HEWLETT PACKARD CO
Form 10-Q
June 08, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: April 30, 2010

Or

o **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 ý No o

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 ý   No o

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
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Forward-Looking Statements

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Statements of Earnings

(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2010	2009	2010	2009
	In millions, except per share amounts			
Net revenue:				
Products	$ 20,570	$ 17,418	$ 41,573	$ 36,047
Services	10,172	9,875	20,239	19,964
Financing income	107	90	214	179
Total net revenue	30,849	27,383	62,026	56,190
Costs and expenses:				
Cost of products	15,859	13,361	32,206	27,529
Cost of services	7,669	7,500	15,305	15,319
Financing interest	73	84	152	170
Research and development	722	716	1,403	1,448
Selling, general and administrative	3,064	2,880	5,996	5,773
Amortization of purchased intangible assets	347	380	677	792
In-process research and development charges				6
Restructuring charges	180	94	311	240
Acquisition-related charges	77	75	115	123
Total operating expenses	27,991	25,090	56,165	51,400
Earnings from operations	2,858	2,293	5,861	4,790
Interest and other, net	(91)	(180)	(290)	(412)
Earnings before taxes	2,767	2,113	5,571	4,378
Provision for taxes	567	392	1,121	801
Net earnings	$ 2,200	$ 1,721	$ 4,450	$ 3,577
Net earnings per share:				
Basic	$ 0.94	$ 0.72	$ 1.89	$ 1.49
Diluted	$ 0.91	$ 0.71	$ 1.84	$ 1.46
Cash dividends declared per share	$	$	$ 0.16	$ 0.16
Weighted-average shares used to compute net earnings per share:				
Basic	2,345	2,394	2,352	2,402

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

	April 30, 2010	October 31, 2009
	In millions, except par value	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,131	$ 13,279
Short-term investments	39	55
Accounts receivable	14,753	16,537
Financing receivables	2,795	2,675
Inventory	6,436	6,128
Other current assets	13,541	13,865
Total current assets	51,695	52,539
Property, plant and equipment	11,242	11,262
Long-term financing receivables and other assets	11,726	11,289
Goodwill	34,312	33,109
Purchased intangible assets	7,019	6,600
Total assets	$ 115,994	$ 114,799
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 3,934	$ 1,850
Accounts payable	13,350	14,809
Employee compensation and benefits	3,410	4,071
Taxes on earnings	1,043	910
Deferred revenue	6,526	6,182
Accrued restructuring	700	1,109
Other accrued liabilities	13,308	14,072
Total current liabilities	42,271	43,003
Long-term debt	13,728	13,980
Other liabilities	16,183	17,052(1)
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' equity		
Preferred stock, $0.01 par value (300 shares authorized; none issued)		
Common stock, $0.01 par value (9,600 shares authorized; 2,345 and 2,365 shares issued and outstanding, respectively)	23	24
Additional paid-in capital	14,613	13,804
Retained earnings	31,631	29,936
Accumulated other comprehensive loss	(2,756)	(3,247)
Total HP stockholders' equity	43,511	40,517
Noncontrolling interests	301	247(1)

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

(Unaudited)

	Six months ended April 30	
	2010	**2009**
	In millions	
Cash flows from operating activities:		
Net earnings	$ 4,450	$ 3,577
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,346	2,367
Stock-based compensation expense	381	351
Provision for doubtful accounts accounts and financing receivables	111	211
Provision for inventory	82	137
In-process research and development charges		6
Restructuring charges	311	240
Deferred taxes on earnings	(286)	52
Excess tax benefit from stock-based compensation	(263)	(28)
Other, net	149	61
Changes in operating assets and liabilities:		
Accounts and financing receivables	1,709	1,776
Inventory	(190)	1,987
Accounts payable	(1,548)	(3,506)
Taxes on earnings	726	904
Restructuring	(783)	(548)
Other assets and liabilities	(1,697)	(1,497)
Net cash provided by operating activities	5,498	6,090
Cash flows from investing activities:		
Investment in property, plant and equipment	(1,771)	(1,658)
Proceeds from sale of property, plant and equipment	268	250
Purchases of available-for-sale securities and other investments	(28)	(55)
Maturities and sales of available-for-sale securities and other investments	103	103
Payments made in connection with business acquisitions, net	(2,512)	(348)
Net cash used in investing activities	(3,940)	(1,708)
Cash flows from financing activities:		
Issuance (payments) of commercial paper and notes payable, net	1,855	(4,449)
Issuance of debt	50	4,778
Payment of debt	(244)	(110)
Issuance of common stock under employee stock plans	2,266	493
Repurchase of common stock	(4,511)	(2,039)
Excess tax benefit from stock-based compensation	263	28
Dividends	(385)	(385)
Net cash used in financing activities	(706)	(1,684)

Increase in cash and cash equivalents	852	2,698
Cash and cash equivalents at beginning of period	13,279	10,153
Cash and cash equivalents at end of period	$ 14,131	$ 12,851
Supplemental schedule of non-cash investing and financing activities:		
Issuance of common stock and stock awards assumed in business acquisitions	$ 61	$
Purchase of assets under financing arrangement	$	$ 272
Purchase of assets under capital lease	$ 92	$ 41

