, was as follows:

	January 31, 2011	October 31, 2010
	In millions	
<u>Risk Rating</u>		
Low	\$ 3,931	\$ 3,793
Moderate	2,847	2,829
High	59	88
Total	\$ 6,837	\$ 6,710

Accounts rated low risk typically have the equivalent of a Standard & Poor's rating of BBB- or higher, while accounts rated moderate risk would be the equivalent of BB+ or lower. HP closely monitors accounts rated high risk and based upon impairment analysis, specific reserves may have been established against a portion of these leases.

HP establishes an allowance for doubtful accounts to ensure financing receivables are not overstated due to uncollectability. The allowance balance is comprised of a general reserve, which is determined based on a percentage of the financing receivables balance, and a specific reserve, which is established for certain leases with identified exposures, such as customer default, bankruptcy or other events, that make it unlikely that HP will recover its investment in the lease. The general reserve percentages are maintained on a regional basis and are based on several factors, which include consideration of historical credit losses and portfolio delinquencies, trends in the overall weighted-average risk rating of the portfolio, and information derived from competitive benchmarking.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financing Receivables and Operating Leases (Continued)

The allowance for doubtful accounts and the related financing receivables for the three months ended January 31, 2011 were as follows:

	Three months ended January 31, 2011	
	In millions	
<u>Allowance for doubtful accounts</u>		
Balance, beginning of period	\$	140
Additions to allowance		12
Deductions, net of recoveries		(28)
Balance, end of period	\$	124

Allowance for financing receivables individually evaluated for loss	\$	41
Allowance for financing receivables collectively evaluated for loss		83
Total	\$	124

Gross financing receivables individually evaluated for loss	\$	84
Gross financing receivables collectively evaluated for loss		6,753
Total	\$	6,837

Accounts are generally put on non-accrual status (cessation of interest accrual) when they reach 90 days past due. Exceptions may be granted in certain circumstances such as when the delinquency is deemed to be of an administrative nature. A write-off or specific reserve is generally recorded when an account reaches 180 days past due. As of January 31, 2011, total financing receivables on non-accrual status were \$234 million, and total financing receivables greater than 90 days past due and still accruing interest were \$106 million.

Note 10: 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

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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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 10: Guarantees (Continued)

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.

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 three months ended January 31, 2011 were as follows:

	In millions
Product warranty liability at October 31, 2010	\$ 2,447
Accruals for warranties issued	700
Adjustments related to pre-existing warranties (including changes in estimates)	(31)
Settlements made (in cash or in kind)	(659)
Product warranty liability at January 31, 2011	\$ 2,457

Note 11: Borrowings*Notes Payable and Short-Term Borrowings*

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

	January 31, 2011		October 31, 2010	
	Amount	Weighted- Average Interest Rate	Amount	Weighted- Average Interest Rate
	Outstanding		Outstanding	
	In millions			
Current portion of long-term debt	\$ 2,240	2.2%	\$ 2,216	2.2%
Commercial paper	680	0.6%	4,432	0.3%
Notes payable to banks, lines of credit and other	461	2.6%	398	1.5%
	\$ 3,381		\$ 7,046	

Notes payable to banks, lines of credit and other includes deposits associated with HP's banking-related activities of approximately \$361 million and \$348 million at January 31, 2011 and October 31, 2010, respectively.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

Long-Term Debt

Long-term debt was as follows:

	January 31, 2011	October 31, 2010
	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	\$ 500	\$ 500
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
\$1,500 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	1,995	1,994
\$275 issued at par in February 2009 at three-month USD LIBOR plus 1.75%, paid 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
\$800 issued at par in September 2010 at three-month USD LIBOR plus 0.125%, due September 2012	800	800
\$1,100 issued at discount to par of 99.921% in September 2010 at 1.25% due September 2013	1,099	1,099
\$1,100 issued at discount to par of 99.887% in September 2010 at 2.125% due September 2015	1,099	1,099
\$650 issued at discount to par of 99.911% in December 2010 at 2.2% due December 2015	649	
\$1,350 issued at discount to par of 99.827% in December 2010 at 3.75% due December 2020	1,347	
	16,512	14,515
EDS Senior Notes		
\$1,100 issued June 2003 at 6.0%, due August 2013	1,128	1,130
\$300 issued October 1999 at 7.45%, due October 2029	315	315
	1,443	1,445
Other, including capital lease obligations, at 0.60%-8.63%, due in calendar years 2011-2024	810	845
Fair value adjustment related to hedged debt	497	669
Less: current portion	(2,240)	(2,216)
Total long-term debt	\$ 17,022	\$ 15,258

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

As disclosed in Note 8 to the Consolidated Financial Statements, HP uses interest rate swaps to mitigate the market risk exposures in connection with certain fixed interest global notes to achieve primarily U.S. dollar LIBOR-based floating interest expense. The table above does not reflect the interest rate swap impact on the interest rate.

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.

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, depository shares and warrants. The 2009 Shelf Registration Statement replaced other registration statements filed in March 2002 and May 2006.

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.

HP has a \$3.0 billion five-year credit facility expiring in May 2012. In February 2010, HP entered into a \$3.5 billion 364-day credit facility. The February credit facility expired in February 2011, at which time HP entered into a new \$4.5 billion four-year credit facility, increasing the total amount available under its credit facilities to \$7.5 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 \$7.5 billion supported by these credit facilities is subject to a number of factors, including liquidity conditions and business performance.

Within Other, including capital lease obligations, are borrowings that are collateralized by certain financing receivable assets. As of January 31, 2011, the carrying value of the assets approximated the carrying value of the borrowings of \$170 million.

As of January 31, 2011, HP had the capacity to issue an unspecified amount of additional debt securities, common stock, preferred stock, depository shares and warrants under the 2009 Shelf Registration Statement. As of that date, HP also had up to approximately \$17.2 billion of available borrowing resources, including \$15.8 billion under its commercial paper programs and approximately \$1.4 billion relating to uncommitted lines of credit.

Note 12: Income Taxes

Provision for Taxes

HP's effective tax rate was 21.0% and 19.8% for the three months ended January 31, 2011 and January 31, 2010, respectively. HP's effective tax rate increased due to a decline in the percentage of total earnings earned in lower-tax jurisdictions. 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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 12: Income Taxes (Continued)

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 months ended January 31, 2011, HP recorded discrete items with a net tax benefit of \$101 million, decreasing the effective tax rate. These amounts included net tax benefits of \$58 million from restructuring and acquisition charges. In addition, in December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law. HP recorded a tax benefit of \$43 million arising from the retroactive research and development credit provided by that legislation in the first quarter of fiscal 2011.

