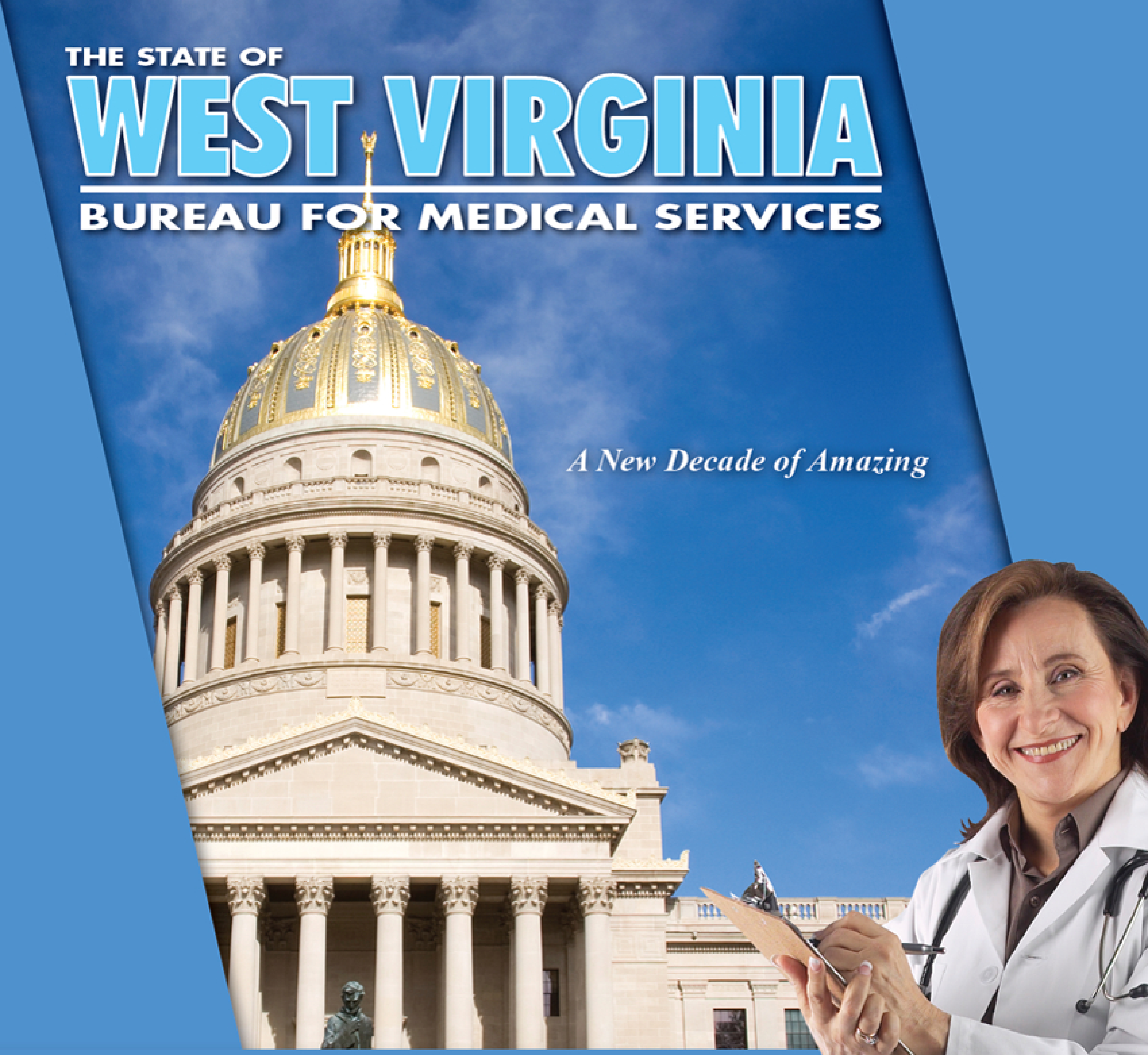
THE STATE OF

WEST VIRGINIA

BUREAU FOR MEDICAL SERVICES



A New Decade of Amazing

Medicaid Management Information System (MMIS) Re-procurement

Request for Proposal MED12011 • February 10, 2012 1:30 P.M.

Technical Proposal • REDACTED

Statement of Confidentiality

The descriptive materials and related information in this proposal contain information that is confidential and proprietary to HP Enterprise Services, LLC (HPES). We submit this information with the express understanding that in accordance with West Virginia's Freedom of Information Act (FOIA), it will be held in strict confidence and will not be disclosed, duplicated, or used, in whole or in part, for any purpose other than evaluation of this proposal and without express written permission from HPES. To the fullest extent allowed under applicable federal or State law, HPES requests that certain of the descriptive materials and related information in this proposal that contain information that is considered proprietary, trade secret, or confidential by HPES and for which the release, use, or distribution to organizations other than the State and its designees would subject HPES to harm and the loss of competitive advantage. The pages that contain proprietary information are marked as follows: "HPES Confidential – Use Subject to Restriction." The following table details the material HPES considers confidential.

HPES Confidential Sections

Proposal Section	Page Numbers
4.1.4 Executive Summary	All
4.1.7 Vendor Capacity, Qualifications, References and Experience	Pages 3-10
4.1.8 Staff Capacity, Qualifications and Experience	Pages 4-14
Organizational Charts	All
4.1.9 Project Approach and Solution	All
4.1.10 Solution Alignment with BMS' Business and Technical Needs	All
4.1.12 Special Terms and Conditions	All
4.1.14 Cost Summary	All
Excluded Sections	
Key Staff Resumes	All
Work Breakdown Structure and Deliverable Dictionary	Page 3
Project Schedule	All
Initial Draft Deliverables	All
Client Reference Letters	All
Additional Material	All

4.1.1 Title Page

RFP Reference: 4.1.1 Title Page

Title Page	
RFP SUBJECT	The State of West Virginia Bureau for Medical Services Medicaid Management Information System (MMIS) Re-procurement
RFP NUMBER	MED12011
VENDOR	HP Enterprise Services, LLC
BUSINESS ADDRESS	5400 Legacy Drive Plano, TX 75024
TELEPHONE NUMBER:	+1 609 714 8931
AUTHORIZED CONTACT PERSON: **AUHTORIZED TO COMMIT VENDOR:**	Susan D. Arthur Vice President, Americas Healthcare Industry
SIGNATURE:	Susan D Arthur
DATE:	1/26/12

OFFICER'S CERTIFICATE

I, John H. Vestal, Assistant Secretary of HP Enterprise Services, LLC, a limited liability company organized under the laws of the State of Delaware (the "Company"), do hereby certify that:

(i) The Managers of the Company have delegated to a signature authority administrator, (including any predecessor administrator, the "SAA") the authority to approve or disapprove, either upon standards that the SAA may establish or within the absolute discretion of the SAA or both, persons who, by such approval of the SAA, are authorized to sign, on behalf of the Company, contracts, agreements and other documents and instruments; and

(ii) With effect on and as of March 18, 2008, the SAA has granted signature authority to Susan Arthur to sign, on behalf of the Company, contracts, agreements and other documents and instruments and the same remains in full force and effect as of this date and has not been modified, rescinded, revoked, or altered in any way.

IN WITNESS WHEREOF, I have hereunto signed this Officer's Certificate on this 6th day of December, 2011.

John H. Vestal Assistant Secretary
HP Enterprise Services, LLC

STATE OF TEXAS
COUNTY OF COLLIN

BEFORE ME, the undersigned authority, on this day personally appeared John H. Vestal, known to me to be the person whose name is subscribed to the foregoing instrument and known to me to be an Assistant Secretary of HP Enterprise Services, LLC and acknowledged to me that he executed said instrument for the purposes and consideration therein expressed and as the act of said limited liability company.

Given under my hand and seal of office this 6th day of December, 2011.

Felecia R. Mills

FELECIA R. MILLS
Notary Public, State of Texas
My Commission Expires
October 21, 2013

This section is redacted per HPES' Statement of Confidentiality.

4.1.11 Subcontracting

RFP Reference: 4.1.11 Subcontracting

GLOBAL HEALTHCARE LEADERSHIP

More than two years ago, HPES began evaluating the right mix of subcontractors to support the complexities of the West Virginia MMIS Re-procurement Project. HPES and the following subcontractors—proven leaders in their respective fields—converged to create the HPES team for West Virginia:

- Fenwick Technologies, Inc.
- Arkansas Foundation for Medical Care (AFMC)

We selected these HPES team members based on their strengths, which complement our own unparalleled MMIS and fiscal agent experience. The HPES team is the best possible combination of deep national and Charleston-based experience to meet BMS' needs. After extensive reviews, we selected these companies because of their expertise and the shared commitment to getting the job done right the first time, as illustrated in the following table.

HPES Team Members

<table>
<tr><th>Subcontractor and Role/Responsibilities</th><th>Key Features</th><th>Value to the West Virginia MMIS Project</th></tr>
<tr><td rowspan="4">Fenwick Technologies, Inc.—Information Technology (IT) Staff</td><td colspan="2">The invaluable experience that Fenwick brings to the HPES team stems from its experience providing staffing services to the State of West Virginia—including the Department of Health and Human Resources (DHHR)—for more than 20 years. As the premier provider of information technology (IT) staffing resources to the State of West Virginia under the Information Processing Temporary Services (IPTEMP) and the ITECH10 contracts, Fenwick understands the complexities of the State and its Medicaid program.</td></tr>
<tr><td>• Fenwick Technologies is a West Virginia company.</td><td>• Committed to and involved in West Virginia's successes
• Contributes to the local economy by providing jobs, paying State taxes, and by giving back to the community through the participation of its employees in various civic and community groups
• Outstanding reputation for supporting the governor's "Come Home to WV" initiative by locating talented personnel who grew up in West Virginia and left for other career opportunities, but love being Fenwick employees back in their home state</td></tr>
<tr><td>• Key staff members include Rich Edwards, Eva Kordusky, and Marc Beacom.
• Phil Weikle, former Chief Information Officer at the West Virginia Department of Health & Human Resources (1990 – 2003) and Workers' Compensation Commission (2004 – 2006), joined Fenwick in 2010.</td><td>• Well known and trusted in West Virginia State government
• Each of these individuals has been providing staffing services to the State of West Virginia, including DHHR, since the late 1980s
• In-depth understanding of DHHR policies and procedures through direct involvement</td></tr>
<tr><td>• At-the-ready IT experts experienced in the following:
– Project management
– Business requirements analytics
– Application development
○ Web—J2EE, .NET, and ColdFusion
○ Client/Server—Java, Visual Basic, and ASP</td><td>• Proven knowledge, skills, and expertise in IT from mainframe to the most modern and innovative applications</td></tr>
</table>

Subcontractor and Role/Responsibilities	Key Features	Value to the West Virginia MMIS Project
	– Database analytics ○ SQL Server, Oracle, DB2, and MySQL – Business intelligence and data warehousing – Network administration ○ Cisco routers and firewalls ○ Windows server, active directory ○ Security – System administration ○ UNIX and AS/400 – Help desk and PC support • Enterprise resource planning (ERP)	
Arkansas Foundation for Medical Care (AFMC)—Member Satisfaction Surveys	AFMC has surveyed more than 100,000 members in more than 70 health survey projects to date. A National Committee for Quality Assurance–certified (NCQA-certified) Healthcare Effectiveness Data and information Set–like (HEDIS-like) survey vendor with nearly 40 years of improving the clinical evaluation and quality of healthcare, AFMC offers data mining, HEDIS-like measures, program evaluation, provider profiles, trending, and other reports, Consumer Assessment of Health Plans Statement (CAHPS) surveys, and Medicaid Information Interchange (MII) web portal technologies.	
	• Nearly 40 years of continuously improving the clinical evaluation and quality of healthcare	• BMS will have the most innovative evaluation and information concerning the effectiveness and efficiency of its Medicaid program.
	• Highly experienced statisticians, analysts, and health experts have surveyed more than 100,000 members in more than 70 survey projects to date	• Training and experience make it possible for AFMC to produce purposeful, focused surveys with rational, actionable outcomes. • Unbiased, third-party surveys provide the positive and negative situation, allowing negatives to be addressed and corrected promptly.
	• Extensive experience working with providers, especially in rural areas	• Ability to reach the West Virginia providers in outlying rural areas for complete and reliable information
	• Proven model of operations and experience in serving Medicaid programs in Arkansas, Mississippi, Alabama, and Colorado	• Brings premium services to the State, providers, and members in West Virginia, and HPES
	• Proven and innovative survey methods and unswerving commitment to the improvement in health status of Medicaid members	• Will foster a strong, mutually beneficial relationship that will add value to the lives of West Virginia members

The State of West Virginia needs a vendor with proven success in MMIS and multiple system implementation experiences. HPES has no higher priority than effective, continuous service and prompt, accurate payments to West Virginia Medicaid providers. By selecting HPES, BMS can minimize its risk of provider issues such as delayed or interim payments, duplicate payments, and recoupment issues that have recently occurred in other states. The HPES team will support BMS in efforts to successfully promote the continued provision of indispensable healthcare services to West Virginia's most vulnerable residents. With HPES and our proven subcontracting team of leaders in healthcare and technology, we will successfully address implementation and operational challenges.

We selected the aforementioned subcontractors to help us meet our priority service level to providers because of their unique capabilities in their respective spheres of interest. Fenwick is a Charleston-based provider of IT project services, staffing services, and network services. Since 1994, Fenwick has served federal, state, and commercial markets by providing large-scale application development project and staffing solutions. Fenwick has successfully performed on dozens of projects, delivering sophisticated IT systems to public and private sector customers across the United States and Canada. Ideally situated in West Virginia's capital city, Fenwick has been a significant provider of IT and services to the State for many years and is a familiar name with a proven track record of excellence and dependability. Fenwick will provide a team of qualified and credentialed IT professionals under the overall project direction of HPES; this team will cover the range of functions from IT operations support and engineering to business analysts and consultants. Fenwick is another factor in the commitment by HPES to seek out and include people with West Virginia roots and sensitivities to help guide our relationships with BMS and its customer community during the next decade and beyond.

AFMC is a not-for-profit 501c organization headquartered in Little Rock, Ark. As a federally designated quality improvement organization, AFMC is one of only 13 NCQA-certified vendors for 2011 and has served Medicaid and Medicare programs for more than 38 years. Its mission is to promote excellence in healthcare through evaluation and education. AFMC has extensive experience in developing and implementing surveys, providing data analysis, and reporting results.

President and Chief Executive Officer Ray Hanley, a former Medicaid director for the State of Arkansas and former president of the National Association of State Medicaid Directors (NASMD), will oversee an experienced staff that will fulfill the requirements for surveys in the specification. HPES anticipates that AFMC will be a noteworthy part of our approach to supporting a human contact aspect in the important area of community outreach.

During the last two years and before the MMIS Re-procurement RFP (MED11014), HPES dedicated time and resources to better understand the State of West Virginia by using one of our core best practices—immersion—that is designed to increase the exposure of HPES healthcare staff members to the issues affecting the Medicaid program in a given jurisdiction. Our effort included periodic meetings in the State with individuals and organizations involved with the West Virginia Medicaid Program. Some of those with whom we have met include the following:

- West Virginia Hospital Association
- West Virginia State Medical Association
- West Virginia Primary Care Association
- Community Health Network
- West Virginia Pharmacists Association
- West Virginia Dental Association
- West Virginia Behavioral Health Association
- West Virginia Health Care Association
- Individual hospitals
- State legislators
- West Virginia Governor's Office

We listened to these important stakeholders and discovered that two major issues repeatedly surfaced—implementation fears and criticism of provider training and outreach. AFMC will perform surveys of approximately 1,350 adults in contract years 3, 5, 7, and 9, and of approximately 1,650 children, in contract years 4, 6, and 8. In this manner, AFMC will help in assessing levels of satisfaction with program services and help identify opportunities for improvement.

This section is redacted per HPES' Statement of Confidentiality.

4.1.13 Signed Forms

RFP Reference: 4.1.13 Signed Forms

We include the following signed forms or documents in the “Signed Forms” section of the “Excluded Proposal Sections” tab:

- Appendix I: MED 96 Agreement Addendum
- Appendix J: MED Purchasing Affidavit
- Appendix M: Resident Vendor Preference Certificate
- Addendum 1
- Addendum 2

HPES will comply with the HIPAA Business Associate Addendum.

Per Addendum 2, Appendix L – Special Terms and Conditions is included on the following page.

Ownership and Control Interest Disclosures

Any person with an ownership or control interest in the disclosing entity or fiscal agent or subcontractor in which the disclosing entity has a 5% or more interest must be listed. This includes owners and managing employee(s) of the disclosing entity. The address for corporate entities must include primary business address, every business location and P.O. Box Address. If you are required to provide this information for multiple persons (individuals and corporations) you may attach a separate page. For the attached page label it at the top of the page with **Supplement, Ownership Disclosures.**

Name ____

Address: ____

Address: ____

Address: ____

Date of Birth: ____

Social Security Number: ____

Federal Employer ID Number:____

Relationship and Subcontractor Disclosures:

For each ownership or control interest listed, disclose any relationship to another person (parent, spouse, child or sibling) including control interest in subcontractors who has an ownership or control interest in the disclosing entity. If additional space is needed, you may attach a separate page. For the attached page, label it at the top of the page with **Supplement, Owner Relationships.**

Owner Name	Relationship	Owner Name

HP Enterprise Services
5400 Legacy Drive
Plano, TX 75024

January 25, 2012

Donna Smith
WV Department of Health and Human Resources
Office of Purchasing
One Davis Square, Suite 100
Charleston, WV 25301

Ms. Smith:

Susan D. Arthur
Vice President, Americas
Healthcare Industry
Tel. 609-714-8931
Fax. 302-607-0896
susan.arthur@hp.com

HP Enterprise Services, LLC (HPES) is pleased to submit our proposal for Medicaid Management Information System (MMIS) Re-procurement to the State of West Virginia Bureau for Medical Services (BMS), request for proposal (RFP) MED12011.

HPES is the leader in MMIS implementations and we have MMIS solutions deployed in 21 states. After carefully evaluating the requirements for West Virginia, we selected the Wisconsin MMIS, an installation of our interChange MMIS, as the transfer solution to best enable BMS to successfully navigate the healthcare transformation journey. This system was recently certified back to day one using the new Centers for Medicare & Medicaid Services (CMS) certification process. Additionally, CMS recognized the Wisconsin interChange MMIS as demonstrating more than 250 industry best practices. The value of the Wisconsin interChange MMIS may be best demonstrated by a series of 41 systems changes that were successfully implemented in 2010. These changes are tied to a projected savings of $350 million in benefit expenditures.

BMS will benefit from HPES' MMIS design, development, and implementation (DDI) experience. Our record of accomplishment is characterized by best practice project management and systems life cycle methodologies tested and fine-tuned through 13 successful implementations of the HPES MMIS—interChange—during the past 10 years.

The quality of our leadership team during the DDI and ongoing operations is paramount to our shared goal to eliminate risk, deliver industry best practice methodologies, and validate that BMS receives the highest value from its investment in HP technologies. The HPES leadership team offers a combination of extensive experience leading the DDI and operation of MMISs—particularly our proposed interChange solution.

Supporting our superior leadership team is a technical implementation team that has benefited from multiple implementations of interChange. Consequently, our HPES DDI team can draw from more than 7,000 staff members who have successfully completed anywhere from one to five interChange MMIS implementations during the past five years.

HPES is willing, able, and committed to perform the services and accepts the terms as defined in the RFP MED12011. We look forward to finalizing a contract with BMS in accordance with our proposal response as permitted by section 4.1.12. We also certify that we arrived at the price without any conflict of interest. Together, we can do amazing for the next decade and beyond.

As requested, we have included one original technical and one original cost proposal plus 20 convenience copies of each, including one copy of each on CD, and one redacted copy of the technical proposal on a CD. As Vice President, Americas Healthcare Industry, I am authorized by HPES, as reflected by the Officer's Certificate behind the title page, to contractually obligate HPES to this contract.

Name: Susan D. Arthur
Title: Vice President, Americas Healthcare Industry
Address: 248 Chapman Road, Suite 100
City, State, ZIP: Newark, DE 19702
Telephone Number: 609-714-8931 (office)/609-280-5889 (cell)
Facsimile Number: 302-607-0896
Email Address: susan.arthur@hp.com

The following individual will serve as our point of contact for technical and contractual clarifications through the evaluation period.

Name: Kent Durso
Address: 9038 Old Harding Pike
City, State, ZIP: Franklin, TN 37064
Telephone Number: 615-456-5852
Facsimile Number: N/A
Email Address: kent.durso@hp.com

I thank you for this opportunity to begin a successful long-term relationship as West Virginia's fiscal agent and MMIS contractor. We look forward to serving BMS—plus the members and providers you serve—for years to come.

Sincerely,

Susan D Arthur

Susan D. Arthur
Vice President, Americas Healthcare Industry
HPES

4.1.3 Table of Contents

This section is redacted per HPES' Statement of Confidentiality.

4.1.5 Business Organization

RFP Reference: 4.1.5 Business Organization

Per Addendum 1, we include our response to this section in the “Business Organization” subtab in the “Excluded Proposal Sections” tab.

4.1.6 Location

RFP Reference: 4.1.6 Location

HPES will provide a pleasant and professional business environment to facilitate a productive, well-organized working atmosphere, allowing us to deliver the high levels of member and provider service to BMS and its stakeholders. Our work sites will readily accommodate the required BMS and local HPES staff members and facilitate interaction and collaboration between local and off-site staff members and vendors.

The HPES team proposes the following primary facilities to support contract requirements:

- **Temporary site for start-up and DDI functions—**HPES will lease a site in Charleston after contract signature to immediately start work on the West Virginia replacement MMIS and fiscal agent operations. This site will house our local staff members and provide a hub for remote staff members supporting the DDI work. This location will be within a five-mile radius of the West Virginia State facility at 350 Capitol St.
- **Primary site for operations and turnover—**HPES proposes the West Virginia Regional Technology Park at 3200 Kanawha Turnpike location in South Charleston to serve as our primary site of operations and for turnover functions at the end of the contract, as needed. This location is within a five-mile radius of the West Virginia State facility at 350 Capitol St. HPES selected this location because of its proximity to BMS' main location and its ample available space. The location is within the West Virginia Regional Technology Park, less than a mile from 350 Capitol St., and located near Interstate 64, providing easy access for HPES team members and the BMS staff.
- **Primary data center—**The primary data center for the WV-iC MMIS will be at our facility in Orlando, Fla., which has been rated Tier III by the Uptime Institute. We configured this facility to meet the demanding power and cooling needs of the next-generation computing environment and offers redundant power and cooling configuration, enabling concurrent maintainability without the risk of facility downtime. Features include the following:
    - Purpose-built data center fortress
    - 130,000-square-foot facility
    - Dual high-voltage utility substations
    - Standard A- and B-side power
    - N+1 jet turbine generators
    - 85,000 square feet of 36-inch raised floor
    - Staffed security 24 x 7
    - Extensive video surveillance systems
    - Diverse underground network access
    - Support for water-cooled equipment

  Our Orlando data center exceeds Tier III requirements, focusing on the next level of Tier IV with the following added features:
    - 24 x 7 staffing
    - 50-80 build-out gross watt per foot
    - More than 150 ultimate gross watt per foot
    - Support systems separation within firewalls
    - 100 percent support-space-to-raised-floor ratio
    - More than 150 floor-loading pounds per foot
    - No single points of failure
    - 0.8 hours annual site-caused IT downtime
    - Two active utility feeders
    - Representative site availability of more than 99.995 percent

  Our data center technical road maps automate routine, operational, and end-to-end processes; protect the business with resilient operations (business continuity and availability); and optimize the use of energy, floor space, and cooling infrastructures (energy and space efficiency). It capitalizes on the latest hardware, standardizes the latest hardware, and automates many technology operations with common tools and processes. The result is a next-generation data center with 24 x 7 adaptive infrastructure environments that provides better quality of service and business continuity.
- **Disaster recovery data center—**Our disaster recovery site is in Colorado Springs. This recovery facility, which rates at Tier III on the Uptime Institute facility scale, has more than 20,000 square feet of total space and offers the following:
    - Backup UPS and generator with redundant site power fed from two power grids
    - Redundant cooling with generator backup
    - Temperature and humidity control and central monitoring
    - Dedicated full-time security personnel
    - Video monitoring
    - Keycard access
    - Full on-site disaster recovery rehearsal areas

  - Centrally monitored independent fire control with five zones of smoke detectors and gas fire suppression under a raised floor

- **Subcontractor work site—**Our subcontractor, Fenwick Technologies, Inc., will augment our project staffing with personnel at HPES' primary site for DDI, operations, and turnover, as appropriate. The Arkansas Foundation for Medical Care (AFMC) will provide survey services from its Arkansas-based offices in Little Rock or Fort Smith.

We look forward to increasing our presence in Charleston and establishing facilities that support a friendly and productive work environment, encourage communication and collaboration between teams, and provide safety and security for people and data. HPES will locate operations in these facilities to support BMS in meeting the replacement MMIS responsibilities.

4.1.7 Vendor Capacity, Qualifications, References and Experience

RFP Reference: 4.1.7 Vendor Capacity, Qualifications, References and Experience

The West Virginia Bureau for Medical Services (BMS) needs a Medicaid Management Information System (MMIS) vendor with solid, successful experience and a proven reputation for successful design, development, and implementation (DDI) and fiscal agent operations. HPES brings a powerful combination of reliability and innovation that is unmatched in the market. In this section, we present proof of our ability to meet BMS' needs. West Virginia is right to seek such proof because any vendor can easily make claims in a proposal to satisfy a requirement. Examining a given vendor's track record of contracted service, meeting delivery deadlines, and delivering to a scope of work for the published price—repeatedly, year to year, state to state—provides the reliable proof for the West Virginia Department of Health and Human Resources (DHHR) to make its most informed decision.

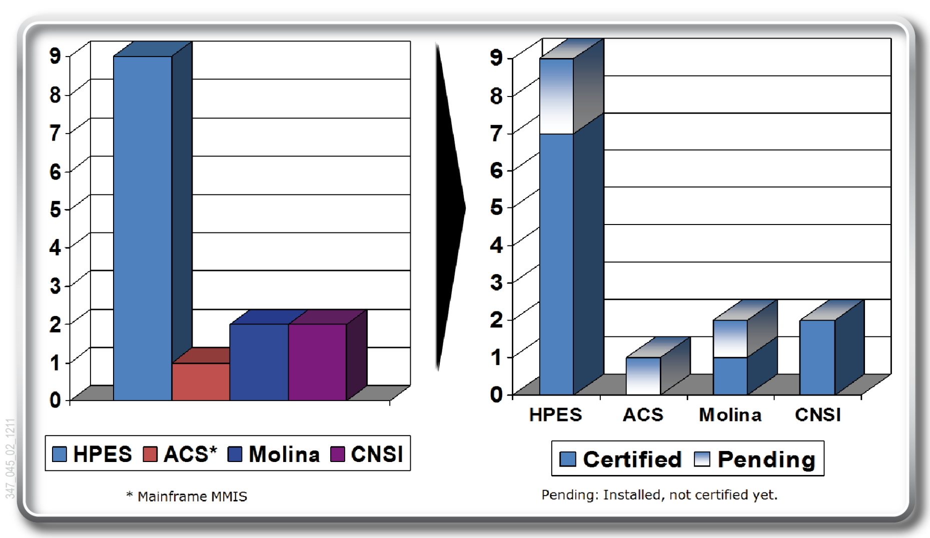
A successful record of accomplishment is not enough to meet West Virginia's goals; vendors must deliver a forward vision, a vision of constant innovation based on the broadest industry knowledge of technical advances and operational effectiveness. Even a cursory review of the offering in this proposal will recognize the inventiveness of our new @neTouch Advanced User Interface, designed to maximize the efficiency of every interaction with the Medicaid system. The foundational principles of HPES' interChange MMIS support this revolutionary approach. These principles bring the following to West Virginia:

- Self-service healthcare tailored to meet the needs of enrolled populations
- Standardized workflow and rules for streamlined Medicaid administration
- Simplified program management supporting BMS' desired business outcomes
- Healthcare interoperability designed to take advantage of current Health Information Technology (HIT) and Health Information Exchange (HIE) technology

These principles provide a new level of powerful tools to help West Virginia achieve its immediate and long-term goals of service. BMS understands change is inevitable. The Centers for Medicare & Medicaid Services (CMS) designed the Seven Standards and Conditions (7SC) as guidance for the transformation of state Medicaid to achieve progressively higher levels of capability, compatibility, and modularity in patient support. These seven standards and conditions have immediate and long-term implications to healthcare delivery. We assist our customers to achieve these conditions with innovative, reliable solutions. To qualify for enhanced federal funding, the projects resulting from advanced planning documents (APDs) must align with the 7SC guidance. With input and support from our healthcare experts, HPES is best positioned to assist our customers with solutions to navigate a clear and productive path along the 7SC.

HPES has proactively evolved our interChange MMIS business functions—incorporating Medicaid Information Technology Architecture (MITA) and 7SC guidelines by recently adding advanced features and architectural capabilities to the most successful MMIS solution in the market today. As seen in the following figure, HPES has the most successful record in the industry of implementing modern MMISs, achieving CMS certification, and maximizing states' ability to take full advantage of federal funding of programs.

MMIS Implementations from 2006 to 2011



West Virginia Served by HP Today

HPES has a strong commitment to West Virginia. For example, since 2003, we have supported the South Charleston office of the U.S. Department of Housing and Urban Development (HUD). Each month, we manage and operate HUD's enterprise infrastructure for all 50 states and U.S. territories. Globally, we have maintained safe and secure data centers that have withstood the pressures of local natural disasters—tornados, hurricanes, earthquakes, or flooding. We have consistently provided a stable, available computer environment meeting service-level agreements (SLAs). Because of this, we are pleased that our current customer satisfaction surveys average *94 percent positive* responses.

Besides our West Virginia work with HUD, HP provides industry-standard and business-critical servers at the West Virginia Office of Technology (OT). This includes HP Blade technology with our enclosure in the Flatwoods location. Except for those that are mainframe-based, applications that require hosting at the OT data center run on HP servers. They also have shown interest in using HP networking products and are planning a trip to Texas for an executive briefing on our product lines. We have been talking to them at length about cloud and security, and they have shown further interest in repeated meetings on both topics. HP also has served the West Virginia state government as sole-source provider of desktops and notebooks since November 2008.

Healthcare Innovations

Since 2002, HPES has implemented 13 innovative MMISs—more than any competitor. These states have gone on to enhance their programs to improve the health of their residents. For example, Oklahoma used its secure MMIS provider portal to increase the number of insured babies. The electronic Newborn-1 Infant Registry (eNB1) is a web-based newborn enrollment system that enrolls a newborn onto the mother's SoonerCare health record almost immediately at birth and eliminates a weeks-long paper-based registration process. Providers can log on to the provider portal, determine whether a baby qualifies for SoonerCare, enroll the baby onto the mother's SoonerCare, and assign the child a primary care provider—usually, before the baby leaves the hospital. This process has resulted in healthier infants and streamlined payments to healthcare providers.

Nationally, seven of the last 10 MMIS implementations were HPES interChange implementations. From lessons learned through our history, experience, and success with multiple large implementations, HPES has a repository of more than 250 best practice assets assembled from implementations that speed configuration and development. This repository provides a starting point for our implementations that reduces risk and accelerates "go-live." Georgia is one of our most recent examples; with a 31-month implementation and a post go-live stable environment that has allowed it to immediately begin implementing state-mandated policy changes and focuses on certification preparation with a site visit 12 months after implementation.

HPES extensive background of successful implementations allows us to scale and support multiple simultaneous implementations. This contrasts sharply with vendors whose implementations have overrun their time lines by multiple years with just one or two implementations occurring simultaneously resulting in state resources required to focus on operations and DDI for a much longer periods than desired. In 2008, for example, we successfully implemented five MMIS solutions in a single calendar year, four of these are CMS-certified with Oregon pending notification. No other company can come close to these results or numbers. By using this intellectual capital, we can confidently propose a 30-month implementation of the West Virginia interChange MMIS. A recent example of this approach is our successful Georgia interChange implementation that went live in November 2010, and is serving as a reference in this response.

To date, HPES has implemented the interChange MMIS in 13 states without missing a single payment cycle to Medicaid providers.

New MMIS implementations present challenges. With HPES and our outstanding combination of industry-leading products and subcontractor expertise, we successfully address those challenges. To date, we have implemented the interChange MMIS without missing a single payment cycle to Medicaid providers. We paid providers accurately and on time, and Medicaid members continued to receive the care they needed. This level of performance is unmatched in the industry.

The following figure details the nationwide success of the HPES interChange platform. The interChange MMIS is CMS-certified in 10 states: Alabama, Connecticut, Florida, Kansas, Kentucky, Massachusetts, Oklahoma, Pennsylvania, Tennessee, and Wisconsin.

This section is redacted per HPES' Statement of Confidentiality.

4.1.8 Staff Capacity, Qualifications and Experience

RFP Reference: 4.1.8 Staff Capacity, Qualifications and Experience

People are the force behind the successful operation of the new West Virginia interChange (WV-iC) MMIS. In our proposal, we talk at length about the WV-iC technology and the benefits and features derived from that technology. However, the people who deliver the technology are equally important. The right team with specialized, specific skills will achieve operational success for the Bureau for Medical Services (BMS). We are proud of the team we are bringing to West Virginia because our people have extensive MMIS operations experience, technical expertise, and Medicaid Program knowledge. The HPES team will support BMS with a sense of urgency, creativity, skill, innovation, and foresight.

We carefully selected the staff members for our leadership team, verifying that they have the strengths and knowledge needed to manage the operation of the WV-iC MMIS for BMS. We specifically chose the proposed key personnel to facilitate the reliable ongoing successful operations that BMS expects of the selected fiscal agent vendor. Our team members have a combination of specific interChange MMIS experience and years of operations experience in the Medicaid arena.

BMS can draw on the collective experience of this team in establishing our proven, repeatable operational processes for the WV-iC. Moreover, BMS will benefit from the years of experience these individuals bring to the ongoing operation of the system. The following sections of our proposal outline our proven staffing approach:

- Project Staffing
- Organizational Charts for Each Phase
- Roles, Responsibilities, and Skill Sets
- Staff Skill Matrix
- Approach to Staff Retention and Continuity of Staff
- Approach to Personnel Management
- Process for Transitioning Essential Knowledge to BMS' Technical Staff

3.2.3 Project Staffing

RFP Reference: 3.2.3 Project Staffing

We appreciate BMS' project staffing approach that balances project leadership with the need to engage staff members who have the necessary knowledge for the given project phase, across the continuum of the complex implementation and ongoing operations of this project. Keeping this in the forefront of our project resource development, we called on our most experienced operations leadership in HPES' Medicaid group to assemble the staffing plan and organization charts for West Virginia, which we describe in our response.

Our staffing plan brings the best of HPES' national Medicaid experience together for this WV-iC MMIS project. Working from their experience and Medicaid knowledge garnered from across the country, our team put together the types and mix of personnel that are required to perform the work. For BMS, HPES has developed a staffing plan that brings together experienced Medicaid managers and professionals from HPES and our subcontractors with the right blend of positions and numbers to verify that our work—DDI and operations—meets the production requirements, along with the timeliness and accuracy standards described in the RFP.

Our staffing plan brings strong local skills and experience through subcontractor Fenwick Technologies, Inc. Fenwick is a West Virginia corporation founded in 1994 that provides a local presence with a strong working knowledge of State government operations and needs. Today, Fenwick is one of the largest West Virginia-owned and operated small businesses, providing information technology (IT) services and supplemental staffing in the State. In 2010, the State of West Virginia named Fenwick a supplier of IT services under the ITECH10 contract. Fenwick continues to be one of the top suppliers for many State agencies under that contract. HPES will use Fenwick to supplement the technical staffing requirements of this contract.

Hiring incumbent contractor staff members allows BMS to benefit from their West Virginia-specific fiscal agent experience and knowledge. Our staffing plan respects this investment in current Medicaid staff members. MMIS Account Manager Lonna Peterson will work with BMS and the incumbent contractor to interview current staff members who wish to stay with the program by joining the HPES team. Lonna brings her Florida account start-up experience to this process. We want to bring the finest of these current staff members with their skills and knowledge, and we will work with BMS to coordinate the hiring process. Our goal is to preserve the best of the current fiscal agent staff and verify that the ongoing operations continue efficiently and without disruption.

Experience matters. Our team has carefully analyzed the requirements in the RFP, assessed the scope of work across the project phases, and applied our own front-line experience with DDI and operations to develop the staffing plan—organization, mix of skills, and numbers. Our staffing plan and organization charts demonstrate the value of the experience that we bring. We present a detailed staffing plan covering the right mix and the right blend of positions and people.

We address multiple mandatory requirements in this section. For mandatory requirement 3.1.1, HPES key staff members will be located at our Charleston facility, which will be within five miles of BMS for DDI and fiscal agent operations. For mandatory requirement 3.1.3, HPES provides one named HPES staff member, selected and approved by BMS, to be located at the BMS location to facilitate communication and coordination between BMS and HPES. During DDI, we will work with BMS to identify the right individual to work in this crucial role of supporting communications between BMS and HPES. After we receive approval from BMS, that individual will work from the BMS offices. For mandatory requirement 3.1.9, HPES will perform work specifically associated with this contract within the continental United States or U.S. territories.

For mandatory requirement 3.1.38, HPES will increase staffing levels to meet requirements, time lines, quality, or other standards. We understand that in making this determination, BMS will evaluate whether HPES is meeting deliverable dates, producing quality materials, consistently maintaining high quality and production rates, and meeting RFP standards without significant rework or revision. For mandatory requirement 3.1.45, we acknowledge that after award BMS reserves the right to reject staff members proposed or later assigned to the project. If so directed by BMS, we will remove them from the project. We further understand and acknowledge that in each circumstance, we will replace key staff members with people of equal ability and qualifications.

For mandatory requirement 3.1.46, we will designate an individual as the project's Health Insurance Portability and Accountability Act (HIPAA) compliance officer. Although the RFP appears to allow vendors to designate one of the key, named staff members as the HIPAA compliance officer and assume both roles, the HPES HIPAA compliance officer is an additional position on the team. We hold our guardianship of protected data seriously and designate a separate individual whose sole focus is to provide proactive and vigilant monitoring and adherence to privacy and security standards and regulations.

HPES will maintain the continuously dedicated (CD) staff in agreed-on quantities by category. CD staff members will be 100 percent dedicated to the West Virginia project, unless otherwise noted in Section 3.2.3, and will not hold any other concurrent positions on this or any other project. Our support staff identified in RFP section 3.2.3 will be 100 percent dedicated for the time in which their services are required unless otherwise noted to the West Virginia account. They will not hold any other concurrent positions on this or any other project and will be located on-site in the Charleston facility.

3.2.3.5 Vendor Response Requirements

Organizational Charts for Each Phase (Req. 1)

The following organizational charts are included at the end of this tab:

- Phase 1—MMIS Replacement DDI and CMS Certification Planning
- Phase 2—Fiscal Agent Operations
- Phase 3—Turnover and Close-Out

For each phase of the project, HPES presents the following four organization charts:

- **Overall Account Organization Chart**—This chart depicts the highest levels of the organization and shows the Key, Continuously Dedicated (CD), Support, and Other Staff members, and their reporting relationships. We include support for the Project Management Office (PMO), quality assurance, finance, and reporting functions in this chart.
- **Provider/Member Organization Chart**—This chart shows the staff and structure responsible for member and provider customer service, along with the provider enrollment and relations staffing.
- **Medical/Dental Claims Organization Chart**—This chart details the staff members responsible for claims processing and the mail room functions.
- **Medical/Dental Systems Organization Chart**—This chart details the organizational chart and staffing levels for the System team functions.

These charts indicate on-site, off-site, and subcontractor staff members. The DDI systems organizational chart describes peak staffing for DDI within each functional area. The DDI overall, medical/dental claims and provider/member organization charts show the staffing at month 23 of the DDI when provider enrollment will go live. Throughout the span of DDI and fiscal agent operations, there are substantial differences in staffing levels based on many variables, including ramp-up, ramp-down, productivity improvements, anticipated changes in volumes, and other activities.

In our organization charts and presentation of roles and responsibilities, we document the full complement of staff members required to perform the RFP requirements. Generally, we assign these individuals full time to the West Virginia account. The organization chart contains some partial allocations. In a few instances, we do have part-time personnel—for example, in the EDI area we have one part-time systems engineer. The EDI team is exclusively dedicated to EDI solutions, and that systems engineer will split his or her time between the WV-iC implementation and a similar project. The following are two important features we uniquely offer BMS in our DDI and fiscal agent operations organization.

We offer BMS a unified system and dedicated staff. The WV-iC MMIS is a single, integrated system that will support the processing and reporting needs of medical/dental and pharmacy. This provides BMS and our dedicated staff the most current and accurate information. Our PMO is another critical HPES differentiator. For the DDI and Operations phases, HPES is providing a PMO that will monitor processes and outcomes to validate that HPES is meeting service levels for accuracy and timeliness. The PMO also will report on these outcomes and work with project leadership to identify where training or new processes are required. In operations, the PMO will report directly to the HPES MMIS Account Manager Lonna Peterson, which will allow the PMO to provide unbiased, objective evaluations of contract performance. We include our “Staffing Plan” section in the “Excluded Proposal Sections” tab.

Roles, Responsibilities, and Skill Sets (Req. 2)

Per RFP requirement 4.1, we have excluded this item from this section. We include this material in the “Roles, Responsibilities, and Skill Sets” subtab in the “Excluded Proposal Sections” tab.

This section is redacted per HPES' Statement of Confidentiality.

Staff Skill Matrix (Req. 4)

Per RFP requirement 4.1, we excluded this item from this section. We include the staff matrix in the "Attachment III: Staff Matrix" subtab in the "Excluded Proposal Sections" tab.

Approach to Staff Retention and Continuity of Staff (Req. 5)

In this section, we describe our approach to staff retention and promoting continuity of staff members among key project phases. Retaining motivated employees is crucial to effective staff and project management. Employees engaged in their work, satisfied with their environment, and focused on personal development prevent losses in cost and productivity associated with employee-initiated attrition. HP's people strategy focuses on attracting the best and retaining them across time. We build our strategy on three basic steps—stabilize, mobilize, and energize:

- **Stabilize (the foundation)—**The first step to retaining people is to attract, develop, promote, and retain the best professionals. We remain an employer of choice by consistently presenting HP's brand values, validating that we have leading-edge HR management in place, and maintaining a well-defined diversity policy. After we hire the best people, the task is to stabilize the existing work force by giving employees a voice through our Voice of the Employee (VOE) survey. VOE surveys are an important means for employees to share their thoughts with HP leaders.
- **Mobilize (high-performance workplace)—**There is a consistent focus on producing a high-performance workplace by integrating the "what" and "how." "What" refers to clarifying the team goals, objectives, and priorities and then connecting the team to those business goals. The "how" is addressed through our HP Performance Management Cycle using the following four step approach:
  - Set goals
  - Track and monitor
  - Review performance
  - Rewarding and recognize performance
- **Energize (best place to work)—**Becoming the "best place to work" is critical to our retention strategy. We strive to achieve this as follows:
  - Listening to employees through periodic climate surveys, annual employee satisfaction surveys, and other channels
  - Providing employees with tools, resources, and a supportive environment that values diversity and good citizenship
  - Focusing on talent management and continuous training
  - Promoting a healthy work-life balance program through flexible work arrangements

Employee Satisfaction

As our main touch point with customers, allies, and communities, our employees put HP's best face forward daily around the world. That is why HP fosters an environment that empowers people to make decisions that positively affect our customers. Empowered employees are more satisfied with their jobs and have a greater sense of ownership in their environment. The following corporate initiatives play a critical role in motivating and retaining employees:

- **Recognition and appreciation—**HP's recognition and appreciation programs include individual and team recognition for performance as well as overall site or program recognition for morale or team building. Recognition may or may not be monetary. For example, some effective nonmonetary recognition items are achievement certificates, recognition in a team or account meeting, lunch with leaders, or a designated parking spot.
- **Work-life balance—**We offer our employees a variety of programs and services to assist them as they manage personal needs and the demands on their time, such as adoption assistance, diversity day, and flex work options. HP also supports employees and their families by providing benefits such as vacation time, wellness programs, leaves of absence, discount programs, flexible spending accounts, and comprehensive health and dental benefits. Because needs of employees differ around the globe, benefits may vary by geography, site, business unit, and job type.
- **Social and community activities—**HP encourages employee participation in a variety of social committees or activities that support the work environment or the community at large. Committees may spearhead fundraising efforts for local charities, organize after-work social activities, or produce team newsletters.
- **Communications—**We understand employees have different needs and expectations of an employer. We base our retention strategy on effective and regular communication with employees. HP consistently communicates account, team, site, and corporate news items to connect employees across the globe. Established communication vehicles include in-person town halls, the Global Broadcast Network (GBN) events and meetings, and several electronic newsletters.

Ensuring Continuity of Staff Among Key Project Phases

The strongest approach to promoting continuity of staff members from phase to phase is to make the West Virginia project a great place to work by providing satisfying career paths and professional and personal recognition. In short, employees will stay with the team because HPES provides a satisfying work experience, as detailed in the previous section, “Approach to Staff Retention.”

The MMIS Replacement DDI and CMS Certification Planning Phase will conclude, and fiscal agent operations will begin following BMS’ approval of the WV-iC’s operational readiness. HPES has already started planning for the continuity of key staff members from DDI into the Operations Phase. Our key staff members join the project within the first 30 days and are involved throughout the DDI Phase. Besides preparing their unit for operations, these leaders also will be involved in the DDI from analysis through testing to verify that the WV-iC will meet the operational needs of the fiscal agent organization. Another example of this planning is in the area of reporting. We will be implementing the Business Intelligence Archive Resource (BIAR) ad hoc reporting solution, presented in our response to the “Management and Administrative Reporting (MAR)” section in the “4.1.9 Project Approach and Solution” tab.

This BIAR database will provide the foundation for the ad hoc reporting performed by the reporting analysts throughout operations. To successfully implement the BIAR solution and prepare the team for operations, HPES’ team for the DDI Phase includes experienced Medicaid professionals who have implemented BIAR for several other Medicaid customers. BMS benefits from the proven experience of the HPES team and can be confident that the learning and experience developed during the DDI transitions into operations. The Operations and Turnover phases are simultaneous, which means that personnel responsible for guiding the turnover are already on board and supporting the ongoing operations.

Approach to Personnel Management (Req. 6 a-e)

We describe our approach to personnel management in the following sections:

- Hiring and firing and employee relocation
- Staff training—initial and ongoing—including transfer of system and business knowledge, project management methodologies and processes, and project status, to new staff members and for incumbent staff members transitioning between project roles or phases
- Staff performance monitoring
- Succession planning, staff backup, and staff replacement
- Procedures for obtaining additional staffing support

Hiring

HPES brings substantial recruitment expertise in the healthcare industry. We recognize that the transition can be a dynamic and stressful time for those involved. We emphasize the importance of helping employees navigate through the transition into a new job or role. We describe this process in the following steps, starting with “Creating Job Profiles,” which describes the staff acquisition process.

The combination and sequence of these steps translates into an efficient staffing process that minimizes the possibility of a mismatch or of employee turnover. The effectiveness of our recruiting practices has allowed us to retain skilled staff members to operate multiple MMIS operations across the last four decades.

Creating Job Profiles

We will recruit people for required positions, depending on the project and BMS’ needs. The staffing process begins when an HPES manager details the job responsibilities, required attributes, skills, knowledge, and credentials. The manager matches these items to HPES’ defined job codes, which specify the industry-standard salary ranges. When complete, the manager sends this detailed request to the assigned recruiters in the HR department.

Using Recruitment Sources

Our HR recruiters are responsible for finding qualified candidates to fill the positions. The recruiters consider potential applicants, including current HP employees, employees transitioned to HP through new business contracts, and non-HP employees. Because we consider applicants from diverse backgrounds, we benefit from a wide selection of candidates for a position.

Incumbent Staff Members

HPES understands one of the primary sources for experienced and knowledgeable staff members will be with the incumbent vendor's staff. We are sensitive to the fact that the incumbent staff has valuable West Virginia-specific Medicaid policy knowledge, and we will work with BMS and the incumbent vendor to transition qualified candidates to the HPES West Virginia Medicaid team.

Internal Candidates

To fill open positions, we look to current HP employees who have demonstrated their capabilities and understand our stringent standards. We believe in developing employees to promote from within our organization. Job openings are posted and accessible to employees through the HP Job Searcher. Employees interested in a job posted on the HP Job Searcher can apply online. Recruiters also can access Evolve, an internal database that contains current information on the skills and qualifications of HP employees.

External Recruiting

We use various sources to hire the best people available in the job market. Our HR strategy begins by considering the effective channels and methods available to publicize job opportunities, as shown in the following table.

HP External Recruiting

Channel	Method
Recruiters	These HP professionals recruit outside the company. They communicate with potential new employees and former HP employees. Professional recruiters work to add experienced, skilled personnel to the HP work force. They represent the HP managers who have submitted job profiles and often have the first contact with potential employees. Our campus recruiters specialize in finding, developing, and retaining quality students who form a valuable pool of talent to fill positions within HP.
Incumbent Staff	As we previously detailed, we understand that the incumbent project staff represents an unmatched source of program knowledge and established relationships with the provider community. Working with BMS and the incumbent, we will schedule employment interviews with interested staff members and extend offers to qualified staff members who bring the required skills and capabilities.
Job Boards	Initially, HP Corporate also posts to Americas Jobs Bank, which provides access to veterans and unemployed candidates. We also recruit through the leading posting sites such as Monster.com, Dice, and Career Builder for targeted positions.
Career Fairs	We use local career fairs as another method of external recruiting. Several weeks before a career fair, the sponsoring organization, HP, and other employers advertise the event to a targeted professional audience. At these fairs, we establish a booth where external recruiters talk to job seekers. Recruiters describe the type of openings available and gather contact information on potential job applicants.
Global Resumes System	We comply with local and national regulations for retaining required documentation on interviewees for a minimum of two years. Our global resumes system accomplishes the following: • Allows recruiters to locate external job applicants who have submitted a resume to HP within the past two years • Retains an electronic record of these recently submitted resumes so that recruiters can perform a search on qualified people with whom they would not otherwise come into contact • Enables us to access a database of qualified candidates to fill vacant positions and staff new positions resulting from change order requirements
Agencies	As part of our comprehensive search for qualified individuals, we look to established employment agencies for referrals of available candidates. When needed, agencies are particularly useful in finding staff members for various types of employment. HP has stringent requirements for such agencies to meet the criteria to be on our preferred vendor list. Agencies on this list understand the high standards that we set for the people they refer to us, so that our agency personnel are qualified to serve our customers. Candidates from agencies are subject to the same background investigation process as other potential HP employees.
Advertising	To achieve comprehensive communication, particularly in a local market, leaders work through the Recruiting team to achieve appropriate design, placement, and maximum reach, including newspaper,

Channel	Method
	radio, or other public media.
Campus relations consulting	The Recruiting team provides guidance to administrative organizations and senior executive organizations to enable these units to build relationships and recruit from colleges and universities.
Candidate search	HPES recruiters have access to our applicant database, which contains the profiles of candidates who have submitted resumes. The recruiter will forward select resumes to the hiring manager, who will be responsible for the interview process. HPES' West Virginia leaders also can conduct this same level of candidate search on their own.
Employee referral processing	HPES welcomes employee referrals as a valuable source for our hiring efforts. We have an automated referral process for employee referrals to encourage this resource.

Screening Applicants

When we find job candidates to fill our open positions, we request that applicants complete an employment form. Formal applications enable us to evaluate skills, experience, career goals, employers, and references consistently between applicants. Applicants can complete their applications online using HP Job Searcher and their information will be directed to the appropriate recruiter. After receiving the formal applications, our recruiters conduct a telephone screening to choose the candidates whose background and skills best match the job requirements.

Additionally, our recruiters describe the job profiles in detail to candidates, determining if a candidate is interested in the position. When the recruiter deems that a sufficient match exists between a candidate and the job profile submitted by the manager, the recruiter sets up an interview appointment with the HPES manager, who also verifies that senior members of the team are available to participate in a team interview. The recruiter then forwards the candidate's formal application and resume to the manager for review before the interview.

Interviewing Candidates

We hold open dialogue with our candidates to share and receive a true understanding of one another's expectations. An HPES manager matches the candidate's behaviors, skills, and career goals to the requirements and expectations of the job position. As appropriate for specified jobs, this manager also evaluates skills and work samples from candidates to determine if the applicant can truly contribute to the team and determine the potential level of that contribution. We train our managers in and apply the principles of behavioral interviewing to better analyze the skills needed for successful job performance. By asking for examples of behavior in relevant situations, the manager obtains real examples of past behavior, which the manager can use to predict future behavior. Additionally, the manager can rate the candidate's performance on past actions instead of on feelings or intuition.

Making an Offer

Promptly after the candidate's interview, the HPES manager calls the candidate to communicate the team feedback. We value timely communication and understand the urgency of recruiting outstanding employees. The HPES manager extends job offers to candidates who qualify for the job and are a match for the company. However, managers always specify that the job offer is contingent on the candidate fulfilling pre-employment required paperwork and background investigation requirements.

Performing Background Investigation

Our hiring methods include a comprehensive process that promotes the hiring of honest, responsible employees. To support the ongoing security of our customers' information, we mandate background investigations for prospective employees. Additionally, HP's corporate background investigation unit verifies that applicants have furnished us with true information on their formal applications and resumes. After we receive the results of the background investigation, employees can sign an offer letter for employment with HP.

Performing Job Acclimation

An important feature of our hiring method is the new employee orientation process, which occurs after the employee starts work. The onboarding occurs in three steps:

- Know your company

- Know your business
- Know your role

The HP Onboarding Center provides access to a new employee orientation course that employees can access online or taken in person, in some locations. Additionally, there are various 30-minute tutorials for corporate tools and other professional skills topics. This allows individuals to learn about HP's philosophies and culture. Additionally, we assign mentors to new employees to provide workplace orientation and enhance on-the-job training.

Firing

Performance management is a key part of the company's overall approach in driving a high-performance culture. A key element of performance management is acting quickly and responsibly to improve performance. Firing may be the result of performance management, but HPES strives to prevent this outcome through hiring the best candidate for any given job, training, and when necessary coaching and mentoring. Providing good performance starts with the hiring process. Our West Virginia account team will hire the best matches between job candidates with the roles, responsibilities, and skills identified for each position in our response to requirement 2. We then provide the necessary training and tools for consistent, excellent performance. However, when needed, HPES brings an established process for moving quickly to act on performance issues.

While many performance issues can be resolved through feedback and coaching, especially when addressed in early stages, in some cases managers may need to formally communicate the need for immediate, significant, and sustained improvement where an employee's performance is unacceptable. In those cases, HP uses its Corrective Action Policy to resolve unacceptable performance, ideally through immediate, significant, and sustained improvement in the employee's performance. In cases where the employee fails to demonstrate sustained improvement, we may terminate his or her employment. In these cases, we take every action to preserve the employee's dignity. The leader's focus is on sustaining the level of quality service to the customer, without a break in services provided by the terminated employee. Others on the team will assume that person's workload until a replacement is assigned and trained.

Employee Relocation—Help With Becoming West Virginia's Newest Residents

Through HP's relocation services, we will move project personnel to West Virginia to support the on-site requirements for key and other personnel. HP invests in international and domestic relocation to support business strategies where global mobility is a critical component of our success. HP's goal is to deliver competitive and high-quality relocation support to verify that our relocating and mobile work force is productive in their new assignments as quickly and effortlessly as possible. With the support provided by HP's professional relocation services, project staff members have more time to focus on project activities—especially critical in the start-up stages—that require their complete attention.

Staff Training, Initial and Ongoing

In this section, we will describe the HPES plans for staff training—initial and ongoing—for the West Virginia Medicaid account personnel. Using the following approaches, we will transfer system and business knowledge, project management methodologies and processes, and project status to new staff members and for incumbent staff members transitioning between project roles or phases.

Training—DDI to Operations

The key to successful training is identifying what information needs to be transferred and to whom. HPES staff members play a key role in the DDI Phase work of the WV-iC MMIS project and will transfer the knowledge learned during implementation into their daily operational job roles. We incorporate new hires and incumbent staff hires into this DDI work and training. This "on-the-job" training is a prime learning opportunity and an invaluable resource to learning the system, the program, and, most importantly, our customers—BMS, members, and providers.

During the project initiation, HPES will deliver detailed technical training to staff members on the new MMIS and COTS products. This training will be specific to the proposed technical architecture, configuration management, requirements management, content management, workflow management, and HPES' project management methodology and processes. This will facilitate productive participation in the deliverable production and review process. Our staffing plan and organization charts reflect the early onboarding of staff members to help with the implementation of the WV-iC solution and verify that our team members are prepared to meet performance requirements on "Go Live" day.

Training—Global HPES Culture

Besides training developed specifically for our Medicaid contracts, our team benefits from the corporate culture at HP, which stresses ongoing training for employees as the best way to accomplish the following:

- Stay current on evolving approaches
- Stay current in evolving technology
- Learn each aspects of your job

With this corporate culture focused on training and learning, constantly growing and expanding each employee's understanding, it has been necessary to develop and implement learning techniques that suit the needs and availability of busy employees. This training comprises mandatory annual training for more than 300,000 employees. Additionally, HP trains more than 150,000 customers and allies annually in technology and process training. Forrester and Trainingindustry.com have recognized HP as a leader in providing IT training.

HP Education Services support the techniques described throughout this response and supply the actual training sessions. HP Education Services provides educational services to federal, state, and local governments. Within the private sector, HP Education Services trains Fortune 100 businesses. During the past 35 years, our training organization has provided training to more than 1 million public and private attendees.

Training 24 x 7

The technology of training has taken full advantage of the benefits of today's online, Internet, web-based life. For West Virginia, we are proposing the most current approaches for training, using Virtual Rooms (VRs), standardized classes on the web, and virtual instructor-led classes. We have created tools and processes for providing a rich user experience in a blended learning framework. This technology allows information access 24 x 7. We base our proposed training strategy on this flexible technology:

- Take training when needed, as needed. The training fits the individual's schedule.
- Take training from the user's desktop. Travel to a training location is no longer necessary.

Our user training will offer the following highlights:

- Hands-on instruction about the system (including a detailed review of the topic-specific MITA business areas such as member management or provider management) and West Virginia Medicaid business processes (including project management methodologies and project status)
- Allows users to become familiar with the functional area pages and panels associated with the topic-specific business process
- Concentrated hands-on experience in the specific business processes related to the user's work role

When training ends, participants can to relate topics discussed and practiced in the session to real-life situations experienced in production. Learners will train using a PC that meets minimum system requirements in an environment that genuinely emulates the production environment, using realistic health information data without compromising actual protected health information. The training environment will play a major part in acclimating learners to the new system. Hands-on practice using real-life scenarios, examples, and practical exercises will help alleviate much of the stress that system transitions can generate.

Staff Performance Monitoring

Leaders monitor staff performance through corporate systems and through techniques developed for the specialized requirements of the work performed for healthcare and Medicaid customers.

Corporate Systems

HP has a performance management framework designed to elevate performance of individuals by connecting their work to the overall company strategy and rewarding them commensurate with their relative contributions. HP managers strive for an environment where employees can openly discuss their performance, progress, and development. Open and frequent communication between managers and employees occurs regularly and includes setting job objectives as they relate to the business objectives and an assessment of progress versus objectives. The four parts of HP performance management framework are as follows:

- **Goal setting and cascading—**Individuals and their managers jointly set objectives and metrics for the performance period and agree on what support and tools needed to meet those objectives. Objectives are set to align with the business needs and to help develop the individual.
- **Monitoring and feedback—**A combination of checkpoints throughout the year measures progress against objectives and ongoing feedback. Feedback, besides being part of performance management, also contributes to people development.

- **Assessing performance—**In an annual formal performance review, individuals and their managers discuss their accomplishments and create or adjust performance plans for the upcoming year. While the manager is responsible for assessing performance, feedback to drive that assessment may come from customers, other managers, and peers.
- **Rewarding and recognizing performance—**Managers differentiate performance according to a five-level rating scale. This differentiation drives ongoing rewards and recognition from base pay to variable pay to ad hoc recognition.

HP Performance System: Key Steps

Performance management is ongoing and part of the overall talent management process. This simple framework is connected to HP's business and work force planning, talent management, and career and professional development processes. Together with strong leadership and an innovative culture, HP's performance management approach contributes to a talented and engaged team that consistently meets performance requirements for accuracy and timeliness.

Medicaid-Specific Techniques

The managers and supervisors will monitor the work performed in their department. The following list identifies the most common monitoring or quality assurance techniques:

- Batched paper claims are manually sampled to confirm claims have been sorted, validated, and batched appropriately.
- Imaged claims are randomly compared to source documents, and alignment is verified to make sure data is accurately captured.
- Entered data is compared to original claim to verify data is accurately captured.
- Electronic billing activity and claim counts are closely monitored to verify that they were processed and accounted for.
- Random claim resolution transactions are verified.
- HIPAA coordinator periodically checks that employees are wearing badges.
- HIPAA coordinator periodically performs desktop checks for ZixMail.
- HIPAA coordinator continues training of new staff members and refresher training for tenured staff members.
- HIPAA coordinator periodically and randomly checks that staff members lock desktops when not physically in use.
- Random samplings of adjudicated claims, exceeding specific dollar amounts by claim type, are reviewed. Variance limits are based on BMS policy.
- Financial transactions and duties or activities are properly segregated and verified by a separate individual from the originator and approver.
- We use random recorded calls and correspondence to validate that providers and members receive accurate and appropriate information or direction.
- Notifications regarding unscheduled downtime and scheduled maintenance are evaluated to confirm occurrences do not exceed customer thresholds.
- Provider evaluations of on-site visits, seminars, and training are monitored.
- Closed provider issues are reviewed to confirm appropriate research and resolution.

Succession Planning, Staff Backup, and Staff Replacement

The staffing plan recognizes that positions will become available and we need to act to fill them. From more than four decades of staffing Medicaid projects, we have developed a standardized approach to filling vacancies in the staff. This section describes our approach to succession planning, staff replacement, and staff backups.

Succession Planning and Staff Backups

Succession planning recognizes that key staff members may leave the project because of retirement, promotion, or for career advancement opportunities. We will identify, for each key position, a backup who is available to replace the person. We will establish these backups after finalizing the account team at the project site in Charleston. For planned staff replacement vacancies—for example, retirements and promotions—we will prepare the backup to take over full responsibility with BMS' approval. For sudden vacancies, the backup will immediately take over and, pending BMS' approval, continue in the position.

Succession planning is not typically required for clerical positions. However, to verify that we will continue to meet our SLAs, our staffing plan with our capability model provides for rapid replacement of clerical positions. We will use backups and cross-training to rapidly fill these positions until or if a permanent replacement is required. Through cross-training, several members of the staff will be trained to perform various functions outside the person's standard assignment. More than one person on the account can perform each function because account personnel are cross-trained on different functions.

HPES' best practice of cross-training our staff provides the following:

- **Flexibility—**Staff members can be shifted when needed to support periodic peaks because of this extended training on multiple job functions.
- **Full coverage—**Job functions are always performed because trained staff members are always available.
- **Job satisfaction—**Mastering multiple job functions and skills provides our employees with variety, challenge, and possibilities for career progression.

The drug rebate report analyst position is an excellent example of how cross-training works, and its benefits. The drug rebate report analyst is one of the five reporting positions on the account. This person will handle the drug report requests and work with the pharmacy group. The drug rebate report analyst will mainly be dedicated to the pharmacy department (including the drug rebate function) because most requests for drug-related reports will come from that department.

We provide the five reporting analysts comprehensive BusinessObjects training to allow them to cross-train and gain real expertise in the tool. If two FTEs work for a month—for example, during a CMS drug rebate audit—the five report analysts can assist in providing the reports. In other months that are not busy drug rebate months (in between quarters), the drug rebate report analyst can work on other reports. Although the drug rebate report analyst will work almost exclusively with the drug rebate group, his or her cross-training provides greater coverage and flexibility.

Staff Replacement

Staff turnover and replacement is a reality in every project. Life circumstances, career change and growth, and occasionally performance issues result in open positions that we need to fill with qualified and capable replacements. As soon as a leader is aware of a replacement need, we take action to engage our corporate resources. We immediately employ our internal and external recruiting methods to identify candidates, as described earlier in this section. Additionally, we will pay special attention to the incumbent staff members who possess valuable experience and will be a valuable part of the HPES team. Specific to technical resources, we will work with our subcontractor, Fenwick Technologies, to identify knowledgeable and skilled technicians. By carefully monitoring the work plan schedule, we can initiate these recruiting and hiring processes in adequate time to have our employees trained and ready to begin their work at the appropriate time. Additionally, while we take pride in our high employee retention rates, natural attrition is part of everyday business. HPES will apply the same proven, effective recruitment and hiring practices to address attrition through the course of the project.

Procedures for Obtaining Additional Staffing Support

We discuss our procedures and approaches for obtaining additional staffing support in the previous Hiring and Succession Planning sections. Besides the procedures described previously, MMIS Account Manager Lonna Peterson has access to additional Medicaid project staff members to assist in periods of unexpected increases in volumes. For example, HPES is the fiscal agent in Pennsylvania, North Carolina, Georgia, and Arkansas. It is possible for these accounts to provide assistance on short notice and with rapid training on West Virginia's specific procedures.

Process for Transitioning Essential Knowledge to BMS' Technical Staff (Req. 7)

To promote the long-term success of the program, HPES will define and implement a knowledge transfer program. We will transfer knowledge to BMS' technical staff members through formal and informal methods. The formal methods involve Virtual Rooms, standardized classes on the web, and virtual instructor-led classes. Informally, training will be done using the elbow-to-elbow method at BMS' location and include BMS' involvement in the DDI work, which proves to be an invaluable source of knowledge and experience with the WV-iC MMIS. This will be supplemented by information on the web portal consisting of manuals and "How To?" lists by subject.

Key Staff Resumes

Per RFP requirement 4.1, we have excluded this item from this section. We include this material in the "Key Staff Resumes" subtab in the "Excluded Proposal Sections" tab. Per Addendum 1, we include the following RFP-mandated letters of intent for selected key staff members on the following pages.

December 22, 2011

To: State of West Virginia Bureau for Medical Services

To Whom It May Concern:

I hereby acknowledge that I have accepted a contingent offer of at-will employment with HP Enterprise Services, LLC (HPES) in support of the West Virginia Medicaid account. I understand such offer of employment is contingent upon HPES being awarded the West Virginia Medicaid contract and the contract actually being fully executed by both parties. Upon contract award and execution, it is my intention to commence employment with HPES as outlined above and as is more specifically outlined in HP's offer letter to me.

Respectfully,

Diane Turner Fitzsimmons-Mercer

Diane Turner Fitzsimmons-Mercer
WV Pharmacy Manager for PBM Services

December 22, 2011

To: State of West Virginia Bureau for Medical Services

To Whom It May Concern:

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Respectfully,

Tina L. Ramirez

Tina Ramirez
Medical/Dental Quality Manager

December 22, 2011

To: State of West Virginia Bureau for Medical Services

To Whom It May Concern:

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Respectfully,

Amy D Jeffries

Amy D Jeffries
Registered Nurse

December 22, 2011

To: State of West Virginia Bureau for Medical Services

To Whom It May Concern:

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Respectfully,

Polina Blair

Polina A. Blair
Certified Professional Coder

January 11, 2012

To: State of West Virginia Bureau for Medical Services

To Whom It May Concern:

I hereby acknowledge that I have accepted a contingent offer of at-will employment with HP Enterprise Services, LLC (HPES) in support of the West Virginia Medicaid account. I understand such offer of employment is contingent upon HPES being awarded the West Virginia Medicaid contract and the contract actually being fully executed by both parties. Upon contract award and execution, it is my intention to commence employment with HPES as outlined above and as is more specifically outlined in HP's offer letter to me.

Respectfully,

Alice Shedd

Alice Shedd
POS Quality Manager

This section is redacted per HPES' Statement of Confidentiality.

This section is redacted per HPES' Statement of Confidentiality.

Excluded Proposal Sections

As instructed in RFP section 4.1, we excluded the following sections from the Technical Proposal:

- Appendix E: Business and Technical Requirements
- Business Organization
  - HP Annual Reports (Hyperlink in file, copies on CD)
- Roles, Responsibilities, and Skill Sets
- Key Staff Resumes
- Work Breakdown Structure and Deliverable Dictionary
- Project Schedule
  - Timeline/Gantt View
  - Microsoft Project Schedule
- Attachment II: RFP Requirements Checklist
- Attachment III: Staff Matrix
- Initial Draft Deliverables
  - Project Management Plan
  - Staffing Plan
  - Facility Plan
  - Documentation Management Plan
  - Training Plan
  - Workflow Management Plan
  - Problem Management Plan
  - ITE Plan
  - Testing Plan
  - Scope Management Plan
  - Schedule Management Plan
  - Cost Management Plan
  - Quality Management Plan
  - Human Resources Management Plan
  - Communications Management Plan
  - Risk Management Plan
  - Issue Management Plan
  - Change Management Plan
  - Integration Management Plan
  - Security, Privacy, and Confidentiality Plan
  - Configuration Management Plan
  - Data Conversion Plan
  - Disaster Recovery and Business Continuity Plan
  - Data and Records Retention Plan
  - Transition Plan
  - Status Report Templates
    - Weekly Status Report Template
    - Monthly Status Report Template
- Signed Forms
  - Appendix I: MED 96 Agreement Addendum
  - Appendix J: MED Purchasing Affidavit
  - Vendor Preference Certificate
  - Addendum 1
  - Addendum 2
- 3.2.10 Other Optional Services
- Client Reference Letters
- Additional Material

Appendix E: Business and Technical Requirements

In this section, HPES provides responses to the Appendix E: Business and Technical Requirements as referenced in section "4.1.10 Solution Alignment with BMS' Business and Technical Needs."

Requirements that introduce a subset of requirements are marked "YES without customization" as HPES supports the functional area. The specific subset requirements checklist column is marked to identify the level of fit against the stated BMS technical need. Requirements with the wording "Other as identified by BMS during DDI and accepted via formal change control" have been marked "Yes with customization" as we would need more information to determine if the system can currently meet the requirement.

