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: July 31, 2009

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	**94-1081436**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
3000 Hanover Street, Palo Alto, California	**94304**
(Address of principal executive offices)	(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 o 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 August 31, 2009 was 2,371,067,899 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, acquisition synergies, currency exchange rates 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 and integration 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 and integration plans; the possibility that the expected benefits of business combination transactions may not materialize as expected; 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, 2008. 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 July 31		Nine months ended July 31	
	2009	2008	2009	2008
	In millions, except per share amounts			
Net revenue:				
Products	$17,606	$22,180	$53,627	$67,866
Services	9,749	5,757	29,700	16,619
Financing income	96	95	275	276
Total net revenue	27,451	28,032	83,602	84,761
Costs and expenses:				
Cost of products	13,538	16,821	41,047	51,091
Cost of services	7,317	4,297(1)	22,626	12,511(1)
Financing interest	81	79	251	244
Research and development	667	895	2,115	2,701
Selling, general and administrative	2,874	3,193(1)	8,647	9,820(1)
Amortization of purchased intangible assets	379	213	1,171	630
In-process research and development charges			6	13
Restructuring charges	362	5	602	19
Acquisition-related charges	59		182	
Total operating expenses	25,277	25,503	76,647	77,029
Earnings from operations	2,174	2,529	6,955	7,732
Interest and other, net	(177)	23	(589)	98
Earnings before taxes	1,997	2,552	6,366	7,830
Provision for taxes	355	525	1,154	1,613
Net earnings	$ 1,642	$ 2,027	$ 5,212	$ 6,217
Net earnings per share:				
Basic	$ 0.69	$ 0.82	$ 2.18	$ 2.49
Diluted	$ 0.67	$ 0.80	$ 2.13	$ 2.41
Cash dividends declared per share	$ 0.16	$ 0.16	$ 0.32	$ 0.32
Weighted-average shares used to compute net earnings per share:				
Basic	2,382	2,459	2,395	2,497
Diluted	2,436	2,533	2,442	2,577

(1) For the prior year reporting periods presented, certain pursuit-related costs previously reported as Cost of services have been realigned retroactively to Selling, general and administrative expenses due to organizational realignments.

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

	July 31, 2009	October 31, 2008
	In millions, except par value	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,521	$ 10,153
Short-term investments	66	93
Accounts receivable	14,735	16,928
Financing receivables	2,532	2,314
Inventory	5,850	7,879
Other current assets	12,138	14,361
Total current assets	48,842	51,728
Property, plant and equipment	11,194	10,838
Long-term financing receivables and other assets	10,857	10,468
Goodwill	33,277	32,335
Purchased intangible assets	6,902	7,962
Total assets	$ 111,072	$ 113,331
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 3,288	$ 10,176
Accounts payable	12,778	14,917
Employee compensation and benefits	3,596	4,159
Taxes on earnings	786	869
Deferred revenue	6,458	6,287
Accrued restructuring	1,421	1,099
Other accrued liabilities	13,483	15,432
Total current liabilities	41,810	52,939
Long-term debt	13,892	7,676
Other liabilities	13,835	13,774
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value (300 shares authorized; none issued)		
Common stock, $0.01 par value (9,600 shares authorized; 2,382 and 2,415 shares issued and outstanding, respectively)	24	24
Additional paid-in capital	13,798	14,012
Retained earnings	28,509	24,971
Accumulated other comprehensive loss	(796)	(65)
Total stockholders' equity	41,535	38,942
Total liabilities and stockholders' equity	$ 111,072	$ 113,331

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)

	Nine months ended July 31	
	2009	**2008**
	In millions	
Cash flows from operating activities:		
Net earnings	$ 5,212	$ 6,217
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,546	2,268
Stock-based compensation expense	501	449
Provision for bad debt and inventory	462	296
In-process research and development charges	6	13
Restructuring charges	602	19
Deferred taxes on earnings	272	1,163
Excess tax benefit from stock-based compensation	(67)	(213)
Other, net	(1)	(25)
Changes in operating assets and liabilities:		
Accounts and financing receivables	1,635	(437)
Inventory	1,843	(255)
Accounts payable	(2,228)	2,171
Taxes on earnings	691	(269)
Restructuring	(844)	(69)
Other assets and liabilities	(1,684)	(13)
Net cash provided by operating activities	9,946	11,315
Cash flows from investing activities:		
Investment in property, plant and equipment	(2,749)	(1,966)
Proceeds from sale of property, plant and equipment	401	271
Purchases of available-for-sale securities and other investments	(105)	(86)
Maturities and sales of available-for-sale securities and other investments	103	212
Payments made in connection with business acquisitions, net	(348)	(1,478)
Net cash used in investing activities	(2,698)	(3,047)
Cash flows from financing activities:		
Repayment of commercial paper and notes payable, net	(6,866)	(21)
Issuance of debt	6,778	3,054
Payment of debt	(1,181)	(1,051)
Issuance of common stock under employee stock plans	936	1,347
Repurchase of common stock	(3,038)	(7,720)
Excess tax benefit from stock-based compensation	67	213
Dividends	(576)	(600)
Net cash used in financing activities	(3,880)	(4,778)
Increase in cash and cash equivalents	3,368	3,490
Cash and cash equivalents at beginning of period	10,153	11,293
Cash and cash equivalents at end of period	$ 13,521	$ 14,783
Supplemental schedule of non-cash investing and financing activities:		

Issuance of common stock and stock awards assumed in business acquisitions	$	(3)	$	(4)
Purchase of assets under financing arrangement	$	283	$	
Purchase of assets under capital lease	$	74	$	

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 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 July 31, 2009, its results of operations for the three and nine months ended July 31, 2009 and 2008 and its cash flows for the nine months ended July 31, 2009 and 2008. The Consolidated Condensed Balance Sheet as of October 31, 2008 is derived from the October 31, 2008 audited consolidated financial statements. Certain reclassifications have been made to prior-year amounts in order to conform to the current year presentation.

The results of operations for the three and nine months ended July 31, 2009 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, 2008.

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.

HP is involved in various lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies," HP records a provision for a liability when it believes it is both probable that a liability has been incurred and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. HP reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. Litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond HP's control.

HP evaluated all subsequent events that occurred after the balance sheet date and through the date and time its financial statements were issued on September 4, 2009.