In the three months ended January 31, 2010, HP recorded discrete items with a net tax benefit of \$92 million, decreasing the effective tax rate. These amounts included net tax benefits of \$54 million from restructuring and acquisition charges, a tax benefit of \$19 million from settlement of a tax audit matter, a net tax benefit of \$19 million from adjustments to prior year foreign income tax accruals and credits, and other miscellaneous discrete items.

As of January 31, 2011, the amount of gross unrecognized tax benefits was \$1.7 billion, a decline of approximately \$400 million since October 31, 2010. The decline was primarily attributable to the settlement or resolution of various uncertain tax positions within a non-U.S. jurisdiction. The benefit from the reversal of related income tax reserves was accompanied by a corresponding increase in U.S. deferred tax expense recognized for the related unremitted earnings. Of the balance of \$1.7 billion at January 31, 2011, up to \$1.1 billion would affect HP's effective tax rate if realized. HP recognizes interest income and interest expense and penalties on tax overpayments and underpayments, respectively, within income tax expense. As of January 31, 2011, HP had accrued a net \$160 million payable for interest and penalties. In the three months ended January 31, 2011, HP recognized \$21 million of net interest income on tax overpayments, net of tax.

HP engages in continuous discussion and negotiation with taxing authorities regarding tax matters in various jurisdictions. HP does not expect complete resolution of any 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 \$138 million within the next 12 months.

HP is subject to income tax in the United States and approximately 80 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 ("RAR") for its fiscal 2001, 2002 and 2006 tax years. The IRS began an audit of HP's 2007 income tax returns in 2009, and began its audit of HP's 2008 income tax returns 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.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 12: Income Taxes (Continued)

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

	January 31, 2011	October 31, 2010
	In millions	
Current deferred tax assets	\$ 5,365	\$ 5,833
Current deferred tax liabilities	(37)	(53)
Long-term deferred tax assets	2,190	2,070
Long-term deferred tax liabilities	(5,572)	(5,239)
Total deferred tax assets net of deferred tax liabilities	\$ 1,946	\$ 2,611

Note 13: Stockholders' Equity*Share Repurchase Program*

HP's share repurchase program authorizes both open market and private repurchase transactions. In the first quarter of fiscal 2011, HP executed share repurchases of 51 million shares. Repurchases of 54 million shares were settled for \$2.3 billion in the first quarter of fiscal 2011, which included 4 million shares repurchased in transactions that were executed in fiscal 2010 but settled in the first quarter of fiscal 2011. HP had approximately 1 million shares repurchased in the first quarter of fiscal 2011 that will be settled in the second quarter of fiscal 2011. HP paid approximately \$2.7 billion in connection with repurchases of approximately 54 million shares during the three months ended January 31, 2010. As of January 31, 2011, HP had remaining authorization of \$8.6 billion for future share repurchases.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 13: Stockholders' Equity (Continued)

Comprehensive Income

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

	Three months ended January 31	
	2011	2010
	In millions	
Net earnings	\$ 2,605	\$ 2,250
Net change in unrealized gains on available-for-sale securities, net of tax of \$5 million in 2011 and \$1 million in 2010	10	2
Net change in unrealized gains/losses on cash flow hedges:		
Unrealized gains recognized in OCI, net of tax of \$32 million in 2011 and \$157 million in 2010	60	290
(Gains) losses reclassified into income, net of tax of \$1 million in 2011 and net of tax benefit of \$42 million in 2010	(13)	60
	47	350
Net change in cumulative translation adjustment, net of tax of \$17 million in 2011 and net of tax benefit of \$14 million in 2010	51	(60)
Net change in unrealized components of defined benefit plans, net of tax of \$10 million in 2011 and \$9 million in 2010	31	11
Comprehensive income	\$ 2,744	\$ 2,553

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

	January 31, 2011	October 31, 2010
	In millions	
Net unrealized gain on available-for-sale securities	\$ 30	\$ 20
Net unrealized loss on cash flow hedges	(154)	(201)
Cumulative translation adjustment	(380)	(431)
Unrealized components of defined benefit plans	(3,194)	(3,225)
Accumulated other comprehensive loss	\$ (3,698)	\$ (3,837)

Note 14: 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, 2010, HP matching contributions under both the HP 401(k) Plan and the EDS 401(k) Plan in fiscal 2010 were on a quarterly, discretionary, performance-based match of up to a maximum of 4% of eligible compensation for all U.S. employees to be determined each fiscal quarter based on business results. HP's matching contributions for each of the quarters in fiscal 2010 were 100% of the maximum 4% match. Effective in fiscal year 2011, the quarterly employer matching contributions in the HP 401(k) Plan and the EDS 401(k) Plan are no longer discretionary and are equal to 100% of an employee's contributions, up to a

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 14: Retirement and Post-Retirement Benefit Plans (Continued)

maximum of 4% of eligible compensation. In addition, effective December 31, 2010, the EDS 401(k) Plan was merged into the HP 401(k) Plan.

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

	Three months ended January 31					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post- Retirement Benefit Plans	
	2011	2010	2011	2010	2011	2010
	In millions					
Service cost	\$	\$	\$	\$	\$	\$
Interest cost	148	145	169	172	8	12
Expected return on plan assets	(186)	(166)	(213)	(198)	(9)	(7)
Amortization and deferrals:						
Actuarial loss	9	7	62	56	1	5
Prior service benefit			(3)	(2)	(21)	(21)
Net periodic benefit (gain) cost	\$ (29)	\$ (14)	\$ 100	\$ 114	\$ (19)	\$ (8)
Special termination benefits			2			
Net benefit (gain) cost	\$ (29)	\$ (14)	\$ 102	\$ 114	\$ (19)	\$ (8)

Employer Contributions and Funding Policy

HP previously disclosed in its Consolidated Financial Statements for the fiscal year ended October 31, 2010 that it expected to contribute approximately \$747 million to its pension plans and approximately \$30 million to cover benefit payments to U.S. non-qualified plan participants. HP expects to pay approximately \$40 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 makes at least the minimum contribution required by local authorities.