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

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

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

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

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

Accounting Pronouncements

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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

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

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

Note 2: Stock-Based Compensation

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

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

Performance-based Restricted Units

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

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

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

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

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

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

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

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

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

Stock Options

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

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

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

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

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

Restricted Stock Awards

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

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

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

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

Note 3: Net Earnings Per Share

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 3: Net Earnings Per Share (Continued)

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

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

Note 4: Balance Sheet Details

Balance sheet details were as follows:

Accounts and Financing Receivables

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 4: Balance Sheet Details (Continued)

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

Inventory

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

Property, Plant and Equipment

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

Note 5: Acquisitions

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

3Com Acquisition

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 5: Acquisitions (Continued)

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

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

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

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

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

Pending Acquisition

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 5: Acquisitions (Continued)

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

Note 6: Goodwill and Purchased Intangible Assets

Goodwill

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Goodwill and Purchased Intangible Assets (Continued)

Purchased Intangible Assets

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

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

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

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

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

Note 7: Restructuring Charges

3Com Restructuring Plan

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 7: Restructuring Charges (Continued)

Fiscal 2009 Restructuring Plan

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

Fiscal 2008 HP/EDS Restructuring Plan

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

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

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

Summary of Restructuring Plans

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 7: Restructuring Charges (Continued)

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

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

June 2010 Enterprise Services Business Restructuring Plan

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

Note 8: Fair Value

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Fair Value (Continued)

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

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

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

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Fair Value (Continued)

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

	As of April 30, 2010				As of October 31, 2009			
	Fair Value Measured Using				Fair Value Measured Using			
	Level 1	Level 2	Level 3	Total Balance	Level 1	Level 2	Level 3	Total Balance
	In millions							
Assets								
Time deposits	$	$ 9,057	$	$ 9,057	$	$ 8,925	$	$ 8,925
Commercial paper		1,650		1,650		1,388		1,388
Money market funds	1,274			1,274	262			262
U.S. Treasury securities	5			5	5			5
Marketable equity securities	8	3		11	7	3		10
Foreign bonds	6	346		352	10	367		377
Corporate bonds and other debt securities		7	45	52		5	36	41
Derivatives:								
Interest rate contracts		407		407		375		375
Foreign exchange contracts		598	10	608		379	1	380
Other derivatives		3	4	7		1		1
Total Assets	$ 1,293	$ 12,071	$ 59	$ 13,423	$ 284	$ 11,443	$ 37	$ 11,764
Liabilities								
Derivatives:								
Interest rate contracts	$	$ 50	$	$ 50	$	$ 51	$	$ 51
Foreign exchange contracts		348	1	349		720	1	721
Other derivatives		2		2		2		2
Total Liabilities	$	$ 400	$ 1	$ 401	$	$ 773	$ 1	$ 774

The following table presents the changes in Level 3 instruments for the six months ended April 30, 2010 that are measured at fair value on a recurring basis. The majority of the Level 3 balances consist

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Fair Value (Continued)

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

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

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments

Available-for-Sale Investments

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

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

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

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

Derivative Financial Instruments

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

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

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

Fair Value Hedges

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

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

Cash Flow Hedges

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

Net Investment Hedges

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

Other Derivatives

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

Hedge Effectiveness

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

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

Fair Value of Derivative Instruments in the Consolidated Condensed Balance Sheets

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

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

(1) Represents the face amounts of contracts that were outstanding as of April 30, 2010 and October 31, 2009, respectively.

(2) Represents offsetting swaps acquired through previous business combination that were not designated as hedging instruments.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

Effect of Derivative Instruments on the Consolidated Condensed Statements of Earnings

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

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

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)			Gain Recognized in Income on Derivative[1] (Ineffective portion and Amount Excluded from Effectiveness Testing)		
	Three months ended April 30, 2010	Six months ended April 30, 2010	Location	Three months ended April 30, 2010	Six months ended April 30, 2010	Location	Three months ended April 30, 2010	Six months ended April 30, 2010
	In millions			In millions			In millions	
Cash flow hedges:								
Foreign exchange contracts	$ 230	$ 655	Net revenue	$ 188	$ 58	Net revenue	$	$
Foreign exchange contracts	(12)	(7)	Cost of products	12	27	Cost of products		
Foreign exchange contracts			Other operating expenses		1	Other operating expenses		
Foreign exchange contracts	(5)	1	Interest and other, net	(4)		Interest and other, net		
Foreign exchange contracts	25	36	Net revenue	7	15	Interest and other, net	2	6
Total cash flow hedges	$ 238	$ 685		$ 203	$ 101		$ 2	$ 6
Net investment hedges:								
Foreign exchange contracts	$ (47)	$ (44)	Interest and other, net	$	$	Interest and other, net	$	$

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

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

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

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

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

Other Financial Instruments

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

Note 10: Financing Receivables and Operating Leases

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 10: Financing Receivables and Operating Leases (Continued)

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

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

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

Note 11: Guarantees

Guarantees and Indemnifications

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Guarantees (Continued)