Accounting Pronouncements

As previously reported in HP's 2008 Annual Report on Form 10-K, HP recognized the funded status of its benefit plans at October 31, 2007 in accordance with the recognition provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of Financial Accounting Standards Board ("FASB") Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"). In addition to the recognition provisions, SFAS 158 also requires companies to measure the funded status of the plan as of the date of their fiscal year end, effective for fiscal years ending after December 15, 2008. HP will adopt the measurement provisions of SFAS 158 effective October 31, 2009 for the HP pension and post retirement plans. HP does not expect the adoption of the measurement provisions of SFAS 158 will have a material effect on its consolidated financial statements.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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

In February 2008, the FASB issued FASB Staff Position ("FSP") SFAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP SFAS 157-2"). FSP SFAS 157-2 delays the effective date of SFAS No. 157, "Fair Value Measurements" ("SFAS 157") to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). As a result of adoption of FSP SFAS 157-2, HP will adopt SFAS 157 for all nonfinancial assets and nonfinancial liabilities in the first quarter of fiscal 2010. Although HP will continue to evaluate the application of SFAS 157 to nonfinancial assets and nonfinancial liabilities, HP does not expect the adoption of SFAS 157 with respect to nonfinancial assets and nonfinancial liabilities will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) 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; 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 to be capitalized at fair value as an 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. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008 and will be adopted by HP in the first quarter of fiscal 2010. HP is currently evaluating the potential impact of the adoption of SFAS 141(R) on its consolidated financial statements, which will be largely dependent on the size and nature of the business combinations completed after the adoption of this statement. Among other potential impacts, the adoption of SFAS 141(R) will result in the recognition of certain types of expenses in its results of operations that are currently capitalized pursuant to existing accounting standards.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 160 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 interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008 and will be adopted by HP in the first quarter of fiscal 2010. HP does not expect the adoption of SFAS 160 will have a material effect on its consolidated financial statements.

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retrospective basis and will be adopted by HP in the first quarter of

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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

fiscal 2010. HP currently does not have any outstanding convertible debt instruments that are subject to the provisions of FSP APB 14-1. However, HP's U.S. dollar zero-coupon convertible notes that were redeemed in full in March 2008 are subject to the provisions of FSP APB 14-1. As a result, upon adoption of FSP APB 14-1 in the first quarter of fiscal 2010, HP's fiscal 2008 consolidated results of operations and financial condition will be affected on a retrospective basis. HP does not expect the adoption of FSP APB 14-1 will have a material effect on its consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force ("EITF") 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends or dividend equivalents before vesting should be considered participating securities. HP has granted and is expected to continue to grant restricted stock that contain non-forfeitable rights to dividends and such restricted stock will be considered participating securities upon adoption of FSP EITF 03-6-1. As participating securities, HP will be required to include these instruments in the calculation of HP's basic earnings per share ("EPS"), and it will need to calculate basic EPS using the "two-class method." Restricted stock is currently included in HP's dilutive EPS calculation using the treasury stock 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. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 on a retrospective basis and will be adopted by HP in the first quarter of fiscal 2010. HP does not expect the adoption of FSP EITF 03-6-1 will have a material effect on its calculation of basic EPS.

In November 2008, the FASB ratified EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets" ("EITF 08-7"). EITF 08-7 applies to defensive intangible assets, which 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. As these assets are separately identifiable, EITF 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting. Defensive intangible assets must be recognized initially at fair value in accordance with SFAS 141(R) and SFAS 157 and amortized over the benefit period. EITF 08-7 is effective for defensive intangible assets acquired in fiscal years beginning on or after December 15, 2008 and will be adopted by HP in the first quarter of fiscal 2010. HP is currently evaluating the potential impact of the adoption of EITF 08-7 on its consolidated financial statements, which will be largely dependent on the nature of the business combinations completed after the adoption of this statement.

In December 2008, the FASB issued FSP SFAS 132(R)-1, "Employer's Disclosures about Postretirement Benefit Plan Assets" ("FSP SFAS 132(R)-1"). FSP SFAS 132(R)-1 requires additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. FSP SFAS 132(R)-1 is effective for fiscal years ending after December 15, 2009 and will be adopted by HP in the first quarter of fiscal 2010. HP will present the required disclosures in the prescribed format on a prospective basis upon adoption. FSP SFAS 132(R)-1 will only affect the notes to HP's consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP SFAS 141(R)-1"). FSP SFAS 141(R)-1 addresses application issues on initial recognition and

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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

measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP SFAS 141(R)-1 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and will be adopted by HP in the first quarter of fiscal 2010. HP is evaluating the impact the adoption of FSP SFAS 141(R)-1 will have on its consolidated financial statements, which will be largely dependent on the size and nature of the business combinations completed after the adoption of this statement.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140" ("SFAS 166"). The most significant amendments resulting from SFAS 166 consist of the removal of the concept of a qualifying special-purpose entity from FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and, for qualifying special-purpose entities, the removal of the exception from applying FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities an interpretation of Accounting Research Bulletin No. 51" ("FIN 46(R)"). SFAS 166 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. SFAS 166 will be adopted by HP in the first quarter of fiscal 2011. HP does not expect the adoption of SFAS 166 will have a material effect on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"). SFAS 167 amends FIN 46(R) to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and to require ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 also amends FIN 46(R) to require additional disclosures about an enterprise's involvement in variable interest entities. SFAS 167 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. SFAS 167 will be adopted by HP in the first quarter of fiscal 2011. HP is currently evaluating the impact the adoption of SFAS 167 will have on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification ("ASC") as the source of authoritative accounting principles recognized by the FASB. Following this statement, the FASB will issue new standards in the form of Accounting Standards Updates ("ASUs"). SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and therefore is effective for HP in the fourth quarter of fiscal 2009. The issuance of SFAS 168 will not change GAAP and therefore the adoption of SFAS 168 will only affect the specific references to GAAP literature in the notes to HP's consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, "Measuring Liabilities at Fair Value" ("ASU 2009-05"). This update provides amendments to ASC Topic 820, "Fair Value Measurements and Disclosure" for the fair value measurement of liabilities. HP will adopt ASU 2009-05 for all financial liabilities in the fourth quarter of fiscal 2009. HP will adopt ASU 2009-05 for

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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

all non-financial liabilities in the first quarter of fiscal 2010 when HP fully adopts SFAS 157. Although HP will continue to evaluate the application of SFAS 157 and this update for its non-financial liabilities, HP does not expect the adoption of ASU 2009-05 will have a material effect on its consolidated financial statements.

Recently Adopted Accounting Pronouncements

During the first nine months of fiscal 2009, HP adopted the following accounting standards, none of which had a material effect on its consolidated financial statements during the period or at the end of the period:

FSP SFAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly";

FSP SFAS 115-2 and SFAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments";

FSP SFAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments";

SFAS No. 165, "Subsequent Events";

SFAS 157;

FSP SFAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" ("FSP SFAS 157-1");

FSP SFAS 157-2;

FSP SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP SFAS 157-3");

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS 159");

EITF 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities";

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"); and

EITF 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards."

See Note 8 for additional information pertaining to SFAS 157, FSP SFAS 157-1, FSP SFAS 157-2, FSP SFAS 157-3, FSP SFAS 157-4 and SFAS 159.

See Note 9 for additional information pertaining to SFAS 161.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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 option plans as well as various stock option plans assumed through acquisitions. Principal option plans include performance-based restricted units ("PRU"), stock options and restricted stock awards. HP accounts for its stock-based compensation plans under SFAS No. 123(R), "Share-Based Payment."

Total stock-based compensation expense for the three and nine months ended July 31, 2009 and 2008 was as follows:

	Three months ended July 31		Nine months ended July 31	
	2009	2008	2009	2008
	In millions		In millions	
Cost of sales	$ 41	$ 34	$ 141	$ 106
Research and development	12	16	47	55
Selling, general and administrative	94	90	288	288
Acquisition-related charges	3		25	
Stock-based compensation expense before income taxes	150	140	501	449
Income tax benefit	(51)	(38)	(158)	(130)
Total stock-based compensation expense after income taxes	$ 99	$ 102	$ 343	$ 319

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 that may be issued under the Hewlett-Packard Company 2004 Stock Incentive Plan.