During the three months ended January 31, 2011, HP made \$183 million of contributions to its pension plans, paid \$7 million to cover benefit payments to U.S. non-qualified plan participants, and paid \$6 million to cover benefit claims under post-retirement benefit plans. During the remainder of fiscal 2011, HP anticipates making additional contributions of approximately \$564 million to its pension plans and approximately \$23 million to its U.S. non-qualified plan participants and expects to pay up to \$34 million to cover benefit claims under post-retirement benefit plans. 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 invested assets 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 measurement date is October 31, 2011.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: 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, Belgium and Austria, seeking to impose or modify levies upon equipment (such as multifunction devices ("MFDs"), personal computers ("PCs") and printers) and alleging that these devices enable producing private copies of copyrighted materials. Descriptions of some of the ongoing proceedings are included below. 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 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. VG Wort appealed the decision by filing a claim with the German Federal Constitutional Court challenging the ruling that printers are not subject to levies. On September 21, 2010, the Constitutional Court published a decision holding that the German Federal Supreme Court erred by not referring questions on interpretation of German copyright law to

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

the Court of Justice of the EU and therefore revoked the German Federal Supreme Court decision and remitted the matter to it. The German Federal Supreme Court has set a hearing date of March 24, 2011.

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 subsequently filed a claim with the German Federal Constitutional Court challenging that ruling. In January 2011, the Constitutional Court published a decision holding that the German Federal Supreme Court decision was inconsistent with the German Constitution and revoking the German Federal Supreme Court decision. The Constitutional Court remitted the matter to the German Federal Supreme Court for further action.

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 Repobel 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 been determined, and no decision from the court is expected before September 2012.

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.

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 Corporation) 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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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.

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 was taken off the calendar.

A lawsuit captioned *Rich v. HP* was 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 was taken off 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. In February 2011, the other Quebec case was voluntarily dismissed by the plaintiff.

On August 25, 2010, HP and the plaintiffs in *In re HP Inkjet Printer Litigation*, *Blennis v. HP* and *Rich v. HP* entered into an agreement to settle those lawsuits on behalf of the proposed classes, which agreement is subject to approval of the court before it becomes final. Under the terms of the proposed settlement, the lawsuits will be consolidated, and eligible class members will each have the right to obtain e-credits not to exceed \$5 million in the aggregate for use in purchasing printers or printer

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

supplies through HP's website. As part of the proposed settlement, HP also agreed to provide class members with additional information regarding HP inkjet printer functionality and to change the content of certain software and user guide messaging provided to users regarding the life of inkjet printer cartridges. In addition, class counsel and the class representatives will be paid attorneys' fees and expenses and stipends in an amount that is yet to be approved by the court. On October 1, 2010, the court granted preliminary approval of the proposed settlement. The court held a fairness hearing on January 28, 2011 to determine whether to grant final approval of the proposed settlement. The court has not yet issued a decision.

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. On August 25, 2010, HP and the plaintiff entered into an agreement to settle the lawsuit on behalf of the proposed class, which agreement is subject to approval of the court before it becomes final. Under the terms of the proposed settlement, eligible class members will each have the right to obtain e-credits not to exceed \$5 million in the aggregate for use in purchasing printers or printer supplies through HP's website. In addition, class counsel and the class representative will be paid attorneys' fees and expenses and stipends in an amount that is yet to be approved by the court. On October 13, 2010, the court granted preliminary approval of the proposed settlement. The court held a fairness hearing on February 14, 2011 to determine whether to grant final approval of the proposed settlement. The court has not yet issued a decision.

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. Another purported collective action, Steavens, et al. v. Electronic Data Systems Corporation, which was filed on October 23, 2007, is also now pending in the same court alleging similar facts. The Steavens case has been consolidated for pretrial purposes with the Cunningham case. On December 14, 2010, the court granted conditional certification of the class in the consolidated Cunningham and Steavens matter.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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, Karl bom, 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 Karl bom case is pending in San Diego County Superior Court but has been temporarily stayed based on the pending motions in the Steavens consolidated matter. The George case is pending in the U.S. District Court for the Southern District of New York and has been consolidated for pretrial purposes with the Cunningham and Steavens cases.

India Directorate of Revenue Intelligence Proceedings. As described below, Hewlett-Packard India Sales Private Ltd ("HPI"), a subsidiary of HP, and certain current and former HP employees have received show cause notices from the India Directorate of Revenue Intelligence (the "DRI") alleging underpayment of certain customs duties:

On April 30 and May 10, 2010, the DRI issued show cause notices to 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 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 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.

On June 17, 2010, the DRI issued show cause notices to HPI and two current HPI employees regarding non-inclusion of the value of software contained in the products imported from third party original design manufacturers. The total amount of the alleged unpaid customs duties relating to such software, including the interest proposed to be demanded under these notices, is approximately \$130,000, which amount HPI has deposited with the DRI. The DRI is also seeking to impose penalties.

On October 1, 2010, in connection with an existing DRI investigation commenced against SAP AG, the DRI issued a show cause notice to HPI alleging underpayment of customs duties related to the importation of certain SAP software. The amount of the alleged duty differential is approximately \$38,000, which amount has been deposited with the DRI. The DRI is also seeking to impose interest and penalties.

HP intends to contest each of the show cause notices through the judicial process. HP has responded or is in the process of responding to the show cause notices.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Russia GPO and Related Investigations. The German Public Prosecutor's Office ("German PPO") has been conducting an investigation into allegations that current and former employees of HP engaged in bribery, embezzlement and tax evasion relating to a transaction between Hewlett-Packard ISE GmbH in Germany, a former subsidiary of HP, and the Chief Public Prosecutor's Office of the Russian Federation. The €35 million transaction, which was referred to as the Russia GPO deal, spanned the years 2001 to 2006 and was for the delivery and installation of an IT network.

The U.S. Department of Justice and the SEC have also been conducting an investigation into the Russia GPO deal and potential violations of the Foreign Corrupt Practices Act ("FCPA"). Under the FCPA, a person or an entity could be subject to fines, civil penalties of up to \$500,000 per violation and equitable remedies, including disgorgement and other injunctive relief. In addition, criminal penalties could range from the greater of \$2 million per violation or twice the gross pecuniary gain or loss from the violation.

In addition to information about the Russia GPO deal, the U.S. enforcement authorities have requested (i) information related to certain other transactions, including transactions in Russia, Serbia and in the Commonwealth of Independent States (CIS) subregion dating back to 2000, and (ii) information related to two former HP executives seconded to Russia and to whether HP personnel in Russia, Germany, Austria, Serbia, the Netherlands or CIS were involved in kickbacks or other improper payments to channel partners, or state owned or private entities.