1. Member Management (ME)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
ME.1	**1. Determine Eligibility**			
ME.2	Ability to provide role-based (inquiry vs. update) access to the Member eligibility information using a variety of secure methods, including:	X		
ME.3	Web portal	X		
ME.4	By telephone to the Provider Help Desk	X		
ME.5	Automated Voice Response System (AVRS)	X		
ME.6	Electronic inquiry through a 270 transaction	X		
ME.7	Other as identified by BMS during DDI and accepted via formal change control		X	
ME.8	The Vendor is expected to accept eligibility information from a state-maintained sponsor system. Currently, this system receives eligibility information from Recipient Automated Payment and Information Data System (RAPIDS), and Families and Children Tracking System (FACTS).		X	
ME.9	The Vendor is required to on a daily basis, process Member eligibility, including Pharmacy, update information received from eligibility sponsor systems (in the sequence in which they were created) for use in claims processing, and generate all applicable update reports according to an agreed-upon processing schedule.		X	
ME.10	The Vendor is expected to verify that Medical/Dental and Pharmacy POS Member eligibility data match on, at a minimum, a monthly basis. If the two eligibility sources are not in the same database they should be synchronized and reconciled on a schedule that ensures that eligibility data used for all claims adjudication matches between both systems.	X		
ME.11	The Vendor is expected to transmit an interface file to RAPIDS and FACTS so that required Mountain Health Trust (HMO and PAAS), LTC rates, MHC (Mountain Health Choices), other insurance or Third Party Liability (TPL) and lock in information so that some of this information can be printed on the Medicaid ID cards.		X	
ME.12	Ability to support flexible rules-based logic (as specified by BMS and Federal guidelines) to determine Member benefit plans.		X	
ME.13	Ability to identify potential or actual overlaps in program eligibility periods (such as when a client switches from/to Medicaid, State-funded, or any other programs).		X	
ME.14	The system is expected to accept conflicting or overlapping eligibility segments, and should apply a hierarchy of business rules to determine which one takes precedence.	X		

1. Member Management (ME)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
ME.15	The MMIS is expected to accept the Medicaid ID assigned by the eligibility source or through the Master Data Management (MDM) solution.		X	
ME.16	Ability to accept and maintain eligibility to pay for services provided for Members who are not Title XIX or Title XXI Members.	X		
ME.17	The system should allow authorized users to manually enter Member eligibility information.	X		
ME.18	Ability to automatically apply data validation edits during manual entry of Member eligibility information.	X		
ME.19	**2. Enroll/Disenroll Member**			
ME.20	Capture, retain and report in a roster enrollee choice of provider. It can be either the MCO or the PAAS PCP.		X	
ME.21	Enrollment broker is to have direct (role-based) user-access to the MMIS. (The enrollment broker enters PCP information for the Health Maintenance Organization (HMO) and the Primary Care Case Management (PCCM) program).	X		
ME.22	The Vendor is to maintain appropriate benefits package for services for enrolled Member.	X		
ME.23	Ability to support flexible administration of benefits from multiple programs so that a Member may receive a customized set of services.	X		
ME.24	Ability to report on duplicate Member records using multiple criteria (e.g., name, SSN) in order to reconcile duplicate enrollment records.		X	
ME.25	Ability to capture and display from eligibility source head-of-household name. (These pieces of information are currently stored in the member record and do not vary by benefit plan or payor).	X		
ME.26	Capture and display case number in each individual Member record.	X		
ME.27	Ability to track and display on one screen: all Members in the case, including individual Members name under that case number; Medicaid ID number; date of birth; PCP/HMO name; and benefit program.		X	
ME.28	Ability to store, track and display eligibility source data including but not limited to eligibility codes, termination reason codes, termination dates, etc.	X		
ME.29	Generate monthly PAAS rosters to be submitted to the PAAS providers monthly.		X	
ME.30	**3. Manage Member Information**			

1. Member Management (ME)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
ME.31	Capture the Health Improvement Plan (HIP) from the enrollment broker. Generate monthly file to all parties as necessary (e.g., MCO Admin Vendor and MCOs). (The Health Improvement Plan (HIP) is a plan the member must complete with their physician and agree to complete specific health related activities in order to earn healthy rewards. This information is currently sent on a file to the MMIS vendor and loaded into the system).		X	
ME.32	Ability to accept electronic updates of the Member eligibility data (including updates to existing Member data and creation of new Member records) on a daily basis via batch file from the following or equivalent external systems:	X		
ME.33	RAPIDS (Recipient Automated Payment and Information Data System).		X	
ME.34	FACTS (Families and Children Tracking System).		X	
ME.35	TPL vendor/s as specified by BMS (the Bureau currently only receives TPL information from one vendor).		X	
ME.36	Enrollment broker/s as specified by BMS.		X	
ME.37	Other systems as specified by the BMS during DDI.	X		
ME.38	Ability to support the following functionality in regards to processing updates to the Member data set:	X		
ME.39	Automatically edit fields for reasonableness, validity, format and consistency with other data present in update transaction.		X	
ME.40	Transaction reconciliation reporting for file/data reconciliation with external data sources (e.g., totals and detail information, difference reports, change reports). (This requirement applies to reporting only).		X	
ME.41	Maintains record/audit trail of updates (including time/date, source, type, status of request). Reject files with fatal errors should be returned to source.		X	
ME.42	Online display of audit trail should include Member add and termination dates, PCP add and termination dates, and user who made the change.	X		
ME.43	Error correction/synchronization error reporting – report all failed synchronization.	X		
ME.44	Ability to perform the following functions:	X		
ME.45	Maintain identification of all applicants eligible for Medicaid benefits.	X		
ME.46	Allow for timely updating of the database to include new Members and all changes to existing Member records.	X		

1. Member Management (ME)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
ME.47	Maintain positive (active, as opposed to passive) control over all data pertaining to Medicaid Member eligibility. (Maintain the data in a safe and secure environment including, but not limited to, appropriate access controls, change management, auditing functionality, and security).	X		
ME.48	Build and maintain a computer file of Member data to be used for claims processing, administrative reporting, and surveillance and utilization review.	X		
ME.49	Able to distribute eligibility data to other processing agencies. (This currently includes the three Medicaid Eligibility Verification Systems (MEVS) vendors and the State's eligibility vendors, which are RAPIDS and FACTS. For State eligibility vendors, we provide a monthly reconciliation file).		X	
ME.50	Provide file space for, and record whenever available, the Social Security Number of each eligible Member.	X		
ME.51	Contain and use the data necessary to support Third Party Liability recovery activities.	X		
ME.52	Role-based security providing confidential access for individuals or groups.	X		
ME.53	Ability to provide external eligibility sources daily access to approved Member eligibility data. (The vendor should propose their preferred method of accommodating this access. This could be through the MEVS vendor, online/portal access by other agency personnel, etc.).	X		
ME.54	Ability to support online data presence, validity, format, and relationship edits for manually entered updates.	X		
ME.55	Ability to maintain an audit trail of changes to Member data at the field or line level rather than at a higher tracking level of last change to screen or file.	X		
ME.56	Ability to identify recipients with multiple ID numbers for cross referencing, and for unduplicated counts of recipients for reporting purposes.	X		
ME.57	Ability to automatically or manually populate, maintain and display multiple (at a minimum 15) indicators at the Member level (e.g., disease state management, TBI, MRDD).	X		
ME.58	Enrollment broker can automate or be able to directly enter information that would be maintained in the Member record.	X		
ME.59	Ability to allow enrollment brokers to enter Member choice (PCP or HMO) directly into the MMIS.		X	
ME.60	Ability to allow enrollment brokers to enter notes, comments, etc., into MMIS.		X	

1. Member Management (ME)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
ME.61	The Vendor is expected to provide RAPIDS an interface containing HMO/PAAS assignments, TPL, and lock-in information 2-3 days prior to the cut-off date to print on the Medicaid ID cards.		X	
ME.62	Ability to automatically update and edit eligibility information based on information received in Vital Statistics file.		X	
ME.63	Ability to interface with the Department of Corrections to receive incarceration file.		X	
ME.64	Send data to RAPIDS for review of Member termination.		X	
ME.65	Provide an automated link to claims for the Member under current and historical names and ID numbers and display the data.	X		
ME.66	Ability to track and display all Member current and historical names and ID numbers.	X		
ME.67	Provide update capability for all Member data for designated BMS staff and make update separate from inquiry.	X		
ME.68	Allow the user to inquire on Member benefit availability, service limitations, monetary limits, service utilization, and out- of-pocket contributions such as co-pay, deductible, and coinsurance.		X	
ME.69	Allow direct navigation access to a Member's historical claims, PAs, referrals, and case histories.	X		
ME.70	Ability to maintain current and historical eligibility data to support the following:	X		
ME.71	Basic program eligibility verification	X		
ME.72	Special program eligibility verification	X		
ME.73	ID card production (currently the Fiscal Agent provides an interface file that goes to RAPIDS and FACTS which contains Mountain Health Trust, Mountain Health Choices, TPL, and LTC information).		X	
ME.74	Claims processing	X		
ME.75	Premium processing	X		
ME.76	Prior authorization processing	X		
ME.77	Reporting	X		
ME.78	Other activities as specified by the BMS during the DDI phase	X		

1. Member Management (ME)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
ME.79	Ability to maintain a Member data set that contains all data elements, including (but not limited to): (FACTS currently sends different ID numbers for Foster Children vs. State Covered Entities. These numbers are different from the Medicaid ID numbers. Some member IDs are manually entered and are different from RAPIDS and FACTS ID numbers. In the future, the Master Data Management Solution may use different numbering schemes that the MMIS would need to be able to accommodate).		X	
ME.80	Name	X		
ME.81	Residence and mailing address(es)	X		
ME.82	Phone numbers (home, cell, etc.)	X		
ME.83	E-mail address		X	
ME.84	Gender	X		
ME.85	Date of Birth (DOB)	X		
ME.86	DHHR County Office ID	X		
ME.87	Member ID number	X		
ME.88	Unique and/or universal Member identifiers from the eligibility systems		X	
ME.89	Social Security Number (SSN)	X		
ME.90	Medical Health Insurance Claim (HIC) Number (Medicare Number)	X		
ME.91	Race	X		
ME.92	Ethnicity	X		
ME.93	Head of household detail (including but not limited to name, Member ID, SSN)	X		
ME.94	Rate code or MAS/BOE ("aid category")	X		
ME.95	Long Term Care	X		
ME.96	Nursing Home name and Provider ID the Member resides in	X		
ME.97	Effective/Term dates for stay	X		
ME.98	Resource amounts (patient responsibility amount)	X		
ME.99	Resource amounts effective and term dates (patient responsibility amount)	X		
ME.100	Other as identified by BMS during DDI and accepted via formal change control		X	
ME.101	Ability to establish unique, date-specific benefit packages for each program applicable to a Member to ensure correct benefit application.	X		

1. Member Management (ME)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
ME.102	Ability to maintain periods of Medicare eligibility with flexible segments. (Maintaining separate segments for Part A, Part B, and Part D).	X		
ME.103	Ability to maintain client (member) identification numbers to twelve (12) or more digits.		X	
ME.104	Ability to cross-reference current and historical Member identification numbers for all eligibility sources.	X		
ME.105	Maintain and cross-reference Member name changes, including name change date and effective date (the date at which the name change becomes effective).		X	
ME.106	Ability to maintain accurate, date-sensitive SSN information for foster and adopted children whose SSNs are changed by SSA while protecting confidential client information. (This is date-sensitive SSN information regarding Foster and Adopted Children. Fiscal Agent should be able to maintain all claim history for a member even if his SSN is changed).	X		
ME.107	Ability to capture and restrict user access to the actual residential address information, including Zip Codes, for protected populations, in addition to publicly disclosed residential addresses.	X		
ME.108	Ability to maintain and report Member and other data in order to respond to a request from a Member for an accounting of disclosures of his/her Protected Health Information (PHI), in accordance with HIPAA guidelines.	X		
ME.109	**4. Inquire Member Eligibility**			
ME.110	The Vendor is expected to maintain a Medicaid Eligibility Verification System (MEVS).		X	
ME.111	The Vendor is expected to provide each Medicaid Eligibility Verification System (MEVS) vendor daily access to approved Member eligibility data.	X		
ME.112	The Vendor is expected to provide an Automated Voice Response System (AVRS) which accesses the MEVS information.	X		
ME.113	The system is expected to provide web portal eligibility verification with at least the same functionality as that which is available via AVRS.	X		
ME.114	Ability to electronically generate eligibility verification reports based on supplied list (there may be an associated cost to the provider).		X	
ME.115	The system should maintain a log of all telephone and electronic inquiries to eligibility inquiry systems.	X		
ME.116	**5. Perform Population & Member Outreach**			
ME.117	Ability to track Member outreach communications detail, including:	X		

1. Member Management (ME)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
ME.118	Target population		X	
ME.119	Quality measure/s addressed		X	
ME.120	Purpose (e.g., implement programs like enrollment campaigns for waiver programs or other plan/benefits change, privacy notice)		X	
ME.121	Date/s of distribution		X	
ME.122	Method/s of distribution		X	
ME.123	Other as identified by BMS during DDI and accepted via formal change control		X	
ME.124	**6. Manage Applicant & Member Communication**			
ME.125	Ability to generate and distribute Member-related correspondence, reports and associated documents.	X		
ME.126	Ability to attach Member-related correspondence documents to the Member record.	X		
ME.127	Periodically generates Member satisfaction surveys.		X	
ME.128	The system is expected to receive and track summary level mailing data from the enrollment broker for reporting purposes.		X	
ME.129	**7. Manage Member Grievance & Appeal**			
ME.130	Ability to track PA denials in MMIS.	X		
ME.131	Provide the ability for BMS to manually flag denied prior authorizations under appeal.	X		
ME.132	Provide the ability for BMS to run a report of all denied prior authorizations flagged as under appeal.	X		
ME.133	Provide the ability for BMS to display a report of all denied prior authorizations flagged as under appeal.	X		
ME.134	The system should support workflow for the appeals and grievances processes.	X		
ME.135	The system should employ the use of a control mechanism which automatically assigns unique control numbers to monitor, track, and maintain control over all consumer review cases.	X		

2. Provider Management (PM)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PM.1	**1. Enroll Provider**			
PM.2	Ability to enroll Providers eligible to provide Medicaid services.	X		
PM.3	Ability to enroll non-traditional Medicaid Providers to support payment of services in the MMIS. For example, taxi/transportation and respite.	X		
PM.4	Ability to enroll non-Medicaid Providers on behalf of different program or different agency or others as defined by BMS and accepted via formal change control. (No other entities identified at this time, but the Vendor's system is expected to be flexible, scalable, and capable of supporting others).	X		
PM.5	The Vendor is expected to maintain control over all data pertaining to Provider enrollment (including paper batches and electronic data).	X		
PM.6	Ability to generate unique tracking numbers for Provider enrollment applications and updates.	X		
PM.7	Ability to give Providers secure temporary access to the enrollment process and once approved for enrollment, permanent access to the online system.	X		
PM.8	The system should allow Providers the ability to complete and submit enrollment applications and updates in a secure online environment.	X		
PM.9	Ability toautomatically assign Providers a temporary username/password for the online enrollment process.		X	
PM.10	Ability to automatically generate to the submitter a receipt notification with a tracking number when an online application and/or update are submitted for review.	X		
PM.11	Ability to notify Provider that an online update has been received, but requires validation before it becomes effective. (Any update provider would submit. Addition of Medicare number, new address, new certification, etc.).		X	
PM.12	Ability to allow Providers to access their own information and group owners to access information for all Providers in the group.	X		
PM.13	Ability to allow Providers access (with appropriate level of security) to retrieve the status of online applications and updates using their application tracking number.	X		
PM.14	Online screens should provide alternative contact information (e.g., telephone access number, help desk number) for use in case of questions or technical issues.	X		
PM.15	Ability to allow Providers to view online alerts and notifications generated by BMS or Vendor staff.		X	
PM.16	The Vendor is to notify Providers of acceptance/rejection as a West Virginia Medicaid Provider (per BMS specifications regarding notification medium and content).	X		

2. Provider Management (PM)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PM.17	Ability to route online applications and updates to the appropriate staff to work. Configuration of workflow to be defined by BMS during DDI.	X		
PM.18	Ability to alert appropriate staff that a Provider enrollment application has pended for a certain amount of days as defined by BMS.	X		
PM.19	Ability to provide forms online and in downloadable format. Specific forms to be defined by BMS during DDI (e.g., applications, addendums, Provider agreements, W-9 form, EFT, change of address, CLIA forms).	X		
PM.20	Ability to maintain hard and soft (electronic) copies of required Provider enrollment documentation, as defined by the BMS.	X		
PM.21	The Vendor is to maintain a file of all electronic enrollments, including approved and denied Providers. The specifications of the file (including contents and medium) are to be defined by the BMS.	X		
PM.22	Ability to purge enrollment tracking data based on parameters defined by the BMS.		X	
PM.23	Ability to enroll only those Providers who agree to abide by the rules and regulations of the State Medicaid program.	X		
PM.24	Ability to identify and assign Provider applications and updates by Provider types, as defined by BMS.	X		
PM.25	Ability to identify and assign Provider enrollment application status, as defined by BMS (e.g., Initial/New, Resubmitted with Modifications, Cancellation).	X		
PM.26	Ability to identify and display the applicant type, as defined by BMS (e.g., Rendering Provider, Billing Agent, Pay to Affiliations).	X		
PM.27	Ability to track the date enrollment forms are received for each Provider application.	X		
PM.28	Ability to automatically identify and terminate a duplicate enrollment request or update, and give the Provider a meaningful error message.	X		
PM.29	Ability to save partially completed Provider enrollments for a given number of days (to be defined by BMS).		X	
PM.30	Ability to notify applicants of partially submitted applications.		X	
PM.31	Ability to conduct re-verification of currently enrolled Provider, based on BMS-specified conditions. (Specified conditions will be determined during DDI).	X		
PM.32	Ability to use a single online Provider enrollment application with required fields or forms that are dynamically driven by Provider or application characteristic/s (as defined by BMS), including:	X		
PM.33	Applicant type	X		
PM.34	Provider type	X		

2. Provider Management (PM)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PM.35	Other as identified by BMS during DDI and accepted via formal change control		X	
PM.36	Ability to incorporate edits into the dynamic (online) application process to ensure that required fields (as defined by BMS) are completed properly before the application may be submitted.	X		
PM.37	Ability to verify required licenses and certifications at the time of Provider enrollment, and thereafter, at the time of renewal, and maintain all related information.		X	
PM.38	Ability to hold application in pending status until pre-approving entity gives authorization to proceed.	X		
PM.39	Ability to cross-reference license and sanction information with other State and/or Federal agencies. (BMS currently received a monthly file from OIG. A State equivalent is being developed for national use).	X		
PM.40	Ability to verify certification in other states for participating out-of-state Providers.	X		
PM.41	Ability to track, display, and maintain verification of enrollment application/record information, including:	X		
PM.42	Provider Identifiers (e.g., NPI, SSN, EIN)	X		
PM.43	Sanction status (e.g., HIPDB, NPDB, boards, criminal background checks)	X		
PM.44	Credentials (e.g., licensure specialty boards, school, affiliations)	X		
PM.45	Other as identified by BMS during DDI and accepted via formal change control		X	
PM.46	Ability to use an expedited enrollment process to enroll Out of Network Providers for a limited period of time.	X		
PM.47	Ability to allow approved users to manually reactivate inactive Providers.	X		
PM.48	Ability to automatically reactivate inactive Providers, according to criteria defined by BMS.	X		
PM.49	Ability to track and report a Provider's enrollment activity from receipt of application to final disposition.	X		
PM.50	Ability to assign unique Provider number when enrollment is approved.	X		
PM.51	Ability to track and support BMS-established review schedule to ensure Providers continue to meet program eligibility requirements.	X		
PM.52	Ability to maintain and display history and audit trails for online changes and updates.	X		

2. Provider Management (PM)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PM.53	Ability to report and maintain enrollment and update activity statistics (as defined by the BMS). For example: number of enrollment applications/updates received hourly, daily, etc.; number of applications/updates pending.	X		
PM.54	**2. Provider Contracts**			
PM.55	Ability to define procedures and diagnoses a Provider is allowed to render under a Provider's license.	X		
PM.56	Ability to define types of Provider contracts.	X		
PM.57	Ability to support flexible rules-based logic (as specified by BMS and Federal guidelines) to define Provider contracting parameters.	X		
PM.58	Ability to define and easily update (per BMS) the procedures or services a Provider is allowed to provide under a contract.	X		
PM.59	Ability to define and easily update (per BMS) the procedures or services a Provider is allowed to provide based on a Provider grouping.	X		
PM.60	Ability to 'model' or create a new contract from an existing contract.	X		
PM.61	Ability to track and support BMS-established review schedule to ensure Providers continue to meet program eligibility requirements.	X		
PM.62	Ability to maintain and display history and audit trails for online changes and updates.	X		
PM.63	Ability to report and maintain enrollment and update activity statistics (as defined by the BMS). For example: number of enrollment applications/updates received hourly, daily, etc.; number of applications/updates pending.	X		
PM.64	**3. Disenroll Provider**			
PM.65	Ability to allow Providers to submit online request for termination of their Provider agreement.		X	
PM.66	Ability to identify Provider disenrollment request status, as defined by BMS (e.g., initial, duplicate, resubmitted with modifications).		X	
PM.67	Ability to validate that disenrollment meets State rules, as defined by the BMS.		X	
PM.68	Ability to allow users with appropriate authorization to terminate providers.	X		
PM.69	Ability to process disenrollment requests for the full range of Provider types, organizations, specialties, types of applicants (e.g., primary Provider, billing agent, pay-to entity).	X		
PM.70	Ability to process disenrollment requests for all application status types (e.g., Initial/New, Modification, Cancellation, Update).	X		

2. Provider Management (PM)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PM.71	Ability to disenroll Providers after a certain period of inactivity (to be defined by BMS).	X		
PM.72	Ability to distribute notifications of disenrollment due to sanctions or disciplinary actions to the WV Office of the Inspector General (OIG) and other states.	X		
PM.73	**4. Inquire Provider Information**			
PM.74	The Vendor is expected to accommodate Provider enrollment verification requests via phone, fax, portal, and other methods (as specified by BMS during DDI and accepted via formal change control).	X		
PM.75	Ability to log and track all Provider information requests, including:	X		
PM.76	Name of requesting party	X		
PM.77	Date of inquiry	X		
PM.78	Parameters used in system query	X		
PM.79	User name (of user querying system)	X		
PM.80	Validation of Authorization detail	X		
PM.81	Date/time information queried in system	X		
PM.82	Date/time information sent to requester	X		
PM.83	Other as identified by BMS during DDI and accepted via formal change control		X	
PM.84	Ability to support entry of free-form text field that allows narratives (of a length defined by the BMS) for each Provider information inquiry. Each entry is expected to include identification of user and date/time entered.	X		
PM.85	Ability to display free-form narrative in chronological or reverse chronological sequence.	X		
PM.86	**5. Manage Provider Communication**			
PM.87	Ability to generate and distribute Provider-related correspondence, information requests, and notifications, including:	X		
PM.88	Enrollment applications	X		
PM.89	Enrollment rejection notifications	X		
PM.90	Billing instructions	X		
PM.91	Relevant State policy information	X		
PM.92	Request for information to support enrollment/contracting process	X		
PM.93	Mailing labels	X		
PM.94	Program memorandum	X		
PM.95	Notifications of pending expired Provider eligibility	X		

2. Provider Management (PM)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PM.96	Other as identified by BMS during DDI and accepted via formal change control		X	
PM.97	Ability to maintain a record (including an audit trail) of all communication sent to Providers.	X		
PM.98	Ability to maintain a record (including an audit trail) of all communication received from Providers.	X		
PM.99	Ability to maintain an Inquiry Log which identifies each Provider inquiry (electronic, written or telephone) by name, date, nature of the inquiry, and outcome.	X		
PM.100	Ability to track and maintain working files of historical Provider inquiries. Common inquiries (e.g., eligibility, payment status, and billing questions) are to be logged and documented in these files.	X		
PM.101	The BMS is to have the ability to view and update the Provide Inquiry Log.	X		
PM.102	Ability to track and report Provider inquiries regarding billing and submission practices.	X		
PM.103	Ability to allow Provider correspondence to be generated or suppressed according to BMS defined parameters.	X		
PM.104	Ability to allow users to choose between standard/routine Provider correspondence, or to develop customized correspondence.	X		
PM.105	Ability to track and notify Providers of date-dependent events, as defined by BMS (e.g., review dates).	X		
PM.106	Ability to refer Providers to appropriate licensing board (according to criteria defined by BMS).	X		
PM.107	Ability to allow users to view Provider labels, letters, and listings online or on paper.	X		
PM.108	Ability to suppress Provider's ID number from labels, envelopes and other correspondence, as required.	X		
PM.109	Ability to suppress Member's ID number from labels, envelopes and other correspondence, as required.	X		
PM.110	Provider notifications should be linked to related documentation in the system.	X		
PM.111	**6. Manage Provider Appeal**			
PM.112	Ability to support appeals for prospective and current Providers.	X		
PM.113	Ability to track Provider appeal detail, including:	X		
PM.114	Issue detail	X		
PM.115	Filing party	X		
PM.116	Reviewer/s	X		

2. Provider Management (PM)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PM.117	Process status (initial, second, expedited, withdrawn, disposed)	X		
PM.118	Review/hearing date/time	X		
PM.119	Hearing ruling	X		
PM.120	Disposition	X		
PM.121	Other as identified by BMS during DDI and accepted via formal change control		X	
PM.122	Ability to support entry of free-form text field that allows narratives (length to be defined by BMS) for each Provider grievance/appeal that identifies user and date/time entered.	X		
PM.123	Ability to display free-form narrative in chronological or reverse chronological sequence.	X		
PM.124	Vendor should filter Provider correspondence to verify that it meets the criteria (as defined by BMS) to qualify as a grievance prior to submitting to the BMS.	X		
PM.125	Ability to support grievance/appeals process work flow, including automatic notification to appropriate parties (as defined by the BMS).	X		
PM.126	**7. Manage Provider Information**			
PM.127	Ability to perform data exchanges to obtain Provider data from licensing boards, CMS, DEA, the NPI enumeration contractor, and other BMS specified sources.		X	
PM.128	Ability to identify and display the source of any data that is obtained from an external source.	X		
PM.129	Ability to generate automatic notification to the Provider when information is received from external sources to update Provider records (as defined by BMS).	X		
PM.130	Ability to provide role-based access to authorized users to perform mass updates to Provider data, based on flexible selection criteria.	X		
PM.131	Ability to provide role-based access to authorized users, allowing online update and inquiry capabilities of the Provider information files.	X		
PM.132	Ability to provide online, real-time, role-based access to the Provider information using a variety of secure methods, including:	X		
PM.133	Web	X		
PM.134	WAN/LAN	X		
PM.135	Point-of-service devices	X		
PM.136	Other as identified by BMS during DDI and accepted via formal change control		X	

2. Provider Management (PM)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PM.137	Ability to integrate with the following systems to allow users to access and/or enter/edit Provider data:	X		
PM.138	Medicaid Provider Web Portal	X		
PM.139	Automated Voice Response System (AVRS)	X		
PM.140	Electronic Document Management System (EDMS)	X		
PM.141	Other systems as specified by the BMS during DDI	X		
PM.142	Ability to maintain and display an audit trail of all changes to Provider attributes, including date/time and username/source of change (for an amount of time to be defined by BMS).	X		
PM.143	Ability to identify the NPIs of prescribers for Pharmacy purposes.	X		
PM.144	Ability to identify crossover-only Providers.		X	
PM.145	The Vendor should update Provider information as follows:	X		
PM.146	Perform authorized updates on a daily (or otherwise specified) basis with online updates.	X		
PM.147	Perform updates using full transaction files received.	X		
PM.148	Perform mass Provider updates as directed by BMS.	X		
PM.149	Ability to provide authorized users access to current Provider information (e.g., PAs and referrals, Claims, correspondence).	X		
PM.150	Ability to provide online inquiry or look-up of historical Provider information (including enrollment records of terminated Providers), searchable by entering complete or partial identifying information, including:	X		
PM.151	Medicaid Provider ID	X		
PM.152	Provider name	X		
PM.153	National Provider Identifier (NPI)	X		
PM.154	Medicare number	X		
PM.155	Social Security Number (SSN)	X		
PM.156	Phone number	X		
PM.157	Employer Identification Number (EIN)/Taxpayer Identification Number (TIN)	X		
PM.158	Federal Drug Enforcement Agency (DEA) number	X		
PM.159	Previous Identifier(s) (so that all data is historically maintained)	X		
PM.160	Phonetic search	X		
PM.161	Other identifiers used by the BMS	X		
PM.162	Ability to provide authorized users limited role-based access to archived Provider data.	X		

2. Provider Management (PM)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PM.163	Ability to uniquely identify each Provider, allowing for the association of multiple standardized and user-defined identifiers and qualifiers, including:	X		
PM.164	National Provider Identifier (NPI)	X		
PM.165	Former Medicaid ID number	X		
PM.166	Federal Drug Enforcement Agency (DEA) number	X		
PM.167	National Council of Prescription Drug Programs (NCPDP) number	X		
PM.168	Other as identified and/or defined by BMS during DDI and accepted via formal change control		X	
PM.169	Ability to maintain an online cross-reference of BMS-assigned identifier to all other identifiers maintained for a Provider.	X		
PM.170	Ability to maintain an online cross-reference of a Provider's Tax ID number(s) in the event that a new ID is issued to an existing Provider.	X		
PM.171	Ability to identify when multiple BMS-assigned Provider numbers are assigned to a single Provider.	X		
PM.172	Ability to maintain CLIA information.	X		
PM.173	The system should have an automated process that verifies CLIA numbers (e.g., interface with CMS, Health and Human Services (HHS) and Centers for Disease Control (CDC) that monitors CLIA).	X		
PM.174	Ability to use consistent Provider naming conventions to differentiate between first names, last names, and business or corporate names or DBA (Doing Business As) names and to allow flexible searches based on Provider name.	X		
PM.175	Ability to display claims summary information by Provider, including total number of claims submitted, pended, denied, paid and the total dollar amounts (billed and paid amounts) of each category. Reporting periods to be determined by BMS (e.g., calendar month-to-date, Medicaid processing month-to-date, calendar year, Provider fiscal year, Federal/State fiscal year).		X	
PM.176	Ability to identify the Provider Program(s) the Provider is participating in, including but not limited to:	X		
PM.177	State Plan Medicaid	X		
PM.178	Ryan White Program		X	
PM.179	Juvenile Services Benefit Plan		X	
PM.180	Tiger Morton Benefit Plan		X	

2. Provider Management (PM)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PM.181	Mental Retardation/Developmentally Disabled (MRDD) waiver		X	
PM.182	Aged Disabled waiver		X	
PM.183	Children's Health Insurance Plan (CHIP)		X	
PM.184	Breast and Cervical Cancer Program		X	
PM.185	Birth to Three Benefit	X		
PM.186	Other as identified by BMS and accepted via formal change control		X	
PM.187	Ability to associate multiple service locations to the same Provider base identifier. (Service locations are not currently used in claims billing or claims processing and are not captured in the service location claim field).	X		
PM.188	Ability to identify multiple practice locations for a single Provider and associate all relevant data items with the location, such as address and CLIA certification.	X		
PM.189	Ability to maintain group affiliations and managed care enrollment.	X		
PM.190	Ability to affiliate individual Providers to their group(s) (i.e., program(s)).	X		
PM.191	Ability to associate a group with all individual Providers.	X		
PM.192	Ability to associate an unlimited number of Providers with a single group.	X		
PM.193	Ability to define Providers and Provider groups that share common ownership.	X		
PM.194	Ability to identify the type of Provider ownership arrangement.		X	
PM.195	Ability to transfer Provider ownership without re-entry of duplicate information.	X		
PM.196	Ability to identify, cross reference, and link one Provider owner to many rendering Providers and one rendering Provider to	X		
PM.197	Ability to process changes in Provider ownership in which a new owner assumes liability for all activity performed by the Provider prior to the ownership change.	X		
PM.198	Ability to establish Provider pay-to affiliations in a way that accommodates actual practicing locations and Federal and State tax requirements (one 1099 per taxable entity).	X		

2. Provider Management (PM)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PM.199	Ability to identify the affiliation a physician may have with a hospital or multiple hospitals and indicates what types of privileges they have.		X	
PM.200	Ability to maintain corporate names with a naming structure for corporations that do not have first and last names.	X		
PM.201	Ability to track and maintain licensing, credentialing, sanction and certification information that includes:	X		
PM.202	Type, specialty, and sub-specialty	X		
PM.203	Taxonomy	X		
PM.204	Certification begin and end dates	X		
PM.205	Certification type code	X		
PM.206	Certifying agency	X		
PM.207	Certifying state	X		
PM.208	Verification type	X		
PM.209	Verification date	X		
PM.210	Verification due date	X		
PM.211	License ID	X		
PM.212	Sanctioning agency	X		
PM.213	Sanctioning state	X		
PM.214	Sanction begin and end dates	X		
PM.215	Other as identified by BMS during DDI and accepted via formal change control		X	
PM.216	The system should support automatic re-verification of credentials on a periodic basis by program and Provider type, by identifying and notifying when Provider credentials are expiring (notification may include e-mail and/or letters).		X	
PM.217	Provider enrollment/screening should be conducted in compliance with PPACA rules and regulations (e.g., ownership and ownership exclusions are to be screened as directed under PPACA).	X		

2. Provider Management (PM)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PM.218	Ability to enter, store, display and access Provider data, including:	X		
PM.219	Provider Number	X		
PM.220	Provider name	X		
PM.221	Facility name	X		
PM.222	Billing name	X		
PM.223	Provider license number	X		
PM.224	IRS name	X		
PM.225	Provider type - with the flexibility to accommodate and maintain non-medical Providers on the Provider master and affiliates.	X		
PM.226	Provider title	X		
PM.227	Multiple mailing addresses		X	
PM.228	Multiple practice addresses		X	
PM.229	Ownership information	X		
PM.230	Change in ownership information	X		
PM.231	Long-term care facility data, including:	X		
PM.232	Number of beds by licensed level of care		X	
PM.233	WV DHHR Office of Health Facility Licensure and Certification (OHFLAC) certification/re-certification	X		
PM.234	Physical address and contact information of the facility	X		
PM.235	Other as identified by BMS during DDI and accepted via formal change control		X	
PM.236	Payment address	X		
PM.237	County number	X		

2. Provider Management (PM)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PM.238	Multiple phone numbers	X		
PM.239	Fax number	X		
PM.240	Multiple e-mail addresses		X	
PM.241	Web site url		X	
PM.242	Drug Enforcement Agency (DEA) number - including historic data with effective and end dates	X		
PM.243	National Council for Prescription Drug Programs (NCPDP) number - including historic data with effective and end	X		
PM.244	Employer Identification Number (EIN)/Taxpayer Identification Number (TIN) and effective and term dates	X		
PM.245	Social Security Number (SSN)	X		
PM.246	Provider CLIA (Clinical Laboratory Improvement Amendments) number and related address	X		
PM.247	Medicare numbers	X		
PM.248	Managed Care Organization (MCO) affiliations	X		
PM.249	Group number	X		
PM.250	Specialty/sub-specialty data	X		
PM.251	License and certification data	X		
PM.252	Date of birth	X		
PM.253	Date of death		X	
PM.254	Gender	X		
PM.255	Language	X		
PM.256	Additional training or certification indicator	X		
PM.257	Restrictions on dispensing of specific drugs	X		
PM.258	Provider enrollment status codes with associated effective and end dates	X		

2. Provider Management (PM)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PM.259	Provider program eligibility with associated effective and end dates	X		
PM.260	Contractual terms, including:	X		
PM.261	Services contracted to provide	X		
PM.262	Performance measures (service level agreements and KPIs)		X	
PM.263	Reimbursement rates	X		
PM.264	Summary level payment data which is automatically updated after each claims processing payment cycle by the following:	X		
PM.265	Calendar week-to-date	X		
PM.266	Calendar month-to-date	X		
PM.267	Calendar year-to-date	X		
PM.268	State fiscal year-to-date		X	
PM.269	Federal fiscal year-to-date		X	
PM.270	1099 reported amount (current and prior year)	X		
PM.271	Ownership date	X		
PM.272	Physician Assured Access System (PAAS) indicator		X	
PM.273	Fee-for-service (FFS) indicator		X	
PM.274	Crossover indicator		X	
PM.275	Suspended/Suspension indicator		X	
PM.276	Suspended/Suspension effective and terminated dates		X	
PM.277	Primary Care Case Management (PCCM) indicator		X	
PM.278	Out-of-state Provider indicator	X		

2. Provider Management (PM)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PM.279	Rural, urban, or teaching hospital indicator	X		
PM.280	Electronic Funds Transfer (EFT) information	X		
PM.281	Electronic Claims Management (ECM) data	X		
PM.282	Billing restriction data, with applicable begin and end dates	X		
PM.283	Medical degree information.		X	
PM.284	Providers PCP panel information including:	X		
PM.285	Accepting new patient indicator	X		
PM.286	Age range	X		
PM.287	Gender	X		
PM.288	Authorized enrollment		X	
PM.289	Current enrollment/maximum enrollment and number left		X	
PM.290	Other as identified by BMS during DDI and accepted via formal change control		X	
PM.291	Ability to identify Provider 'on call' information to capture 'covering for' and 'covered by' Providers.		X	
PM.292	Ability to provide an free-form text narrative (length to be determined by BMS) at the base-Provider level that:	X		
PM.293	Identifies the user, date, and time entered.	X		
PM.294	Provides the capability to display free form narrative in chronological or reverse chronological sequence.	X		
PM.295	Includes an associated user-defined special condition code/flag (for classification/reporting purposes).		X	
PM.296	Ability to report on the special condition code/flag.		X	
PM.297	Ability to define the relationship between a Provider and an ED submitter as well as billing agent.		X	
PM.298	**8. Perform Provider Outreach**			
PM.299	Ability to track Provider outreach communications detail, including:	X		

2. Provider Management (PM)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PM.300	Target population	X		
PM.301	Issues or measure/s addressed (e.g., new immigrant population in need of language compatible Providers)		X	
PM.302	Purpose (e.g., corrections to billing practice, public health alerts, public service announcement)		X	
PM.303	Date/s of distribution	X		
PM.304	Method/s of distribution	X		
PM.305	Other as identified by BMS during DDI and accepted via formal change control		X	
PM.306	Ability to perform Provider outreach to both prospective and current Providers.	X		

3. Operations Management (OM)
OM1. Service Authorization

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM1.1	**1. Authorize Referral**			
OM1.2	Ability to adjudicate claims for PAAS Member service referrals from the Member's PCP to another Provider, using the standard fee-for-service claims processing rules.	X		
OM1.3	Ability to verify Member eligibility and PAAS participation during referral claim processing.	X		
OM1.4	Ability to verify PAAS referral during claim processing.		X	
OM1.5	Ability to conduct claims edits/audits for referral claims according to BMS business rules.	X		
OM1.6	**2. Authorize Services**			
OM1.7	The Prior Authorization component of the system should integrate with the Claims component.	X		
OM1.8	Claim processing performs Prior Authorization validation.	X		
OM1.9	The Prior Authorization component should be integrated with the web portal, AVRS, EDI and EDMS components.		X	
OM1.10	Ability to access (or extract) data in other BMS system files to obtain reference information, including service limitations, to update PA records. The prior authorization file should interface with, as a minimum, Claim Processing, Provider Management Data Store, Member Management Data Store, and reference systems.		X	
OM1.11	Ability to interface with MMIS to identify procedure codes that require PA (medical utilization requirements).	X		
OM1.12	Ability to accommodate additions and updates of prior authorizations by interface.	X		
OM1.13	The Vendor is expected to support on-line entry and interface entry of prior authorization data with other prior authorization vendors.	X		
OM1.14	The system is expected to provide real-time access via various methods (e.g., Web, AVRS, WAN/LAN workstations) for PA status inquiries.	X		
OM1.15	Ability to support submission of prior authorizations by other State agencies, other vendors, and BMS. (The Vendor is expected to be responsible for providing the prior authorization part of the MMIS system. In some cases the vendor will be expected to key PAs into the system. Prior Authorization review is to be performed by BMS or by the prior authorization vendor).	X		
OM1.16	Ability to allow users to submit a PA request on the Provider’s behalf.	X		
OM1.17	Ability to accept and create PAs from MDS data for nursing facilities. (MDS is the Minimum Data Set which is a federally mandated assessment to be completed for all nursing home residents that reside in Medicare and Medicaid certified beds).		X	

3. Operations Management (OM)
OM1. Service Authorization

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM1.18	Ability to accommodate future versions of the HIPAA electronic PA transactions.	X		
OM1.19	Ability to ensure all known and emerging BMS and Federal policy changes are reflected in the maintenance of the PA data repository.	X		
OM1.20	Ability to maintain and easily retrieve Provider-specific and Member-specific PA history.	X		
OM1.21	Ability to accept on-line, real-time inquiry, entry and update of PA requests, including initial entry of PA requests pending determination.	X		
OM1.22	Ability to allow Providers to submit PA requests electronically or through the web portal.	X		
OM1.23	Ability to provide an on-line tutorial for PA application to guide users through the screens necessary to complete to request a PA.	X		
OM1.24	Ability to allow for electronic submission of PA request attachments (e.g., EDI 275, HL7).	X		
OM1.25	Ability to allow PA request forms to be available online for download by users.	X		
OM1.26	Ability to automatically generate and distribute the necessary (i.e., specific to the situation / PA requirements) BMS-approved PA request forms and attachments to Providers.	X		
OM1.27	Ability to integrate prior authorization-related correspondence, reports and associated documents with the EDMS component.	X		
OM1.28	Ability to support PA entries for medical services such as (but not limited to) the following:	X		
OM1.29	Vision	X		
OM1.30	Dental	X		
OM1.31	Durable Medical Equipment (DME)	X		
OM1.32	Surgical procedures	X		
OM1.33	Other as identified by BMS during DDI and accepted via formal change control		X	
OM1.34	Ability to process PA requests for covered services excluded from the long-term care all-inclusive rate (e.g., Physician services, Hospital, etc.) or an indicator that serves to deny their services for purposes of reporting.	X		
OM1.35	Ability to automatically provide PA staff (during PA process) with information when Member is a LTC facility resident/inpatient. Information should include:	X		
OM1.36	Level of Care (LOC)	X		
OM1.37	LOC effective dates	X		

3. Operations Management (OM)
OM1. Service Authorization

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM1.38	Name of facility	X		
OM1.39	Medicaid Provider Number	X		
OM1.40	LTC facility date spans	X		
OM1.41	Spend-down amount	X		
OM1.42	Patient Liability Amount (PLA)	X		
OM1.43	PLA effective dates	X		
OM1.44	Ability to submit and approve retrospective authorizations.	X		
OM1.45	Ability to interface with MMIS and populate PA screens with PA information to be determined during design.	X		
OM1.46	Ability to generate a unique tracking number for PA requests.	X		
OM1.47	Ability to automatically notify submitter of successful submission and display the tracking number.	X		
OM1.48	Ability to assign a unique PA number as soon as the submitted request is approved.	X		
OM1.49	Ability to accept and retain the PA number submitted by the PA vendor.	X		
OM1.50	Ability to use tracking number to link attachments submitted by mail to electronic PA request.	X		
OM1.51	Ability to use tracking number to link attachments submitted electronically to electronic PA request.	X		
OM1.52	Ability to recognize both the NPI and former Medicaid ID number.	X		
OM1.53	The system should have the ability to capture and display PA data which includes, at minimum, the following:	X		
OM1.54	PA number	X		
OM1.55	Member ID	X		
OM1.56	Service code/s	X		
OM1.57	Procedure/NDC code	X		
OM1.58	Modifier codes	X		
OM1.59	Billing, rendering, and referring Provider information, including name, and Provider ID/NPI		X	
OM1.60	Dates of service	X		
OM1.61	Effective and term date of PA	X		
OM1.62	Requested effective date of PA	X		
OM1.63	Units of service expressed as days, quantity per day, number of services, dollars, tooth number/letter, tooth surface	X		
OM1.64	Quantity used	X		

3. Operations Management (OM) OM1. Service Authorization				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM1.65	Miscellaneous codes w/ notes field (for contractors)	X		
OM1.66	Rates	X		
OM1.67	Member Rate code	X		
OM1.68	Dollar cap	X		
OM1.69	Local Provider information	X		
OM1.70	Limits (including calendar month limits)	X		
OM1.71	Room and board	X		
OM1.72	Waiver start date	X		
OM1.73	Manufacturer product number		X	
OM1.74	Status of the PA request (including pending, denied, approved, and modified)	X		
OM1.75	Date approved	X		
OM1.76	History of all actions taken on PA request, including amendments	X		
OM1.77	Date of last change, ID of person changing, and information changed for each PA record	X		
OM1.78	ID of authorizing person	X		
OM1.79	Other as identified by BMS during DDI and accepted via formal change control		X	
OM1.80	Ability to allow the identification of the principal procedure and date, and the inclusion of five additional procedures and dates.	X		
OM1.81	Ability to include descriptions of codes in the PA request.	X		
OM1.82	Ability to allow for expansion and addition of fields to the on-line PA request form.	X		
OM1.83	Ability to provide a free-form text narrative (length to be approved by BMS) at the base PA level and at functional levels that:	X		
OM1.84	Identifies and displays the user, date, and time entered	X		
OM1.85	Provides the capability to display free form narrative in chronological or reverse chronological sequence	X		
OM1.86	Ability to accommodate flexible time span dates for PA (by calendar month, calendar year, rolling month, and other as defined by BMS).		X	
OM1.87	Ability to apply the method and hierarchy of PA processing criteria as defined by BMS.	X		
OM1.88	Ability to automatically approve certain PA requests based on information entered (as identified by BMS).	X		
OM1.89	Ability to perform comprehensive on-line and batch edits to ensure the integrity of prior authorization data.	X		

3. Operations Management (OM)
OM1. Service Authorization

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM1.90	Ability to run edits on submitted PA requests, such as the following:	X		
OM1.91	Relationship edits	X		
OM1.92	Field length/type	X		
OM1.93	Character type	X		
OM1.94	Ability to edit PAs on-line for the presence of required data to include:	X		
OM1.95	Valid Provider ID and eligibility	X		
OM1.96	Valid procedure and diagnosis codes	X		
OM1.97	Presence of required claim type-specific data on the PA	X		
OM1.98	Covered service	X		
OM1.99	Allowed dollar amounts/unit	X		
OM1.100	Other as identified by BMS during DDI and accepted via formal change control		X	
OM1.101	Ability to automatically alert Providers of the need for additional information (e.g., HIPAA 278 transaction, pdfs), providing return messages that clearly describe necessary action.	X		
OM1.102	Ability to reject PA request if it does not pass all edits.	X		
OM1.103	Ability to automatically notify the submitter of failed PA submission and identify which field(s) did not pass edits.	X		
OM1.104	Ability to automatically generate Provider alerts and notifications, to include:	X		
OM1.105	The need for additional information on an already submitted PA request	X		
OM1.106	Reminders of missing information	X		
OM1.107	System updates/policy changes	X		
OM1.108	Duplicate or possible duplicate requests	X		
OM1.109	Ability to automatically notify users of duplicate or possible duplicate PA requests for on-line PAs as well as PAs submitted via the interface files.	X		
OM1.110	Ability to identify and reject duplicate PAs across all PA types based on user configurable criteria including:	X		
OM1.111	Client identifier	X		
OM1.112	Rendering Provider identifier	X		
OM1.113	Service from and through dates	X		
OM1.114	Diagnosis code(s)	X		
OM1.115	Procedure code(s), revenue code(s)	X		

3. Operations Management (OM)
OM1. Service Authorization

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM1.116	Other as identified by BMS during DDI and accepted via formal change control		X	
OM1.117	Ability to allow Providers access to pended PAs for near real-time corrections, but only have access to certain data fields (those fields that need to be corrected).	X		
OM1.118	Ability to alert/notify specified staff when an on-line PA request pends. Notification should identify and briefly describe the edit that caused the PA request to pend/suspend.	X		
OM1.119	Ability to retain incomplete PA request submissions for a minimum number of days, to be defined by BMS, before deleting the record.		X	
OM1.120	When a Member record is not on file, an electronic PA should be re-cycled (i.e., resubmitted for processing) for 30 days before being included in the PA rejection file.		X	
OM1.121	Ability to notify the Provider following the approval or denial of a PA.	X		
OM1.122	Ability to automatically generate approval or denial notices as soon as the determination has been made.	X		
OM1.123	Ability to support role-based override capabilities for individual edits by authorized user.	X		
OM1.124	Ability to identify those individuals who authorized and performed an override.	X		
OM1.125	Ability to accept PAs for a terminated Member for eligible dates of services.	X		
OM1.126	Ability to maintain PA active status when Member loses eligibility.	X		
OM1.127	Ability to allow staff to suspend PA requests, based on BMS rules, and identify the PA suspense status. Notify Provider electronically or in a written format (e.g., mail) with results of PA clerical and/or clinical reviews and request additional information that is required from the Provider.	X		
OM1.128	Ability to allow staff to select the reason codes explaining the disposition of the request when a PA denies/approves.	X		
OM1.129	Ability to allow staff to query PA history on-line, and filter and sort results based on select criteria defined by BMS (e.g., Member, Provider, procedure code).		X	
OM1.130	Ability to link to eligibility data when reviewing the PA request.	X		
OM1.131	Provide authorized PA staff information about the Member's participation or enrollment in other programs that would affect the disposition of the PA without having to move to another application or environment.	X		
OM1.132	Ability to auto-populate the PA number at the claim line level regardless of Provider submission.	X		

3. Operations Management (OM)
OM1. Service Authorization

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM1.133	The system should allow Providers to view remaining/unused units authorized.	X		
OM1.134	Ability to make authorization data available to BMS staff, if other vendors or organizations perform authorizations, to the same extent the information would be available if BMS performed the PA function.	X		
OM1.135	Ability to provide PA search options, including search by PA number.	X		
OM1.136	Ability to return multiple PAs if more than one match is found.	X		
OM1.137	Ability to provide multiple users with simultaneous, on-line, role-based access to a PA request, but build in features that would preclude simultaneous edits by multiple users.	X		
OM1.138	Ability to allow users to amend a PA record multiple times and display the history on-line.	X		
OM1.139	Ability to provide PA audit trail capability to:	X		
OM1.140	Track and report all PA related changes	X		
OM1.141	Identify the individual who modified the system data	X		
OM1.142	Record the date that the modification occurred	X		
OM1.143	Display an audit trail of all PA processing steps	X		
OM1.144	View on-line all PA audit trail information	X		
OM1.145	Other as identified by BMS during DDI and accepted via formal change control		X	
OM1.146	Ability to process the PA and limit the price for a service to the amount authorized on the PA.	X		
OM1.147	Ability to maintain the authorized PA price.	X		
OM1.148	Ability to develop business rules which dictate whether the rate established under the PA approval takes precedence over other payment rules (e.g., lesser of billed charges cannot exceed the maximum fee scheduled) or vice versa. Assure that, if non-PA pricing rules take precedence, pre-determined override procedures and business rules are followed to make special pricing exceptions requiring that special documentation be completed for the override to work.	X		
OM1.149	Ability to provide flexibility to allow waiver PAs to be capped at a dollar amount at the consumer level, at the service level, at the Provider level or any combination that can be controlled and/or measured through available claim/PA file data (as determined by business rules approved by BMS).	X		
OM1.150	Ability to approve service authorization requests for waiver services up to a specific dollar amount.	X		

3. Operations Management (OM) OM1. Service Authorization				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM1.151	Ability to prohibit PA approval from occurring (i.e., PA should not force the claim to pay) if BMS business rules prohibit coverage of the service.	X		
OM1.152	Ability to assure that, when an overall service requiring PA results in the submission of multiple claim types from a variety of Provider types, the disposition of all PA requests are consistent with one another (if the methodology requires a separate PA request for each claim to be submitted). The system should link or bundle all related PAs so that the disposition is the same across all Providers. (For example, if gastric-bypass surgery requires PA, the disposition for the hospital facility payment, the surgeon's payment, and the anesthesiologist's payment should be consistent (e.g., approved, denied, deferred, etc.).	X		
OM1.153	The system should allow users to call up PA requests with a linked or bundled relationship as a complete service package.	X		
OM1.154	Ability to handle HCPCS codes with a minimum of four (4) modifiers. When processing prior authorized claims, the system should match the PA-required procedure codes submitted on the claim against the approved PA request at the modifier, or if applicable, at the multiple modifier level.		X	
OM1.155	Ability to automatically link the paid claim record with the PA record.	X		
OM1.156	Ability to update PA records based on claims processing to indicate that the authorized service has been used or partially used, including units and/or dollars, during each PA request period. This information should be captured and displayed with PA history.	X		
OM1.157	Ability to provide dual limitation (e.g., total units/year with a monthly limit) controlling the dispensing of services over a long period of time.	X		
OM1.158	Ability to identify service categories that are subject to the same limitation and accumulate the same combination of services. Use combined services to compare to service authorization limit.		X	
OM1.159	Ability to allow for modification to the scope of services authorized and extend or limit the effective dates of authorization.	X		
OM1.160	Ability to update PA records based on claims processing to restore reversed units to the PA, during each PA request period.		X	
OM1.161	Ability to amend authorizations past the end date.	X		
OM1.162	Ability to identify and review PA requests for which an appeal has been submitted (including those that are approved and on appeal), indicate the outcome of such reviews, and identify PAs for which an appeal has been filed.	X		
OM1.163	Ability to automatically identify active or pended PA records when a reference file has been updated (e.g., procedure code, Provider ID), generate a report and request an update as necessary.	X		

3. Operations Management (OM) OM1. Service Authorization				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM1.164	The system should provide statistical and operational reporting capabilities.	X		
OM1.165	Ability to report and maintain web portal PA activity statistics.	X		
OM1.166	Ability to automatically generate a letter to the Provider for BMS entered authorizations. The letter is to include the PA number.	X		
OM1.167	Ability to provide PA-related correspondence functions to include the following:	X		
OM1.168	Template development and the ability for users to select desired correspondence from a list of available templates	X		
OM1.169	Display, print, and save PA-related correspondence via the EDMS component of the MMIS	X		
OM1.170	Regenerate correspondence	X		
OM1.171	Allow users to suppress or allow auto generation of correspondence based on user configurable event-driven criteria	X		
OM1.172	Allow users to insert and override address information on correspondence	X		
OM1.173	Allow users to add free form text to individual or groups of PA correspondence		X	
OM1.174	Other as identified by BMS during DDI and accepted via formal change control		X	
OM1.175	Ability to automatically alert staff via email that letters/notifications have been generated.	X		

3. Operations Management (OM) OM2. Payment Management, Claims/Encounter Adjudication				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM2.1	**1. Claims Processing**			
OM2.2	Ability to provide and maintain a claims processing component with the capability to process electronic and paper transactions.	X		
OM2.3	Ability to perform real-time adjudication of claims.	X		
OM2.4	Ability to process all standard claim types, including:	X		
OM2.5	Institutional (UB-04, 837-I)	X		
OM2.6	Professional (CMS-1500, 837-P)	X		
OM2.7	Dental (ADA, 837-D)	X		
OM2.8	Pharmacy (NCPDP current and future versions (electronic) or Universal claim form (paper))	X		
OM2.9	Ability to provide a Claims Processing component that offers the following functionality:	X		
OM2.10	Claim Entry and Editing	X		
OM2.11	Claim Auditing	X		
OM2.12	Claims Inquiry	X		
OM2.13	Claims Tracking	X		
OM2.14	Batch Control (Batch Control is used for paper claims. Currently these are batches of 50 claims. A report is also produced as these claims are sent to a keying organization. The Batch Control report verifies that all claims in a batch are accounted for).	X		
OM2.15	Quality Control	X		
OM2.16	Pricing	X		
OM2.17	Claim Output (Claim Output would be used in interface files or in reporting. The formats of Claim Output would be discussed in DDI).	X		
OM2.18	Suspense (pend) Correction	X		
OM2.19	Interface with POS system	X		
OM2.20	Third Party Liability	X		
OM2.21	Month-End Processing	X		
OM2.22	1099 Adjustments	X		
OM2.23	Claims History File	X		
OM2.24	Attachments	X		
OM2.25	Claim Forms	X		

3. Operations Management (OM)

OM2. Payment Management, Claims/Encounter Adjudication

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM2.26	Automated procedure code editing which allows acceptance of nationally recognized modifiers	X		
OM2.27	Claim Disposition (for all claim types, according to BMS and Federal processing rules)	X		
OM2.28	Electronic Media Claims	X		
OM2.29	Claim Payment	X		
OM2.30	Accounts Payable Management	X		
OM2.31	Accounts Receivable Management	X		
OM2.32	Provider Credits and Adjustments Processing	X		
OM2.33	Explanation of Medical Benefits (EOMB) Processing	X		
OM2.34	Diagnosis Related Group (DRG) Processing	X		
OM2.35	Resource Based Relative Value Scale (RBRVS) Processing		X	
OM2.36	APC (Ambulatory Patient Classification) Processing (OPPS out-patient prospective processing system)	X		
OM2.37	Prior Authorization (PA) Processing	X		
OM2.38	Refund Function at Header and Line Level (for all medical, dental and pharmacy claims)	X		
OM2.39	Gross payment for Med/Dent and Pharmacy POS		X	
OM2.40	Adpay for Med/Dent and Pharmacy POS (an adpay is a financial, non-member specific transaction/claim created to issue certain types of payments such as DSH to providers).		X	
OM2.41	Manage Member Incentive Programs	X		
OM2.42	Produce Check Files	X		
OM2.43	Produce Remittance Advice	X		
OM2.44	Other as identified by BMS during DDI and accepted via formal change control		X	
OM2.45	Ability to accept all HIPAA formatted electronic claims submissions.	X		
OM2.46	The system should not accept non-HIPAA compliant codes or characters into the system.	X		
OM2.47	Ability to identify Members with other insurance (including, but not limited to, Medicare Part A, B, and D).	X		
OM2.48	Ability to collaborate with Medicare intermediaries, Part A, B and D, on an ongoing basis to receive and process cross-over claims through the Medicare electronic data submission system.	X		
OM2.49	Ability to identify and process pay-and-chase claims (including subrogation). Capture other insurance allowed and payable amounts.	X		

3. Operations Management (OM) OM2. Payment Management, Claims/Encounter Adjudication				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM2.50	Ability to identify TPL and assure that the Title XIX program is the payer of last resort in accordance with the State plan.	X		
OM2.51	Ability to process claims for populations that are not Title XIX.	X		
OM2.52	The claims processing component is expected to integrate with all other functional areas of the MMIS, including Member, Provider, Benefit Plans, Prior Authorizations, Contracts, Pharmacy, Referrals, Reference (including Correct Coding Initiative, editing), enhanced claim editing, other insurance, and Financial.	X		
OM2.53	Adjudicated claims cannot be changed outside an approved adjustment process. Once a claim is adjudicated and in a final status, the information is to remain static while it is displayed (e.g., users may not cut claim information from claim lines/data).	X		
OM2.54	Ability to provide a free-form text narrative (length/number of characters to be approved by BMS) on the claim record that:	X		
OM2.55	Identifies the user, date, and time entered	X		
OM2.56	Provides the capability to display free form narrative in chronological or reverse chronological sequence	X		
OM2.57	Includes an associated user-defined special condition code/flag		X	
OM2.58	Ability to report on the special condition code/flag.		X	
OM2.59	Other as identified by BMS during DDI and accepted via formal change control		X	
OM2.60	**2. Claims History File**			
OM2.61	Ability to maintain a full historical record, which includes edit, audit, and resolution information, from initial receipt to paid status.	X		
OM2.62	Ability to capture and store adjudication details to include payments, contracts, discount adjustments, and patient liability.	X		
OM2.63	Ability to capture and store the data that is derived during claims processing functions.	X		
OM2.64	Ability to use historical records of client eligibility for claims processing functions.	X		
OM2.65	**3. Claims Management / Claims Capture and Controls**			
OM2.66	The system is expected to capture and control claims data from the time of initial receipt through the final disposition, payment and archiving on claims history files.	X		
OM2.67	Ability to employ the use of a claims control mechanism which automatically assigns unique control numbers to monitor, track, and maintain control over claims, adjustments and financial transactions.	X		

3. Operations Management (OM) OM2. Payment Management, Claims/Encounter Adjudication				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM2.68	Ability to maintain accurate and complete registers and audit trails of all processing.	X		
OM2.69	Ability to provide claims audit trail capability to:			
OM2.70	Track and report all claim related changes	X		
OM2.71	Identify the individual who modified the claim data	X		
OM2.72	Record the date that the modification occurred	X		
OM2.73	Display an audit trail of all processing steps	X		
OM2.74	View on-line all claims audit trail information	X		
OM2.75	Other as identified by BMS during DDI and accepted via formal change control		X	
OM2.76	Records and edits that all required attachments, per the reference records or edits, have been received and maintained for audit purposes.	X		
OM2.77	Ability to retain and display as part of the claim record the billing agent submitter/ID number.	X		
OM2.78	**4. Claims Inquiry**			
OM2.79	Ability to respond to queries concerning Member eligibility and benefit status.	X		
OM2.80	Ability to verify that Member is eligible for the type of service at the time the service was rendered, plus a hierarchy algorithm for dual eligibles.	X		
OM2.81	Ability to provide online, real-time claims inquiry by search criteria including:	X		
OM2.82	Member ID and/or name	X		
OM2.83	Rendering Provider ID and/or name, including NPI	X		
OM2.84	Billing Provider ID and/or name	X		
OM2.85	PA or referral	X		
OM2.86	Dates of service, paid, denied, pended	X		
OM2.87	HCPCs, CPT, DRG, revenue, and/or NDC codes	X		
OM2.88	Combination of any of the above	X		
OM2.89	Other inquiry criteria as determined by the BMS during DDI	X		
OM2.90	**5. Prior Authorization**			
OM2.91	Ability to automatically identify and link the correct PA based on matching data between the claim and the PA, driven by BMS-defined user configurable criteria such as Client ID, Rendering Physician ID, Date of Service, diagnosis code, and procedure code, and payment amount.	X		

3. Operations Management (OM) OM2. Payment Management, Claims/Encounter Adjudication				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM2.92	Ability to provide a selection screen when multiple PAs match the auto assignment criteria.		X	
OM2.93	Ability to link PAs to claims based on PA identifiers submitted with the claim.		X	
OM2.94	Ability to allow multiple PAs to be linked to a specific claim.	X		
OM2.95	Ability to provide a claims screen that displays all PAs linked to a specific claim.	X		
OM2.96	Ability to update PA data during the adjudication process to reflect utilization of services including:	X		
OM2.97	Authorized unit, visit, and dollar amounts used	X		
OM2.98	Authorized unit, visit, and dollar amounts remaining	X		
OM2.99	Accumulators reset for claims reversals	X		
OM2.100	Other as identified by BMS during DDI and accepted via formal change control		X	
OM2.101	**6. Business Rules**			
OM2.102	Ability to maintain information that allows procedures to be automatically priced according to BMS–defined business rules, rates and effective dates.	X		
OM2.103	Ability to manage audits/edits to avoid hard-coding that is not accessible to the user.	X		
OM2.104	Ability for the user to define and update business rules real-time.	X		
OM2.105	Ability to maintain and view business rule change history on-line.	X		
OM2.106	Ability to maintain status of business rules (development, testing, production).	X		
OM2.107	Ability to retain in and display as part of the claim record all business rules that were applied to the claim for adjudication and pricing.	X		
OM2.108	Ability to execute impact analysis testing of any proposed business rule change.	X		
OM2.109	**7. Edits/Audits**			
OM2.110	Ability to process claims according to a Member's program benefits.	X		
OM2.111	Ability to provide claim editing processes necessary to detect and correct (when possible and appropriate) erroneous data. The system should include:	X		
OM2.112	Real-time integration to MMIS claims adjudication processes	X		
OM2.113	User configurable functions	X		
OM2.114	Report generation features	X		

3. Operations Management (OM) OM2. Payment Management, Claims/Encounter Adjudication				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM2.115	Up-to-date code sets and edit criteria	X		
OM2.116	Other as identified by BMS during DDI and accepted via formal change control		X	
OM2.117	The system is expected to incorporate the BMS's existing edits and audits.		X	
OM2.118	Ability to apply any defined audit/edit specific to any procedure code when billed on any claim form type, as defined by the user.	X		
OM2.119	Ability to apply Medicare Correct Coding Initiative (CCI) edits to defined claim line items.	X		
OM2.120	Ability to edit Third Party Liability (TPL) claims to adhere to the cost avoidance adjudication rules specified in the Federal Regulations.	X		
OM2.121	Ability to establish edits specific to a TPL insurance policy.	X		
OM2.122	Ability to allow authorized users (per BMS approval) to set criteria allowing claims to bypass the enhanced claim editing component based on a variety of factors to include:	X		
OM2.123	Dollar thresholds	X		
OM2.124	Member or Provider specific criteria	X		
OM2.125	Medical coding	X		
OM2.126	Other as identified by BMS during DDI and accepted via formal change control		X	
OM2.127	Ability to apply any claims processing function based on characteristics of the Provider (e.g., type, specialty, and individual or group enrollment).	X		
OM2.128	Ability to perform pre-payment claims audits using criteria that includes:	X		
OM2.129	Comparison of diagnosis codes against billed services	X		
OM2.130	Unbundling of procedure codes, when bundling is more appropriate and vice versa	X		
OM2.131	Mutually exclusive procedures	X		
OM2.132	Duplicate or near duplicate payments	X		
OM2.133	Duplicate services	X		
OM2.134	Service limits	X		
OM2.135	Age and gender appropriate services	X		
OM2.136	Duplicate Medicare cross-over claims	X		
OM2.137	Consistent payment across various Provider types for the same services	X		
OM2.138	Breakdowns of savings based on changes to clinical rules		X	

3. Operations Management (OM)
OM2. Payment Management, Claims/Encounter Adjudication

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM2.139	Trends in historical data		X	
OM2.140	Rules review	X		
OM2.141	New visit frequency		X	
OM2.142	Incidental surgical procedures	X		
OM2.143	Pricing of multiple surgeries and multiple modifiers	X		
OM2.144	Add-on codes from multiple surgery editing	X		
OM2.145	Application of AMA guidelines as defined in the CPT for asterisked procedures		X	
OM2.146	Appropriate use of modifiers	X		
OM2.147	An automated clinical review process	X		
OM2.148	Other as identified by BMS during DDI and accepted via formal change control		X	
OM2.149	Ability to use data in any field on a claim to apply an audit.	X		
OM2.150	Ability to verify that all Providers submitting input are properly enrolled.	X		
OM2.151	Ability to pay for services, Members or Providers who are normally not paid through the MMIS (where applicable), when required for exception claim processing. (Note - Provider is to be enrolled to receive payment.)	X		
OM2.152	Ability to process mathematical calculations on the current claim and associated claims in history to limit payments to global (i.e., bundled, controlling) procedures.	X		
OM2.153	Ability to define date parameters to support adjudication of services.	X		
OM2.154	**8. Suspensions (Pends) and Exceptions**			
OM2.155	The Vendor is expected to perform online pended claims resolution.	X		
OM2.156	Ability to automatically suspend all transactions in error until corrections are made.	X		
OM2.157	Ability to perform exception control (desktop procedures).	X		
OM2.158	Ability to allow authorized users to override any edits/audits to manually adjudicate a claim when required for exception claim processing.	X		
OM2.159	Ability to capture the identity of the user who authorizes the exception payment.	X		
OM2.160	Ability to reprocess claims that have not been finalized for payment.	X		

3. Operations Management (OM)
OM2. Payment Management, Claims/Encounter Adjudication

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM2.161	Ability to reprocess claims automatically when that claim was denied as a result of an unapproved PA and that PA is later approved.		X	
OM2.162	Ability to systematically reprocess claims that have not reached final disposition without requiring the user to intervene on a claim- by-claim basis.	X		
OM2.163	Ability to define criteria for systematic claims reprocessing, with the ability to review and modify that selection of claims prior to reprocessing.	X		
OM2.164	Ability to flag and reprocess previously paid claims within the designated service date span if a rate change happened to be a retroactive rate change, and implement into production only upon authorized staff approval.	X		
OM2.165	Ability to capture and report on reprocessed claims detail, including (but not limited to) retroactive rate changes, identify of the user authorizing, dates of original processing and reprocessing.	X		
OM2.166	Ability to override established pricing calculations if the claim or the Provider billing the claim meets the requirements defined by BMS for pricing exceptions.	X		
OM2.167	Able to capture, display and report on encounter data.	X		
OM2.168	**9. Price Claim/Value Encounter**			
OM2.169	The system is expected to price all claims in accordance with West Virginia Medicaid program policy, benefits and limitations.	X		
OM2.170	The Vendor is expected to allow for manual pricing of claims.	X		
OM2.171	Ability to price each claim line item according to the applicable pricing rules.	X		
OM2.172	Ability to display all service lines of a single claim.	X		
OM2.173	Ability to determine and display the number of units paid on a claim line.	X		
OM2.174	Ability to define Member co-payments at the claim line level.	X		
OM2.175	Ability to define Member co-payments at the claim header level.	X		
OM2.176	Ability to process claims including Member liability in the final payment amount.	X		
OM2.177	Ability to provide an automated process, approved by BMS, to acquire Medicare Rates, and ensure conformance with Federal requirements regarding Medicare pricing.	X		
OM2.178	Calculate Medicare and TPL coinsurance and deductible charges for specified crossover and TPL claims using BMS "lesser than" calculation described in common chapters of the Provider manuals.		X	

3. Operations Management (OM)
OM2. Payment Management, Claims/Encounter Adjudication

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM2.179	Ability to accommodate Provider custom fees which override other pricing considerations.	X		
OM2.180	Ability to accommodate pricing for payments that may exceed billed charges, including payment of encounter fees to:	X		
OM2.181	Rural Health Clinics (RHCs)	X		
OM2.182	Federally Qualified Health Clinics (FQHCs)	X		
OM2.183	DRGs	X		
OM2.184	Critical Access Hospitals (CAHs)	X		
OM2.185	Ability to calculate spend down and reimbursement amount after capturing and applying information captured in the patient pay field.	X		
OM2.186	Ability to limit claim payments based on Member-specific expenditure histories (i.e., to limit payments to budgeted amounts at the Member level).	X		
OM2.187	Ability to view Benefit utilization information through the user interface (UI) for Benefit Plan accumulations.		X	
OM2.188	Ability to maintain a DRG file as determined by BMS. The DRG file should contain, at a minimum, elements such as:	X		
OM2.189	DRG code	X		
OM2.190	DRG description	X		
OM2.191	Add date	X		
OM2.192	Begin date	X		
OM2.193	End date	X		
OM2.194	DRG weight (relative value)	X		
OM2.195	Audit trail	X		
OM2.196	Average length of stay	X		
OM2.197	Other as identified by BMS during DDI and accepted via formal change control		X	
OM2.198	Ability to provide on-line role-based access to pricing formulas and their associated parameters/variables, including the ability to view and modify (for authorized staff only) pricing formulas. Parameters should include:		X	
OM2.199	Anesthesia conversion factors (with the ability to accept and process by units and/or minutes based on BMS's choice)		X	
OM2.200	Anesthesia base rates	X		
OM2.201	Vaccine for Children (VFC) rates		X	

3. Operations Management (OM) OM2. Payment Management, Claims/Encounter Adjudication				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM2.202	Multiple RBRVS Conversion Factors for the same period of time		X	
OM2.203	All other conversion factors as defined by BMS during DDI	X		
OM2.204	Ability to define date parameters to support pricing of services.	X		
OM2.205	Ability to capture and display rate codes defined by BMS. (The term "Rate Code" is a combination of RAPIDS program codes plus the old CMS Aid Category codes, or in the case of a non- Medicaid program, the aid category plus the first two numbers assigned to the MAID#).		X	
OM2.206	Ability to allow for consistent calculation of payment amounts according to all reimbursement methodologies approved by BMS, including:	X		
OM2.207	Provider specific fee schedule	X		
OM2.208	Usual and Customary Rate (UCR)	X		
OM2.209	Per diems	X		
OM2.210	LTC facility room and board charges	X		
OM2.211	LTC coinsurance amount (uses "lesser than" calculation)		X	
OM2.212	Diagnosis Related Groups (DRGs)	X		
OM2.213	Medicare coinsurance/deductible and pricing methodology	X		
OM2.214	TPL pricing methodology	X		
OM2.215	Formulas	X		
OM2.216	Percentages	X		
OM2.217	Pricing by PA	X		
OM2.218	Other payment methods (as defined by BMS during DDI)	X		
OM2.219	Ability to maintain pricing history per BMS specifications.	X		
OM2.220	Ability to establish edits for production or test region adjudication and notify BMS staff of any services that are not priced under the current fee schedules.	X		
OM2.221	Ability to generate pricing data for all Provider programs using selection parameters specified by the State.		X	
OM2.222	**10. Apply Claim Attachment**			
OM2.223	Ability to accurately accept, store, track, and process claim attachments submitted via both hard-copy and electronic transmission.	X		
OM2.224	Ability to integrate with the EDMS component, for inbound imaging of claims and attachments, claims reporting, and correspondence.	X		

3. Operations Management (OM) OM2. Payment Management, Claims/Encounter Adjudication				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM2.225	Ability to electronically match attachments to their associated claims.	X		
OM2.226	Ability to allow authorized users to manually modify the link between a claim and its associated attachments, PAs and image files.	X		
OM2.227	Ability to process related claims based on the presence of specific attachments, as defined by the user.	X		
OM2.228	Ability to accept unlimited number and types of attachments per claim.	X		
OM2.229	Ability to allow users to navigate to and view claims attachments from within the claim screens.	X		
OM2.230	Accepts Medicare crossover claims with Medicare Explanation of Benefits (EOB) claims attachments.	X		
OM2.231	Employs an electronic tracking mechanism to locate archived source documents or to purge source documents in accordance with HIPAA security provisions.	X		
OM2.232	**11. Apply Mass Adjustment**			
OM2.233	Ability to provide mass update capability for claims, including paid and denied claims determined eligible for adjustment.	X		
OM2.234	Ability to link together claims reversal and replacement claim (for mass updates only) so claims go through budget relief at the same time.	X		

3. Operations Management (OM) OM3. Payment Management, Payment & Reporting				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM3.1	**1. Prepare Remittance Advice/Encounter Report**			
OM3.2	Ability to generate paper and electronic Remittance Advice (RA) that captures all data necessary to meet BMS, State, and Federal reporting requirements (HIPAA 835 transaction).	X		
OM3.3	Ability to print and distribute paper Remittance Advice (printed in black and white) in accordance with BMS approved schedule.	X		
OM3.4	Ability to produce the paper Remittance Advice copies on demand.	X		
OM3.5	Ability to generate additional remittance voucher pages (X number of pages free, fee thereafter -- per Fiscal Agent pricing structure).	X		
OM3.6	Ability to allow Remittance Advice for zero pay and zero balance items.	X		
OM3.7	Ability to suppress Remittance Advice relating to adjustments performed for the purpose of correcting internal account or category codes.	X		
OM3.8	Ability to associate the warrant/ACH number with the claim.	X		
OM3.9	Ability to include warrant/ACH number in 835 Remittance Advice transaction.	X		
OM3.10	Ability to print warrant/ACH number on the Remittance Advice.	X		
OM3.11	Ability to include all claims and financial transactions (such as recoupments) on the paper Remittance Advice.	X		
OM3.12	Ability to distribute the Remittance Advice to multiple locations.		X	
OM3.13	Ability to report any withholdings to a Provider's payment on the Remittance Advice.	X		
OM3.14	Ability to generate reports summarizing payment and status transactions (HIPAA 820, 277).	X		
OM3.15	**2. Prepare Coordination of Benefits (COB)**			
OM3.16	Ability to capture and provide COB information online and in batch format.		X	
OM3.17	Ability to comply with the following Federal Third Party Liability (TPL) processing and HIPAA requirements, including:	X		
OM3.18	Ability to store a unique identifier for individual health plans	X		
OM3.19	Other as identified by BMS during DDI and accepted via formal change control		X	
OM3.20	Ability to maintain a process to identify projected allowed amount for previously denied claims in order to estimate savings due to TPL.	X		
OM3.21	Ability to identify all payment costs avoided due to established TPL.	X		

3. Operations Management (OM) OM3. Payment Management, Payment & Reporting				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM3.22	Ability to use the HIPAA 837 transaction to facilitate TPL billing functions (i.e., using the 837 COB functionality).		X	
OM3.23	**3. Prepare Home and Community-Based Services (HCBS) Payment**			
OM3.24	Ability to support processing for HCBSs as it is conducted for any other claim/transaction type. WV has no unique processing requirements for HCBS.	X		
OM3.25	**4. Prepare EOMB**			
OM3.26	Ability to increase or decrease sample sizes (in regards to CMS checklist item CMS FI1.1, "Provides individual EOMB notices, within 45 days of the payment of claims, to all or a sample group of the Beneficiaries who received services under the plan as described in §11210.").	X		
OM3.27	**5. Prepare Provider EFT/Check**			
OM3.28	The Vendor is to generate a check file in accordance with BMS process and schedule. The process is as follows: Pass check file to MIS, MIS passes to State Auditor and State Treasurer offices (where warrant #, EFT conf #, payment date added), passed back to MIS and then back to Vendor to load into the MMIS.		X	
OM3.29	Ability to generate an electronic check file that segregates types of payment based on check, Electronic Fund Transfer (EFT), and Inter-Governmental Transfer (IGT) payment data (Medicare A, B, D).		X	
OM3.30	Payment processing should be independent of other system activity.	X		
OM3.31	Ability to support a fixed payment schedule (as defined by BMS).	X		
OM3.32	Ability to support unscheduled payment generation (per BMS request).	X		
OM3.33	Ability to calculate payment amounts for claims, including:	X		
OM3.34	FFS Claims	X		
OM3.35	Pharmacy POS	X		
OM3.36	HCBS Provider claims	X		
OM3.37	MCO/Capitation	X		
OM3.38	Performance incentives (per BMS)	X		
OM3.39	Withholdings	X		
OM3.40	Other as identified by BMS during DDI and accepted via formal change control		X	
OM3.41	Ability to base payment calculations on inputs that include:	X		
OM3.42	Patient Resource Amounts	X		
OM3.43	Spend-down amounts	X		
OM3.44	TPL payment adjustments	X		

3. Operations Management (OM) OM3. Payment Management, Payment & Reporting				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM3.45	Crossover payment adjustments	X		
OM3.46	Member payment Adjustments	X		
OM3.47	Ability to determine net payment amount	X		
OM3.48	Other as identified by BMS during DDI and accepted via formal change control		X	
OM3.49	Ability to support payroll processing (e.g., HCBS Providers), including withholding payments for payroll, and State and Federal taxes.		X	
OM3.50	The Vendor is expected to support WV BMS budget relief (Accounts Payable) process. Processes include: reconciliation process for managing A/P inventory, release of payments per BMS criteria, withhold amounts per defined repayment schedules, and suspension of Provider payment, creation of check file, updating of claim with payment data	X		
OM3.51	**6. Prepare Premium EFT/Check**			
OM3.52	Ability to calculate payment amounts for premium payments, including:	X		
OM3.53	MCO premium payments based on MCO contract data (reimbursement arrangements, capitation rates, categories, and rules for each prepaid MCO and benefit package)	X		
OM3.54	PCCM premium payments based on BMS rules	X		
OM3.55	Other as identified by BMS during DDI and accepted via formal change control		X	
OM3.56	Ability to associate the MCO premium payment EFT with an X12 820 electronic premium payment transaction required under HIPAA.	X		

