# 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, 2007**

**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**<br>(State or other jurisdiction of incorporation or organization) | **94-1081436**<br>(I.R.S. employer identification no.) |
| **3000 Hanover Street, Palo Alto, California**<br>(Address of principal executive offices) | **94304**<br>(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer o Non-accelerated filer 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, 2007 was 2,578,061,557 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 or other financial items; any statements of the plans, strategies and objectives of management for future operations, including the execution of cost reduction programs and restructuring plans; any statements concerning expected development, performance or market share relating to products or services; any statements regarding 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 any cost reduction programs and restructuring plans; the outcome of pending legislation and accounting pronouncements; 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, 2006. HP assumes no obligation and does not intend to update these forward-looking statements.*

**PART I**

**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 | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **In millions, except per share amounts** | | | |
| Net revenue: | | | | |
| Products | $ 20,326 | $ 17,359 | $ 61,279 | $ 53,745 |
| Services | 4,964 | 4,449 | 14,451 | 13,109 |
| Financing income | 87 | 82 | 263 | 249 |
| Total net revenue | 25,377 | 21,890 | 75,993 | 67,103 |
| Costs and expenses: | | | | |
| Cost of products | 15,245 | 12,910 | 46,204 | 40,277 |
| Cost of services | 3,845 | 3,497 | 11,167 | 10,373 |
| Financing interest | 74 | 65 | 212 | 184 |
| Research and development | 917 | 920 | 2,697 | 2,721 |
| Selling, general and administrative | 3,002 | 2,830 | 8,954 | 8,380 |
| Amortization of purchased intangible assets | 183 | 153 | 596 | 451 |
| In-process research and development charges | | | 186 | 52 |
| Restructuring | (5) | 5 | 407 | 6 |
| Pension curtailments and pension settlements, net | | | (517) | |
| Total operating expenses | 23,261 | 20,380 | 69,906 | 62,444 |
| Earnings from operations | 2,116 | 1,510 | 6,087 | 4,659 |
| Interest and other, net | 165 | 221 | 363 | 416 |
| Gains on investments | 5 | 7 | 28 | 11 |
| Earnings before taxes | 2,286 | 1,738 | 6,478 | 5,086 |
| Provision for taxes | 508 | 363 | 1,378 | 585 |
| Net earnings | $ 1,778 | $ 1,375 | $ 5,100 | $ 4,501 |
| Net earnings per share: | | | | |
| Basic | $ 0.68 | $ 0.50 | $ 1.93 | $ 1.61 |
| Diluted | $ 0.66 | $ 0.48 | $ 1.87 | $ 1.57 |
| Cash dividends declared per share | $ 0.16 | $ 0.16 | $ 0.32 | $ 0.32 |
| Weighted-average shares used to compute net earnings per share: | | | | |

| | Three months ended July 31 | | Nine months ended July 31 | |
|---|---|---|---|---|
| Basic | 2,600 | 2,768 | 2,648 | 2,799 |
| Diluted | 2,697 | 2,839 | 2,734 | 2,870 |

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

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**

**Consolidated Condensed Balance Sheets**

| | July 31, 2007 | October 31, 2006 |
|---|---|---|
| | In millions, except par value | |
| | (Unaudited) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 12,450 | $ 16,400 |
| Short-term investments | 40 | 22 |
| Accounts receivable | 11,845 | 10,873 |
| Financing receivables | 2,476 | 2,440 |
| Inventory | 8,006 | 7,750 |
| Other current assets | 10,544 | 10,779 |
| Total current assets | 45,361 | 48,264 |
| Property, plant and equipment | 7,479 | 6,863 |
| Long-term financing receivables and other assets | 7,992 | 6,649 |
| Goodwill | 20,364 | 16,853 |
| Purchased intangible assets | 3,945 | 3,352 |
| Total assets | $ 85,141 | $ 81,981 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Notes payable and short-term borrowings | $ 3,667 | $ 2,705 |
| Accounts payable | 11,673 | 12,102 |
| Employee compensation and benefits | 2,819 | 3,148 |
| Taxes on earnings | 1,816 | 1,905 |
| Deferred revenue | 4,983 | 4,309 |
| Accrued restructuring | 168 | 547 |
| Other accrued liabilities | 12,179 | 11,134 |
| Total current liabilities | 37,305 | 35,850 |
| Long-term debt | 4,945 | 2,490 |
| Other liabilities | 5,954 | 5,497 |
| 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; 2,597 and 2,732 shares issued and outstanding, respectively) | 26 | 27 |
| Additional paid-in capital | 16,326 | 17,966 |
| Prepaid stock repurchase | | (596) |
| Retained earnings | 20,506 | 20,729 |
| Accumulated other comprehensive income | 79 | 18 |
| Total stockholders' equity | 36,937 | 38,144 |

| | July 31, 2007 | October 31, 2006 |
|---|---|---|
| Total liabilities and stockholders' equity | $ 85,141 | $ 81,981 |