HP is cooperating with these investigating agencies.

In addition, as described below, HP is involved in stockholder derivative litigation arising from the Russia GPO deal, the related investigations and other matters commenced against current and former members of the HP Board of Directors in which the plaintiffs are seeking to recover certain compensation paid by HP to the defendants and other damages:

Henrietta Klein v. Mark V. Hurd, et al., is a lawsuit filed on September 24, 2010 in California Superior Court alleging the individual defendants wasted corporate assets and breached their fiduciary duties by failing to implement and oversee HP's compliance with the FCPA.

Saginaw Police & Fire Pension Fund v. Marc L. Andreessen, et al., is a lawsuit filed on October 19, 2010 in United States District Court for the Northern District of California alleging, among other things, that the defendants breached their fiduciary duties and were unjustly enriched by consciously disregarding HP's alleged violations of the FCPA.

A.J. Copeland v. Raymond J. Lane, et al., is a lawsuit filed on March 7, 2011 in the United States District Court for the Northern District of California alleging, among other things, that the defendants breached their fiduciary duties in connection with HP's alleged violations of the FCPA, severance payments made to former Chairman and Chief Executive Officer Mark Hurd, and HP's acquisition of 3PAR Inc. The lawsuit also alleges violations of Section 14(a) of the Exchange Act in connection with HP's 2010 and 2011 proxy statements.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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 former 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.

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.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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 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

Our operations and our products 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 its products and the recycling, treatment and disposal of its products. 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, including requirements relating to climate change. We also are subject to legislation in an increasing

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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"). 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.

Note 16: 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, and large enterprises, including customers in the government, health and education sectors. HP's 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 server and storage technology, networking products and solutions, information management software and software that optimizes business technology investments; personal computing and other access devices; and imaging and printing-related products and services.

HP and its operations are organized into seven business segments for financial reporting purposes: Services, ESSN, 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 are based on this organizational structure and information reviewed by HP's management to evaluate the business segment results. Services, ESSN 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 2010 to conform to certain fiscal 2011 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.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

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; networking; security, compliance, and business continuity; workplace (desktop); and enterprise service management. Applications Services help clients revitalize and manage their applications assets through flexible, project-based consulting services and longer-term outsourcing contracts. These full life cycle 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. Consulting services include strategic IT advisory services, cloud consulting services, energy efficiency services, converged infrastructure services, networking services, data center transformation services and critical facilities services. Support services include mission critical services, technical and deployment services, support services for servers, storage, networks and imaging and printing, and warranty support across HP's product lines.

Enterprise Servers, Storage and Networking provides server, storage and network infrastructure 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 primarily Windows, 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 include HP Integrity servers based on the Intel Itanium-based processor that run HP-UX, Microsoft Windows and OpenVMS operating systems, as well as fault-tolerant HP Integrity NonStop solutions. Business Critical Systems' portfolio of server solutions includes Scale-up x86 ProLiant Servers, the BladeSystem architecture-based Integrity blade servers and the Superdome 2 server solution. 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 StoreOnce data deduplication solutions, tape drives, tape libraries and optical archival storage. HP's networking offering includes the network infrastructure product portfolios sold under the ProCurve, 3Com, H3C and Tipping Point brands.

HP Software provides enterprise IT management software, information management solutions, and security intelligence/risk management solutions. Solutions are delivered via traditional software licenses or as software as a service. Augmented by support and professional services, the solutions allow large IT organizations to manage infrastructure, operations, application lifecycles, application quality and security, IT services, and business processes. In addition, the

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

solutions help businesses proactively safeguard digital assets, comply with corporate and regulatory policy, and control internal and external security risks.

HP's business segments not included in HP Enterprise Business are described below.

Personal Systems Group provides commercial PCs, consumer PCs, workstations, calculators and other related accessories, software and services for the commercial and consumer markets. Commercial PCs are optimized for commercial uses, including enterprise and small and medium sized business ("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 All in One Touchsmart and Omni PCs, HP Mini-Note PC, HP Blade PCs, Retail POS systems, HP Thin Clients, and the HP Slate Tablet. 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.

Imaging and Printing Group provides consumer and commercial printer hardware, supplies, media and scanning devices. IPG is also focused on imaging solutions in the commercial markets. These solutions range from managed print services 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, web-connected hardware and services) and develops HP's retail publishing 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 ePrintCenter. LaserJet and Enterprise Solutions deliver products, services and solutions to the medium-business and enterprise segments. It includes LaserJet printers and supplies, multi-function devices, scanners, web-connected hardware and services and enterprise software solutions such as Exstream Software and Web Jetadmin. Managed enterprise solutions include managed print services products and solutions delivered to enterprise customers partnering with third-party software providers to offer workflow solutions in the enterprise environment. 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. The graphic solutions business targets Print Service Providers, architects, engineers, designers and industrial solution providers. 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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

entities. HPFS offers innovative, customized and flexible alternatives to balance unique customer cash flow, technology obsolescence and capacity needs.

Corporate Investments includes business intelligence solutions, HP Labs, mobile devices associated with the Palm acquisition, and certain business incubation projects. Business intelligence solutions enable businesses to standardize on consistent data management schemes, connect and share data across the enterprise and apply analytics. The segment also includes certain video collaboration products sold under the brand "Halo," and Palm smartphones, which are targeted at the consumer segment and include the Pixi and Pre models running on the WebOS operating system. This segment also derives revenue from licensing specific HP technology to third parties.

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 restructuring charges and any associated adjustments related to restructuring actions, amortization of purchased intangible assets, stock-based compensation expense related to HP-granted employee stock options, PRUs, restricted stock awards 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 16: Segment Information (Continued)

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

	Three months ended January 31			
	Net Revenue		Earnings (Loss) from Operations	
	2011	2010 ⁽¹⁾	2011	2010 ⁽¹⁾
	In millions			
Services	\$ 8,607	\$ 8,790	\$ 1,375	\$ 1,379
Enterprise Servers, Storage and Networking ⁽²⁾	5,634	4,610	828	607
HP Software ⁽³⁾	697	663	123	172
HP Enterprise Business	14,938	14,063	2,326	2,158
Personal Systems Group	10,449	10,584	672	530
Imaging and Printing Group	6,630	6,206	1,129	1,054
HP Financial Services	827	719	79	67
Corporate Investments ⁽⁴⁾	78	60	(183)	(56)
Segment total	\$ 32,922	\$ 31,632	\$ 4,023	\$ 3,753

(1) Certain fiscal 2011 organizational reclassifications have been reflected retroactively to provide improved visibility and comparability. For the three months ended January 31, 2010, the reclassifications resulted in the transfer of revenue and operating profit among ESSN, HP Software and Corporate Investments. Reclassifications between segments included the transfer of the networking business from Corporate Investments to ESSN, the transfer of the communications and media solutions business from HP Software to Services, and the transfer of the business intelligence business from HP Software to Corporate Investments. There was no impact on the previously reported financial results for PSG, HPFS or IPG.