Under the PRU program, a target number of units are awarded 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 depending on performance during the period. The performance metrics of the PRU program are (a) annual targets based on cash flow from operations as a percentage of revenue, and (b) an overall "modifier" based on Total Shareholder Return ("TSR") relative to the S&P 500 over the three-year performance period. TSR is calculated using the quarterly average performance of the S&P 500 during the three-year performance period.

As the cash flow goals are considered performance conditions, the expense for these awards, net of estimated forfeitures, will be recorded over the three-year performance period based on the number of shares that are expected to be earned based on the achievement of the cash flow goals during the performance period.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

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 value of the PRU awards:

	Three months ended July 31		Nine months ended July 31	
	2009	2008	2009	2008
Weighted-average fair value of grants per share	$35.47(1)		$40.56(2)	$40.21
Expected volatility(3)	38%		35%	26%
Risk-free interest rate	1.15%		1.34%	3.13%
Dividend yield	0.94%		0.88%	0.70%
Expected life in months	30		30	33

(1) Reflects the weighted-average fair value for the first year of the three-year performance period applicable to PRUs granted in the three months ended July 31, 2009. The estimated fair value of a target share for the second and third years for PRUs granted in the three months ended July 31, 2009 will be determined when the annual cash flow goals are approved, 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. The estimated fair value of a target share for the third year for PRUs granted in fiscal 2008 and for the second and third years for PRUs granted in fiscal 2009 will be determined when the annual cash flow goals are approved, and the expense will be amortized over the remainder of the applicable three-year performance period.

(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.

Outstanding PRUs as of July 31, 2009 and October 31, 2008 and changes during the nine months ended July 31, 2009 and twelve months ended October 31, 2008 were as follows:

	Nine months ended July 31, 2009 (in thousands)	Twelve months ended October 31, 2008 (in thousands)
Beginning units outstanding	10,965	
Granted	13,949	8,783
Change in units due to performance and market conditions	979	2,492
Forfeited	(1,021)	(310)
Ending units outstanding	24,872	10,965
Vested		
PRUs assigned a fair value	13,338	5,292

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

At July 31, 2009, there was $248 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 1.7 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 July 31		Nine months ended July 31	
	2009	**2008**	**2009**	**2008**
Weighted-average fair value of grants per share	$11.57	$14.20	$12.89	$15.34
Implied volatility	36%	31%	45%	33%
Risk-free interest rate	2.43%	3.30%	2.01%	3.16%
Dividend yield	0.91%	0.71%	0.95%	0.68%
Expected life in months	61	61	61	60

Option activity as of July 31, 2009 and changes during the nine months ended July 31, 2009 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, 2008	307,728	$ 34		
Granted and assumed through acquisitions	1,933	$ 27		
Exercised	(27,103)	$ 25		
Forfeited/cancelled/expired	(18,803)	$ 57		
Outstanding at July 31, 2009	263,755	$ 33	2.7	$ 3,231
Vested and expected to vest at July 31, 2009	261,931	$ 33	2.7	$ 3,220
Exercisable at July 31, 2009	237,135	$ 32	2.4	$ 3,073

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 July 31, 2009. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of the third quarter of fiscal 2009 and the exercise price, multiplied by the number of in-the-money options. Total intrinsic value of options exercised for the three and nine months ended July 31, 2009 was $188 million and $326 million, respectively.

At July 31, 2009, there was $244 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 1.3 years.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

Restricted Stock Awards

Non-vested restricted stock awards as of July 31, 2009 and changes during the nine months ended July 31, 2009 were as follows:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value Per Share
Non-vested at October 31, 2008	12,930	$ 44
Granted	743	$ 34
Vested	(5,066)	$ 44
Forfeited	(941)	$ 42
Non-vested at July 31, 2009	7,666	$ 44

At July 31, 2009, there was $155 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 0.9 years.

Changes to the Employee Stock Purchase Plan

HP sponsors the Hewlett-Packard Company 2000 Employee Stock Purchase Plan, also known as the Share Ownership Plan (the "ESPP"), pursuant to which eligible employees may contribute up to 10% of base compensation, subject to certain income limits, to purchase shares of HP's common stock. Employees purchase stock pursuant to the ESPP semi-annually at a price equal to 85% of the fair market value on the purchase date. HP recognized expense based on a 15% discount from fair market value for purchases made under the ESPP on or before April 30, 2009. Effective May 1, 2009, HP modified the ESPP to eliminate the 15% discount applicable to purchases made under the ESPP.

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, restricted stock and convertible debt.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 3: Net Earnings Per Share (Continued)

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

	Three months ended July 31		Nine months ended July 31	
	2009	2008	2009	2008
	In millions, except per share amounts			
Numerator:				
Net earnings	$ 1,642	$ 2,027	$ 5,212	$ 6,217
Adjustment for interest expense on zero-coupon subordinated convertible notes, net of taxes				3
Net earnings, adjusted	$ 1,642	$ 2,027	$ 5,212	$ 6,220
Denominator:				
Weighted-average shares used to compute basic EPS	2,382	2,459	2,395	2,497
Effect of dilutive securities:				
Dilution from employee stock plans	54	74	47	76
Zero-coupon subordinated convertible notes				4
Dilutive potential common shares	54	74	47	80
Weighted-average shares used to compute diluted EPS	2,436	2,533	2,442	2,577
Net earnings per share:				
Basic	$ 0.69	$ 0.82	$ 2.18	$ 2.49
Diluted	$ 0.67	$ 0.80	$ 2.13	$ 2.41

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 nine months ended July 31, 2009, HP excluded from the calculation of diluted EPS options to purchase 96 million shares and 100 million shares, respectively, as compared to 57 million shares and 55 million shares, respectively, in the prior-year comparable periods. Also, in accordance with SFAS 123R, HP excluded from the calculation of diluted EPS options to purchase an additional 2 million shares in the third quarter and the first nine months of fiscal 2009 compared to an additional 28 million shares and 29 million shares, respectively, 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 disclosed in Note 2, during the nine months ended July 31, 2009 and July 31, 2008, HP granted PRU awards representing at target approximately 14 million shares and 9 million shares, respectively. HP includes the shares underlying PRU awards in the calculation of diluted EPS when they become contingently issuable per SFAS No. 128, "Earnings per Share," and excludes such shares when they are not contingently issuable. Accordingly, for the three and nine months ended July 31, 2009, HP has included 4 million shares and 3 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 performance period applicable to those awards. HP has excluded all other shares underlying the fiscal 2008 awards

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 3: Net Earnings Per Share (Continued)

and all shares underlying the fiscal 2009 awards when calculating diluted EPS as those shares are not contingently issuable.

In October and November 1997, HP issued U.S. dollar zero-coupon subordinated convertible notes due 2017 (the "LYONs"), the outstanding principal amount of which was redeemed in March 2008. The LYONs were convertible at the option of the holders at any time prior to maturity, unless previously redeemed or otherwise purchased. For purposes of calculating diluted earnings per share for the nine months ended July 31, 2008, the interest expense (net of tax) associated with the LYONs was added back to net earnings, and the shares issuable upon conversion of the LYONs were included in the weighted-average shares used to compute diluted earnings per share for periods that the LYONs were outstanding.