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 | |
|---|---|---|
| | **2007** | **2006** |
| | In millions | |
| Cash flows from operating activities: | | |
| Net earnings | $ 5,100 | $ 4,501 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,006 | 1,757 |
| Stock-based compensation expense | 461 | 395 |
| Provision for bad debt and inventory | 272 | 172 |
| Gains on investments | (28) | (11) |
| In-process research and development charges | 186 | 52 |
| Restructuring charges | 407 | 6 |
| Pension curtailments and pension settlements, net | (517) | |
| Deferred taxes on earnings | 299 | 381 |
| Excess tax benefit from stock-based compensation | (340) | (159) |
| Other, net | (124) | 29 |
| Changes in assets and liabilities: | | |
| Accounts and financing receivables | (965) | 364 |
| Inventory | (503) | (728) |
| Accounts payable | (446) | 472 |
| Taxes on earnings | 181 | (479) |
| Restructuring | (539) | (486) |
| Other assets and liabilities | 556 | 1,843 |
| Net cash provided by operating activities | 6,006 | 8,109 |
| Cash flows from investing activities: | | |
| Investment in property, plant and equipment | (2,227) | (1,571) |
| Proceeds from sale of property, plant and equipment | 503 | 459 |
| Purchases of available-for-sale securities and other investments | (36) | (29) |
| Maturities and sales of available-for-sale securities and other investments | 403 | 58 |
| Payments made in connection with business acquisitions, net | (4,893) | (823) |
| Net cash used in investing activities | (6,250) | (1,906) |
| Cash flows from financing activities: | | |
| Issuance of commercial paper and notes payable, net | 2,324 | 1,556 |
| Issuance of debt | 4,106 | 1,094 |
| Payment of debt | (3,382) | (1,220) |
| Issuance of common stock under employee stock plans | 2,393 | 1,690 |
| Repurchase of common stock | (8,847) | (5,015) |
| Prepayment of common stock repurchases | | (1,722) |
| Excess tax benefit from stock-based compensation | 340 | 159 |
| Dividends | (640) | (675) |
| Net cash used in financing activities | (3,706) | (4,133) |

| | Nine months ended July 31 | |
|---|---|---|
| (Decrease) increase in cash and cash equivalents | (3,950) | 2,070 |
| Cash and cash equivalents at beginning of period | 16,400 | 13,911 |
| Cash and cash equivalents at end of period | $ 12,450 | $ 15,981 |
| Supplemental schedule of noncash financing activities: | | |
| Issuance of options assumed in business acquisitions | $ 68 | $ 11 |
| Purchase of assets under financing arrangement | $ 57 | $ |

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, 2007, its results of operations for the three and nine months ended July 31, 2007 and 2006, and its cash flows for the nine months ended July 31, 2007 and 2006. The Consolidated Condensed Balance Sheet as of October 31, 2006 is derived from the October 31, 2006 audited 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, 2007 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 "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 7, 7A and 8, respectively, of HP's Annual Report on Form 10-K for the fiscal year ended October 31, 2006.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles 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.

*Recent Pronouncements*

Updates to recent accounting standards as disclosed in HP's Annual Report on Form 10-K for the fiscal year ended October 31, 2006 are as follows:

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is required to be adopted by HP in the first quarter of fiscal 2008. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. Additionally, in May 2007, the FASB published FASB Staff Position No. FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48" ("FSP FIN 48-1"). FSP FIN 48-1 is an amendment to FIN 48. It clarifies how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective upon the initial adoption of FIN 48, and therefore will be adopted by HP in the first quarter of fiscal 2008. The actual impact of the adoption of FIN 48 and FSP FIN 48-1 on HP's consolidated results of operations and financial condition will depend on facts and circumstances that exist on the date of adoption. HP is currently evaluating the impact of the adoption of FIN 48 and FSP FIN 48-1.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and is required to be adopted by HP in the first quarter of fiscal 2009. HP is currently evaluating the effect that the adoption of SFAS 157 will have on its consolidated results of operations and financial condition and is not yet in a position to determine such effects.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB No. 87, 88, 106 and 132(R)" ("SFAS 158"). SFAS 158 requires that the funded status of defined benefit postretirement plans be recognized on the company's balance sheet and changes in the funded status be reflected in comprehensive income, effective for fiscal years ending after December 15, 2006, which HP expects to adopt effective October 31, 2007. 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 expects to adopt the measurement provisions of SFAS 158 effective October 31, 2009. Based upon the most recent actuarial measurement reflecting the modifications to HP's U.S. defined benefit pension plan announced in the second quarter of fiscal 2007, the adoption of SFAS 158 is expected to result in a decrease in assets of $733 million, a decrease in liabilities of $141 million and a pretax increase in the accumulated other comprehensive loss of $592 million. The actual impact of the adoption of SFAS 158 may differ from these estimates due to changes to actual plan assets and liabilities in fiscal 2007.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by HP in the first quarter of fiscal 2009. HP currently is determining whether fair value accounting is appropriate for any of its eligible items and cannot estimate the impact, if any, that SFAS 159 will have on its consolidated results of operations and financial condition.