(2) Includes the results of 3Com and 3PAR Inc. ("3PAR") from the dates of acquisition in April 2010 and October 2010, respectively.

(3) Includes the results of ArcSight, Inc. ("ArcSight") from the date of acquisition in October 2010.

(4) Includes the results of Palm from the date of acquisition in July 2010.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

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

	Three months ended	
	January 31	
	2011	2010
	In millions	
Net revenue:		
Segment total	\$ 32,922	\$ 31,632
Eliminations of inter-segment net revenue and other	(620)	(455)
Total HP consolidated net revenue	\$ 32,302	\$ 31,177
Earnings before taxes:		
Total segment earnings from operations	\$ 4,023	\$ 3,753
Corporate and unallocated costs, gains and eliminations	149	(88)
Unallocated costs related to stock-based compensation expense	(166)	(163)
Amortization of purchased intangible assets	(425)	(330)
Restructuring charges	(158)	(131)
Acquisition-related charges	(29)	(38)
Interest and other, net	(97)	(199)
Total HP consolidated earnings before taxes	\$ 3,297	\$ 2,804

In connection with certain fiscal 2011 organizational realignments, HP reclassified total assets of its networking business from Corporate Investments to ESSN and total assets of the communications and media solutions business from HP Software to Services. There have been no other material changes to the total assets of HP's segments.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

Net revenue by segment and business unit

	Three months ended	
	January 31	
	2011	2010 ⁽¹⁾
	In millions	
Net revenue:		
Infrastructure Technology Outsourcing	\$ 3,636	\$ 3,675
Technology Services	2,602	2,631
Application Services	1,632	1,681
Business Process Outsourcing	658	734
Other	79	69
Services	8,607	8,790
Industry Standard Servers	3,448	2,946
Storage ⁽²⁾	1,012	889
HP Networking ⁽³⁾	619	219
Business Critical Systems	555	556
Enterprise Servers, Storage and Networking	5,634	4,610
HP Software ⁽⁴⁾	697	663
HP Enterprise Business	14,938	14,063
Notebooks	5,808	6,138
Desktops	3,896	3,853
Workstations	535	375
Other ⁽⁵⁾	210	218
Personal Systems Group	10,449	10,584
Supplies	4,358	4,081
Commercial Hardware	1,464	1,291
Consumer Hardware	808	834
Imaging and Printing Group	6,630	6,206
HP Financial Services	827	719
Corporate Investments ⁽⁶⁾	78	60
Total segments	32,922	31,632
Eliminations of inter-segment net revenue and other	(620)	(455)
Total HP consolidated net revenue	\$ 32,302	\$ 31,177

- (1) Certain fiscal 2011 organizational reclassifications have been reflected retroactively to provide improved visibility and comparability. For the three months ended January 31, 2010, the reclassifications resulted in the transfer of revenue among ESSN, Services, HP Software and Corporate Investments. Reclassifications between segments included the transfer of the networking business from Corporate Investments to ESSN, the transfer of the communications and media

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

solutions business from HP Software to Services, and the transfer of the business intelligence business from HP Software to Corporate Investments. Revenue was also transferred among the business units within Services and within PSG. In addition, net revenue reported for the Infrastructure Technology Outsourcing business unit and eliminations of inter-segment net revenue have both been reduced to reflect a change in our inter-segment reporting model. There was no impact on the previously reported financial results for HPFS and IPG or for the business units within IPG.

(2) Includes the results of 3PAR from the date of acquisition in September 2010.

(3) The networking business was added to ESSN in fiscal 2011. Also includes the results of 3Com from the date of acquisition in April 2010.

(4) The Business Technology Optimization and Other Software business units were consolidated into a single business unit within the HP Software segment in fiscal 2011. Also includes the results of ArcSight from the date of acquisition in October 2010.

(5) The Handhelds business unit, which includes devices that run on Windows Mobile software, was realigned into the Other business unit within PSG in fiscal 2011.

(6) Includes the results of Palm from the date of acquisition in July 2010.

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 solutions, information management software 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 Servers, Storage and Networking ("ESSN"), HP Software, the Personal Systems Group ("PSG"), the Imaging and Printing Group ("IPG"), HP Financial Services ("HPFS"), and Corporate Investments. Services, ESSN 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 via the Internet or via a hybrid approach. 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 are working to optimize efficiency 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

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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. In June 2010, we announced and started implementing a new restructuring plan that will consolidate data centers, systems and tools to better position our enterprise services business, including our infrastructure technology outsourcing, application services, and business process outsourcing business units, for growth. See Note 6 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 for growth by strengthening our position in our core markets and accelerating growth in adjacent markets in anticipation of market trends, such as data center consolidation and automation, cloud computing and virtualization, digitization, IT security, and mobility and connectivity. For example, we are increasing our sales coverage and investing in our sales channels to better address the markets we cover, including further expansion in emerging markets. We are creating innovative new products and developing new channels to connect with our customers. In addition, we have been making focused investments in innovation to strengthen our portfolio of products and services that we can offer to our customers, both through acquisitions and through organic growth. These investments have enabled us to expand in high-margin and high-growth industry segments and have further strengthened our portfolio of hardware, software and services.

Leveraging our Portfolio and Scale

We now offer one of the IT industry's broadest portfolios of products and services, and we leverage that portfolio to our 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 as a service via the Internet or via a hybrid environment. 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.

The following provides an overview of our key financial metrics in the first quarter of fiscal 2011 and demonstrates how our execution has translated into financial performance:

	HP Enterprise Business								
	HP ⁽¹⁾ Consolidated	Services	HP		Total	PSG	IPG	HPFS	
	In millions, except per share amounts								
Net revenue	\$ 32,302	\$ 8,607	\$ 5,634	\$ 697	\$ 14,938	\$ 10,449	\$ 6,630	\$ 827	
Year-over-year net revenue % increase (decrease)		3.6%	(2.1)%	22.2%	5.1%	6.2%	(1.3)%	6.8%	15.0%
Earnings from operations	\$ 3,394	\$ 1,375	\$ 828	\$ 123	\$ 2,326	\$ 672	\$ 1,129	\$ 79	
Earnings from operations as a % of net revenue		10.5%	16.0%	14.7%	17.6%	15.6%	6.4%	17.0%	9.6%
Net earnings	\$ 2,605								
Net earnings per share									
Basic	\$ 1.19								
Diluted	\$ 1.17								

(1) Includes Corporate Investments and eliminations.