Note 4: Balance Sheet Details

Balance sheet details were as follows:

Accounts and Financing Receivables

	July 31, 2009	October 31, 2008
	In millions	
Accounts receivable	$ 15,376	$ 17,481
Allowance for doubtful accounts	(641)	(553)
	$ 14,735	$ 16,928
Financing receivables	$ 2,580	$ 2,355
Allowance for doubtful accounts	(48)	(41)
	$ 2,532	$ 2,314

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 $586 million as of July 31, 2009. HP sold $1,321 million of trade receivables during the first nine months of fiscal 2009. As of July 31, 2009, HP had $342 million available under these programs.

Inventory

	July 31, 2009	October 31, 2008
	In millions	
Finished goods	$ 3,809	$ 5,219
Purchased parts and fabricated assemblies	2,041	2,660
	$ 5,850	$ 7,879

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 4: Balance Sheet Details (Continued)

Property, Plant and Equipment

	July 31, 2009	October 31, 2008
	In millions	
Land	$ 514	$ 526
Buildings and leasehold improvements	7,383	7,238
Machinery and equipment	12,232	11,121
	20,129	18,885
Accumulated Depreciation	(8,935)	(8,047)
	$11,194	$ 10,838

Note 5: Acquisitions

In the first nine months of fiscal 2009, HP completed its acquisition of Lefthand Networks, Inc., a leading provider of storage virtualization and solutions for $347 million in cash including direct transaction costs and the assumption of certain liabilities in connection with the transaction. HP recorded $273 million to goodwill, $95 million to purchased intangibles and $6 million to in-process research and development ("IPR&D") charges related to this acquisition. Lefthand Networks is being integrated into HP's Enterprise Storage and Servers segment within the Technology Solutions Group. HP does not expect goodwill recorded with respect to this acquisition to be deductible for tax purposes. HP has not presented pro forma results of operations because this acquisition is not material to HP's consolidated financial statements.

Subsequent Acquisition

In August 2009, HP completed its acquisition of IBRIX, Inc. a leading provider of enterprise-class file serving software. IBRIX will be integrated into the Enterprise Storage and Servers segment. This acquisition is not material to HP's consolidated financial statements.

Acquisition of Electronic Data Systems Corporation ("EDS")

As previously disclosed in its Consolidated Financial Statements for the fiscal year ended October 31, 2008, HP completed its acquisition of EDS on August 26, 2008. The purchase price for EDS was $13.0 billion, comprised of $12.7 billion cash paid for outstanding common stock, $328 million for the estimated fair value of stock options and restricted stock units assumed, and $36 million for direct transaction costs. Of the total purchase price, a preliminary estimate of $10.5 billion has been allocated to goodwill, $4.5 billion has been allocated to amortizable intangible assets acquired and $2.0 billion has been allocated to net tangible liabilities assumed in connection with the acquisition. HP also expensed $30 million for IPR&D charges.

The purchase price allocation as of the date of the acquisition reflects various preliminary estimates and analyses, including preliminary work performed by third-party valuation specialists, and is subject to change during the purchase price allocation period (generally one year from the acquisition date) as valuations are finalized.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 5: Acquisitions (Continued)

HP has evaluated and continues to evaluate certain pre-acquisition contingencies related to EDS that existed as of the acquisition date. Additional information, which existed as of the acquisition date but was at that time unknown to HP, may become known to HP during the remainder of the purchase price allocation period, and may result in goodwill adjustments. If these pre-acquisition contingencies become probable in nature and estimable after the end of the purchase price allocation period, amounts would be recorded for such matters in HP's results of operations.

Pro forma results for EDS acquisition

The following table presents the unaudited results of HP (including EDS) for the three and nine months ended July 31, 2009 and the unaudited pro forma results for the three and nine months ended July 31, 2008. The unaudited pro forma financial information for the three and nine months ended July 31, 2008 combines the results of operations of HP and EDS as though the companies had been combined as of the beginning of fiscal 2008. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition and related borrowings had taken place at the beginning of fiscal 2008. The unaudited pro forma results presented include amortization charges for acquired intangible assets, eliminations of intercompany transactions, restructuring charges, IPR&D charges, adjustments for incremental stock-based compensation expense related to the unearned portion of EDS stock options and restricted stock units assumed, adjustments for depreciation expense for property, plant and equipment, adjustments to interest expense and related tax effects.

In millions, except per share data	Three months ended July 31 2009	2008	Nine months ended July 31 2009	2008
	Unaudited		Unaudited	
Net revenue	$27,451	$33,681	$83,602	$101,042
Net earnings	$ 1,642	$ 2,090	$ 5,212	$ 5,529
Basic net earnings per share	$ 0.69	$ 0.85	$ 2.18	$ 2.21
Diluted net earnings per share	$ 0.67	$ 0.82	$ 2.13	$ 2.14

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Goodwill and Purchased Intangible Assets

Goodwill

Goodwill allocated to HP's business segments as of July 31, 2009 and changes in the carrying amount of goodwill for the nine months ended July 31, 2009 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, 2008	$16,284	$ 4,745	$ 6,162	$ 2,493	$ 2,463	$ 144	$ 44	$32,335
Goodwill acquired during the period		273						273
Goodwill adjustments	680	(2)	(8)		(1)			669
Balance at July 31, 2009	$16,964	$ 5,016	$ 6,154	$ 2,493	$ 2,462	$ 144	$ 44	$33,277

During the nine months ended July 31, 2009, HP recorded adjustments of approximately $500 million to the estimated fair values of EDS's intangible assets and net liabilities acquired resulting in an increase to EDS's goodwill, which is allocated to the Services segment. These changes in the estimated fair values relate primarily to restructuring liabilities, fixed assets, intangible assets and net deferred tax liabilities. In addition, goodwill increased approximately $180 million as a result of currency translation related to certain of EDS's foreign subsidiaries whose functional currency is not the U.S. dollar.

Purchased Intangible Assets

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

	July 31, 2009			October 31, 2008		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	In millions					
Customer contracts, customer lists and distribution agreements	$ 6,685	$ (2,806)	$3,879	$ 6,530	$ (2,176)	$4,354
Developed and core technology and patents	4,151	(2,627)	1,524	4,189	(2,147)	2,042
Product trademarks	247	(170)	77	253	(109)	144
Total amortizable purchased intangible assets	11,083	(5,603)	5,480	10,972	(4,432)	6,540
Compaq trade name	1,422		1,422	1,422		1,422
Total purchased intangible assets	$12,505	$ (5,603)	$6,902	$12,394	$ (4,432)	$7,962

For the nine months ended July 31, 2009, HP recorded an increase of $51 million to purchased intangibles as a result of currency translation related to certain of EDS's foreign subsidiaries whose financial currency is not the U.S. dollar. HP also recorded a reduction of $35 million to the estimated fair value of EDS's intangible assets acquired.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Goodwill and Purchased Intangible Assets (Continued)

Estimated future amortization expense related to finite lived purchased intangible assets at July 31, 2009 is as follows:

Fiscal year:	**In millions**
2009 (remaining 3 months)	$ 354
2010	1,320
2011	1,035
2012	844
2013	707
Thereafter	1,220
Total	$ 5,480

Note 7: Restructuring Charges

Fiscal 2009 Restructuring Plan

In May 2009, HP's management approved and initiated a restructuring plan to structurally change and improve the effectiveness of IPG, PSG and ESS. In the third quarter of fiscal 2009, HP recorded a net charge of $295 million in severance-related costs associated with the planned elimination of approximately 5,000 positions. As of July 31, 2009, approximately 1,200 positions have been eliminated. HP expects the majority of the restructuring costs to be paid out by the fourth quarter of fiscal 2010. In future quarters, HP expects to record an additional charge of approximately $8 million related to severance costs associated with this plan.