3. Operations Management (OM) OM4. Payment Management, Capitation & Premium Preparation				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM4.1	**1. Prepare Health Insurance Premium Payment**			
OM4.2	Ability to support HIPP invoicing and payment processing.	X		
OM4.3	Ability to update Member records to reflect capitation payments made on his/her behalf.	X		
OM4.4	Ability to calculate premium assistance cost effectiveness based on historical claims payment information compared to insurance premiums for a Member.		X	
OM4.5	Ability to employ a user-configurable process to identify potential high cost Members.		X	
OM4.6	Ability to identify Members for whom insurance premiums are to be paid and automatically generate prospective premium payments to insurance companies, employers, Members, or other entities.	X		
OM4.7	Ability to allow payment of premiums to multiple payees for a single Member.		X	
OM4.8	Ability to accommodate prospective and retrospective premium payments.	X		
OM4.9	Ability to generate and transmit to Providers the content of HIPAA compliant automated premium payment reports (ASC-X12N 820), on a scheduled specified by the BMS.	X		
OM4.10	Ability to store premium assistance payment tracking details such as warrant numbers.		X	
OM4.11	Ability to make adjustments to premium payments.	X		
OM4.12	Ability to integrate all premium assistance reporting and correspondence with the EDMS component.	X		
OM4.13	**2. Prepare Medicare Premium Payment**			
OM4.14	Ability to support the payment of the Part A and Part B premiums.	X		
OM4.15	Ability to receive appropriate Medicaid Member eligibility data from all sources of eligibility determination.		X	
OM4.16	Ability to receive State Data Exchange (SDX), Enrollment Data Base (EDB) file, and/or Beneficiary Data Exchange (BENDEX) eligibility files. (The Bureau currently accesses the EDB file and downloads it directly from CMS. The file is then sent to the FA vendor. RAPIDS currently uses the Bendex and SDX files).		X	
OM4.17	Ability to perform a matching process against Member data.	X		
OM4.18	Ability to generate a two-part buy-in file, one for Medicare Part A and one for Medicare Part B.	X		
OM4.19	Ability to receive Medicare buy-in records and load on a monthly basis.	X		
OM4.20	Ability to send/receive buy-in files to/from CMS.	X		

3. Operations Management (OM) OM4. Payment Management, Capitation & Premium Preparation				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM4.21	Ability to automatically update eligibility information based on information received in the Medicare Enrollment Database (EDB) file.	X		
OM4.22	Ability to post buy-in changes to the appropriate Member record.	X		
OM4.23	Ability to produce buy-in reports as specified by BMS.	X		
OM4.24	Provides Buy-In Beneficiary information for program or management use, including:	X		
OM4.25	Transaction processed	X		
OM4.26	Errors identified	X		
OM4.27	Errors correction status		X	
OM4.28	Tracks Buy-In exceptions for those Beneficiaries who are identified as eligible, but whose premiums have not been paid.	X		
OM4.30	**3. Prepare Capitation Premium Payment**			
OM4.31	Ability to process adjustments to capitation (health plan premium) payments.		X	
OM4.32	Ability to process per-Member per-month (PMPM) capitation payment based on BMS-defined rate factors such as age, sex, category of eligibility, health status, geographic location, and other.		X	
OM4.33	Ability to establish capitation rates based on multiple risk criteria (gender, geography, etc.) and PCCM.	X		
OM4.34	Selects premium payment amount and generates PMPM paymen (capitation, premium, case management fee).		X	
OM4.35	Ability to query Member-specific history of capitation payments for each applicable managed care program to which that Member belongs.	X		
OM4.36	Identifies individuals/enrollees who have terminated enrollment, disenrolled, or are deceased, and excludes those individuals from the monthly MCO capitation payment.	X		
OM4.37	Generates regular capitation payments to MCOs or PCPs, at least on a monthly basis in compliance with HIPAA-standard X12 820 Premium Payment transaction where applicable.		X	
OM4.38	Adjusts capitation payment based on reconciliation of errors or corrections or approved retroactive rates (e.g., retroactive adjustments to a particular capitation payment based on more accurate data that the MMIS obtains retroactively on Member enrollments, disenrollments, and terminations).		X	
OM4.39	Performs reconciliations of payments to MCO, PCP roster.		X	
OM4.40	Verifies correct transfer of capitation payment when Member disenrolls from one MCO and enrolls in another plan.		X	

3. Operations Management (OM) OM4. Payment Management, Capitation & Premium Preparation				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM4.41	Ability to generate capitation recoupments automatically, based on user-defined criteria.		X	
OM4.42	Ability to maintain Member-specific history of capitation payment activity for each applicable managed care program to which that client belongs.	X		
OM4.43	Ability to maintain edit logic to prevent duplication of capitation and fee-for-service payments for services covered under the managed care program.	X		
OM4.44	Process per-Member per-month (PMPM) for primary care gatekeeper services.		X	

3. Operations Management (OM) OM5. Payment Information Management				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM5.1	**1. Manage Payment Information**			
OM5.2	Ability to provide a Payment Data Repository to track and maintain all payment detail, including:	X		
OM5.3	Claims and adjudication history (including payment)	X		
OM5.4	Premium and capitation payment history	X		
OM5.5	HCBS claims and payment history	X		
OM5.6	Other as identified by BMS during DDI and accepted via formal change control		X	
OM5.7	**2. Inquire Payment Status**			
OM5.8	Ability to receive claim status inquiries in a variety of mediums, including:	X		
OM5.9	X12 276 and 277 Transactions through portal and in batch file process	X		
OM5.10	Mail	X		
OM5.11	Phone (Agent)	X		
OM5.12	Fax	X		
OM5.13	Phone (AVRS)	X		
OM5.14	Provider Enrollment Tracking System (PETS)		X	
OM5.15	Other as identified by BMS during DDI and accepted via formal change control		X	
OM5.16	Ability to automatically assign a unique control (or identification or tracking) number to each Payment Status Request to track requests, from time of receipt to disposition.	X		
OM5.17	Ability to respond to claim status inquiries in a variety of medium, including:	X		
OM5.18	X12 276 and 277 Transactions through portal and in batch file process	X		
OM5.19	Mail	X		
OM5.20	Phone (Agent)	X		
OM5.21	Fax	X		
OM5.22	Phone (AVRS)	X		
OM5.23	Other as identified by BMS during DDI and accepted via formal change control		X	
OM5.24	Ability to provide payment inquiry response in conformance with BMS, State, and Federal policies.	X		
OM5.25	Ability to deny requests not in compliance with BMS's information access/privacy policies and HIPAA guidelines.	X		

3. Operations Management (OM) OM6. Member Payment Information				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM6.1	**1. Calculate Spend-Down Amount**			
OM6.2	Ability to accept and display a spend-down indicator from RAPIDS showing that the spend-down amount has yet to be met.		X	
OM6.3	Ability to automatically generate a spend-down report identifying the Members whose spend-down indicator is "Yes."		X	
OM6.4	Ability to edit against the spend-down indicator and pend for "Yes."		X	
OM6.5	Ability to provide a screen for BMS staff to enter the spend-down amount to be applied to the claim, and capture and maintain this information so that it is available for reporting.	X		
OM6.6	**2. Prepare Member Premium Invoice**			
OM6.7	Calculates and generates enrollment and premium notices to policy holders.		X	
OM6.8	Processes premium receipts from policy holders.	X		
OM6.9	Supports inquiries regarding premium collections.	X		
OM6.10	Produces premium collection reports.	X		
OM6.11	Ability to provide an Accounts Receivable function to create entries from the premium billing cycle and to post premium payment against (i.e., to bill and collect premiums).	X		
OM6.12	Ability to generate an invoice to the Member for program premiums.	X		
OM6.13	Ability to define premium rates and associate to specific benefit offerings.		X	
OM6.14	Ability to identify through Member eligibility the applicable premium rate determination in order to generate invoices for premium payment.		X	
OM6.15	Ability to prepare member premium invoices on a set schedule (as specified by the BMS).	X		
OM6.16	Ability to capture all data necessary to meet BMS, State, and Federal premium reporting requirements. (The Bureau currently collects premiums and enrollment fees for eligible MWIN participants. A description of this program is found in 2.3.2.1.6. At a minimum, the data would need to identify member detail such as Member Medicaid ID, member name and related demographics, program type, eligibility effective dates, eligibility rate code, premium amount, premium notification mail date, date of premium receipt date, past due mail dates, program termination date, reason codes for termination. This is not meant to be an all-inclusive list. The system functionality should be flexible to accommodate additional expansion populations beyond the current MWIN program if the Bureau chooses to pursue).	X		

3. Operations Management (OM) OM6. Member Payment Information				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM6.17	Ability to integrate premium billing invoices and associated reporting with the Electronic Document Management System (EDMS) component.	X		
OM6.18	Ability to maintain an audit trail of all transactions.	X		

3. Operations Management (OM) OM7. Cost Recoveries				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM7.1	**1. Manage Recoupment**			
OM7.2	Ability to support multiple recoupment options, rules and terms for recovery of all overpayments.	X		
OM7.3	Ability to net against current or future payments to recover overpayments using a lump sum, percentage or repayment plan.	X		
OM7.4	Ability to assess and collect interest per business rules (as defined by BMS).		X	
OM7.5	Ability to post checks to outstanding receivable balances.	X		
OM7.6	The system is expected to include an integrated (with other system components), fully functional accounts receivable component, including all required reporting (to be defined by BMS).	X		
OM7.7	Ability to track the status of recoupment by Provider through all stages of the collection and appeals processes.	X		
OM7.8	Ability to create bank deposit. (The system should provide functionality to post Accounts Receivable (A/R) for all check payments received in the Bureau. A daily report of all entries/postings is required to accompany the checks to be deposited for each date).	X		
OM7.9	**2. Manage Estate Recovery**			
OM7.10	Ability to identify Members subject to estate recovery.	X		
OM7.11	Ability to interface with TPL vendor files.	X		
OM7.12	Ability to automatically generate a unique case identifier upon referral for Estate Recovery Case Management. Identifier methodology to be specified by BMS.	X		
OM7.13	Ability to automatically create the Case Management record (from the initial case review data) upon referral to Case Management.	X		
OM7.14	Ability to track and maintain Case Management data at the individual case level, including:	X		
OM7.15	Case number	X		
OM7.16	Case status (e.g., open, suspended, closed)	X		
OM7.17	Actions taken	X		
OM7.18	Outcomes including monetary recoveries	X		
OM7.19	Listing of case contacts/affected parties	X		
OM7.20	Chronology of significant case activity (e.g., dates of phone calls to Providers, dates of records/information received from Provider/Member/attorney), including description.	X		

3. Operations Management (OM) OM7. Cost Recoveries				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
OM7.21	Significant case documentation/evidence (e.g., medical records, Member interview findings, Provider credential verification)	X		
OM7.22	Other as identified by BMS during DDI and accepted via formal change control		X	
OM7.23	Ability to integrate and analyze data from external sources (e.g., vendors) in multiple media types.	X		
OM7.24	**3. Manage TPL**			
OM7.25	Ability to track and maintain contractor activity related to Third Party Liability (TPL) requirements (e.g., cost avoidance, trauma, post-payment recoveries).	X		
OM7.26	Automatically generates casualty-related claims information that can be used for follow-up to Beneficiaries, attorneys, motor vehicle department, etc. according to BMS-specified criteria.	X		
OM7.27	Edits additions and updates to the Beneficiary insurance information to prevent the addition of duplicate policies.	X		
OM7.28	Provides a mechanism to identify outdated TPL information.		X	
OM7.29	Generates and maintains an audit trail of all updates to the Beneficiary insurance data, including those updates that were not applied due to errors, for a time period specified by the State.	X		
OM7.30	Allows only authorized staff members to do manual deletes and overrides of alerts/edits.	X		
OM7.31	Ability to report TPL resources against paid claims history retroactively for five (5) years to identify recoverable funds.		X	
OM7.32	Manages accounts receivable and claims adjustments as TPL related invoices are paid.	X		
OM7.33	Provides data storage and retrieval for Third Party Liability (TPL) information; supports TPL processing and update of the information.	X		
OM7.34	Ability to support entry of free-form text field that allows narratives for each recovery case that identifies user and date/time entered (length of this text field to be determined during DDI, per BMS approval).	X		
OM7.35	Ability to display date-specific free-form narrative in chronological or reverse chronological sequence.	X		
OM7.36	Ability to identify claims subject to recoupment, based on criteria defined by BMS, and generate letters to Providers instructing them to re-bill the primary carrier.	X		
OM7.37	Ability to track post-payment recovery and adjustment of paid claims, including account receivable entries.	X		

3. Operations Management (OM) OM7. Cost Recoveries				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM7.38	**4. Manage Drug Rebate**			
OM7.39	Ability to support non-traditional drug rebates (i.e., DME, other state drug rebate programs).	X		
OM7.40	Ability to generate CMS 64 reporting related to drug rebate.	X		
OM7.41	Ability to upload external drug rebate data into the system reference file (e.g., CMS labeler contact information and pricing file, supplemental rebate pricing file).	X		
OM7.42	Ability to maintain all fields provided by CMS quarterly drug rebate file including historical data as determined by BMS.	X		
OM7.43	Ability to generate statement of accounts.	X		
OM7.44	Ability to generate quarterly utilization file for transfer back to CMS.	X		
OM7.45	Ability to generate drug rebate invoices for different rebate programs.	X		
OM7.46	Ability to compare National Drug Code (NDC) unit rebate amounts supplied by the manufacturer directly with the same information supplied by CMS.	X		
OM7.47	Ability to exclude drug expenditures (e.g., claims from the 340B pharmacies) from rebate invoicing.	X		
OM7.48	Ability to generate invoices that reference changes made to claim information reported on previously produced invoices. Corrections are to reflect original invoice quarter.	X		
OM7.49	Ability to invoice for drugs dispensed in the physician office, drugs dispensed from a pharmacy, using the NDC identifier, and eligible drugs paid through MCO.	X		
OM7.50	Ability to flag, withhold and correct invalid claims data before it reaches invoice generation.	X		
OM7.51	Ability to assess interest according to Federal requirements.	X		
OM7.52	Ability to automatically set up Accounts Receivables at the NDC level for drug manufacturers invoiced for all rebate programs.	X		
OM7.53	Ability to generate user defined reports to monitor the status of invoice or NDC detail, including but not limited to: amount collected, amount invoiced, outstanding receivables, number of disputes received and resolved, and amount collected in disputed items and non-disputed items.	X		
OM7.54	Ability to selectively produce a periodic statement of accounts for outstanding debt, including interest calculated based on CMS rules.	X		
OM7.55	Ability to record and track manufacturer disputes of drug rebate invoices at the NDC detail level.	X		
OM7.56	Ability to associate the claims with NDC level detail related to a manufacturer's dispute.	X		

3. Operations Management (OM) OM7. Cost Recoveries				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
OM7.57	Ability to report on all drug rebate programs individually and collectively.	X		
OM7.58	Ability to provide drug manufacturers access through the Web Portal to upload data (as approved by BMS). (A secure portal for the Drug Rebate Program would allow access by the drug manufacturers to their invoices, claims level data, payment data and statements of account. While the intent is to provide data to the manufacturer, it is conceivable that payment data could be returned by the manufacturer).		X	
OM7.59	Ability to manage reversal/adjustment claims for invoicing purposes.	X		
OM7.60	Ability to import, maintain and modify historical rebate claims, pricing and payment data.	X		
OM7.61	Ability to support and apply conversion factors.	X		
OM7.62	Ability to post payment data at the deposit, check, invoice and line item levels.	X		
OM7.63	Ability to generate user defined and ad hoc reports that meet Federal and State requirements as well as supporting the functional and technical operation of the program.	X		
OM7.64	**5. Manage Settlement**			
OM7.65	Ability to process and distinguish settlement amounts owed and payments due Provider for reporting purposes.	X		
OM7.66	The system should allow Providers access to cost settlement information via the portal (similar to Medicare).	X		
OM7.67	The system is expected to generate all required cost settlement reporting.		X	
OM7.68	Ability to apply check payment to an open receivable.	X		
OM7.69	Ability to track the status of settlement by Provider through all stages of the collection and appeals processes.	X		
OM7.70	Ability to generate cost settlement information reports online via the Provider Portal. Specifics of the report to be agreed-upon during DDI.		X	
OM7.71	Ability to internally generate all required cost settlement reporting. Specifics of the report to be agreed-upon during DDI.		X	

4. Program Management (PG)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PG.1	**1. Manage Rate Setting**			
PG.2	Ability to compare encounter data claims and capitation fees vs. fee-for-service payment data to determine utilization and payment analysis.		X	
PG.3	Ability to calculate rates utilizing the designated fee schedule, while providing the ability to manipulate factors in the calculation, as defined by the user.		X	
PG.4	Ability to maintain a history of any rate that includes effective and termination dates.	X		
PG.5	Ability to assign budget neutrality.	X		
PG.6	Ability to assess the fiscal impact of updating rates by testing against previously paid claims.		X	
PG.7	Ability to use the pricing files such as Medicare Physician Fee Database (MPFDB) File to update Reference data without manual intervention.	X		
PG.8	Ability to automatically update Provider rate tables through an electronic means (e.g., Excel, ODBC compliant database).	X		
PG.9	Ability to accept an electronic file from a third-party entity of pricing information to assist in rate setting (e.g., TPL allowed amount).		X	
PG.10	Ability to associate Provider-specific reimbursement contracts with the Providers. Ability to accommodate various pricing files, UCR, custom fee RBRVS, PPS. (The reference to PPS encompasses all Medicare Prospective Payment Systems that the Bureau currently utilizes or may wish to utilize in the future).	X		
PG.11	System can receive an electronic update of Medicare rates for Federally Qualified Health Centers (FQHC).		X	
PG.12	Ability to pend claims awaiting approval of fee, rate and code updates.	X		
PG.13	Ability to accommodate retroactive application of rates.	X		
PG.14	Upon any change in rates, the system can provide automatic notification to an appropriate distribution list.		X	
PG.15	Ability to accommodate multiple rate-setting schedules (i.e., hospitals, long-term care facilities, intermediate care facilities for the mentally retarded (ICF/MR)).	X		
PG.16	Ability to extract information that supports rate setting functions.	X		
PG.17	System should capture and apply Member resource amount or spend-down amount for claims adjudication.		X	
PG.18	**2. Manage 1099s**			
PG.19	Ability to establish Provider affiliations in a way that accommodates actual practicing locations and Federal and State tax requirements (one 1099 per taxable entity).	X		

4. Program Management (PG)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.20	Ability to produce and distribute 1099 files, documents and reports as required by the IRS. (The MMIS vendor is responsible for creating a check file that is transferred to the auditor and treasurer's office for processing payments. The file is returned to the MMIS vendor with the warrant and EFT information appended to the original file. The State agencies do not change the payment information received from the MMIS).	X		
PG.21	Ability to produce copies of 1099s.	X		
PG.22	Ability to generate corrected tax 1099s.	X		
PG.23	Ability to automatically adjust 1099 amounts from repayments of claims.	X		
PG.24	Ability to automatically adjust 1099 amounts from repayments of claims paid out and repaid in the same calendar year.	X		
PG.25	The system has the ability to produce test 1099 list and provide a reconciliation of reportable amounts for review before printing or transmitting final to IRS.	X		
PG.26	Ability to accommodate accurate 1099 processing for multiple tax IDs for the same Provider occurring in one reporting period.	X		
PG.27	**3. Perform Accounting Functions**			
PG.28	Ability to interface all claims payment and financial activities with the West Virginia Accounts Payable and Accounts Receivable system.		X	
PG.29	Ability to provide online access to accounting information based on the user's role.	X		
PG.30	Ability to provide access to financial transactions and specifically related claims or other related or source information.	X		
PG.31	Provide online inquiry of financial records based on a variety of criteria that may include:	X		
PG.32	Payee or payer identifiers and names	X		
PG.33	Payment, service, and processing dates	X		
PG.34	Claim identifiers to be defined by BMS	X		
PG.35	Remittance identifiers and dates	X		
PG.36	Ability to capture cost report information in a prescribed electronic format for financial analysis and settlement.		X	
PG.37	Ability to query the mapping from the data elements in MMIS to a State-defined reporting/financial account code.	X		
PG.38	Ability to maintain a date-effective map from the data elements in MMIS to a State-defined reporting/financial account code.	X		
PG.39	Ability to retain the State financial/reporting account code for each price (claim level, service line level, or for add-ons). Used for determining payment/adjudication decisions.	X		

4. Program Management (PG)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.40	Ability to assign a valid State financial system account code prior to final payment (e.g., State fund, Medicaid, etc.).	X		
PG.41	Ability to calculate and apply interest on accounts receivable/payable account balances, as defined by the user.		X	
PG.42	Ability to maintain date-effective interest rates.		X	
PG.43	Ability to adjust interest payments when a claim that was originally paid with interest is adjusted.		X	
PG.44	Ability to apply different interest rates.		X	
PG.45	Ability to maintain all the data in the system that is necessary to generate the State financial system account code (e.g., claim information, Provider contracts, and Member characteristics).	X		
PG.46	Ability to reconcile account code balances between the system and the State financial system.	X		
PG.47	Provides method for lump-sum reimbursement, such as Disproportionate Share Hospital (DSH).	X		
PG.48	Ability to withhold A/R from current payments.	X		
PG.49	Ability to generate A/R aging.	X		
PG.50	Provides and maintains the capability to process standard financial transactions including recoupments and payouts which cover more than one claim/service.	X		
PG.51	**4. Perform Accounting Functions - Adjustments**			
PG.52	Ability to associate a transaction control number (TCN) with all claim credits and adjustments.	X		
PG.53	Ability to reverse a previously paid claim.	X		
PG.54	Ability to associate a reason code with all claim credits and adjustments.	X		
PG.55	Ability to maintain the record of the original claim when a claim credit is generated.	X		
PG.56	Ability for reversal and replacement claims to retain same log date.	X		
PG.57	Ability to maintain a minimum of three years of on-line claim history to be used for adjustment processing upon implementation (e.g., MINIMUM of 3 years available on Day One of implementation), including encounter data.	X		
PG.58	Ability to link adjustments or replacement claims to immediate predecessor or original claims.	X		
PG.59	Ability to associate all supporting documentation for gross adjustments to the transaction control numbers (TCNs) assigned to the gross adjustment.		X	
PG.60	Ability to assign specified functions at line level (e.g., ignore, warn, pend, pay, deny).	X		

4. Program Management (PG)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PG.61	Ability to access all incoming adjustment requests and claims regardless of input media and assign a unique tracking number and an adjustment type identifier.	X		
PG.62	Ability to image claim adjustments requests from Providers (including faxes).	X		
PG.63	Ability to process returned warrants or EFTs. Functionality should include:	X		
PG.64	Re-establishment of all claims into a to-be paid status	X		
PG.65	Reinstate units and dollars for prior authorized services	X		
PG.66	Ability to place Provider on hold until bank account information updated	X		
PG.67	Other as identified by BMS during DDI and accepted via formal change control		X	
PG.68	Ability to receive and maintain all managed care retroactive and current eligibility enrollment spans and trigger retroactive adjustment claims.	X		
PG.69	Ability to trigger take backs or payments and generate the content of 820 Remittance Advice for premium payments to Providers, at BMS-defined intervals.	X		
PG.70	Ability to allow adjustments payments for retroactive eligibility.	X		
PG.71	Ability to allow adjustments due to third-party prior payment and alert the cost avoidance unit.	X		
PG.72	Ability to display both contracted agreement amount and actual payment amount.	X		
PG.73	Ability to establish weekly payment reductions or increases based on the following:	X		
PG.74	IRS levy/lien	X		
PG.75	Child Support	X		
PG.76	Other conditions as defined by BMS during DDI	X		
PG.77	Ability to process mass adjustments that may include multiple Providers.	X		
PG.78	Ability to provide easily customizable, parameter-driven mass adjustment selection and review process.	X		
PG.79	Ability to establish and provide a sandbox environment that provides the functionality to create, test, modify and store fiscal impact scenarios. At a minimum, the MMIS Integrated Test Environment (ITE) should include: - Development Test Environment - UAT Environment - Training Environment - Production Test Environment	X		

4. Program Management (PG)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.80	Ability to provide internal communication capabilities (notification/explanation) tied to mass adjustments when necessary (e.g., policy initiated mass adjustments).	X		
PG.81	Ability to deny or hold payments for review or release for immediate payment.	X		
PG.82	Accept electronic reversal and replacement claims and/or adjustment claims.	X		
PG.83	Ability to track and maintain source of reversal submissions in the user interface (GUI). Reversals may be submitted via paper, electronically, or entered directly into the system.	X		
PG.84	**5. Perform Accounting Functions - Accounts Payable**			
PG.85	The Vendor is to support BMS's financial functions with the use of an accounts payable file of adjudicated claims which are paid at least weekly according to specific release criteria:	X		
PG.86	Payment release by Provider Type		X	
PG.87	Payment release by TCN		X	
PG.88	Payment release by Provider ID		X	
PG.89	Payment release by Claim Type (e.g., capitation, fee-for-service, POS)		X	
PG.90	Other as identified by BMS during DDI and accepted via formal change control		X	
PG.91	Ability to generate separate payment files for other payers using the WV MMIS (e.g., Juvenile Justice).	X		
PG.92	Ability to generate a user-defined gross payment to a Provider in lieu of a payment based on adjudicated claims.	X		
PG.93	Ability to generate multiple or expedited payments outside of the normal payment cycle.	X		
PG.94	Ability to maintain A/P payment processing aging file for managing claim-specific and Provider-specific information to disburse payments via check, Electronic Funds Transfer (EFT), Inter-Governmental Transfer (IGT) payment., Part A, Part B and Part D payments.		X	
PG.95	Ability to generate a paper remittance file, an electronic remittance voucher file and a print image form.	X		
PG.96	Ability to accommodate multiple or changing tax IDs within the payment and enrollment components of the MMIS.	X		
PG.97	Identifies Providers with credit balances resulting from claim reversal.	X		
PG.98	Ability to associate each paid claim with the corresponding warrant or ACH number, warrant amount and paid date that ties to a Remittance Advice.	X		

4. Program Management (PG)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PG.99	Ability to net a Provider's payment against the balance in that Provider's accounts receivable account, as defined by the user.	X		
PG.100	Ability to maintain user approved repayment plans for Providers.	X		
PG.101	Ability to assign recoupments to a specific treating/servicing Provider to accommodate changes in employment.	X		
PG.102	Ability to distribute payments to a specified location regardless of the distribution location of the Remittance and Status Advice (RA).		X	
PG.103	Ability to cease a Provider's payment at the individual performing Provider or corporation level, as defined by the user.	X		
PG.104	Ability to associate the service rendered to the Provider who receives payment.	X		
PG.105	Ability to accept returned financial transactions and void the Provider payment by automatically reversing all transactions associated with the payment including claim payments, claim credits, and other financial transactions (e.g., cancelled, returned warrants).	X		
PG.106	**6. Perform Accounting Functions - Accounts Receivable**			
PG.107	Ability to establish a receivable and distinguish between principle and interest balances.		X	
PG.108	Ability to establish a receivable and net against any current disbursement.	X		
PG.109	Ability to update or modify an established A/R invoice.	X		
PG.110	Ability to query A/R invoices.	X		
PG.111	Ability to post checks to outstanding receivable balances.	X		
PG.112	Ability to define the types of entities (e.g., individual Provider, organization, corporation, etc.) responsible for an A/R account.	X		
PG.113	Ability to establish repayment plans that extend over multiple periods.	X		
PG.114	Ability to support multiple settlement options, rules and terms for recovery of all overpayments.	X		
PG.115	Ability to modify (add, delete, change, pend) any item in the A/R account.	X		
PG.116	Ability to maintain on-line inquiry to current and historical financial information with access by Member, Provider, manufacturer or other entity identification.	X		
PG.117	Ability to provide for a flexible, parameter-based, on-line query capability for financial information.	X		
PG.118	Ability to accept liens and/or orders to withhold from State and Federal entities.	X		

4. Program Management (PG)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.119	Ability to apply user-defined criteria for facilitating lien and/or orders to withhold (e.g., percentage of payment, percentage of lien, flat rate).	X		
PG.120	Ability to assign a disposition on an A/R for suspending collection and interest activities (e.g., fair hearing, bankruptcy) and apply user-specified business rules.	X		
PG.121	Ability to create a bank deposit transmittal and/or summary.	X		
PG.122	Ability to maintain A/R aging Receivable file of all receivables regardless of current activity.	X		
PG.123	**7. Develop and Manage Performance Measures and Reporting**			
PG.124	The Vendor is expected to develop operations reports to demonstrate compliance with applicable performance measures, as detailed in Appendix G, Service Level Agreements, and Appendix H, Performance Measures.	X		
PG.125	**8. Monitor Performance and Business Activity**			
PG.126	The Vendor is expected to monitor performance against BMS-established performance measures, as detailed in Appendix G, Service Level Agreements, and Appendix H, Performance Measures.	X		
PG.127	The Vendor is expected to implement corrective action plans to address performance issues (i.e., when performance falls below acceptable threshold).	X		
PG.128	**9. Manage Program Information**			
PG.129	Provides, maintains and updates a database to support MARS extract functions. Updates to the database should occur, at a minimum, monthly.	X		
PG.130	System automatically maintains data integrity and verifies/reconciles data against the source systems, including payment data, and accounts for discrepancies.	X		
PG.131	Vendor is to demonstrate process for ensuring that data is representative of all data elements used for claims processing and payment and reconciled to financial control totals.	X		
PG.132	Maintains appropriate controls and audit trails to ensure that the most current data is used in all processes relying on the data repository.		X	
PG.133	Ability to accommodate reporting across all Medicaid services and Social Service payments regardless of service delivery method and financing mechanism.	X		
PG.134	Ability to schedule any report to be run at varying levels of immediacy, frequency, or user-defined condition.	X		
PG.135	Ability to correct, rerun, verify, and distribute a report for which a problem occurred, for any period in which a problem occurred, or a specified point in time.	X		

4. Program Management (PG)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.136	Ability to produce all reports as defined by the BMS Master Reports List (see Procurement Library).	X		
PG.137	Ability for up to 16 BMS authorized users to create ad-hoc reports.	X		
PG.138	Ability to report according to current and future HEDIS administrative reporting guidelines. (The FFS Program does not currently report on any HEDIS measures).	X		
PG.139	Provides the ability to report on unduplicated counts such as Members, Providers, and services.	X		
PG.140	Provides the ability to report based on a Member enrollment hierarchy established by the BMS.	X		
PG.141	Ability to display to the user the number of pages that will be printed before the user proceeds with printing a report.	X		
PG.142	Monitor the progress of claims processing activity and provide summary reports which reflect the current status of claims.	X		
PG.143	Present claims processing and payment information that demonstrates compliance with Federal prompt payment rules.	X		
PG.144	Analyze areas of program expenditure to determine cost benefit.	X		
PG.145	Analyze the frequency, extent, and type of Provider and other claims processing errors.	X		
PG.146	For reporting purposes, assigns to all claim line details line, and subline categories that correspond to the CMS 64.	X		
PG.147	Analyze Provider claim filing for timeliness, fiscal controls and ranking. Assume this would include analysis and reporting such as Top 25 Late Filing Providers, Provider Participation Analysis, Provider Top 100 Report, Denied Claims Summary Report by Provider Type, etc.	X		
PG.148	Maintains comprehensive list of standard reports and their intended use (business area supported).	X		
PG.149	Maintains a list of users of each standard report.		X	
PG.150	Retains and maintains access to reports for the period of time specified by the BMS report owner.	X		
PG.151	Ability to provide staff with access to reports on changes and modifications made to benefit plans and/or related components by beginning and end dates.	X		
PG.152	Ability to generate reports on service limitations and exclusions for each benefit plan and/or related component.	X		
PG.153	Ability to generate expenditure, eligibility and utilization data by benefit plan(s) and/or any of its components to support budget forecasts, monitoring and health care program modeling.	X		
PG.154	Provide a means of obtaining various listings of the Procedure, Diagnosis, and Formulary File.	X		

4. Program Management (PG)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PG.155	Generate various listings of the claims processing suspense file.	X		
PG.156	Provides the Statistical Report on Medical Care: Eligibles, Members, Payments and Services (Form CMS-2082).	X		
PG.157	**10. Maintain Benefit/Reference Information**			
PG.158	Provides the comprehensive source where all current and historical reference data is maintained and updated in support of the following processes:	X		
PG.159	Provider enrollment	X		
PG.160	Medical, Dental and Pharmacy Medicaid Claims processing to ensure that claims are paid in accordance with 42 CFR 447 - Payment for Services, and non-Medicaid claims in accordance with State and Federal Policy	X		
PG.161	Payment processing	X		
PG.162	Adjustments	X		
PG.163	Prior authorizations (PA)	X		
PG.164	Maintain Procedure, Revenue, Drug, Diagnosis, and DRG data	X		
PG.165	Maintain Modifier data	X		
PG.166	Maintain Medicare Action Code data (Medicare Action Code data are action codes that are used in Medicaid cross-over processing).		X	
PG.167	Maintain Resource Based Relative Value Scale (RBRVS) data	X		
PG.168	Maintain Provider Charge file data	X		
PG.169	Maintain free-form text memo information (Each entry is expected to include identification of user and date/time entered).	X		
PG.170	Maintain System Parameter data	X		
PG.171	Maintain Edit Code data	X		
PG.172	Identify service frequency limitations	X		
PG.173	Drug Rebate processing	X		
PG.174	Drug Rebate file data	X		
PG.175	Labeler file	X		
PG.176	Drug Rebate Claim file	X		
PG.177	NDC Summary file	X		
PG.178	Produce various reports	X		
PG.179	Other activities as specified by the BMS during the DDI phase	X		

4. Program Management (PG)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.180	Provides user-friendly navigation among the various reference files.	X		
PG.181	Provides on-line inquiry capability to all current reference data.	X		
PG.182	Provides on-line inquiry capability and archive access to historical reference data as defined by the BMS Data Retention Policy.	X		
PG.183	Provides BMS-designated on-line role-based access for approval/update/edit of reference file data tracked through the Change Request process.	X		
PG.184	Ability to maintain a history of all code sets, including the source and date/time of change, version, and a history of replacements or changes in meaning.	X		
PG.185	Maintains an audit trail record that describes the change, the date of change, retroactive change, who requested the change, who authorized the change, and user id of who implemented the change.		X	
PG.186	Table design should be flexible to ensure that the MMIS is able to readily accommodate changes.	X		
PG.187	Inputs to the reference file should include (at a minimum): POS updates; CMS HCPCS updates; and online and batch updates requested by BMS.	X		
PG.188	Ability to accept on-line updates, additions, and deletions, with the ability to make changes to individual records or mass changes to groups or classes of records (e.g., across Provider type and specialty).	X		
PG.189	Ability to accept manual and automated updates, additions, and deletions by electronic transmission to all reference files, with the ability to make changes to individual records or mass changes to groups or classes of records (e.g., across Provider type and specialty).		X	
PG.190	Ability to implement automated load processes to apply code set updates when updates are made available by CMS or other data publishing sources.	X		
PG.191	Ability to support the transition to future versions of code sets (e.g., ICD-11).	X		
PG.192	All reference file updates are expected to be tested by Vendor and approved by BMS prior to moving data to production.	X		
PG.193	Ability to alert designated BMS staff upon completion of updates of reference file data. This alert should identify all changes and revisions, deletions, and replacements and provide a cross-reference.	X		
PG.194	Ability to perform mass updates, from multiple sources determined by BMS, on the test region and upon approval migrate to production on a schedule defined by BMS.	X		

4. Program Management (PG)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.195	Ability to assure updates do not overlay or otherwise make historical information inaccessible. Should maintain back-up features to assure changes in parameters are maintained.		X	
PG.196	Ability to allow the tracking of changes to the reference file using on-line notes capability.	X		
PG.197	Ability to maintain effective dates for all code sets.		X	
PG.198	Ability to add values or update any code set attributes.	X		
PG.199	Ability to maintain a map of procedure codes to diagnosis codes to define valid/invalid combinations.	X		
PG.200	Ability to maintain a map of 11-digit NDC codes to J-codes (i.e., Healthcare Common Procedure Coding System (HCPCS) Level II codes) through electronic updates.	X		
PG.201	Ability to associate National Drug Codes (NDCs) with their therapeutic indicators.	X		
PG.202	Ability to maintain an on-line cross-reference between HCPCS and International Classification of Diseases-10 (10th revision)- Clinical Modification (ICD-10-CM) procedure codes.		X	
PG.203	Maintain an on-line cross-reference between ICD-10-CM and DSM diagnosis codes and DSM diagnosis, including DSM age 0-3 diagnosis.		X	
PG.204	Ability to maintain a map of ICD-10 (International Classification of Diseases, version 10) surgical procedure codes to CPT (Current Procedural Terminology) procedure codes to apply claims processing functions based on the CPT code.		X	
PG.205	Ability to maintain a map of Revenue codes to CPT procedure codes to apply claims processing functions based on the CPT code.	X		
PG.206	**11. Maintain Benefit/Reference Information - Benefit Plans**			
PG.207	Ability to maintain the benefit plan data repository and ensure that data is captured, stored and maintained by program per BMS specifications.	X		
PG.208	Able to create and modify multiple benefit plans that define, identify and maintain separate service profiles under each program in accordance with policy.	X		
PG.209	Ability to maintain and update effective and end dates for all benefit plans.	X		
PG.210	Ability to provide standardized testing/modeling environment or tools to determine impact of modifications to the benefit plan(s) and/or any of its components.	X		
PG.211	Ability to easily add, delete, or modify benefit plan(s) and/or its related components.	X		

4. Program Management (PG)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.212	Ability to automatically notify staff (as specified by BMS) of changes to health plans and/or related components (e.g., databases, modules, rules, etc.) and their effective dates.	X		
PG.213	Ability to allow an existing benefit plan and its associated components to be copied and renamed (to facilitate the creation of a new plan).		X	
PG.214	Ability to support a hierarchy of program rules to determine which program the claim will be paid.	X		
PG.215	**12. Maintain Benefit/Reference Information - Reference File Procedure Data Set**			
PG.216	Ability to maintain a Procedure Data Set which is expected to contain the following elements:	X		
PG.217	International Classification of Disease (ICD)-9/10-CM diagnosis and procedure codes	X		
PG.218	Approved versions of Health Common Procedure Coding System (HCPCS) procedure codes	X		
PG.219	Procedure code data status (active/inactive) code segments with effective begin and end dates for each segment	X		
PG.220	History of full descriptions for procedure codes	X		
PG.221	History of short descriptions for procedure codes	X		
PG.222	Effective and term dates for all items		X	
PG.223	Diagnostic Related Groups (DRG)	X		
PG.224	NDC drug codes	X		
PG.225	HIPAA mandated code sets	X		
PG.226	HL 7 LOINC code sets		X	
PG.227	Current Dental Terminology (CDT) procedure codes	X		
PG.228	Current Procedure Terminology (CPT) procedure codes	X		
PG.229	Indicators associated with selected parameters for use in claims processing (to determine include, exclude, disregard)	X		
PG.230	Multiple modifiers and the percentage of the allowed price applicable to each modifier	X		
PG.231	Revenue Center Codes (RCC)	X		
PG.232	Revenue Center Codes (RCC) should indicate if itemizations of HCPCS codes are required for claims processing and identify the list of valid/invalid HCPCS codes	X		
PG.233	Provider charge file legacy custom rates	X		
PG.234	Managed care program covered benefits exclusion plans	X		

4. Program Management (PG)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.235	Relative value units	X		
PG.236	Edit/audit criteria and disposition tables	X		
PG.237	Business rules	X		
PG.238	Ambulatory Payment Classifications (APCs)	X		
PG.239	Base units for American Society of Anesthesiologists (ASA) codes	X		
PG.240	Coding values that indicate if a procedure is covered by Medicaid or other programs	X		
PG.241	Authorized specialty and taxonomy	X		
PG.242	Required Clinical Laboratories Improvement Amendments (CLIA) certification type	X		
PG.243	PA requirements (e.g., always required, sometimes required, never required)	X		
PG.244	Valid/invalid Place Of Service (POS) limitations	X		
PG.245	Recipient age/gender restrictions	X		
PG.246	Contraindicated edits	X		
PG.247	Pre and post-operative days	X		
PG.248	Once-in-a-lifetime indicator	X		
PG.249	Never events (TBD) HAC	X		
PG.250	Two digit place of service	X		
PG.251	Co-pay indicator, and associated data including the co-payment amount/per service unit and/or aggregate out-of-pocket co-payment thresholds for the service	X		
PG.252	Aid category, rate code, RAPIDS program code, or MAS/BOE code		X	
PG.253	Family planning indicator (method defined by BMS)	X		
PG.254	Emergency indicator	X		
PG.255	Claim type	X		
PG.256	Diagnosis code requirements including the list of valid/invalid diagnosis codes and if diagnosis is required (header/line) for claims adjudication	X		
PG.257	Units of service	X		
PG.258	Review indicator	X		
PG.259	Tooth number or letter	X		
PG.260	Tooth surfaces	X		
PG.261	EPSDT indicator	X		

4. Program Management (PG)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PG.262	Anesthesia base values	X		
PG.263	Duplicate check	X		
PG.264	Indicator of TPL actions, such as cost avoidance, benefit recovery or pay, by procedure code.	X		
PG.265	Indication of MCO carve-outs	X		
PG.266	Procedures manually priced or manually reviewed	X		
PG.267	Limits of the procedure	X		
PG.268	Indication of non-coverage by third-party payers	X		
PG.269	Information such as accident-related diagnosis codes for possible TPL, Federal cost-sharing		X	
PG.270	Indicators for surgical, bi-lateral surgical, and endoscopy procedures	X		
PG.271	Indication of when or whether claims for the procedure can be archived from on-line history (such as once-in-a-lifetime procedures)	X		
PG.272	Payment Type (one-time, repetitive, invoiced)	X		
PG.273	Post-operative day(s) parameter used for determining bundling policy for surgical claims/visits	X		
PG.274	Indicate if referring Provider number is required for the procedure code	X		
PG.275	Indicate if multiple surgery pricing (based on the modifier) applies to the procedure code and the extent to which Multiple Surgery (MS) pricing is applicable (the MS rule followed by business rules, canned or customized to meet BMS needs)	X		
PG.276	Non-reportable indicator	X		
PG.277	**13. Maintain Benefit/Reference Information - Reference File Drug Data Set**			
PG.278	Ability to accommodate updates to the Drug Data Set from sources including: contracted drug data and pricing service; the CMS Drug Rebate file and future State rebate program updates; and updates from BMS staff as needed.	X		
PG.279	Vendor is expected to procure the Drug Reference database for use in claims processing.	X		
PG.280	Ability to import CMS drug rebate file and use it for claims processing as directed by BMS.	X		
PG.281	Provides a notification to BMS that drug code and pricing changes need manual review.	X		
PG.282	Automatically implements drug code and pricing changes upon approval of BMS.	X		

4. Program Management (PG)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PG.283	Maintains current and historical coverage status and pricing information (including effective and termination dates) on legend drugs and Over The Counter (OTC) items.	X		
PG.284	Ability to maintain a Drug Data Set which is expected to contain the following:	X		
PG.285	Eleven digit NDC	X		
PG.286	Brand name	X		
PG.287	Generic name	X		
PG.288	Name of manufacturer and labeler codes	X		
PG.289	Add date	X		
PG.290	Begin date	X		
PG.291	Effective date	X		
PG.292	CMS termination date	X		
PG.293	Obsolete date	X		
PG.294	Specific therapeutic class codes and descriptions	X		
PG.295	Route of administration		X	
PG.296	Identification of strength, units, quantity, and dosage form (powder, vial, liquid, cream, capsule) on which price is based	X		
PG.297	Standard packaging indicators, size and description	X		
PG.298	Previous NDC	X		
PG.299	Minimum dosage units and days	X		
PG.300	Maximum dosage units and days	X		
PG.301	Generic indicator	X		
PG.302	Generic code number (GCN)	X		
PG.303	Generic sequence number (GSN)	X		
PG.304	DEA code	X		
PG.305	Unlimited date-specific pricing segments which include all prices needed to adjudicate drug claims records in accordance with BMS policy	X		
PG.306	Indicators for multiple dispensing fees		X	
PG.307	Identification of CMS Drug Rebate, Medical Assistance Program (MAP) Rebate program status and corresponding dates.	X		
PG.308	CMS unit of measure	X		
PG.309	Quantity field for pharmacy claims (allow for decimal units)	X		

4. Program Management (PG)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.310	Indicators for controlled drug, over-the-counter (OTC)	X		
PG.311	DESI/LTE indicator (drug efficacy study index, less than effective)	X		
PG.312	Preferred drug list status	X		
PG.313	Indicators for schedule assigned to controlled drugs	X		
PG.314	Drug Utilization Review (DUR) functions (e.g., high dose, low dose, drug to drug interaction)	X		
PG.315	Date-specific, BMS-specific restrictions on conditions to be met for a claim to be paid including (but not limited) the following and any combinations thereof: maximum/minimum days supply; quantities; refill restrictions; preferred versus non-preferred indicators; recipient age/gender restrictions; prior authorization requirements; place of service for medical claims	X		
PG.316	Pricing indicators to accommodate the following reimbursement methodologies: Federal Upper Limit (FUL); State Maximum Allowable Cost (SMAC); Wholesale Acquisition Cost (WAC); Estimated Acquisition Cost (EAC); Average Wholesale Price (AWP); AWP-minus; WAC-plus; and other pricing methodologies as they become available		X	
PG.317	Other as identified by BMS during DDI and accepted via formal change control		X	
PG.318	**14. Maintain Benefit/Reference Information - Reference File Revenue Code File**			
PG.319	Ability to maintain a Revenue Code File with a code data set that contains at a minimum, the following elements:	X		
PG.320	Revenue code date-specific pricing segments, including, effective begin and end dates, and allowed amount for each segment		X	
PG.321	Revenue code status code segments with effective begin and end dates for each segment	X		
PG.322	Indicators associated with selected parameters to designate whether the code should be included, excluded, or disregarded in claims processing	X		
PG.323	Complete narrative descriptions of revenue codes.	X		
PG.324	Indication of TPL actions, such as cost avoidance, benefit recovery, or pay, by revenue code		X	
PG.325	Indication of non-coverage by third-party payers	X		
PG.326	Information such as accident-related indicators for possible TPL, Federal cost-sharing indicators, Medicare coverage, and allowed amounts		X	
PG.327	**15. Maintain Benefit/Reference Information - Reference File Pricing Data Set**			

4. Program Management (PG)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
PG.328	Ability to transmit and/or provide on-line inquiry access to pricing files for outside vendors and entities determined by the BMS.	X		
PG.329	Ability to configure the reference file to allow the same procedure code to be priced differently (e.g., based on age of consumer for the same date span).	X		
PG.330	Ability to adjust and maintain pricing data for all health plans and/or benefit packages and identify and calculate payment amounts according to rates and rules established by BMS for various categories of pricing methods, for claim types other than retail pharmacy claims, including:	X		
PG.331	Fee schedule	X		
PG.332	Maximum allowable fee per service (note: some situations require paying Federal portion of fees)	X		
PG.333	Percent of charge (billed amount) pricing	X		
PG.334	Multiple rates for all Providers and Provider types (as identified by BMS)	X		
PG.335	Interim and final rates, per Provider	X		
PG.336	Per diem rates for BMS-specified Provider types	X		
PG.337	Capitated rates for MCOs and PCCM services	X		
PG.338	Case-by-case pricing (by report, manually priced, etc.)	X		
PG.339	PA pricing fee schedule		X	
PG.340	PA pricing case-by-case	X		
PG.341	Enhanced or adjusted incentive payments as determined by BMS-defined pricing rules (e.g., dental pediatric incentive, HPSA pricing)	X		
PG.342	Per diem rates, assigned to each LTC Provider with a corresponding date span for pricing	X		
PG.343	Anesthesia pricing	X		
PG.344	LTC facility daily rate, room and board charges	X		
PG.345	LTC Prospective Payment System (PPS) rates		X	
PG.346	LTC nursing rate		X	
PG.347	Case mix adjusted rates for long term care facilities	X		
PG.348	Payment rates and effective dates for each rate, per facility	X		
PG.349	Consumer-specific pricing based on consumer location (i.e., hospice), monthly cost caps per consumer (i.e., for waiver programs)	X		
PG.350	Medicare pricing or payment rates	X		
PG.351	Procedure code modifier pricing	X		

4. Program Management (PG)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.352	Drug cost plus dispensing fee per prescription	X		
PG.353	Different rates for transplants and organ acquisition costs	X		
PG.354	Assistant-at-Surgery pricing	X		
PG.355	Package size pricing	X		
PG.356	Individual consideration pricing (e.g., hospital outliers)	X		
PG.357	Ambulatory Surgical Center (ASC) group pricing as determined by BMS		X	
PG.358	VFC (Vaccines for Children program) pricing and rates by procedure code	X		
PG.359	National Drug Code (NDC) (used for pricing hospital claims)	X		
PG.360	Transportation pricing	X		
PG.361	Non-specified formula pricing, where non-specified formula pricing would refer to having a PA price a claim	X		
PG.362	Other as identified by BMS during DDI and accepted via formal change control		X	
PG.363	Ability to maintain the following hospital-specific inpatient and outpatient rate data, by effective date(s) including:	X		
PG.364	Inpatient DRG rate components	X		
PG.365	Inpatient and outpatient cost to charge ratios	X		
PG.366	Other hospital specific payment components such as per diems, percentages	X		
PG.367	Ability to accommodate multiple outpatient hospital reimbursement methodologies based on business rules provided by BMS, including:	X		
PG.368	Outpatient prospective payment		X	
PG.369	Per discharge/visit	X		
PG.370	Percent of charge	X		
PG.371	Fee-For-Service (FFS) procedure code prices for outpatient hospital care		X	
PG.372	Line level and revenue center code pricing		X	
PG.373	Other as identified by BMS during DDI and accepted via formal change control		X	
PG.374	Ability to accommodate multiple inpatient hospital reimbursement methodologies based on business rules provided by BMS, including:	X		
PG.375	DRG	X		
PG.376	Per discharge/visit	X		

4. Program Management (PG)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
PG.377	Per diem	X		
PG.378	Percent of charge		X	
PG.379	Line level and revenue center code pricing		X	
PG.380	Other as identified by BMS during DDI and accepted via formal change control		X	
PG.381	**16. Maintain Benefit/Reference Information - Reference File ICD-CM Coding Set**			
PG.382	Ability to maintain a Diagnosis set that utilizes ICD-CM coding sets. The diagnosis data set is expected to contain, at a minimum:	X		
PG.383	Age	X		
PG.384	Gender	X		
PG.385	Family planning indicator		X	
PG.386	Prior authorization indicator		X	
PG.387	EPSDT indicator		X	
PG.388	TPL trauma and emergency trauma codes		X	
PG.389	Inpatient length of stay criteria		X	
PG.390	Accident/trauma indicator		X	
PG.391	Begin date	X		
PG.392	End date	X		
PG.393	Add date	X		
PG.394	Description of the diagnosis	X		
PG.395	Primary and secondary diagnosis code usage	X		
PG.396	Indicators associated with selected parameters to designate whether they should be: included, excluded, or disregarded in claims processing	X		
PG.397	Covered	X		
PG.398	Not covered	X		
PG.399	Effective dates for all items	X		
PG.400	Indication of non-coverage for certain eligibility groups	X		
PG.401	Indication of non-coverage by managed care organizations	X		
PG.402	Cross reference to procedure codes		X	
PG.403	Performance, utilization, and program integrity reviews	X		
PG.404	Participation in Member care management	X		
PG.405	Other as identified by BMS during DDI and accepted via formal change control		X	

5. Care Management (CM)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
CM.1	**1. Manage Medicaid Population Health**			
CM.2	Ability to query both clinical and claims data for Members in both MCO and FFS populations in order to analyze performance of current programs and to conduct "what-if" analyses.	X		
CM.3	Ability to access and query data from other governmental entities (outside of BMS, including but not limited to HIE, HIX, and CMS) in order to:		X	
CM.4	Design and improve programs for potential as well as existing Medicaid Members	X		
CM.5	Coordinate decision-making and program development across agencies and offices in support of common care management goals	X		
CM.6	Query data and extract reports to analyze effectiveness of Medicaid dollars granted to other agencies/programs in support of care management goals	X		
CM.7	Provide training - BMS expects the Vendor to provide training in the use of data analysis and toolset for purposes of care management	X		
CM.8	Ability to use MMIS data to support population health analyses.	X		
CM.9	Ability to receive population health data from various external entities. Data should include:	X		
CM.10	Census data	X		
CM.11	Vital statistics	X		
CM.12	Immigration data	X		
CM.13	Public health data	X		
CM.14	Statewide Health Information Exchange	X		
CM.15	National Health Information Network	X		
CM.16	Other as identified by BMS during DDI and accepted via formal change control		X	
CM.17	Ability to track and maintain detail for population health initiatives, including:	X		
CM.18	Originator/source of inquiry		X	
CM.19	Data source/s used		X	
CM.20	Strategy (or strategies) developed in response to data analysis	X		
CM.21	Changes to benefits	X		
CM.22	Changes to reference data	X		
CM.23	Record of communication materials	X		
CM.24	Time period/case schedule of review	X		

5. Care Management (CM)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
CM.25	Other as identified by BMS during DDI and accepted via formal change control		X	
CM.26	The system should support the entry of free-form text field (number of characters as approved by BMS during DDI) associated with each request/analysis, including identification of user and date/time entered.	X		
CM.27	Ability to display free-form narrative in chronological or reverse chronological sequence.	X		
CM.28	**2. Establish Case**			
CM.29	Ability to automatically or manually populate, maintain and display multiple indicators at the Member level (e.g., disease state management, TBI, MR/DD).	X		
CM.30	Ability to use claims history information to support care management program eligibility determination (e.g., Disease Management and Disability Determinations).	X		
CM.31	Ability to use historical data to identify potential participants for specific programs, including historical data from the following:	X		
CM.32	Medicaid Waiver program case management - Home and Community Based Services (HCBS) and other	X		
CM.33	Disease management	X		
CM.34	Catastrophic cases	X		
CM.35	Early Periodic Screening, Diagnosis, and Treatment (EPSDT)	X		
CM.36	Population management	X		
CM.37	Other as identified by BMS during DDI and accepted via formal change control		X	
CM.38	Ability to support flexible rules-based logic (as specified by BMS) to determine care management program eligibility criteria for:	X		
CM.39	Individual Member	X		
CM.40	Family	X		
CM.41	Target populations	X		
CM.42	Other as identified by BMS during DDI and accepted via formal change control		X	
CM.43	Ability to generate a high-cost Member report to determine potential participation in a care management program.		X	
CM.44	Ability to allow user to specify values/range of values when performing program participant data search. A user may limit values for any combination of the following:		X	
CM.45	Target population characteristics (e.g., Member age, location, specific medical conditions)		X	
CM.46	Data requirements (e.g., time period)		X	

5. Care Management (CM)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
CM.47	Data elements presented in reporting (e.g., procedure codes, diagnosis codes)		X	
CM.48	Other as identified by BMS during DDI and accepted via formal change control		X	
CM.49	Ability to identify clients of special or State-funded programs, such as waiver, case-management, Aging and Disability Services Administration (ADSA) programs, Health Resources and Services Administration (HRSA) programs, and other assistance programs, with effective dates and other data required by the State.	X		
CM.50	Ability to support flexible rules-based logic (as specified by BMS) to determine program/s appropriate for each Member.	X		
CM.51	Ability to track and maintain Member treatment (care) plans and Health Improvement Plans, including the following detail:	X		
CM.52	Member detail (name, ID, etc.)	X		
CM.53	Identifies care needs as specified in the Health Improvement Plan	X		
CM.54	Care Management Program (e.g., EPSDT, Disease Management)	X		
CM.55	Provider type/s	X		
CM.56	Provider detail of Provider/s associated with case (name PIN, contact info, etc.)	X		
CM.57	Patient-Centered Medical Home (PCMH)	X		
CM.58	Program starting and end dates	X		
CM.59	Care setting	X		
CM.60	Services to be delivered	X		
CM.61	Services delivered detail (including cost & date)	X		
CM.62	Frequency of service/s	X		
CM.63	Expected results	X		
CM.64	Review detail, including dates	X		
CM.65	Other as identified by BMS during DDI and accepted via formal change control		X	
CM.66	Ability to provide role-based access (defined by BMS) to Member treatment plans.	X		
CM.67	Ability to close the program case and automatically notify* appropriate parties (including Member and Provider) if the Member chooses not to enroll in the care management program. *(BMS to determine notification method; may include letter or e- mail.)	X		

5. Care Management (CM)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
CM.68	Ability to set a program maximum number of unduplicated participants (as specified by BMS) for care management programs.	X		
CM.69	Ability to create a waiting list when the maximum number of unduplicated participants has been reached for a program.	X		
CM.70	Ability to automatically generate a notice/alert (defined by BMS) when number of unduplicated participants enrolled in a program exceeds the specified maximum.		X	
CM.71	Ability to automatically generate a notice/alert (defined by BMS) when unduplicated enrollment reaches a BMS-specified percentage of maximum enrollment.		X	
CM.72	Ability to manually override program maximum enrollment.		X	
CM.73	**3. Manage Case**			
CM.74	Ability to track and report the number of unduplicated participants in all care management programs.	X		
CM.75	Ability to accept and update care management screening data fields from claim and encounter data at least weekly.	X		
CM.76	Ability to track and maintain program Provider qualification requirements for each care management program.	X		
CM.77	Ability to match the care management periodicity schedule with FFS billing, managed care encounter data, and Health Outcome Measures.		X	
CM.78	Ability to automatically deny participation for Providers not meeting care management program qualification requirements.	X		
CM.79	Ability to monitor program data to determine if the services approved in the plan of care are provided.	X		
CM.80	Ability to provide on-line role-based access (as assigned/decided by BMS) to case management data, including:	X		
CM.81	Program data and imaged documentation	X		
CM.82	Member information (e.g., hospitalizations, LTC facility, pharmacy, PA information, State Plan services)	X		
CM.83	Claims data	X		
CM.84	Historical case, claims and enrollment data	X		
CM.85	Eligibility information	X		
CM.86	Benefit packages	X		
CM.87	Provider information (e.g., outpatient services, waiver services by type, waiver services by Provider and by Member)	X		
CM.88	Case notes	X		
CM.89	Case activity codes	X		

5. Care Management (CM)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
CM.90	Other as identified by BMS during DDI and accepted via formal change control		X	
CM.91	Ability to search on-line care management data (according to role-based access defined by BMS) by any of the following: Member name, Member ID, and/or Provider ID.	X		
CM.92	Ability to provide Case Managers role-based access (as assigned/decided by BMS, roles to be determined) to case management data. Case Managers can be defined as any of the following:	X		
CM.93	BMS staff	X		
CM.94	Nurses	X		
CM.95	Other State agencies	X		
CM.96	Contractors	X		
CM.97	Social workers	X		
CM.98	Other entities as defined by BMS	X		
CM.99	Ability to maintain Member-level EPSDT records with functionality that:	X		
CM.100	Includes user configurable periodicity schedules	X		
CM.101	Maintains tracking data, by Member, including notification and screening dates, screening results, referral details	X		
CM.102	Stores summary and detail EPSDT activities and services	X		
CM.103	Generates initial and follow-up EPSDT notices (for Providers) based on periodicity schedules	X		
CM.104	Track immunization records and status for children from birth to age eighteen (18)	X		
CM.105	Track services provided as a result of EPSDT	X		

6. Pharmacy Point-of-Sale (POS)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
POS.1	**1. General/Technical**			
POS.2	Ability to provide a system capable of easy modifications and updates based on current technology to insure integrity and drug coverage within BMS guidelines.	X		
POS.3	The Pharmacy POS is expected to support all pharmacy functions, files and data elements necessary to meet the requirements in this RFP.	X		
POS.4	Ability to maintain an easy to read audit trail of all database changes/updates accessible through online inquiry, with a date, time, reason and user ID.	X		
POS.5	Ability to support the following inputs:	X		
POS.6	Claims history data	X		
POS.7	Member data	X		
POS.8	National Provider Identifier (NPI) validation	X		
POS.9	Provider data	X		
POS.10	Reference file data	X		
POS.11	Drug utilization review (DUR) reporting parameters	X		
POS.12	National Council on Prescription Drug Program (NCPDP) Version 5.1, and batch Version 1.1, or the most current HIPAA compliant version of electronic claims and hard copy submitted claim information	X		
POS.13	HIPAA compliant electronic Prior Authorization requests and hard copy Prior Authorization requests, to include an automated prior authorization process using NCPDP Standards (Version 5.1 and any future releases). Currently, BMS uses an automated prior authorization process through the services of a vendor using NCPDP P1-P4 transactions. Requests for drugs not included in the auto PA process could be submitted electronically via the Web Portal to the current drug prior authorization services vendor that receives them into its automated fax system.		X	
POS.14	Online prescription data from Providers for Prospective Drug Utilization Review (ProDUR)	X		
POS.15	Automated preferred drug data file updates	X		
POS.16	ProDUR criteria	X		
POS.17	Other as identified by BMS during DDI and accepted via formal change control		X	
POS.18	The Vendor is expected to maintain and update the Pharmacy Provider file, including (at a minimum) the following fields: the pharmacy NPI; pharmacy Provider type and pharmacy specialty, pharmacy physical address, fax, and phone numbers; and others as defined by BMS during DDI.	X		

6. Pharmacy Point-of-Sale (POS)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS.19	Ability to perform print screen on all Pharmacy POS screens directly from the system.	X		
POS.20	Ability to link to specific information (e.g., Provider, Member, Drug, PA, etc.) within and across data fields as specified by BMS (for example, drill-down capability among Prescriber, Provider, Member, etc.).	X		
POS.21	Provide a free-form memo field (number of characters as approved by BMS during DDI) associated with drug reference file maintenance. Each entry is expected to include identification of user and date/time entered.		X	
POS.22	The system should support ad hoc reporting on the memo field based on criteria as defined by BMS (e.g., type of memo, user and date range).		X	
POS.23	The Pharmacy POS is expected to maintain batch controls and audit trails on all pharmacy claims processing activities.	X		
POS.24	The Pharmacy POS is expected to assign a unique control number to every claim at the time when the record is processed.	X		
POS.25	The Vendor should store electronic record of every claim and attachment at the Vendor site in accordance with the BMS Data Retention Policy.	X		
POS.26	The Pharmacy POS is expected to have the ability to identify those individuals who performed a force or override on an error code.	X		
POS.27	The Pharmacy POS is expected to provide audit trail capabilities for any changes to the system.	X		
POS.28	Ability to set minimum and maximum quantity limits on each drug with no additional charge.	X		
POS.29	At a minimum, ability to support paid, denied, duplicate pay, duplicate reverse, rejected, reversed and rejected reversed claims.	X		
POS.30	**2. General/Technical - Help Desk & User Support**			
POS.31	The Vendor is to supply a POS Pharmacy Help Desk dedicated to the West Virginia account. (The current pharmacy POS clinical prior authorization services vendor is expected to continue to provide drug prior authorization services only, under a separate contract. The Vendor is expected to assume the POS Pharmacy Help Desk role and processes).	X		
POS.32	The system should support a notes functionality – in regard to help desk activity	X		
POS.33	Ability to provide secure online access to current, updated source documents, Vendor developed policy/procedure manuals, system documentation, Provider manuals and forms for contract and BMS staff, including document search capabilities.	X		

6. Pharmacy Point-of-Sale (POS)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
POS.34	Ability to store current, updated source documents, Vendor developed policy/procedure manuals, system documentation, Provider manuals and forms in electronic format accessible via PC workstation.	X		
POS.35	**3. General/Technical - Inputs/Interfaces**			
POS.36	All claims data from the Pharmacy POS system should be passed by an interface file to the MMIS (on a schedule determined by BMS) for reporting, payment and remittance voucher generation.	X		
POS.37	Ability to allow the Pharmacy POS real-time access to Pharmacy and Medical/Dental claims databases.	X		
POS.38	Ability to support interfaces with external systems, including (but not limited to):	X		
POS.39	Retro DUR vendor	X		
POS.40	DW/DSS (Data Warehouse/Decision Support System)	X		
POS.41	CMS and/or their agents		X	
POS.42	Commercial drug file vendor	X		
POS.43	Other as identified by BMS during DDI and accepted via formal change control (the Vendor is expected to exhibit a willingness to support BMS defined interfaces)		X	
POS.44	Ability to support the following online processing of pharmacy claims through networks provided by contracted switch vendors:	X		
POS.45	Transmission and online real-time processing of pharmacy claims	X		
POS.46	Real-time access to Member and Provider eligibility information		X	
POS.47	Prior Authorization processing		X	
POS.48	Third Party Liability (TPL) processing and response	X		
POS.49	Respond to Drug Utilization Review (DUR) alerts	X		
POS.50	Notification of co-payment requirements	X		
POS.51	Other as identified by BMS during DDI and accepted via formal change control		X	
POS.52	Pharmacy POS should support an eligibility transaction through network Providers to provide or support Provider queries on eligibility. (The POS should support NCPDP eligibility request transactions).		X	
POS.53	**4. Drug File**			
POS.54	The Pharmacy POS drug file is expected to have the capability to indicate preferred drug status.	X		

6. Pharmacy Point-of-Sale (POS)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS.55	The Pharmacy POS drug file is expected to have the capability to indicate prior authorization requirements.	X		
POS.56	Ability to develop, implement and maintain the BMS's customized drug database.	X		
POS.57	Ability to, at a minimum, support all data elements provided by a commercial drug file vendor for each drug. (BMS prefers the vendor use First DataBank (FDB) and the AWP pricing file from Medispan. Currently, all clinical and therapeutic policies are based on FDB nomenclature, while AWP pricing is supported by using Medispan file.	X		
POS.58	Ability to maintain a master drug data file, which contains an entire list of products available including legend and Over the Counter (OTC) drugs, as well as others as specified by the BMS.	X		
POS.59	Ability to maintain, at a minimum, all standard drug-specific data elements used by pharmacy claims processors and the BMS-specific data elements.	X		
POS.60	Ability to provide for electronic update of the drug database from a commercial drug file vendor on at least a weekly basis or as directed by the BMS. (BMS does not expect to be purchasing/leasing the commercial drug file. The Vendor is expected to be responsible for this contract. First DataBank is the current vendor and Medispan's AWP pricing file was added in September 2011).	X		
POS.61	Ability to overwrite data transferred from commercial drug file vendor.	X		
POS.62	The Pharmacy POS is expected to have the ability to protect manual changes from automatic updates from the drug database vendor.	X		
POS.63	Ability to allow user-defined Drug file data elements in addition to those provided by commercial drug file vendor.	X		
POS.64	Ability to provide online, real-time update capability for changes to specific drug codes on the database at the direction of the BMS.	X		
POS.65	Ability to manually update term dates of drugs.	X		
POS.66	Ability to provide the BMS online inquiry window access to the Master Drug Data files, and access to pending changes that are to be used to update the Master Drug Data files.	X		
POS.67	Ability to view all database elements that are found in the drug file records.	X		
POS.68	Ability to provide an automated audit trail system to document reference database changes approved by the BMS, as well as documentation of the change and the reason for change.	X		

6. Pharmacy Point-of-Sale (POS)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS.69	Ability to maintain history of the deleted NDCs from the drug reference file.	X		
POS.70	Ability to generate report of changes made on Drug Reference File (including date of change), including date, time, reason and user ID.	X		
POS.71	Ability to import the CMS drug file and reconcile with the drug database file according to BMS established criteria. (BMS expects that drug termination dates, DESI information, and rebate status published by CMS are used/considered when processing POS claims. BMS expects that CMS' data, when different from the drug file data, would overlay the drug file data, if approved by BMS. BMS expects there to be an automated process for applying this data).		X	
POS.72	**5. Claims Processing - General**			
POS.73	Ability to provide and maintain a pharmacy claims processing system with the capability to process electronic and paper transactions.	X		
POS.74	Ability to monitor and track all claims processing activities.	X		
POS.75	Ability to process all claims in a real-time mode via POS technology.	X		
POS.76	Ability to allow system users to define which fields are displayed as part of a POS claim screen.	X		
POS.77	The Pharmacy POS is expected to support the universal claim form for paper submittals.	X		
POS.78	Ability to provide a system to process paper claims (including those with attachments if allowable by NCPDP) and maintain edits and audits identical to those in the POS system.	X		
POS.79	Ability to accept DEA on paper claim (either NPI or DEA is acceptable as a prescriber identifier on paper only).		X	
POS.80	Ability to support multiple transactions within 1 transmission from a Provider, based on current NCPDP standards.	X		
POS.81	On-line access to Member claim profile information that includes, but not be limited to:	X		
POS.82	Drugs with descriptions	X		
POS.83	Narrative denial reasons	X		
POS.84	Other as identified by BMS during DDI and accepted via formal change control		X	
POS.85	Ability to limit benefits on a Member-by-Member basis (i.e., individual member basis), per BMS approval, for limitations such as therapeutic categories, optional services and others defined as BMS.	X		

6. Pharmacy Point-of-Sale (POS)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS.86	The Pharmacy POS should respond with reject codes for each transaction within a transmission as defined by NCPDP standard.	X		
POS.87	Ability to deny any claim without valid eligibility information on file.	X		
POS.88	Ability to verify Member eligibility using demographic data as determined by BMS.	X		
POS.89	Ability to identify Medicaid vs. Non-Medicaid Members.	X		
POS.90	Ability to support a pharmacy lock-in capability for each Member when necessary. Lock-in to one pharmacy Provider.	X		
POS.91	Ability to support a customizable prescriber lock-in capability for each Member when necessary. Lock-in to one prescribing Provider for certain therapeutic classes.	X		
POS.92	Ability to capture and display HMO plan information (fields for display to be defined by BMS).	X		
POS.93	Ability to edit all FFS claims submitted for Members identified to have third-party coverage, including Medicare, according to BMS policies.	X		
POS.94	Ability to process claims when Date of Service does not exceed 12 months from the date the prescription was written.	X		
POS.95	Ability to set a maximum day supply as defined for BMS.	X		
POS.96	Ability to allow exceptions to the maximum day supply.	X		
POS.97	Ability to support the current NCPDP standard "Reversal" message which is to effectively 'debit' the named claim.	X		
POS.98	**6. Claims Processing - Edits/Audits**			
POS.99	Ability to process pharmacy claims, at a minimum, using all edits currently defined by the BMS.	X		
POS.100	The Pharmacy POS should perform real-time edit/audit processing.	X		
POS.101	Ability to modify edits and audits as necessary or as defined by the BMS when policy or coverage changes are implemented.	X		
POS.102	Ability to perform adjudication of unique claims (i.e. by-pass edits/audits) as specified by the BMS.	X		
POS.103	Ability to deny or override claim edits and audits in accordance with BMS determined guidelines.	X		
POS.104	Ability to identify and exclude from coverage certain Nationa Drug Code (NDC) numbers as required by the BMS.	X		
POS.105	Ability to restrict a Provider to specific drugs they can prescribe (in accordance with BMS-specified list defined during DDI).	X		

6. Pharmacy Point-of-Sale (POS)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS.106	Ability to exclude prescriber NPIs when the OIG (Office of Inspector General) or BMS has determined they are ineligible for participation.		X	
POS.107	Ability to limit dollar amounts as defined by BMS.	X		
POS.108	Ability to provide an edit to alert pharmacies when incorrect units are billed for drugs based on package size including those with decimals.	X		
POS.109	Ability to edit controlled substance claims in accordance with Federal regulations.	X		
POS.110	Ability to limit coverage by age, gender, quantity, and edits going backwards and forwards, and other as determined by BMS.	X		
POS.111	Ability to apply the Federal rebate requirements.	X		
POS.112	Ability to approve for payment exceptions to the Federal rebate requirements as defined by BMS.	X		
POS.113	Ability to edit and deny on certain NDC levels or therapeutic classes for drugs contraindicated during pregnancy.	X		
POS.114	Ability to limit drugs based on diagnosis or drug history.	X		
POS.115	All brand name multi-source drugs, which have a therapeutically equivalent generic available, should be denied for payment. A suitable generic drug is to be substituted, unless the Dispense as Written (DAW) is submitted per BMS guidelines.		X	
POS.116	Ability to recognize a preferred brand and not require the submission of a DAW code, as determined by BMS.	X		
POS.117	Ability to allow the BMS to define use criteria for use of DAW codes.	X		
POS.118	**7. Claims Processing - Benefit Plans**			
POS.119	Ability to configure claims processing benefit plans, as defined by the BMS.	X		
POS.120	Ability to process pharmacy claims using plan limitations as defined on the date of service.	X		
POS.121	Ability to support limits on scripts per month following benefit coverage rules (as defined by BMS).	X		
POS.122	Ability to apply, at the minimum, the primary, secondary coverage hierarchy (as defined by BMS) to claims processing.	X		
POS.123	Ability to block coverage of a benefit for certain Members as determined by BMS.	X		
POS.124	**8. Claims Processing - Coordination of Benefits (COB)/Third Party Liability (TPL) Requirements**			
POS.125	Ability to deny any claim that should be submitted for Medicare payment first (where the Member is identified as Medicare eligible).	X		

6. Pharmacy Point-of-Sale (POS)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS.126	Ability to allow Providers to submit a third party's carrier identification number and plan/policy numbers for insurance carriers not listed on the Member eligibility file. (BMS currently contracts with a vendor that uses the POS information to research unreported TPL. Once identified, the vendor updates the BMS eligibility files. BMS may identify other methods of collecting eligibility information in the future).		X	
POS.127	Ability to edit to ensure that TPL has been satisfied in accordance with BMS policies.	X		
POS.128	Pharmacy POS Coordination of Benefits (COB) for pharmacy claims is expected to be able to deny a claim when other insurance or Medicare coverage is present.	X		
POS.129	Ability to accept TPL information in a submitted claim, per NCPDP standards.	X		
POS.130	Capable of tabulating the one or more TPL payments towards the Medicaid cost of the claim.	X		
POS.131	Ability to not wrap around the Medicare Part D Benefit. (Wrap around references payment of drugs not covered by Part D plan formularies. BMS does not pay any Medicare Part D copayment or cover any drugs not covered by Part D plan formularies, other than the CMS defined list of drugs that are excluded by Part D and remain the responsibility of Medicaid).	X		
POS.132	Ability to capture the reject reason for the denial by the primary payer.	X		
POS.133	Ability to recognize the co-payment requirement from the primary insurance and calculate the Medicaid payment per BMS requirements.	X		
POS.134	Ability to deny hospice claims unless for a non-hospice covered drug. Hospice is considered a third-party payer.	X		
POS.135	Ability to support reject codes submitted from a Provider for each TPL submitted per NCPDP standard.	X		
POS.136	**9. Claims Processing - Compounds Requirements**			
POS.137	Ability to support the requirement that at least one ingredient is a covered legend drug.	X		
POS.138	Ability to edit for PA and quantity limits, and other edits as required by BMS, for each line of the compound.	X		
POS.139	Ability to pay a compound claim whose ingredients may include a non-allowable NDC; OTC priced at lowest determined cost; DME items and non-rebate drugs priced at $.00.	X		
POS.140	Ability to support processing of compounds containing up to 25 ingredients per prescription.	X		
POS.141	Ability to price compound ingredients based on the individual prices of each ingredient quantity contained in the compound.	X		