Warranty

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

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

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

Note 12: Borrowings

Notes Payable and Short-Term Borrowings

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 12: Borrowings (Continued)

Long-Term Debt

Long-term debt was as follows:

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 12: Borrowings (Continued)

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

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

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

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

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

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 12: Borrowings (Continued)

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

Note 13: Income Taxes

Provision for Taxes

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

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

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 13: Income Taxes (Continued)

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

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

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

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

Note 14: Stockholders' Equity

Share Repurchase Program

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 14: Stockholders' Equity (Continued)

Comprehensive Income

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 14: Stockholders' Equity (Continued)

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

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

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

Note 15: Retirement and Post-Retirement Benefit Plans

Modifications to Defined Contribution Plans

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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

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

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

	Three months ended April 30					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2010	2009	2010	2009	2010	2009
	In millions					
Service cost	$	$ 7	$ 82	$ 75	$ 3	$ 4
Interest cost	144	148	165	146	12	17
Expected return on plan assets	(165)	(133)	(188)	(158)	(8)	(8)
Amortization and deferrals:						
Actuarial loss (gain)	7	(21)	53	14	5	2
Prior service benefit			(3)	(2)	(22)	(20)
Net periodic benefit (gain) cost	(14)	1	109	75	(10)	(5)
Settlement gain		(1)				
Curtailment gain					(13)	(2)
Special termination benefits			11	2		
Net benefit (gain) cost	$ (14)	$	$ 120	$ 77	$ (23)	$ (7)

	Six months ended April 30					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2010	2009	2010	2009	2010	2009
	In millions					
Service cost	$	$ 13	$ 168	$ 152	$ 6	$ 7
Interest cost	289	296	337	299	24	35
Expected return on plan assets	(331)	(266)	(386)	(323)	(15)	(16)
Amortization and deferrals:						
Actuarial loss (gain)	14	(34)	109	34	10	3
Prior service benefit			(5)	(4)	(43)	(39)
	(28)	9	223	158	(18)	(10)

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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

Employer Contributions and Funding Policy

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

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

Note 16: Litigation and Contingencies

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

Litigation, Proceedings and Investigations

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Litigation and Contingencies (Continued)

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Litigation and Contingencies (Continued)

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Litigation and Contingencies (Continued)

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Litigation and Contingencies (Continued)

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

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Litigation and Contingencies (Continued)

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

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Litigation and Contingencies (Continued)

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

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Litigation and Contingencies (Continued)

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Litigation and Contingencies (Continued)

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

Environmental

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

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

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

Note 17: Segment Information

Description of Segments

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 17: Segment Information (Continued)

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

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

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

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

HP Enterprise Business.

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 17: Segment Information (Continued)

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

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

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

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

HP's other business segments are described below.

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 17: Segment Information (Continued)

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

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

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

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

Segment Data

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 17: Segment Information (Continued)

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

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

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

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

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 17: Segment Information (Continued)

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 17: Segment Information (Continued)

Net revenue by segment and business unit

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

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

(1) Certain fiscal 2010 organizational reclassifications have been reflected retroactively to provide improved visibility and comparability. For each of the quarters in fiscal year 2009, the reclassifications resulted in the transfer of revenue among the business units within the Services segment only. There was no impact to the previously reported segment financial results.

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

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

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

OVERVIEW

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

- multi-vendor customer services, including infrastructure technology and business process outsourcing, technology support and maintenance, application development and support services, and consulting and integration services;
- enterprise information technology infrastructure, including enterprise storage and server technology, networking products and resources, and software that optimizes business technology investments;
- personal computing and other access devices; and
- imaging and printing-related products and services.

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

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

Competitive Positioning

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

Driving Operational Efficiency

We have implemented an ongoing program to optimize efficiency and reduce cost across the company. As part of those efforts, we are continuing to execute on our multi-year program to consolidate real estate locations worldwide to fewer core sites in order to reduce our IT spending and real estate costs. We are also continuing to implement the restructuring plan announced in the fourth quarter of fiscal 2008 to optimize the cost structure of our Services business and the restructuring plan announced in May 2009 to structurally change and improve the effectiveness of several of our product businesses. In addition, we are beginning to implement the new restructuring plan announced on June 1, 2010 relating to our enterprise services business, which includes our infrastructure technology outsourcing, business process outsourcing and application services business units, that is intended to enhance client experience and better position the business for growth. See Note 7 to the Consolidated Condensed Financial Statements in Item 1 for further discussion of these restructuring plans and the associated restructuring charges.

Investing for Growth

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

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

Leveraging our Portfolio and Scale

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

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

	HP[1] Consolidated	HP Enterprise Business: Services	HP Enterprise Business: ESS	HP Enterprise Business: HP Software	HP Enterprise Business: Total	PSG	IPG	HPFS
	In millions, except per share amounts							
Three Months Ended April 30								
Net revenue	$ 30,849	$ 8,712	$ 4,542	$ 871	$ 14,125	$ 9,956	$ 6,396	$ 755
Year-over-year net revenue % increase (decrease)	12.7%	2.5%	31.4%	(1.0)%	10.0%	21.3%	8.1%	17.8%
Earnings from operations								