Fiscal 2008 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.

In the fourth quarter of fiscal 2008, HP recorded a liability of approximately $1.8 billion related to this restructuring plan. Approximately $1.5 billion of the liability was associated with pre-acquisition EDS and was recorded to goodwill, and the remaining approximately $0.3 billion was associated with HP and was recorded as a restructuring charge. The liability consisted 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. HP recorded net charges for severance and facilities costs of $67 million and $310 million, for the three and nine months ended July 31, 2009, respectively, along with year-to-date adjustments to goodwill of $276 million. As of July 31, 2009, over 16,000 positions have been eliminated.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 7: Restructuring Charges (Continued)

HP expects the majority of the restructuring costs to be paid out by the second quarter of fiscal 2010. In future quarters, HP expects to record an additional charge of approximately $497 million related to the cost to vacate duplicative facilities and severance costs.

All restructuring costs associated with pre-acquisition EDS are reflected in the purchase price of EDS in accordance with EITF 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." These costs are subject to change based on the actual costs incurred. Changes to these estimates could increase or decrease the amount of the purchase price allocated to goodwill.

Prior Fiscal Year Plans

Restructuring plans initiated prior to 2008 are substantially complete and HP expects to record only minor revisions to these plans as necessary.

Summary of Restructuring Plans

The adjustments to the accrued restructuring expenses related to all of HP's restructuring plans described above for the three and nine months ended July 31, 2009 were as follows:

	Balance, October 31, 2008	Three months ended July 31, 2009 charges (reversals)	Nine months ended July 31, 2009 charges (reversals)	Goodwill adjustments	Cash payments	Non-cash settlements and other adjustments	Balance, July 31, 2009	As of July 31, 2009 Total costs and adjustments to date	As of July 31, 2009 Total expected costs and adjustments
	In millions								
Fiscal 2009 Plan	$	$ 295	$ 295	$	$ (19)	$ 3	$ 279	$ 295	$ 303
Fiscal 2008 HP/EDS Plan:									
Severance	$ 1,444	$ 36	$ 267	$ 96	$ (770)	$ 70	$ 1,107	$ 1,898	$ 1,936
Infrastructure	248	31	43	180	(34)	(17)	420	476	935
Total severance and other restructuring activities	$ 1,692	$ 67	$ 310	$ 276	$ (804)	$ 53	$ 1,527	$ 2,374	$ 2,871
Prior fiscal year plans	77		(3)	(2)	(21)	4	55	6,343	6,343
Total restructuring plans	$ 1,769	$ 362	$ 602	$ 274	$ (844)	$ 60	$ 1,861	$ 9,012	$ 9,517

At July 31, 2009 and October 31, 2008, HP included the long-term portion of the restructuring liability of $440 million and $670 million, respectively, in Other liabilities, and the short-term portion in Accrued restructuring in the accompanying Consolidated Condensed Balance Sheets.

Workforce Rebalancing

As part of HP's ongoing business operations, HP incurred workforce rebalancing charges for severance and related costs within certain business segments during the first nine months of fiscal 2009. Workforce rebalancing activities are considered part of normal operations as HP continues to optimize its cost structure. Workforce rebalancing costs are included in HP's business segment results, and HP expects to incur additional workforce rebalancing costs in the future.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Fair Value

Effective November 1, 2008, HP adopted the applicable portions of SFAS 157 as referenced in Note 1. Pursuant to the provisions of SFAS 157-2, HP will not apply the provisions of SFAS 157 until the first quarter of fiscal 2010 for the following major categories of nonfinancial assets and liabilities from the Consolidated Condensed Balance Sheet: Property, plant and equipment, Goodwill, Purchased intangible assets and the Asset retirement obligations within Other accrued liabilities and Other liabilities. The adoption did not have a material impact on HP's financial statements and did not result in any changes to the opening balance of retained earnings as of November 1, 2008.

SFAS 157 establishes a new framework for measuring fair value and expands related disclosures. The SFAS 157 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.

The valuation techniques required by SFAS 157 are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect HP's assumptions about market participant assumptions based on best information available. Observable inputs are the preferred source of values. In accordance with SFAS 157, 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: HP holds money market funds investing mainly in treasury bills, which are classified under level 1. HP also invests in time deposits and commercial paper, which are classified under level 2.

Investments: HP holds time deposits, corporate and foreign government notes and bonds, commercial paper, and common stock and equivalents. In general, and where applicable, HP uses quoted prices in active markets for identical assets or liabilities to determine fair value. If quoted prices in active markets for identical assets or liabilities 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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Fair Value (Continued)

future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies. In certain cases, market-based observable inputs are not available and, in those cases, HP uses management judgment to develop assumptions which are used to determine fair value.

The following table presents HP's assets and liabilities as of July 31, 2009 that are measured at fair value on a recurring basis:

	Fair Value Measured Using			Total
	Level 1	Level 2	Level 3	Balance
	In millions			
Assets				
Time deposits	$	$ 8,989	$	$ 8,989
Commercial paper		1,000	49	1,049
Money market funds	715			715
Other debt securities	14	343		357
Marketable equity securities	7	4		11
Derivatives		660	3	663
Total	$ 736	$ 10,996	$ 52	$ 11,784
Liabilities				
Derivatives	$	$ 705	$ 5	$ 710
Total	$	$ 705	$ 5	$ 710

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Fair Value (Continued)

The following tables present the changes in level 3 instruments for the three and nine months ended July 31, 2009 that are measured on a recurring basis. The majority of the level 3 balances consist 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)		
Three Months Ended July 31, 2009	**Commercial Paper**	**Derivative Instruments**	**Total**
	In millions		
Beginning balance at May 1, 2009	$ 49	$	$ 49
Total losses (realized/unrealized):			
Included in earnings[1]			
Included in other comprehensive income		(2)	(2)
Purchases, issuances, and settlements			
Ending balance at July 31, 2009	$ 49	$ (2)	$ 47
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 July 31, 2009	$	$	$
Nine Months Ended July 31, 2009			
Beginning balance at November 1, 2008	$ 64	$ (1)	$ 63
Total losses (realized/unrealized):			
Included in earnings[1]	(3)		(3)
Included in other comprehensive income	(11)	(2)	(13)
Purchases, issuances, and settlements	(1)	1	
Ending balance at July 31, 2009	$ 49	$ (2)	$ 47
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 July 31, 2009	$ (2)	$	$ (2)

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

HP measures certain assets including cost and equity method investments at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. As of July 31, 2009, such assets with a total fair value of $2 million were included in the level 2 hierarchy. In the three and nine months ended July 31, 2009, HP recorded an impairment charge of $3 million and $37 million, respectively. Of the $37 million, $33 million was charged to goodwill.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Fair Value (Continued)

HP reviews the carrying values of the investments when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary. The fair values of the investments are determined based on valuation techniques using the best information available, which may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the investment exceeds its fair value, is determined to be other-than-temporary and is related to credit loss for debt securities.