6. Pharmacy Point-of-Sale (POS)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
POS.142	A compound drug containing a DESI (also known as Less than Effective Drug Efficacy Study Implementation -- LTE DESI) ingredient should be denied. (All drugs that are CMS DESI 5 or 6 designation should be denied for payment when billed as a single ingredient or if billed as an ingredient in a compounded prescription).		X	
POS.143	**10. Claims Processing - Refills**			
POS.144	Ability to limit the number of 3 day Emergency fills during the life of a prescription as specified by a configuration parameter.	X		
POS.145	Ability to enforce 11 refills per prescription within 12 months resulting in a total of a maximum of 12 fills in 12 months (for non-controlled substances)	X		
POS.146	Ability to enforce 5 refills per prescription within 6 months for controlled substances.	X		
POS.147	Ability to enforce early refill limits using different percentages of supply used across different drug categories as determined by BMS.	X		
POS.148	Ability to restrict replacement lost/stolen drugs in order to disallow the pharmacy to enter override code per BMS policy. Current BMS policy requires a call to the help desk for approval.	X		
POS.149	**11. Drug Utilization Review (DUR)**			
POS.150	Ability to provide and support point-of-sale with prospective DUR edits.	X		
POS.151	Ability to use existing Medicaid Member pharmacy claim history records to evaluate the current prescription for possible interactions between the patient’s active history prescriptions and the drug being currently prescribed.	X		
POS.152	Ability to use ProDUR communications that comply with current specifications used in NCPDP Version 5.1 or the most current HIPAA compliant version.	X		
POS.153	Ability to provide online access to Prospective Drug Utilization Review (ProDUR) criteria/screening data files.	X		
POS.154	Ability to support the following requirements for ProDUR:	X		
POS.155	Support an edit process that should be parameter or table-driven and be flexible	X		
POS.156	Provide the capability to update system parameters without complex programming within one (1) business day of receipt of request	X		
POS.157	Provide BMS users with role-based access to DUR data (on-line) for the purpose of displaying module groupings (therapeutic classes), dosing, and other criteria used for editing.	X		

6. Pharmacy Point-of-Sale (POS)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
POS.158	Other as identified by BMS during DDI and accepted via formal change control		X	
POS.159	**12. Drug Utilization Review (DUR) - Claims Review**			
POS.160	The DUR Clinical Modules should be configurable and customizable and provide edits per BMS policy. The modules should include (at a minimum):	X		
POS.161	Drug Drug Interaction (DD)	X		
POS.162	Therapeutic Duplication (TD)	X		
POS.163	Ingredient Duplication (ID)	X		
POS.164	Early Refill (ER) if applicable	X		
POS.165	Pregnancy Precaution (PG)	X		
POS.166	High Dosage (HD)	X		
POS.167	Maximum Duration (MX)	X		
POS.168	Breastfeeding Precaution (SX)	X		
POS.169	Low Dosage (LD)	X		
POS.170	Late Refill (LR)	X		
POS.171	Drug/Allergy alerts	X		
POS.172	Ingredient/therapeutic duplication crossover	X		
POS.173	Other as identified by BMS during DDI and accepted via formal change control		X	
POS.174	RxDUR should have capability to modify the ON/OFF status of clinical modules. (BMS expects the Vendor's solution to have the flexibility to set to "ignore" status such DUR edits as late refill or pregnancy for certain therapeutic classes, but be able to apply them to other therapeutic classes. An example is to deny ACE inhibitors for members who are pregnant, but do not deny Penicillins for members who are pregnant).	X		
POS.175	Ability to implement a ProDUR system using online real-time intervention at the POS with clinical edits to detect, at a minimum, maximum/minimum daily dosages for all applicable NDCs.	X		
POS.176	Ability to capture and store chronic disease states in the Member file.	X		
POS.177	**13. Drug Utilization Review (DUR) - Alerts & Overrides**			
POS.178	Ability to display multiple POS messages as a return response to the billing Provider.	X		
POS.179	Ability to user-define text of messages to be returned to pharmacies.	X		

6. Pharmacy Point-of-Sale (POS)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS.180	Ability to user-define business rules which allow different messages under different circumstances.		X	
POS.181	Ability to apply alerts according to BMS specifications.	X		
POS.182	For each alert/denial, the ability to include, at a minimum, the following information (to the Provider):	X		
POS.183	Alert conflict type (e.g., drug allergy alert)	X		
POS.184	Alert severity (e.g., minor, major, etc.)	X		
POS.185	Available data related to the alert (e.g., other drug or condition in conflict)	X		
POS.186	Other as identified by BMS during DDI and accepted via formal change control		X	
POS.187	Ability to support a role-based override capability for all edits.	X		
POS.188	Ability to support special situations where State/Federal programs/exceptions exist with "soft edits" to allow Provider override.	X		
POS.189	Ability to support "hard edits" to prevent Provider override.	X		
POS.190	Ability to support a special "BMS Management Override" for paper claims where normal editing is bypassed.		X	
POS.191	Ability to require the Provider to enter codes for actions taken in response to the drug interaction alerts/warnings and the outcomes of those actions in accordance with NCPDP response codes. The system should maintain these acknowledgment codes in history, as well as report them when requested by the BMS.	X		
POS.192	Ability to user-define additional text to accompany standard NCPDP DUR reject codes and their associated return messages.	X		
POS.193	Ability to edit against data elements in a Provider file of the prescriber identified in the prescriber ID field of a submitted claim for the purpose of overriding or producing claim (e.g., not requiring PA for scripts written by certain doctors, or denying a claim within a certain drug class when written by a specific prescriber).	X		
POS.194	Ability to override PA/Electronic Prior Authorization (EPA) requirement based on submitted diagnosis code or previously recorded chronic disease regardless of the claim type the diagnosis was submitted on.	X		
POS.195	Ability to produce a report, upon request, listing all ProDUR alerts encountered for specified Members, Providers, and/or prescribers.	X		
POS.196	Ability to systematically by-pass or suppress Pro-DUR alerts based on prescriber/Provider/Member/program and/or drug file parameters as defined by the BMS.		X	

6. Pharmacy Point-of-Sale (POS)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
POS.197	**14. Drug Utilization Review (DUR) - Default Screening**			
POS.198	The initial values for DUR Default Screening Parameters page should be set as specified by the BMS.	X		
POS.199	Capability for modification of the default Screening Parameters.	X		
POS.200	Ability to rank the severity of adverse events.	X		
POS.201	Ability to modify the ranking of Severity Events.	X		
POS.202	Ability to establish initial Severity Rankings as specified by the BMS.	X		
POS.203	Ability to reject claims when certain drug combinations are used (as defined by BMS).	X		
POS.204	Capability of posting or not posting DUR events to the Provider, as determined by BMS.	X		
POS.205	**15. Drug Utilization Review (DUR) - Reporting**			
POS.206	Ability to generate the following reporting:	X		
POS.207	Alerts/claims denials by reason (e.g., therapeutic duplication, drug/drug interaction, excessive utilization)	X		
POS.208	Cost saving and cost tracking reports (e.g., savings amounts, co-pays).		X	
POS.209	Drug file update reporting (e.g., therapeutic class, update descriptions, low/high dose criteria)	X		
POS.210	Other as identified by BMS during DDI and accepted via formal change control		X	
POS.211	**16. Prior Authorization (PA) - Processing**			
POS.212	Ability to process PAs using the NCPDP standard guidelines. (Full support of processing PAs using NCPDP Standards is desired. BMS acknowledges that most PA requests currently are included with claims submission. However, the proposed solution should reach into the future and should support D.0 and any subsequent version during the life of the contract).	X		
POS.213	Ability to utilize prior authorization information in claims processing.	X		
POS.214	Ability to approve a 3-day Emergency Fill without a Prior Authorization. This fill should not count towards the refill count of the prescription. (A 3-day supply of medications is allowed to be dispensed to members for drugs that require prior authorization, per Federal regulations. The current system allows a 3-day supply to be processed using NCPDP standard codes).	X		
POS.215	Ability to provide edits in the claims processing system to identify drugs requiring prior authorization.	X		

6. Pharmacy Point-of-Sale (POS)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS.216	Ability to integrate with the BMS Prior Authorization call center vendor (Currently the PA Vendor enters drug prior authorization records directly into the POS system. The Vendor is expected to provide this functionality to the PA Vendor and to provide support to the PA Vendor for the PA module).		X	
POS.217	Ability to automatically generate and track prior authorization using a unique identifier.	X		
POS.218	Ability to maintain prior authorization at the eligibility group level, program or plan (i.e., prior authorization criteria should be applied to different defined groups. BMS currently has the capability to apply PA criteria to different drugs, within different eligibility plans. Example: Drug X requires PA for Medically Needy. Drug X does not require PA for ADAP).	X		
POS.219	Ability to edit for Prior Authorization in accordance with BMS policies and guidelines. (Prior authorization criteria is currently applied to different defined groups. BMS currently has the capability to apply PA criteria to different drugs, within different eligibility plans. Example: Drug X requires PA for Medically Needy. Drug X does not require PA for ADAP. On the Med/Dent side, PA criteria policies and guidelines are contained in the Provider Manuals).	X		
POS.220	Ability to maintain a map of NDC code, where the map would be provided by BMS or designee, to diagnosis code to edit for valid/invalid combinations. (There is no current mapping of NDCs and diagnostic criteria. In the future, BMS desires this capability in order to allow certain drugs to process only if the pharmacy enters an appropriate diagnosis code approved by BMS).	X		
POS.221	Ability to set PA requirements at various BMS determined levels (e.g., NDC, therapeutic class).		X	
POS.222	Ability to administer prior authorization processing in a real-time mode.	X		
POS.223	Ability to accept online real-time entry and update of prior authorization requests. (The current pharmacy POS clinical prior authorization services vendor has access to the POS PA module and enters PA information directly into the pharmacy processing system).	X		
POS.224	Ability to deny claims where the NDC is not covered. (Even though a PA is indicated at the BMS-specified level, the NDC is checked to see if it is a covered drug.)	X		
POS.225	Ability to apply the PA requirements effective on the date of service.	X		
POS.226	Ability to match the prior authorization to the claim. The Pharmacy POS should not always require that a Provider submit a PA number before processing a POS claim.	X		

6. Pharmacy Point-of-Sale (POS)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS.227	Ability to allow BMS to specify criteria for requiring the Provider to supply a PA number before the transaction may be processed. (In the current system, providers do not have to enter a PA number when submitting a POS claim. However, the current system can require a PA number should BMS wish to require the PA number. Providers obtain the PA numbers manually).		X	
POS.228	Ability to support emergency PA capability (as defined by BMS, using NCPDP standards). (This requirement is the same as a 3-day emergency fill for drugs that require a prior authorization).	X		
POS.229	Ability to provide a mechanism for the Vendor and the State to enter Prior Authorization data, based on role-based security as determined by BMS.	X		
POS.230	Ability to provide on-line access to all prior authorization information.	X		
POS.231	Ability to accept on-line, real-time entry and update of PA determinations.	X		
POS.232	Ability to utilize prior authorization restrictions to include, but not limited to:	X		
POS.233	Drug data (e.g., NDC (9 to 11 digits), HIC, GCN sequence)		X	
POS.234	Member data	X		
POS.235	Provider data	X		
POS.236	Day specific, or span dates of the prior authorization	X		
POS.237	Frequency restrictions	X		
POS.238	Dollar/unit dispensing limitations (the POS should have the ability to limit prescriptions based on a dollar threshold amount and to limit prescriptions based on dispensed units)	X		
POS.239	Other as identified by BMS during DDI and accepted via formal change control		X	
POS.240	Ability to link to eligibility data when reviewing the PA request.	X		
POS.241	Ability to automatically identify and update active or pended PA records when a reference file has been updated (e.g., drug code, drug category). (Claims are not pended in the Pharmacy POS system. BMS expects the POS system to be capable of updating the PA parameter (generic sequence number, generic code, etc) when the drug file changes the parameter, so that PA requirements and processing are maintained).		X	
POS.242	Ability to require and process PA for service to Member in LTC. (The same level of editing/auditing that are done for pharmacy claims outside of a LTC, but the LTC would be a separate eligibility group with distinct PA requirements).	X		

6. Pharmacy Point-of-Sale (POS)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS.243	Ability to "grandfather" Members on identified services when a new PA requirement is identified. (BMS currently uses a Preferred Drug List. In the past, it has been desired to allow current users of a drug to continue, but new users require a prior authorization. An example is Zyprexa. Current users were allowed to continue to receive this drug, but new users were required to receive a prior authorization for coverage of the drug).	X		
POS.244	Ability to add back the unused units if a claim is reversed	X		
POS.245	Ability to generate denial notices to Members.	X		
POS.246	**17. Prior Authorization - Automated Prior Authorization**			
POS.247	Ability to provide automated approval of authorizations based upon any Federal, State, and BMS policy and guidelines, for use in determining if pre-established criteria for selected drugs have been met. The data queried is expected to include diagnosis codes, procedure codes and pharmacy claims data (for both fee-for-service and encounter data).	X		
POS.247a	Ability to provide an integrated automated prior authorization system which can incorporate Federal, State and BMS policy and guidelines and determine if pre- established criteria for selected drugs has been met through a review of historical claims data. The data should include pharmacy claims, medical claims and diagnosis codes.		X	
POS.247b	Ability to automatically adjudicate claims for drugs requiring prior authorization for which criteria has been met.	X		
POS.247c	Ability to send a message to the Prior Authorization Help Desk to request manual review of claims for drugs not meeting criteria for automatic approval. The Prior Authorization Help Desk should have access to the prior authorization criteria and steps performed in the automated PA review process.	X		
POS.248	Ability to search up to twenty-four (24) months of member pharmacy and medical claims and diagnosis codes. (Medical claims should include out-patient visits, in-patient admissions and procedure codes).	X		
POS.249	Ability to identify and retain once-in–a lifetime codes (such as hysterectomy, etc.) as identified by BMS for review in prior authorizations.	X		
POS.250	Ability to provide table-driven criteria that is customized and can be adapted within at least ten (10) days of BMS' request to meet changes in pharmacy policy and criteria updates.	X		
POS.251	Ability to provide data analysis tools and analysis by the MMIS Vendor on an ongoing basis to identify clinical and utilization issues that may warrant new screening criteria.	X		

6. Pharmacy Point-of-Sale (POS)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS 252	Ability to perform automated prior authorization review while meeting POS system performance metrics requirements for the adjudication of claims.	X		
POS.253	**18. Pricing**			
POS.254	Ability to price all claims in accordance with BMS policies and guidelines.	X		
POS.255	Ability to accommodate and calculate payments applying various co-pay/cost sharing arrangements as defined or approved by the BMS.	X		
POS.256	Ability to pay different dispensing fees based on criteria established by the BMS.	X		
POS.257	Ability to support a Medicaid AWP (average Wholesale Price - Department of Justice) pricing methodology		X	
POS.258	Ability to enforce the reimbursement of only one dispensing fee per drug entity, per Member, per calendar month for Long Term Care (LTC) patients.	X		
POS.259	Ability to apply selected pricing methods for each claim payment and display in the claim record what method was used to determine final payment amount up to, but not to exceed, final claim charge.	X		
POS.260	Ability to display on a denied claim the pricing method that would have been used and the amount of the claim if it would have paid.		X	
POS.261	**19. Pricing - Pricing Formulas**			
POS.262	Ability to utilize industry standard pricing including, at a minimum:	X		
POS.263	AWP (Average Wholesale Price)	X		
POS.264	Medicaid AWP (average Wholesale Price - Department of Justice)		X	
POS.265	SMAC (State Maximum Allowable Cost)	X		
POS.266	WAC (Wholesale Acquisition Cost)		X	
POS.267	ASP (Average Sales Price)		X	
POS.268	FUL (Federal Upper Limit)		X	
POS.269	Direct price pricing where appropriate		X	
POS.270	Other as identified by BMS during DDI and accepted via formal change control		X	
POS.271	Ability to apply pricing algorithms to determine which of several pricing methods (such as AWP-14%, AWP-50%, SMAC, FMAC, etc.) are applicable to a specific NDC and determine which method yields the lowest net cost.	X		

6. Pharmacy Point-of-Sale (POS)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
POS.272	Compound prescriptions are to be reimbursed with an additional $1.00 Dispensing Fee.		X	
POS.273	Ability to manage the 340-B pricing as defined by BMS.		X	
POS.274	Ability to support different dispensing fees to different types of pharmacies as defined by BMS.	X		
POS.275	Ability to support a DAW 1 code and reimburse at the brand rate.	X		
POS.276	**20. Pricing - TPL and Co-Pay Processing**			
POS.277	Ability to deny any claim whose TPL is less than or equal to a parameter configured by the BMS (currently $0.00).		X	
POS.278	Ability to price POS claims with TPL amounts according to NCPDP standards and BMS policy. Ability to support, at a minimum, the application of data from 433-DX in conjunction with other coverage codes 2, 3, and 4.	X		
POS.279	Ability to support primary payer reject codes as defined by BMS.	X		
POS.280	Ability to support multiple co-pay requirements based upon the total price or status of the drug.		X	
POS.281	Ability to maintain co-pays based on BMS policy for various eligibility groups or product designation.	X		
POS.282	**21. Financial Processes**			
POS.283	Ability to include on-line access to the following:	X		
POS.284	Recoupments	X		
POS.285	Voids	X		
POS.286	Refunds made	X		
POS.287	Request for additional information sent		X	
POS.288	Number of outstanding requests pending		X	
POS.289	Other as identified by BMS during DDI and accepted via formal change control		X	
POS.290	Ability to reprocess pharmacy claims when needed.	X		
POS.291	Ability to perform mass claims reprocessing.	X		
POS.292	Ability to update the FFS claims payment to track all recoupment, refund and adjustment activity.	X		
POS.293	Ability to reimburse pharmacies as approved by the BMS in accordance with applicable Federal regulations.	X		
POS.294	Ability to provide a method to pay pharmacists an incentive (based upon rules approved by BMS).	X		
POS.295	**22. Reporting - General**			
POS.296	Ability to generate standard reports (as defined by BMS during DDI) and customized reports.	X		

6. Pharmacy Point-of-Sale (POS)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
POS.297	Ability to support an online/on-demand Member history report. The results should contain enough information to reflect the following:		X	
POS.298	A drug profile history, and should be in a format which can be either stored or displayed on an online screen.		X	
POS.299	A drug utilization history, and should be in a format which can be either stored or displayed on an online screen.		X	
POS.300	Ability to export reports for enhanced manipulation and analysis.		X	
POS.301	Ability to provide for the electronic delivery of reports to identified destinations.		X	

7. General and Technical (GT)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
GT.1	**1. Change Control**			
GT.2	Ability to provide an automated software modifications change request tracking system.	X		
GT.3	The system should enable BMS to control and monitor system change requests.	X		
GT.4	Change requests are expected to include all necessary documentation (as defined by the BMS-approved change management plan).	X		
GT.5	Ability for BMS to set and change priority levels on individual change requests.	X		
GT.6	Ability for BMS to track process metrics and other detail, including:	X		
GT.7	The estimated and actual hours allocated to each change request	X		
GT.8	Specific personnel assigned to each change request	X		
GT.9	Scheduled completion date for each change request	X		
GT.10	Total cost (if maximum allowable hours exceeded)	X		
GT.11	Total approved operations charge increase (if any)	X		
GT.12	A separate total for equipment requirements (if applicable) related to the modification	X		
GT.13	**2. Data Retention, Archival, Retrieval and Purge**			
GT.14	Ability to ensure that data is retained, archived, purged, protected from destruction and accessible, according to State and Federal requirements and in accordance with the BMS Data Retention Policy.	X		
GT.15	The Vendor is to ensure that hard copy documents are retained, stored, imaged, archived, and destroyed according to State and Federal requirements and in accordance with the BMS Data Retention Policy.	X		
GT.16	Ability for BMS to specify/modify auto archive rules.		X	
GT.17	Ability to provide archival and purge processes that do not degrade or interrupt the system.		X	
GT.18	Ability to easily retrieve archived data for online review, export and reporting.		X	
GT.19	Ability to restore archived data for reviewing, copying and printing.	X		
GT.20	**3. Disaster Recovery and Business Continuity**			
GT.21	Ability to provide a Disaster Recovery/Business Continuity Plan that complies with Federal, State, Department and Bureau rules, regulations and applicable policies and procedures, including at a minimum:	X		

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.22	Daily back-up which is adequate and secure for all computer software and operating programs; databases; files; and system, operation, and user documentation (in electronic and non-electronic form)	X		
GT.23	Full and complete back-up copies of all data and software on tape and/or disk	X		
GT.24	Storage of all back-up copies in a secure off-site location	X		
GT.25	Routine testing to verify the completeness, integrity, and availability of back-up information	X		
GT.26	Support for immediate restoration and recovery of lost or corrupted data or software from a disaster event	X		
GT.27	Provide for back-up processing capability at a remote site(s) from the primary site(s) such that normal payment processing, as well as other State defined systems and services can continue in the event of a disaster or major hardware problem at the primary site(s).	X		
GT.28	Ability to provide sufficient transaction logging and database back-up to allow it to be restored. If multiple databases are used for work item routing and program data, restoration should ensure that databases are synchronized to prevent data corruption.	X		
GT.29	Ability to provide point-in-time recovery of data to the last completed transaction.	X		
GT.30	Ability to allow for continued use of the system during back-up.	X		
GT.31	The Vendor is to perform back-ups during non-peak processing hours, minimizing the impact to operational activities.	X		
GT.32	**4. Problem Management**			
GT.33	Ability to write all errors to an error log.	X		
GT.34	Ability to allow for a BMS administrator to view, filter, sort and search the error log.	X		
GT.35	Ability to allow for an administrator (Vendor personnel) to archive error log entries based upon user-defined criteria.	X		
GT.36	Ability to allow for a user to define an alert message to be executed upon the occurrence of an error.	X		
GT.37	The Vendor is to provide record-level reporting of inaccurate processing results (e.g., claims processed without required consent on file, valid claims denied).		X	
GT.38	**5. Release Management**			
GT.39	Major releases are to be evaluated and approved by BMS prior to application.	X		
GT.40	The Vendor is to send notification to BMS when releases are available to be evaluated.	X		

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.41	The Vendor is to provide BMS with detailed documentation that lists all fixes and functionality for each release.	X		
GT.42	The Vendor is to proactively notify the System Administrator regarding which releases of third-party software (JAVA virtual machine, Internet Explorer, Mozilla, Safari, etc.) are known to create problems with the current version of the vendor software.	X		
GT.43	The Vendor is to maintain version control and provide BMS with current system and user documentation, and operating procedures manuals.	X		
GT.44	Ability to allow centralized deployment of system updates and system maintenance.	X		
GT.45	**6. Security Management**			
GT.46	Comply with all Federal, State, Department and Bureau rules, regulations and applicable policies and procedures related to security.	X		
GT.47	Ability to anticipate and provide a flexible solution that is positioned to effectively meet the requirements of current and future HIPAA security regulations.	X		
GT.48	Ability to provide a role-based Single Sign On (SSO) solution.	X		
GT.49	Requests for access are to come from an authoritative source(s) as defined by BMS.	X		
GT.50	Ability to require that all users (including all vendor support staff members) have a unique user ID and password, where:	X		
GT.51	Required passwords are to expire on a staggered schedule and can be reset at any time by appropriate personnel and/or automated system reset.	X		
GT.52	Passwords are to be strong passwords (e.g., contain caps/numbers, cannot use prior passwords, etc.).	X		
GT.53	Passwords are to be stored in encrypted form.	X		
GT.54	Restriction of application and/or function within an application through role-based security. Role assignments are to be used to determine which user categories have permission to access which application and/or function within an application.	X		
GT.55	Ability to provide the following three types of controls to maintain the integrity, availability, and confidentiality of Protected Health Information (PHI) data contained within the system: These controls are to be in place at all appropriate points of processing.	X		
GT.56	**Preventive Controls:** Controls designed to prevent errors and unauthorized events from occurring.	X		
GT.57	**Detective Controls:** Controls designed to identify errors and unauthorized transactions which have occurred in the system.	X		

7. General and Technical (GT)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
GT.58	**Corrective Controls:** Controls to ensure that the problems identified by the detective controls are corrected.	X		
GT.59	Allow properly authorized users to configure and maintain all system settings from any workstation on the local/wide area network using a browser.	X		
GT.60	Ability to provide audit trails of all updates to the security system (add/change/delete) by log-on ID (or batch update identifier), date and time of the change, and source of entry (workstation ID), including all attempted updates.	X		
GT.61	The system's import and export capabilities are to provide user-level security options to control access to sensitive information.	X		
GT.62	Ability to support file, record, and field-level security.	X		
GT.63	Ability to provide document-based security.			
GT.64	Ability to update all security roles automatically when a change in the "master" role is made.	X		
GT.65	Ability to provide functional security to control what processes can be performed by certain users.	X		
GT.66	Ability to allow local/central System Security Administrators to add and change permissions for local/central system access.	X		
GT.67	Ability to prohibit display of passwords on the sign-on screen when entered by the user.	X		
GT.68	Ability to log and report all unauthorized access attempts by terminal ID, user ID, date, and time.	X		
GT.69	Ability to allow System Administrator to re-set user passwords.	X		
GT.70	Ability to allow users to change their passwords.	X		
GT.71	Ability to log a user off a system if there is no activity within a thirty (30) minute period of time, or other period of time designated by BMS.	X		
GT.72	Ability to terminate access if there is no activity on a user account within thirty (30) days, or other period designated by BMS.	X		
GT.73	Ability to generate a periodic report (as scheduled by BMS) of upcoming user account terminations.	X		
GT.74	Ability to immediately disable access to any user or user group after a predetermined number of attempts to log-on.	X		
GT.75	Ability to ensure that all applications comply and are compatible with existing State and Federal guidelines preventing unauthorized access.	X		
GT.76	Employ a security approach that integrates MMIS components to provide role-based access with a single log-on.	X		
GT.77	Ability to provide an audit trail of record changes, including user and date of change.	X		

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.78	Ability to implement audit trails to allow information on source documents to be traced through the processing stages to the point where the information is finally recorded.	X		
GT.79	Ability to trace data from the final place of recording back to its source of entry.	X		
GT.80	The system is to comply with all HIPAA final, future rules as they become final and amendments to final rules (e.g., Privacy and Security, Transaction and Code Sets, National Provider Identifier).	X		
GT.81	Ability to transmit and receive HIPAA-compliant transactions using multiple methods (e.g., web-based, dial-up, batch file).	X		
GT.82	Ability to transmit and receive HIPAA-compliant transactions using a variety of devices including PCs and touch tone phones.	X		
GT.83	The system is to comply with the implementation of HIPAA compliant privacy and security measures across all DHHR systems and business functions as they impact or interact with the MMIS.	X		
GT.84	The system is to support multiple versions of HIPAA implementation guides concurrently (e.g., 4010/5010) as per HIPAA Transaction and Code Set (TCS) Rule.	X		
GT.85	**7. Standards**			
GT.86	The system is expected to be flexible and readily adaptable to changing State and Federal requirements.	X		
GT.87	The Vendor is to provide BMS with an inventory of all hardware and software to be placed within the State government infrastructure.	X		
GT.88	The Vendor is expected to support current technologies for data interchange (e.g., XML).	X		
GT.89	Client desktop software is to work with new desktop operating system patches and upgrades based upon BMS patch management policies (see Procurement Library).	X		
GT.90	The system is to use a relational database management system (RDBMS).	X		
GT.91	**8. Support**			
GT.92	The Vendor is expected to provide a technical help desk, accessible to users via phone.	X		
GT.93	The Vendor is to provide web-based support, with a searchable database of common problems, to assist end-user in facilitating resolution of error messages.		X	
GT.94	The system is to have the "built-in" capability to provide BMS authorized support through remote access to the application.	X		
GT.95	Ability to allow for BMS-defined severity levels for support.	X		

7. General and Technical (GT)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
GT.96	The following describe desired capabilities of the Vendor's support tool:	X		
GT.97	Provide functionality that creates, edits, sorts and filters tickets or electronic records of calls made to the Call Center to be used by both Vendor Help Desk and BMS staff.	X		
GT.98	Ability to create tickets that track the caller, the question(s) or issue(s), the resolution or response, the Vendor and BMS staff responding to the ticket, date(s), time(s) and status (open or closed).	X		
GT.99	Ability to add electronic attachments to a ticket.	X		
GT.100	Ability to allow configuration of call routing and delegation criteria, and severity, prioritization and escalation criteria.	X		
GT.101	Include knowledge base, Frequently-Asked-Questions (FAQ) components, and phone scripts that can be updated manually or via automatic imports.		X	
GT.102	Ability to facilitate mass e-mail and fax notifications to enrolled providers.	X		
GT.103	Ability to allow the recording of inbound and outbound communications with the ability to retain recordings as specified by BMS.		X	
GT.104	The Call Center should have a central database for call tracking records that can be queried by both Vendor and BMS users.	X		
GT.105	Ability to use MMIS data repositories to automatically display information regarding the caller.		X	
GT.106	Ability to capture date-specific and user-specific free form text for each call center ticket.	X		
GT.107	Provide role-based system training for BMS personnel, their vendors and their business partners upon request of BMS.	X		
GT.108	Provide training to BMS or its subsequent vendor regarding:	X		
GT.109	Computer operations, including production control monitoring procedures	X		
GT.110	Controls and balancing procedures	X		
GT.111	Extension routines (pre/post SQL)	X		
GT.112	Other manual operations as necessary	X		
GT.113	**9. System Integration**			
GT.114	Ability to access all current and historical Member, Provider, Contractor (e.g., HMO) and other data necessary to meet the functional requirements outlined in this document.	X		
GT.115	MMIS modules and applications are to integrate successfully and effectively with minimal or no customization.	X		

7. General and Technical (GT)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
GT.116	Utilize open architecture standards and scalability to promote integration throughout all MMIS business processes and sub-processes.	X		
GT.117	Provide a user-friendly, common "look and feel" which gives users a seamless MMIS experience across the "core system," including (at a minimum) the Member Management, Provider Management, Claims Processing, Reference File, and TPL modules, and maintains common user elements across the entire MMIS whenever possible.	X		
GT.118	Data changes made in one part of the system should automatically populate other parts of the system so as to avoid duplicate data entry.	X		
GT.119	All on-line claim/encounter information is to be available to authorized users regardless of the functional business area where the data is stored.		X	
GT.120	Ability to "lock" a claim to prevent concurrent updates to the same claim.	X		
GT.121	Adjudicated claims are not to be changed outside an approved adjustment process. Once a claim is adjudicated and in a final status, the information is to remain static while it is displayed (e.g., users may not cut claim information from claim lines/data).	X		
GT.122	Ability to maintain an integrated repository of Member information, including a single unique identifier (which is not the SSN), for all Members where payments are made from the new MMIS system.	X		
GT.123	Ability to maintain an integrated repository of Provider information, including a single unique identifier (NPI), for all Providers.	X		
GT.124	**10. System Interfaces**			
GT.125	Ability to interface and/or integrate with the systems and applications as specified in the Integration Points Table of this document. (See the following Procurement Library folder/file: Interfaces/WV_MMIS_External_Interfaces.pdf).		X	
GT.126	The system is to receive and send electronic interface information from and to the State's eligibility systems, other agencies, and BMS's outside Vendors (as specified in the Integration Points Table of this document).		X	
GT.127	Ability to accept eligibility data from multiple source systems into a Vendor supplied common eligibility interface component. The common eligibility interface component is to edit for data accuracy, completeness, redundancy, etc., according to specified business rules, reformat the data and provide a single interface to the MMIS. The common eligibility interface component is to also assure data delivery.		X	
GT.128	The system is to interface with and provide data to a Decision Support System/Data Warehouse.		X	

7. General and Technical (GT)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
GT.129	Ability to produce required Federal and State data sharing, including (but not limited to) the following:	X		
GT.130	Program management reports (formerly known as Management and Administrative Reporting Subsystem (MARS))	X		
GT.131	Program Integrity Reports (formerly known as Surveillance and Utilization Review Subsystem (SURS)	N/A	N/A	N/A
GT.132	Medicare Modernization Act (MMA)	X		
GT.133	Medicaid Statistical Information System (MSIS)	X		
GT.134	The system is to accept the same Provider electronic billing data set required by the Medicare program for crossover claims from COBA.	X		
GT.135	Ability to employ online real-time or batch updates of data between the MMIS and other systems, depending on the interface requirements.		X	
GT.136	Ability to produce a listing on an as-requested basis of all submitters with their submitter ID.	X		
GT.137	Ability to maintain the submitter ID on the claim record.	X		
GT.138	Able to accept and process or generate all HIPAA mandated transactions, other versions or standards that may be mandated, and other transactions, including all current and future releases of the following, such as HIPAA v.5010, D.0, by the mandated deadlines:	X		
GT.139	**Health Care Claims**	x		
GT.140	ASC X12N 837 Health Care Claim: Professional	X		
GT.141	ASC X12N 837 Health Care Claim: Institutional	X		
GT.142	ASC X12N 837 Health Care Claim: Dental	X		
GT.143	National Council for Prescription Drug Programs (NCPDP) Version 5, Release 1, and equivalent NCPDP Batch Standard Version 1, Release 0	X		
GT.144	**Eligibility for a Health Plan:**	X		
GT.145	ASC X12N 270/271 Health Care Eligibility Benefit Inquiry and Response	X		
GT.146	**Health Care Claim Status:**	X		
GT.147	ASC X12N 276/277 Health Care Claim Status Request and Response	X		
GT.148	**Referral Certification and Authorization:**	X		
GT.149	ASC X12N 278 Health Care Services Review - Request for Review and Response		X	
GT.150	**Health Plan Premium Payments:**	X		

7. General and Technical (GT)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
GT.151	ASC X12N 820 Payroll Deducted and Other Group Premium Payment for Insurance Products	X		
GT.152	**Enrollment and Dis-enrollment in a Health Plan:**	X		
GT.153	ASC X12N 834 Benefit Enrollment and Maintenance	X		
GT.154	**Health Care Payment and Remittance Advice:**	X		
GT.155	ASC X12N 835 Health Care Claim Payment/Advice	X		
GT.156	**Coordination of Benefits:**	X		
GT.157	ASC X12N 837 Health Care Claim: Professional		X	
GT.158	ASC X12N 837 Health Care Claim: Institutional		X	
GT.159	ASC X12N 837 Health Care Claim: Dental		X	
GT.160	**National Council for Prescription Drug Programs:**	X		
GT.161	(NCPDP) Version 5, Release 1, and equivalent NCPDP Batch Standard Version 1	X		
GT.162	**Acknowledgements:**	X		
GT.163	ASC X12 824: Application Reporting Version 4010/5010	X		
GT.164	ASC X12 277: Health Care Payer Unsolicited Claim Status (Claims in Process Report)		X	
GT.165	**New transaction content to include:**	X		
GT.166	ASC X12N 269: Health Care Coordination of Benefits Request and Response	X		
GT.167	ASC X12N 270/271: Health Care Eligibility/Benefit Inquiry and Response (with commercial insurance carriers)	X		
GT.168	ASC X12N 274: Health Care Provider Inquiry and Information Response Guide	X		
GT.169	ASC X12N Health Care Provider Credentialing Implementation Guide	X		
GT.170	ASC X12N Health Care Provider Directory Implementation Guide	X		
GT.171	ASC X12N Health Care Provider Information Implementation Guide	X		
GT.172	ASC X12N Additional Information to Support a Health Care Services Review	X		
GT.173	ASC X12N 275: Additional Information to Support a Health Care Claim or Encounter	X		
GT.174	ASC X12N 841: Specifications/Technical Information	X		
GT.175	The system is to accommodate future versions of the HIPAA electronic PA transactions.	X		
GT.176	The system is to comply with all HIPAA EDI standards adopted by the BMS.	X		

7. General and Technical (GT)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
GT.177	The Vendor is to provide for both an online DDE (direct data entry) process and receipt of electronic prior authorizations.	X		
GT.178	Ability to receive electronic data from another source and create an authorization (i.e., OHFLAC data for nursing home, ICFMR via web application).	X		
GT.179	Ability to use high speed data transfer functionality to send and receive information (where available).	X		
GT.180	Ability to reflect updates to MMIS (e.g., when procedure codes and/or modifiers which require prior authorization have been deleted and/or replaced with new or revised HIPAA-compliant codes) without interruption to service.	X		
GT.181	Vendor should ensure that file standardization is supported by all interfaces, so that data standards are maintained according to BMS-specified and Federally mandated file specifications for data element lengths, field format, and type.	X		
GT.182	Ability to use FTP, web interface, or other industry standard electronic means (such as Gentran, Connect: Direct) or media to transfer files, as approved by the BMS.		X	
GT.183	Ability to schedule and support file transfer as requested and agreed upon by the Bureau.	X		
GT.184	Ability to automatically populate the appropriate data elements when supplied in any approved electronic format, including the execution of the necessary edits, business rules, and calculations.	X		
GT.185	Ability to include balancing control information when required by the BMS. The BMS is to approve the format along with the file layout, media, naming conventions, trailer records and other interface processing details.	X		
GT.186	Ability to generate load statistics which include the number of records, time taken, successes and failures, and exceptions. These statistics are to be saved to the system for reporting purposes.	X		
GT.187	Ability to generate exception files, when necessary, for manual edits, error corrections, and additions to the interface records by Vendor or BMS/State users, prior to being loaded within the MMIS.	X		
GT.188	The Vendor is to implement edits, processes and reporting to eliminate undesired duplication of records and transactions, including:	X		
GT.189	Automatically edit fields for reasonableness, validity, format and consistency with other data present in update transaction.	X		
GT.190	Transaction reconciliation reporting for file/data reconciliation with external data sources (e.g., totals and detail information, difference reports, change reports).		X	

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.191	Ability to generate error reports at the summary and detail levels that include all data necessary to resolve errors.	X		
GT.192	Ability to reload or resend records if they have not been applied correctly to the appropriate data repository.	X		
GT.193	Ability to detect duplicate files or records and isolate them for manual review and further processing.	X		
GT.194	Ability to incorporate a method to view and edit interface files for investigation and further processing.	X		
GT.195	Ability to provide a method to "roll back" data to a pre-interface status.	X		
GT.196	Ability to create messages that accurately describe errors received as a result of a data transfer.	X		
GT.197	Ability to provide ad-hoc query capability against interface source files.	X		
GT.198	Ability to export records identified by BMS, when required by the BMS.	X		
GT.199	The system is to create and retain an audit trail of all interface activity in accordance with BMS Data Retention Policy.	X		
GT.200	**11. Workflow Management**			
GT.201	Ability to include comprehensive workflow management functionality that supports:	X		
GT.202	Definition, and possibly modeling, of workflow processes and their constituent activities.		X	
GT.203	Run-time control functions concerned with managing the workflow process in the Medicaid environment and sequencing the various activities to be handled as part of each process.	X		
GT.204	Run-time interactions with users and Information Technology (IT) application tools for processing the various activity steps.	X		
GT.205	Ability to support a role-based interface for process definition that leads the user through the steps of defining the workflow associated with a business process, and that captures all the information needed by the workflow engine to execute that process to include:	X		
GT.206	Start and completion conditions		X	
GT.207	Activities and rules for navigation between them		X	
GT.208	Tasks to be undertaken by BMS staff involved in the process		X	
GT.209	Authorized approvers		X	
GT.210	References to applications which may need to be invoked		X	
GT.211	Definition of other workflow-relevant data		X	

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.212	Ability to support workflow management for multiple simultaneous processes, each with multiple simultaneous instances of execution.	X		
GT.213	Ability to incorporate simple low-level workflow processes into more complex higher-level workflow processes.	X		
GT.214	Ability to support supervisory operations for the management of workflow including:	X		
GT.215	Assignments/re-assignments and priorities	X		
GT.216	Status querying and monitoring of individual documents and other work steps or products	X		
GT.217	Work allocation and load balancing	X		
GT.218	Approval for work assignments and work deliverables via a tiered approach		X	
GT.219	Ability to take necessary action or provide notification when corrective action is needed, including the ability to modify or abort a workflow process		X	
GT.220	Monitoring of key information regarding a process in execution, including:	X		
GT.221	Estimated time to completion		X	
GT.222	Staff assigned to various process activities	X		
GT.223	Any error conditions		X	
GT.224	Ability to utilize automated workflow to transfer documents to BMS for review, editing, and approval, and back to external stakeholders for re-writes and production.		X	
GT.225	Ability to use workflow management functionality to route and assign cases to the appropriate State and county staff and offices.		X	
GT.226	**12. Test Environments**			
GT.227	Ability to maintain four regions/environments: (1) a development test region/environment, (2) a user acceptance test (UAT) region/environment, (3) a production region/environment, and (4) a training region/environment, all of which are to be independent regions. Under no circumstances should the development test, UAT, and training regions be housed on the same hardware as the production region. The training region should include all data elements that are in the production region, and contain sufficient and representative data records for training purposes. Vendors are not to invoke additional license fees for the test, UAT, and training environments.	X		
GT.228	Vendor should use a UAT region/environment that would mirror all programs in production through the life cycle of the claim, to include reports and the financial records. (This region/environment should be one of the four major regions/environments described in GT.227).	X		

7. General and Technical (GT)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
GT.229	Vendor should use utilities to assist in identifying selected claim samples to use for testing (i.e., identify claims that currently test true for a specified edit).	X		
GT.230	Ability to create MMIS data (Provider, health plan, Member or claim) in a test environment, as needed for testing.	X		
GT.231	Ability to modify MMIS data (Provider, health plan, Member or claim) in a test environment, as needed for testing, in compliance with Federal guidelines.	X		
GT.232	Ability to maintain a test case library with search capability that is cross-referenced to the code (i.e., edit) that it tests.	X		
GT.233	**13. Automated Voice Response System (AVRS)**			
GT.234	The AVRS is to support the following Provider inquiries:	X		
GT.235	Prior Authorization status	X		
GT.236	Check Medicaid Member eligibility, third party insurance and managed care coverage for a specific date.	X		
GT.237	Query coverage limitations for the Member.	X		
GT.238	Query the co-pay requirement for a service.	X		
GT.239	Query Member restrictions.		X	
GT.240	Query for status of any claim or PA request they submit whether electronically or manually submitted.		X	
GT.241	Query warrant status and amounts.		X	
GT.242	Query Remittance Advice information.	X		
GT.243	The AVRS is to support the following Member inquiries:	X		
GT.244	Check Medicaid Member eligibility for a specific date.		X	
GT.245	Query and update managed care enrollment.		X	
GT.246	AVRS system is to be compatible with the State's phone systems and with industry telephony standards. (State's telephone systems consist of POTS, PBX, and IP telephony phone systems).	X		
GT.247	Ability to provide separate toll-free AVRS telephone numbers for Providers, Members, and other entities as identified by the BMS.		X	
GT.248	Ability to validate the AVRS caller/user (according to BMS defined criteria).	X		
GT.249	The AVRS should accept payment inquiries based on either NPI or Provider ID.		X	
GT.250	Ability for callers using the contact/call center management system to transfer to the AVRS system.		X	
GT.251	The system should use automated menus, including an easily accessible option for reaching a live operator.		X	
GT.252	**14. Call Center**			

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.253	Ability to provide separate toll-free Call Center telephone numbers for Providers, Members, and other entities as identified by the BMS.		X	
GT.254	The Vendor is expected to require Provider to give NPI or atypical provider identifier, at a minimum, before responding to inquiries.	X		
GT.255	Ability to authenticate the caller/user (per BMS specified criteria).		X	
GT.256	Ability, as applicable, to auto-populate call center screens with caller information when the call representative answers the call. Would include ability to access contact and correspondence history, as well as information such as Accounts Receivable detail, benefits information, and enrollment status.		X	
~~**GT.257**~~	~~Ability to use automated repeat call options.~~	Deleted per addendum 1		
GT.258	Ability to integrate with an automated phone messaging system.		X	
~~**GT.259**~~	~~Ability to use automated message purge function with activity reporting.~~	Deleted per addendum 1		
GT.260	Ability to define phone routing that allows the system to forward calls to the individual/entity (internal and external agencies included) capable of handling the caller's needs.		X	
GT.261	Ability to configure navigation paths and prompts based on the caller's anticipated information needs.		X	
GT.262	Ability to record customized messages directed to selected Provider or Member groups.		X	
GT.263	Ability to route or transfer calls (as defined by the user) without having to redial (e.g., call may be transferred to an external agency, such as an enrollment broker, without additional phone charges to the caller).		X	
GT.264	Ability to configure navigation paths and prompts based on information from the MMIS (e. g., transfer call based on Provider specialty).		X	
GT.265	**15. Contact Management**			
GT.266	The Vendor is to provide a contact management system for managing communications with BMS staff, Providers, Members (current and potential), health plans, and other entities as identified by the BMS.	X		
GT.267	Ability to manage all MMIS related contacts (telephone, email, web portal, AVRS, mail, fax, etc.).		X	
GT.268	Ability to maintain a record (including an audit trail) of all contacts.		X	
GT.269	Inquiry responses are expected to be provided to the requestor in the same mode that it was received; therefore, the system is expected to have the ability to identify and maintain a record of the format/media of incoming communications.	X		

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.270	Ability to query on the history of each contact.	X		
GT.271	Ability to view related contact records from a single contact record.	X		
GT.272	Ability to assign a unique tracking or control number to each contact.	X		
GT.273	Ability to accommodate searches on contact records by characteristics such as contact type, Member ID, caller phone number, Provider number, Provider name, contact tracking/control number, and any combinations thereof.	X		
GT.274	Ability to use caller phone number and/or ID number to access related MMIS data and previous contacts.	X		
GT.275	The system is expected to receive and track summary level mailing data from the enrollment broker for reporting purposes.		X	
GT.276	Ability to upload attachments to contact records.	X		
GT.277	Ability to link scanned images to contact records to provide one view of all related materials (e.g., images, letters, and interactions).	X		
GT.278	Ability to provide correspondence functions to include the following:	X		
GT.279	Template development and the ability for users to select desired correspondence from a list of available templates	X		
GT.280	Display, print, and save correspondence via the EDMS component of the MMIS	X		
GT.281	Regenerate correspondence	X		
GT.282	Allow users to suppress or allow auto generation of correspondence based on user configurable event-driven criteria		X	
GT.283	Allow users to insert and override address information on correspondence	X		
GT.284	Allow users to add free form text to individual or groups of correspondence	X		
GT.285	Other as identified by BMS during DDI and accepted via formal change control		X	
GT.286	Ability to provide an electronic RTP tracking system to allow the ability to catalogue, track and report on RTP (return-to-Provider) documentation (e.g., Sterilization/Hysterectomy forms, claims, etc.).	X		
GT.287	**16. EDI Portal**			
GT.288	Ability to support Electronic Data Interchange (EDI) transactions for all EDI users and trading partners. Transactions should include, but not be limited to:	X		

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.289	Interactive Eligibility Verification (270/271 – Direct Data Entry (DDE) compliant)		X	
GT.290	Interactive Claims Inquiry (276/277 – DDE compliant)		X	
GT.291	Interactive Claim Submission (DDE compliant) to allow a Provider to submit a claim, including HIPAA/EDI compliant responses		X	
GT.292	Remittance Advice (RA) (835)	X		
GT.293	Interactive claim submission (837 transactions)		X	
GT.294	Ability to support an EDI Translator and Validator.	X		
GT.295	**17. Electronic Document Management System (EDMS)**			
GT.296	Integrate EDMS functionality into the MMIS that supports, at a minimum, the following capabilities:	X		
GT.297	Document management	X		
GT.298	Content management		X	
GT.299	Records management	X		
GT.300	Document capture and imaging	X		
GT.301	Document-centric collaboration	X		
GT.302	Workflow management including document workflow	X		
GT.303	Ability to store both electronic and imaged paper documents and make them available on-line through a single user interface to promote a total view of current and historical information.	X		
GT.304	Provide multiple search options (e.g., Structured Query Language (SQL), various index search options, content-based searches, etc.) to view contents.	X		
GT.305	Ability to track all versions of each document.	X		
GT.306	Ability to present users with the latest revision of a document with the option to view previous versions.	X		
GT.307	Ability to support the management of documents created in BMS standard office applications.	X		
GT.308	Ability to allow drag-and-drop functionality to be used when creating or editing a document.		X	
GT.309	Ability to include, at a minimum, the following document management capabilities:	X		
GT.310	Accessible letter templates and forms	X		
GT.311	On-line, updateable templates that allow users to customize on an as-needed basis	X		
GT.312	Store documents and files	X		
GT.313	Generate materials in both hard copy and electronic format, including forms and letters	X		

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.314	Ability to create letter templates and forms for the following areas:	X		
GT.315	Provider enrollment materials	X		
GT.316	General correspondence/notices for Providers and Members	X		
GT.317	Letters (financial, denial, EOMB, etc.)	X		
GT.318	Coordination Of Benefits (COB) letters	X		
GT.319	Managed Care Plan/Care Management Plan (MCP) letters	X		
GT.320	Prior Authorization (PA) letters	X		
GT.321	Ability to generate pre-populated forms.	X		
GT.322	Ability to easily match up related documents such as claims and supporting attachments in a many to one relationship.	X		
GT.323	Ability to support cataloging/indexing of all imaged documents.	X		
GT.324	Ability to utilize bar code technology that minimizes manual indexing and automates the retrieval of scanned documents.	X		
GT.325	Provide backup capability for manually indexed scanned documents.	X		
GT.326	Ability to use imaging/document management technology that handles multiple types of letters, forms, publications, and other BMS designated documents, and automates workflow processing to include:	X		
GT.327	Provider enrollment materials and licensure	X		
GT.328	Claim forms and attachments	X		
GT.329	PA forms and attachments	X		
GT.330	COB/TPL (including Medicare)	X		
GT.331	Provider correspondence including but not limited to RTP	X		
GT.332	Member correspondence	X		
GT.333	Contractor correspondence	X		
GT.334	Business partner correspondence	X		
GT.335	Web portal correspondence	X		
GT.336	Member enrollment materials	X		
GT.337	Notices	X		
GT.338	Letters	X		
GT.339	Audit materials	X		
GT.340	Others as identified by BMS and accepted via formal change control		X	
GT.341	**18. Reports**			

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.342	Ability to download reports in various formats, such as PDF, Excel, Word, etc.	X		
GT.343	Ability to export reports for enhanced manipulation and analysis.	X		
GT.344	Provide integrated print capability for any interface page within the MMIS.	X		
GT.345	The Vendor is to provide a searchable data dictionary.	X		
GT.346	Ability and flexibility for multiple simultaneous users to create and run in near real-time, ad hoc and canned reports without going through a formal change control process.	X		
GT.347	Provide for the electronic delivery of reports to identified destinations.	X		
GT.348	Provide role-based access to BMS staff to view reports and current manuals online.	X		
GT.349	Ability to produce multi-dimensional, flexible, ad hoc reports across business functions which meet the following reporting needs:	X		
GT.350	Financial reporting	X		
GT.351	Budget forecasting	X		
GT.352	Fiscal planning and control	X		
GT.353	Claims payment accuracy	X		
GT.354	Cash flow	X		
GT.355	Timely reimbursement analysis	X		
GT.356	Recipient cost and user of services	X		
GT.357	Cost/benefit analysis	X		
GT.358	Third party recovery	X		
GT.359	Prescription drug policy	X		
GT.360	Cost and user of prescription drugs	X		
GT.361	Recipient participation	X		
GT.362	Eligibility and benefit design	X		
GT.363	Geographical analysis	X		
GT.364	Program planning	X		
GT.365	Policy analysis	X		
GT.366	Federal waiver program evaluation	X		
GT.367	Program performance monitoring	X		
GT.368	Provider reimbursement policy	X		
GT.369	Institutional rate-setting	X		
GT.370	Medical assistance policy development	X		

7. General and Technical (GT)				
Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
GT.371	Provider participation	X		
GT.372	Service delivery patterns	X		
GT.373	Adequacy of and access to care	X		
GT.374	Quality of care	X		
GT.375	Outcomes assessment	X		
GT.376	Disease management	X		
GT.377	External reporting	X		
GT.378	Public information	X		
GT.379	Managed Care Plan (MCP) planning and analysis	X		
GT.380	Ability to generate a listing of all standard on-line reports available, the description of each report, and provide a link to the most recent report.	X		
GT.381	Provide a process by which reports may be delivered by email in accordance with HIPAA rules.	X		
GT.382	Provide archival storage of reports that complies with BMS records retention standards.	X		
GT.383	Ability to store reports for rapid retrieval.	X		
GT.384	Provide ability for users to extract data, manipulate the extracted data, and specify the desired format and media of the output.	X		
GT.385	Ability to display consistent BMS-approved headers and footers.	X		
GT.386	Ability to identify and use consistent report fields.	X		
GT.387	Ability to provide a user-friendly way to schedule when, with what frequency, or on what regular days within a month various reports are generated and disbursed.	X		
GT.388	Ability to track and store detailed information regarding all reporting requests including, but not limited to:	X		
GT.389	Who requested the information	X		
GT.390	Date	X		
GT.391	Time	X		
GT.392	What the report included	X		
GT.393	Report storage upon completion	X		
GT.394	Route the entire history on-line.	X		
GT.395	Ability to categorize and organize reports by source system, data content, purpose, frequency and other staff selected options.	X		
GT.396	Ability to search the reports repository by date, time, report title, report ID, run date and key words.	X		
GT.397	Ability to highlight, cut, paste, and print any selection of the report.	X		

7. General and Technical (GT)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
GT.398	Ability to sort the reports list by date, time report title, run date, and other criteria.	X		
GT.399	Ability to establish and apply archival and purge parameters to reports.		X	
GT.400	Ability to easily and flexibly create new reports through an automated and user-friendly report writer tool.	X		
GT.401	Ability to use identifier mathematical functions format and manipulate data within reports.	X		
GT.402	**19. User Interface - MMIS User Screens**			
GT.403	Ability to incorporate systems navigation technology that allows all users to move freely throughout the system.	X		
GT.404	The system user interface is to be compatible with user defined display settings.	X		
GT.405	Provide integrated print capability for any interface page within the MMIS.	X		
GT.406	Include at minimum the following features and capabilities:	X		
GT.407	Drill down and look up functionality to minimize re-entry of information across multiple screens.	X		
GT.408	Multi-tasking and multiple window capability, including split screens.	X		
GT.409	Search capabilities to allow retrieval by Provider, Member, ad pay (i.e., advance payment, defined as a financial non-member specific transaction/claim), procedure code, NDC or others as defined by BMS.	X		
GT.410	Ability to tab and mouse through data fields and screens.	X		
GT.411	The system should provide menus that are understandable by non-technical users and provide secure access to all functional areas.	X		
GT.412	Ability to incorporate a non-restrictive environment for experienced users to directly access (direct call) a screen or to move from one screen to another without reverting to the menu structure.	X		
GT.413	The system should provide an online help system, available from any screen and any screen field, that provides a description of and the processing performed by a screen or window, data entry format and restrictions, explanation of error messages and other information helpful to the user.	X		
GT.414	Ability to generate drop-down lists to identify options available, valid values, and code descriptions, by screen field.	X		
GT.415	Ability to utilize the following standards for all system screens, windows, and reports:	X		
GT.416	All headings and footers standardized	X		

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.417	Current date and local time displayed	X		
GT.418	All references to dates displayed consistently throughout the system	X		
GT.419	All data labels and definitions consistent throughout the system and clearly defined in user manuals and data element dictionaries	X		
GT.420	All MMIS generated messages should be clear and sufficiently descriptive to provide enough information for problem correction and be written in full English text	X		
GT.421	**20. User Interface - Notifications/Alerts**			
GT.422	Ability to generate alerts to notify staff of possible options when known running process(es) may result in problems (e.g., timeouts, slowed processing).	X		
GT.423	Ability to generate alerts when changes are made to policies and procedures and system tables or functionality.	X		
GT.424	Ability to generate alerts when the anticipated return time on a query or report job exceeds a defined time limit.	X		
GT.425	Ability to generate alerts that assist in monitoring time-sensitive activities.	X		
GT.426	Ability to generate alerts to a user-defined group or individual.	X		
GT.427	Ability to generate alerts to notify staff when they need to take action in connection with workflow events.	X		
GT.428	**21. Web Portal**			
GT.429	Provide and maintain a secure website with authentication and encryption to protect interactions and transactions. This should include, at a minimum, the use of Secure Sockets Layer, or SSL. The authentication process should be verified through a third party that has registered and identified the server.	X		
GT.430	Web portal functionality should address the needs of a variety of entities/stakeholders, including Medicaid consumers (including current and potential Members), Providers, and other business partners as specified by BMS.	X		
GT.431	Web applications are to satisfy the Priority 1 Checkpoints from the Web Content Accessibility Guidelines 1.0 developed by the World Wide Web Consortium (W3C), as detailed at: http://www.w3.org/TR/WCAG10/full-checklist.html.		X	
GT.432	Ensure web portal design, development, implementation and operations are in accordance with State and Federal regulations and guidelines related to security, accessibility, confidentiality, and auditing.	X		
GT.433	Information and documentation captured via the web portal is expected to conform to the user access, user inquiry, update, retention, archival, and other relevant data management specifications outlined in this RFP.	X		

7. General and Technical (GT)

Req #	Description of Requirement	YES without custom-ization	YES with custom-ization	NO unable to provide
GT.434	Include secure and non-secure tabs.	X		
GT.435	Provide public information without requiring authentication.	X		
GT.436	Provide Internet security functionality to include firewalls, intrusion detection, and encrypted network/secure socket layer.	X		
GT.437	Handle PHI through authentication, along with encryption methods to secure PHI.	X		
GT.438	Ability to display and require the user to accept web site terms of agreement when entering the web portal.	X		
GT.439	Utilize an authentication process to handle multiple layers of security levels as defined by BMS.	X		
GT.440	Establish user access to predefined BMS levels such as page level, field and data element level.	X		
GT.441	The system is to provide a protected web site with secure passwords and log-ons to include:	X		
GT.442	Instructions on how to use the secure site	X		
GT.443	Site map	X		
GT.444	Contact information	X		
GT.445	Send users their initial password via email and require that they change their password at next sign-on.		X	
GT.446	Provide the ability to expire a password in a given number of days according to BMS standards.	X		
GT.447	Provide self-service password resets.	X		
GT.448	Prohibit the display of passwords at the sign-on screen when entered by the user.	X		
GT.449	Notify MMIS users at regular intervals defined by BMS that security access tables are to be cleared unless otherwise directed. (This is in reference to any security access tables the Vendor may propose as part of their solution, where an example may be a user log table).	X		
GT.450	Delete account profiles after a period of inactivity as defined by BMS.	X		
GT.451	Inactive users should not be deleted from history.	X		
GT.452	Allow Providers to be authorized to access only their own claim information.	X		
GT.453	Ability to require qualifying information (e.g., Provider number, prior authorization number, Member number, date of service, or claim number) to access various information via the web portal.	X		
GT.454	Include static and easily updated Web pages.	X		
GT.455	Include a desktop environment with browser capability for easy navigation.	X		

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.456	Provide a user interface that allows all users to move easily throughout the system.	X		
GT.457	Support a menu and control system with highly flexible navigation.	X		
GT.458	Provide a user-friendly menu system that is easily navigable by the non-technical user while not restricting direct access to any screen to experienced users.	X		
GT.459	Provide user interface features and capabilities including:	X		
GT.460	Pull down menus and window tabs	X		
GT.461	Scalable true type screen and printing fonts	X		
GT.462	Upper and lower case alphabetic characters	X		
GT.463	Ability to tab and mouse-click through data fields and screens	X		
GT.464	Use the following standards for all system screens, windows, and reports:	X		
GT.465	Maintain a consistent theme throughout the site and standardize all headings and footers with index tabs as identified by BMS.	X		
GT.466	Display current date and time in a system-wide consistent format.	X		
GT.467	Utilize data labels and definitions in a system-wide consistent manner and as defined in user manuals and data element dictionaries.	X		
GT.468	Generated messages are to be available in both mixed font and mixed case formats.	X		
GT.469	Screens should distinguish between production and test environments.	X		
GT.470	Comply with the American Disabilities Act (ADA) standards for user screens, where applicable.	X		
GT.471	Comply with the Older Americans Act standards for user screens, where applicable.	X		
GT.472	All generated messages are to be clear and sufficiently descriptive to provide enough information for problem correction and be written in full English text.	X		
GT.473	Conform to any State, Department or Bureau specified standards regarding the look and feel of the web.	X		
GT.474	Support multiple communication lines and provide fail-over capability.	X		
GT.475	Provide growth capacity for high volumes of activity.	X		
GT.476	Ability to interface, receive, send, and download specified content and reporting information directly from/to entities such as Provider associations, vendors, and other State agencies.	X		

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.477	Include email address in the authorization table. The confidentiality of email addresses is to be protected and only used for official State business.	X		
GT.478	Allow for (HIPAA-compliant) email submission by user initiated from a link on the website.		X	
GT.479	Provide flexible web-based reporting that meets external reporting needs and requirements defined by BMS.	X		
GT.480	Ability to ensure that web portal field definitions comply with system field definitions.	X		
GT.481	Provide inquiry capabilities for categories including:	X		
GT.482	Prior Authorization (PA)	X		
GT.483	Remittance Advice (RA)	X		
GT.484	Provider 1099 information	X		
GT.485	Other as identified by BMS during DDI and accepted via formal change control		X	
GT.486	Ability to generate tracking numbers for web portal-submitted Provider enrollment applications and updates.	X		
GT.487	Ability to provide interactive/dynamic online forms that may be completed and submitted online, completed and printed for hard copy submission (i.e., mail, fax), or printed to be completed by hand and submitted in hard copy format.	X		
GT.488	Ability to allow users to download or print a copy of completed submitted forms.	X		
GT.489	Ability to accept electronic attachments via the web portal and match them to the corresponding system record (including enrollment applications).	X		
GT.490	Ability to require applicants to state that they meet the State- defined Provider eligibility rules (WV code referencing digital signature: http://www.legis.state.wv.us/WVCODE/ Code.cfm?chap=39a&art=1).	X		
GT.491	The web portal should allow authorized users to perform Electronic Data Interchange (EDI) transactions, such as, but not limited:	X		
GT.492	Interactive Eligibility Verification (270/271 – Direct Data Entry (DDE) compliant)	X		
GT.493	Interactive Claims Inquiry (276/277 – DDE compliant)	X		
GT.494	Interactive Claim Submission (DDE compliant) to allow a Provider to submit a claim, including HIPAA/EDI compliant responses	X		
GT.495	Remittance Advice (RA) (835)	X		
GT.496	Interactive claim submission (837 transactions)	X		

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.497	Other transactions as specified by BMS (which may include, but not necessarily limited to: eprescribing, personal health record, health information exchange of lab and/or clinical data)	X		
GT.498	Provide the capability to display confirmation messages for requestor transactions.	X		
GT.499	Provide help screens and tutorials (e.g., guides to the Provider enrollment and Prior Authorization processes).	X		
GT.500	Provide on-line option for end-users to report any technical problems with the web application and web pages.	X		
GT.501	Ability to report and maintain web portal activity statistics (as defined by the BMS). For instance: new and repeat visitors, number/percent of abandoned enrollment applications, etc.	X		
GT.502	**22. Web Portal - Long Term Care (LTC) Provider Rate Submission & Inquiry**			
GT.503	Ability to allow Providers to submit and upload to BMS (via the web portal) the following:	X		
GT.504	Cost reports		X	
GT.505	Provider acceptance of the verification report		X	
GT.506	Rate reconsideration requests		X	
GT.507	Provider correspondence	X		
GT.508	Ability to accept and transfer specified files to and from Providers to the MMIS via the web portal.	X		
GT.509	Ability to send cost report verification to user if no errors are found during edits and supply Providers with a method to agree to the verification.		X	
GT.510	Ability to provide a private document page that displays a list of the available documents for each logged-in Provider.	X		
GT.511	Ability to upload rate information in batch or in bulk (i.e., reimbursement rates information that it is provided to RAPIDS. Vendor should propose the most economical format).		X	
GT.512	Ability to provide Provider-specific inquiry access to secured information. Vendor should propose the more economical format. The pay-to amounts are expected to be provided to the Vendor. Examples include:	X		
GT.513	Automated Cost Report (ACR) (data and reports)		X	
GT.514	Error reports as part of the cost verification process		X	
GT.515	Rate setting package report		X	
GT.516	Cost verification report		X	
GT.517	Provider acceptance of the Verification report		X	
GT.518	MDS error/authorization reports		X	
GT.519	Individual Assessment Form (IAF) scores		X	

7. General and Technical (GT)				
Req #	**Description of Requirement**	**YES** without custom-ization	**YES** with custom-ization	**NO** unable to provide
GT.520	IAF error reports		X	
GT.521	**23. Web Portal – Patient Care Web Portal**			
GT.522	Ability to provide system functionality that allows Providers access to Member claims data (pharmacy, medical and MCO encounter data) for the purposes of coordinating patient care and reducing duplications in medical procedures, diagnostic testing and medications	X		
GT.523	Provides access only for designated healthcare providers, e.g. prescribers and pharmacists, through an authorized log in to access their patient's medical and pharmacy history. This information should be protected so that it can only be accessed with the correct combination of the member's Medicaid Identification Number, birth date, and name.		X	
GT.524	Is updated at a minimum of once weekly with claims data (medical and pharmacy) in order to provide access to current patient history for Medicaid prescribers and providers. This data is expected to be in an easily readable format.	X		
GT.525	Displays twenty-four (24) months of fee-for-service and MCO encounter data that includes, but is not limited to, medical, pharmacy, laboratory, x-ray, institutional, emergency room visits, outpatient visits, diagnosis codes, procedure codes, member demographic information, medical providers identified by name and NPI number, DEA and DEAX numbers, and pharmacy providers identified by name and NPI number.	X		
GT.526	Meets all Health Insurance Portability and Accountability Act HIPAA requirements for the protection of Medicaid member's personal health information (PHI). Accepts web- based prior authorization requests on smart forms, created in the LiveCycle, program for creating forms with expandable text fields, and transfers them to the Prior Authorization Help Desk for processing through a secure and HIPPA compliant electronic method of transmission.	X		

Business Organization

RFP Reference: 4.1.5 Business Organization

The West Virginia Bureau for Medical Services (BMS) needs a Medicaid Management Information System (MMIS) vendor that is well established in the state Medicaid industry, highly reputable, and financially sound. In this section, HP Enterprise Services (HPES) describes our organization and shows why we are the best choice to meet BMS' MMIS Re-procurement Project needs and support its future endeavors. No other vendor can offer BMS the same breadth and depth—the backing of size, decades of stability, a constant eye on the future, and the technological innovation to change and improve the healthcare of West Virginians.

BMS and the providers and residents of West Virginia will benefit from HPES' fresh knowledge and experience with MMIS design, development, and implementations (DDIs). **During the last 10 years, we have successfully implemented our interChange MMISs in 13 states—never missing a single payment cycle to Medicaid providers.** These implementations are complete, and we stand ready to bring our skills, expertise, and innovative technologies to West Virginia. We are not distracted by overdue implementations or competing priorities, we can focus directly on the West Virginia DDI, bringing BMS the best skills and resources in the industry.

The HPES team brings the most advanced system architecture, integrated commercial off-the-shelf (COTS) solutions, and proven operational processes to West Virginia. Additionally, we bring the interChange MMIS, whose features have been endorsed by customers in 13 states and CMS certification teams in nine states. **These industry-leading features provide the foundation for a simple implementation and flexibility to solve future challenges that is not available in any other solution.**

Business Name

In response to the West Virginia Request for Proposal (RFP) MED12011, the bidding entity is HPES—a wholly owned subsidiary of the Hewlett-Packard Company (HP).

Address

HPES is headquartered in Plano, Texas, and the address is as follows:

5400 Legacy Drive
Plano, TX 75024-3105

Parent company HP is headquartered in Palo Alto, Calif., and the address is as follows:

3000 Hanover St.
Palo Alto, CA 94304-1112

Licenses

In accordance with RFP Requirement 3.3.3 License Requirements, HPES has included the following documents at the end of this section:

- **Certificate of Authority—**Shows HPES is authorized to do business in the State of West Virginia
- **Certificate of Amendment to the Certificate of Authority—**Details that on Jan. 6, 2010, Electronic Data Systems, LLC's name was changed to HP Enterprise Services, LLC
- **Certificate of Amendment as a Delaware Corporation—**Details that on Jan. 1, 2010, Electronic Data Systems, LLC's name was changed to HP Enterprise Services, LLC with the State of Delaware (HPES' state of incorporation)
- **Work Force West Virginia—**Letter verifying that HPES is in compliance with the West Virginia Unemployment Compensation Law
- **Worker's compensation coverage—**As evidence of good standing, HPES' worker's compensation insurance coverage in the attached Certificate of Liability Insurance

Subcontractor Detail

More than two years ago, HPES began evaluating the right mix of subcontractors to support the complexities of the West Virginia MMIS Re-procurement Project.

HPES and the following two subcontractors—proven leaders in their respective fields—have joined forces to create the HPES team for West Virginia:

- Fenwick Technologies, Inc.
- Arkansas Foundation for Medical Care (AFMC)

We include additional information on our subcontractors in the following sections of this proposal:

- 4.1.10 Solution Alignment with BMS' Business and Technical Needs
- 4.1.11 Subcontracting

Financial Information

HPES, the bidding entity, is a wholly owned subsidiary of HP. HP is a financially strong company with extensive financial resources and executive, professional, healthcare, and technical staff members to carry out the requirements of the West Virginia MMIS Re-procurement Project. With annual revenue of $127.4 billion, we rank 10th on the Fortune 500—the highest-ranking MMIS vendor on the list—and 15th on Business Week's Top 50 Most Innovative Companies list, and are the world's largest technology company. We are investing aggressively in the future, with an annual research and development budget of approximately $3.2 billion. We remain strong moving into 2012, with 2011 Q4 net revenue of $32.3 billion.

HP has consistently received positive credit and investment risk ratings from leading business research and ratings services. Key ratings since 2007 include the following:

- Standard & Poor's—A
- Moody's Investors Service—A2
- Fitch—A+

Additionally, HP has consistently held a 5A2 rating with Dun and Bradstreet (D&B) since July 23, 2001.

Financial Statements

To view or download our annual reports from the last three years, please use the following link http://www.hp.com/hpinfo/investor/financials/annual/. We also provide full electronic copies on the CD-ROM as directed in RFP section 4.1 Technical Proposal Format.

State of West Virginia

Certificate

I, Natalie E. Tennant, Secretary of State of the State of West Virginia, herby certify that

HP ENTERPRISE SERVICES, LLC

was duly authorized under the laws of this state to transact business in West Virginia as a foreign limited liability company on April 04, 1996.

The company is filed as an at-will company, for an indefinite period.

I further certify that the LLC (PLLC) has not been revoked by the State of West Virginia nor has a Certificate of Cancellation been issued.

Therefore, I hereby issue this

CERTIFICATE OF AUTHORIZATION

Validation ID:0WV49_H55BP

Given under my hand and the Great Seal of the State of West Virginia on this day of March 08, 2011

Secretary of State

Notice: A certificate issued electronically from the West Virginia Secretary of State's Web site is fully and immediately valid and effective. However, as an option, the issuance and validity of a certificate obtained electronically may be established by visiting the Certificate Validation Page of the Secretary of State's Web site, https://apps.wv.gov/sos/businessentitysearch/validate.aspx entering the validation ID displayed on the certificate, and following the instructions displayed. Confirming the issuance of a certificate is merely optional and is not necessary to the valid and effective issuance of a certificate.

State of West Virginia

Certificate

I, Natalie E. Tennant, Secretary of State of the State of West Virginia, hereby certify that

the attached true and exact copy of the Articles of Amendment to the Articles of Organization of

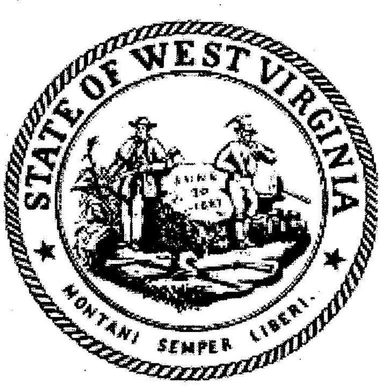
ELECTRONIC DATA SYSTEMS, LLC

are filed in my office, signed and verified, as required by the provisions of West Virginia Code §31B-2-204 and conform to law. Therefore, I issue this

CERTIFICATE OF AMENDMENT TO THE CERTIFICATE OF AUTHORITY

changing the name of the limited liability company to

HP ENTERPRISE SERVICES, LLC



Given under my hand and the Great Seal of the State of West Virginia on this day of January 6, 2010

Secretary of State

FILED

JAN 06 2010

IN THE OFFICE OF
SECRETARY OF STATE

Natalie E. Tennant
Secretary of State
1900 Kanawha Blvd E.
Bldg 1, Suite 157-K
Charleston, WV 25305

Penney Barker, Manager
Corporations Division
Tel: (304)558-8000
Fax: (304)558-8381
www.wvsos.com
Hrs: 8:30 a.m. – 5:00 p.m. ET

FILE ONE ORIGINAL
(Two if you want a filed stamped copy returned to you)
FEE: $25.00

WV APPLICATION FOR AMENDED CERTIFICATE OF AUTHORITY OF A LIMITED LIABILITY COMPANY

In accordance with the provisions of the West Virginia Code, the undersigned limited liability company hereby applies for an Amended Certificate of Authority and submits the following statement:

1. Name under which the organization was authorized to transact business in WV: Electronic Data Systems, LLC

2. Date Certificate of Authority was issued in West Virginia: 4/4/96

3. Change of Name Information or Text of Amendment: (Attach one certified copy of the name change as filed in the home state)

   Change of name from: Electronic Data Systems, LLC

   To: HP Enterprise Services, LLC

   Name the organization elects to use in WV: HP Enterprise Services, LLC
   (Due to home state name not being available)

   Other amendment (use additional pages if necessary)

4. Contact name and number to reach in case of a problem with filing: (optional, however, listing one may help to avoid a return or rejection of filing if there is a problem with the document)

   Contact Name ______ Phone Number ______

   Business e-mail address, if any: lester-ezrati@hp.com

5. Signature of person executing document:

   Signature Lester D. Ezrati — Manager
   Title/Capacity
   (Example: member, manager, etc.)