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Cash and cash equivalents at January 31, 2011 totaled \$9.9 billion, a decrease of \$1.0 billion from the October 31, 2010 balance of \$10.9 billion. The decrease for the first three months of fiscal 2011 was due primarily to \$2.3 billion of cash used to repurchase common stock and \$1.7 billion net payment of our debt, which were partially offset by \$3.1 billion of cash provided from operations.

We intend 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.

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. Management believes that there have been no significant changes during the three months ended January 31, 2011 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, 2010.

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 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 months ended January 31, 2011 to the three months ended January 31, 2010. 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 January 31			
	2011		2010⁽¹⁾	
	Dollars	% of Revenue	Dollars	% of Revenue
In millions				
Net revenue	\$ 32,302	100%	\$ 31,177	100.0%
Cost of sales ⁽²⁾	24,408	75.6%	24,027	77.1%
Gross profit	7,894	24.4%	7,150	22.9%
Research and development	798	2.5%	681	2.2%
Selling, general and administrative	3,090	9.5%	2,967	9.5%
Amortization of purchased intangible assets	425	1.3%	330	1.1%
Restructuring charges	158	0.5%	131	0.4%
Acquisition-related charges	29	0.1%	38	0.1%
Earnings from operations	3,394	10.5%	3,003	9.6%
Interest and other, net	(97)	(0.3)%	(199)	(0.6)%
Earnings before taxes	3,297	10.2%	2,804	9.0%
Provision for taxes	692	2.1%	554	1.8%
Net earnings	\$ 2,605	8.1%	\$ 2,250	7.2%

(1) In connection with organizational realignments implemented in the first quarter of fiscal 2011, certain costs previously reported as Cost of sales have been reclassified as Selling, general and administrative expenses to better align those costs with the functional areas that benefit from those expenditures.

(2) 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 January 31, 2011	
Percentage Points	
Enterprise Servers, Storage and Networking	3.3
Imaging and Printing Group	1.4
HP Financial Services	0.3
HP Software	0.1
Personal Systems Group	(0.4)
Corporate Investments/Other	(0.5)
Services	(0.6)
Total HP	3.6

For the three months ended January 31, 2011, total HP net revenue increased 3.6% (4.3% on a constant currency basis). U.S. net revenue increased 4.7% to \$11.4 billion for the first quarter of fiscal

2011, while net revenue from outside of the United States increased 3.0% to \$20.9 billion. As reflected in the table above, the ESSN segment was the largest contributor to HP net revenue growth as a result of balanced growth across all regions. An analysis of the change in net revenue for each business segment is included under "Segment Information" below.

Gross Margin

Total HP gross margin increased by 1.5 percentage points for the three months ended January 31, 2011. The increase was as a result of a favorable mix from higher HP Networking revenue and a favorable commodity pricing environment.

Services gross margin increased due primarily to the continued focus on operating improvements and cost initiatives that favorably impacted the cost structure of our enterprise services business, delivery efficiencies and cost controls in Technology Services, the effect of which was partially offset by revenue declines.

ESSN gross margin increased primarily as a result of a product mix shift towards higher margin products and lower product costs.

HP Software gross margin increased due primarily to rate improvements in support and licenses.

PSG gross margin increased primarily as a result of lower component costs and warranty expenses, the effect of which was partially offset by pricing actions and increased logistics costs.

IPG gross margin decreased primarily due to a mix shift in hardware towards lower price point products, the effect of which was partially offset by improvements in supplies volume.

HPFS gross margin decreased primarily as a result of lower portfolio margin associated with higher non-accrual income activity and higher bad debt expense, the effect of which was partially offset by higher end of lease activity.

Corporate Investments gross margin decreased for the three months ended January 31, 2011 primarily as a result of the lower gross margin products associated with the acquisition of Palm, Inc. ("Palm").

Operating Expenses

Research and Development

Total research and development ("R&D") expense increased in the three months ended January 31, 2011 due primarily to additional expenses from acquired companies. R&D expense as a percentage of net revenue increased for Corporate Investments, HP Software, ESSN and PSG and decreased for IPG and Services.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense increased in the three months ended January 31, 2011 due primarily to higher field selling and marketing costs as a result of our investments in sales resources to grow revenue, the effect of which was offset by gains on the sale of real estate. SG&A expense as a percentage of net revenue increased for Corporate Investments, HP Software, ESSN and PSG, decreased for HPFS and IPG, and was flat for Services.

Amortization of Purchased Intangible Assets

The increase in amortization expense for the three months ended January 31, 2011 was due primarily to increased amortization of purchased intangible assets from acquisitions completed during fiscal 2010.

Restructuring

Restructuring charges for the three months ended January 31, 2011 were \$158 million. These charges included \$97 million of severance and facility costs related to our fiscal 2010 Enterprise Services restructuring plan and \$61 million of severance and facility costs related to our fiscal 2008 restructuring plan.

Restructuring charges for the three months ended January 31, 2010 were \$131 million. These charges included \$130 million of severance and facility costs related to our fiscal 2008 restructuring plan and \$1 million of severance costs associated with our fiscal 2009 restructuring plan.

As part of our ongoing business operations, we incurred workforce rebalancing charges for severance and related costs within certain business segments during the first three months of fiscal 2011. 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 months ended January 31, 2011, we recorded acquisition-related charges of \$29 million primarily for consulting and integration costs, acquisition costs and retention bonuses associated with the acquisition of Electronic Data Systems Corporation ("EDS") and acquisitions completed in fiscal 2010.

For the three months ended January 31, 2010, we recorded acquisition-related charges of \$38 million primarily for consulting and integration costs as well as retention bonuses associated with the EDS acquisition.

Interest and Other, Net

Interest and other, net improved by \$102 million for the three months ended January 31, 2011. The improvement was driven primarily by lower currency transaction losses and lower litigation accruals, the effect of which was partially offset by asset impairment charges.