Effective November 1, 2008, HP also adopted SFAS 159, which allows an entity to elect to measure certain financial instruments at fair value on a contract-by-contract basis. Subsequent to the election, any unrealized gains and losses from the fair value measurement of the financial instruments will be recognized in earnings. As of July 31, 2009, HP did not elect such option for any eligible financial instruments.

Note 9: Financial Instruments

Investments in Debt and Equity Securities

Investments in short-term and long-term available-for-sale debt and equity securities at fair value as of July 31, 2009 and October 31, 2008 were as follows:

	As of July 31, 2009				As of October 31, 2008			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	In millions							
Available-for-Sale Securities								
Debt securities:								
Time deposits	$ 66	$	$	$ 66	$ 103	$	$	$ 103
Commercial paper	79		(30)	49	83		(20)	63
Other debt securities	25			25	21	1		22
Total debt securities	170		(30)	140	207	1	(20)	188
Equity securities in public companies	3	3		6	3	2		5
	$ 173	$ 3	$ (30)	$ 146	$ 210	$ 3	$ (20)	$ 193

Time deposits consist of certificate of deposits with maturity dates greater than three months. Other debt securities consist primarily of fixed-interest securities invested for early retirement purposes and also a fixed income fund. Equity securities in public companies are primarily common stock.

As discussed in Note 8, HP estimated the fair values based on quoted market prices or pricing models using current market rates. These estimated fair values may not be representative of actual values that could have been realized as of the reporting period or that will be realized in the future.

The gross unrealized loss as of July 31, 2009 was due primarily to declines in commercial paper that had been in a continuous loss position for less than twelve months. HP intends to hold the commercial paper and believes that it is unlikely that HP will be required to sell the commercial paper before recovery of the amortized cost. In the three months ended July 31, 2009, HP did not recognize

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

any impairment charge associated with the commercial paper. In the nine months ended July 31, 2009, HP recognized an impairment charge of $2 million associated with its commercial paper.

Contractual maturities of available-for-sale debt securities at July 31, 2009 were as follows:

	Available-for-Sale Securities	
	Cost	Estimated Fair Value
	In millions	
Due in less than one year	$ 66	$ 66
Due in 1-5 years	25	25
Due in more than five years	79	49
	$ 170	$ 140

There were no sales or maturities of available-for-sale and other securities for the three months ended July 31, 2009. Proceeds from sales or maturities of available-for-sale and other securities were $103 million for the nine months ended July 31, 2009. There were no realized gains or losses on available-for-sale and other securities for the three and nine months ended July 31, 2009. 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 July 31, 2009 and October 31, 2008 was as follows:

	July 31, 2009	October 31, 2008
	In millions	
Available-for-sale debt securities	$ 66	$ 93
Short-term investments	66	93
Available-for-sale debt securities	74	95
Available-for-sale equity securities	6	5
Equity securities in privately-held companies	148	145
Marketable trading securities and other investments	14	280
Included in long-term financing receivables and other assets	242	525
Total investments	$ 308	$ 618

Equity securities in privately-held companies include cost basis and equity method investments. Marketable trading securities and other investments consist primarily of 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 $5 million and $11 million, respectively, for the three and nine months ended July 31, 2009.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

Derivative Financial Instruments

On February 1, 2009, HP adopted SFAS 161 as referenced in Note 1. The adoption of SFAS 161 requires additional disclosures about HP's objectives and strategies for using derivative instruments, the accounting for the derivative instruments and related hedged items under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), and the effect of derivative instruments and related hedged items on the financial statements. The adoption had no financial impact on the consolidated condensed financial statements.

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 applies hedge accounting based upon the criteria established by SFAS 133, whereby 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 under SFAS 133, 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 Statement 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 July 31, 2009, 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.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

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 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 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 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 nine months ended July 31, 2009, 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. For derivative instruments that are designated as net investment hedges, 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 under SFAS 133 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 under SFAS 133, HP recognizes changes in the fair values in earnings in the

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

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 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 July 31, 2009, 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 for the three and nine months ended July 31, 2009.

Fair Value of Derivative Instruments in the Consolidated Condensed Balance Sheet

As discussed in Note 8, HP estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates and records all derivatives on the balance sheet at fair

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

value. The gross notional and fair value of derivative financial instruments in the Consolidated Condensed Balance Sheet as of July 31, 2009 were as follows:

	As of July 31, 2009				
	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 under SFAS 133					
Fair value hedges:					
Interest rate contracts	$ 6,575	$	$ 296	$	$ 33
Cash flow hedges:					
Foreign exchange contracts	14,397	119	18	354	23
Net investment hedges:					
Foreign exchange contracts	1,296	17	16	37	26
Total derivatives designated as hedging instruments under SFAS 133	$ 22,268	$ 136	$ 330	$ 391	$ 82
Derivatives not designated as hedging instruments under SFAS 133					
Foreign exchange contracts	$ 14,553	$ 96	$ 47	$ 159	$ 44
Interest rate contracts[2]	2,213		33		34
Total return contracts	223	21			
Total derivatives not designated as hedging instruments under SFAS 133	$ 16,989	$ 117	$ 80	$ 159	$ 78
Total derivatives	$ 39,257	$ 253	$ 410	$ 550	$ 160

(1) Represents the face amounts of contracts that were outstanding as of July 31, 2009.

(2) Represents offsetting swaps acquired through previous business combination that were not designated as hedging instruments under SFAS 133.

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 nine months ended July 31, 2009 was as follows:

		Gain (Loss) Recognized in Income on Derivative and Related Hedged Item					
Derivative Instrument	**Location**	**Three months ended July 31, 2009**	**Nine months ended July 31, 2009**	**Hedged Item**	**Location**	**Three months ended July 31, 2009**	**Nine months ended July 31, 2009**
		In millions				**In millions**	
Interest rate contracts	Interest and other, net	$ (94)	$ 155	Fixed-rate Debt	Interest and other, net	$ 91	$ (161)

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three and nine months ended July 31, 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 July 31, 2009	**Nine months ended July 31, 2009**	**Location**	**Three months ended July 31, 2009**	**Nine months ended July 31, 2009**	**Location**	**Three months ended July 31, 2009**	**Nine months ended July 31, 2009**
	In millions			**In millions**			**In millions**	
Cash flow hedges:								
Foreign exchange contracts	$ (612)	$ (743)	Net revenue	$ (162)	$ 713	Net revenue	$	$
Foreign exchange contracts	38	72	Cost of products	43	124	Cost of products		
Foreign exchange contracts	5	(4)	Other operating expenses	(1)	(5)	Other operating expenses		
Foreign exchange contracts	(5)	(6)	Interest and other, net	(2)	(4)	Interest and other, net		
Foreign exchange contracts	14	19	Net revenue	2	7	Interest and other, net	2	4
Total cash flow hedges	$ (560)	$ (662)		$ (120)	$ 835		$ 2	$ 4

Net investment hedges:							
Foreign exchange contracts	$ (96)	$ (127)	Interest and other, net	$	$	Interest and other, net	$	$

(1) Amount of gain recognized in income on derivative represents a $2 million gain and a $4 million gain related to the amount excluded from the assessment of hedge effectiveness in the three and nine months ended July 31, 2009, respectively.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financial Instruments (Continued)

HP expects to reclassify net accumulated other comprehensive gain of $154 million, net of taxes, to earnings in the next twelve months along with the earnings effects of the related forecasted transactions in association with cash flow hedges.