Form LLF-4 Issued by the Office of the Secretary of State Revised 10/09

WV033 - 11/06/2009 C T Filing Manager Online

Delaware

PAGE 1

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "ELECTRONIC DATA SYSTEMS, LLC", CHANGING ITS NAME FROM "ELECTRONIC DATA SYSTEMS, LLC" TO "HP ENTERPRISE SERVICES, LLC", FILED IN THIS OFFICE ON THE TWENTY-EIGHTH DAY OF DECEMBER, A.D. 2009, AT 4:32 O'CLOCK P.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE EFFECTIVE DATE OF THE AFORESAID CERTIFICATE OF AMENDMENT IS THE FIRST DAY OF JANUARY, A.D. 2010.

SECRETARY'S OFFICE 1793 DELAWARE 1865

Jeffrey W. Bullock, Secretary of State

2387022 8100

AUTHENTICATION: 7738748

100010070

DATE: 01-05-10

You may verify this certificate online
at corp.delaware.gov/authver.shtml

State of Delaware
Secretary of State
Division of Corporations
Delivered 04:35 PM 12/28/2009
FILED 04:32 PM 12/28/2009
SRV 091141233 - 2387022 FILE

CERTIFICATE OF AMENDMENT
TO THE
CERTIFICATE OF FORMATION
OF
ELECTRONIC DATA SYSTEMS, LLC

Electronic Data Systems, LLC, a Delaware limited liability company (hereinafter called the "Limited Liability Company"), does hereby certify as follows:

FIRST: The Certificate of Formation of the Limited Liability Company is hereby amended as follows:

1. The name of the Limited Liability Company is HP Enterprise Services, LLC.

SECOND: The foregoing amendment was duly adopted in accordance with Section 18-202 of the Delaware Limited Liability Company Act.

THIRD: The effective date will be January 1, 2010.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Amendment on December 28, 2009.

ELECTRONIC DATA SYSTEMS, LLC

By: /s/ Lester D. Ezrati
Lester D. Ezrati, Manager

WORK FORCE West Virginia

Earl Ray Tomblin, *Governor*
Russell L. Fry, *Acting Executive Director*
Keith Burdette, *Cabinet Secretary*

January 25, 2012

HP ENTERPRISE SERVICES, LLC
5400 LEGACY DRIVE
PLANO TX 75024

Account Number: 43755-7

Dear Employer:

Workforce West Virginia has, at your request, researched their records and has found this account is in compliance with the West Virginia Unemployment Compensation Law.

Very truly yours,

Wade Wolfingbarger

Wade Wolfingbarger
UC Assistant Director

cac

Compliance and Enforcement Section, Unemployment Compensation Division
112 California Ave, PO Box 2633, Charleston, WV 25329-2633
Telephone: 304-558-2451 Fax: 304-558-6532

An agency of the Department of Commerce
An equal opportunity employer/program and auxiliary aids are available upon request to individuals with disabilities.
www.workforcewv.org

ACORD

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY) 1/26/2012

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER

Marsh Risk and Insurance Services, Inc.
CA License #0437153
777 S. Figueroa Street
Los Angeles, CA 90017

CONTACT NAME:
PHONE (A/C, No, Ext): FAX (A/C, No):
EMAIL ADDRESS:

INSURER(S) AFFORDING COVERAGE		NAIC #
INSURER A:	Old Republic Insurance Co.	24147
INSURER B:	Tall Tree Insurance Co	
INSURER C:		
INSURER D:		
INSURER E:		
INSURER F:		

INSURED

Hewlett-Packard Company
3000 Hanover Street
Palo Alto, CA 94304

COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	GENERAL LIABILITY [X] COMMERICAL GENERAL LIABILITY [ ] [ ] CLAIMS-MADE [X] OCCUR [ ] ____ [ ] ____ GEN'L AGGREGATE LIMIT APPLIES PER: [ ] POLICY [ ] PRO-JECT [ ] LOC			MWZY 59329	9/30/2011	9/30/2012	EACH OCCURRENCE	$ 2,500,000
							DAMAGE TO RENTED PREMISES (Ea occurrence)	$ 2,500,000
							MED EXP (Any one person)	$ 5,000
							PERSONAL & ADV INJURY	$ 2,500,000
							GENERAL AGGREGATE	$ Not Applicable
							PRODUCTS - COMP/OP AGG	$ Not Applicable
								$
A	AUTOMOBILE LIABILITY [ ] ANY AUTO [X] ALL OWNED AUTOS [ ] SCHEDULED AUTOS [X] HIRED AUTOS [X] NON-OWNED AUTOS [X] LEASED [ ] ____			MWTB 21363	9/30/2011	9/30/2012	COMBINED SINGLE LIMIT (Ea accident)	$ 2,500,000
							BODILY INJURY (Per person)	$
							BODILY INJURY (Per accident)	$
							PROPERTY DAMAGE (Per accident)	$
								$
B	[ ] UMBRELLA LIAB [ ] OCCUR [X] EXCESS LIAB [ ] CLAIMS-MADE [ ] DED [ ] RETENTION $			470-1XL0066 **XS 2.5M SIR** **OR UNDERLYING POLICY**	9/30/2011	9/30/2012	EACH OCCURRENCE	$ 500,000
							AGGREGATE	$ 500,000
								$
A	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? Y/N [ ] (MANDATORY IN NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A		MWC 11716500 "As respects WC only, all states, except CA, WA, OH and Monopolistic States"	9/30/2011	9/30/2012	[X] WC STATU-TORY LIMITS [ ] OTHER	
							E.L. EACH ACCIDENT	$ 1,000,000
							E.L. DISEASE - EA EMPLOYEE	$ 1,000,000
							E.L. DISEASE - POLICY LIMIT	$ 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

CERTIFICATE HOLDER	CANCELLATION
To Whom It May Concern	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

Roles, Responsibilities, and Skill Sets

The following pages describe the roles, responsibilities, and skill sets associated with each job on our organizational charts. We present the roles and responsibilities in the following order:

- Key staff members in the order listed in the RFP
- Continuously dedicated and support staff members in the order listed in the RFP
- The remaining roles and responsibilities, organized into the following categories and generally following the summary view of the organization charts from left to right: Project Management Office (PMO), Quality, Pharmacy/POS/Drug Rebate, Provider/Member, Medical/Dental Claims, Financial, Reporting, Systems, and miscellaneous support roles.

Key Staff

MMIS Account Manager
Roles and Responsibilities
• Serves as liaison for BMS during each phase of the contract • Serves as primary point of contact with BMS for activities related to contract administration, including compliance with contract terms and conditions • Attends, on request, meetings and hearings of legislative committees and interested governmental bodies, agencies, and officers • Verifies the maintenance of adequate staffing levels to meet BMS requirements and deliverables, and oversees correspondence between BMS and the contractor, dispute resolution, personnel issues with contractor staff members, and status reporting to BMS • Oversees the implementation of quality assurance criteria and reviews to verify contract compliance and fulfillment of performance objectives • Responsible for integration management between medical/dental and POS business functions • Oversees the MMIS replacement DDI and certification and each subphase of the project • Provides regular contract status reports to BMS • Provides timely and informed responses to operational and administrative inquiries that arise • Delegates authority to the deputy account manager when not available • Meets with BMS staff members or such other person as BMS may designate regularly to provide oral and written status reports and other information as required • Responsible for establishing and maintaining a positive customer relationship
Required Skill Set
• Bachelor’s degree in business management or equivalent work experience of any combination of 12 years of Medicaid and Medicaid fiscal agent operations experience or other large healthcare processing organization • Preference given to candidates with Medicaid fiscal agent operations experience; must have eight years of fiscal agent operations experience or other large healthcare processing organization • Minimum of five years previous account executive experience on a large-scale IT project; demonstrated ability to effectively communicate with customer’s senior management • Excellent verbal, written, and presentation communication skills • Ability to manage a complex, multifaceted organization • Demonstrated analytical, organizational, and problem-solving abilities • Demonstrated leadership and organizational skills

Medical/Dental Deputy Account Manager/Operations Manager
Roles and Responsibilities
• Fills the role of account manager in that person's absence • Plays an active role in daily management of account operations, assisting in planning, directing, and coordinating operational issues • Is knowledgeable and aware of issues, concerns, and requirements including integration management between medical/dental and POS • Serves as the operations manager, managing staff members assigned to the operational business activities, daily operations of the MMIS, and fiscal agent operations • Assists with oversight of the MMIS replacement DDI and certification and subphases • Oversees the development and implementation of internal procedures related to the operational services • Attends BMS meetings as required The following lists the additional responsibilities of the medical/dental deputy account manager/operations manager during the Turnover and Close-Out Phase: • Serves as the point of contact with responsibility for execution of turnover activities • Uses BMS-approved turnover plan to fulfill turnover requirements • Works with operational leaders to maintain required staffing levels during the Turnover Phase • Works with operational leaders to validate uninterrupted service to BMS, providers, and members and contract compliance during the Turnover Phase • Works with the successive contractor to coordinate turnover activities • Coordinates staffing requirements with operational leaders to verify required staffing levels are maintained throughout the Turnover Phase • Provides status reporting to BMS representatives as required
Required Skill Set
• Bachelor's degree in business management or equivalent work experience • Five years of fiscal agent operational experience in Medicaid or other large healthcare processing environment, preferably Medicaid fiscal agent experience • Demonstrated strong analytical, organizational, and problem-solving skill sets • Demonstrated experience planning, implementing, and administering complex operational processes and procedures • Demonstrated ability to identify and communicate diverse and complex operational issues in writing and orally to each level of the customer and HPES organization

Medical/Dental Applications Manager
Roles and Responsibilities
• Responsible for managing configuration activities for modifications and enhancements to the MMIS • Participates in configuration activities during DDI • Monitors and coordinates the integration of configuration changes with other changes required to complete modifications and enhancements
Required Skill Set
• Bachelor's degree in computer science or related degree or four years of directly relevant experience besides the five years of Medicaid experience • Proven experience in setting up provider contracts, member benefits, and reference • Minimum of five years of MMIS experience • Highly knowledgeable in quality assurance and control procedures, strong documentation and reporting background, demonstrated proactive problem management skills, and experience with change and incident management • Implementation experience in the system or application being bid is preferred

Medical/Dental Systems Manager
Roles and Responsibilities
• Responsible for planning, developing, testing, implementing, and maintaining the WV-iC MMIS • Assists with management of the MMIS replacement DDI and certification including the subphases • Provides overall leadership and direction to the Systems team to verify that the MMIS is operational and meeting contractual performance standards • Directs technical personnel as needed to promote meeting technical project schedules • Coordinates priorities and scheduling of system projects with the BMS staff regarding system changes or enhancements • Maintains appropriate staffing levels as required • Provides project oversight regarding project requirements, scope, and change management issues • Coordinates status review meetings with the technical staff and attends BMS meetings as required • Develops project control and reporting procedures • Plans, directs, and coordinates technical team to manage and implement system projects
Required Skill Set
• Bachelor's degree from an accredited four-year university or college (or technical institute), or equivalent related work experience • Minimum of eight years of experience managing or performing systems and software engineering activities, of which at least five years is Medicaid-related • Preference given to candidates with implementation experience in the system or application being bid • Demonstrated experience working with SQL and third- and fourth-generation languages in the design and implementation of systems and using database management systems • General experience demonstrating increasing responsibilities in software engineering activities • Knowledgeable of applicable standards and enforces those standards with the team • Preference given to candidates with leadership experience supporting state government systems projects

POS System Manager
Roles and Responsibilities
• Responsible for planning, developing, testing, implementing, and maintaining the WV-iC MMIS pharmacy POS • Assists with management of the MMIS pharmacy POS replacement DDI and certification, including the subphases • Provides overall leadership and direction to the Systems team to validate that the MMIS pharmacy POS is operational and meeting contractual performance standards • Directs technical personnel as needed to support meeting technical project schedules • Coordinates priorities and scheduling of MMIS pharmacy POS system projects with BMS staff members regarding system changes or enhancements • Provides project oversight regarding project requirements, scope, and change management issues • Coordinates status review meetings with technical staff members and attends BMS meetings as required • Develops project control and reporting procedures • Plans, directs, and coordinates technical team to manage and implement system projects
Required Skill Set
• Bachelor's degree from an accredited four-year university or college (or technical institute) or equivalent related work experience • Minimum of four years of experience managing or performing systems and software engineering activities, of which at least two years is with a Medicaid pharmacy system • Preference given to candidates with experience in the system or application being bid • Experience working with SQL and third- and fourth-generation languages in the design and implementation of systems and using database management systems • General experience that demonstrates increasing responsibilities in software engineering activities and knowledge of applicable standards • Knowledgeable of applicable standards and enforces those standards with the team • Preference given to candidates with leadership experience supporting state government systems projects

Pharmacy Manager
Roles and Responsibilities
• Oversees areas involving pharmacy program, including pharmacy POS, drug rebate, pharmacy prior approval, prospective drug utilization (proDUR), alerts, drug file maintenance, and pharmacy bulletins • Responsible for analyzing and configuring BMS pharmacy policy including clinical support for policy development • Provides pharmacy billing and program information expertise • Serves as the primary contact for BMS on pharmacy-related issues • Verifies timely performance of pharmacy benefit management (PBM) and drug rebate responsibilities and confirms that standards are met • Attends provider workshops for PBM • Performs project management related to compliance and reporting • Responsible for communication to pharmacy providers, conducting POS user training, participating in provider workshops, and providing direction to the call center regarding POS inquiries • Oversees the fulfillment of pharmacy-related contract requirements • Monitors and assesses processes and procedures to improve operational productivity and performance
Required Skill Set
• Bachelor's degree in PharmD from an accredited school of pharmacy • Current West Virginia pharmacist license • Minimum three years of pharmacy management experience • Experience in healthcare benefits management, including administration of clinical pharmacy benefits and related services is preferred • Operations experience with state pharmaceutical assistance programs or other publicly financed health programs such as Medicaid that included administration and payment of pharmacy claims is preferred • Demonstrated ability to effectively communicate with customer's senior management • Demonstrated strong analytical, organizational, and problem-solving abilities related to pharmacy best practice • Demonstrated ability to simultaneously manage large-scale concurrent projects and effectively respond to BMS business priorities • Demonstrated ability to proactively address issues that could potentially affect the pharmacy program • Strong leadership experience and the ability to demonstrate the authority and integrity to command and coordinate the appropriate personnel necessary to implement and manage the pharmacy program

Drug Rebate Manager
Roles and Responsibilities
• Responsible for daily operations of the drug rebate program including dispute resolution • Responsible for the oversight and coordination of the drug rebate system and drug rebate staffing, including the following: – Serving as a direct liaison to BMS for the drug rebate program – Overseeing rebate invoicing to Medicaid participating drug manufacturers – Working with drug manufacturers to resolve Medicaid rebate account balances – Documenting resolution process – Adjusting receivables to balance account – Generating and monitoring manufacturer compliance with BMS-specific supplemental rebate contracts
Required Skill Set
• Bachelor's degree in business, RPH preferred; three years of directly relevant experience and the three years required among the following skills can be substituted for a degree • Minimum of three years of experience with Medicaid drug rebate program • Strong communication and negotiation skills • Demonstrated experience in conducting prescription drug rebate negotiations with drug manufacturers' labelers; experience in leading rebate negotiations • Strong analytical, organizational, and problem-solving abilities

Provider/Member Services Manager
Roles and Responsibilities
Provider responsibilities include the following: • Oversees provider enrollment, provider/member relations, provider training, and outreach and associated help desk business areas for medical/dental and POS • Oversees the enrollment and recertification of West Virginia Medicaid providers • Communicates with providers to address enrollment concerns, researches and resolves provider issues, and updates provider information • Attends provider association meetings as an HPES representative • Oversees training of internal HPES staff members and Medicaid department personnel on claim billing requirements and the use of HP system applications • Communicates with providers about claim, policy, and billing issues • Reviews policy changes for updates to the West Virginia provider manuals • Works with BMS staff members to promote timely communication of legislative changes to the West Virginia provider community • Facilitates timely filing of appeals and provider adjustment requests • Performs program management tasks related to compliance and reporting Member responsibilities include the following: • Provides education activities to disseminate information about program policies and benefits to members and benefits counselors (including accessing eligible services), explaining member rights (including rights to appeal), and assisting members with enrollment problems • Provides outreach activities to disseminate information to members
Required Skill Set
• Bachelor's degree in business management or related field • Minimum of three years of experience with a Medicaid fiscal agent or other large healthcare claims processing organization performing provider/member services (such as enrollment) and provider/member relations activities (such as developing and implementing training, communications, or outreach programs) for a Medicaid fiscal agent or private-sector healthcare payer • Minimum three years of experience in managing the provider services system, preferably with an MMIS or interChange • Detailed working knowledge of industry standards and best practices related to role assignment area • Extensive managerial and administrative experience including functions such as program planning, policy formulation, organization coordination and control, and fiscal and personnel management • Excellent written and oral communication skills and ability to effectively communicate with each level of customer and HPES organization

Medical/Dental Quality Manager
Roles and Responsibilities
• Oversees quality assurance functions and responsibilities including deliverable review, accuracy of reports, system enhancement documentation, and review of test results • Validates that contract requirements related to quality management activities are met; initiates and monitors corrective actions as necessary • Reviews quality reports to assess current operations performance • Recommends process improvements to meet quality objectives
Required Skill Set
• Bachelor’s degree or four years of relevant experience besides the three years of Medicaid experience • Minimum of three years of Medicaid experience • Knowledge of HIPAA codes and transaction requirements • Operational claims knowledge and experience • Minimum of three years of experience in developing and maintaining vigorous ongoing quality control function that encompasses data entry, verification of systems outputs, balancing of jobs, validating the integrity of the data, controlling and accounting for systems inputs, provider communications, finance and accounting, and verifying adequate internal controls and quality checks throughout the system and operations tasks • Superior problem-solving skills • Strong written and oral communication skills to effectively work with an organization from executive to clerical-level personnel • Strong problem-solving and teamwork skills

Financial Manager
Roles and Responsibilities
• Manages financial functions, program integrity, and reporting including daily, monthly, and other cyclical financial processes • Oversees financial operations in accordance with State and federal guidelines, generally accepted accounting principles (GAAP), and BMS-approved operating procedures • Supports the budget process for medical/dental and POS • Works with the State's financial representatives and officers and other West Virginia stakeholders to verify that HPES' processes remain aligned with project financial requirements, processes, and procedures • Coordinates and designs procedures to support financial management activities • Establishes and maintains bank and lock-box accounts; provides financial reconciliations and reporting as required • Oversees the development of financial-related reports and oversees monthly financial reporting • Reports progress on financial-related matters to BMS as required • Validates that State financial deliverables are provided promptly as required
Required Skill Set
• Bachelor's degree in business administration or related field, such as accounting; or four years of directly relevant experience, besides the five years required in the following skills, can be substituted for a degree • Minimum of five years of management experience in accounting for commercial or government projects • MMIS financial management and account experience is preferred • Demonstrated experience planning, implementing, and administering complex operational processes and procedures • Demonstrated ability to identify and promulgate diverse and complex financial operational issues orally and in writing with each level of management • Demonstrated strong analytical, organizational, and problem-solving abilities • Ability to manage a complex, multifaceted organization • Excellent organizational, oral, written, and presentation communications skills • Knowledge of financial reporting requirements

EDI Manager/Web Portal Manager
Roles and Responsibilities
• Oversees electronic data interchange (EDI) activities • Works with Portal Product team to validate the application meets WV-iC requirements • Works with the BES group to verify the EDI solution meets WV-iC requirements • Applies knowledge of Medicaid regulations and standards to web development projects • Supports ongoing HIPAA compliance initiatives • Develops and maintains implementation guides for medical/dental and POS • Provides support to expanding health information initiatives for medical/dental and POS to include HIE and ePrescribing
Required Skill Set
• Bachelor's degree in business management or IT; or four years of directly relevant experience besides the five years required among the following skills can be substituted for a degree • Minimum of five years of experience with a Medicaid fiscal agent or other large healthcare claims processing organization performing EDI; providing support for HIPAA transaction compliance, development, and maintenance of implementation guides; management experience preferred • Detailed knowledge of Medicaid and Medicare regulations, standards, and processes • Strong customer relations and interpersonal skills

Reports Manager
Roles and Responsibilities
• Responsible for managing the report development and analysis for medical/dental and POS • Recommends establishment of new or modified reporting methods and procedures to improve report content and completeness of information • Verifies compliance with federal and BMS reporting requirements • Confers with people originating, handling, processing, or receiving reports to identify problems and gather suggestions for improvements • Examines and evaluates purpose and content of business reports to develop new or improve existing format, use, and control • Reviews reports to determine basic characteristics, such as origin and report flow, format, frequency, distribution, and purpose or function of report • Evaluates findings using knowledge of workflow, operating practices, and record-retention schedules • Prepares and issues instructions concerning generation, completion, and distribution of reports according to new or revised practices, procedures, or policies of reports management
Required Skill Set
• Bachelor's degree in business management or related field or five years of relevant work experience besides the four years required in the following areas • Minimum of four years of experience supporting data analysis for Medicaid or other healthcare programs and experience in the product being bid • Excellent oral and written communication skills

Medical/Dental Project Manager
Roles and Responsibilities
• Measures and monitors daily progress of MMIS medical/dental projects to deliver project requirements that meet expectations in accordance with project or program goals and objectives • Defines project scope, goals, and deliverables that support MMIS medical/dental projects with appropriate work group, HPES management, and BMS staff members • Develops full-scale project plans, time lines, and associated communication documents • Determines project success criteria and communicates to project team throughout project life cycle • Effectively communicates project expectations to project team and stakeholders as scheduled • Establishes and manages project scope and project expectations with project team and stakeholders • Estimates and obtains the personnel required for MMIS medical/dental projects • Integrates with the POS project activities
Required Skill Set
• Bachelor's degree in computer science, business administration/management, or related field; relevant management experience, besides the five years of project management experience, can be substituted for the degree or certification on a year-for-year basis • Project Management Institute (PMI) Project Management Professional (PMP) certification preferred • Minimum of five years of project management experience including the management of at least one MMIS project similar in size and scope to this project that encompassed the full systems development life cycle from initiation through post-implementation • Working knowledge of the Project Management Body of Knowledge (PMBOK): project integration, scope management, time management, cost management, quality management, resource management, communications management, risk management, and procurement management • Excellent oral and written communications skills • Strong knowledge of Microsoft Word, Excel, and Project

POS Project Manager
Roles and Responsibilities
• Measures and monitors daily progress of MMIS pharmacy POS projects to deliver project requirements that meet expectations in accordance with project or program goals and objectives • Defines project scope, goals, and deliverables that support MMIS pharmacy POS projects with appropriate work group, HPES management, and BMS staff members • Develops full-scale project plans, time lines, and associated communication documents • Determines project success criteria and communicates to project team throughout project life cycle • Effectively communicates project expectations to project team and stakeholders as scheduled • Establishes and manages project scope and project expectations with project team and stakeholders • Estimates and obtains the employees required for MMIS pharmacy POS projects • Integrates with the medical/dental project activities
Required Skill Set
• Bachelor's degree in computer science, business administration/management, or related field; relevant management experience, besides the five years of project management experience, can be substituted for the degree or certification on a year-for-year basis • PMP certification preferred • Minimum of five years of project management experience including the management of at least one MMIS project similar in size and scope to this project that encompassed the full system development life cycle from initiation through post-implementation • Working knowledge of the PMBOK: project integration, scope management, time management, cost management, quality management, resource management, communications management, risk management, and procurement management • Excellent oral and written communications skills • Strong knowledge of Microsoft Word, Excel, and Project

Registered Nurse
Roles and Responsibilities
• Identifies significant opportunities for clinical or financial improvement in medical/medication management • Develops and designs interventions that improve or maintain the quality of care while reducing the overall cost of care when possible • Assists in evaluating the effectiveness of interventions • Serves as a clinical consultant for the WV-iC MMIS for medical/dental and POS • Assists BMS in development and implementation of medical policies as they relate to the West Virginia Medicaid Program • Assists with training and training development for the HPES staff on issues relating to medical review and medical policy • Develops and implements edits relating to medical review issues • Performs medical review and determination for Medicaid claims exceptions • Serves as medical liaison between BMS and HPES • Acts as a liaison to nursing providers and BMS to assist in resolving problems and issues • Assists in adjudication of claims requiring professional review, interpreting and applying State regulations to claims processes • Analyzes prior authorization requiring professional review • Assists in drafting provider manuals, bulletins, and revisions to provider publications • Represents HPES in professional associations
Required Skill Set
• Bachelor’s degree required; master’s degree preferred • Professional credentials and licenses that are valid in the State of West Virginia • Possession of the legal requirements to practice as a registered nurse in the State of West Virginia • Demonstrated knowledge of professional nursing principles and techniques, medical terminology, hospital routine and equipment, and medications including narcotics • Experience in utilization review preferred • Working knowledge of Medicare and Medicaid regulations, standards, and processes • Detailed working knowledge of industry standards, area of study fundamentals, and best practices related to role-assignment area • Ability to correctly interpret and apply HCPCS, CPT, and ICD coding • Demonstrated knowledge of medical practitioner billing and Medicaid program information

Certified Professional Coder
Roles and Responsibilities
• Leads the Procedure Code work group • Reviews and advises on medical/dental and POS coding updates released quarterly • Responsible for interpreting medical terminology to create numerical codes for insurance and medical statistics purposes for medical/dental and POS • Verifies that patient invoices are coded correctly for billing and analyzing the costs for services received • Validates that system files reflect coding updates
Required Skill Set
• Associate's or bachelor's degree or equivalent work experience • Coding certification—AHIMA, AAPC, or equivalent certification • Knowledge of medical terminology, CPT, or ICD-9/ICD-10 coding schema • Experience working with bundling software • Two years of experience in healthcare background, medical coding, billing, and benefits research • Proficiency in assigning accurate medical codes throughout various services, experience in integrating coding and reimbursement rule changes, and experience with AHA Coding Clinic guidelines; knowledge of anatomy, physiology and medical terminology necessary to correctly code provider services and diagnoses is important • Excellent oral and written communications skills • Proficient in Microsoft Word, Excel, and PowerPoint

Continuously Dedicated and Support Staff

POS Quality Manager/Certification Lead
Roles and Responsibilities
• Oversees POS quality assurance functions and responsibilities including deliverable review, accuracy of reports, system enhancement documentation, and review of test results • Provides guidance and expertise to BMS to assist in maintaining compliance with federally mandated HIPAA regulations • Validates that contract requirements related to quality management activities are met; initiates and monitors corrective actions as necessary • Reviews quality reports to assess current operations performance Operations Phase certification tasks include the following: • Works with the HPES Certification capability lead to apply methodology and best practices from other successful projects • Coordinates the CMS certification effort by serving as a local subject-matter expert for the certification process and provides oversight and direction based on preparation requirements • Meets with BMS and CMS to demonstrate fulfillment of requirements and equivalent features • Provides onsite oversight for certification preparation activities, including status reports and other project requirements, leading to the successful certification of the WV-iC MMIS • Oversees the preparation of a demonstration plan • Works with the systems group to provide status and report on conditions requiring remediation—before certification review or during the certification review
Required Skill Set
• Bachelor's degree in business management or related degree or four years of relevant experience besides the three years of Medicaid/Pharmacy experience • Minimum of three years of Medicaid or pharmacy experience • Minimum of three years of experience in developing and maintaining vigorous ongoing quality control function that encompasses data entry, verification of systems outputs, balancing of jobs, validating the integrity of the data, controlling and accounting for systems inputs, provider communications, finance and accounting, and validating adequate internal controls and quality checks throughout system and operations tasks

Data Conversion Specialist/Data Conversion Lead
Roles and Responsibilities
• Develops data conversion strategy • Leads the conversion task activities • Manages and monitors resource plans and conversion jobs • Validates that teams conduct adequate volume testing to provide credible projections for final conversions • Directs the Conversion team • Verifies that converted data is available for the appropriate testing phases from System Test Phase forward • Works with the test director to validate that the testing strategy includes the conversion components and that conversion is thoroughly tested • Reports the status of conversion activities, and escalates issues as appropriate for accelerated resolution • Works with the outgoing fiscal agent to validate data mapping and balancing procedures
Required Skill Set
• Bachelor's degree in IT or relevant experience is required • Minimum of five years of experience managing data conversion for MMIS implementation projects or healthcare information systems • Strong communication skills

Data Conversion Specialist/Data Conversion Lead
• Demonstrated skills coordinating with other leaders

Interface Specialist/Integration and Interfaces Lead
Roles and Responsibilities
• Manages interface development and implementation activities for the medical/dental and POS • Leads the integration of COTS products with the MMIS and coordinates upgrades to COTS packages • Directs the Integration and Interfaces team • Works with the testing director to verify that the testing strategy and plans fully test the interfaces and integration • Works with BMS to coordinate interface or integration validation with other entities
Required Skill Set
• Bachelor's degree in IT or relevant experience is required • Minimum of three years experience in systems integration, messaging components, and interface development for MMIS implementation projects or healthcare information systems • Strong communication skills • Skills coordinating with other leaders

Trainer and Documentation Specialist
Roles and Responsibilities
• Responsible for developing training curricula and training materials, facilitating training sessions, and creating technical or user documentation for medical/dental and POS • Assists in provider training workshops and seminars • Initiates provider contacts, including provider field visits to provide training on billing issues • Assists with the recruitment of providers; enrollment and education activities as assigned • Researches provider issues • Produces advisories, fee schedules, and updated billing manuals as scheduled or required • Coordinates development and production and maintenance of provider documentation
Required Skill Set
• Bachelor's degree or six years of experience in creating and producing technical or user documentation • Two years of experience in MMIS or large public or private healthcare enterprise • Two years of technical writing experience for large-scale application • One year of experience managing documentation version-control procedures and web-based documentation experience • One year of training experience, preferably in an MMIS or large-scale healthcare environment • Detail-oriented with strong customer service skills • Excellent oral and written communication skills

Medical/Dental Ad Hoc Reporting Analyst
Roles and Responsibilities
• Responsible for analyzing report data for trending purposes and reporting those variances to BMS • Responsible for gathering business requirements, report development, quality assurance, and delivery of reports to BMS for approval

Medical/Dental Ad Hoc Reporting Analyst
• Researches request to determine most effective approach to complete ad hoc request • Analyzes ad hoc reports to retrieve relevant information
Required Skill Set
• Bachelor's degree in business management or related field or equivalent work experience • Minimum of three years of experience supporting data analysis for Medicaid or other healthcare programs and experience in the product being bid. • Excellent oral and written communication skills

POS Ad Hoc Reporting Analyst
Roles and Responsibilities
• Executes ad hoc reports as required to retrieve additional information related to MMIS transactions, accounts, or records • Analyzes report data for trending purposes and reporting variances to BMS • Gathers business requirements, report development, quality assurance, and delivery of reports to BMS for approval • Researches request to determine most effective approach to complete ad hoc request • Analyzes ad hoc reports to retrieve relevant information • Communicates ad hoc report analysis to MMIS project team or BMS personnel as required
Required Skill Set
• Bachelor's degree in business management or related field or equivalent work experience • Minimum of three years of experience supporting data analysis for Medicaid drug rebate or other healthcare programs and experience in the product being bid • Excellent oral and written communication skills

Finance Report Analyst
Roles and Responsibilities
• Supports finance manager in financial functions, program integrity, and reporting including daily, monthly, and other cyclical financial processes • Creates financial-related reports and monthly financial reporting • Creates reports regarding progress on financial-related matters as required • Verifies that State financial deliverables are provided promptly as required • Analyzes report data for trending purposes and reports those variances to BMS • Responsible for gathering business requirements, report development, quality assurance, and delivery of reports to BMS for approval
Required Skill Set
• Bachelor's degree in business management or related field or equivalent work experience in solution being bid • Minimum of three years of experience supporting data analysis for Medicaid or other healthcare programs and experience in the product being bid • Experience with financial management and knowledge of accounting policies and procedures is preferred • Strong oral and written communication skills

Drug Rebate Analyst
Roles and Responsibilities
• Responsible for analyzing report data for trending purposes and reporting those variances to BMS • Responsible for gathering business requirements, report development, and delivery of reports to BMS for approval • Verifies timely performance of drug rebate responsibilities and confirms standards are met • Researches request to determine most effective approach to complete ad hoc request • Analyzes ad hoc reports to retrieve relevant information
Required Skill Set
• Bachelor's degree in business management or related field or equivalent work experience • Minimum of three years of experience supporting data analysis for Medicaid drug rebate or other healthcare programs and experience in the product being bid • Excellent oral and written communication skills

Project Management Office

PMO Support Analyst
Roles and Responsibilities
• Manages, reports, analyzes, and initiates corrective actions related to scope, communication, issues, risk, quality, configuration management, and release management • Supports the project managers and the PMO, verifying that deliverables are met, project status is accurately reported, and the appropriate issues are escalated and managed to closure • Validates that project procedures are followed and verifies that the baselines are maintained • Consults with appropriate BMS and HPES personnel to establish change reporting procedures and prepare directive for change authorization and documentation • Monitors and controls the baseline build functions, making changes and improvements as necessary • Trains team members on the use of the HP PPM toolset • Supports the integration of HP PPM, Microsoft Project, and time recording • Develops and integrates data for weekly and monthly project status reports
Required Skill Set
• Bachelor's degree from an accredited four-year university or college (or technical institute) or equivalent related work experience • Two years of work experience assisting project managers or PMO in providing project leadership and coordination for IT projects • Two years of increasingly responsible experience in a work area related to the area to be assigned • PMP certification preferred or relevant management experience substituted for the degree or certification on a year-for-year basis • Excellent oral and written communications skills • Strong knowledge of HP PPM and Microsoft Project

Quality

Medical/Dental Quality Support Analyst
Roles and Responsibilities
• Continually monitors, assesses, and recommends improvements to fiscal agent operations • Monitors quality metrics and performance service levels • Reports statistics and recommendations to the West Virginia leadership team as scheduled • Assists the medical/dental quality manager/HIPAA compliance officer in performing duties including providing HIPAA training to staff members, verifying that HIPAA policies are being followed, and working with business function managers to address quality issues
Required Skill Set
• Bachelor's degree and two years of experience in Medicaid or healthcare quality assurance support role • Knowledge of HIPAA requirements • Contract and financial management background • Understanding of an MMIS or large-scale claims processing operational organization • Ability to resolve routine problems and escalate nonroutine issues as appropriate • Proven record of quality work and ability to work independently and in a team setting

POS Quality Support Analyst
Roles and Responsibilities
• Monitors and recommends improvements to fiscal agent operations • Monitors quality metrics and performance service levels • Works with leaders of the project to verify that staff members are fully trained and meeting SLAs • Reports statistics and recommendations to the West Virginia leadership team weekly
Required Skill Set
• Bachelor's degree in business management or related field or equivalent work experience • Two years as an associate project analyst assisting project managers or working in a PMO • Working knowledge of the following areas of PMBOK: project Integration management; scope management, time management, quality management, resource management, communications management, risk management, and procurement management • Excellent oral and written communications skills

Pharmacy POS

Pharmacy POS Clinical Lead
Roles and Responsibilities
• Oversees the areas involving the pharmacy program including pharmacy POS and proDUR alerts, drug rebate, pharmacy prior approval, drug file maintenance, and pharmacy bulletins • Oversees the fulfillment of contract requirements as they apply to the pharmacy program • Serves as the primary contact for BMS for pharmacy and drug rebate issues • Reviews weekly reports to assess current operations performance • Effectively communicates on a clinical level with pharmacists and prescribing providers • Makes clinical decisions based on BMS policy • Maintains a thorough knowledge of BMS' pharmacy prior authorization list, drug therapy limits, and other pharmacy-related policies and issues • Handles incoming calls and makes follow-up calls to pharmacists and prescribing physicians • Validates HPES' adherence to BMS policies and procedures in daily operations • Supports clinical programs for the pharmacy POS such as criteria development for auto-prior authorization and drug utilization review
Required Skill Set
• Bachelor's degree in business management or related field or equivalent work experience on a year-to-year basis • Registered pharmacist preferred • Three years of clinical pharmacy experience • Registered with West Virginia Board of Pharmacy • Relevant leadership experience • Minimum of three years of Medicaid or pharmacy experience • Detail-oriented with strong customer service skills • Excellent oral and written communication skills

Pharmacy Benefit Technician
Roles and Responsibilities
• Monitors the maintenance of the drug prior authorization files to support accuracy • Supports prior authorization request when rejected by POS • Assists in adjudication of claims requiring professional review, interpreting and applying BMS regulations to claims processes • Analyzes and reviews pharmaceutical insurance claims
Required Skill Set
• Three years of clinical pharmacy experience • Registered with West Virginia Board of Pharmacy • Excellent oral and written communication skills

Provider/Member

Provider/Member Services Supervisor
Roles and Responsibilities
• Serves as the backup to the provider relations manager • Assists provider manager in oversight of provider enrollment, provider and member relations, provider training and outreach, and associated help desk business areas for medical/dental and POS • Maintains ongoing program of provider education to support optimal program operation and compliance • Coordinates the enrollment and recertification of West Virginia Medicaid providers • Provides training to internal HPES staff members and Medicaid department personnel on claim billing requirements and the use of HP system applications • Provides input in the development and implementation of provider training materials and internal unit process guidelines • Coordinates provider updates, advisories, fee schedules, and billing manuals as required • Attends provider association meetings as an HPES representative • Researches complex provider problems and routes as appropriate to achieve resolution • Reviews policy changes for updates to the West Virginia provider manuals • As needed, answers escalated provider calls related to Medicaid professionally and accurately; logs and tracks provider inquiries
Required Skill Set
• Bachelor's degree in business administration, related field, or technical school or equivalent work experience • Three years of MMIS or other major public or private healthcare program • Operational claims and provider services experience • Excellent oral and written communication skills • Solid understanding of provider services functional area • Detail-oriented with excellent problem-solving skills • Excellent customer service skills and attention to details

Help Desk Lead
Roles and Responsibilities
• Provides oversight and direction for EDI and MMIS help desk operations • Coordinates the development of policies and procedures for the unit • Coordinates required reporting for problem-tracking and resolution • Assists in problem resolution for escalated issues from each help desk area • Researches provider issues and resolutions • Analyzes automated help desk reports • Provides training to new call center agents and monitors their progress • Participates in the hiring of new staff members • Verifies that help desk staff members are trained according to established procedures, including providing superior customer service and following telephone etiquette guidelines
Required Skill Set
• Bachelor's degree or equivalent work experience • Two years of Medicaid or other large-scale public or private healthcare experience • Excellent customer service skills • Two years of experience leading a call center or help desk business process

Help Desk Lead
• Excellent oral and written communication skills to each level of the organization • Detail-oriented with excellent problem-solving skills • Ability to assist in the development of help desk processes and procedures and conduct training for new team members

EDI Help Desk CSR
Roles and Responsibilities
• Assists providers with use of EDI software by telephone • Applies detailed knowledge of EDI submission process to assist providers and verify that problems are resolved • Performs research as needed or routes issues to assist with provider's EDI inquiries • Provides problem-logging and tracking, resolution, and reporting as required • Resolves inquiries through research to formulate a response when necessary • Follows established EDI help desk processes and procedures
Required Skill Set
• Bachelor's degree in computer science, related field, or technical school or equivalent work experience • Two years of experience in a Medicaid or large public or private healthcare enterprise and experience with EDI technology • HIPAA transaction knowledge • Provider electronic solution software knowledge • Detail-oriented with excellent problem-solving skills • Excellent customer service skills and attention to details • Excellent oral and written communication skills

MMIS Help Desk CSR
Roles and Responsibilities
• Provides technical support for MMIS users • Coordinates technical help of system-related problems • Analyzes and resolves issues related to system hardware and software by telephone • Provides problem-tracking, resolution, and reporting as required • Resolves inquiries through research to formulate a response when necessary • Follows established MMIS help desk processes and procedures
Required Skill Set
• Bachelor's degree in computer science, related field, or technical school or equivalent work experience • Two years of experience supporting Medicaid systems • Thorough knowledge of the technical aspects of MMIS design • Detail-oriented with excellent problem-solving skills • Excellent customer service skills and attention to details • Excellent communication skills

Provider Services Lead
Roles and Responsibilities
• Serves as the backup to the provider/member services supervisor • Oversees and directs Pharmacy and Provider help desk operations • Coordinates the development of policies and procedures for the unit • Coordinates required reporting for problem-tracking and resolution • Assists in problem resolution for escalated issues from each help desk area • Researches provider issues and resolutions • Analyzes automated help desk reports • Provides training to new call center agents and monitors their progress • Participates in the hiring of new staff members • Assists in coordination of provider field representative schedules and visits, development and distribution of program publications • Oversees receipt of provider correspondence and timely and accurate responses
Required Skill Set
• Bachelor’s degree or equivalent work experience • Two years of Medicaid or other large-scale public or private healthcare experience • Excellent customer service skills • Two years of experience leading a call center or help desk business process • Excellent oral and written communication skills to each level of the organization • Detail-oriented with excellent problem-solving skills • Ability to assist in the development of help desk processes and procedures and conduct training for new team members

Pharmacy Help Desk CSR
Roles and Responsibilities
• Analyzes and resolves pharmacy service–related inquiries by telephone • Provides problem-tracking, resolution, and reporting as required • Resolves inquiries through research to formulate a response when necessary • Follows established pharmacy help desk processes and procedures • Answers prior authorization, drug utilization review, and clinical questions for providers
Required Skill Set
• Bachelor’s degree in business administration, related field, or technical school or equivalent work experience • Two years of experience supporting pharmacy services • Thorough knowledge of the West Virginia pharmacy program • Detail-oriented with excellent problem-solving skills • Excellent customer service skills and attention to details • Excellent communication skills

Provider Help Desk CSR
Roles and Responsibilities
• Responds to provider inquiries regarding the West Virginia Medicaid Program by telephone • Applies detailed knowledge of provider services processes and procedures to assist providers and verify that problem resolution is achieved • Performs research as needed or routes issue to assist with provider inquiries • Provides problem-logging and tracking, resolution, and reporting as required • Resolve inquiries through research to formulate a response when necessary • Follow established help desk processes and procedures
Required Skill Set
• High school diploma • Three years of MMIS or other major public or private healthcare program • Operational claims and provider services experience • Excellent oral and written communication skills • Detail-oriented with excellent problem-solving skills • Excellent customer service skills and attention to details • Excellent problem-solving and oral and written communication skills

Provider Relations Field Representative
Roles and Responsibilities
• Initiates provider contacts including provider field visits as scheduled or as required • Assists in recruiting providers and with enrollment and education activities • Maintains ongoing program of provider education to support optimal program operation and compliance • Provides education and training to providers, including training on billing issues through field visits and provider workshops • Attends provider association meetings as HPES representative • Researches and resolves provider issues • Assists in producing fee schedules, billing manuals, and provider newsletters
Required Skill Set
• Bachelor’s degree in business administration, related field, or technical school or equivalent work experience • Two years of experience in MMIS or public or private healthcare enterprise • Excellent oral and written communication skills • Excellent customer service and problem-solving skills • Ability to meet deadlines • Proficiency in Microsoft Word, Excel, and PowerPoint

Publications Coordinator
Roles and Responsibilities
• Responsible for developing and maintaining provider-related training plans and materials for provider representatives and the provider community • Works with BMS communications staff to identify and develop provider related material • Coordinates input for training materials from the Provider team • Researches provider issues to verify that training is targeted to the ongoing needs of provider representatives and the

Publications Coordinator
provider community • Validates that training materials are developed and readily available promptly • Verifies timely completion of provider-related training materials • Works with Provider team to verify that training materials meet the needs of the provider community
Required Skill Set
• Bachelors' degree in business management or related field or equivalent work experience on a year-to-year basis • Two years of experience in a training development field, preferably in an MMIS or large public or private healthcare enterprise • Two years of training experience • Excellent oral and written communication skills • Excellent customer service skills • Ability to meet deadlines • Proficiency in Microsoft Word, Excel, and PowerPoint

Correspondence Analyst
Roles and Responsibilities
• Responsible for responding to correspondence from the provider community regarding questions on enrollment, or claims adjudication • Logs, tracks, and reports receipts and responses • Works with BMS communications staff to identify and develop standard response templates for common questions • Coordinates with provider field representatives to indentify issues for individual visit
Required Skill Set
• Bachelors' degree or equivalent work experience on a year-to-year basis • Excellent oral and written communication skills • Excellent customer service skills • Ability to meet deadlines • Proficiency in Microsoft Word, Excel, and PowerPoint

Provider Enrollment Lead
Roles and Responsibilities
• Receives, logs, analyzes, resolves, and responds to provider enrollment requests according to BMS processes and procedures • Verifies that MMIS provider file is updated to include revised provider information • Oversees the provider enrollment process • Works with provider representatives to coordinate disseminating provider enrollment information • Responds to telephone or written inquiries related to claims payment, denied claims, and general Medicaid billing information • Monitors provider tracking logs to promote resolution of provider issues
Required Skill Set
• Bachelor's degree in business administration, related field, or technical school or equivalent work experience • Two years of experience in MMIS or public or private healthcare enterprise

Provider Enrollment Lead
• Excellent oral and written communication skills • Excellent customer service and problem-solving skills • Ability to meet deadlines • Proficiency in Microsoft Word, Excel, and PowerPoint

Provider Enrollment Analyst
Roles and Responsibilities
• Receives, logs, analyzes, resolves, and responds to provider enrollment requests according to BMS processes and procedures • Answers telephone inquiries from providers about enrollment status • Quality checks data entry • Performs case tracking
Required Skill Set
• High school diploma • Excellent oral and written communication skills • Excellent customer service and problem-solving skills • Proficiency in Microsoft Word, Excel, and PowerPoint

Provider Enrollment Help Desk CSR
Roles and Responsibilities
• Responds to incoming Medicaid-related provider calls • Logs and tracks provider inquiries • Researches provider concerns using available resources • Escalates complex provider issues to supervisor • Provides basic billing instruction, claim status, eligibility, and benefit information • Provides problem-tracking, resolution, and reporting as required • Resolves inquiries through research to formulate a response when necessary • Follows established MMIS help desk processes and procedures
Required Skill Set
• High school diploma • Two years of Medicaid or public or private healthcare enterprise experience • Two years of experience working in a Medicaid provider or member services operations group • Excellent oral and written communication skills • Excellent customer-service and problem-solving skills • Proficiency in Microsoft Word, Excel, and PowerPoint

Member Service Lead
Roles and Responsibilities
• Oversees and directs member help desk operation • Coordinates the development of policies and procedures for the unit • Coordinates required reporting for problem tracking and resolution • Assists in problem resolution for escalated issues from each help desk area • Researches provider issues and resolutions • Analyzes automated help desk reports • Participates in the hiring of new staff members • Verifies that help desk staff members are trained according to established procedures, including providing superior customer service and following telephone etiquette guidelines
Required Skill Set
• Bachelor's degree in business administration, related field, or technical school or equivalent work experience • Two years of Medicaid or other large-scale public or private healthcare experience • Two years of experience working in a Medicaid provider or member services operations group • Excellent customer service skills • Excellent oral and written communication skills to each level of the organization • Detail-oriented with excellent problem-solving skills • Ability to assist in the development of help desk processes and procedures and conduct training for new team members

Member Help Desk CSR
Roles and Responsibilities
• Responds to member inquiries regarding the West Virginia Medicaid Program by telephone • Applies detailed knowledge of member services processes and procedures to assist members and verify that problems are resolved • Performs research as needed or routes issues to assist with member inquiries • Provides problem-logging and tracking, resolution, and reporting as required • Resolves inquiries through research to formulate a response when necessary • Follows established help desk processes and procedures
Required Skill Set
• High school diploma • Three years of MMIS or other major public or private healthcare program • Two years of experience working in a Medicaid provider or member services operations group • Operational claims and provider services experience • Excellent oral and written communication skills • Detail-oriented with excellent problem-solving skills • Excellent customer service skills and attention to details

Medical/Dental

Medical/Dental Claims Lead
Roles and Responsibilities
• Leads and directs the overall claims operation including long-term care (LTC), prior authorization, reference data management, benefits administration, nursing, claims resolution, adjustment, and mail room operations • Serves as the primary contact for the BMS staff regarding claims questions or issues • Supports the operations units within the claims operation and timely processing of the claims submitted • Interacts with other HPES and BMS leaders to coordinate operations procedures to support efficient, accurate claims adjudication • Monitors claims trending and guides team on appropriate staff allocation • Sets medical/dental Claims Operations team goals and objectives to align with BMS goals and works with team to meet these goals and objectives • Monitors and assesses processes and procedures to recommend improvements to claims operations activities • Attends status meetings and BMS meetings as required • Trains claims support staff members in their appropriate business functions • Promotes ongoing adherence to status reporting requirements • Interacts with the PMO about the quality of the claims operation and compliance management The following lists the additional responsibilities of the medical/dental claims lead during the Turnover and Close-Out Phase: • Uses BMS-approved turnover plan to guide and monitor required turnover activities related to the claims operations area • Point of responsibility to promote adherence to approved turnover plan execution in the claims operations areas: LTC, prior authorization, reference data management, benefits administration, nursing, claims resolution, and adjustment • During turnover process, leads and directs the claims operations areas • Serves as the point of contact for BMS staff members regarding claims questions or issues • Works with in-coming contractor as required regarding claims operations issues • Provides turnover status reporting promptly as required • Works with operations units to verify maintenance of personnel to meet contract obligations throughout the Turnover Phase
Required Skill Set
• Minimum of five years of experience in managing a claims processing component of an MMIS or other large-scale healthcare payment system • Experience with the proposed MMIS or components of the proposed MMIS • Broad knowledge of the operational claims processing operations • Working knowledge of Medicaid and Medicare regulations, standards, and processes, with detailed working knowledge of industry standards and best practices related to the role-assignment area • Excellence in leadership and project planning • Superior problem-solving and analytical skills • Ability to identify and communicate diverse, complex operational issues in writing and orally to each level of the customer and HPES organization

Claims Lead
Roles and Responsibilities
• Manages and coordinates organization activities of individuals responsible for prior authorization, reference, and benefit administration • Provides leadership and direction to the Claims team and medical professional services group • Oversees each operations unit within the unit to support timely processing of the functions performed • Interacts with the PMO about the quality of the unit operation and compliance management • Monitors prior authorization trending and guides team for appropriate staff allocation • Interacts with program integrity organization for benefit and reference research and analysis • Monitors and assesses processes and procedures to recommend improvements to benefit, prior authorization, and reference operations • Supports audit functions • Supports execution and evaluation of program policies • Serves as the primary contact for BMS staff members about reference, prior authorization, and benefit administration issues
Required Skill Set
• Bachelor's degree in business administration/management or related field; additional relevant management experience may substitute for the degree on a year-for-year basis • Excellent oral, written, and presentation communications skills • Breadth of knowledge, including detailed working knowledge of Medicaid and Medicare regulations or standards • Working knowledge of industry standards, area of study fundamentals, and best practices related to the role-assignment area • Related work experience, with a minimum of five years of increasingly responsible experience leading, developing, coaching, and managing a staff for a government or private-sector healthcare payer, including a minimum of two years of MMIS experience in a state program • Extensive managerial and administrative experience that includes functions such as program planning, policy formulation, organization coordination and control, and fiscal and personnel duties

Clinical PA/Sterilization/Hysterectomy Analyst
Roles and Responsibilities
• Performs specialized and varied clerical and analytical tasks related to LTC and prior authorization • Accepts, processes, and analyzes prior authorization requests according to BMS-approved policies and procedures • Reviews or enters sterilization/hysterectomy information from physician certification statements • Communicates with other HPES staff members to resolve problems related to inaccurate prior authorizations • Responds to telephone inquiries, emails, and correspondence using standard scripting and procedures • Gathers information, researches and resolves LTC and prior authorization inquiries, and logs customer calls and correspondence • Assesses customers' needs and advises them regarding available services • Monitors accuracy and resolves problems related to prior authorization files • Updates, researches, and analyzes prior authorization criteria, history, and protocol • Resolves routine problems and escalates nonroutine issues as appropriate
Required Skill Set
• High school diploma • One year of Medicaid or healthcare experience • Understanding of Medicaid LTC and prior authorization policies and procedures • Effective oral and written communication skills • Effective problem-solving skills • Customer service experience preferred

Resolutions Lead
Roles and Responsibilities
• Oversees and assists with processing various documents such as claims, invoices, and applications • Applies knowledge of established procedures to research and resolve claims questions and management requests using West Virginia polices, laws, and regulations as the decision criteria • Researches and responds to claims resolution issues • Provides input for provider workshops, bulletins, and manuals • Monitors accuracy and resolves problems related to claims, invoices, and applications • Updates, researches, and analyzes prior authorization criteria, history, and protocol
Required Skill Set
• High school diploma • Two years of Medicaid claims processing experience • Claims management or supervisory experience • Medical terminology, ICD-9 coding, and knowledge of billing practices • Understanding of Medicaid policies and procedures • Effective oral and written communication skills • Effective problem-solving skills • Proven record of high-quality work and ability to work independently and in a team setting

Resolutions Analyst
Roles and Responsibilities
• Processes various documents such as claims, invoices, and applications • Applies knowledge of established procedures to research and resolve claims inquiries and resolve rejected claims using West Virginia polices, laws, and regulations as the decision criteria • Researches and responds to claims resolution issues • Provides input for provider workshops, bulletins, and manuals
Required Skill Set
• High school diploma • Understanding of Medicaid policies and procedures • Medical terminology, ICD-9 coding, and knowledge of billing practices • Effective oral and written communication skills • Effective problem-solving skills • Detail-oriented

Adjustment Analyst
Roles and Responsibilities
• Prepares and processes claim adjustments and voids • Researches and processes claims adjustment requests • Maintains inventory log of claims adjustments • Performs claim adjustments and recoveries • Processes and responds to provider inquires as needed • Resolves routine problems and escalates nonroutine issues as appropriate
Required Skill Set
• High school diploma • Minimum of one year of claims experience • Medical terminology, ICD-9 coding, and knowledge of billing practices preferred • Attention to detail and follow-through • Excellent oral and written communication skills • Solid research skills • Proven record of high-quality work and ability to work independently and in a team setting

Mailroom Lead
Roles and Responsibilities
• Responsible for the activities in the mail room and directs daily activities • Reviews daily inventory to verify claims are processed promptly • Reviews weekly inventory report that is submitted to BMS • Oversees work areas to maintain control of inventories and adherence to production requirements • Tracks production, reviews quality metrics, and maintains workflows and work process improvements • Interacts with vendors supporting the mail room equipment to verify that equipment is functional • Maintains the mail room procedure manual and verifies that updates are incorporated quickly • Trains staff on mail room and data control processes and procedures • Serves as a liaison between BMS and HPES to assist with issues associated with the mail room, such as special mailings and monthly bulletins • Assists in securing the HPES form inventory as required • Oversees training for mail room personnel
Required Skill Set
• High school diploma • Two years of experience in mail room processing • Leadership experience; previous mail room experience preferred • Analytical and problem-solving skills • Oral written communication skills • Understanding of production control and quality processes • Claims processing experience within the Medicaid industry preferred

Scanning/Imaging Clerk
Roles and Responsibilities
• Operates a high-volume digital scanner with accuracy and speed • Receives, logs, and batches claim receipts for scanning • Sorts, files, retrieves, documents, and enters data • Operates online computers and uses standard office machines • Researches and resolves issues within the scope of the job • Monitors and maintains distribution logs, delivery schedules, and control records • Resolves routine problems and escalates nonroutine issues as appropriate
Required Skill Set
• High school diploma • Experience in a mail room environment preferred • Knowledge of high-speed digital scanning equipment preferred • Solid communication skills • Ability to multitask • Proven record of high-quality work and ability to work independently and in a team setting

Incoming/Outgoing Mail Clerk
Roles and Responsibilities
• Performs work related to preparation, control, and distribution of incoming and outgoing mail • Monitors and maintains distribution logs, delivery schedules, and control records • Operates standard postage and document-staging equipment • Supports provider-related mailings as required • Performs special mailings as required, such as special notification letters to providers and members • Performs data control for incoming claims • Collects and delivers mail, including confidential or sensitive documents • Collects and sorts mail, determines postage, and uses postal and express package delivery metering equipment • Resolves routine problems and escalates issues as needed to immediate mail room lead
Required Skill Set
• High school diploma • Proven record of high-quality work and ability to work independently and in a team setting • Solid communication skills • Solid problem-solving skills • Flexibility in accepting work assignments • Ability to lift 50 pounds

Courier
Roles and Responsibilities
• Provides daily courier delivery service to BMS offices • Retrieves and delivers MMIS-related material on an ad hoc and scheduled basis • Prioritizes schedule to support timely retrieval and delivery of material • Maintains communication with appropriate MMIS personnel regarding delivery schedules • Assists in the mail room as time permits
Required Skill Set
• High school diploma • Valid driver's license • Successful record working in a deadline environment • Ability to handle confidential and time-sensitive information appropriately • Excellent driving record

Data Entry Clerk
Roles and Responsibilities
• Enters data into system with accuracy and speed • Operates online computers and uses standard office equipment or machines • Receives, reviews, and enters data corrections into a data entry system • Proofreads and edits material as needed to verify accuracy • Maintains work log • Resolves routine problems and escalates nonroutine issues as appropriate
Required Skill Sets
• High school diploma • Previous data entry experience that includes development of proficient keyboard skills • Ability to work efficiently in a high-volume environment • Solid communication skills • Proven record of high-quality work and ability to work independently and in a team setting

Finance

TPL/Capitation/Member Payment Analyst
Roles and Responsibilities
• Performs specialized and varied clerical support tasks related to the TPL, capitation, and premium payment MMIS functions • Serves as a resource for the resolution of complex TPL, capitation, and premium payment problems • Prepares complex reports or forms, maintains records or files, interprets data, and reconciles accounts • Logs, researches, and processes third-party refunds according to procedures as approved by BMS • Administers and processes manual TPL functions • Administers the monthly MCO capitation payment process • Administers the Health Insurance Premium Payment (HIPP) process • Reconciles bank accounts and provides reports according to BMS policy
Required Skill Set
• High school diploma • Strong oral and written communication skills • Strong organization and analytical skills • Demonstrated attention to detail

Systems

Implementation Manager
Roles and Responsibilities
• Oversees the daily management of the WV-iC MMIS implementation and transition to fiscal agent operations • Assists account manager in oversight of the MMIS DDI and certification work, integration management between medical/dental and POS, and performance of HPES' contract obligations • Oversees development and completion of project deliverables; keeps project schedule updated • Prepares and conducts project kickoff • Leads DDI team in executing the project phases • Works with BMS and PMO to monitor and report project status • Monitors, tracks, and reports on issues and risks • Attends meetings with BMS as required, provides timely and informed responses to implementation and administrative inquiries that arise, and delivers project reporting as needed
Required Skill Set
• Bachelor's degree from an accredited four-year university or college (or technical institute) or equivalent related work experience • Minimum of eight years of experience managing or performing systems and software engineering activities, of which at least five years is Medicaid-related • Implementation experience is required • Implementation leadership experience is preferred • Increasing responsibilities in software engineering activities • Knowledge of applicable standards and ability to enforce those standards with the team • Leadership experience supporting state government systems project is preferred • Demonstrated leadership and organizational skills • Excellent oral, written, and presentation communications skills

Architect
Roles and Responsibilities
• Serves as the senior technical adviser on the most specialized phases of system design, implementation, analysis, and programming • Supports systems engineers in developing sound architecture strategies, considering total system requirements, advanced principles, and concepts • Communicates technical alternatives and new technologies to management and recommends action • Provides technical direction for the account • Directs the modifications to the base system to facilitate future implementations • Enforces policies that maintain the integrity of the data model • Provides leadership and technical advice to the entire MMIS team on technology issues that optimize delivery capabilities • Provides technical expertise to the BMS regarding the WV-iC MMIS questions, issues, and presentations
Required Skill Set
• Bachelor's degree in IT or related field is required; master's degree or related higher-level degree is preferred • Minimum five years of experience in MMIS DDIs • Minimum three years of experience with implementing the proposed architecture in an MMIS or large-scale integrated healthcare claims processing system and with the complete architecture and interfaces related to the proposed MMIS

The following roles and responsibilities and skill sets apply to the following project manager position as identified across the DDI phase organization chart:

- Member management
- Provider management
- Claims, reference, and benefit plans
- BIAR/Reporting
- Financial and TPL
- Infrastructure/system wide

Project Manager - DDI
Roles and Responsibilities
• Measures and monitors daily progress of MMIS medical/dental DDI projects to deliver project requirements that meet expectations in accordance with project or program goals and objectives • Defines project scope, goals, and deliverables that support MMIS medical/dental DDI projects with appropriate work group, HPES management, and BMS staff members • Develops full-scale project plans, time lines, and associated communication documents • Determines project success criteria and communicates to project team throughout project life cycle • Effectively communicates project expectations to project team and stakeholders as scheduled • Establishes and manages project scope and expectations with project team and stakeholders • Estimates and obtains the personnel required for MMIS medical/dental projects • Leads customer engagement to verify that it meets scope, time, budget, and quality expectations through planning, controlling, and managing customer projects • Manages corporate, customer, and third-party vendor efforts to plan, sell, and implement solutions to customer problems
Required Skill Set
• Bachelor’s degree in computer science, business administration/management, or related field • PMP certification or relevant management experience substituted for the degree or certification on a year-for-year basis • Minimum five years of project management experience including the management of at least one MMIS project similar in size and scope to this project’s size and scope that encompassed the full systems development life cycle from initiation through post-implementation • Working knowledge of PMBOK: project integration, scope management, time management, cost management, quality management, resource management, communications management, risk management, and procurement management • Excellent oral and written communications skills • Strong knowledge of Microsoft Word, Excel, and PowerPoint

Business Analyst
Roles and Responsibilities
• Works with BMS or MMIS DDI work group to research and elicit, analyze, validate, and document business requirements • Completes detailed specifications for system design • Works with BMS, systems engineers, and operational units to analyze, design, and complete system activities • Develops configuration of benefit plans, provider contracts, and pricing • Develops requirements traceability matrix and works with Testing team to support traceability of requirements through testing • Attends status review meetings and provides project reports as required and scheduled • Proactively identifies and manages changes to requirements and identifies risks • Serves as liaison with BMS during each phase of the contract • Assists with modifications and future enhancements during Fiscal Agent Operations Phase
Required Skill Set
• Bachelor's degree; experience can be substituted for the bachelor's degree on a year-for-year basis. • Minimum of three years of experience in analyzing business requirements for Medicaid, Medicare, or a large health payer

Business Area Systems Engineer
Roles and Responsibilities
• Develops requirement analysis documents (RAD) for future enhancements • Works with appropriate stakeholders to determine requirements for the system change • Performs system design, development, configuration, testing, implementation, and documentation in the development of the WV-iC system during DDI • Performs walkthrough of code changes with peer System team members • Participates in scheduled unit reviews to validate that ongoing quality and performance objectives are met • Consults with BMS and internal teams on systems development projects • Adheres to BMS-approved structured systems development methodology throughout the project life cycle • Adheres to project schedule to support timely completion of assigned tasks • Adheres to status reporting as required • Participates in modifications and enhancements during Fiscal Agent Operations Phase • Performs systems management functions during Fiscal Agent Operations Phase, including release management, version control, extracts, documentation maintenance, network, and database management
Required Skill Set
• A bachelor's degree and two years of experience in the application to which the individual is assigned; experience can be substituted for the bachelor's degree on a year-for-year basis. • Minimum of two years of experience with writing application software • Minimum of two years of experience in data access, data structures, data manipulation, and database programming in the proposed relational database management system (RDBMS) • Minimum two years of experience in testing and implementation, technical and user documentation, and software conventions • Increasing responsibilities in software engineering activities • Excellent oral and written communications skills

Database Administrator (DBA)
Roles and Responsibilities
• Conceptualizes, designs, develops, integrates, deploys, and maintains the data layer and data components by applying specialized knowledge of information, data, and database management disciplines • Identifies, analyzes, and documents database system interfaces and database performance criteria • Identifies and reviews data elements and processes • Supports and reviews data dictionary usage • Creates efficient database technical designs that meet the analysis and business design specifications, performance and platform requirements, and DBA organizational standards • Develops standards for users • Maintains and modifies database • Works with systems engineers to promote program efficiencies • Supports testing environments and data conversion loads
Required Skill Set
• Bachelor's degree in IT or related field • Minimum five years of experience as a DBA with the proposed RDBMS • Minimum three years of experience as a DBA in an MMIS or large-scale integrated healthcare claims processing system in the proposed database software

Reference Data Management Analyst
Roles and Responsibilities
• Analyzes medical claim data or records in reference data files • Investigates medical claims to conduct medical incident and coding reviews; identifies payment errors • Analyzes and validates audit findings according to State Medicaid regulations and processing guidelines • Communicates with claims lead regarding audit findings • Creates and develops payment error and audit reports • Verifies that reference files are updated promptly and correctly according to BMS-defined update schedule
Required Skill Set
• Associate's degree or equivalent work experience • Two years of experience in healthcare, medical coding, billing, and benefits research • Medicaid claim or reimbursement experience preferred • Excellent oral and written communications skills • Knowledge of medical terminology • Strong analytical skills • Proficiency in Microsoft Word, Excel, and PowerPoint

Benefit Administration Analyst
Roles and Responsibilities
• Reviews system files to verify Medicaid codes, edits, and audits are correctly set up in the system • Investigates inquiries regarding Medicaid edits and audits and resolves discrepancies • Processes benefit plan updates as directed by BMS; maintains records and identifies possible errors or fraudulent activity • Communicates with claims lead regarding audit findings

Benefit Administration Analyst
• Develops and maintains benefit administration logs, reporting, and audit trails for requested changes
Required Skill Set
• Associate's degree or equivalent work experience • Two years of experience in healthcare • Medicaid claim or reimbursement experience preferred • Excellent oral and written communications and customer-service skills • Knowledge of medical terminology • Strong analytical skills • Proficiency in Microsoft Word, Excel, and PowerPoint

Systems Administrator
Roles and Responsibilities
• Performs daily system monitoring, verifying the availability of hardware, server resources, systems, and key processes • Reviews system and application logs and verifies completion of scheduled jobs such as system backups • Regularly monitors system security • Enforces MMIS access authorization—creates, changes, and deletes user accounts as required • Verifies that required MMIS file systems and system data are successfully backed up as scheduled • Coordinates the implementation of system software upgrades
Required Skill Set
• Bachelor's degree in IT or related field or technical school or equivalent work experience • Two years of system administration experience • Excellent oral and written communication skills • Strong knowledge of proposed MMIS hardware and software environment

LAN Administrator
Roles and Responsibilities
• Oversees, plans, designs, and implements data connectivity for LAN and wide area network (WAN) systems • Assists in coordinating special projects including LAN/WAN hardware/software purchases, maintenance, and problem solving • Maintains and implements network support and archiving procedures • Researches and evaluates new technologies related to computer networking • Keeps current regarding new hardware/software products for system enhancements • Assists and provides support as requested including performing scheduled network tasks, updating anti-virus definition files, monitoring network servers, providing internet and intranet user support, and specialized training.
Required Skill Set
• Bachelor's degree from an accredited four-year university or college (or technical institute), or equivalent related work experience • Network Administration Certificate is preferred • Experience in areas of LAN and WAN management and administration including system configuration, setup, troubleshooting, planning, designing, implementation, and user support • Ability/skill to plan, design, and maintain data networks and servers; administer day-to-day operation of networks and servers; implement LAN/WAN maintenance and management procedures

Network Administrator
Roles and Responsibilities
• Oversees the day-to-day operation of computer networks • Assists in coordinating special projects including network-related wiring plans and system installation, backup, maintenance, and problem solving • Assists in supporting network and remote connectivity hardware/software • Researches, analyzes, monitors, troubleshoots, and resolves server or data network problems • Develops, maintains, and implements network support and archiving procedures • Researches and evaluates new technologies related to computer networking
Required Skill Set
• Bachelor's degree from an accredited four-year university or college (or technical institute) or equivalent related work experience • Minimum four years of experience as a network specialist in a large IT environment • Minimum four years of experience in the contractor's proposed network architecture • Minimum two years of experience implementing network security and encryption

Security Administrator
Roles and Responsibilities
• Oversees adherence to contract's information security provisions • Develops and implements the information security policy, process, and procedures for the MMIS program • Responsible for the overall security design, including the security tools for retrieving, analyzing, reporting, and addressing intrusions and vulnerabilities • Responsible for user administration, including network, remote access, and application accounts • Develops and enforces authorization and authentication processes and procedures • Monitors compliance with the approved security policy and procedures • Assists in investigating security breaches or incidents • Trains and coaches employees regarding approved security policies and procedures • Assists in backup and recovery and business continuity procedures • Communicates security status to management as required • Communicates unresolved IT security exposures, misuse, or noncompliance situations to management • Audits access logs and assists in assessing and analyzing risks for technical platforms to support system integrity and comply with State and federal HIPAA requirements • Provides ongoing management of information security policies, procedures, and technical systems to maintain integrity, confidentiality, and availability of the MMIS components • Validates that information system security policies and procedures are designed, implemented, managed, and enforced according to BMS-approved guidelines • Complies with HIPAA security directives • Evaluates information systems security risks and requirements for the MMIS to verify compliance with mandated policies, procedures, protocols, and standards • Analyzes and troubleshoots information-security–related issues, proactively assesses risks, and implements solutions • Verifies that security issues are logged, tracked, resolved, and reported promptly
Required Skill Set
• Bachelor's degree with a minimum of four years of experience in implementing corporate policies

Security Administrator
• Minimum of two years of demonstrated experience in developing and implementing the information security policy, processes, and procedures for an MMIS program or large enterprise • Demonstrated experience interfacing with customers in requirements validation sessions • At least two years of experience with the security tools for retrieving, analyzing, reporting, and addressing security intrusions and vulnerabilities

Print Operations
Roles and Responsibilities
• Provides printing services in support of MMIS outputs • Creates and maintains print schedule to produce documents on schedule as required • Operates high-speed printers and copiers to produce required documentation • Assembles completed documents and follows approved quality-check processes and procedures
Required Skill Set
• High school diploma • Solid organizational skills • Two years of print experience producing large documents with a focus on quality production • Solid communication skills

Technical Writer
Roles and Responsibilities
• Documents portions of IT plans based on an understanding of the customer's organizational strategic direction, technology context, and business needs • Prepares technical reports and system and user documentation in an understandable and straightforward writing style • Understands and uses appropriate tools to analyze, identify, and resolve business and process documentation problems • May assist in creating provider and member communications • May mentor other technical writers • Stays current on documentation tools, techniques, and technologies
Required Skill Set
• Bachelor's degree in IT or related field is required or equivalent work experience • Strong communication skills • Two years of technical writing work experience supporting state government systems projects is preferred • Proficiency in Microsoft Word, Excel, and PowerPoint

Senior Testing Manager
Roles and Responsibilities
• Produces and maintains testing documentation for agreed testing managed service • Produces and maintains associated schedules, plans, and procedures for plans and appropriate activities within the agreed test levels • Staffs the Testing team for each element of the agreed test levels efficiently and appropriately • Sets project or program controls and tracking to allow effective management of the defined tasks; reports progress to project or program management as required • Allocates and monitors tasks of team members • Supports the Testing team members • Instigates and encourages the formal verification and validation of deliverables from development teams into testing • Verifies that problems or issues are reported and addressed • Validates that testing activities are carried out according to quality standards • Serves as liaison with other teams or external contacts as required, including configuration management and the development organizations, to verify that project or program milestones are met • Considers configuration management processes for testing processes· • Works with BMS in developing the test cases and the development teams in structuring, planning, and executing testing • Provides testing metrics during the testing levels
Required Skill Set
• Bachelor's degree from accredited college is preferred • Seven to 10 years of experience with minimum of one DDI as a test-level manager is strongly preferred • Five to eight years of experience in leading large, complex testing projects • PMP and ISTQB certification is preferred • Strong performer who can balance the needs and constraints of a customer with the desire to bring a risk-based solution to a project • Solid testing background with experience in developing testing collateral, executing testing, and managing testing in an IT environment • Ability to articulate problems and solutions in business-relevant terminology • Ability to lead and motivate people • Proficient in applying project management tools and techniques

Testing Functional Lead
Roles and Responsibilities
• Responsible for creating a test plan, test scenarios, and test cases for a given test type and functional area, spending available time on this activity and the remainder on test execution • Analyzes requirements, providing feedback to developers relating to the testability of requirements • Participates in requirements walkthrough • Participates in design walkthrough • Creates test plans—such as objectives, strategy, test environment, test data, test cases, and regression strategy—for the Integration and Systems Test phases • Creates test plans that can be traced to requirements and business design • Contributes to high-level test strategy documentation and creates detailed test documents—such as plans, scenarios, cases, data, and scripts—supporting account standards • Provides account-specific support for the User Acceptance Test Phase • Provides overall testing expertise to the project team including recommendations regarding test automation and test strategies
Required Skill Set
• Bachelor's degree from accredited college or relevant work experience • Five to eight years of experience in providing technical guidance to large, complex testing projects; prior MMIS DDI experience is strongly preferred • ISTQB certification is preferred • Application knowledge or understanding of the customer's business • Ability to analyze and translate requirements and business design into test cases • Understands the criteria for building test environments • Ability to communicate effectively with technical personnel • Experience as a mentor or coach to other team members

Testing Specialist
Roles and Responsibilities
• Responsible for test case development and execution for a given test type • Reviews test plans for accuracy • Executes test cases for assigned test type according to the test plan • Records defects when actual results do not match expected results • Maintains evidence of tests executed for assigned test type • Retests for defect resolution • Provides support for other subsequent types—for example, system tester supports user acceptance tester • Identifies and reports testing-related issues and risks to team lead for test type • Records required process and product measurements
Required Skill Set
• Bachelor's degree in IT or related field or technical school or equivalent work experience • Three to five years of experience on testing projects, with prior MMIS DDI experience strongly preferred • ISTQB certification desirable • Application knowledge and understanding of BMS' business • Can apply the testing tools and techniques described in a test plan • Understands the test environment and test data strategy • Can work in multiple testing environments • Can effectively understand and communicate with technical personnel

Training Manager
Roles and Responsibilities
• Responsible for activity associated with training of the stakeholders, HPES staff members, and contractors associated with the WV-iC MMIS • Serves as principal management lead and Department liaison for training for the WV-iC MMIS • Manages and allocates personnel appropriately to meet training requirements • Manages close alignment between the stakeholders from initiation through close-out of training activities • Manages adherence to project management guidelines and promotes IT project alignment and compliance with State direction, rules, and regulations to deliver the training requirements within approved baselines for scope, schedule, and budget • Oversees successful completion of the training requirements as defined in the contract scope of work • Coordinates and facilitates status review meetings with staff members and attends BMS meetings as requested • Manages adherence to contract requirements
Required Skill Set
• Typically more than 10 years of experience in managing and overseeing education and training projects, five of which is Medicaid-related • Bachelor’s degree in business administration, computer science, or a related field • Management experience in the creation of training materials and delivery of training • Ability to manage a complex, multifaceted organization • Leadership skills and organizational skills • Knowledge of Microsoft Word, Project, and Excel • Excellent oral, written, and presentation skills

Instructional Designer
Roles and Responsibilities
• Design of learning solutions to accomplish specific, measurable learning objectives for WV-iC MMIS strategy • Understands and participates in solution development process • Applies standard industry methodology and thought leadership or best practices • Understands impact of learning solution on business strategy • Provides feedback on program effectiveness and opportunities for improvement • Creates solution deliverables for instructional design plan
Required Skill Set
• College degree or equivalent experience in adult learning techniques, instructional design, and customer service • Typically more than five years professional experience; two years working on Medicaid projects preferred • Knowledge of instructional design and adult learning theory • Experience applying instructional design models and development tools or applications • Experience with performance support strategies • Knowledge of assessment and measurement strategies and techniques • Strong communication and authoring skills • Ability to work independently • Track record in identifying learning objectives • Experience and knowledge of learning management systems • Excellent PC skills including Word, Outlook, Excel, and PowerPoint

Education Developer
Roles and Responsibilities
• Creates learning solutions to accomplish specific, measurable learning objectives for WV-iC MMIS strategy • Conceptualizes, designs, and produces graphics demonstrating complex constructs and concepts • Creates interactive courseware using various software tools • Collaborates and communicates with other developers, instructional designers, and graphic artists • Updates and maintains multimedia instructional design documents • Applies instructional systems design (ISD) theories and learning principles
Required Skill Set
• College degree in graphic design, computer science, instructional design, or related field • Typically more than five years of professional experience; two years working on Medicaid projects preferred • Knowledge of instructional design and adult learning theory • Well-versed in standard Adobe Macromedia products, with three to five years of intensive experience • Experience in computer-based training (CBT) development tools (such as Articulate); able to build interactions and pop-ups and integrate simulations into learning programs • Excellent PC skills including Microsoft Office suite • Strong communication and authoring skills • Ability to work independently • Ability to organize and work under strict time and production deadlines

Trainer
Roles and Responsibilities
• Conducts training sessions for various audiences using live classroom or virtual delivery • Provides feedback to trainer lead and content developers for course modification and clarification • Conducts train-the-trainer sessions • Attends information sessions regarding course and delivery changes and incorporates in subsequent sessions • Travels to in-state locations to present requested training sessions • Records delivery visits and results • Verifies that course evaluations are completed • Receives positive student/customer evaluations
Required Skill Set
• College degree in training and development, industrial or adult education, organizational development, or related field • Typically more than five years of professional experience in training delivery; two years working on Medicaid projects preferred • Experience using virtual training tools • Strong communication and presentation skills • Strong technical skills • Ability to manage classroom delivery with students who have a diverse technology experience • Proficiency in Microsoft Office suite

LMS Administrator
Roles and Responsibilities
• Responsible for the initiation and daily management of the LearnFlex LMS • Identifies user data feed and testing feed and validates ongoing updates • Loads web-based courses for program into LMS • Loads and manages scheduled events for training • Maintains rosters and data feeds and coordinates courses and course information working with Training team • Provides standard and ad hoc reports as required
Required Skill Set
• Typically more than five years of experience in managing and administering LMSs • Bachelor’s degree in business administration, computer science, or a related field • Strong working knowledge of LearnFlex LMS and required customization such as roles, department, and reporting • Leadership and organizational skills • Strong skills with Word, Project, and Excel • Excellent oral, written, and presentation communications skills

Support

Project Management Office (PMO)
Roles and Responsibilities
• Establishes the program management infrastructure, including development of project plans, schedules, resource requirements, and schedules and collection of project metrics • Analyzes project data from collected status information to compare against baseline assumptions and communicate to project managers for review and assessment • Oversees validation that projects remain in compliance with project standards and BMS-approved goals and objectives • Conducts post-project reviews and performance reviews • Maintains time-reporting system for collecting effort expenditures at the detail level in each project plan • Manages project performance • Maintains online project repository to collect, store, and disseminate project information, status reports, and official communications
Required Skill Set
• Bachelor's degree in computer science, business administration/management, or related work experience • PMP certification or master's degree in a related field or relevant management experience for the degree or certification on a year-for-year basis • Minimum five years of project management oversight responsibilities such as planning, design, development, implementation, and operations of large-scale IT project • Minimum three years of experience in scheduling and controlling each aspect of a large-scale business and IT systems, preferably in the healthcare field • Strong analytical, organizational, and problem-solving abilities • Ability to implement a large-scale business and IT system project on time and on budget • Ability to manage an enterprise PMO with a complex, multifaceted organization • Strong organization and analytical skills • Excellent oral, written, and presentation skills • Strong leadership skills • Knowledge of HP PPM, HP Quality Center, Microsoft Word, Project, and Excel

Senior Work Planner
Roles and Responsibilities
• Uses BMS-approved final work plan as guide to accomplishing DDI tasks, activities, milestones, and deliverables • Supports project budgeting and executive status reporting • Using Microsoft Project, monitors the project work plan for DDI activities • Follows approved project management methodology throughout project life cycles • Develops full-scale project plans, time lines, and associated communication documents • Leads the integration of project-level plans into the integrated DDI plan • Works with BMS to integrate the DDI plan with the overall master schedule
Required Skill Set
• Bachelor's degree from an accredited four-year university or college (or technical institute) or equivalent related work experience • Two years of work experience assisting project managers or PMO in providing project leadership and coordination for IT projects • Two years of increasingly responsible experience in a work area related to the area assigned • PMP certification preferred or relevant management experience substituted for the degree or certification on a year-for-year basis • Work plan experience in implementing large-scale system similar in scope and complexity to the WV-iC MMIS • Excellent oral and written communications skills

HIPAA Compliance Officer
Roles and Responsibilities
• Provides privacy and security support for the MMIS account • Serves as liaison between HPES and BMS privacy and security compliance groups • Serves as the HPES point of contact for all external reference and project information requests, State and Federal reviews, and compliance audits • Oversees application and adherence to policies and procedures related to HIPAA standards for privacy and security • Participates in HPES Privacy and Security Workgroup to learn and share information and best practices • Reports privacy or security breaches; follows approved corrective action plan • Conducts monthly physical security audit and reports results to BMS • Responsible for development and update of the West Virginia MMIS Security, Privacy, and Confidentiality Plan • Delivers new employee training on account and contract HIPAA privacy, security, and confidentiality rules and requirements • Tracks annual HIPAA refresher training by all account staff
Required Skill Set
• Bachelor's degree or equivalent related work experience • CHP or CHPS (or equivalent certified HIPAA-related training) or three years of equivalent experience in healthcare privacy and security • Experience in planning and coordinating meetings between BMS personnel and HPES staff members • Excellent oral and written communication and customer-service skills • Strong organization skills • Ability to interact with corporate units to gain understanding of corporate policy • Experience researching, interpreting, and implementing standards and policy

BMS Liaison
Roles and Responsibilities
• Serves as liaison between BMS and HPES during DDI • Located onsite at BMS office, as needed, to provides project communication to HPES • Participates in joint project status meetings • Schedules project-related meetings between HPES management and BMS-designated personnel as needed • Develops project-related and HPES internal correspondence as needed • Assists MMIS account manager and implementation manager with project-related communication and deliverables
Required Skill Set
• Bachelor's degree; experience can be substituted for the bachelor's degree on a year-for-year basis. • Minimum of three years of experience in analyzing business requirements for Medicaid, Medicare, or a large health payer • Experience in planning and coordinating meetings between client personnel and HPES staff members • Excellent oral and written communication and customer-service skills • Strong organization skills • Knowledge of proposed system, Medicaid technical and operational business functionality, and DDI project management • Effective computer skills and proficiency in Microsoft Word, Excel, and PowerPoint

This section is redacted per HPES' Statement of Confidentiality.