Provision for Taxes

Our effective tax rate was 21.0% and 19.8% for the three months ended January 31, 2011 and January 31, 2010, respectively. Our effective tax rate increased due to a decline in the percentage of total earnings earned in lower-tax jurisdictions. 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 months ended January 31, 2011, we recorded discrete items with a net tax benefit of \$101 million, decreasing the effective tax rate. These amounts included net tax benefits of \$58 million from restructuring and acquisition charges. In addition, in December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law. We recorded a tax benefit of \$43 million arising from the retroactive research and development credit provided by that legislation in the first quarter of fiscal 2011.

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In the three months ended January 31, 2010, we recorded discrete items with a net tax benefit of \$92 million, decreasing the effective tax rate. These amounts included net tax benefits of \$54 million from restructuring and acquisition charges, a tax benefit of \$19 million from settlement of a tax audit matter, a net tax benefit of \$19 million from adjustments to prior year foreign income tax accruals and credits, and other miscellaneous discrete items.

Segment Information

A description of the products and services for each segment can be found in Note 16 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, ESSN 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

	Three months ended January 31		
	2011	2010	% Decrease
	In millions		
Net revenue	\$ 8,607	\$ 8,790	(2.1)%
Earnings from operations	\$ 1,375	\$ 1,379	(0.3)%
Earnings from operations as a % of net revenue	16.0%	15.7%	

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

	Three months ended January 31, 2011 Percentage Points
Technology Services	(0.3)
Infrastructure Technology Outsourcing	(0.4)
Application Services	(0.6)
Business Process Outsourcing	(0.9)
Other	0.1
Total Services	(2.1)

Services net revenue decreased 2.1% (1.4% when adjusted for currency) for the three months ended January 31, 2011. Net revenue in Technology Services declined by 1% due primarily to reduced sales of third-party hardware, the effect of which was partially offset by revenue growth in our support business. Infrastructure Technology Outsourcing net revenue decreased by 1% due to a lower mix of short-term deal signings and unfavorable currency impacts. Application Services net revenue declined by 3% due primarily to a decline in signings for short-term project work and unfavorable currency impacts. Business Process Outsourcing net revenue decreased by 10% due primarily to the ExcellerateHRO divestiture completed at the end of the third quarter of fiscal 2010.

Services earnings from operations as a percentage of net revenue increased by 0.3 percentage points in the three months ended January 31, 2011. Operating margin increased primarily due to continued focus on operating improvements and cost initiatives that favorably impacted the cost structure of our enterprise services business, delivery efficiencies and cost controls in Technology Services. Further operating margin expansion was limited by revenue declines.

Enterprise Servers, Storage and Networking

	Three months ended January 31		
	2011	2010	% Increase
	In millions		
Net revenue	\$ 5,634	\$ 4,610	22.2%
Earnings from operations	\$ 828	\$ 607	36.4%
Earnings from operations as a % of net revenue	14.7%	13.2%	

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

	Three months ended January 31, 2011	
	Percentage Points	
Industry Standard Servers ("ISS")	10.9	
HP Networking	8.7	
Storage	2.7	
Business Critical Systems ("BCS")	(0.1)	
Total ESSN	22.2	

ESSN net revenue increased 22.2% (23.4% when adjusted for currency) for the three months ended January 31, 2011. Total revenue from server and storage blades increased by 23%. ISS net revenue increased by 17%, driven primarily by unit volume growth coupled with increased average unit prices due to improved market conditions and demand for the latest generation of ISS products. HP Networking net revenue increased by 183% for the three months ended January 31, 2011, driven primarily by our acquisition of 3Com in April 2010, improved market demand for our core data center products, and continued investment in sales coverage. Storage net revenue increased by 14%, driven primarily by strong performance in products related to our acquisition of 3PAR in September 2010 and continued growth in scale-out and storage networking products. Business Critical Systems net revenue was flat for the three months ended January 31, 2011, due primarily to competitive pressures, the effect of which was offset by higher demand for the latest generation of BCS products.

ESSN earnings from operations as a percentage of net revenue increased by 1.5 percentage points for the three months ended January 31, 2011, driven by an increase in gross margin resulting from a product mix shift towards higher margin products and lower product costs. The favorable effect on operating margin from higher gross margin was partially offset by an increase in operating expenses as a percentage of net revenue, due primarily to additional expenses associated with acquisitions and investments in R&D and sales coverage.

HP Software

	Three months ended January 31		
	2011	2010	% Increase (Decrease)
	In millions		
Net revenue	\$ 697	\$ 663	5.1%
Earnings from operations	\$ 123	\$ 172	(28.5)%
Earnings from operations as a % of net revenue	17.6%	25.9%	

HP Software net revenue increased 5.1% (6.0% when adjusted for currency) for the three months ended January 31, 2011. The net revenue increase was primarily due to revenues resulting from the acquisitions of Fortify Software Inc. and ArcSight, which HP completed in September 2010 and

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October 2010, respectively. Net revenue from services, support and licenses increased by 10%, 5% and 3%, respectively.

HP Software earnings from operations as a percentage of net revenue decreased by 8.3 percentage points for the three months ended January 31, 2011. The operating margin decline was primarily due to impacts from acquisitions and investments in R&D and sales coverage.

Personal Systems Group

	Three months ended January 31		
	2011	2010	% Increase (Decrease)
	In millions		
Net revenue	\$ 10,449	\$ 10,584	(1.3)%
Earnings from operations	\$ 672	\$ 530	26.8%
Earnings from operations as a % of net revenue	6.4%	5.0%	

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

	Three months ended January 31, 2011 Percentage Points
Workstations	1.5
Desktop PCs	0.4
Notebook PCs	(3.1)
Other	(0.1)
Total PSG	(1.3)

PSG net revenue decreased 1.3% (0.3% when adjusted for currency) for the three months ended January 31, 2011. The revenue decrease was primarily due to softness in the consumer markets and weakness in PCs in China offset by strength in commercial markets. PSG net revenue was also impacted by a 6% decline in average selling prices ("ASPs"). ASPs declined due primarily to a competitive pricing environment and a product mix shift toward lower-end models. PSG unit volume increased across all business units except for the consumer PC business unit. Workstations revenue increased by 43%. Net revenue for Desktop PCs increased by 1%, while net revenue for Notebook PCs decreased by 5%. Commercial clients net revenue increased by 11%, while consumer clients decreased by 12%. The net revenue decline in Other was related primarily to decreased sales of support services, extended warranties and third-party options.