In June 2007, the FASB ratified Emerging Issues Task Force ("EITF") 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). EITF 06-11 requires that the tax benefits of dividends on unvested share-based payments be recognized in equity and be reclassified from additional paid-in capital to the income statement when the related award is forfeited or no longer expected to vest. EITF 06-11 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007 and will be adopted by HP in the first quarter of fiscal 2009. HP is currently evaluating the impact of EITF 06-11.

In June 2007, the FASB also ratified EITF 07-3, "Accounting for NonRefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities" ("EITF 07-3"). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007 and will be adopted by HP in the first quarter of fiscal 2009. HP is currently evaluating the effect that the adoption of EITF 07-3 will have on its consolidated results of operations and financial condition and is not yet in a position to determine such effects.

During the first nine months of fiscal 2007, HP adopted the following accounting standards, none of which had a material effect on HP's consolidated results of operations during such period or financial condition at the end of such period:

- SFAS No. 154, "Accounting for Changes and Error Corrections";
- Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements";
- EITF 05-5, "Accounting for Early Retirement or Postemployment Programs with Specific Features (Such as Terms Specified in Altersteilzeit Early Retirement Arrangements)"; and
- EITF 06-9, "Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee."

**Note 2: Stock-Based Compensation**

Effective November 1, 2005, HP adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method. The total stock-based compensation expense before taxes associated with HP stock-based employee compensation plans was $144 million and $461 million, respectively, for the three and nine months ended July 31, 2007. Total stock-based compensation expense before taxes for the nine months ended July 31, 2007 excludes a $14 million credit adjustment in restructuring charges as disclosed below. For the nine months ended July 31, 2007, stock-based compensation expense before taxes also excludes a $29 million charge for accelerating the vesting of options held by those employees who elected to participate in the 2007 U.S. Enhanced Early Retirement program (the "2007 EER") announced by HP in February 2007. The total compensation expense related to stock-based employee compensation plans was $127 million and $395 million, respectively, for the three and nine months ended July 31, 2006. HP allocated stock-based compensation expense under SFAS 123R as follows:

| | Three months ended July 31 | | Nine months ended July 31 | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Cost of sales | $ 34 | $ 35 | $ 121 | $ 107 |
| Research and development | 19 | 17 | 56 | 50 |
| Selling, general and administrative | 91 | 75 | 284 | 238 |
| Stock-based compensation expense before income taxes | 144 | 127 | 461 | 395 |
| Income tax benefit | (36) | (38) | (128) | (120) |
| Total stock-based compensation expense after income taxes | $ 108 | $ 89 | $ 333 | $ 275 |

In addition, as part of its fiscal 2005 restructuring plans, HP accelerated the vesting of options held by terminated employees and included a one-year post-termination exercise period on the options. This modification resulted in compensation expense of $107 million that HP included in its fiscal 2005 restructuring charges. HP recorded an adjustment of $14 million to that $107 million in the nine months ended July 31, 2007 and an additional $14 million adjustment in the fourth quarter of fiscal 2006 to reflect actual stock-based compensation expense related to those terminated employees.

HP estimated the fair value of share-based payment awards using the Black-Scholes option pricing model with the following weighted-average assumptions and weighted-average fair values:

| | Stock Options(1) | | | |
|---|---|---|---|---|
| | Three months ended July 31 | | Nine months ended July 31 | |
| | 2007 | 2006 | 2007 | 2006 |
| Weighted-average fair value of grants | $ 14.62 | $ 10.38 | $ 12.89 | $ 9.32 |
| Risk-free interest rate | 4.86% | 5.07% | 4.69% | 4.34% |
| Dividend yield | 0.68% | 1.00% | 0.76% | 1.02% |
| Expected volatility | 27% | 30% | 28% | 29% |
| Expected life in months | 61 | 60 | 59 | 57 |

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

Option activity as of July 31, 2007 and changes during the nine months ended July 31, 2007 were as follows:

| | Shares (in thousands) | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in millions) |
|---|---|---|---|---|
| Outstanding at October 31, 2006 | 445,740 | $ 31 | | |
| Granted and assumed through acquisitions | 41,942 | $ 40 | | |
| Exercised | (81,392) | $ 25 | | |
| Forfeited/cancelled/expired | (13,219) | $ 41 | | |
| Outstanding at July 31, 2007 | 393,071 | $ 33 | 4.3 | $ 5,949 |
| Vested and expected to vest at July 31, 2007 | 387,240 | $ 33 | 4.3 | $ 5,862 |
| Exercisable at July 31, 2007 | 291,298 | $ 33 | | |