Work Breakdown Structure and Deliverable Dictionary

The Work Breakdown Structure (WBS), illustrated in the following figure, provides the graphical depiction of a deliverable-oriented grouping of project phase components that organizes and defines the total scope of the West Virginia MMIS Re-procurement Project. We constructed the WBS in our proposed project schedule based on the RFP project phases—Phase 1a through to Phase 1e, Phase 2 and Phase 3—within the Healthcare Enterprise EDGE SDLC. It comprises taking the major activities and breaking them down into smaller, more manageable components until the activities are completed within the lowest-level task of 10 business days or less. The activities or tasks from this effort are called work packages, which are the basis for estimating, scheduling, executing, monitoring, and controlling the project phases. We have honed our Deliverable Dictionary across 13 successful interChange implementations. While other vendors struggle to achieve their first success, our process has been improved and solidified.

Our Deliverable Dictionary defined in the following section includes the deliverables and milestones in Appendix C. This dictionary outlines and describes the deliverables and milestones and provides a reference to the WBS in our proposed project schedule, demonstrating that we will supply the deliverables and meet the milestones as described in Appendix C of the RFP. Additions to the deliverables list in Appendix C will require a change order to assess the effect on the scope of the project as defined in our change management plan.

This section is redacted per HPES' Statement of Confidentiality.

Deliverable Dictionary

Deliverable Name	Deliverable Description	WBS Reference
PHASE 1a – START-UP		
MILESTONE	**Contract Execution**	**1.1.1.1**
Project Kickoff Meeting within 10 calendar days of contract execution	Verifies that the team members and stakeholders are aware of project goals, risks, assumptions, milestones, deliverables, and time lines; reviews the project charter, clarifies the roles and responsibilities of stakeholders and team members	1.2.4.3
Project Charter within 15 calendar days of contract execution	Consolidates high-level information about the business objectives, expectations, business value, and high-level requirements of the project	1.2.2.4
Stakeholder Analysis within 15 calendar days of contract execution	Identifies people or organizations affected by the project, and documents relevant information regarding their interests, involvement, and effect on project success; how project stakeholders exert influence on the project and its deliverables as needed Identifies the information needs of the stakeholders and determines a suitable means of meeting those needs, which are important factors for project success; defines who needs what information, when they will need it, how it will be given to them, and by whom	1.2.9.1.5
Updated Facility Plan within 15 calendar days of contract execution	Describes our approach to securing workspaces and meeting the facility requirements; provides the facility description for our temporary work space; identifies the location of the permanent facility and details the requirements for that facility; describes BMS office, parking and conference space; provides specifications for the off-site facilities, such as the data center	1.2.8.2.5
Updated Staffing Plan within 30 calendar days of contract execution	Describes how we plan for and acquire staff members	1.2.8.3.5
Updated Documentation Management Plan within 30 calendar days of contract execution	Based on our proposed document management methodology; describes how we will electronically manage the documents produced throughout the life of the project	1.2.8.4.5
Updated Training Plan within 30 calendar days of contract execution	Includes a description of the training approach and methods, course curriculum and audience, and activities	1.2.8.5.8
Updated Workflow Management Plan within 30 calendar days of contract execution	The Workflow Management plan takes into consideration the MITA concept of Business Process Management (BPM). BPM focuses on creating business services, which encapsulates a process. Business services have predefined interfaces that support the business process, perform the business logic required for the process, and return a defined result set.	1.2.8.17.5
Updated Problem Management Plan within 30 calendar days of contract execution	Describes our approach to problem resolution; enables users to monitor resolution of problems throughout the contract	1.2.9.7.6
Updated Integrated Test Environment (ITE) Plan within 30 calendar days of contract execution	Details the testing environments and configuration	1.2.9.5.6

Deliverable Name	Deliverable Description	WBS Reference
Updated Testing Plan within 30 calendar days of contract execution	A comprehensive plan for the testing components—unit, systems integration, user acceptance, stress or performance, regression, and policy parallel based on the proposed comprehensive testing methodology, which describes how we will perform testing in the WV-iC MMIS	1.2.8.6.11
Updated Scope Management Plan within 45 calendar days of contract execution	Documents how the project scope will be defined, verified, and controlled; describes our approach to defining the project, creating WBS, and controlling scope expansion while still allowing for progressive elaboration throughout the contract	1.2.8.7.5
Updated Work Breakdown Structure within 45 calendar days of contract execution	Organizes, defines, and displays the total work to be accomplished to achieve the defined objectives	1.2.8.1.4
Updated Project Schedule within 45 calendar days of contract execution	Describes our overall plan and activities—in a Microsoft Project schedule and a narrative document—required to successfully complete this project within budget and on schedule	1.2.8.1.5
Updated Schedule Management Plan within 45 calendar days of contract execution	Describes the standards, procedures, and schedule cadence that will be used to manage and administer the proposal MMIS project schedules	1.2.8.8.5
Updated Cost Management Plan within 45 calendar days of contract execution	Describes the fiscal processes and controls that HPES will use to manage the modifications and enhancement pool	1.2.8.9.5
Updated Quality Management Plan within 45 calendar days of contract execution	Based on our proposed quality management methodology (QMM); describes our quality assurance (QA) approach	1.2.8.10.7
Updated Human Resources Management within 45 calendar days of contract execution	Establishes processes that organize, manage, and lead the project team, which comprises the people with assigned roles and responsibilities for completing the project	1.2.8.11.5
Updated Communication Management Plan within 45 calendar days of contract execution	Describes our approach and plan for managing communications	1.2.8.12.5
Updated Risk Management Plan within 45 calendar days of contract execution	Based on the proposed risk management methodology, which describes our approach and plan for managing risk	1.2.8.13.5
Updated Issue Management Plan within 45 calendar days of contract execution	Describes our approach to issue management; enables BMS to monitor issues throughout the contract	1.2.8.14.5
Updated Change Management Plan within 45 calendar days of contract execution	Describes how we will manage, approve, and control changes to scope; describes the Change Control Board processes	1.2.8.15.5
Updated Integration Management Plan within 45 calendar days of contract execution	Describes the various project management processes and activities that have been used to plan, manage, and direct MMIS implementation projects; defines the intricate process of coordinating the work and timing of the different groups	1.2.8.16.5

Deliverable Name	Deliverable Description	WBS Reference
Updated Security, Privacy and Confidentiality Plan within 30 calendar days of contract execution	Overarching plan for each level of security, including HIPAA security and privacy, data security, and network security	1.2.9.8.8
Updated Configuration Management Plan within 30 calendar days of contract execution	Based on our proposed configuration management methodology, which discusses the processes, configuration management tools, and procedures we will use to control the migration of software—such as systems, application, and COTS products—across environments	1.2.9.6.6
Updated Data Conversion Plan within 30 calendar days of contract execution	Based on our proposed data conversion and migration approach; provides details of the conversion process and methods to be used, a description of how the conversion deliverables will be met, and the assumptions that will govern the WV-iC data conversion process; provides narrative and plan for the management of the conversion effort, including strategies for dealing with delays, a backup plan, backup personnel, and significant issues	1.2.9.2.5
Updated Disaster Recovery and Business Continuity Plan within 45 calendar days of contract execution	Addresses detailed recovery of WV-iC functions, HR, and the technology infrastructure; includes the methodology and approach for disaster recovery and business continuity, the production and backup sites, the backup plan and procedures for the sites, environment, software, and network; also includes the recovery time and recovery point objectives and the risk and mitigation analysis	1.2.9.9.13
Updated Data and Records Retention Plan within 45 calendar days of contract execution	Detailed schedules to verify that data maintained on MMIS or in other system or manual files is properly and routinely purged, archived, and protected from loss, unauthorized access, or destruction in accordance with the BMS Data Retention Policy	1.2.9.10.6
Updated Transition Plan within 30 calendar days of contract execution	Outlines the process and the methods we will use for the transition from the current MMIS and operations to our interChange system and operations	1.2.8.18.5
Updated Weekly Project Status Report Template within 30 calendar days of contract execution	Outlines the content and format of the weekly status report	1.2.8.19.5
Weekly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.1
Updated Monthly Project Status Report Template within 30 calendar days of contract execution	Outlines the content and format of the monthly status report	1.2.8.20.5
Monthly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.3
MILESTONE	**Project Site Facility Established**	**1.2.11.4**
MILESTONE	**Completion and BMS Approval of Phase 1a**	**1.2.15**
PHASE 1b - ANALYSIS AND DESIGN		
Business Process Mapping Document	Describes the business processes that map to the business process models and provide input to the detailed design and technical design	1.9.1.2.2.4

Deliverable Name	Deliverable Description	WBS Reference
	documents	
Edit Rule Documentation	Describes the edits to be performed in the claims system and the associated dispositions and error codes	1.9.1.2.4.6
Requirements Traceability Matrix (RTM)	Demonstrates the evolution of requirements, from scope to high-level requirements to detailed requirements, and subsequently to the solution components; verifies that requirements are satisfied by the features, functions, or work products delivered by the solution; and each solution component supports the requirements of the business	1.9.1.2.5.4
Requirements Specification Document (RSD)	Comprises the data generated during requirements determination from the content in HP Development Center	1.9.2.2.5.6.4
Gap Analysis Design Document	The output of the requirements validation process to report on business process gap analysis	1.9.2.2.5.4
Detailed Systems Design (DSD) Document	Documents the technical specifications used to meet the specific RFP requirements, and is generated from HP Development Center content	1.9.2.2.5.7.4
List of All Standard Output Reports	List of the standard output reports	1.11.1.3.7.4
List of BMS-Specific Reports	List of BMS-specific reports	1.11.1.3.8.4
MMIS Glossary	A comprehensive glossary containing terms relevant to the healthcare products	1.11.1.3.9.5
Weekly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.1
Monthly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.3
MILESTONE	**Completion and BMS Approval of Phase 1b**	**1.11.1.5**
PHASE 1c – DEVELOPMENT, TESTING, DATA CONVERSION, AND TRAINING		
	DEVELOPMENT	
Updated Business Processing Mapping	Describes the business processes that map to the business process models and provide input to the detailed design and technical design documents; updated for the Produce Phase	1.11.1.2.5.4
Updated Edit Rules Documentation	Updated for the Produce Phase, it describes the edits to be performed in the claims system, and the associated dispositions and error codes.	1.11.1.2.7.4
Updated Requirements Traceability Matrix (RTM)	Demonstrates the evolution of requirements, from scope to high-level requirements to detailed requirements, and subsequently to the solution components; used to verify that requirements are satisfied by the features, functions, or work products delivered by the solution, and that each solution component supports the requirements of the business	1.11.1.2.8.4

Deliverable Name	Deliverable Description	WBS Reference
Updated Requirements Specification Document (RSD)	Comprises the updated data generated from the content in HP Development Center during requirements determination	1.11.2.3.5.4
Updated Gap Analysis Design Document	The updated version for Construct Phase of the requirements validation process to report on business process gap analysis	1.11.2.3.4.4
Updated Detailed Systems Design (DSD) Document	This documents the technical specifications used to meet the specific RFP requirements and is generated from HP Development Center content.	1.11.2.3.6.4
Updated list of BMS-Specific Reports	Updated list of BMS-specific reports	1.9.2.2.5.11.4
System Documentation	Documents the system objects and is generated from HP Development Center	1.11.2.3.8.4
Draft User Documentation	Draft version of documentation, written in a procedural, step-by-step format, to promote usability. User manuals are prepared for each major business process area to help users understand the purpose and operational functions. HPES creates user manuals with exercises for staff members to use as a reference guide. User manuals are stored in HP TRIM and available online through HP Development Center.	1.11.2.3.9.4
Draft Provider Documentation	The draft version of provider materials provides professional publications to providers on information such as policies, procedures, and processes vital to their successful participation in the program.	1.11.2.3.10.4
Unit Test Cases/Scripts	Identifies the conditions to be unit tested and the expected results	1.11.2.2.1.9
Unit Test Results	Documents the results of unit tests performed on the new system	1.11.2.2.5.2
MILESTONE	**Completion and BMS Approval of Unit Testing**	**1.11.2.2.5.9**
Weekly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.1
Monthly Project Status Report	The PMO facilitates monthly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.3
MILESTONE	**Completion and BMS Approval of Standard Output Reports**	**1.11.1.3.7.4**
MILESTONE	**Completion and BMS Approval of BMS-Specific Reports**	**1.11.2.3.7.12**
	TESTING	
Test Risk Identification and Contingency Plan	Documents the method for managing testing risks, issues, and assumptions	1.9.2.4.1.4
Finalized Proposed Test Environment(s) Specifications	Outlines the various testing environments, sizes, and components	1.9.2.4.2.4
Systems Integration Test Cases/Scripts	Identifies the conditions to be system tested and the expected results	1.9.2.4.3.1.1.1.9 through 1.9.2.4.3.2.1.9
Systems Integration Testing Results	Documents the results of system integration tests performed on the new system	1.11.2.6.4.5.2

Deliverable Name	Deliverable Description	WBS Reference
MILESTONE	**Completion and BMS Approval of System Integration Testing**	**1.11.2.6.5**
Regression Test Cases/Scripts	Identifies the conditions to be regression tested and the expected results	1.11.2.6.6.1.6
Regression Testing Results	Documents the results of regression tests performed on the new system	1.11.2.6.6.4.2
MILESTONE	**Completion and BMS Approval of Regression Testing**	**1.11.2.6.6.5**
Load/Stress Test Cases/Scripts	Identifies the conditions to be load/stress tested and the expected results	1.11.2.7.1.5
Load/Stress Testing Results	Documents the results of load/stress tests performed on the new system	1.11.2.7.4.2
Capacity Analysis Report	The capacity analysis report will provide a projection of what performance would look like in the production environment under workload conditions. This report also will provide a proposed system change if a bottleneck is identified.	1.11.2.7.5.2
MILESTONE	**Completion and BMS Approval of Load/Stress Testing**	**1.11.2.7.6**
User Acceptance Testing Plan	Used to define the user acceptance test scenarios and test results necessary to validate the customer system	1.11.2.10.3.1.4
User Acceptance Test Cases/Scripts	Identifies the conditions to be user acceptance tested and the expected results	1.11.2.10.3.4.5
User Acceptance Testing Results	Documents the results of the user acceptance tests performed on the new system	1.11.2.10.3.8.2
MILESTONE	**Completion and BMS Approval of User Acceptance Testing**	**1.11.2.10.3.10**
Operational Readiness Test Cases/Scripts	Identifies the conditions to be used for operational readiness test and the expected results	1.11.2.10.4.1.6
Operational Readiness Testing (ORT) Results	Documents the results of the operational readiness tests performed on the new system	1.11.2.10.4.4.4
MILESTONE	**Completion and BMS Approval of Operational Readiness Testing**	**1.11.2.10.4.4.10**
Weekly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.1
Monthly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.3
	CONVERSION	
Conversion Risk Identification and Contingency Plan	Documents the method for managing conversion risks, issues, and assumptions	1.9.2.3.3.4
Data Cleansing and Conversion Specification Document – MMIS phase	The data cleansing and data conversion specifications deliverable will primarily reside in HP Development Center. The document provides information regarding data conversion specifications and data cleansing. For example, it provides a description of files to be converted, data element mapping crosswalks, and normalization of data from the old	1.11.2.4.1.1.4.4

Deliverable Name	Deliverable Description	WBS Reference
	system into the new relational model.	
Data Conversion Requirements Document – MMIS phase	Comprises the data generated during requirements determination related to data conversion	1.11.2.4.1.1.5.3
Conversion Software Readiness Certification Letter – MMIS phase	This letter certifies that HPES has validated data conversion and that it satisfied the requirements.	1.11.2.4.1.8
Conversion and Reconciliation Test Cases/Scripts – MMIS phase	Identifies the conditions to be used for testing of the data conversion and the expected results	1.11.2.4.1.4.1.6
Conversion and Reconciliation Testing Results – MMIS Phase	Documents the results of data conversion test execution, which will be accessed directly from HP Quality Center	1.11.2.4.1.6.3.7
MILESTONE	**Completion and BMS Approval of Data Conversion and Reconciliation for Implementation**	**1.11.3.3.5.4.4**
User Acceptance Testing of Converted Data	HPES will provide support to BMS during user acceptance testing of the data conversion.	1.11.2.10.3.8.3
MILESTONE	**Completion and BMS Approval of User Acceptance Testing - Conversion**	**1.11.2.10.3.11**
Weekly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.1
Monthly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.3
	TRAINING	
Training Assessment and Gap Analysis	The training assessment is the road map that shapes the training plan, pointing out the gaps between current knowledge and needed information.	1.6.2.4
Final Training Plan/Schedule	A detailed description of the course content, activities, users, methods, logistics, environments, resources, materials, anticipated outcomes, and time lines required to meet BMS' training objectives	1.11.2.9.1.4
Electronic Training Documentation	Manuals and quick reference cards will be available for download from the training portal. There will be a "How To" section included on the training portal that will provide step-by-step instructions in written, audio, and video format for areas that are challenging or difficult.	1.11.2.9.2.9
Training Database and Application Software	A dedicated training environment will be set up, including data, and readied for training. The environment emulates the production environment, using realistic yet unprotected health information data.	1.6.10.5
Letter Certifying Training Database Is Built and Software Is Operational	Notice to the customer certifying readiness of the training database for user training	1.6.10.14

Deliverable Name	Deliverable Description	WBS Reference
Document Version Control Plan	Part of the configuration management plan, the document version control is done through the project-developed naming convention, enabling the project to track versions of the configuration items so that each version of the configuration item can be uniquely identified and retrieved.	1.6.3.4
Letter Certifying Completion of Training	Letter certifying completion of user training	1.9.2.9.8
Evaluation Survey Tools	HPES staff distributes evaluation forms for each training session for feedback on continuous improvement of the training.	1.6.5.4
Training Report	The report shows people who have completed the required user training.	1.6.6.4
Weekly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.1
Monthly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.3
MILESTONE	**Completion and BMS Approval of Provider Training**	**1.9.2.7.6.6**
MILESTONE	**Completion and BMS Approval of Pre-Implementation System User Training**	**1.11.2.9.9**
MILESTONE	**Completion and BMS Approval of Phase 1c**	**1. 11.2.12**
PHASE 1d - IMPLEMENTATION READINESS		
Implementation Plan	Details the steps, the individuals responsible, the resources needed, and the general time frames for implementing the system components into a technical environment	1.11.3.2.1.6
Report Distribution Schedule	HPES formally schedules reports weekly, monthly, quarterly, semiannually, and annually as part of regular maintenance. We define reports for routing, delivery, formatting, and action instruction. Rules will include storage and retrieval instruction for easy, secure access by appropriate staff members or stakeholders. Operation reports will reside in HP TRIM for management of reporting data.	1.11.3.2.3.5
Software Release Plan	Documents the overall strategy for deploying software into a project's production environment in a coordinated and controlled manner; may need to address one or many deployments	1.11.3.2.4.5
Emergency Back Out Plan	Defines the tasks to be performed if it is determined that system implementation is not proceeding according to the implementation plan	1.11.3.2.5.5
Backup and Recovery Plan	See Business Continuity Plan	1.11.3.2.6.5
Business Continuity Plan	This addresses detailed recovery of WV-iC functions, HR, and the technology infrastructure. The plan includes the methodology and approach for disaster recovery and business continuity, the production and backup sites, the backup plan and procedures for the sites, environment, software, and network. This also includes the recovery time and recovery point objectives and the risk and mitigation analysis.	1.11.3.2.7.5
System Modification and Enhancement Plan	Describes the process for approving and tracking modifications and enhancements to the software components that comprise the WV-iC	1.11.3.2.8.5

Deliverable Name	Deliverable Description	WBS Reference
Final User Documentation	Documentation is written in a procedural, step-by-step format to promote usability. User manuals are prepared for each major business process area to help users understand the purpose and operational functions. HPES creates user manuals with exercises for staff members to use as a reference guide. User manuals are stored in HP TRIM and available online through HP Development Center.	1.11.32.9.4
Final Provider Documentation	Provider materials provide professional publications to providers on information such as policies, procedures, and processes vital to their successful participation in the program.	1.11.3.2.10.4
Implementation Checklist	List of tasks to be completed during the Implementation Phase. These checklists facilitate decisions to move to production processing.	1.11.3.2.2.5
Updated Project Management Plan (including all subsidiary plan and other associated artifacts)	Based on our proposed project management methodology; describes our overall plan and activities—in a Microsoft Project schedule and a narrative document—required to successfully complete this project within budget and on schedule	1.11.3.2.11.11
Weekly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.1
Monthly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.3
MILESTONE	**Completion and BMS Approval of Provider Re-Enrollment**	**1.11.2.10.1.2**
MILESTONE	**Completion and BMS Approval of Phase 1d**	**1.11.3.4.183.9**
PHASE 1e - CERTIFICATION PLANNING		
CMS Certification Readiness Plan	Based on our proposed certification strategy, the certification readiness plan describes the operational approach to certification review (including initial orientation and training sessions), establishes numerous joint checkpoints for the review, identifies major milestones, and requests BMS approval and modifications. The plan includes the resource requirements, road maps, crosswalks, and checklists that will complement the CMS toolkit.	2.2.1.1.6
Weekly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.1
Monthly Project Status Report	The PMO facilitates weekly management and status meetings to validate that the project is on track and produces weekly and monthly status reports that HPES provides to BMS for visibility to the complete picture of the project status. These reports are available in HP PPM, any time, for BMS and the stakeholders to view.	1.4.1.1
MILESTONE	**Completion and BMS Approval of Phase 1e**	**2.2.1.3**
Phase 2 – Fiscal Agent Operations		

Deliverable Name	Deliverable Description	WBS Reference
PHASE 2b – CMS CERTIFICATION		
Updated CMS Certification Readiness Plan	Based on our proposed certification strategy, the certification readiness plan describes the operational approach to certification review (including initial orientation and training sessions), establishes numerous joint checkpoints for the review, identifies major milestones, and requests BMS approval and modifications. The plan includes the resource requirements, road maps, crosswalks, and checklists that will complement the CMS toolkit.	2.2.2.2.5
Completed Certification Protocols and Checklists	Requirements for certification are loaded into our tracking tool for requirements traceability throughout DDI. Through our project tools, we will display the path of every certification documentation discovery, from business process to each item in every CMS checklist.	2.2.2.3.4
CMS Certification Documentation and Operational Examples	HPES will provide the certification tool within our HP Development Center to capture the CMS certification checklist information including the requirements, the validation items proving the WV-iC meets the requirement, and the operational production examples to support each validation item.	2.2.2.4.8
Shared Electronic Document Storage for Certification Artifacts	The HPES Certification Tool within our HP Development Center includes the data repository, which stores the checklist information and documentation to support the certification efforts from start-up to post-certification debriefing.	2.2.2.6.5
System Remediation	A corrective action plan produced as part of the certification activities with corrective actions and time line for actions to be completed	2.2.2.9
MILESTONE	**Completion and BMS Approval of Certification Readiness Planning Meetings**	**2.2.2.1.4**
MILESTONE	**Pre-Certification Meeting and/or CMS Call**	**2.2.2.5.3**
MILESTONE	**CMS Certification (this is considered the final deliverable for DDI)**	**2.2.2.10**
PHASE 3 - TURNOVER AND CLOSEOUT		
Turnover Plan	The turnover plan includes system and operations tasks for each functional area. HPES provides a project plan within one year that contains an extensive set of turnover tasks. This plan will provide accurate, current information regarding system and operations tasks. For each functional area, we will identify the system files, paper and electronic documents, processes, and procedures delivered for turnover to the new fiscal agent.	3.2.5
Turnover Project Schedule	The turnover plan reflects a schedule of the system and operations tasks. It includes turnover resources and estimated start and end dates.	3.3.7
MMIS Requirement Statement	This document is a detailed statement of resources that may be required to assume operation of the MMIS and fiscal agent services. Based on resources devoted to the program then, we will provide three groupings of resources: personnel, technology, and facilities. HPES will base our MMIS resource requirements statement on the inventory maintained in our inventory system and on our experience in the operation of the WV-iC MMIS and will include contractor resources devoted to the operation of the system.	3.4.5
MMIS Software, Files, and Operations and User Documentation	The actual physical or electronic deliverable from the MMIS inventory report	3.5 (3.5.2, 3.5.4, 3.5.6, 3.5.8)
MMIS Inventory Report	Shows the work products produced throughout the SDLC and provided as part of the operational system	3.6.5

Deliverable Name	Deliverable Description	WBS Reference
Turnover Results Report	The report provided at the end of turnover for each functional area identifies the success of the turnover of the system files, paper and electronic documents, processes, and procedures delivered to the new fiscal agent.	3.7.5
MILESTONE	**Completion and BMS Approval of Turnover Training**	**3.9.7**
MILESTONE	**Completion and BMS Approval of Turnover and Contract Close out**	**3.10**

This section is redacted per HPES' Statement of Confidentiality.

Attachment II: RFP Requirements Checklist

RFP Reference: 4.1.9 Project Approach and Solution

A MMIS RFP Requirements		B Proposal Section	C Proposal Page No.
3.1	Mandatory Requirements	Tab 4.1.4 Executive Summary	3
3.1.1	Facility Location	Tab 4.1.8 Staff Capacity, Qualifications and Experience Tab 4.1.9 Project Approach and Solution	2 16
3.1.2	Office Space	Tab 4.1.9 Project Approach and Solution	16
3.1.3	Vendor Staff located at BMS	Tab 4.1.8 Staff Capacity, Qualifications and Experience	2
3.1.4	Access to Conference space at for BMS use	Tab 4.1.9 Project Approach and Solution	16
3.1.5	Disaster Recovery Site	Tab 4.1.9 Project Approach and Solution Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	17 59
3.1.6	Costs related to securing and maintaining Vendor facility	Tab 4.1.9 Project Approach and Solution	15
3.1.7	Costs associated with accessing and acquiring Provider licensure and certification data	Tab 4.1.9 Project Approach and Solution	43
3.1.8	Comply with all current and future security policies and procedures	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	48
3.1.9	Performing all contract related working within the continental U.S. and U.S. Territories	Tab 4.1.8 Staff Capacity, Qualifications and Experience Tab 4.1.9 Project Approach and Solution	2 15
3.1.10	MMIS hosting and maintenance and secure back-up site	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	4, 58
3.1.11	Meet CMS certification requirements for MMIS to ensure full Federal Financial Participation (FFP).	Tab 4.1.9 Project Approach and Solution Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	110 104
3.1.12	Responsibility for lost enhanced Federal Medical Assistance Percentages (FMAP) for delayed certification	Tab 4.1.9 Project Approach and Solution Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	74; 110 104
3.1.13	Proposed and implemented Pharmacy POS system will be certified with Surescripts	Tab 4.1.9 Project Approach and Solution	53
3.1.14	POS drug file independent and not a shared file	Tab 4.1.9 Project Approach and Solution	55
3.1.15	System that supports multiple programs	Tab 4.1.9 Project Approach and Solution	27; 37; 70
3.1.16	Hardware, software and communications	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	71

A MMIS RFP Requirements		B Proposal Section	C Proposal Page No.
	components compatibility with West Virginia Office of Technology (WVOT)		
3.1.17	Support staff at the vendor's data center and the Charleston location	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	7; 70
3.1.18	Align the proposed MMIS with MITA principles and employ SOA	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	1
3.1.19	Bridges and integration code necessary for the replacement MMIS to interface with other State software and systems	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	10
3.1.20	Agree to incorporate requirements mandated through federal and state regulations	Tab 4.1.9 Project Approach and Solution	52; 54; 74; 92
3.1.21	NCPDP version standards or most current HIPAA version adherence for single drug claims and compound prescriptions	Tab 4.1.9 Project Approach and Solution	74
3.1.22	Provide BMS right of access to systems and facilities or designee for audits and inspections	Tab 4.1.9 Project Approach and Solution	15
3.1.23	Update deliverables at BMS' request to align with major changes in approach or methodology	Tab 4.1.9 Project Approach and Solution	10
3.1.24	Meet CMS Certification Requirements as described in Appendix D.	Tab 4.1.9 Project Approach and Solution	110
3.1.25	Agree to operate MMIS and perform functions described in RFP and continue operations from date of implementation	Tab 4.1.9 Project Approach and Solution	18
3.1.26	Agree to perform according to approved SLAs listed in Appendix G	Tab 4.1.9 Project Approach and Solution	19
3.1.27	Forfeit agreed-on retainage as described in Section 4 of this RFP	Tab 4.1.9 Project Approach and Solution	19
3.1.28	Ensure the new system functions without interruptions or non-scheduled downtimes	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	17
3.1.29	Provide project status information to the MMIS Re-procurement Project Manager	Tab 4.1.9 Project Approach and Solution	121
3.1.30	Actively use industry-standard professional project management standards, methodologies and processes	Tab 4.1.9 Project Approach and Solution	4; 8; 120

A MMIS RFP Requirements		B Proposal Section	C Proposal Page No.
3.1.31	Provide a software and hardware solution that is upgradeable and expandable	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	70
3.1.32	RDBMS or OODMS create a data infrastructure	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	19
3.1.33	24 x 7 availability for pharmacy prior authorization system	Tab 4.1.9 Project Approach and Solution	57
3.1.34	Agree that BMS retains ownership of data, procedures, programs and materials developed during DDI and Operations	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	4
3.1.35	Role-based access for authorized users	Tab 4.1.9 Project Approach and Solution Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	40; 52; 61; 72; 95 50
3.1.36	Adjudicated claims cannot be changed outside an approved adjustment process	Tab 4.1.9 Project Approach and Solution	70
3.1.37	Place the source code in a third-party escrow arrangement	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	58
3.1.38	Increase staffing levels if requirements, timelines, quality, or other standards are not being met	Tab 4.1.8 Staff Capacity, Qualifications and Experience	2
3.1.39	West Virginia MMIS Security, Privacy, and Confidentiality Plan	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	48
3.1.40	HIPAA-compliant systems and services	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	48
3.1.41	Contract-associated applications compliant with Section 508 of the Rehabilitation Act	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	13
3.1.42	Data entered, maintained, or generated to meet RFP requirements according to Federal requirement 42 CFR 431.17	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	13
3.1.43	Comply with prompt pay regulations in accordance with Federal requirement 42CFR 447.45(d)	Tab 4.1.9 Project Approach and Solution	75
3.1.44	Follow formalized change control procedures for changes to project scope	Tab 4.1.9 Project Approach and Solution	1
3.1.45	Acknowledge that on award the Bureau reserves the right to reject proposed staff members	Tab 4.1.8 Staff Capacity, Qualifications and Experience	2
3.1.46	Vendor-designated HIPAA compliance officer	Tab 4.1.8 Staff Capacity, Qualifications and Experience	2

A MMIS RFP Requirements		B Proposal Section	C Proposal Page No.
		Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	49
3.2	NA – OMITTED FROM THIS TABLE	NA	NA
3.3	NA – OMITTED FROM THIS TABLE	NA	NA
4.1	Technical Proposal Format	None – Header Level	
4.1.1	Title Page	Tab 4.1.1 Title Page	1
4.1.2	Transmittal Letter	Tab 4.1.2 Transmittal Letter	Insert
4.1.3	Table of Contents	Tab 4.1.3 Table of Contents	1
4.1.4	Executive Summary	Tab 4.1.4 Executive Summary	1
4.1.5	Business Organization	Tab 4.1.5 Business Organization Tab Excluded Proposal Section; sub-tab Business Organization	1 1
4.1.6	Location	Tab 4.1.6 Location	1
4.1.7	Vendor Capacity, Qualifications, References and Experience	Tab 4.1.7 Vendor Capacity, Qualifications, References and Experience	1
4.1.8	Staff Capacity, Qualifications and Experience	Tab 4.1.8 Staff Capacity, Qualifications and Experience	1
4.1.9	Project Approach and Solution	Tab 4.1.9 Project Approach and Solution	1
4.1.10	Solution Alignment with BMS' Business and Technical Needs	Tab 4.1.10 Solution Alignment with BMS' Business and Technical Needs	1
4.1.11	Subcontracting	Tab 4.1.11 Subcontracting	1
4.1.12	Special Terms and Conditions	Tab 4.1.12 Special Terms and Conditions	1
4.1.13	Signed Forms	Tab 4.1.13 Signed Forms Tab Excluded Proposal Section; sub-tab Signed Forms	1 1
4.1.14	Cost Summary	Tab 4.1.14 Cost Summary	1
4.1.15	Invoicing and Retainage	NA – Information Only	NA

Attachment III Staff Matrix

The following Attachment III Staff Matrix provides the percentage of time each continuously dedicated and support staff role will be dedicated to the project, whether they will be on-site or off-site, and how each role meets the qualifications in Section 3.2.3.2.

Role	A. Project % Dedicated*	B. Onsite (Y/N)	C. Meets Qualifications (Y/N)
Continuously Dedicated Staff			
1. POS Quality Manager	100%	Y	Y
2. Data Conversion Specialist	100%	N	Y
3. Interface Specialist	100%	N	Y
Support Staff			
1. Trainer & Documentation Specialist	100%	Y	Y
2. Medical/Dental Ad Hoc Reporting Analyst (2 FTEs)	100%	Y	Y
3. POS Reporting Analyst	100%	Y	Y
4. Finance Reporting Analyst	100%	Y	Y
5. Drug Rebate Analyst	100%	Y	Y

**Project % Dedicated is to be used to define percentage on a 100% scale amount of time staff role will be dedicated to project.*

This section is redacted per HPES' Statement of Confidentiality.

MED-96 **AGREEMENT ADDENDUM**

In the event of conflict between this addendum and the agreement, this addendum shall control:

1. **DISPUTES** - Any references in the agreement to arbitration or to the jurisdiction of any court are hereby deleted. Disputes arising out of the agreement shall be presented to the West Virginia Court of Claims.

2. **HOLD HARMLESS** - Any clause requiring the Agency to indemnify or hold harmless any party is hereby deleted in its entirety.

3. **GOVERNING LAW** - The agreement shall be governed by the laws of the State of West Virginia. This provision replaces any references to any other State's governing law.

4. **TAXES** - Provisions in the agreement requiring the Agency to pay taxes are deleted. As a State entity, the Agency is exempt from Federal, State, and local taxes and will not pay taxes for any Vendor including individuals, nor will the Agency file any tax returns or reports on behalf of Vendor or any other party.

5. **PAYMENT** - Any references to prepayment are deleted. Payment will be in arrears.

6. **INTEREST** - Should the agreement include a provision for interest on late payments, the Agency agrees to pay the maximum legal rate under West Virginia law. All other references to interest or late charges are deleted.

7. **RECOUPMENT** - Any language in the agreement waiving the Agency's right to set-off, counterclaim, recoupment, or other defense is hereby deleted.

8. **FISCAL YEAR FUNDING** - Service performed under the agreement may be continued in succeeding fiscal years for the term of the agreement, contingent upon funds being appropriated by the Legislature or otherwise being available for this service. In the event funds are not appropriated or otherwise available for this service, the agreement shall terminate without penalty on June 30. After that date, the agreement becomes of no effect and is null and void. However, the Agency agrees to use its best efforts to have the amounts contemplated under the agreement included in its budget. Non-appropriation or non-funding shall not be considered an event of default.

9. **STATUTE OF LIMITATION** - Any clauses limiting the time in which the Agency may bring suit against the Vendor, lessor, individual, or any other party are deleted.

10. **SIMILAR SERVICES** - Any provisions limiting the Agency's right to obtain similar services or equipment in the event of default or non-funding during the term of the agreement are hereby deleted.

11. **ATTORNEY FEES** - The Agency recognizes an obligation to pay attorney's fees or costs only when assessed by a court of competent jurisdiction. Any other provision is invalid and considered null and void.

12. **ASSIGNMENT** - Notwithstanding any clause to the contrary, the Agency reserves the right to assign the agreement to another State of West Virginia agency, board or commission upon thirty (30) days written notice to the Vendor and Vendor shall obtain the written consent of Agency prior to assigning the agreement.

13. **LIMITATION OF LIABILITY** - The Agency, as a State entity, cannot agree to assume the potential liability of a Vendor. Accordingly, any provision limiting the Vendor's liability for direct damages to a certain dollar amount or to the amount of the agreement is hereby deleted. Limitations on special, incidental or consequential damages are acceptable. In addition, any limitation is null and void to the extent that it precludes any action for injury to persons or for damages to personal property.

14. **RIGHT TO TERMINATE** - Agency shall have the right to terminate the agreement upon thirty (30) days written notice to Vendor. Agency agrees to pay Vendor for services rendered or goods received prior to the effective date of termination.

15. **TERMINATION CHARGES** - Any provision requiring the Agency to pay a fixed amount or liquidated damages upon termination of the agreement is hereby deleted. The Agency may only agree to reimburse a Vendor for actual costs incurred or losses sustained during the current fiscal year due to wrongful termination by the Agency prior to the end of any current agreement term.

16. **RENEWAL** - Any reference to automatic renewal is hereby deleted. The agreement may be renewed only upon mutual written agreement of the parties.

17. **INSURANCE** - Any provision requiring the Agency to insure equipment or property of any kind and name the Vendor as beneficiary or as an additional insured is hereby deleted.

18. **RIGHT TO NOTICE** - Any provision for repossession of equipment without notice is hereby deleted. However, the Agency does recognize a right of repossession with notice.

19. **ACCELERATION** - Any reference to acceleration of payments in the event of default or non-funding is hereby deleted.

20. **CONFIDENTIALITY:** -Any provision regarding confidentiality of the terms and conditions of the agreement is hereby deleted. State contracts are public records under the West Virginia Freedom of Information Act.

21. **AMENDMENTS** - All amendments, modifications, alterations or changes to the agreement shall be in writing and signed by both parties. No amendment, modification, alteration or change may be made to this addendum without the express written approval of the Purchasing Division and the Attorney General.

ACCEPTED BY DHHR OFFICE OF PURCHASING:

Spending Unit: ______________________

Signed: ______________________

Title: ______________________

Date: ______________________

VENDOR

Company Name: HP Enterprise Services, LLC

Signed: Susan D. Arthur Susan D Arthur

Title: Vice President, Americas Healthcare Industry

Date: 2/1/12.

RFQ No. MED 12011

BUREAU FOR MEDICAL SERVICES

MED PURCHASING AFFIDAVIT

West Virginia Code §5A-3-10a states: No contract or renewal of any contract may be awarded by the state or any of its political subdivisions to any vendor or prospective vendor when the vendor or prospective vendor or a related party to the vendor or prospective vendor is a debtor and the debt owned is an amount greater than one thousand dollars in the aggregate

DEFINITIONS:
"Debt" means any assessment, premium, penalty, fine, tax or other amount of money owed to the state or any of its political subdivisions because of a judgment, fine, permit violation, license assessment, defaulted workers' compensation premium, penalty or other assessment presently delinquent or due and required to be paid to the state or any of its political subdivisions, including any interest or additional penalties accrued thereon.

"Debtor" means any individual, corporation, partnership, association, Limited Liability Company or any other form or business association owing a debt to the state or any of its political subdivisions. "Political subdivision" means any county commission; municipality; county board of education; any instrumentality established by a county or municipality; any separate corporation or instrumentality established by one or more counties or municipalities, as permitted by law; or any public body charged by law with the performance of a government function or whose jurisdiction is coextensive with one or more counties or municipalities. "Related party" means a party, whether an individual, corporation, partnership, association, limited liability company or any other form or business association or other entity whatsoever, related to any vendor by blood, marriage, ownership or contract through which the party has a relationship of ownership or other interest with the vendor so that the party will actually or by effect receive or control a portion of the benefit, profit or other consideration from performance of a vendor contract with the party receiving an amount that meets or exceed five percent of the total contract amount.

EXCEPTION: The prohibition of this section does not apply where a vendor has contested any tax administered pursuant to chapter eleven of this code, workers' compensation premium, permit fee or environmental fee or assessment and the matter has not become final or where the vendor has entered into a payment plan or agreement and the vendor is not in default of any of the provisions of such plan or agreement.

Under penalty of law for false swearing ***(West Virginia Code*** §61-5-3), it is hereby certified that the vendor affirms and acknowledges the information in this affidavit and is in compliance with the requirements as stated.

WITNESS THE FOLLOWING SIGNATURE

Vendor's Name: HP Enterprise Services, LLC

Authorized Signature:. Susan D. Arthur Susan D Arthur Date: 1/26/12

State of Tennessee

County of Hickman, to-wit:

Taken, subscribed, and sworn to before me this day of Thursday Jan 26, 2012

My Commission expires July 30, 2014

AFFIX SEAL HERE **NOTORY PUBLIC** Gene Hutter

GENE HUTTER STATE OF TENNESSEE NOTARY PUBLIC HICKMAN COUNTY
MY COMMISSION EXPIRES July 30, 2014

Purchasing Affidavit *(Revised 12/15/09)*

Bureau for Medical Services

VENDOR PREFERENCE CERTIFICATE

Certification and application* is hereby made for Preference in accordance with ***West Virginia Code,*** §5A-3-37. (Does not apply to construction contracts). ***West Virginia Code,*** §5A-3-37, provides an opportunity for qualifying vendors to request (at the time of bid) preference for their residency status. Such preference is an evaluation method only and will be applied only to the cost bid in accordance with the ***West Virginia Code.*** This certificate for application is to be used to request such preference. The Purchasing Division will make the determination of the Resident Vendor Preference, if applicable.

1. Application is made for 2.5% resident vendor preference for the reason checked:

____ Bidder is an individual resident vendor and has resided continuously in West Virginia for four (4) years immediately preceding the date of this certification; **or,**

____ Bidder is a partnership, association or corporation resident vendor and has maintained its headquarters or principal place of business continuously in West Virginia for four (4) years immediately preceding the date of this certification; or 80% of the ownership interest of Bidder is held by another individual, partnership, association or corporation resident vendor who has maintained its headquarters or principal place of business continuously in West Virginia for four (4) years immediately preceding the date of this certification; **or,**

____ Bidder is a nonresident vendor which has an affiliate or subsidiary which employs a minimum of one hundred state residents and which has maintained its headquarters or principal place of business within West Virginia continuously for the four (4) years immediately preceding the date of this certification; **or,**

2. Application is made for 2.5% resident vendor preference for the reason checked:

____ Bidder is a resident vendor who certifies that, during the life of the contract, on average at least 75% of the employees working on the project being bid are residents of West Virginia who have resided in the state continuously for the two years immediately preceding submission of this bid; **or,**

3. Application is made for 2.5% resident vendor preference for the reason checked:

_X_ Bidder is a nonresident vendor employing a minimum of one hundred state residents or is a nonresident vendor with an affiliate or subsidiary which maintains its headquarters or principal place of business within West Virginia employing a minimum of one hundred state residents who certifies that, during the life of the contract, on average at least 75% of the employees or Bidder's affiliate's or subsidiary's employees are residents of West Virginia who have resided in the state continuously for the two years immediately preceding submission of this bid; **or,**

4. Application is made for 5% resident vendor preference for the reason checked:

____ Bidder meets either the requirement of both subdivisions (1) and (2) or subdivision (1) and (3) as stated above; **or,**

5. Application is made for 3.5% resident vendor preference who is a veteran for the reason checked:

____ Bidder is an individual resident vendor who is a veteran of the United States armed forces, the reserves or the National Guard and has resided in West Virginia continuously for the four years immediately preceding the date on which the bid is submitted; **or,**

6. Application is made for 3.5% resident vendor preference who is a veteran for the reason checked:

____ Bidder is a resident vendor who is a veteran of the United States armed forces, the reserves or the National Guard, if, for purposes of producing or distributing the commodities or completing the project which is the subject of the vendor's bid and continuously over the entire term of the project, on average at least seventy-five percent of the vendor's employees are residents of West Virginia who have resided in the state continuously for the two immediately preceding years.

Bidder understands if the Secretary of Revenue determines that a Bidder receiving preference has failed to continue to meet the requirements for such preference, the Secretary may order the Director of Purchasing to: (a) reject the bid; or (b) assess a penalty against such Bidder in an amount not to exceed 5% of the bid amount and that such penalty will be paid to the contracting agency or deducted from any unpaid balance on the contract or purchase order.

By submission of this certificate, Bidder agrees to disclose any reasonably requested information to the Purchasing Division and authorizes the Department of Revenue to disclose to the Director of Purchasing appropriate information verifying that Bidder has paid the required business taxes, provided that such information does not contain the amounts of taxes paid nor any other information deemed by the Tax Commissioner to be confidential.

Under penalty of law for false swearing (West Virginia Code, §61 -5-3), Bidder hereby certifies that this certificate is true and accurate in all respects; and that if a contract is issued to Bidder and if anything contained within this certificate changes during the term of the contract, Bidder will notify the Purchasing Division in writing immediately.

Bidder: HP Enterprise Services, LLC **Signed:** Susan D. Arthur Susan D Arthur

Date: 1/26/12 **Title:** Vice President, Americas Healthcare Industry

"Check any combination of preference consideration(s) indicated above, which you are entitled to receive

Request for Quotation

State of West Virginia
Department of Health & Human Resources
Office of Purchasing
One Davis Square, Suite 100
Charleston, WV 25301

RFQ NUMBER	PAGE
MED12011	1

ADDRESS CORRESPONDENCE TO ATTENTION OF
DONNA D. SMITH
304-957-0218

VENDOR
HP Enterprise Services, LLC
5400 Legacy Drive
Plano, Texas 75024

SHIP TO
BUREAU FOR MEDICAL SERVICES
350 CAPITOL STREET, ROOM 251
CHARLESTON, WV 25301-3706

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FUND

BID OPENING DATE: 2/6/2012 BID OPENING TIME: 1:30 PM

LINE	QUANTITY	UOP	CAT.NO.	ITEM NUMBER	UNIT PRICE	AMOUNT

ADDENDUM NO. 1

1. TO ANSWER VENDOR QUESTIONS (SEE ATTACHED).
2. TO MODIFY THE RFP (SEE ATTACHED CHANGE TO RFP DOCUMENT).
3. TO PROVIDE A MODIFIED ATTACHMENT II AND APPENDIX L (SEE ATTACHED).

REQUISITION NO.: MED12011

ADDENDUM ACKNOWLEDGEMENT

I HEREBY ACKNOWLEDGE RECEIPT OF THE FOLLOWING CHECKED ADDENDUM(S) AND HAVE MADE THE NECESSARY REVISIONS TO MY PROPOSAL, PLANS AND/OR SPECIFICATION, ETC.

ADDENDUM NO.'S"

NO. 1 X
NO. 2 ______
NO. 3 ______
NO. 4 ______
NO. 5 ______

I UNDERSTAND THAT FAILURE TO CONFIRM THE RECEIPT OF THE ADDENDUM(S) MAY BE CAUSE FOR REJECTION OF PROPOSAL.

SEE REVERSE FOR TERMS AND CONDITIONS

SIGNATURE Susan D Arthur	TELEPHONE +1 609 714 8931	DATE 1-26-12
TITLE Vice President, Americas Healthcare Industry	FEIN 75-2548221	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFP, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED "VENDOR"

Request for Quotation

State of West Virginia
Department of Health & Human Resources
Office of Purchasing
One Davis Square, Suite 100
Charleston, WV 25301

RFQ NUMBER	PAGE
MED12011	2

ADDRESS CORRESPONDENCE TO ATTENTION OF
DONNA D. SMITH
304-957-0218

VENDOR:
HP Enterprise Services, LLC
5400 Legacy Drive
Plano, Texas 75024

SHIP TO:
BUREAU FOR MEDICAL SERVICES
350 CAPITOL STREET, ROOM 251
CHARLESTON, WV 25301-3706

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FUND

BID OPENING DATE: 2/6/12 BID OPENING TIME: 1:30 PM

LINE	QUANTITY	UOP	CAT.NO.	ITEM NUMBER	UNIT PRICE	AMOUNT

VENDOR MUST CLEARLY UNDERSTAND THAT ANY VERBAL REPRESENTATION MADE OR ASSUMED TO BE MADE DURING ANY ORAL DISCUSSION HELD BETWEEN VENDOR'S REPRESENTATIVES AND ANY STATE PERSONNEL IS NOT BINDING. ONLY THE INFORMATION ISSUED IN WRITING AND ADDED TO THE SPECIFICATIONS BY AN OFFICIAL ADDENDUM IS BINDING.

Susan D Arthur
SIGNATURE

HP Enterprise Services, LLC
COMPANY

1/26/12
DATE

END OF ADDENDUM NO. 1

SEE REVERSE FOR TERMS AND CONDITIONS

SIGNATURE Susan D Arthur	TELEPHONE +1 609 714 8931	DATE 1-26-12
TITLE Vice President, Americas Healthcare Industry	FEIN 75-2548221	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFP, INSERT NAME AND ADDRESS IN SAPCE ABOVE LABELED "VENDOR"

Request for Quotation

State of West Virginia
Department of Health & Human Resources
Office of Purchasing
One Davis Square, Suite 100
Charleston, WV 25301

RFQ NUMBER	PAGE
MED12011	1

ADDRESS CORRESPONDENCE TO ATTENTION OF
DONNA D. SMITH
304-957-0218

VENDOR:
HP Enterprise Services, LLC
5400 Legacy Drive
Plano, Texas 75024

SHIP TO:
BUREAU FOR MEDICAL SERVICES
350 CAPITOL STREET, ROOM 251
CHARLESTON, WV 25301-3706

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FUND

BID OPENING DATE: 02/10/12 BID OPENING TIME: 1:30 PM

LINE	QUANTITY	UOP	CAT.NO.	ITEM NUMBER	UNIT PRICE	AMOUNT

ADDENDUM NO. 2

1. TO CORRECT ANSWERS TO VENDOR QUESTIONS AS PROVIDED IN ADDENDUM NO. 1 PER THE ATTACHED.
2. TO ANSWER VENDOR CLARIFICATION QUESTIONS IN RESPONSE TO ADDENDUM NO. 1 PER THE ATTACHED.
3. TO MODIFY THE RFP PER THE ATTACHED.
4. TO CHANGE BID OPENING DATE PER THE RFP, SECTION 1.17, SCHEDULE OF EVENTS FROM FEBRUARY 6, 2012 AT 1:30 PM TO FEBRUARY 10, 2012 AT 1:30 PM.
5. ADDENDUM ACKNOWLEDGEMENT IS ATTACHED. THIS DOCUMENT SHOULD BE SIGNED AND RETURNED WITH YOUR BID. FAILURE TO SIGN AND RETURN MAY RESULT IN DISQUALIFICATION OF YOUR PROPOSAL.

REQUISITION NO.: N MED12011

ADDENDUM ACKNOWLEDGEMENT

I HEREBY ACKNOWLEDGE RECEIPT OF THE FOLLOWING CHECKED ADDENDUM(S) AND HAVE MADE THE NECESSARY REVISIONS TO MY PROPOSAL, PLANS AND/OR SPECIFICATION, ETC.

ADDENDUM NO.'S"

NO. 1 ______
NO. 2 ___X___
NO. 3 ______
NO. 4 ______
NO. 5 ______

I UNDERSTAND THAT FAILURE TO CONFIRM THE RECEIPT OF THE ADDENDUM(S) MAY BE CAUSE FOR REJECTION OF PROPOSAL.

SEE REVERSE FOR TERMS AND CONDITIONS

SIGNATURE Susan D Aitken	TELEPHONE +1 609 714 8931	DATE 2/1/12
TITLE Vice President, Americas Healthcare Industry	FEIN 75-2548221	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFP, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED "VENDOR"

Request for Quotation

State of West Virginia
Department of Health & Human Resources
Office of Purchasing
One Davis Square, Suite 100
Charleston, WV 25301

RFQ NUMBER	PAGE
MED12011	2

ADDRESS CORRESPONDENCE TO ATTENTION OF
DONNA D. SMITH
304-957-0218

VENDOR:
HP Enterprise Services, LLC
5400 Legacy Drive
Plano, Texas 75024

SHIP TO:
BUREAU FOR MEDICAL SERVICES
350 CAPITOL STREET, ROOM 251
CHARLESTON, WV 25301-3706

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FUND

BID OPENING DATE: 02/10/12 BID OPENING TIME: 1:30 PM

LINE	QUANTITY	UOP	CAT.NO.	ITEM NUMBER	UNIT PRICE	AMOUNT

VENDOR MUST CLEARLY UNDERSTAND THAT ANY VERBAL REPRESENTATION MADE OR ASSUMED TO BE MADE DURING ANY ORAL DISCUSSION HELD BETWEEN VENDOR'S REPRESENTATIVES AND ANY STATE PERSONNEL IS NOT BINDING. ONLY THE INFORMATION ISSUED IN WRITING AND ADDED TO THE SPECIFICATIONS BY AN OFFICIAL ADDENDUM IS BINDING.

Susan D Arthur
SIGNATURE

HP Enterprise Services, LLC
COMPANY

2/1/12
DATE

END OF ADDENDUM NO. 2

SEE REVERSE FOR TERMS AND CONDITIONS

SIGNATURE Susan D Arthur	TELEPHONE +1 609 714 8931	DATE 2/1/12
TITLE Vice President, Americas Healthcare Industry	FEIN 75-2548221	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFP, INSERT NAME AND ADDRESS IN SAPCE ABOVE LABELED "VENDOR"

This section is redacted per HPES' Statement of Confidentiality.

This section is redacted per HPES' Statement of Confidentiality.

This section is redacted per HPES' Statement of Confidentiality.

2009

ANNUAL REPORT

CEO letter

Dear Fellow Stockholders,

In 2009, the global economy experienced the worst recession in a generation. At HP, all of our work to reduce our cost base and to make it more variable proved immensely valuable. Beginning in our first fiscal quarter, we had to address a rapidly deteriorating demand environment across our product portfolio. We set a goal of controlling discretionary spending, while keeping the muscle of the organization intact and maintaining forward progress on our core strategy. At the same time, we focused on executing the integration of the services businesses acquired from Electronic Data Systems Corporation (EDS) in August 2008, ultimately rebranding the business HP Enterprise Services within the HP Enterprise Business. Although there is still much work to do, we enter fiscal 2010 in a stronger competitive position.

All of our efforts resulted in a solid performance relative to the industry and the economic environment:

- Net revenue of $114.6 billion
- GAAP operating profit of $10.1 billion
- GAAP diluted earnings per share of $3.14
- Non-GAAP operating profit of $12.6 billion*
- Non-GAAP diluted earnings per share of $3.85*

A solid performance by a more agile company
Over the last five years, HP has become a much more agile company, able to adapt and benefit from changing market conditions. In fiscal 2009, we gained share in key markets and continued to invest for growth in research and development, acquisitions, and sales coverage.

Perhaps nowhere has this agility been more evident than in our Personal Systems Group (PSG). In the first quarter, PSG revenue declined 19 percent from the prior year, but the business was able to adjust quickly to the new environment, rationalizing an operating model that encompasses the industry's largest PC supply chain and tens of thousands of resellers and retailers around the world. PSG delivered solid margins and continued to drive innovation into the market with a steady rollout of high-performing, well-designed, and well-received products. Over the course of the year, PSG not only reaffirmed its position as the worldwide leader in PC market share, but also captured the #1 position in the U.S. enterprise market with double-digit share gains.

In the Imaging and Printing Group (IPG), the decline in demand hit especially hard early in the year. IPG has made significant progress in its cost structure, inventory management, and overall operational rigor. Operationally, it is in much better shape as it enters fiscal 2010. IPG is gaining traction in retail photo kiosks, which is an exciting opportunity. The kiosks generally stay installed for many years and generate significant supplies usage. Managed Print Services is another important area that is getting a lot of focus. The revenues from services contracts are longer-term as well as more stable, and over the last five years we've grown this into a multi-billion dollar business. In commercial printing, the analog-to-digital shift is occurring at the rate of roughly 200 billion pages a year, and we are leveraging our technology to accelerate and profit from the transition.

In the HP Enterprise Business (EB), our product businesses also had to adapt to the market environment across the portfolio of software, servers, and storage, while continuing to deliver for our customers. Our industry-standard x86 servers performed particularly well. We gained market share and enjoyed a strong rollout of our new G6 server, which offers improved performance, a very attractive return on investment, and meaningful innovations in heating, cooling, and energy use.

The biggest story in EB, however, was in Services. Throughout fiscal 2009, we benefited from the more stable revenues associated with Services, which has now become our most profitable segment. We worked hard on the integration of EDS, retained 199 of the 200 largest EDS accounts, and increased customer satisfaction. Today, we face the marketplace as one company with a more competitive cost structure and a significant number of new customers. Services is well positioned to compete, win, and grow.

A disciplined multi-year strategy

At HP, we've been executing a disciplined, multi-year strategy, building the company through careful analysis of our operations and portfolio, the competitive landscape, and the long-term forces shaping our industry and the world. This process began with the build-out of our industry-standard hardware offerings into scaled, market-leading positions from the desktop to the data center. We then pioneered the area of automation and management software to optimize and differentiate our hardware in the marketplace. And then, with EDS, we acquired a best-in-class, globally scaled service provider to meet customer needs more effectively as technology is increasingly delivered through a services model.

Since 2004, we have invested more than $17 billion in research and development and $20 billion in acquisitions to build the best, most comprehensive portfolio in the industry. The recent announcement of our intent to acquire 3Com Corporation exemplifies HP's forward-looking focus. 3Com has outstanding technology that complements our existing offerings, and, when completed, the acquisition will expand HP's presence in the important networking segment.

A future of converged infrastructure

Increasingly, we expect that traditional technology silos such as servers, storage, networking, and software will begin to converge into infrastructure that is optimized to meet customer needs. The converged infrastructure will be differentiated with value-added software and delivered through services any way the customer wants it—in-house, outsourced, cloud-based, or through a hybrid environment that balances cost, security, and performance across multiple models.

No other company is as well positioned as HP to drive this evolution in the marketplace or deliver on its potential. HP's supply chain is the largest in the industry and provides tremendous leverage across our hardware portfolio. For example, the supply base shared between our industry standard servers and PCs has helped HP to change the server marketplace, introducing better performance at a lower cost. Industry standard servers are now the fastest-growing server segment, and HP leads the category. We expect to replicate that success in other data center adjacencies such as storage and networking. In addition, HP can use its software competencies to develop innovative solutions on top of industry-standard hardware, deploy them broadly, and use the power of our supply chain to capture share in higher-margin categories.

The power of information

This transition towards a converged infrastructure is exciting for our future. However, the greater opportunity lies in our ability to project the intelligence of this computing capability from the data center out into the world to help meet the demands of a rapidly evolving global community.

By 2025, worldwide population is expected to increase by 20 percent. The population in the world's cities will grow by more than 1 billion people—the equivalent of adding a Beijing every other month. The "global middle class" is expected to grow from 440 million to 1.3 billion people over the next few decades, as wireless and Internet connectivity continue to level the playing field. In the background of all of this, we are witnessing an explosion in information. The total amount of information is estimated to double every four years, and digital content doubles every 18 months.

Throughout history, every few centuries, we harness a new source of power. First it was fire, later electricity and oil. Today, it is information. At HP, we've helped lead a revolution in the way information is created, captured, stored, processed, and shared. Open, industry-standard computing has helped free data from complex, proprietary mainframes, and it has democratized information technology in a way that is more affordable, powerful, and flexible. Software transforms the vast sea of digital content into usable information that is delivered as a service and transmitted to interactive, always-connected devices in real time. Getting the right information to the right place at the right time is a powerful way to drive better decision-making, better resource utilization, and extreme efficiencies.

HP is working with customers in areas such as education, healthcare, and energy to meet the changing needs of the global community today. And in HP Labs, we're working on the future. Innovations like nano-scale sensors, breakthrough software for analytics and knowledge discovery, and data centers with zero net environmental impact will be the building blocks of tomorrow's sustainable society. We are using our technology to find a better answer for how we meet the needs of a world with growing demands and limited resources.

Building a better world

We are also helping build a better world through social investment and environmental innovation. HP's Office of Global Social Innovation is working to transform teaching and learning to foster the next generation of entrepreneurs and innovators. We're integrating technology into the learning experience and providing professional development. From technology grants in East Palo Alto to building a university e-infrastructure in sub-Saharan Africa, we're helping level the playing field for participation in the global economy. Around the world, our efforts are supported by tens of thousands of employees who volunteer in their local communities and donate, in conjunction with matching grants, to the causes they care about most.

Another important priority is doing our part to preserve and protect the environment. Our strategic framework includes reducing the carbon footprint of HP-owned operations and of our supply chain, reducing the environmental impact of our products and services, developing solutions and services that will reduce the footprint of the rest of the economy, and advocating for effective public policy. We also announced last year that by the end of 2011, we will reduce the energy consumption and associated greenhouse gas emissions of all HP products by 40 percent compared to 2005 levels. These actions were recently recognized by *Newsweek*, which ranked HP #1 among the 500 largest corporations in the United States based on environmental impact, green policies, and social responsibility.

In closing

Even as HP successfully managed through a challenging fiscal 2009, we have continued to build for the future and prepare our company for growth. Today, our market leadership extends across the industry's broadest portfolio of hardware, software, and services. Our scale and reach provide meaningful and sustainable competitive advantages that we are ready to capitalize on in fiscal 2010. In the years ahead, we are well positioned to lead the evolution of our industry and to create extraordinary opportunities for our customers, our stockholders, our people, and the world around us.

Sincerely,

Mark V. Hurd
Chairman, Chief Executive Officer and President

* Fiscal year 2009 non-GAAP financial information excludes $1.7 billion of adjustments on an after-tax basis, or $0.71 per diluted share, related primarily to the amortization of purchased intangible assets, restructuring charges, acquisition-related charges, and in-process research and development charges. HP's management uses non-GAAP operating profit and non-GAAP diluted earnings per share (EPS) to evaluate and forecast HP's performance before gains, losses, or other charges that are considered by HP's management to be outside of HP's core business segment operating results. HP believes that presenting non-GAAP operating profit and non-GAAP diluted EPS, in addition to GAAP operating profit and GAAP diluted EPS, provides investors with greater transparency to the information used by HP's management in its financial and operational decision-making. HP further believes that providing this additional non-GAAP information helps investors understand HP's operating performance and evaluate the efficacy of the methodology and information used by management to evaluate and measure such performance. This additional non-GAAP information is not intended to be considered in isolation or as a substitute for GAAP operating profit and GAAP diluted EPS.

HP members of the board

Marc L. Andreessen
Director since 2009

Mr. Andreessen is co-founder and a general partner of Andreessen Horowitz, a venture capital firm founded in July 2009, and co-founder and Chairman of Ning, Inc., an online platform founded in late 2004 for people to create their own social networks. From September 1999 to July 2007, Mr. Andreessen served as Chairman of Opsware, Inc., a software company that he co-founded. Mr. Andreessen also is a director of eBay Inc.

Lawrence T. Babbio, Jr.
Director since 2002

Mr. Babbio has served as a Senior Advisor to Warburg Pincus, a private equity firm, since June 2007. Previously, Mr. Babbio served as Vice Chairman and President of Verizon Communications, Inc., a telecommunications company, from 2000 until his retirement in April 2007.

Sari M. Baldauf
Director since 2006

Ms. Baldauf served as Executive Vice President and General Manager of the Networks business group of Nokia Corporation, a communications company, from July 1998 until February 2005. She previously held various positions at Nokia since 1983. Ms. Baldauf also serves as a director at Fortum Oyj, Daimler AG, F-Secure Corporation and CapMan Plc.

Rajiv L. Gupta
Director since 2009

Mr. Gupta has served as a Senior Advisor to New Mountain Capital, LLC, a private equity firm, since July 2009. Previously, Mr. Gupta served as Chairman and Chief Executive Officer of Rohm and Haas Company, a worldwide producer of specialty materials, from October 1999 to April 2009. Mr. Gupta occupied various other positions at Rohm and Haas since joining the company in 1971, including Vice Chairman from 1998 to 1999; Director of the Electronic Materials business from 1996 to 1999; and Vice President and Regional Director of the Asia-Pacific Region from 1993 to 1998. Mr. Gupta also is a director of The Vanguard Group and Tyco International Ltd.

John H. Hammergren
Director since 2005

Mr. Hammergren has served as Chairman of McKesson Corporation, a healthcare services and information technology company, since July 2002 and as President and Chief Executive Officer of McKesson since April 2001. Mr. Hammergren also is a director of Nadro, S.A. de C.V. (Mexico).

Mark V. Hurd
Director since 2005

Mr. Hurd has served as Chairman of HP since September 2006 and as Chief Executive Officer, President and a member of the Board since April 2005. Prior to that, he served as Chief Executive Officer of NCR Corporation, a technology company, from March 2003 to March 2005 and as President from July 2001 to March 2005. Mr. Hurd also is a director of News Corporation.

Joel Z. Hyatt
Director since 2007

Mr. Hyatt has served as Vice Chairman of Current Media, LLC, a cable and satellite television company, since July 2009. Previously, Mr. Hyatt served as Chief Executive Officer of Current Media from September 2002 until July 2009. From September 1998 to June 2003, Mr. Hyatt was a Lecturer in Entrepreneurship at the Stanford University Graduate School of Business. Prior to that, Mr. Hyatt was the founder and Chief Executive Officer of Hyatt Legal Plans, Inc., a provider of employer-sponsored group legal plans.

John R. Joyce
Director since 2007

Mr. Joyce has served as a Managing Director at Silver Lake, a private equity firm, since July 2005. From 1975 to July 2005, he served in multiple roles for IBM, a global technology firm, including Senior Vice President and Group Executive of the IBM Global Services division; Chief Financial Officer; President, IBM Asia Pacific; and Vice President and Controller for IBM's global operations. Mr. Joyce also is a director of Gartner, Inc.; Avago Technologies Limited; Sabre, Inc.; Serena Software, Inc.; and Intelsat, Ltd.

Robert L. Ryan
Director since 2004

Mr. Ryan has served as HP's Lead Independent Director since September 2008. He served as Senior Vice President and Chief Financial Officer of Medtronic, Inc., a medical technology company, from 1993 until his retirement in May 2005. Mr. Ryan also is a director of General Mills, Inc.; The Black and Decker Corporation; and Citigroup, Inc.

Lucille S. Salhany
Director since 2002

Ms. Salhany has served as President and Chief Executive Officer of JHMedia, a consulting company, since 1997. Since 2003, she has been a partner and director of Echo Bridge Entertainment, an independent film distribution company.

G. Kennedy Thompson
Director since 2006

Mr. Thompson has served as an Executive Advisor to Aquiline Capital Partners LLC, a private equity firm, since June 2009. Previously, Mr. Thompson served as Chairman of Wachovia Corporation, a financial services company, from February 2003 until June 2008. Mr. Thompson also served as Chief Executive Officer of Wachovia from 2000 until June 2008 and as President from 1999 until June 2008.