The before-tax effect of derivative instruments not designated as hedging instruments on the Consolidated Condensed Statements of Earnings was as follows:

		Gain (Loss) Recognized in Income on Derivative	
	Location	Three months ended July 31, 2009	Nine months ended July 31, 2009
		In millions	
Foreign exchange contracts	Interest and other, net	$ (452)	$ (663)
Total return contracts	Interest and other, net	11	20
Interest rate contracts	Interest and other, net	8	16
Total		$ (433)	$ (627)

Other Financial Instruments

For certain of HP's financial instruments, including cash and cash equivalents, short-term investments, 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 $17.3 billion at July 31, 2009, compared to a carrying value of $17.2 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:

	July 31, 2009	October 31, 2008
	In millions	
Minimum lease payments receivable	$ 6,033	$ 5,338
Allowance for doubtful accounts	(108)	(90)
Unguaranteed residual value	245	254
Unearned income	(552)	(466)
Financing receivables, net	5,618	5,036
Less current portion	(2,532)	(2,314)
Amounts due after one year, net	$ 3,086	$ 2,722

Equipment leased to customers under operating leases was $3.0 billion at July 31, 2009 and $2.3 billion at October 31, 2008 and is included in Property, plant and equipment in the Consolidated Condensed Balance Sheets. Accumulated depreciation on these operating leases was $0.9 billion at July 31, 2009 and $0.5 billion at October 31, 2008.

Note 11: Guarantees

Guarantees and Indemnifications

In the ordinary course of business, HP may provide certain clients, principally governmental entities, 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.

As a result of the acquisition of EDS, HP acquired certain service contracts supported by client financing or securitization arrangements. Under specific circumstances involving non-performance 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 nine months ended July 31, 2009 were as follows:

	In millions
Product warranty liability at October 31, 2008	$ 2,614
Accruals for warranties issued	1,915
Adjustments related to pre-existing warranties (including changes in estimates)	(193)
Settlements made (in cash or in kind)	(2,003)
Product warranty liability at July 31, 2009	$ 2,333

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:

	July 31, 2009		October 31, 2008	
	Amount Outstanding	Weighted-Average Interest Rate	Amount Outstanding	Weighted-Average Interest Rate
	In millions			
Commercial paper	$ 275	1.4%	$ 7,146	2.7%
Current portion of long-term debt	2,610	2.8%	2,674	4.3%
Notes payable to banks, lines of credit and other	403	2.2%	356	5.3%
	$ 3,288		$ 10,176	

Notes payable to banks, lines of credit and other includes deposits associated with HP's banking-related activities of approximately $311 million and $262 million at July 31, 2009 and October 31, 2008, 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:

	July 31, 2009	October 31, 2008
	In millions	
U.S. Dollar Global Notes		
2002 Shelf Registration Statement:		
$500 issued at discount to par 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 of 99.938% in February 2007 at 5.25%, due March 2012	900	900
$500 issued at discount to par 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 0.01%, due June 2009		1,000
$1,000 issued at par in June 2007 at three-month USD LIBOR plus 0.06%, due June 2010	1,000	1,000
$750 issued at par in March 2008 at three-month USD LIBOR plus 0.40%, due September 2009	750	750
$1,500 issued at discount to par of 99.921% in March 2008 at 4.5%, due March 2013	1,499	1,499
$750 issued at discount to par of 99.932% in March 2008 at 5.5%, due March 2018	750	750
$2,000 issued at discount to par of 99.561% in December 2008 at 6.125%, due March 2014	1,992	
$275 issued at par in February 2009 at three-month USD LIBOR plus 1.75%, due February 2011	275	
$1,000 issued at discount to par of 99.956% in February 2009 at 4.25%, due February 2012	1,000	
$1,500 issued at discount to par of 99.993% in February 2009 at 4.75%, due June 2014	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	
$1,000 issued at discount to par of 99.967% in May 2009 at 2.25%, due May 2011	1,000	
$250 issued at discount to par of 99.984% in May 2009 at 2.95%, due August 2012	250	
	13,264	7,497

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 12: Borrowings (Continued)

	July 31, 2009	October 31, 2008
	In millions	
EDS Senior Notes		
$700 issued October 1999 at 7.125%, due October 2009	702	712
$1,100 issued June 2003 at 6.0%, due August 2013	1,143	1,150
$300 issued October 1999 at 7.45%, due October 2029	316	316
	2,161	2,178
Other, including capital lease obligations, at 3.75%-9.14%, due in calendar year 2009-2029 and at 3.75%-8.63%, due in calendar year 2008-2029	784	597
Fair value adjustment related to SFAS No. 133	293	78
	16,502	10,350
Less: current portion	(2,610)	(2,674)
Total long-term debt	$ 13,892	$ 7,676

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 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 Securities and Exchange Commission ("SEC") to enable the Company to offer and sell, 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 (the "2006 Shelf Registration Statement"). As of July 31, 2009, HP had $10.8 billion of global notes issued under the 2006 Shelf Registration Statement and $2.0 billion of global notes issued under the 2009 Shelf Registration Statement. On December 5, 2008, HP issued $2.0 billion of global notes under the 2006 Shelf Registration Statement. The global notes issued in December 2008 are due in March 2014, bear interest at a fixed interest rate of 6.125% per annum and were issued at a discount to par of 99.561%. On February 26, 2009, HP issued an additional $2.8 billion of global notes under the 2006 Shelf Registration Statement. The global notes include $275 million of floating rate notes at three-month USD LIBOR plus 1.75% due February 2011 issued at par, $1.0 billion of notes due February 2012 with a fixed rate of 4.25% per annum issued at a discount to par of 99.956% and $1.5 billion of notes due June 2014 with a fixed rate of 4.75% per annum issued at a discount to par of 99.993%. On May 27, 2009, HP issued $2.0 billion of global notes under the 2009 Shelf Registration Statement. The global notes issued in May 2009 include $1.0 billion of notes due May 2011 with a fixed rate of 2.25% per annum issued at a discount to par of 99.967%, $750 million of floating rate notes due May 2011 at three-month USD LIBOR plus 1.05% issued at par, and $250 million of notes due August 2012 with a fixed rate of 2.95% per annum issued at a discount to par of 99.984%. HP used the net proceeds from

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 12: Borrowings (Continued)

the December 2008, February 2009 and May 2009 offerings for general corporate purposes and the repayment of short-term commercial paper, some of which was issued in connection with its acquisition of EDS.