PSG earnings from operations as a percentage of net revenue increased 1.4 percentage points for the three months ended January 31, 2011, due to an increase in gross margin resulting primarily from component cost declines and lower warranty expenses, the effect of which was partially offset by pricing actions and increased logistics costs. Offsetting the increase in gross margin was an increase in operating expenses as a percentage of net revenue due primarily to increased marketing expenses and investments in sales coverage.

Imaging and Printing Group

	Three months ended January 31		
	2011	2010	% Increase
	In millions		
Net revenue	\$ 6,630	\$ 6,206	6.8%
Earnings from operations	\$ 1,129	\$ 1,054	7.1%
Earnings from operations as a % of net revenue	17.0%	17.0%	

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The components of the weighted net revenue change as compared to the prior-year period by business unit were as follows:

Three months ended January 31, 2011	
Percentage Points	
Supplies	4.4
Commercial Hardware	2.8
Consumer Hardware	(0.4)
Total IPG	6.8

IPG net revenue increased 6.8% (6.9% when adjusted for currency) for the three months ended January 31, 2011, reflecting an improvement in market conditions. Supplies net revenue increased 6.8% in the first quarter of fiscal 2011, driven by improved volume. Net revenue for Commercial Hardware increased 13.4% in the first quarter of fiscal 2011 due primarily to laser unit volume growth of 33% as a result of improved product availability. Net revenue for Consumer Hardware decreased 3.1% in the first quarter of fiscal 2011 due to a mix shift toward lower price point products.

IPG earnings from operations as a percentage of net revenue was flat for the three months ended January 31, 2011 due primarily to a decrease in gross margin, the effect of which was offset by a decrease in operating expenses as a percentage of net revenue. The decline in gross margin in the first quarter of fiscal 2011 was due to a mix shift in Consumer Hardware and Commercial Hardware toward lower price point products, the effect of which was partially offset by improvements in supplies volume. The decrease in operating expense as a percentage of net revenue in the first quarter of fiscal 2011 was due to continued cost management.

HP Financial Services

Three months ended January 31			
	2011	2010	% Increase
In millions			
Net revenue	\$ 827	\$ 719	15.0%
Earnings from operations	\$ 79	\$ 67	17.9%
Earnings from operations as a % of net revenue	9.6%	9.3%	

HPFS net revenue increased by 15.0% for the three months ended January 31, 2011. The net revenue increase was due primarily to portfolio growth from higher customer demand, a higher operating lease mix due to higher service-led financing volume, and higher end of lease revenue from residual expirations in line with portfolio growth, the effect of which was partially offset by unfavorable currency movements.

HPFS earnings from operations as a percentage of net revenue increased by 0.3 percentage points for the three months ended January 31, 2011 due primarily to a decrease in operating expenses as a percentage of net revenue, the effect of which was partially offset by a slight decline in gross margin. The decrease in operating expenses as a percentage of net revenue was driven primarily by improved cost efficiencies. The gross margin decrease was primarily due to lower portfolio margin associated with higher non-accrual income activity and higher bad debt expense, the effect of which was partially offset by higher end of lease activity.

*Financing Originations***Three months ended
January 31****2011 2010****In millions**

Total financing originations	\$	1,543	\$	1,403
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New financing originations, which represent the amounts of financing provided to customers for equipment and related software and services and include intercompany activity, increased 10% in the three months ended January 31, 2011. The increase was driven by higher financing associated with HP product sales resulting from improved integration and engagement with HP's sales efforts, the effect of which was partially offset by an unfavorable 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 our Consolidated Condensed Financial Statements.

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

	January 31, 2011	October 31, 2010
	In millions	
Portfolio assets ⁽¹⁾	\$ 11,644	\$ 11,418
Allowance for doubtful accounts ⁽²⁾	124	140
Operating lease equipment reserve	83	83
Total reserves	207	223
Net portfolio assets	\$ 11,437	\$ 11,195
Reserve coverage	1.8%	2.0%
Debt to equity ratio ⁽³⁾	7.0x	7.0x

(1) Portfolio assets include gross financing receivables of approximately \$6.8 billion and \$6.7 billion at January 31, 2011 and October 31, 2010, respectively, and net equipment under operating leases of \$2.6 billion at January 31, 2011 and \$2.5 billion at October 31, 2010, respectively. Portfolio assets also include capitalized profit on intercompany equipment transactions of approximately \$800 million at January 31, 2011 and October 31, 2010, respectively, and intercompany leases of approximately \$1.4 billion at January 31, 2011 and \$1.3 billion at October 31, 2010, 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 January 31, 2011 increased 2.2% from October 31, 2010. The increase resulted from higher levels of financing originations and a favorable currency impact during the first three months of fiscal 2011. The overall percentage of portfolio asset reserves decreased as a percentage of the portfolio assets.

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For the three months ended January 31, 2011 and 2010, HPFS recorded net bad debt expenses of \$18 million and \$12 million, respectively.

Corporate Investments

	Three months ended January 31		
	2011	2010	% Increase (Decrease)
	In millions		
Net revenue	\$ 78	\$ 60	30.0%
Loss from operations	\$ (183)	\$ (56)	(226.8)%
Loss from operations as a % of net revenue	(234.6)%	(93.3)%	

Net revenue in Corporate Investments relates primarily to business intelligence solutions, HP Labs, mobile devices associated with the Palm acquisition, and certain business incubation projects. The revenue increase in Corporate Investments was primarily due to revenue resulting from the acquisition of Palm which HP completed in July 2010.

Corporate Investments reported a loss from operations for the three months ended January 31, 2011 due primarily to the impact from the Palm acquisition. The loss from operations in Corporate Investments was also due to expenses carried in the segment associated with corporate development, global alliances and HP Labs, which expenses increased for the three months ended January 31, 2011.

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 U.S. federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. We have provided for the U.S. 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 U.S. 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 U.S. 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)

	Three months ended January 31	
	2011	2010
	In millions	
Net cash provided by operating activities	\$ 3,070	\$ 2,407
Net cash used in investing activities	(363)	(711)
Net cash used in financing activities	(3,702)	(1,428)
Net (decrease) increase in cash and cash equivalents	\$ (995)	\$ 268

Operating Activities

Compared to the corresponding period in 2010, net cash provided by operating activities increased by approximately \$663 million for the three months ended January 31, 2011. The increase was due primarily to higher net earnings and lower reduction in accounts payable, the impact of which was partially offset by a smaller reduction of accounts and financing