HP executive team

Mark V. Hurd
Chairman, Chief Executive Officer and President

Peter J. Bocian
Executive Vice President and Chief Administrative Officer

R. Todd Bradley
Executive Vice President, Personal Systems Group

Michael J. Holston
Executive Vice President, General Counsel and Secretary

Vyomesh I. Joshi
Executive Vice President, Imaging and Printing Group

Catherine A. Lesjak
Executive Vice President and Chief Financial Officer

Ann M. Livermore
Executive Vice President, HP Enterprise Business

Randall D. Mott
Executive Vice President and Chief Information Officer

Marcela Perez de Alonso
Executive Vice President, Human Resources

Shane V. Robison
Executive Vice President and Chief Strategy and Technology Officer

Forward-looking statements

This document 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 could 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 plans; any statements concerning expected development, performance or market share relating to products or services; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims, or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties, and assumptions include macroeconomic and geopolitical trends and events; the execution and performance of contracts by HP and its customers, suppliers, and partners; the challenge of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; assumptions related to pension and other post-retirement costs; expectations and assumptions relating to the execution and timing of cost reduction programs and restructuring plans; the resolution of pending investigations, claims, and disputes; and other risks that are described in HP’s filings with the Securities and Exchange Commission, including but not limited to HP’s Annual Report on Form 10-K for the fiscal year ended October 31, 2009, which is included as part of this document. HP assumes no obligation and does not intend to update these forward-looking statements.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended October 31, 2009

Or

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

For the transition period from to

Commission file number 1-4423

HEWLETT-PACKARD COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-1081436** (I.R.S. employer identification no.)
3000 Hanover Street, Palo Alto, California (Address of principal executive offices)	**94304** (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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. (Check one):

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

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

The aggregate market value of the registrant's common stock held by non-affiliates was $85,982,273,000 based on the last sale price of common stock on April 30, 2009.

The number of shares of HP common stock outstanding as of November 30, 2009 was 2,364,168,918 shares.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT DESCRIPTION	10-K PART
Portions of the Registrant's proxy statement related to its 2010 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year end of October 31, 2009 are incorporated by reference into Part III of this Report.	III

Hewlett-Packard Company

Form 10-K

For the Fiscal Year Ended October 31, 2009

Table of Contents

Forward-Looking Statements

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, 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 plans; any statements concerning expected development, performance or market share relating to products or services; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include macroeconomic and geopolitical trends and events; the execution and performance of contracts by HP and its customers, suppliers and partners; the challenge of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; assumptions related to pension and other post-retirement costs; expectations and assumptions relating to the execution and timing of cost reduction programs and restructuring plans; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including but not limited to the items discussed in "Risk Factors" in Item 1A of this report, and that are otherwise described or updated from time to time in HP's Securities and Exchange Commission reports. HP assumes no obligation and does not intend to update these forward-looking statements.

PART I

ITEM 1. Business.

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

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

HP was incorporated in 1947 under the laws of the State of California as the successor to a partnership founded in 1939 by William R. Hewlett and David Packard. Effective in May 1998, we changed our state of incorporation from California to Delaware.

HP Products and Services; Segment Information

During fiscal 2009, our operations were organized into seven business segments: Services, Enterprise Storage and Servers ("ESS"), HP Software, the Personal Systems Group ("PSG"), the Imaging and Printing Group ("IPG"), HP Financial Services ("HPFS"), and Corporate Investments.

Services, ESS and HP Software are reported collectively as a broader HP Enterprise Business (formerly the Technology Solutions Group). While the HP Enterprise Business is not an operating segment, we sometimes provide financial data aggregating the segments within it in order to provide a supplementary view of our business. In each of the past three fiscal years, notebooks, desktops and printing supplies each accounted for more than 10% of our consolidated net revenue. In fiscal 2009, infrastructure technology outsourcing also accounted for more than 10% of our consolidated net revenue, and in fiscal 2007 industry standard servers also accounted for more than 10% of our consolidated net revenue.

A summary of our net revenue, earnings from operations and assets for our segments and business units is found in Note 19 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. A discussion of factors potentially affecting our operations is set forth in "Risk Factors" in Item 1A, which is incorporated herein by reference.

HP Enterprise Business

The HP Enterprise Business provides servers, storage, software and information technology ("IT") services that enable enterprise and midmarket business customers to better manage their current IT environments and transform IT into a business enabler. HP Enterprise Business products and services help accelerate growth, minimize risk and reduce costs to optimize the business value of customers' IT investments. Companies around the globe leverage HP's infrastructure solutions to deploy next generation data centers and address business challenges ranging from compliance to business continuity. The HP Enterprise Business's modular IT systems and services are primarily standards-based and feature differentiated technologies in areas including power and cooling, unified management, security, virtualization and automation. Each of the three financial reporting segments within the HP Enterprise Business are described in detail below.

Services

Services, formerly HP Services, was renamed after the reorganization of the business units subsequent to the acquisition of Electronic Data Systems Corporation ("EDS") in August 2008. Services provides consulting, outsourcing and technology services across infrastructure, applications and business process domains. Services delivers to its clients by leveraging investments in consulting and support professionals, infrastructure technology, applications, standardized methodologies, and global supply and delivery. It is divided into four main business units: infrastructure technology outsourcing, applications services, business process outsourcing and technology services.

Infrastructure Technology Outsourcing. Infrastructure technology outsourcing delivers comprehensive services that streamline and optimize our clients' infrastructure to efficiently enhance performance, reduce costs, mitigate risk and enable business change. These services encompass the data center and the workplace (desktop); network and communications; and security, compliance and business continuity. We also offer a set of managed services, providing a cross-section of our broader infrastructure services for smaller discrete engagements.

Application Services. Applications services help clients revitalize and manage their applications assets through flexible, project-based, consulting services and longer-term outsourcing contracts. These full lifecycle services encompass application development, testing, modernization, system integration, maintenance and management. Applications projects open doors to new infrastructure technology outsourcing and business process outsourcing opportunities and represent attractive cross-selling opportunities to current HP clients.

Business Process Outsourcing. Business process outsourcing is powered by a platform of underlying infrastructure technology, applications and standardized methodologies and is supplemented by IT experience and in-depth, industry-specific knowledge. These services encompass both industry-specific and cross-industry solutions. Our cross-industry solutions include a broad array of enterprise shared services, customer relationship management services, financial process management services and administrative services.

Technology Services. HP provides consulting and support services, as well as warranty support across HP's product lines. HP specializes in keeping technology running with mission critical services, converged infrastructure services, networking services, data center transformation services and infrastructure services for storage, server and unified communication environments. HP's technology services offerings are available in the form of service contracts, pre-packaged offerings (HP Care Pack services) or on an individual basis.

Enterprise Storage and Servers

The server market continues to shift towards standards-based architectures as proprietary hardware and operating systems are replaced by industry standard server platforms that typically offer compelling price and performance advantages by leveraging standards-based operating systems and microprocessor designs. At the same time, critical business functions continue to demand scalability and reliability. By providing a broad portfolio of storage and server solutions, ESS aims to optimize the combined product solutions required by different customers and provide solutions for a wide range of operating environments, spanning both the enterprise and the SMB markets. ESS provides storage and server products in a number of categories.

Industry Standard Servers. Industry standard servers include primarily entry-level and mid-range ProLiant servers, which run primarily Windows®,[(1)] Linux and Novell operating systems and leverage Intel Corporation ("Intel") and Advanced Micro Devices ("AMD") processors. The business spans a range of product lines that include pedestal-tower servers, density-optimized rack servers and HP's BladeSystem family of server blades. In fiscal 2009, HP's industry standard server business continued to lead the industry in terms of units shipped and factory revenue. HP also has a leadership position in server blades, the fastest growing segment of the market.

Business Critical Systems. Business critical systems include Itanium®[(2)]-based Integrity servers running on the HP-UX, Windows®, Linux, OpenVMS and NonStop operating systems, including the high-end Superdome servers and fault-tolerant Integrity NonStop servers. Business critical systems also include the Reduced Instruction Set Computing ("RISC")-based servers with the HP 9000 line running on the HP-UX operating system, HP AlphaServers running on both Tru64 UNIX®[(3)] and OpenVMS, and MIPs-based NonStop servers. During 2009, we continued to transition all business critical systems platforms to Itanium-based servers.

Storage. HP's StorageWorks offerings include entry-level, mid-range and high-end arrays, storage area networks, network attached storage, storage management software and virtualization technologies, as well as tape drives, tape libraries and optical archival storage.

HP Software

HP Software is a leading provider of enterprise and service-provider software and services. Our portfolio consists of:

Enterprise IT management software. Enterprise IT management solutions, including support and professional services, allow customers to manage IT infrastructure, operations, applications, IT services,

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(1) Windows® is a registered trademark of Microsoft Corporation.
(2) Itanium® is a registered trademark of Intel Corporation.
(3) UNIX® is a registered trademark of The Open Group.

and business processes. These solutions also include tools to automate data center operations and IT processes. We market them as the HP business technology optimization suite, and we deliver them in the form of traditional software licenses and, in some cases, via a software-as-a-service distribution model.

Information management and business intelligence solutions. Our information management and business intelligence solutions include information data strategy, enterprise data warehousing, data integration, data protection, archiving, compliance, e-discovery and records management products. These solutions enable businesses to extract more value from their structured and unstructured information.

Communications and media solutions. Our communications and media industry solutions address the creation, delivery and management of consumer and enterprise communications services, with offerings in service delivery infrastructure and applications, real-time business support systems, next-generation operations support systems and digital media. These solutions enable operators, media companies, and network equipment providers to drive incremental revenue, enable new business models and reduce infrastructure costs.

Personal Systems Group

PSG is the leading provider of personal computers ("PCs") in the world based on unit volume shipped and annual revenue. PSG provides commercial PCs, consumer PCs, workstations, handheld computing devices, calculators and other related accessories, software and services for the commercial and consumer markets. We group commercial desktops, commercial notebooks and workstations into commercial clients and consumer desktop and consumer notebooks into consumer clients when describing our performance in these markets. Like the broader PC market, PSG continues to experience a shift toward mobile products such as notebooks. Both commercial and consumer PCs are based predominately on the Windows® operating system and use Intel and AMD processors.

Commercial PCs. PSG offers a variety of personal computers optimized for commercial uses, including enterprise and SMB customers, and for connectivity and manageability in networked environments. These commercial PCs include primarily the HP Compaq business desktops, notebooks, tablet PCs, mini notebooks and mobile workstations, as well as the thin clients, retail point of sale systems, displays and the new TouchSmart all-in-one PC for business.

Consumer PCs. Consumer PCs include the HP and Compaq series of multi-media consumer desktops, notebooks and mini notebooks, including the TouchSmart line of touch-enabled all-in-one desktops and notebooks.

Workstations. Workstations are individual computing products designed for users demanding enhanced performance, such as computer animation, engineering design and other programs requiring high-resolution graphics. PSG provides workstations that run on both Windows® and Linux-based operating systems.

Handheld Computing. PSG provides a series of HP iPAQ Pocket PC handheld computing devices that run on Windows® Mobile software. These products range from basic PDAs to advanced "smartphone" devices with voice and data capability.

Imaging and Printing Group

IPG is the leading imaging and printing systems provider in the world for consumer and commercial printer hardware, printing supplies, printing media and scanning devices. IPG is also focused on imaging and printing solutions in the commercial markets, from managed print services solutions to addressing new growth opportunities in commercial printing and capturing high-value pages in areas such as industrial applications, outdoor signage and the graphic arts business. When describing our performance in this segment, we group inkjet printer units and retail products and services into consumer hardware, LaserJet and enterprise solutions and graphics solutions into commercial hardware and break out printer supplies separately.

Inkjet and Web Solutions. This unit delivers our consumer and SMB inkjet solutions (hardware, ink, media) as well as developing our retail and web businesses. It includes single function and all-in-one inkjet printers targeted toward consumers and SMBs as well as retail publishing solutions, Snapfish and Logoworks.

LaserJet and Enterprise Solutions. This unit is focused on delivering products and services to the enterprise segment. It includes LaserJet printers and supplies, multi-function printers, scanners and enterprise software solutions such as Exstream Software and Web Jetadmin.

Managed Enterprise Solutions. This unit is focused on delivering managed print services products and solutions to Enterprise customers. This unit partners with third-party software providers to offer workflow solutions in the enterprise environment.

Graphics Solutions. Graphics solutions include large format printing (Designjet, Scitex, ColorSpan and NUR), large format supplies, inkjet high-speed production (WebPress) solutions and supplies, Indigo printing and specialty printing systems.

Printer Supplies. Printer supplies include LaserJet toner, inkjet cartridges, graphic solutions ink products, including inks for our large format, super-wide and digital press products, and other printing-related media. These supplies include HP-branded Vivera and ColorSphere ink and HP Premium and Premium Plus photo papers, which are designed to work together as a system to produce faster prints with improved resistance to fading, increased print quality and better affordability.

HP Financial Services

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

Corporate Investments

Corporate Investments includes Hewlett-Packard Laboratories, also known as HP Labs, and certain business incubation projects. Revenue in this segment is attributable to the sale of certain network infrastructure products, including Ethernet switch products that enhance computing and enterprise solutions under the brand ProCurve Networking. Corporate Investments also derives revenue from licensing specific HP technology to third parties.

Sales, Marketing and Distribution

We manage our business and report our financial results based on the principal business segments described above. Our customers are organized by consumer and commercial customer groups, and distribution is organized by direct and channel. Within the channel, we have various types of partners that we utilize for various customer groups. The partners include:

- retailers that sell our products to the public through their own physical or Internet stores;
- resellers that sell our products and services, frequently with their own value-added products or services, to targeted customer groups;
- distribution partners that supply our solutions to smaller resellers with which we do not have direct relationships;

- independent distributors that sell our products into geographies or customer segments in which we have little or no presence;
- original equipment manufacturers ("OEMs") that integrate our products with their own hardware or software and sell the integrated products;
- independent software vendors ("ISVs") that provide their clients with specialized software products, frequently driving sales of additional non-HP products and services, and often assist us in selling our products and services to clients purchasing their products; and
- systems integrators that provide various levels and kinds of expertise in designing and implementing custom IT solutions and often partner with HPS to extend their expertise or influence the sale of our products and services.

The mix of HP's business by channel or direct sales differs substantially by business and region. We believe that customer buying patterns and different regional market conditions necessitate sales, marketing and distribution to be tailored accordingly. HP is focused on driving the depth and breadth of its coverage in addition to efficiencies and productivity gains in both the direct and indirect business.

The HP Enterprise Business manages most of our enterprise and public sector customer relationships and also has primary responsibility for simplifying sales processes across our segments to improve speed and effectiveness of customer delivery. In this capacity, the HP Enterprise Business manages our direct sales for value products including UNIX®, enterprise storage and software and pre-sales technical consultants, as well as our direct distribution activities for commercial products and go-to-market activities with systems integrators and ISVs. The HP Enterprise Business also drives HP's vertical sales and marketing approach in the communication, media and entertainment, financial services, manufacturing and distribution and public sector industries.

PSG manages SMB customer relationships and commercial reseller channels, due largely to the significant volume of commercial PCs that HP sells through these channels. In addition to commercial channel relationships, the Volume Direct organization, which is charged with the management of direct sales for volume products, is hosted within PSG. In addition, PSG manages direct online sales through the Consumer Exchange and the Small Business Exchange.

IPG manages HP's overall consumer-related sales and marketing activities, including our annual consumer product launch for the back-to-school and holiday seasons. IPG also manages consumer channel relationships with third-party retail locations for imaging and printing products, as well as other consumer products, including consumer PCs, which provides for a bundled sale opportunity between PCs and IPG products.

Manufacturing and Materials

We utilize a number of outsourced manufacturers ("OMs") around the world to manufacture HP-designed products. The use of OMs is intended to generate cost efficiencies and reduce time to market for certain HP-designed products. Third-party OEMs manufacture some products that we purchase and resell under the HP brand. In addition to our use of OMs, we currently manufacture finished products from components and sub-assemblies that we acquire from a wide range of vendors.

We utilize two primary methods of fulfilling demand for products: building products to order and configuring products to order. We employ building products to order capabilities to maximize manufacturing efficiencies by producing high volumes of basic product configurations. Configuring products to order permits configuration of units to the particular hardware and software customization requirements of certain customers. Our inventory management and distribution practices in both building products to order and configuring products to order seek to minimize inventory holding periods by taking delivery of the inventory and manufacturing immediately prior to the sale or distribution of products to our customers.

We purchase materials, supplies and product subassemblies from a substantial number of vendors. For most of our products, we have existing alternate sources of supply, or such sources are readily available. However, we do rely on sole sources for laser printer engines, LaserJet supplies and parts for products with short life cycles (although some of these sources have operations in multiple locations). We are dependent upon Intel as a supplier of processors and Microsoft for various software products. However, we believe that disruptions with these suppliers would result in industry-wide dislocations and therefore would not disproportionately disadvantage us relative to our competitors. We also have a valued relationship with AMD, and we have continued to see solid acceptance of AMD processors in the market during fiscal 2009.

Like other participants in the high technology industry, we ordinarily acquire materials and components through a combination of blanket and scheduled purchase orders to support our requirements for periods averaging 90 to 120 days. From time to time, we experience significant price volatility and supply constraints of certain components that are not available from multiple sources. Frequently, we are able to obtain scarce components for somewhat higher prices on the open market, which may have an impact on gross margin but does not disrupt production. On occasion, we acquire component inventory in anticipation of supply constraints or enter into longer-term pricing commitments with vendors to improve the priority, price and availability of supply. See "Risk Factors—We depend on third-party suppliers, and our revenue and gross margin could suffer if we fail to manage suppliers properly," in Item 1A, which is incorporated herein by reference.

International

Our products and services are available worldwide. We believe this geographic diversity allows us to meet demand on a worldwide basis for both consumer and enterprise customers, draws on business and technical expertise from a worldwide workforce, provides stability to our operations, allows us to drive economies of scale, provides revenue streams to offset geographic economic trends and offers us an opportunity to access new markets for maturing products. In addition, we believe that future growth is dependent in part on our ability to develop products and sales models that target developing countries. In this regard, we believe that our broad geographic presence gives us a solid base upon which to build such future growth.

A summary of our domestic and international net revenue and net property, plant and equipment is set forth in Note 19 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. Approximately 64% of our overall net revenue in fiscal 2009 came from outside the United States. The substantial majority of our net revenue originating outside the United States was from customers other than foreign governments.

For a discussion of risks attendant to HP's foreign operations, see "Risk Factors—Due to the international nature of our business, political or economic changes or other factors could harm our future revenue, costs and expenses and financial condition," in Item 1A, "Quantitative and Qualitative Disclosure about Market Risk" in Item 7A and Note 10 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

Research and Development

We remain committed to innovation as a key element of HP's culture. Our development efforts are focused on designing and developing products, services and solutions that anticipate customers' changing needs and desires and emerging technological trends. Our efforts also are focused on identifying the areas where we believe we can make a unique contribution and the areas where partnering with other leading technology companies will leverage our cost structure and maximize our customers' experiences.

HP Labs, together with the various research and development groups within the five principal business segments, are responsible for our research and development efforts. HP Labs is part of our Corporate Investments segment.

Expenditures for research and development were $2.8 billion in fiscal 2009, $3.5 billion in fiscal 2008 and $3.6 billion in fiscal 2007. We anticipate that we will continue to have significant research and development expenditures in the future to provide a continuing flow of innovative, high-quality products and services to maintain and enhance our competitive position.

For a discussion of risks attendant to our research and development activities, see "Risk Factors— If we cannot continue to develop, manufacture and market products and services that meet customer requirements for innovation and quality, our revenue and gross margin may suffer," in Item 1A, which is incorporated herein by reference.

Patents

Our general policy has been to seek patent protection for those inventions and improvements likely to be incorporated into our products and services or where proprietary rights will improve our competitive position. At October 31, 2009, our worldwide patent portfolio included over 33,000 patents, which was slightly above the number of patents in our patent portfolio at the end of both fiscal 2008 and fiscal 2007.

Patents generally have a term of twenty years from the time they are filed. As our patent portfolio has been built over time, the remaining terms on the individual patents vary. While we believe that our patents and applications are important for maintaining the competitive differentiation of our products and maximizing our return on research and development investments, no single patent is in itself essential to us as a whole or any of our principal business segments.

In addition to developing our patents, we license intellectual property from third parties as we deem appropriate. We have also granted and continue to grant to others licenses under patents owned by us when we consider these arrangements to be in our interest. These license arrangements include a number of cross-licenses with third parties.

For a discussion of risks attendant to intellectual property rights, see "Risk Factors—Our revenue, cost of sales, and expenses may suffer if we cannot continue to license or enforce the intellectual property rights on which our businesses depend or if third parties assert that we violate their intellectual property rights," in Item 1A, which is incorporated herein by reference.

Backlog

We believe that backlog is not a meaningful indicator of future business prospects due to the diversity of our products and services portfolio, including the large volume of products delivered from shelf or channel partner inventories and the shortening of product life cycles. Therefore, we believe that backlog information is not material to an understanding of our overall business.

Seasonality

General economic conditions have an impact on our business and financial results. From time to time, the markets in which we sell our products experience weak economic conditions that may negatively affect sales. We experience some seasonal trends in the sale of our products and services. For example, European sales often are weaker in the summer months and consumer sales often are stronger in the fourth calendar quarter. Demand during the spring and early summer months also may be adversely impacted by market anticipation of seasonal trends. See "Risk Factors—Our sales cycle makes planning and inventory management difficult and future financial results less predictable," in Item 1A, which is incorporated herein by reference.

Competition

We encounter aggressive competition in all areas of our business activity. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, reputation, distribution, range of products and services, ease of use of our products, account relationships, customer training, service and support, security and availability of application software and our Internet infrastructure offerings.

The markets for each of our business segments are characterized by vigorous competition among major corporations with long-established positions and a large number of new and rapidly growing firms. Product life cycles are short, and to remain competitive we must develop new products and services, periodically enhance our existing products and services and compete effectively on the basis of the factors listed above. In addition, we compete with many of our current and potential partners, including OEMs that design, manufacture and often market their products under their own brand names. Our successful management of these competitive partner relationships will continue to be critical to our future success. Moreover, we anticipate that we will have to continue to adjust prices on many of our products and services to stay competitive.

On a revenue basis we are the largest company offering our range of general purpose computers and personal information, imaging and printing products for industrial, scientific, business and consumer applications, and IT services. We are the leader or among the leaders in each of our principal business segments.

The competitive environments in which each segment operates are described below:

Enterprise Storage and Servers. The areas in which ESS operates are intensely competitive and are characterized by rapid and ongoing technological innovation and price reductions. Our competitors range from broad solution providers such as International Business Machines Corporation ("IBM") to more focused competitors such as EMC Corporation ("EMC") and Network Appliance, Inc. in storage and Dell, Inc. ("Dell") in industry standard servers. We believe that our important competitive advantages in this segment include the six technology components of our converged infrastructure initiatives: IT systems, power and cooling, security, management, virtualization and automation. We believe that our competitive advantages also include our global reach and our significant intellectual property portfolio and research and development capabilities, which will contribute to further enhancements of our product and service offerings and our ability to cross-sell our portfolio and leverage scale advantages in everything from brand to procurement leverage.

Services. Our service businesses including HP Enterprise Services and Technology Services compete in IT support services, consulting and integration, infrastructure technology outsourcing, business process outsourcing and application services. The IT support services and consulting and integration markets have been under significant pressure as our customers have reduced their IT budgets. However, this trend has benefited the outsourcing services business as customers drive toward lower IT management costs to enable more strategic investments. Our competitors include IBM Global Services, Computer Sciences Corporation, systems integration firms such as Accenture Ltd. and offshore companies such as Fujitsu and India-based competitors Wipro Ltd, Infosys Technologies Ltd. and Tata Consultancy Services Ltd. We also compete with other traditional hardware providers, such as Dell, which are increasingly offering services to support their products. Many of our competitors are able to offer a wide range of global services, and some of our competitors enjoy significant brand recognition. Our service businesses team with many companies to offer services, and those arrangements allow us to extend our reach and augment our capabilities. Our competitive advantages are evident in our deep technology expertise, which includes multi-vendor environments, virtualization and automation, our strong track record of collaboration with clients and partners, and the combination of our expertise in infrastructure management with skilled global resources in SAP, Oracle and Microsoft platforms.

HP Software. The areas in which HP Software operates are fueled by rapidly changing customer requirements and technologies. We market enterprise IT management software in competition with IBM, Computer Associates International ("CAI"), BMC Software, Inc. and others. Our information management and business intelligence solutions compete with products from companies like Symantec, IBM, EMC, CAI, and Teradata. We also deliver communications and media solutions that compete with products from IBM and various other competitors. As new delivery mechanisms such as software-as-a-service come on the scene, we're also confronting less traditional competitors. Our differentiation lies in the breadth and depth of our software and services portfolio and the scope of our market coverage.

Personal Systems Group. The areas in which PSG operates are intensely competitive and are characterized by rapid price reductions and inventory depreciation. Our primary competitors for the branded personal computers are Dell, Acer Inc., ASUSTeK Computer Inc., Apple Inc., Lenovo Group Limited and Toshiba Corporation. In particular regions, we also experience competition from local companies and from generically-branded or "white box" manufacturers. Our competitive advantages include our broad product portfolio, our innovation and research and development capabilities, our brand and procurement leverage, our ability to cross-sell our portfolio of offerings, our extensive service and support offerings and the availability of our broad-based distribution of products from retail and commercial channels to direct sales.

Imaging and Printing Group. The markets for printer hardware and associated supplies are highly competitive, especially with respect to pricing and the introduction of new products and features. IPG's key competitors include Canon USA, Inc., Lexmark International, Inc., Xerox Corporation, Seiko Epson Corporation, Samsung Electronics Co. Ltd. and Brother Industries, Ltd. In addition, independent suppliers offer refill and remanufactured alternatives for our supplies which, although generally offering lower print quality and reliability, may be offered at lower prices and put pressure on our supplies sales and margins. Other companies also have developed and marketed new compatible cartridges for HP's laser and inkjet products, particularly in jurisdictions outside of the United States where adequate intellectual property protection may not exist. In recent years, we and our competitors have regularly lowered prices on printer hardware both to reach new customers and in response to the competitive environment. Important areas for future growth include printer-based multi-function devices in the office space, digital presses in our imaging and graphics space and driving color printing expansion in the office. We believe we will provide important new contributions in the home, the office and publishing environments by providing comprehensive solutions.

HP Financial Services. In our financing business, our competitors are captive financing companies, mainly IBM Global Financing, as well as banks and financial institutions. We believe our competitive advantage in this business over banks and financial institutions is our ability to finance products, services and total solutions.

For a discussion of risks attendant to these competitive factors, see "Risk Factors—The competitive pressures we face could harm our revenue, gross margin and prospects," in Item 1A, which is incorporated herein by reference.

Environment

Our operations are subject to regulation under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, and third-party damage or personal injury claims, if we were to violate or become liable under environmental laws.

Many of our products are subject to various federal, state, local and foreign laws governing chemical substances in products and their safe use, including laws regulating the manufacture and distribution of chemical substances and laws restricting the presence of certain substances in electronics products. Some of our products also are, or may in the future be, subject to requirements applicable to their energy consumption. We face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the chemical and materials composition of our products, their safe use, and their energy efficiency, including those that may result from climate change legislation. In the event our products become non-compliant with these laws, they could be enjoined from entering certain jurisdictions and we could face other sanctions, including fines.

We also are subject to legislation in an increasing number of jurisdictions that makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products (sometimes referred to as "product take-back legislation"). There is no assurance that such existing or future laws will not have a material adverse effect on HP's operations or financial condition, although HP does not anticipate that effects of product take-back legislation will be different or more severe for HP than the impacts on others in the electronics industry.

We are committed to maintaining compliance with all environmental laws applicable to our operations, products and services and to reducing our environmental impact across all aspects of our business. We meet this commitment with a comprehensive environmental, health and safety policy, strict environmental management of our operations and worldwide environmental programs and services.

The liability for environmental remediation and other environmental costs is accrued when HP considers it probable and can reasonably estimate the costs. Environmental costs and accruals are presently not material to our operations or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse effect on HP's operations or financial condition, we do not currently anticipate material capital expenditures for environmental control facilities.

Executive Officers:

Mark V. Hurd; age 52; Chairman, Chief Executive Officer and President

Mr. Hurd has served as Chairman of HP since September 2006 and as Chief Executive Officer, President and a member of the Board since April 2005. Prior to that, he served as Chief Executive Officer of NCR Corporation, a technology company, from March 2003 to March 2005 and as President from July 2001 to March 2005. Mr. Hurd also is a director of News Corporation.

Peter J. Bocian; age 54; Executive Vice President and Chief Administrative Officer

Mr. Bocian has served as Executive Vice President and Chief Administrative Officer since December 2008. Previously, Mr. Bocian served as Executive Vice President, Chief Financial Officer and Chief Administrative Officer of Starbucks Corporation, a roaster and retailer of specialty coffee, from October 2007 until November 2008 after having served as Executive Vice President and Chief Financial Officer designate of Starbucks since May 2007. Prior to joining Starbucks, Mr. Bocian served in various positions at NCR Corporation since 1983, most recently as Senior Vice President and Chief Financial Officer from September 2004 until May 2007.

R. Todd Bradley; age 51; Executive Vice President, Personal Systems Group

Mr. Bradley has served as Executive Vice President of HP's Personal Systems Group since June 2005. Previously he served as the Chief Executive Officer of palmOne Inc., a mobile computing company, from October 2003 to June 2005.

Michael J. Holston; age 47; Executive Vice President, General Counsel and Secretary

Mr. Holston has served as Executive Vice President and General Counsel since February 2007 and as Secretary since March 2007. Prior to that, he was a partner in the litigation practice at Morgan, Lewis & Bockius LLP, where, among other clients, he supported HP as external counsel on a variety of litigation and regulatory matters for more than ten years.

Vyomesh I. Joshi; age 55; Executive Vice President, Imaging and Printing Group

Mr. Joshi has served as Executive Vice President of HP's Imaging and Printing Group since 2002. Mr. Joshi also is a director of Yahoo! Inc.

Catherine A. Lesjak; age 50; Executive Vice President and Chief Financial Officer

Ms. Lesjak has served as Executive Vice President and Chief Financial Officer since January 2007. Previously, she served as Senior Vice President from 2003 until December 2006 and as Treasurer from 2003 until March 2007.

Ann M. Livermore; age 51; Executive Vice President, HP Enterprise Business

Ms. Livermore has served as Executive Vice President of the HP Enterprise Business since May 2004. From 2002 until May 2004, she served as Executive Vice President of HP Services. Ms. Livermore also is a director of United Parcel Service, Inc.

John N. McMullen; age 51; Senior Vice President and Treasurer

Mr. McMullen has served as Senior Vice President and Treasurer since March 2007. Previously, he served as Vice President of Finance for HP's Imaging and Printing Group from May 2002 until 2007.

Randall D. Mott; age 53; Executive Vice President and Chief Information Officer

Mr. Mott has served as Executive Vice President and Chief Information Officer since July 2005. From 2000 to June 2005, Mr. Mott was Senior Vice President and Chief Information Officer of Dell, Inc., a technology company.

James T. Murrin; age 49; Senior Vice President, Controller and Principal Accounting Officer

Mr. Murrin has served as Senior Vice President, Controller and Principal Accounting Officer since March 2007. Previously, he served as Vice President of Finance for the former Technology Solutions Group since 2004. Prior to that, Mr. Murrin was Vice President of Finance for HP Services and held various other finance positions at HP since joining the company in 1989.

Marcela Perez de Alonso; age 55; Executive Vice President, Human Resources

Ms. Perez de Alonso has served as Executive Vice President, Human Resources since January 2004. From 1999 until she joined HP in January 2004, Ms. Perez de Alonso was Division Head of Citigroup North Latin America Consumer Bank, in charge of the retail business operations of Citigroup in Puerto Rico, Venezuela, Colombia, Peru, Panama, the Bahamas and the Dominican Republic.

Shane V. Robison; age 56; Executive Vice President and Chief Strategy and Technology Officer

Mr. Robison has served as Executive Vice President and Chief Strategy and Technology Officer since May 2002.

Employees

We had approximately 304,000 employees worldwide as of October 31, 2009.

Available Information and Exchange Certifications

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available on our website at *http://www.hp.com/investor/home*, as soon as reasonably practicable after HP electronically files such reports with, or furnishes those reports to, the Securities and Exchange Commission. HP's Corporate Governance Guidelines, Board of Directors committee charters (including the charters of the Audit Committee, HR and Compensation Committee, and Nominating and Governance Committee) and code of ethics entitled "Standards of Business Conduct" also are available at that same location on our website. Stockholders may request free copies of these documents from:

Hewlett-Packard Company
Attention: Investor Relations
3000 Hanover Street
Palo Alto, CA 94304
(866) GET-HPQ1 or (866) 438-4771
http://www.hp.com/investor/informationrequest

ITEM 1A. Risk Factors.

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

The competitive pressures we face could harm our revenue, gross margin and prospects.

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

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

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

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

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

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

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

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

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

Our revenue and gross margin depend significantly on worldwide economic conditions and the demand for computing and imaging products and services in the markets in which we compete. Economic weakness and uncertainty have resulted, and may result in the future, in decreased revenue, gross margin, earnings or growth rates and difficulty managing inventory levels. For example, we have recently experienced reduced revenue from our product businesses due to slowing global economic growth, declines in the availability of credit, weakening consumer and business confidence, increased unemployment, reduced levels of capital expenditures and other challenges currently affecting the global economy. Sustained uncertainty about current global economic conditions may result in our customers continuing to postpone spending, which could adversely affect demand for our products and services. Economic weakness and uncertainty also make it more difficult for us to make accurate forecasts of revenue, gross margin and expenses.

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

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

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

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

- *Shortages.* Occasionally we may experience a shortage of, or a delay in receiving, certain components as a result of strong demand, capacity constraints, supplier financial weaknesses, inability of suppliers to borrow funds in the credit markets, disputes with suppliers (some of whom are also customers), disruptions in the operations of component suppliers, other problems experienced by suppliers or problems faced during the transition to new suppliers. In particular, our PC business relies heavily upon outsourced manufacturers (“OMs”) to manufacture its products and is therefore dependent upon the continuing operations of those OMs to fulfill demand for our PC products. HP represents a substantial portion of the business of some of these OMs, and any changes to the nature or volume of business transacted by HP with a particular OM could adversely affect the operations and financial condition of the OM and lead to shortages or delays in receiving products from that OM. If shortages or delays persist, the price of these components may increase, we may be exposed to quality issues or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build products or provide services in a timely manner in the quantities or according to the specifications needed. Accordingly, our revenue and gross margin could suffer as we could lose time-sensitive sales, incur additional freight costs or be unable to pass on price increases to our customers. If we cannot adequately address supply issues, we might have to reengineer some products or service offerings, resulting in further costs and delays.

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

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

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

- *Single source suppliers.* Our use of single source suppliers for certain components could exacerbate our supplier issues. We obtain a significant number of components from single sources due to technology, availability, price, quality or other considerations. For example, we rely on Intel Corporation to provide us with a sufficient supply of processors for many of our

PCs, workstations, handheld computing devices and servers, and some of those processors are customized for our products. New products that we introduce may utilize custom components obtained from only one source initially until we have evaluated whether there is a need for additional suppliers. Replacing a single source supplier could delay production of some products as replacement suppliers initially may be subject to capacity constraints or other output limitations. For some components, such as customized components and some of the processors that we obtain from Intel, alternative sources may not exist or those alternative sources may be unable to produce the quantities of those components necessary to satisfy our production requirements. In addition, we sometimes purchase components from single source suppliers under short-term agreements that contain favorable pricing and other terms but that may be unilaterally modified or terminated by the supplier with limited notice and with little or no penalty. The performance of such single source suppliers under those agreements (and the renewal or extension of those agreements upon similar terms) may affect the quality, quantity and price of components to HP. The loss of a single source supplier, the deterioration of our relationship with a single source supplier, or any unilateral modification to the contractual terms under which we are supplied components by a single source supplier could adversely affect our revenue and gross margins.

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

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

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

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

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

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

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

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

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

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

- speculation in the press or investment community about, or actual changes in, our business, strategic position, market share, organizational structure, operations, financial condition, financial reporting and results, effectiveness of cost cutting efforts, value or liquidity of our investments, exposure to market volatility, prospects, business combination or investment transactions, or executive team;
- the announcement of new products, services, technological innovations or acquisitions by HP or its competitors;
- quarterly increases or decreases in revenue, gross margin, earnings or cash flow from operations, changes in estimates by the investment community or guidance provided by HP, and variations between actual and estimated financial results;
- announcements of actual and anticipated financial results by HP's competitors and other companies in the IT industry; and
- the timing and amount of share repurchases by HP.

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

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

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

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

Third parties also may claim that we or customers indemnified by us are infringing upon their intellectual property rights. For example, in recent years individuals and groups have begun purchasing intellectual property assets for the sole purpose of asserting claims of infringement and attempting to extract settlements from large companies such as HP. If we cannot or do not license the infringed technology at all or on reasonable terms, or substitute similar technology from another source, our operations could be adversely affected. Even if we believe that the claims are without merit, they can be time-consuming and costly to defend and may divert management's attention and resources away from our business. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlement or license agreements, pay costly damage awards, or face a temporary or permanent injunction prohibiting us from importing, marketing or selling certain of our products. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations to us.

Finally, our results of operations and cash flows could be affected in certain periods and on an ongoing basis by the imposition, accrual and payment of copyright levies or similar fees. In certain countries (primarily in Europe), proceedings are ongoing against HP in which groups representing copyright owners seek to impose upon and collect from HP levies upon equipment (such as PCs, multifunction devices and printers) that they allege are copying devices under applicable laws. Other countries that have not imposed levies on these types of devices are expected to extend existing levy schemes, and countries that do not currently have levy schemes may decide to impose copyright levies on these types of devices. If imposed, the total amount of the copyright levies would depend on the types of products determined to be subject to the levy, the number of units of those products sold during the period covered by the levy, and the per unit fee for each type of product, all of which may be affected by several factors, including the outcome of ongoing litigation involving HP and other industry participants and possible action by the legislative bodies in the applicable countries, which could be substantial. Consequently, the ultimate impact of these potential copyright levies or similar fees, and the ability of HP to recover such amounts through increased prices, remain uncertain.

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

Sales outside the United States make up approximately 64% of our net revenue. In addition, an increasing portion of our business activity is being conducted in emerging markets, including Brazil, Russia, India and China. Our future revenue, gross margin, expenses and financial condition could suffer due to a variety of international factors, including:

- ongoing instability or changes in a country's or region's economic or political conditions, including inflation, recession, interest rate fluctuations and actual or anticipated military or political conflicts;
- longer accounts receivable cycles and financial instability among customers;
- trade regulations and procedures and actions affecting production, pricing and marketing of products;
- local labor conditions and regulations;
- managing a geographically dispersed workforce;
- changes in the regulatory or legal environment;
- differing technology standards or customer requirements;

- import, export or other business licensing requirements or requirements relating to making foreign direct investments, which could increase our cost of doing business in certain jurisdictions, prevent us from shipping products to particular countries or markets, affect our ability to obtain favorable terms for components, increase our operating costs or lead to penalties or restrictions;
- difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws; and
- fluctuations in freight costs, limitations on shipping and receiving capacity, and other disruptions in the transportation and shipping infrastructure at important geographic points of exit and entry for our products and shipments.

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

As approximately 64% of our sales are from countries outside of the United States, other currencies, particularly the euro, the British pound, Chinese Yuan Renminbi and the Japanese yen, can have an impact on HP's results (expressed in U.S. dollars). Currency variations also contribute to variations in sales of products and services in impacted jurisdictions. Accordingly, fluctuations in foreign currency rates, most notably the strengthening of the dollar against the euro, could have a material impact on our revenue growth in future periods. In addition, currency variations can adversely affect margins on sales of our products in countries outside of the United States and margins on sales of products that include components obtained from suppliers located outside of the United States. We use a combination of forward contracts and options designated as cash flow hedges to protect against foreign currency exchange rate risks. The effectiveness of our hedges depends on our ability to accurately forecast future cash flows, which is particularly difficult during periods of uncertain demand for our products and services and highly volatile exchange rates. As a result, we could incur significant losses from our hedging activities if our forecasts are incorrect. In addition, our hedging activities may be ineffective or may not offset any or more than a portion of the adverse financial impact resulting from currency variations. Gains or losses associated with hedging activities also may impact our revenue and to a lesser extent our cost of sales and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

- The pricing and other terms of some of our IT services agreements, particularly our long-term IT outsourcing services agreements, require us to make estimates and assumptions at the time we enter into these contracts that could differ from actual results. Any increased or unexpected costs or unanticipated delays in connection with the performance of these engagements, including delays caused by factors outside our control, could make these agreements less profitable or unprofitable, which would have an adverse affect on the profit margin of our IT services business.
- Some of our IT services agreements require significant investment in the early stages that is expected to be recovered through billings over the life of the agreement. These agreements often involve the construction of new IT systems and communications networks and the development and deployment of new technologies. Substantial performance risk exists in each agreement with these characteristics, and some or all elements of service delivery under these agreements are dependent upon successful completion of the development, construction and deployment phases. Any failure to perform satisfactorily under these agreements may expose us to legal liability, result in the loss of customers and harm our reputation, which could decrease the revenues and profitability of our IT services business.
- Some of our outsourcing services agreements contain pricing provisions that permit a client to request a benchmark study by a mutually acceptable third- party. The benchmarking process typically compares the contractual price of our services against the price of similar services offered by other specified providers in a peer comparison group, subject to agreed upon adjustment and normalization factors. Generally, if the benchmarking study shows that our pricing has a difference outside a specified range, and the difference is not due to the unique requirements of the client, then the parties will negotiate in good faith any appropriate adjustments to the pricing. This may result in the reduction of our rates for the benchmarked services performed after the implementation of those pricing adjustments, which could decrease the revenues and profitability of our IT services business.

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

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

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

In connection with the preparation of HP's Consolidated Financial Statements, we use certain estimates and assumptions based on historical experience and other factors. Our most critical accounting estimates are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. In addition, as discussed in Note 18 to the Consolidated Financial Statements, we make certain estimates, including decisions related to provisions for legal proceedings and other contingencies. While we believe that these estimates and assumptions are reasonable under the circumstances, they are subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material adverse effect on our results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- combining product offerings and entering into new markets in which we are not experienced;
- convincing customers and distributors that the transaction will not diminish client service standards or business focus, preventing customers and distributors from deferring purchasing decisions or switching to other suppliers (which could result in our incurring additional obligations in order to address customer uncertainty), minimizing sales force attrition and coordinating sales, marketing and distribution efforts;
- consolidating and rationalizing corporate IT infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code;
- minimizing the diversion of management attention from ongoing business concerns;
- persuading employees that business cultures are compatible, maintaining employee morale and retaining key employees, engaging with employee works councils representing an acquired company's non-U.S. employees, integrating employees into HP, correctly estimating employee benefit costs and implementing restructuring programs;
- coordinating and combining administrative, manufacturing, research and development and other operations, subsidiaries, facilities and relationships with third parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures;
- achieving savings from supply chain integration; and
- managing integration issues shortly after or pending the completion of other independent transactions.

Integration and other risks associated with business combination and investment transactions can be more pronounced for larger and more complicated transactions. For example, in August 2008, we completed our acquisition of EDS, and we are in the process of integrating EDS into our company. The size of the acquisition of EDS increases both the scope and consequence of ongoing integration risks. We may not successfully address the integration challenges in a timely manner, or at all, and we may not fully realize all of the anticipated benefits or synergies of the EDS acquisition. If we fail to realize such anticipated benefits or synergies, our operating results could be materially adversely affected.

Managing business combination and investment transactions requires varying levels of management resources, which may divert our attention from other business operations. These business combination and investment transactions also have resulted and in the future may result in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, asset impairment charges, charges from the elimination of duplicative facilities and contracts, in-process research and development charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans. Moreover, HP has incurred and will incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with business combination and investment transactions, and, to the extent that the value of goodwill or intangible assets with indefinite lives acquired in connection with a business combination and investment transaction becomes impaired, we may be required to incur additional material charges relating to the impairment of those assets. In order to complete an acquisition, we may issue common stock, potentially creating dilution for existing stockholders. In addition, we may borrow to finance an acquisition, and the amount and terms of any potential future acquisition-related borrowings, as well as other factors, could affect our liquidity and financial condition and potentially our credit ratings. Any potential future downgrades in our credit rating associated with an acquisition could adversely affect our ability to borrow and cost of borrowing and result in more restrictive borrowing terms. In addition, HP's effective tax rate on an ongoing basis is uncertain, and business combination and investment transactions could impact our effective tax rate. We also may experience risks relating to the challenges and costs of closing a business combination and investment transaction and the risk that an announced business combination and investment transaction may not close. As a result, any completed, pending or future transactions may contribute to financial results that differ from the investment community's expectations in a given quarter.

Unforeseen environmental costs could impact our future net earnings.

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

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

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

- authorizing blank check preferred stock, which HP could issue with voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, HP's directors and officers;
- specifying that HP stockholders may take action only at a duly called annual or special meeting of stockholders and otherwise in accordance with our bylaws and limiting the ability of our stockholders to call special meetings;
- requiring advance notice of proposals by HP stockholders for business to be conducted at stockholder meetings and for nominations of candidates for election to our Board of Directors;
- requiring a vote by the holders of two-thirds of HP's outstanding shares to amend certain bylaws relating to HP stockholder meetings, the Board of Directors and indemnification; and
- controlling the procedures for conduct of HP Board and stockholder meetings and election, appointment and removal of HP directors.

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

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control of HP could limit the opportunity for our stockholders to receive a premium for their shares of HP common stock and also could affect the price that some investors are willing to pay for HP common stock.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

As of October 31, 2009, we owned or leased a total of approximately 77 million square feet of space worldwide. We owned 45% of this space and leased the remaining 55%. Included in these amounts are 10 million square feet of vacated space, of which 3 million square feet is leased to non HP interests. We believe that our existing properties are in good condition and are suitable for the conduct of our business.

As of October 31, 2009, HP core sales and support operations occupied approximately 12 million square feet. We own 40% of the space used for sales and support activities and lease the remaining 60%.

HP core manufacturing plants, research and development facilities and warehouse and administrative facilities occupied approximately 55 million square feet. We own 46% of our manufacturing, research and development, warehouse and administrative space and lease the remaining 54%. Our plants are equipped with machinery, most of which we own and which, in part, we developed to meet the special requirements of our manufacturing processes. At the end of fiscal 2009, we are continuing to execute on our plan to reduce our real estate costs and increase our productive utilization by consolidating several hundred HP core real estate locations worldwide.

As indicated above, we have seven business segments: Services, ESS, HP Software, PSG, IPG, HPFS, and Corporate Investments. Because of the interrelation of these segments, a majority of these segments use substantially all of the properties at least in part, and we retain the flexibility to use each of the properties in whole or in part for each of the segments.

Principal Executive Offices

Our principal executive offices, including our global headquarters, are located at 3000 Hanover Street, Palo Alto, California, United States of America.

Headquarters of Geographic Operations

The locations of our headquarters of geographic operations at October 31, 2009 were as follows:

Americas	***Europe, Middle East, Africa***	***Asia Pacific***
Houston, United States	Geneva, Switzerland	Singapore
Miami, United States		Tokyo, Japan
Mississauga, Canada		

Product Development and Manufacturing

The locations of our major product development and manufacturing facilities and HP Labs at October 31, 2009 were as follows:

Americas	*Europe, Middle East, Africa*	*Hewlett-Packard Laboratories*
Aguadilla, Puerto Rico	Leixlip, Ireland	Bangalore, India
Cupertino, San Diego and Woodland, California	Kiryat-Gat and Netanya, Israel	Beijing, China
Colorado Springs and Ft Collins, Colorado	Amersfoort, The Netherlands	Bristol, United Kingdom
Boise, Idaho		Haifa, Israel
Indianapolis, Indiana	*Asia Pacific, including Japan*	Palo Alto, United States
Andover and Marlboro, Massachusetts	Shanghai, China	St. Petersburg, Russia
Minnetonka, Minnesota	Udham Singh Nagar, India	
Corvallis, Oregon	Tokyo, Japan	
LaVergne and Memphis, Tennessee	Singapore	
Houston, Texas		
Sandston, Virginia		
Vancouver, Washington		

ITEM 3. Legal Proceedings.

Information with respect to this item may be found in Note 18 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

ITEM 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Information regarding the market prices of HP common stock and the markets for that stock may be found in the "Quarterly Summary" in Item 8 and on the cover page of this Annual Report on Form 10-K, respectively, which are incorporated herein by reference. We have declared and paid cash dividends each fiscal year since 1965. The trend has been to declare $0.16 per share every first and third quarters and to pay $0.08 per share per quarter. As of November 30, 2009, there were approximately 126,600 stockholders of record. Additional information concerning dividends may be found in "Selected Financial Data" in Item 6 and in Item 8, which are incorporated herein by reference.

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities in fiscal 2009 that have not been previously reported in a Quarterly Report on Form 10-Q.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
		In thousands, except per share amounts		
Month #1 (August 2009)	17,589	$43.78	17,589	$5,286,004
Month #2 (September 2009)	20,889	$45.60	20,889	$4,333,424
Month #3 (October 2009)	7,972	$47.54	7,972	$3,954,407
Total	46,450	$45.24	46,450	

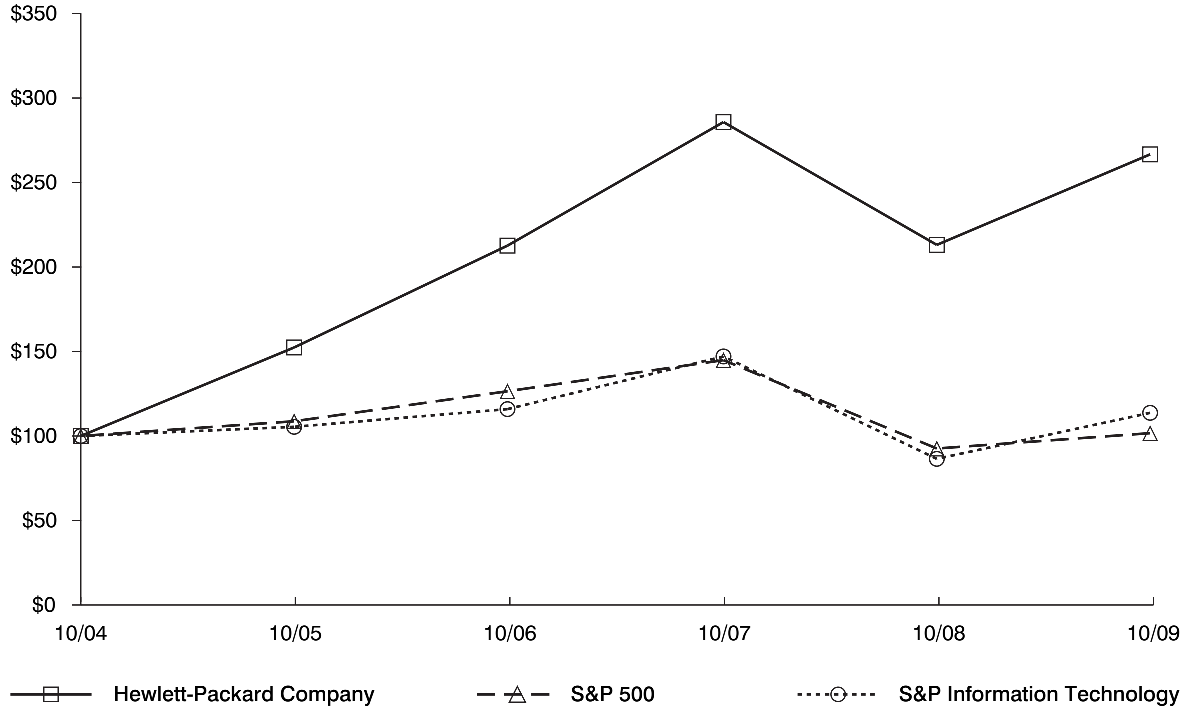
HP repurchased shares in the fourth quarter of fiscal 2009 under an ongoing program to manage the dilution created by shares issued under employee stock plans as well as to repurchase shares opportunistically. This program, which does not have a specific expiration date, authorizes repurchases in the open market or in private transactions. All shares repurchased in the fourth quarter of fiscal 2009 were purchased in open market transactions.

As of October 31, 2009, HP had remaining authorization of approximately $4.0 billion for future share repurchases under the $8.0 billion repurchase authorization approved by the HP Board of Directors on September 19, 2008.

On November 19, 2009, HP's Board of Directors authorized an additional $8.0 billion for future share repurchases.

Stock Performance Graph and Cumulative Total Return

The graph below shows the cumulative total stockholder return assuming the investment of $100 on the date specified (and the reinvestment of dividends thereafter) in each of HP common stock, the S&P 500 Index, and the S&P Information Technology Index.[1] The comparisons in the graph below are based upon historical data and are not indicative of, or intended to forecast, future performance of our common stock.



	10/04	10/05	10/06	10/07	10/08	10/09
Hewlett-Packard Company	100.00	152.39	212.65	285.77	213.09	266.66
S&P 500	100.00	108.72	126.49	144.90	92.60	101.68
S&P Information Technology	100.00	105.43	115.90	147.08	86.47	113.71

(1) The stock performance graph does not include HP's peer group because peer group information is represented and included in the S&P Information Technology Index.

ITEM 6. Selected Financial Data.

The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data," of this Form 10-K, which are incorporated herein by reference, in order to understand further the factors that may affect the comparability of the financial data presented below.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
Selected Financial Data

	For the fiscal years ended October 31,				
	2009[2]	2008	2007	2006	2005
	In millions, except per share amounts				
Net revenue	$114,552	$118,364	$104,286	$91,658	$86,696
Earnings from operations[1]	$ 10,136	$ 10,473	$ 8,719	$ 6,560	$ 3,473
Net earnings	$ 7,660	$ 8,329	$ 7,264	$ 6,198	$ 2,398
Net earnings per share					
Basic	$ 3.21	$ 3.35	$ 2.76	$ 2.23	$ 0.83
Diluted	$ 3.14	$ 3.25	$ 2.68	$ 2.18	$ 0.82
Cash dividends declared per share	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 0.32
At year-end:					
Total assets	$114,799	$113,331	$ 88,699	$81,981	$77,317
Long-term debt	$ 13,980	$ 7,676	$ 4,997	$ 2,490	$ 3,392

(1) Earnings from operations include the following items:

	2009	2008	2007	2006	2005
	In millions				
Amortization of purchased intangible assets	$1,571	$ 967	$ 783	$ 604	$ 622
Restructuring charges	640	270	387	158	1,684
In-process research and development charges	7	45	190	52	2
Pension curtailments and pension settlements, net	—	—	(517)	—	(199)
Acquisition-related charges	242	41	—	—	—
Total charges before taxes	$2,460	$1,323	$ 843	$ 814	$2,109
Total charges, net of taxes	$1,733	$ 973	$ 690	$ 604	$1,509

(2) In the fourth quarter of fiscal 2009, HP early adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2009-13, "Multiple-Deliverable Revenue Arrangements" and FASB ASU No. 2009-14, "Certain Revenue Arrangements That Include Software Elements." HP adopted these standards as of the beginning of fiscal 2009. As a result, fiscal 2009 net revenues and net earnings were higher by $255 million and $55 million, respectively.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

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

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

OVERVIEW

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

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

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

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

Competitive Positioning

We are positioning our businesses to take advantage of important trends in the markets for our products and services. For example, we are aligning our printing business to capitalize on key market trends such as the shift from analog to digital printing and the growth in printable content by developing innovative products for consumers such as the first web-connected home printer, working to enable web and mobile printing, expanding our presence in high-usage annuity businesses including graphics and retail photo printing, and growing our managed print services business. We are also positioning our enterprise business to capitalize on the trend towards converged infrastructure products that integrate storage, networking, servers and management software. In addition, we have developed IT management software offerings that seek to satisfy the increasing demand for virtualization management and increased automation.

Driving Operational Efficiency

We have implemented an ongoing program to optimize efficiency and reduce cost across the company. As part of those efforts, we are continuing to execute on our multi-year program to consolidate real estate locations worldwide to fewer core sites in order to reduce our IT spending and real estate costs. In addition, we are continuing to implement the restructuring plan announced in the fourth quarter of fiscal 2008 to optimize the cost structure of our services business and the restructuring plan announced in May 2009 to structurally change and improve the effectiveness of several of our product businesses. See Note 8 to the Consolidated Financial Statements in Item 8 for further discussion of these restructuring plans and the associated restructuring charges.

We also took actions in fiscal 2009 to further improve our cost structure and further shift our employee compensation structure from fixed to variable. As part of those actions, we reduced base pay for many of our employees, we reduced the matching contributions under the HP 401(k) Plan for all U.S. employees and began funding these matching contributions quarterly on a discretionary basis based on our financial performance, and we modified our employee stock purchase plan to eliminate the discount applicable to purchases made under the plan. We are continuing to evaluate our businesses and market conditions and may consider additional restructuring or other actions in future periods.

Investing for Growth

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

In November 2009, we entered into a definitive agreement to acquire 3Com Corporation, a global enterprise provider of networking switching, routing and security solutions, at a price of $7.90 per share in cash or an enterprise value of approximately $2.7 billion. The acquisition is subject to customary closing conditions, including the receipt of domestic and foreign regulatory approvals and the approval of 3Com's stockholders. The transaction is expected to close in our second fiscal quarter of 2010.

Leveraging our Portfolio and Scale

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

The following provides an overview of our key fiscal 2009 financial metrics and demonstrates how our execution of these initiatives has translated into financial performance:

	HP Consolidated	HP Enterprise Business: Services	HP Enterprise Business: ESS	HP Enterprise Business: HP Software	HP Enterprise Business: Total	PSG	IPG	HPFS
	In millions, except per share amounts							
Net revenue	$114,552	$34,693	$15,359	$3,572	$53,624	$35,305	$24,011	$2,673
Year-over-year net revenue % (decrease) increase	(3.2)%	65.4%	(20.8)%	(15.4)%	20.2%	(16.5)%	(18.9)%	(0.9)%
Earnings from operations	$ 10,136	$ 5,044	$ 1,518	$ 684	$ 7,246	$ 1,661	$ 4,310	$ 206
Earnings from operations as a % of net revenue	8.8%	14.5%	9.9%	19.1%	13.5%	4.7%	18.0%	7.7%
Net earnings	$ 7,660							
Net earnings per share								
Basic	$ 3.21							
Diluted	$ 3.14							

Cash and cash equivalents at October 31, 2009 totaled $13.3 billion, an increase of $3.1 billion from the October 31, 2008 balance of $10.2 billion. The increase for fiscal 2009 was due primarily to $13.4 billion of cash provided from operations and $1.8 billion of proceeds from the issuance of common stock under employee stock plans, which were partially offset by $5.1 billion of cash used to repurchase common stock, $3.2 billion net investment in property, plant and equipment, and $2.8 billion net payment of our debt.

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

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

For a further discussion of trends, uncertainties and other factors that could impact our operating results, see the section entitled "Risk Factors" in Item 1A, which is incorporated herein by reference.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

General

The Consolidated Financial Statements of HP are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net revenue and expenses, and the disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of HP's Board of Directors. Management believes that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. Management believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

Revenue Recognition

We enter into contracts to sell our products and services, and, while the majority of our sales agreements contain standard terms and conditions, there are agreements that contain multiple elements or non-standard terms and conditions. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the price should be allocated among the elements and when to recognize revenue for each element. We recognize revenue for delivered elements only when the delivered elements have standalone value, uncertainties regarding customer acceptance are resolved and there are no customer-negotiated refund or return rights for the delivered elements. If the arrangement includes a customer-negotiated refund or return right relative to the delivered item and the delivery and performance of the undelivered item is considered probable and substantially in our control, the delivered element constitutes a separate unit of accounting. Changes in the allocation of the sales price between elements may impact the timing of revenue recognition but will not change the total revenue recognized on the contract.

We recognize revenue as work progresses on certain fixed-price contracts, such as consulting arrangements. Using a proportional performance method, we estimate the total expected labor costs in order to determine the amount of revenue earned to date. We follow this basis because reasonably dependable estimates of the labor costs applicable to various stages of a contract can be made. Total contract profit is subject to revisions throughout the life of the contract. We record changes in revenue to income, as a result of revisions to cost estimates, in the period in which the facts that give rise to the revision become known.

We recognize revenue on certain design and build (design, development and/or construction of software and/or systems) projects using the percentage-of-completion method. We use the cost-to-cost method of measurement towards completion as determined by the percentage of cost incurred to date to the total estimated costs of the project. In circumstances when reasonable and reliable cost estimates for a project cannot be made, we recognize revenue using the completed contract method.

We record estimated reductions to revenue for customer and distributor programs and incentive offerings, including price protection, promotions, other volume-based incentives and expected returns. Future market conditions and product transitions may require us to take actions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered. Additionally, certain incentive programs require us to estimate, based on historical experience, the number of customers who will actually redeem the incentive.

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-13, "Multiple-Deliverable Revenue Arrangements"

("ASU 2009-13"). The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available.

Concurrently to issuing ASU 2009-13, the FASB also issued ASU No. 2009-14, "Certain Revenue Arrangements That Include Software Elements" ("ASU 2009-14"). ASU 2009-14 excludes software that is contained on a tangible product from the scope of software revenue guidance if the software is essential to the tangible product's functionality.

HP early adopted the provisions of ASU 2009-13 and ASU 2009-14 as of the beginning of fiscal 2009 for new and materially modified deals originating after November 1, 2008; therefore the previously reported quarterly results have been restated to reflect the impact of adoption.

We establish VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. TPE of selling price is established by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. The best estimate of selling price is established considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product lifecycle. Consideration is also given to market conditions such as competitor pricing strategies and industry technology lifecycles. When determining our best estimate of selling price, we apply management judgment when establishing margin objectives and pricing strategies and evaluating market conditions and product lifecycles. We may modify or develop new go-to-market practices in the future. As these go-to-market strategies evolve, we may modify our pricing practices in the future, which may result in changes in selling prices, impacting both VSOE and ESP. The aforementioned factors may result in a different allocation of revenue to the deliverables in multiple element arrangements from the current fiscal year, which may change the pattern and timing of revenue recognition for these elements but will not change the total revenue recognized for the arrangement.

The adoption of ASU 2009-13 and ASU 2009-14 was not material to our financial results, increasing net revenues and net earnings by $255 million and $55 million, respectively for fiscal 2009. The primary driver of the impact was the number of new or materially modified deals, particularly impacting the second half of the fiscal year, which was driven by economic and customer-specific factors. An additional driver of the impact was the extent of hardware or shorter-term service projects sold into longer-term complex service arrangements in a particular quarter, which may vary significantly on a deal-by-deal basis. We are not able to reasonably estimate the effect of adopting these standards on future financial periods as the impact will vary based on the nature and volume of new or materially modified deals in any given period.

Business Combinations

We allocate the purchase price of acquired companies to the tangible assets acquired, liabilities assumed and intangible assets acquired, including in-process research and development ("IPR&D"), based on their estimated fair values. The excess of the purchase price over these fair values is recorded as goodwill. We engage independent third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. The significant purchased intangible assets recorded by us include customer contracts and lists, developed and core technology and the Compaq trade name. The fair values assigned to the identified intangible assets are discussed in detail in Note 7 to the Consolidated Financial Statements in Item 8.

Critical estimates in valuing certain intangible assets include but are not limited to: future expected cash flows from customer contracts, customer lists, distribution agreements, and acquired developed technologies and patents; expected costs to develop IPR&D into commercially viable products and estimating cash flows from projects when completed; Compaq brand awareness and market position, as well as assumptions about the period of time the brand will continue to be used in our product portfolio; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed, as more fully discussed in Note 6 to the Consolidated Financial Statements in Item 8.

Restructuring

We have engaged, and may continue to engage, in restructuring actions, which require management to utilize significant estimates related to expenses for severance and other employee separation costs, realizable values of assets made redundant or obsolete, lease cancellation and other exit costs. If the actual amounts differ from our estimates, the amount of the restructuring charges could be materially impacted. For a full description of our restructuring actions, refer to our discussions of restructuring in the Results of Operations section and Note 8 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

Stock-Based Compensation Expense

We recognize stock-based compensation expense for all share-based payment awards, net of an estimated forfeiture rate. We recognize compensation cost for only those shares expected to vest on a straight-line basis over the requisite service period of the award.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. We utilize the Black-Scholes option pricing model to value the stock options granted under our principal option plans. To implement this model, we examined our historical pattern of option exercises to determine if there were any discernable activity patterns based on certain employee populations. From this analysis, we identified three employee populations to which to apply the Black-Scholes model. We determined that implied volatility calculated based on actively traded options on HP common stock is a better indicator of expected volatility and future stock price trends than historical volatility. Therefore, expected volatility used in the Black-Scholes option pricing model in fiscal years 2009, 2008 and 2007 was based on market-based implied volatility.

We issue performance-based restricted units ("PRUs") representing hypothetical shares of HP common stock. Each PRU award reflects a target number of shares that may be issued to the award recipient. We determine the actual number of shares the recipient receives at the end of a three-year performance period based on results achieved versus goals based on our annual cash flow from operations as a percentage of revenue and average total shareholder return ("TSR") relative to the S&P 500 over the performance period. We use historic volatility for PRU awards as implied volatility cannot be used when simulating multivariate prices for companies in the S&P 500. We estimate the fair value of PRUs using the Monte Carlo simulation model, as the TSR modifier contains a market condition. We update the estimated expense, net of forfeitures, for the cashflow performance against the goal for that year at the end of each reporting period.

The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 2 to the Consolidated Financial Statements in Item 8 for a further discussion on stock-based compensation.

Taxes on Earnings

We calculate our current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in our income tax returns filed during the subsequent year. We record adjustments based on filed returns when we have identified and finalized them, which is generally in the third and fourth quarters of the subsequent year for U.S. federal and state provisions, respectively.

We recognize deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which we expect the differences to reverse. We record a valuation allowance to reduce the deferred tax assets to the amount that we are more likely than not to realize. We have considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, we would increase the valuation allowance and make a corresponding charge to earnings in the period in which we make such determination. Likewise, if we later determine that we are more likely than not to realize the net deferred tax assets, we would reverse the applicable portion of the previously provided valuation allowance. In order for us to realize our deferred tax assets, we must be able to generate sufficient taxable income in the tax jurisdictions in which the deferred tax assets are located.

Our effective tax rate includes the impact of certain undistributed foreign earnings for which we have not provided U.S. taxes because we plan to reinvest such earnings indefinitely outside the United States. We plan foreign earnings remittance amounts based on projected cash flow needs as well as the working capital and long-term investment requirements of our foreign subsidiaries and our domestic operations. Based on these assumptions, we estimate the amount we will distribute to the United States and provide the U.S. federal taxes due on these amounts. Further, as a result of certain employment actions and capital investments we have undertaken, income from manufacturing activities in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, for fiscal years through 2022. Material changes in our estimates of cash, working capital and long-term investment requirements in the various jurisdictions in which we do business could impact our effective tax rate.

We are subject to income taxes in the United States and over sixty foreign countries, and we are subject to routine corporate income tax audits in many of these jurisdictions. We believe that our tax return positions are fully supported, but tax authorities are likely to challenge certain positions, which may not be fully sustained. However, our income tax expense includes amounts intended to satisfy income tax assessments that result from these challenges. Determining the income tax expense for these potential assessments and recording the related assets and liabilities requires management judgments and estimates. We evaluate our uncertain tax positions in accordance with the guidance for accounting for uncertainty in income taxes. We believe that our reserve for uncertain tax positions, including related interest, is adequate. The amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. Our reserve for uncertain tax positions is attributable primarily to uncertainties concerning the tax treatment of our international operations, including the allocation of income among different jurisdictions, and related interest. We review our reserves quarterly, and we may adjust such reserves because of proposed assessments by tax authorities, changes in facts and circumstances, issuance of new regulations or new case law, previously unavailable information obtained during the course of an examination, negotiations between tax authorities of different countries concerning our transfer prices, execution of Advanced Pricing Agreements, resolution with respect to individual audit issues, the resolution of entire audits, or the expiration of statutes of limitations.

Allowance for Doubtful Accounts

We determine our allowance for doubtful accounts using a combination of factors to ensure that we have not overstated our trade and financing receivables balances due to uncollectibility. We maintain an allowance for doubtful accounts for all customers based on a variety of factors, including the use of third-party credit risk models that generate quantitative measures of default probabilities based on market factors, the financial condition of customers, the length of time receivables are past due, trends in overall weighted-average risk rating of the total portfolio, macroeconomic conditions, significant one-time events and historical experience. Also, we record specific provisions for individual accounts when we become aware of specific customer circumstances, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, we would further adjust our estimates of the recoverability of receivables either upward or downward. The annual general provision for doubtful accounts has averaged approximately 0.06% of net revenue over the last three fiscal years. Using our third-party credit risk model at October 31, 2009, a 50-basis-point deterioration in the weighted-average default probabilities of our significant customers would have resulted in an approximately $36 million increase to our trade allowance at the end of fiscal year 2009.

Inventory

We state our inventory at the lower of cost or market. We make adjustments to reduce the cost of inventory to its net realizable value, if required, at the product group level for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, rapid technological changes, product life cycle and development plans, component cost trends, product pricing, physical deterioration and quality issues. Revisions to these adjustments would be required if these factors differ from our estimates.

Valuation of Goodwill and Purchased Intangible Assets

We review goodwill and purchased intangible assets with indefinite lives for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The provisions of Accounting Standards Codification Topic 350, ''Intangibles—Goodwill and Other'' require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. Our reporting units are consistent with the reportable segments identified in Note 19 to the Consolidated Financial Statements in Item 8. We determine the fair value of our reporting units based on a weighting of income and market approaches. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, we estimate the fair value based on market multiples of revenue or earnings for comparable companies. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. We also compare the fair value of purchased intangible assets with indefinite lives to their carrying value. We estimate the fair value of these intangible assets using an income approach. We recognize an impairment loss when the estimated fair value of the intangible asset is less than the carrying value.

Determining the fair value of a reporting unit or an indefinite-lived purchased intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, assumed royalty rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units.

Our annual goodwill impairment analysis, which we performed during the fourth quarter of fiscal 2009, did not result in an impairment charge. The excess of fair value over carrying value for each of HP's reporting units as of August 1, 2009, the annual testing date, ranged from approximately $750 million to approximately $35 billion. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test, we applied a hypothetical 10% decrease to the fair values of each reporting unit. This hypothetical 10% decrease would result in excess fair value over carrying value ranging from approximately $550 million to approximately $31 billion for each of HP's reporting units.

Fair Value of Financial Instruments

We measure certain financial assets and liabilities at fair value based on valuation techniques using the best information available, which may include quoted market prices, market comparables, and discounted cash flow projections. Financial instruments are primarily comprised of time deposits, money market funds, commercial paper, corporate and other debt securities, equity securities and other investments in common stock and common stock equivalents and derivative instruments.

We measure fair value using the framework established by the FASB accounting guidance for fair value measurements and disclosures. This 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 are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources. Unobservable inputs require management to make certain assumptions and judgments based on the best information available. Observable inputs are the preferred source of values. These two types of inputs create the following fair value hierarchy:

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

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

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

A description of the valuation methodologies we use to measure our financial assets and liabilities at fair value is provided below.

Cash Equivalents and Investments: We hold time deposits, money market funds, commercial paper, other debt securities primarily consisting of corporate and foreign government notes and bonds, and common stock and equivalents. In general, and where applicable, we use quoted prices in active markets for identical assets to determine fair value. If quoted prices in active markets for identical assets are not available to determine fair value, then we use 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, we use internally developed valuation models, whose inputs include bid prices, and third party valuations utilizing underlying asset assumptions.

Derivative Instruments: As discussed in Note 10 to the Consolidated Financial Statements in Item 8, we mainly hold non-speculative forwards, swaps and options to hedge certain foreign currency and interest rate exposures. When active market quotes are not available, we use industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies. In certain cases, market-based observable inputs are not available and, in those cases, we use management judgment to develop assumptions which are used to determine fair value.

Warranty Provision

We provide for the estimated cost of product warranties at the time we recognize revenue. We evaluate our warranty obligations on a product group basis. Our standard product warranty terms generally include post-sales support and repairs or replacement of a product at no additional charge for a specified period of time. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, we base our estimated warranty obligation upon warranty terms, ongoing product failure rates, repair costs, product call rates, average cost per call, and current period product shipments. If actual product failure rates, repair rates or any other post sales support costs were to differ from our estimates, we would be required to make revisions to the estimated warranty liability. Warranty terms generally range from 90 days to three years parts and labor, depending upon the product. Over the last three fiscal years, the annual warranty provision has averaged approximately 3.5% of annual net product revenue, while actual annual warranty costs have averaged approximately 3.3% of annual net product revenue.

Retirement Benefits

Our pension and other post-retirement benefit costs and obligations are dependent on various assumptions. Our major assumptions relate primarily to discount rates, salary growth, long-term return on plan assets and medical cost trend rates. We base the discount rate assumption on current investment yields of high quality fixed income investments during the retirement benefits maturity period. The salary growth assumptions reflect our long-term actual experience and future and near-term outlook. Long-term return on plan assets is determined based on historical portfolio results and management's expectation of the future economic environment, as well as target asset allocations.

In the beginning of fiscal 2008, we implemented a liability-driven investment strategy for the HP U.S. defined benefit pension plan, which was frozen effective December 31, 2007. As part of the strategy, we transitioned our investment allocation for that plan to predominantly fixed income assets. In fiscal 2008, we acquired EDS. The EDS U.S. defined benefit plan assets were invested predominantly in public equity and alternative investments. At the end of fiscal 2009, the assets of the HP and EDS plans were merged, resulting in a portfolio with a blend of fixed income, equities and alternatives. The expected return on the plan assets, used in calculating the net benefit cost, is 7.99% for fiscal 2010, which reflects the target asset allocation of the merged portfolio.

Our medical cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. Actual results that differ from our assumptions are accumulated and are amortized generally over the estimated future working life of the plan participants.

Our major assumptions vary by plan and the weighted-average rates used are set forth in Note 16 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. Each assumption has different sensitivity characteristics, and, in general, changes, if any, have moved in the same direction over the last several years. For fiscal 2009, changes in the weighted-average rates for the HP benefit plans would have had the following impact on our net periodic benefit cost:

- A decrease of 25 basis points in the long-term rate of return would have increased our net benefit cost by approximately $43 million;
- A decrease of 25 basis points in the discount rate would have increased our net benefit cost by approximately $71 million; and
- An increase of 25 basis points in the future compensation rate would have increased our net benefit cost by approximately $15 million.

Loss Contingencies

We are involved in various lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. We record a provision for a liability when we believe that 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. We review these provisions at least quarterly and adjust 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 our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows.

ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued a new accounting standard related to fair value measurements. The new standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB issued a new provision which delayed the effective date of the fair value measurements and disclosures 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). In August 2009, the FASB issued ASU No. 2009-05, "Measuring Liabilities at Fair Value" in relation to the fair value measurement of liabilities. We adopted the applicable portions of the provisions of the new standards in the first and fourth quarters of fiscal 2009, and will adopt the provision related to the nonfinancial assets and nonfinancial liabilities in the first quarter of fiscal 2010. Although we will continue to evaluate the application of the provision for the nonfinancial assets and nonfinancial liabilities, we do not expect the adoption to have a material impact on our consolidated financial statements. See Note 9 to the Consolidated Financial Statements in Item 8 for additional information pertaining to fair value measurements.