In May 2008, HP's Board of Directors approved increasing 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 facility enables HP to issue three-month unsecured commercial paper through a special purpose vehicle of the Federal Reserve at a rate established by the CPFF program, which is currently equal to a spread over the three-month overnight index swap rate. The maximum amount of commercial paper that HP may issue at any time through this program is $10.4 billion less the total principal amount of all other outstanding commercial paper that HP has issued. The CPFF program is currently scheduled to expire on February 1, 2010. As of July 31, 2009, HP had not issued any commercial paper under the CPFF program.

HP has a $2.9 billion five-year credit facility expiring in May 2012. In February and July 2008, HP entered into additional 364-day credit facilities of $3.0 billion and $8.0 billion, respectively. The February 2008 credit facility expired in February 2009, at which time HP entered into a new $3.5 billion 364-day credit facility. HP terminated the July 2008 credit facility in May 2009, which reduced the total amount available under its credit facilities to $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 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 July 31, 2009 was approximately $1.3 billion.

Included in Other, including capital lease obligations, are borrowings that are collateralized by certain financing receivable assets. As of July 31, 2009, the carrying value of the assets approximated the carrying value of the borrowings of $10 million.

At July 31, 2009, 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 $17.5 billion of available borrowing resources, including $16.2 billion under its commercial paper programs, $6.4 billion of which is supported by its credit facilities, and approximately $1.3 billion under other programs.

Note 13: Income Taxes

Provision for Taxes

HP's effective tax rate was 17.8% and 20.6% for the three months ended July 31, 2009 and July 31, 2008, respectively, and 18.1% and 20.6% for the nine months ended July 31, 2009 and July 31, 2008, respectively. HP's effective tax rate generally differs from the U.S. federal statutory rate of 35%

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 13: Income Taxes (Continued)

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 nine months ended July 31, 2009, HP recorded discrete items with a net tax benefit of $145 million and $163 million, respectively, decreasing the effective tax rate. These amounts include a net tax benefit of $141 million for the adjustment to estimated fiscal 2008 tax accruals upon filing the 2008 U.S. federal income tax return and other miscellaneous discrete items that resulted in a net tax benefit of $4 million and $22 million for the three and nine months ended July 31, 2009, respectively.

In the three and nine months ended July 31, 2008, HP recorded discrete items with a net tax benefit of $5 million and $52 million, respectively, decreasing the effective tax rate. These amounts include reductions to net income tax accruals of $72 million and $296 million for the three and nine months ended July 31, 2008, respectively, as a result of settlements with tax authorities regarding certain transfer pricing issues for fiscal years 1993 through 2005. These favorable adjustments in the three and nine months ended July 31, 2008 were offset in part by a tax charge of $44 million for the adjustment to estimated fiscal 2007 tax accruals upon filing the 2007 U.S. federal income tax return, and by net increases of $30 million and $235 million, respectively, to deferred tax liabilities related to earnings outside the United States. HP recorded other miscellaneous discrete items that resulted in a net tax benefit of $7 million and $35 million for the three and nine months ended July 31, 2008, respectively.

During the third quarter of fiscal 2009, the amounts of gross unrecognized tax benefits determined in accordance with Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109" ("FIN 48") decreased by $160 million to $2.1 billion as of July 31, 2009, of which up to $775 million would affect HP's effective tax rate if realized.

HP recognizes interest expense and penalties on unrecognized tax benefits and interest income from favorable settlements and income tax receivables within income tax expense. As of July 31, 2009 HP had accrued a net $158 million income tax payable for interest and penalties. There were no material amounts of net interest income on tax overpayments recorded during the three and nine months ended July 31, 2009.

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 $170 million within the next twelve months.

On July 30, 2009, HP received a Notice of Deficiency from the IRS for its fiscal 2004 and 2005 tax years. The Notice of Deficiency asserted that HP owes additional tax of $92 million and penalties of $5 million. In addition to the proposed deficiency for fiscal 2004 and 2005, the IRS's adjustments for both years, if sustained, would reduce the tax benefits of net operating loss and tax credit carryforwards to subsequent years by approximately $563 million. HP plans to contest certain of the adjustments

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 13: Income Taxes (Continued)

proposed in the Notice of Deficiency. HP believes that it has provided adequate reserves for any tax deficiencies or reductions in tax benefits that could result from the IRS actions.

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, 2004 and 2005 tax years, and Revenue Agent's Reports for its fiscal 2001 and 2002 tax years. The IRS began an audit of HP's 2006 and 2007 income tax returns in 2009. 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 reserves have been provided for all open tax years.

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

	July 31, 2009	October 31, 2008
	In millions	
Current deferred tax assets	$ 4,297	$ 3,920
Current deferred tax liabilities	(87)	(97)
Long-term deferred tax assets	1,017	792
Long-term deferred tax liabilities	(3,657)	(3,162)
Total deferred tax assets net of deferred tax liabilities	$ 1,570	$ 1,453

Note 14: Stockholders' Equity

Share Repurchase Program

HP's share repurchase program authorizes both open market and private repurchase transactions. In the three and nine months ended July 31, 2009, HP executed share repurchases of 29 million shares and 74 million shares, respectively. For the three months ended July 31, 2009, repurchases of 28 million shares were settled for $1.0 billion. For the nine months ended July 31, 2009, repurchases of approximately 85 million shares were settled for $3.0 billion, which included 14 million shares repurchased in transactions that were executed in fiscal 2008 but settled in the first nine months of fiscal 2009. HP had approximately 3 million shares repurchased in the third quarter of fiscal 2009 that will be settled in the fourth quarter of fiscal 2009. HP paid approximately $1.6 billion and $7.7 billion in connection with repurchases of approximately 34 million shares and 171 million shares in the three and nine months ended July 31, 2008, respectively.

As of July 31, 2009, HP had remaining authorization of $6.1 billion for future share repurchases under the $8.0 billion repurchase authorization approved by HP's Board of Directors on September 19, 2008.

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 other comprehensive income ("OCI"), net of taxes, were as follows:

	Three months ended July 31	
	2009	2008
	In millions	
Net earnings	$1,642	$2,027
Net change in unrealized gains/losses on available-for-sale securities:		
Change in net unrealized gains, net of tax of $1 million in 2009 and with no tax effect in 2008	2	1
	2	1
Net change in unrealized gains/losses on cash flow hedges:		
Change in net unrealized (losses) gains, net of tax benefit of $112 million in 2009 and net of tax of $1 million in 2008	(193)	2
Net unrealized (gains) losses reclassified into earnings, net of tax of $48 million in 2009 and net of tax benefit of $5 million in 2008	(82)	9
	(275)	11
Net change in cumulative translation adjustment, net of tax of $189 million in 2009 and $6 million in 2008	423	7
Net change in unrealized components of defined benefit plans, net of tax benefit of $30 million in 2009 and $7 million in 2008	(20)	(6)
Comprehensive income	$1,772	$2,040

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 14: Stockholders' Equity (Continued)

	Nine months ended July 31
	2009