In December 2007, the FASB issued a new accounting standard related to business combinations. The new standard 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 with subsequent changes recognized in earnings; requires acquisition-related expenses and restructuring costs to be recognized separately from the business combination and expensed as incurred; requires in-process research and development to be capitalized at fair value as an indefinite-lived intangible asset; and requires that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of provision for taxes. The new standard also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. In April 2009, the FASB issued a new standard which clarified the accounting for pre-acquisition contingencies. We will adopt these new business combination standards in the first quarter of fiscal 2010. The impact of adoption will be largely dependent on the size and nature of the business combinations completed after the adoption of this statement.

In December 2007, the FASB issued a new accounting standard related to noncontrolling interests. The new standard establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The new standard also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. We will adopt this new accounting standard in the first quarter of fiscal 2010. We do not expect the adoption of this standard will have a material effect on our consolidated financial statements.

In May 2008, the FASB issued a new accounting standard related to convertible debt instruments. The new standard 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. We will adopt this new accounting standard on a retrospective basis in the first quarter of fiscal 2010. We do not expect the adoption of this standard will have a material effect on our consolidated financial statements.

In June 2008, the FASB issued a new accounting standard that clarifies whether instruments granted in share-based payment transactions should be included in computing earnings per share. Under the new standard, we will be required to include restricted stock that contains non-forfeitable rights to dividends in our calculation of basic earnings per share ("EPS"), and will need to calculate basic EPS using the "two-class method." The two-class method of computing EPS is an earnings allocation formula that determines EPS for each class of common stock and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. We will adopt this new accounting standard on a retrospective basis in the first quarter of fiscal 2010. We do not expect the adoption of this standard will have a material effect on our calculation of basic EPS.

In November 2008, the FASB issued a new accounting standard related to defensive intangible assets. Defensive intangible assets are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. Under the new standard, defensive intangible assets must be initially recognized at fair value and amortized over the benefit period. We will adopt this new accounting standard in the first quarter of fiscal 2010. The impact of adoption will be largely dependent on the size and nature of business combinations completed after the date of adoption.

In December 2008, the FASB issued a new accounting standard that requires additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. We will adopt this new accounting standard in the first quarter of fiscal 2010. We will present the required disclosures in the prescribed format on a prospective basis upon adoption. This new standard will only affect the notes to our consolidated financial statements.

In June 2009, the FASB issued a new accounting standard related to transfers of financial assets. It amends previous guidance to remove the concept of a qualifying special-purpose entity and its exemption from consolidation in the transferor's financial statements. This new standard also establishes conditions for reporting a transfer of a portion of a financial asset as a sale, modifies the financial-asset derecognition criteria, revises how interests retained by the transferor in a sale of financial assets are initially measured, removes the guaranteed mortgage securitization recharacterization provisions, and requires additional disclosures. We will adopt this new accounting standard in the first quarter of fiscal 2011. We do not expect the adoption of this standard will have a material effect on our consolidated financial statements.

In June 2009, the FASB issued a new accounting standard related to the consolidation of variable interest entities. It eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This new standard also requires additional disclosures about an enterprise's involvement in variable interest entities. We will adopt this new accounting standard in the first quarter of fiscal 2011. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

During the fourth quarter of fiscal 2009, we adopted the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles which only affected the specific references to GAAP literature in the notes to our consolidated financial statements.

In October 2009, the FASB issued ASU 2009-13. The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. Concurrently to issuing ASU 2009-13, the FASB also issued ASU 2009-14. ASU 2009-14 excludes software that is contained on a tangible product from the scope of software revenue guidance if the software is essential to the tangible product's functionality.

A further discussion of the financial impact of ASU 2009-13 and ASU 2009-14 appears under "Critical Accounting Policies and Estimates" above.

RESULTS OF OPERATIONS

The following discussion compares the historical results of operations on a GAAP basis for the fiscal years ended October 31, 2009, 2008, and 2007. We have included the results of the business operations acquired from EDS in our consolidated results of operations beginning on August 26, 2008, the closing date of the EDS acquisition.

Results of operations in dollars and as a percentage of net revenue were as follows for the following fiscal years ended October 31:

	2009		2008		2007	
			In millions			
Net revenue	$114,552	100.0%	$118,364	100.0%	$104,286	100.0%
Cost of sales[1]	87,524	76.4%	89,699[2]	75.8%	78,683[2]	75.4%
Gross profit	27,028	23.6%	28,665	24.2%	25,603	24.6%
Research and development	2,819	2.5%	3,543	3.0%	3,611	3.5%
Selling, general and administrative	11,613	10.1%	13,326[2]	11.3%	12,430[2]	11.9%
Amortization of purchased intangible assets	1,571	1.4%	967	0.9%	783	0.7%
In-process research and development charges	7	—	45	—	190	0.2%
Restructuring charges	640	0.6%	270	0.2%	387	0.4%
Acquisition-related charges	242	0.2%	41	—	—	—
Pension curtailments and pension settlements, net	—	—	—	—	(517)	(0.5)%
Earnings from operations	10,136	8.8%	10,473	8.8%	8,719	8.4%
Interest and other, net	(721)	(0.6)%	—	—	458	0.4%
Earnings before taxes	9,415	8.2%	10,473	8.8%	9,177	8.8%
Provision for taxes	1,755	1.5%	2,144	1.8%	1,913	1.8%
Net earnings	$ 7,660	6.7%	$ 8,329	7.0%	$ 7,264	7.0%

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

(2) Certain pursuit-related costs previously reported under Cost of sales have been realigned retroactively to Selling, general and administrative expenses due to organizational realignments.

Net Revenue

The components of the weighted net revenue change from the prior-year period were as follows for the following fiscal years ended October 31:

	2009	2008
	Percentage Points	
Personal Systems Group	(5.9)	5.6
Imaging and Printing Group	(4.7)	1.0
Enterprise Storage and Servers	(3.4)	0.7
HP Software	(0.6)	0.6
Corporate Investments/Other	(0.2)	(0.2)
HP Financial Services	—	0.4
Services	11.6	5.4
Total HP	(3.2)	13.5

Fiscal 2009

In fiscal 2009, the global slowdown of IT and consumer spending impacted each of our segments. Net revenue decreased 3.2% in fiscal 2009 from fiscal 2008 (increased 1.3% on a constant currency basis). The unfavorable currency impact for fiscal 2009 was due primarily to the movement of the dollar against the euro. For fiscal 2009, the Services segment contributed favorably to the total HP net revenue change primarily as a result of the EDS acquisition. U.S. net revenue increased 12% to $41.3 billion for fiscal 2009 as compared to fiscal 2008, while net revenue from outside of the United States decreased 10% to $73.2 billion. The increase in U.S. net revenue in fiscal 2009 from fiscal 2008 was primarily a result of the acquisition of EDS.

The PSG net revenue decline in fiscal 2009 from fiscal 2008 was primarily the result of the overall slowdown in the global economy. PSG average selling prices ("ASPs") declined in both consumer clients and commercial clients. The ASP decline in fiscal 2009 was offset slightly by an increase in the option and monitor attach rates. PSG unit volumes, however, increased slightly in fiscal 2009 as compared to fiscal 2008.

IPG experienced net revenue declines in fiscal 2009 from fiscal 2008 in the commercial and consumer hardware business units and in the supplies business unit. Unit volume declines across each of the business units were a result of the softness in both the business and consumer demand environments.

ESS net revenue decreased in fiscal 2009 from fiscal 2008 driven by declines in our industry standard servers ("ISS"), business critical systems and storage business units. The revenue declines were due primarily to the economic slowdown and overall weak demand environment. ISS unit volumes and average unit prices declined in fiscal 2009 as compared to the prior year.

HP Software experienced net revenue declines in fiscal 2009 from fiscal 2008 in both the business technology optimization ("BTO") business unit and the other software business unit due primarily to revenue declines in licenses and services, the effect of which was partially offset by increased support revenue as a result of renewal rate increases.

Net revenue in Corporate Investments and Other declined in fiscal 2009 from fiscal 2008, resulting from lower sales of network infrastructure products primarily as a result of the slowdown in the networking market.

HPFS net revenue decreased in fiscal 2009 from fiscal 2008 due to unfavorable currency movements.

The net revenue increase in Services in fiscal 2009 from fiscal 2008 was due primarily to net revenue increases in infrastructure technology outsourcing, application services and business process outsourcing primarily as a result of the EDS acquisition in the fourth quarter of fiscal 2008, the effect of which was partially offset by unfavorable currency impacts and a decline in spending from existing customers. Net revenue in technology services declined in fiscal 2009 due primarily to unfavorable currency impacts and weak economic conditions, the effect of which was partially offset by growth in extended warranty.

Fiscal 2008

In fiscal 2008, HP net revenue increased approximately 13.5% from the prior-year period (8.4% on a constant currency basis). The favorable currency impact for fiscal 2008 was due primarily to the movement of the dollar against the euro. U.S. net revenue was $36.9 billion for fiscal 2008, an increase of 6% from the prior year, while international net revenue increased 17% to $81.4 billion.

PSG net revenue increased in fiscal 2008 from fiscal 2007 as a result of a unit volume increase of 22%. The unit volume increase was the result of strong growth in notebooks with continued strength in emerging markets. The positive revenue impact from this unit volume increase was moderated by declines in ASPs in commercial and consumer clients of 7% and 4%, respectively.

IPG net revenue increased in fiscal 2008 from fiscal 2007 due to the growth in supplies net revenue as a result of higher unit volumes with strong performance from color-related products. For fiscal 2008, commercial hardware net revenues increased slightly, while consumer hardware net revenues declined due primarily to competitive pricing pressures and a slowing economy.

ESS net revenue increased in fiscal 2008 over the prior-year period due primarily to strong performance in storage, which was due in part to growth within our EVA and MSA product lines, and revenue growth in industry standard servers from increased unit volumes and blade revenues. Fiscal 2008 revenues in business critical systems were flat compared to the prior-year period.

HP Software net revenue growth in fiscal 2008 from fiscal 2007 was attributable to strong growth in our BTO business unit resulting from revenue increases in support, growth in license revenue, partially as a result of our acquisition of Opsware Inc. ("Opsware") in September 2007, and, to a lesser extent, increased services contract sales.

HPFS net revenue increased in fiscal 2008 from the prior year due primarily to an increase in the mix of operating leases as a portion of our asset portfolio and growth in average portfolio assets.

Services net revenue increased in fiscal 2008 over the prior year due primarily to net revenue increases in technology services, infrastructure technology outsourcing, application services and business process outsourcing primarily as a result of the EDS acquisition on August 26, 2008.

Gross Margin

The gross margin table below identifies each segment's weighted contribution to the change in the total company gross margin from the corresponding prior year. The segment contribution components of the gross margin decline as compared to the prior-year periods were as follows:

	2009	2008
	Percentage Points	
Enterprise Storage and Servers	(0.8)	(0.1)
Services	(0.1)	(0.2)
HP Software	(0.1)	0.1
HP Financial Services	—	—
Corporate Investments/Other	—	—
Imaging and Printing Group	0.2	(0.1)
Personal Systems Group	0.2	(0.1)
Total HP	(0.6)	(0.4)

Fiscal 2009

Total company gross margin decreased by 0.6 percentage points in fiscal 2009 as compared to fiscal 2008. From a segment perspective and on a weighted basis, ESS had the largest impact to the total company gross margin decline due to mix and rate declines.

ESS gross margin decreased in fiscal 2009 from the prior year due primarily to competitive pricing across each of the segment business units and product mix shifts.

The gross margin in our Services segment increased for fiscal 2009 from fiscal 2008 due primarily to the continued focus on cost structure improvements, including delivery efficiencies and cost controls in our technology services business, and EDS-related acquisition synergies. This was partially offset by the mix effect from the acquisition of the EDS business, which has lower gross margins.

The increase in HP Software gross margin in fiscal 2009 from the prior year resulted primarily from a favorable support and services revenue mix and improved services margins, the effect of which was partially offset by an unfavorable license revenue mix.

The HPFS gross margin decline in fiscal 2009 from fiscal 2008 was driven by unfavorable currency impacts, lower margins relating to end-of-lease activities, higher bad debt expenses and lower margins for remarketing and buyout activities, the effect of which was partially offset by higher portfolio margins.

Gross margin in Corporate Investments and Other declined for fiscal 2009 from fiscal 2008 as a result of a unit volume decline in the sale of network infrastructure products and competitive pricing pressures.

The improvement in IPG gross margin in fiscal 2009 from the prior year resulted primarily from an increase in the supplies mix and supplies pricing, the effect of which was partially offset by hardware margin declines.

PSG had the most favorable impact to the change in total company gross margin due to the mix effect of its gross margin representing a smaller component of our total gross margin from levels experienced in the prior-year period.

PSG gross margin declined in fiscal 2009 from fiscal 2008, resulting from ASPs declining at a faster pace than component costs combined with a mix shift towards lower-end products, the effects of which were partially offset by lower warranty and supply chain costs and improvements in the option attach rate.

Fiscal 2008

Total company gross margin decreased slightly in fiscal 2008 from fiscal 2007. On a segment basis, an increase in HP Software gross margin and a small increase in ESS gross margin were offset by small gross margin declines in Services and HPFS and flat gross margin growth across our remaining segments.

The slight improvement in ESS gross margin in fiscal 2008 from the prior year was primarily a result of improved cost management and attach rates in industry standard servers.

Services gross margin declined in fiscal 2008 from the prior year due primarily to the impact from the continued competitive pricing environment, partially offset by the continued focus on cost structure improvements generated by delivery efficiencies and cost controls.

For fiscal 2008 as compared to fiscal 2007, the improvement in HP Software gross margin was primarily the result of cost savings in the BTO business unit.

HPFS gross margin declined slightly in fiscal 2008 due primarily to higher bad debt expenses, the effect of which was partially offset by increased margins on end-of-lease activity.

IPG gross margin remained flat in fiscal 2008 as compared to fiscal 2007 with improved supplies margins resulting from mix shifts being offset by unfavorable hardware margins.

In fiscal 2008, PSG gross margin remained flat due primarily to declining ASPs offset by an increase in the attach rate of higher-margin options.

Operating Expenses

Research and Development

Total research and development ("R&D") expense decreased in fiscal 2009 as compared to fiscal 2008 due primarily to favorable currency impacts related to the movement of the dollar against the euro, as well as effective cost controls, the effect of which was partially offset by additional expenses related primarily to Services. In fiscal 2009, R&D expense as a percentage of net revenue decreased for ESS, PSG, and IPG, and increased for HP Software, Services and Corporate Investments.

Total R&D decreased in fiscal 2008 as compared to fiscal 2007, due primarily to effective cost controls, the impact of which was partially offset by the unfavorable currency impacts related to the movement of the dollar against the euro. Each of our major segments experienced a year-over-year decrease in R&D expense as a percentage of net revenue in fiscal 2008.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense decreased in fiscal 2009 from fiscal 2008 due primarily to favorable currency impacts related to the movement of the dollar against the euro, lower compensation expense as well as effective cost management, the impact of which was partially offset by additional expenses related to the EDS acquisition. In fiscal 2009, SG&A expense as a percentage of net revenue decreased for each of our segments, except for Corporate Investments.

Total SG&A expense increased in fiscal 2008 due primarily to higher field selling costs as a result of our investments in sales resources, unfavorable currency impacts related to the movement of the dollar against the euro, and additional expenses related to the EDS acquisition. Each of our major segments experienced a year-over-year decrease in SG&A expense as a percentage of net revenue during fiscal 2008.

Amortization of Purchased Intangible Assets

The increase in amortization expense in fiscal 2009 from fiscal 2008 was due primarily to amortization expenses related to the intangible assets purchased as part of the EDS acquisition.

The increase in amortization expense during fiscal 2008 as compared to fiscal 2007 was due primarily to amortization expenses related to the intangible assets purchased as part of the EDS acquisition as well as other acquisitions made in fiscal 2008.

For more information on our amortization of purchased intangibles assets, see Note 7 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

In-Process Research and Development Charges

We record IPR&D charges in connection with acquisitions accounted for as business combinations as more fully described in Note 6 to the Consolidated Financial Statements in Item 8. In fiscal 2009, fiscal 2008 and fiscal 2007, we recorded IPR&D charges of $7 million, $45 million and $190 million, respectively, related to acquisitions. The decrease in IPR&D in fiscal 2009 from fiscal 2008 was due primarily to higher IPR&D expenses in the prior year as a result of our EDS acquisition in the fourth quarter of fiscal 2008.

Restructuring

Restructuring charges for fiscal 2009 were $640 million. These charges included $346 million of severance and facility costs related to our fiscal 2008 restructuring plan, $297 million of severance costs associated with our fiscal 2009 restructuring plan, and a reduction of $3 million related to adjustments to other restructuring plans.

Restructuring charges for fiscal 2008 were $270 million, which included $246 million of charges due primarily to severance and facility costs related to the EDS acquisition and a net charge of $24 million relating to adjustments for existing restructuring programs.

Restructuring charges for fiscal 2007 were $387 million, which included $354 million of expenses related to severance and other benefit costs associated with those employees who elected to participate in the early retirement program implemented in fiscal 2007 and a net charge of $33 million relating to adjustments to our previous restructuring programs.

For more information on our restructuring charges, see Note 8 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Workforce Rebalancing

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

Acquisition-related Charges

We recorded acquisition-related charges of $242 million and $41 million in fiscal 2009 and fiscal 2008, respectively, related primarily to consulting and integration costs as well as retention bonuses associated with the EDS acquisition. The increase in the acquisition-related charges in fiscal 2009 was due primarily to our acquisition of EDS in August 2008.

Pension Curtailments and Pension Settlements, Net

In fiscal 2007, we recognized a net gain on pension curtailments and settlements of $517 million, relating primarily to a $542 million curtailment gain associated with a modification to our U.S. defined benefit pension plan and post-retirement benefit plan. This curtailment gain was offset partially by net settlement losses related to our other pension plan design changes.

For more information on our retirement and post-retirement benefit plans, see Note 16 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Interest and Other, Net

Interest and other, net decreased by $721 million in fiscal 2009 as compared to fiscal 2008. The decrease was driven primarily by higher interest expenses due to higher average debt balances principally related to the EDS acquisition, lower interest income as a result of lower interest rates, and higher currency losses on balance sheet remeasurement items. Additionally, there were higher gains from the sale of real estate in fiscal 2008 as compared to fiscal 2009.

Interest and other, net decreased by $458 million in fiscal 2008 as compared to fiscal 2007. The decrease resulted primarily from currency losses on balance sheet remeasurement items and lower interest income as a result of lower interest rates, the effect of which was partially offset by lower interest expense. Additionally, the prior-year period benefited from higher gains from the sale of real estate.

Provision for Taxes

Our effective tax rates were 18.6%, 20.5% and 20.8% in fiscal 2009, fiscal 2008 and fiscal 2007, respectively. HP's effective tax rate generally differs from the U.S. federal statutory rate of 35% due to favorable tax rates associated with some 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.

The decrease in the overall tax rate in fiscal 2009 from fiscal 2008 was due primarily to the net income tax benefits recorded for fiscal 2009 which were related to foreign net operating losses, adjustments to estimated fiscal 2008 tax accruals upon filing the 2008 income tax returns, valuation allowance reversals for state and foreign net operating losses, and other miscellaneous items.

The decrease in the overall tax rate in fiscal 2008 from fiscal 2007 was related in part to lower tax rates in other jurisdictions.

For a full reconciliation of our effective tax rate to the U.S. federal statutory rate of 35% and further explanation of our provision for taxes, see Note 14 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Segment Information

A description of the products and services, as well as financial data, for each segment can be found in Note 19 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. We have realigned segment financial data for the fiscal years ended October 31, 2008 and 2007 to reflect changes in HP's organizational structure that occurred at the beginning of the first quarter of fiscal 2009. We describe these changes more fully in Note 19. We have presented the business segments in this Annual Report on Form 10-K based on the distinct nature of various businesses such as customer base, homogeneity of products and technology. The discussions below include the results of each of our segments.

HP Enterprise Business

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

Services

As a result of the acquisition of EDS, we renamed our services segment and reorganized the business units within that segment to better align them to our enhanced services portfolio. The business reorganization resulted in three new business units: application services, infrastructure technology outsourcing and business process outsourcing. As part of this reorganization, the businesses included in the former HP consulting and integration business unit were divided among the application services and technology services business units and the HP Software segment. In addition, the businesses included in the former outsourcing services business unit were divided among the infrastructure technology outsourcing and business process outsourcing business units. Further, the managed print services offering under technology services was moved to IPG.

Historical Results

	For fiscal years ended October 31		
	2009	2008[(1)]	2007[(1)]
	In millions	In millions	In millions
Net revenue	$34,693	$20,977	$15,329
Earnings from operations	$ 5,044	$ 2,518	$ 1,782
Earnings from operations as a % of net revenue	14.5%	12.0%	11.6%

(1) Reflects certain reclassifications made to historical results to conform to the current year presentation as noted in Note 1 to the Consolidated Financial Statements in Item 8.

The components of the weighted net revenue growth as compared to the prior-year periods by business unit were as follows for the following fiscal years ended October 31:

	2009	2008
	Percentage Points	
Infrastructure technology outsourcing	39.9	18.7
Application services	17.3	8.5
Business process outsourcing	10.6	4.0
Technology services	(2.4)	5.6
Total Services	65.4%	36.8%

Services net revenue increased 65.4% (71.6% when adjusted for currency) for fiscal 2009, as compared to fiscal 2008. The increase in revenues is due primarily to the acquisition of EDS on August 26, 2008. Services net revenue for fiscal 2009 includes revenue from infrastructure technology outsourcing, technology services, application services and business process outsourcing, which accounted for approximately 46%, 28%, 17% and 9% of revenues, respectively. Net revenue in infrastructure technology outsourcing, application services and business process outsourcing increased due to the EDS acquisition. The net revenue increase in infrastructure technology outsourcing, application services, and business process outsourcing was partially offset by unfavorable currency impacts and a decline in spending from existing customers not being offset with new growth due to slowing demand in the current economic environment. Application services and business process outsourcing were impacted to a greater degree than infrastructure technology outsourcing. Net revenue in technology services declined due primarily to unfavorable currency impacts and weak economic conditions, the effect of which was partially offset by growth in extended warranty.

Services earnings from operations as a percentage of net revenue increased by 2.5 percentage points for fiscal 2009, as compared to fiscal 2008. The operating margin increased due primarily to a decrease in operating expenses as a percentage of revenue. There was also an increase in gross margin for fiscal 2009. Operating expense declined as a result of a continued focus on cost structure improvements from overall cost controls. The gross margin in our Services segment increased for fiscal 2009 from fiscal 2008 due primarily to the continued focus on cost structure improvements, including delivery efficiencies and cost controls in our technology services business, and EDS-related acquisition synergies. This was partially offset by the mix effect from the acquisition of the EDS business, which has lower gross margins.

Services net revenue (including EDS results from August 26, 2008) increased 36.8% (30.0% when adjusted for currency) for fiscal 2008, as compared to fiscal 2007. Net revenue increased from the prior year primarily due to the acquisition of EDS. Services net revenue (excluding EDS results from August 26, 2008) increased 11.7% (4.8% when adjusted for currency) for fiscal 2008, as compared to fiscal 2007. Services net revenue (including EDS results from August 26, 2008) for fiscal 2008 includes revenue from technology services, infrastructure technology outsourcing, application services and business process outsourcing, which accounted for approximately 49%, 36%, 12% and 3% of revenues, respectively. Net revenue in technology services increased in fiscal 2008 from the prior year due primarily to growth in IT solution support services, extended warranty revenue and favorable currency impacts, the impact of which was partially offset by competitive pricing pressures. Net revenue in infrastructure technology outsourcing, application services and business process outsourcing increased driven mainly by the EDS acquisition, an increase in volume, favorable currency impacts and new business.

Services earnings from operations as a percentage of net revenue (including EDS results from August 26, 2008) increased by 0.4 percentage points for fiscal 2008, as compared to fiscal 2007. The operating margin increase was the result of a decrease in operating expenses as a percentage of net revenue, partially offset by a slight decrease in gross margin. The gross margin decrease in fiscal 2008 was due primarily to the impact of the continued competitive pricing environment, which was partially offset by the continued focus on cost structure improvements generated by delivery efficiencies and cost controls. In fiscal 2008, continued efficiency improvements in our operating expense structure contributed to the decline in operating expenses as a percentage of net revenue compared to the prior year.

Combined Segment Results

The combined segment results below refer to the results of our services business for fiscal 2008, which include the results of EDS from the acquisition date, combined with the EDS results for the nine months ended June 30, 2008 and the period from August 1, 2008 to the acquisition date. The combined segment results are presented for informational purposes only and are not indicative of the results of operations that would have been achieved had the businesses been operated together during that period.

	For the fiscal year ended October 31		
	2009	Combined Segment Results 2008(1)	% (Decrease) Increase
	In millions	In millions	
Net revenue	$34,693	$39,194	(11.5)%
Earnings from operations	$ 5,044	$ 3,216	56.9%
Earnings from operations as a % of net revenue	14.5%	8.2%	

(1) Refers to the results of Services for the year ended October 31, 2008 combined with the EDS results for the nine months ended June 30, 2008 and for the period from August 1, 2008 to the acquisition date. In order to conform the presentation to our segment earnings from operations, we excluded certain EDS expenses that we do not allocate to our segments.

Services net revenue decreased 11.5% (3.8% when adjusted for currency) for fiscal 2009, as compared to the fiscal 2008 combined segment results presented in the table above. Services net revenue for the prior period combined segment results includes revenue from infrastructure technology outsourcing, technology services, application services and business process outsourcing, which accounted for approximately 46%, 26%, 19% and 9% of revenues, respectively. The net revenue declines were due primarily to an unfavorable currency impact, deferred revenue write-down resulting from purchase accounting, and lower add-on business due to the slowing economic environment. Further, Services net revenue for fiscal 2009 as compared to the combined segment results for fiscal 2008 reflects a weighted net revenue decline in the infrastructure technology outsourcing, business process outsourcing, technology services and application services units of 5.0%, 3.9%, 1.3% and 1.3%, respectively.

Services earnings from operations as a percentage of net segment revenue increased 6.3 percentage points for fiscal 2009, as compared to the fiscal 2008 combined segment results. Operating margin increased as a result of an increase in gross margin and a decrease in operating expenses as a percentage of net revenue. Gross margin increased due primarily to the continued focus on cost structure improvements, including delivery efficiencies and cost controls, and acquisition synergies. The continued improvements in our operating expense structure contributed to the decline in operating expenses as a percentage of net revenue compared to fiscal 2008.

Enterprise Storage and Servers

	For the fiscal years ended October 31		
	2009	2008	2007
		In millions	
Net revenue	$15,359	$19,400	$18,639
Earnings from operations	$ 1,518	$ 2,577	$ 2,148
Earnings from operations as a % of net revenue	9.9%	13.3%	11.5%

The components of the weighted net revenue change as compared to prior-year periods by business unit were as follows for the following fiscal years ended October 31:

	2009	2008
	Percentage Points	
Industry standard servers	(12.1)	1.5
Business critical systems	(4.9)	(0.1)
Storage	(3.8)	2.7
Total ESS	(20.8)	4.1

ESS net revenue decreased 20.8% (16.0% when adjusted for currency) in fiscal 2009 from fiscal 2008. The revenue decline was due primarily to the economic slowdown and overall weak demand environment. ISS net revenue declined 20% in fiscal 2009 as compared to fiscal 2008 due to declines in unit volume. ISS average unit prices declined in fiscal 2009 while improving in the second half of fiscal 2009 as a result of a new product ramp up. Total ESS blades revenue declined by 8% in fiscal 2009 as compared to fiscal 2008. Business critical systems net revenue decreased 27% in fiscal 2009 compared to fiscal 2008 driven by a decline in Integrity server revenue due to weaker market conditions and by the planned phase-out of the PA-RISC and Alpha Server product lines. Storage net revenue declined 17% in fiscal 2009 compared to fiscal 2008 due to a decline in disk and tape products as a result of a weaker demand environment, the effects of which were partially offset by revenue resulting from the acquisition of Lefthand Networks, which was completed in the first quarter of fiscal 2009.

In fiscal 2009, ESS earnings from operations as a percentage of net revenue decreased by 3.4 percentage points compared to fiscal 2008, due primarily to a decline in gross margin. Gross margin in fiscal 2009 decreased due primarily to competitive pricing across each of the segment business units and product mix shifts. Operating expense as a percentage of net revenue in fiscal 2009 was generally consistent with the fiscal 2008.

ESS net revenue increased 4.1% (decreased 0.5% when adjusted for currency) in fiscal 2008 from fiscal 2007. Storage net revenue increased 13% in fiscal 2008 compared to fiscal 2007, with strong performance in mid-range EVA, entry MSA, tape media and storage software. Industry standard servers net revenue grew 2% in fiscal 2008 compared to fiscal 2007 as a result of growth in blade revenue and unit volumes. Revenue growth in the industry standard servers business was partially offset by the decline in average unit prices driven by market movement to low-end product lines and component cost declines. Business critical systems net revenue growth was flat in fiscal 2008 compared to fiscal 2007. Integrity servers net revenue grew 22% in fiscal 2008 and represents 79% of the business critical systems revenue mix, up from 64% in fiscal 2007. The increase was offset by revenue declines in the PA-RISC product line and the planned phase-out of our Alpha Server product line. Integrity servers revenue in fiscal 2008 also included revenue from Montvale-based Integrity servers.

In fiscal 2008, ESS earnings from operations as a percentage of net revenue increased by 1.8 percentage points compared to fiscal 2007, due primarily to a decrease in operating expenses as a percentage of net revenue. Gross margin increased slightly in fiscal 2008 compared to fiscal 2007 due primarily to cost management and improved attach rates in industry standard servers, the effect of which was mostly offset by competitive pricing in storage and industry standard servers and a mix shift to entry level integrity servers. The decrease in operating expense as a percentage of net revenue in fiscal 2008 was due primarily to continued cost structure improvements.

HP Software

	For the fiscal years ended October 31		
	2009	2008	2007
		In millions	
Net revenue	$3,572	$4,220	$3,628
Earnings from operations	$ 684	$ 499	$ 248
Earnings from operations as a % of net revenue	19.1%	11.8%	6.8%

The components of the weighted net revenue change as compared to the prior-year periods by business unit were as follows for the following fiscal years ended October 31:

	2009	2008
	Percentage Points	
Business technology optimization	(9.7)	14.2
Other software	(5.7)	2.1
Total HP Software	(15.4)	16.3

HP Software net revenue decreased 15.4% (10.8% when adjusted for currency) in fiscal 2009 from fiscal 2008, due to softening in enterprise spending and declines in large deals. For fiscal 2009, revenue from licenses and services declined, the effect of which was partially offset by increased support revenue as a result of renewal rate increases. Net revenue from BTO decreased 15% in fiscal 2009 as compared to fiscal 2008. Net revenue from other software decreased 17% in fiscal 2009 as compared to fiscal 2008, due to declines in revenues for communication and media solutions, business intelligence solutions and information management.

HP Software earnings from operations as a percentage of net revenue increased by 7.3 percentage points in fiscal 2009 as compared to fiscal 2008. The operating margin improvement in fiscal 2009 was due primarily to increased gross margin coupled with decreased operating expenses as a percentage of net revenue. The increase in gross margin in fiscal 2009 resulted primarily from a favorable support and services revenue mix and improved services margins, the effect of which was partially offset by an unfavorable license revenue mix. The decrease in operating expenses as a percentage of net revenue in fiscal 2009 was due primarily to continued cost controls.

HP Software net revenue increased 16.3% (10.4% when adjusted for currency) in fiscal 2008 from fiscal 2007. Net revenue from BTO increased 23% in fiscal 2008 as compared to fiscal 2007. BTO net revenue growth in fiscal 2008 was driven by increases in support, higher license revenue due in part to the Opsware acquisition, and increases in services contracts. Net revenue from other software increased by 6% in fiscal 2008 as compared to fiscal 2007. The growth in other software net revenue in fiscal 2008 was attributable primarily to the growth in the information management business due in part to our acquisition of Tower Software in May 2008 and increases in services from business intelligence solutions, the effect of which was partially offset by a net revenue decline in communication and media solutions resulting from a competitive environment following network equipment provider industry consolidation and the transfer of some hardware revenues to ESS due to a platform shift.

HP Software earnings from operations as a percentage of net revenue increased by 5.0 percentage points in fiscal 2008 as compared to fiscal 2007. The operating margin increase in fiscal 2008 was the result of a combination of an increase in gross margin and a decrease in operating expenses as a percentage of net revenue. The increase in gross margin in fiscal 2008 was due primarily to cost savings in the BTO business, cost structure improvements as a result of increased scale in the information management business and, to a lesser extent, a favorable change in the revenue mix driven by higher revenues from the BTO business, which typically has higher gross margins than the remainder of the segment. The decrease in operating expenses as a percentage of net revenue in fiscal 2008 was due primarily to continued cost controls, the effect of which was partially offset by increased field selling costs driven by sales force investments.

Personal Systems Group

	For the fiscal years ended October 31		
	2009	2008	2007
		In millions	
Net revenue	$35,305	$42,295	$36,409
Earnings from operations	$ 1,661	$ 2,375	$ 1,939
Earnings from operations as a % of net revenue	4.7%	5.6%	5.3%

The components of the weighted net revenue change as compared to prior-year periods by business unit were as follows for the following fiscal years ended October 31:

	2009	2008
	Percentage Points	
Desktop PCs	(8.9)	2.1
Notebook PCs	(5.8)	13.8
Workstations	(1.5)	0.4
Handhelds	(0.4)	(0.5)
Other	0.1	0.4
Total PSG	(16.5)	16.2

PSG net revenue decreased 16.5% (11.6% when adjusted for currency) in fiscal 2009 from fiscal 2008. The revenue decline was primarily the result of the overall slowdown in the global economy. Despite the overall regional declines, revenue in China increased for fiscal 2009 as compared to fiscal 2008. PSG net revenue decreased across all businesses in fiscal 2009. Unit volume increased slightly in fiscal 2009 as compared to fiscal 2008, as an increase in notebook PC volume was offset by a decline in desktop PCs, workstations, and handheld devices. The unit volume increase in notebook PCs was due in part to growth of the HP and Compaq mini notebooks. In fiscal 2009, net revenue for notebook PCs decreased 11%, while net revenue for desktop PCs decreased 23% from fiscal 2008. Workstations and handheld revenues declined 33% and 52%, respectively, in fiscal 2009 from fiscal 2008. In fiscal 2009, net revenue for consumer clients decreased 14%, while net revenue for commercial clients decreased 19% from fiscal 2008. The net revenue increase in Other PSG was related primarily to increased sales of extended warranties, support services and third-party branded options. In fiscal 2009, PSG net revenue was also impacted by ASP declines. ASPs in consumer clients declined 21%, while ASPs in commercial clients declined 16%. ASPs declined from fiscal 2008 due primarily to a competitive pricing environment, component cost reductions and the impact of currency combined with a mix shift toward lower-end models. The ASP decline in fiscal 2009 was offset slightly by an increase in the option and monitor attach rates.

PSG earnings from operations as a percentage of net revenue decreased by 0.9 percentage points in fiscal 2009 from fiscal 2008. The decrease was due primarily to a gross margin decline resulting from ASPs declining at a faster pace than component costs combined with a mix shift toward lower-end products, the effects of which were partially offset by lower warranty and supply chain costs and improvements in the option attach rate. The decrease in operating expenses as a percentage of net revenue in fiscal 2009 was the result of effective cost controls.

PSG net revenue increased 16.2% (10.8% when adjusted for currency) in fiscal 2008 from fiscal 2007. Unit volumes increased by 22% in fiscal 2008 as compared to fiscal 2007. The unit volume increase was the result of strong growth in notebooks, with continued strength in emerging markets. In fiscal 2008, net revenue for notebook PCs increased 28% while net revenue for desktop PCs increased 5% from fiscal 2007. In fiscal 2008, net revenue for consumer clients increased 19%, while net revenue for commercial clients increased 15% from fiscal 2007. The net revenue increase in Other PSG in fiscal 2008 was related primarily to increased sales of third-party branded options and extended warranties. The revenue increase was partially offset by a decline in handhelds revenue driven by product transition within converged devices. In fiscal 2008, the positive revenue impact from the PSG unit volume increase compared to fiscal 2007 was also moderated by a 7% decline in commercial client ASPs and a

4% decline in consumer client ASPs. ASPs declined from fiscal 2007 as a result of price erosion related to component cost reductions and a competitive pricing environment, the effect of which was partially offset by an increased notebook mix and improved attach rates for monitors and other options.

PSG earnings from operations as a percentage of net revenue increased by 0.3 percentage points in fiscal 2008 from fiscal 2007 as a result of a decrease in operating expenses as a percentage of net revenue combined with a flat gross margin. Gross margin performance was a result of declining ASPs offset by an increase in the attach rate of higher-margin options. The operating expense decline as a percentage of net revenue in fiscal 2008 was the result primarily of the increased net revenue and continued efforts to improve our cost structure through efficiency measures.

Imaging and Printing Group

	For the fiscal years ended October 31		
	2009	2008	2007
		In millions	
Net revenue	$24,011	$29,614	$28,609
Earnings from operations	$ 4,310	$ 4,559	$ 4,293
Earnings from operations as a % of net revenue	18.0%	15.4%	15.0%

The components of the weighted net revenue change as compared to the prior-year periods by business unit were as follows for the following fiscal years ended October 31:

	2009	2008
	Percentage Points	
Commercial hardware	(8.9)	0.2
Supplies	(6.6)	5.1
Consumer hardware	(3.4)	(1.8)
Total IPG	(18.9)	3.5

IPG net revenue decreased 18.9% (16.5% when adjusted for currency) in fiscal 2009 from fiscal 2008, reflecting the impact of the global economic slowdown. Net revenue for commercial hardware declined 36% in fiscal 2009 as compared to fiscal 2008. The net revenue decline in commercial hardware was driven by a unit volume decline of 38% in fiscal 2009 from fiscal 2008, due primarily to worldwide market weaknesses impacting both our laser and our graphics businesses. Supplies net revenue declined 11% in fiscal 2009 as compared to fiscal 2008. The supplies net revenue decline in fiscal 2009 was across all platforms and was the result of reductions in channel inventory and unfavorable currency impacts, the effect of which was partially moderated by supplies pricing. Net revenue for consumer hardware declined 27% in fiscal 2009 as compared to fiscal 2008. The net revenue decline in consumer hardware was driven by a unit volume decline of 24% in fiscal 2009 from fiscal 2008, reflecting the weak demand environment and channel inventory reductions.

IPG earnings from operations as a percentage of net revenue increased 2.6 percentage points in fiscal 2009 as compared to fiscal 2008. Operating margin improvement in fiscal 2009 was a combination of an increase in gross margin and a decrease in operating expenses as a percentage of net revenue. The improvement in gross margin in fiscal 2009 resulted primarily from an increase in the supplies mix and supplies pricing, the effect of which was partially offset by hardware margin declines due to unfavorable currency impacts and declines in average revenue per unit. The decrease in operating expenses as a percentage of net revenue in fiscal 2009 was due primarily to effective cost controls.

IPG net revenue increased 3.5% (decreased 0.8% when adjusted for currency) in fiscal 2008 from fiscal 2007. The growth in printer supplies net revenue in fiscal 2008 from fiscal 2007 reflected higher unit volumes of supplies as a result of the strong performance of color-related products. The slight increase in commercial hardware net revenue in fiscal 2008 from fiscal 2007 was due mainly to unit volume growth in multifunction printers, color laser printers and large format printing products and revenue from recent acquisitions, partially offset by continued competitive pricing pressures. The decrease in consumer hardware net revenue in fiscal 2008 from fiscal 2007 was due primarily to discontinued sales of cameras, competitive pricing pressures and lower unit volumes of consumer hardware as a result of slower growth in the overall consumer printer market. Both consumer and commercial hardware were impacted by the continued shift in demand to lower-priced products and a slowing economy, which caused average revenue per unit in each category to decline.

IPG earnings from operations as a percentage of net revenue increased by 0.4 percentage points in fiscal 2008 from the prior fiscal year. The operating margin improvement in fiscal 2008 was due to lower operating expenses as a percentage of net revenue. In fiscal 2008, the gross margin remained flat driven by improved margins for supplies as a result of product mix, the effect of which was offset by unfavorable hardware margins. The decrease in operating expenses as a percentage of net revenue in fiscal 2008 was due primarily to higher revenue and continued cost controls, the effect of which was partially offset by increased investments in our enterprise printing sales force.

HP Financial Services

	For the fiscal years ended October 31		
	2009	2008	2007
		In millions	
Net revenue	$2,673	$2,698	$2,336
Earnings from operations	$ 206	$ 192	$ 155
Earnings from operations as a % of net revenue	7.7%	7.1%	6.6%

HPFS net revenue decreased by 0.9% in fiscal 2009 from fiscal 2008. The net revenue decrease was due to unfavorable currency movements. On a constant currency basis, fiscal 2009 net revenue increased due primarily to portfolio growth, increased operating lease mix and higher buyout activities, the effect of which was partially offset by lower levels of remarketing and end-of-lease activity.

HPFS earnings from operations as a percentage of net revenue increased by 0.6 percentage points in fiscal 2009 from fiscal 2008 due primarily to a decrease in operating expenses, the effect of which was partially offset by a decline in gross margin. The operating expense decrease was due to continued cost controls. The decline in gross margin was driven by an unfavorable currency impact, lower margins relating to end of lease activity, higher bad debt expenses, and lower remarketing and buyout margins, the effect of which was partially offset by higher portfolio margins.

HPFS net revenue increased by 15.5% in fiscal 2008 from fiscal 2007. The net revenue increase was due primarily to a shift towards operating leases from financing leases in the overall portfolio asset mix, higher average portfolio assets during the year, higher end-of-lease activity and a favorable currency impact.

HPFS earnings from operations as a percentage of net revenue increased by 0.5 percentage points in fiscal 2008 from fiscal 2007 due primarily to a decrease in operating expenses as a percentage of net revenue and increased margin on end-of lease activity, the effect of which was offset by higher bad debt expenses and lower portfolio margins due to higher operating leases in the portfolio asset mix. The operating expense decrease as a percentage of revenue is driven by a higher rate of increase in revenues relative to operating expenses due to higher operating lease mix of the portfolio and continued cost controls.

Financing Originations

	For the fiscal years ended October 31		
	2009	2008	2007
		In millions	
Total financing originations	$5,210	$4,872	$4,441

New financing originations, which represent the amounts of financing provided to customers for equipment and related software and services and include intercompany activity, increased 6.9% in fiscal 2009 from fiscal 2008 and 9.7% in fiscal 2008 from fiscal 2007. The increases reflect higher financing associated with HP product sales and services offerings resulting from improved integration and engagement with HP's sales efforts offset by unfavorable currency impact.

Portfolio Assets and Ratios

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

The portfolio assets and ratios derived from the segment balance sheet for HPFS were as follows for the following fiscal years ended October 31:

	2009	2008
	In millions	
Portfolio assets[(1)]	$10,017	$8,297
Allowance for doubtful accounts[(2)]	108	90
Operating lease equipment reserve	71	60
Total reserves	179	150
Net portfolio assets	$ 9,838	$8,147
Reserve coverage	1.8%	1.8%
Debt to equity ratio[(3)]	7.0x	6.5x

(1) Portfolio assets include gross financing receivables of approximately $6.1 billion and $5.1 billion at October 31, 2009 and October 31, 2008 and net equipment under operating leases of $2.2 billion and $1.8 billion at October 31, 2009 and October 31, 2008, as disclosed in Note 11 to the

Consolidated Financial Statements in Item 8, which is incorporated herein by reference. Portfolio assets also include capitalized profit on intercompany equipment transactions of approximately $700 million at October 31, 2009 and October 31, 2008, and intercompany leases of approximately $1.0 billion and $800 million at October 31, 2009 and October 31, 2008, both of which are eliminated in consolidation.

(2) Allowance for doubtful accounts includes both the short-term and the long-term portions of the allowance on financing receivables.

(3) HPFS debt consists of intercompany equity that is treated as debt for segment reporting purposes, intercompany debt and debt issued directly by HPFS.

Net portfolio assets at October 31, 2009 increased 20.8% from October 31, 2008. The increase resulted from higher levels of financing originations in fiscal 2009 and a favorable currency impact. The overall percentage of portfolio assets reserves remained flat due to continued strong portfolio performance. HPFS funds its operations mainly through a combination of intercompany debt and equity. In addition to the balances reflected above, HP assumed net portfolio assets of $51 million through the acquisition of EDS.

Rollforward of Reserves:

	October 31, 2008	Additions to allowance	Deductions, net of recoveries	October 31, 2009
	In millions			
Allowance for doubtful accounts	$ 90	$63	$(45)	$108
Operating lease equipment reserve	60	19	(8)	71
Total reserve	$150	$82	$(53)	$179

Corporate Investments

	For the fiscal years ended October 31		
	2009	2008	2007
	In millions		
Net revenue	$768	$965	$762
(Loss) earnings from operations	$ (56)	$ 49	$ (57)
(Loss) earnings from operations as a % of net revenue	(7.3)%	5.1%	(7.5)%

Net revenue in Corporate Investments relates primarily to network infrastructure products sold under the brand "ProCurve Networking." In fiscal 2009, revenue from network infrastructure products decreased 19.6% as compared to fiscal 2008, resulting from the slowdown in the networking market and a resulting decrease in sales of enterprise ethernet switch products. Partially offsetting the revenue decline was revenue resulting from the acquisition of Colubris Networks, Inc. ("Colubris"), which HP acquired in October 2008.

Corporate Investments reported a loss from operations in fiscal 2009 as compared to the positive earnings from operations reported in fiscal 2008 due primarily to lower earnings from operations generated by network infrastructure products. Gross margin in Corporate Investments declined for fiscal 2009 as the result of a unit volume decline in the sale of network infrastructure products and competitive pricing pressure. The loss from operations in Corporate Investments was also impacted by expenses carried in the segment associated with corporate development, global alliances and HP Labs, which declined from fiscal 2008.

In fiscal 2008, the majority of the net revenue in Corporate Investments related to network infrastructure products sold under the brand "ProCurve Networking," which grew 26.2% from fiscal 2007 as the result of continued increased sales of enterprise class gigabit and 10 gigabit Ethernet switch products. Fiscal 2008 network infrastructure revenue included a small amount of revenue from Colubris.

Corporate Investments reported earnings from operations in fiscal 2008 as compared to losses in fiscal 2007 due primarily to increased earnings from operations generated by network infrastructure products, and operating expenses related to HP Labs was flat as compared to fiscal 2007.

LIQUIDITY AND CAPITAL RESOURCES

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

The information discussed below is presented based on our historical results, which include the results of EDS for the period following the August 26, 2008 closing date of the acquisition.

LIQUIDITY

We use cash generated by operations as our primary source of liquidity; we believe that internally generated cash flows are generally sufficient to support business operations, capital expenditures and the payment of stockholder dividends, in addition to a level of discretionary investments and share repurchases. We are able to supplement this near-term liquidity, if necessary, with broad access to capital markets and credit line facilities made available by various foreign and domestic financial institutions. Our liquidity is subject to various risks including the market risks identified in the section entitled "Qualitative and Quantitative Disclosures about Market Risk" in Item 7A.

	For the fiscal years ended October 31		
	2009	2008	2007
		In billions	
Cash and cash equivalents	$13.3	$10.2	$11.3
Total debt	$15.8	$17.9	$ 8.2
Available borrowing resources[1]	$18.1	$11.7	$10.3

[1] In addition to these available borrowing resources, we are able to offer for sale, from time to time, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants under the 2009 Shelf Registration Statement.

Our cash position remains strong, and we believe our cash balances are sufficient to cover cash outlays expected in fiscal 2010.

Cash Flows

The following table summarizes the key cash flow metrics from our consolidated statements of cash flow:

	For the fiscal years ended October 31		
	2009	2008	2007
		In millions	
Net cash provided by operating activities	$13,379	$ 14,591	$ 9,615
Net cash used in investing activities	(3,580)	(13,711)	(9,123)
Net cash used in financing activities	(6,673)	(2,020)	(5,599)
Net increase (decrease) in cash and cash equivalents	$ 3,126	$ (1,140)	$(5,107)

Operating Activities

Net cash provided by operating activities decreased by approximately $1.2 billion for fiscal 2009, as compared to fiscal 2008. The decrease was due primarily to increased utilization of cash resources for payment of operating liabilities such as accounts payable, other current liabilities and restructuring along with a decrease in net earnings, the impact of which was partially offset by the increased generation of cash resources through the utilization of operating assets such as inventory and other current assets along with increased amortization expense. Net cash provided by operating activities increased by approximately $5.0 billion for fiscal 2008, as compared to fiscal 2007. The increase was due primarily to higher net earnings in fiscal 2008, a decrease in accounts and financing receivables, and increased accounts payable.

Our key working capital metrics are as follows:

	October 31		
	2009	2008	2007
Days of sales outstanding in accounts receivable	48	45	43
Days of supply in inventory	23	27	34
Days of purchases outstanding in accounts payable[1]	(57)	(52)	(53)
Cash conversion cycle	14	20	24

(1) Beginning in the second quarter of fiscal 2009, we reclassified certain activity within Other accrued liabilities to Accounts payable as this better represents the nature of the activity. All prior periods have been revised to conform to the current presentation.

Days of sales outstanding in accounts receivable ("DSO") measures the average number of days our receivables are outstanding. DSO is calculated by dividing ending accounts receivable, net of allowance for doubtful accounts, by a 90-day average net revenue. Our accounts receivable balance was $13.4 billion as of October 31, 2007.

Days of supply in inventory ("DOS") measures the average number of days from procurement to sale of our product. DOS is calculated by dividing ending inventory by a 90-day average cost of goods sold. Our inventory balance was $8.0 billion as of October 31, 2007.

Days of purchases outstanding in accounts payable ("DPO") measures the average number of days our accounts payable balances are outstanding. DPO is calculated by dividing ending accounts payable by a 90-day average cost of goods sold. Our accounts payable balance was $12.4 billion as of October 31, 2007.

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

The cash conversion cycle for fiscal 2009 decreased by 6 days as compared to fiscal 2008. The increase in DSO was due primarily to our improving penetration into the enterprise market which tends to have a higher DSO profile, optimizing terms to drive shareholder value as well as more sales in the month of October. The decrease in DOS was due to lower inventory levels driven primarily by improved inventory management. The increase in DPO was due primarily to a change in purchasing linearity in the fourth quarter.

The cash conversion cycle for the fiscal 2008 decreased by 4 days as compared to fiscal 2007. The increase in DSO was due primarily to a higher accounts receivable balance during the fourth quarter of fiscal 2008 compared to the same period in fiscal 2007 and the effect of the EDS acquisition. The decrease in DOS was due primarily to more efficient inventory management, higher cost of goods sold during the fourth quarter of 2008 as a result of increased revenues and the effect of the EDS acquisition. The slight decrease in DPO was due to the effect of the EDS acquisition.

Investing Activities

Net cash used in investing activities decreased by approximately $10.1 billion for fiscal 2009 as compared to fiscal 2008 due primarily to higher cash payments made in connection with fiscal 2008 acquisitions and increased by approximately $4.6 billion for fiscal 2008, as compared to fiscal 2007 due to fiscal 2008 acquisition activity.

Financing Activities

Net cash used in financing activities increased by approximately $4.7 billion for fiscal 2009, as compared to fiscal 2008. The increase was due primarily to higher net repayments of commercial paper and debt, the impact of which was partially offset by decreased repurchases of our common stock. Net cash used in financing activities decreased by approximately $3.6 billion for fiscal 2008, as compared to fiscal 2007. The decrease was due primarily to higher net issuance of commercial paper and debt.

For more information on our share repurchase programs, see Item 5 and Note 15 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

CAPITAL RESOURCES

Debt Levels

	For the fiscal years ended October 31		
	2009	2008	2007
	In millions, except interest rates and ratios		
Short-term debt	$ 1,850	$10,176	$3,186
Long-term debt	$13,980	$ 7,676	$4,997
Debt-equity ratio	0.39x	0.46x	0.21x
Weighted-average interest rate	2.7%	3.6%	5.3%

We maintain debt levels that we establish through consideration of a number of factors, including cash flow expectations, cash requirements for operations, investment plans (including acquisitions), share repurchase activities, overall cost of capital, and targeted capital structure.

In fiscal 2009 short-term debt decreased by $8.3 billion and long-term debt increased by $6.3 billion as compared to fiscal 2008. This was primarily due to the replacement of short-term debt with long-term debt as capital market conditions improved from last year, which was partially offset by a reclassification of $1 billion from long-term to short-term. Short-term debt and long-term debt increased by $7.0 billion and $2.7 billion respectively, for fiscal 2008 as compared to fiscal 2007. The net increase in total debt is due mainly to commercial paper issued in conjunction with the EDS acquisition.

Our debt-equity ratio is calculated as the carrying value of debt divided by the carrying value of equity. Our debt-equity ratio decreased by 0.07x in fiscal 2009, due primarily to the net repayment of $2.0 billion debt. It increased by 0.25x in fiscal 2008 due primarily to funding the EDS acquisition by debt.

Our weighted-average interest rate reflects the average effective rate on our borrowings prevailing during the year; it factors in the impact of swapping some of our global notes with fixed interest rates for global notes with floating interest rates. For more information on our interest rate swaps, see Note 10 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. The slightly lower weighted average interest rates over the past three years is a result of the combination of lower market interest rates and swapping some of our fixed interest obligations associated with some of our fixed global notes for variable rate obligations through interest rate swaps in a declining rates environment.

For more information on our borrowings, see Note 13 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Available Borrowing Resources

At October 31, 2009, we had the following resources available to obtain short-term or long-term financings if we need additional liquidity:

	At October 31, 2009
	In millions
2009 Shelf Registration Statement[1]	Unspecified
Commercial paper programs[2]	16,200
Uncommitted lines of credit[3]	1,600
Revolving trade receivables-based facilities[4]	269

(1) In May 2009, we filed a shelf registration statement (the "2009 Shelf Registration Statement") with the SEC to enable us to offer for sale, from time to time and as the capital markets permit, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants.

(2) Our commercial paper programs are supported by various credit facilities, including a $3.5 billion credit facility expiring in February 2010 and a $2.9 billion credit facility expiring in May 2012. Our ability to have a U.S. commercial paper outstanding balance that exceeds the $6.4 billion supported by our credit facilities is subject to a number of factors, including liquidity conditions and business performance. HP also has registered for the Commercial Paper Funding Facility ("CPFF") provided by the Federal Reserve Bank of New York, which would enable HP to issue three-month unsecured commercial paper through a special purpose vehicle of the Federal Reserve. 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 October 31, 2009, HP had not issued any commercial paper under the CPFF program. See Note 13 to the Consolidated Financial Statements, which is incorporated herein by reference, for additional information about these credit facilities and the CPFF program.

(3) HP maintains uncommitted lines of credit from a number of financial institutions that are available through various foreign subsidiaries.

(4) We have revolving trade receivables-based facilities permitting us to sell certain trade receivables to third parties on a non-recourse basis. The aggregate maximum capacity under these programs was $568 million as of October 31, 2009.

Credit Ratings

Our credit risk is evaluated by three independent rating agencies based upon publicly available information as well as information obtained in our ongoing discussions with them. The ratings for the fiscal year ended October 31, 2009 were:

	For the fiscal year ended October 31, 2009		
	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings Services
Short-term debt ratings	A-1	Prime-1	F1
Long-term debt ratings	A	A2	A+

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

CONTRACTUAL AND OTHER OBLIGATIONS

The impact that we expect our contractual and other obligations as of October 31, 2009 to have on our liquidity and cash flow in future periods is as follows:

		Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			In millions		
Principal payments on long-term debt[1]	$14,203	$1,027	$5,403	$6,119	$1,654
Interest payments on long-term debt[2]	1,772	386	661	328	397
Operating lease obligations	3,412	949	1,244	597	622
Purchase obligations[3]	2,033	1,775	224	31	3
Capital lease obligations	568	134	142	62	230
Total	$21,988	$4,271	$7,674	$7,137	$2,906

(1) Amounts represent the expected principal cash payments relating to our long-term debt and do not include any fair value adjustments or discounts and premiums.

(2) Amounts represent the expected interest cash payments relating to our long-term debt. We have outstanding interest rate swap agreements accounted for as fair value hedges that have the economic effect of modifying the fixed interest obligations associated with some of our fixed global notes for variable rate obligations. The impact of these interest rate swaps was factored into the calculation of the future interest payments on long-term debt.

(3) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. These purchase obligations are related principally to inventory and other items.

In addition to the above, at October 31, 2009, we had approximately $1.3 billion of recorded liabilities and related interest and penalties pertaining to uncertainty in income tax positions, which will be partially offset by $58 million of deferred tax assets and interest receivable. These liabilities and related interest and penalties include $19 million expected to be paid within one year. For the remaining amount, we are unable to make a reasonable estimate as to when cash settlement with the tax authorities might occur due to the uncertainties related to these tax matters. See Note 14 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on taxes.

Funding Commitments

In fiscal 2010, we expect to contribute approximately $820 million to our pension and post-retirement plan funding. Our funding policy is to contribute cash to our pension plans so that we meet at least the minimum contribution requirements, as established by local government, funding and taxing authorities. Funding for the years following 2010 would be based on the then current market conditions, actuarial estimates and plan funding status. See Note 16 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on pension activity.

As a result of our approved restructuring plans, we expect future cash expenditures of approximately $1.9 billion. We expect to make cash payments of approximately $1.1 billion in fiscal 2010 and the majority of the remaining amount through 2012. See Note 8 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on restructuring activities.

Guarantees and Indemnifications

See Note 12 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on liabilities that may arise from guarantees and indemnifications.

Litigation and Contingencies

See Note 18 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on liabilities that may arise from litigation and contingencies.

Off-Balance Sheet Arrangements

As part of our ongoing business, we have not participated in transactions that generate material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of October 31, 2009, we are not involved in any material unconsolidated SPEs.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

In the normal course of business, we are exposed to foreign currency exchange rate, interest rate and equity price risks that could impact our financial position and results of operations. Our risk management strategy with respect to these three market risks may include the use of derivative financial instruments. We use derivative contracts only to manage existing underlying exposures of HP. Accordingly, we do not use derivative contracts for speculative purposes. Our risks, risk management strategy and a sensitivity analysis estimating the effects of changes in fair values for each of these exposures are outlined below.

Actual gains and losses in the future may differ materially from the sensitivity analyses based on changes in the timing and amount of interest rate, foreign currency exchange rate and equity price movements and our actual exposures and hedges.

Foreign currency exchange rate risk

We are exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, anticipated purchases and assets, liabilities and debt denominated in currencies other than the U.S. dollar. We transact business in approximately 40 currencies worldwide, of which the most significant to our operations for fiscal 2009 were the euro, the Japanese yen and the British pound. For most currencies, we are a net receiver of the foreign currency and therefore benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. Even where we are a net receiver, a weaker U.S. dollar may adversely affect certain expense figures taken alone. We use a combination of forward contracts and options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in our forecasted net revenue and, to a lesser extent, cost of sales and inter-company lease loan denominated in currencies other than the U.S. dollar. In addition, when debt is denominated in a foreign currency, we may use swaps to exchange the foreign currency principal and interest obligations for U.S. dollar-denominated amounts to manage the exposure to changes in foreign currency exchange rates. We also use other derivatives not designated as hedging instruments consisting primarily of forward contracts to hedge foreign currency balance sheet exposures. For these types of derivatives and hedges we recognize the gains and losses on these foreign currency forward contracts in the same period as the remeasurement losses and gains of the related foreign currency-denominated exposures. Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures, primarily if such exposure acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency or the currency is difficult or too expensive to hedge.

We have performed sensitivity analyses as of October 31, 2009 and 2008, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant. The analyses cover all of our foreign currency contracts offset by the underlying exposures. The foreign currency exchange rates we used were based on market rates in effect at October 31, 2009 and 2008. The sensitivity analyses indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a foreign exchange loss of $106 million and $141 million at October 31, 2009 and October 31, 2008, respectively.

Interest rate risk

We also are exposed to interest rate risk related to our debt and investment portfolios and financing receivables. We issue long-term debt in either U.S. dollars or foreign currencies based on market conditions at the time of financing. We then typically use interest rate and/or currency 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 the exchange of fixed for floating interest payments. However, we may choose not to swap fixed for floating interest payments or may terminate a previously executed swap if we believe a larger proportion of fixed-rate debt would be beneficial. In order to hedge the fair value of certain fixed-rate investments, we may enter into interest rate swaps that convert fixed interest returns into variable interest returns. We may use cash flow hedges to hedge the variability of LIBOR-based interest income received on certain variable-rate investments. We may also enter into interest rate swaps that convert variable rate interest returns into fixed-rate interest returns.

We have performed sensitivity analyses as of October 31, 2009 and 2008, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of interest rates across the entire yield curve, with all other variables held constant. The analyses cover our debt, investment instruments, financing receivables and interest rate swaps. The analyses use actual maturities for the debt, investments and interest rate swaps and approximate maturities for financing receivables. The discount rates we used were based on the market interest rates in effect at October 31, 2009 and 2008. The sensitivity analyses indicated that a hypothetical 10% adverse movement in interest rates would result in a loss in the fair values of our debt, investment instruments and financing receivables, net of interest rate swap positions, of $33 million at October 31, 2009 and $9 million at October 31, 2008.

Equity price risk

We are also exposed to equity price risk inherent in our portfolio of publicly-traded equity securities, which had an estimated fair value of $5 million at October 31, 2009 and $5 million at October 31, 2008. We monitor our equity investments for impairment on a periodic basis. Generally, we do not attempt to reduce or eliminate our market exposure on these equity securities. However, we may use derivative transactions to hedge certain positions from time to time. We do not purchase our equity securities with the intent to use them for speculative purposes. A hypothetical 30% adverse change in the stock prices of our publicly-traded equity securities would result in a loss in the fair values of our marketable equity securities of $1 million at October 31, 2009 and $2 million at October 31, 2008. The aggregate cost of privately-held companies, marketable trading securities and other investments was $142 million at October 31, 2009 and $425 million at October 31, 2008.

ITEM 8. Financial Statements and Supplementary Data.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Hewlett-Packard Company

We have audited the accompanying consolidated balance sheets of Hewlett-Packard Company and subsidiaries as of October 31, 2009 and 2008, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hewlett-Packard Company and subsidiaries at October 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in fiscal year 2009, Hewlett-Packard Company changed its method of accounting for revenue recognition with the adoption of amendments to the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") resulting from Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, and Accounting Standards Update No. 2009-14, *Certain Revenue Arrangements That Include Software Elements*, both adopted effective November 1, 2008 and its method of accounting for the measurement date provisions for its defined benefit postretirement plans in accordance with the guidance provided in FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB No. 87, 88, 106 and 132(R)* (codified primarily in FASB ASC Topic 715, *Compensation—Retirement Benefits*). In fiscal year 2008, Hewlett-Packard Company changed its method of accounting for income taxes in accordance with the guidance provided in FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (codified primarily in FASB ASC Topic 740, *Income Taxes*). In fiscal year 2007, Hewlett-Packard Company changed its method of accounting for defined benefit postretirement plans in accordance with the guidance provided in FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB No. 87, 88, 106 and 132(R)* (codified primarily in FASB ASC Topic 715, *Compensation—Retirement Benefits*).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hewlett-Packard Company's internal control over financial reporting as of October 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 17, 2009, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
December 17, 2009

Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders of
Hewlett-Packard Company**

We have audited Hewlett-Packard Company's internal control over financial reporting as of October 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hewlett-Packard Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hewlett-Packard Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Hewlett-Packard Company and subsidiaries as of October 31, 2009 and 2008, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2009, and our report dated December 17, 2009, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
December 17, 2009

Management's Report on Internal Control Over Financial Reporting

HP's management is responsible for establishing and maintaining adequate internal control over financial reporting for HP. HP's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. HP's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of HP; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of HP are being made only in accordance with authorizations of management and directors of HP; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of HP's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

HP's management assessed the effectiveness of HP's internal control over financial reporting as of October 31, 2009, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on the assessment by HP's management, we determined that HP's internal control over financial reporting was effective as of October 31, 2009. The effectiveness of HP's internal control over financial reporting as of October 31, 2009 has been audited by Ernst & Young LLP, HP's independent registered public accounting firm, as stated in their report which appears on page 78 of this Annual Report on Form 10-K.

/s/ MARK V. HURD	/s/ CATHERINE A. LESJAK
Mark V. Hurd	Catherine A. Lesjak
Chairman, Chief Executive Officer and President	*Executive Vice President and Chief Financial Officer*
December 17, 2009	December 17, 2009

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings

	For the fiscal years ended October 31		
	2009	2008	2007
	In millions, except per share amounts		
Net revenue:			
Products	$ 74,051	$ 91,697	$ 84,229
Services	40,124	26,297	19,699
Financing income	377	370	358
Total net revenue	114,552	118,364	104,286
Costs and expenses:			
Cost of products	56,503	69,342	63,435
Cost of services	30,695	20,028	14,959
Financing interest	326	329	289
Research and development	2,819	3,543	3,611
Selling, general and administrative	11,613	13,326	12,430
Amortization of purchased intangible assets	1,571	967	783
In-process research and development charges	7	45	190
Restructuring charges	640	270	387
Acquisition-related charges	242	41	—
Pension curtailments and pension settlements, net	—	—	(517)
Total operating expenses	104,416	107,891	95,567
Earnings from operations	10,136	10,473	8,719
Interest and other, net	(721)	—	458
Earnings before taxes	9,415	10,473	9,177
Provision for taxes	1,755	2,144	1,913
Net earnings	$ 7,660	$ 8,329	$ 7,264
Net earnings per share:			
Basic	$ 3.21	$ 3.35	$ 2.76
Diluted	$ 3.14	$ 3.25	$ 2.68
Weighted-average shares used to compute net earnings per share:			
Basic	2,388	2,483	2,630
Diluted	2,437	2,567	2,716

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

	October 31	
	2009	2008
	In millions, except par value	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,279	$ 10,153
Short-term investments	55	93
Accounts receivable	16,537	16,928
Financing receivables	2,675	2,314
Inventory	6,128	7,879
Other current assets	13,865	14,361
Total current assets	52,539	51,728
Property, plant and equipment	11,262	10,838
Long-term financing receivables and other assets	11,289	10,468
Goodwill	33,109	32,335
Purchased intangible assets	6,600	7,962
Total assets	$114,799	$113,331
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 1,850	$ 10,176
Accounts payable	14,809	14,917
Employee compensation and benefits	4,071	4,159
Taxes on earnings	910	869
Deferred revenue	6,182	6,287
Accrued restructuring	1,109	1,099
Other accrued liabilities	14,072	15,432
Total current liabilities	43,003	52,939
Long-term debt	13,980	7,676
Other liabilities	17,299	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; 2,365 and 2,415 shares issued and outstanding, respectively)	24	24
Additional paid-in capital	13,804	14,012
Retained earnings	29,936	24,971
Accumulated other comprehensive loss	(3,247)	(65)
Total stockholders' equity	40,517	38,942
Total liabilities and stockholders' equity	$114,799	$113,331

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	For the fiscal years ended October 31		
	2009	2008	2007
		In millions	
Cash flows from operating activities:			
Net earnings	$ 7,660	$ 8,329	$ 7,264
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	4,773	3,356	2,705
Stock-based compensation expense	635	606	629
Provision for doubtful accounts — accounts and financing receivables	345	275	47
Provision for inventory	221	214	362
Restructuring charges	640	270	387
Pension curtailments and pension settlements, net	—	—	(517)
In-process research and development charges	7	45	190
Deferred taxes on earnings	379	773	(74)
Excess tax benefit from stock-based compensation	(162)	(293)	(481)
Other, net	(54)	(61)	(138)
Changes in assets and liabilities:			
Accounts and financing receivables	(549)	(264)	(2,808)
Inventory	1,532	89	(633)
Accounts payable	(153)	1,749	(346)
Taxes on earnings	733	235	1,031
Restructuring	(1,237)	(165)	(606)
Other assets and liabilities	(1,391)	(567)	2,603
Net cash provided by operating activities	13,379	14,591	9,615
Cash flows from investing activities:			
Investment in property, plant and equipment	(3,695)	(2,990)	(3,040)
Proceeds from sale of property, plant and equipment	495	425	568
Purchases of available-for-sale securities and other investments	(160)	(178)	(283)
Maturities and sales of available-for-sale securities and other investments	171	280	425
Payments made in connection with business acquisitions, net	(391)	(11,248)	(6,793)
Net cash used in investing activities	(3,580)	(13,711)	(9,123)
Cash flows from financing activities:			
(Repayment) issuance of commercial paper and notes payable, net	(6,856)	5,015	1,863
Issuance of debt	6,800	3,121	4,106
Payment of debt	(2,710)	(1,843)	(3,419)
Issuance of common stock under employee stock plans	1,837	1,810	3,103
Repurchase of common stock	(5,140)	(9,620)	(10,887)
Excess tax benefit from stock-based compensation	162	293	481
Dividends	(766)	(796)	(846)
Net cash used in financing activities	(6,673)	(2,020)	(5,599)
Increase (decrease) in cash and cash equivalents	3,126	(1,140)	(5,107)
Cash and cash equivalents at beginning of period	10,153	11,293	16,400
Cash and cash equivalents at end of period	$13,279	$ 10,153	$ 11,293

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Prepaid stock repurchase	Retained Earnings	Accumulated Other Comprehensive (Loss) income	Total
	Number of Shares	Par Value					
	In millions, except number of shares in thousands						
Balance October 31, 2006	2,732,034	$27	$17,966	$(596)	$20,729	$ 18	$ 38,144
Net earnings					7,264		7,264
Net unrealized loss on available-for-sale securities						(12)	(12)
Net unrealized loss on cash flow hedges						(18)	(18)
Minimum pension liability						(3)	(3)
Cumulative translation adjustment						106	106
Comprehensive income							7,337
Issuance of common stock in connection with employee stock plans and other	116,661	1	3,134				3,135
Repurchases of common stock	(268,981)	(2)	(5,878)	596	(5,587)		(10,871)
Net excess tax benefits from employee stock plans			530				530
Dividends					(846)		(846)
Stock-based compensation expense			629				629
Cumulative effect of change in accounting principle						468	468
Balance October 31, 2007	2,579,714	$26	$16,381	$ —	$21,560	$ 559	$ 38,526
Net earnings					8,329		8,329
Net unrealized loss on available-for-sale securities						(16)	(16)
Net unrealized gain on cash flow hedges.						866	866
Unrealized components of defined benefit pension plans						(538)	(538)
Cumulative translation adjustment						(936)	(936)
Comprehensive income							7,705
Issuance of common stock in connection with employee stock plans and other	65,235		2,034				2,034
Repurchases of common stock	(229,646)	(2)	(5,325)		(4,809)		(10,136)
Net excess tax benefits from employee stock plans			316				316
Dividends					(796)		(796)
Stock-based compensation expense			606				606
Cumulative effect of change in accounting principle					687		687
Balance October 31, 2008	2,415,303	$24	$14,012	$ —	$24,971	$ (65)	$ 38,942
Net earnings					7,660		7,660
Net unrealized gain on available-for-sale securities						16	16
Net unrealized loss on cash flow hedges.						(971)	(971)
Unrealized components of defined benefit pension plans						(2,531)	(2,531)
Cumulative translation adjustment						304	304
Comprehensive income							4,478
Issuance of common stock in connection with employee stock plans and other	69,157	1	1,783				1,784
Repurchases of common stock	(119,651)	(1)	(2,789)		(1,922)		(4,712)
Net excess tax benefits from employee stock plans			163				163
Dividends					(766)		(766)
Stock-based compensation expense			635				635
Cumulative effect of change in accounting principle					(7)		(7)
	2,364,809	$24	$13,804	$ —	$29,936	$(3,247)	$ 40,517

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

Note 1: Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Hewlett-Packard Company, its wholly-owned subsidiaries and its controlled majority-owned subsidiaries (collectively, "HP"). HP accounts for equity investments in companies over which HP has the ability to exercise significant influence, but does not hold a controlling interest, under the equity method, and HP records its proportionate share of income or losses in interest and other, net in the Consolidated Statements of Earnings. HP has eliminated all significant intercompany accounts and transactions.

Business Combinations

HP has recorded all acquisitions using the purchase method of accounting and, accordingly, has included the results of operations of acquired businesses in HP's consolidated results from the date of each acquisition. HP allocates the purchase price of its acquisitions to the tangible assets, liabilities and intangible assets acquired, including in-process research and development ("IPR&D") charges, based on their estimated fair values. The excess purchase price over those fair values is recorded as goodwill. The fair value assigned to assets acquired is based on valuations using management's estimates and assumptions.

HP will adopt new accounting standards issued by the Financial Accounting Standards Board ("FASB") for business combinations in the first quarter of fiscal 2010. Changes to the purchase method of accounting for business combinations are discussed further in *Accounting Pronouncements* in this Note.

Reclassifications and Segment Reorganization

Certain reclassifications have been made to prior-year amounts in order to conform to current year presentation.

HP has made certain organizational realignments in order to optimize its operating structure. Reclassifications of prior year financial information have been made to conform to the current year presentation. None of the changes impacts HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share. See Note 19 for a further discussion of HP's segment reorganization, which is incorporated herein by reference.

HP has made certain reclassifications of its Consolidated Statements of Earnings for the fiscal years ended October 31, 2008 and October 31, 2007 to provide improved visibility and comparability with the current year presentation. This change does not affect previously reported results of operations for any period 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.

HP has revised the presentation of its Consolidated Statements of Cash Flows for the fiscal years ended October 31, 2008 and October 31, 2007 to reflect revisions to the current and deferred tax provisions in those years related to the presentation of tax benefits of stock option plans, as described in Note 14. The revisions result in an increase in the change in taxes on earnings and a decrease in the adjustment to deferred taxes on earnings within cash flows from operating activities on the Consolidated Statements of Cash Flows. These revisions do not affect previously reported results of operations, financial position or net cash provided by operating activities for any period presented.

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates

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 Financial Statements and accompanying notes. Actual results could differ materially from those estimates.

Revenue Recognition

Net revenue is derived primarily from the sale of products and services. The following revenue recognition policies define the manner in which HP accounts for sales transactions.

HP recognizes revenue when persuasive evidence of a sales arrangement exists, delivery has occurred or services are rendered, the sales price or fee is fixed or determinable and collectibility is reasonably assured. Additionally, HP recognizes hardware revenue on sales to channel partners, including resellers, distributors or value-added solution providers at the time of sale and when the channel partners have economic substance apart from HP and HP has completed its obligations related to the sale.

In October 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-13, "Multiple-Deliverable Revenue Arrangements" ("ASU 2009-13"). The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. Concurrently to issuing ASU 2009-13, the FASB also issued ASU No. 2009-14, "Certain Revenue Arrangements That Include Software Elements" ("ASU 2009-14"). ASU 2009-14 excludes software that is contained on a tangible product from the scope of software revenue guidance if the software is essential to the tangible product's functionality.

HP early adopted these standards as of the beginning of fiscal 2009 for new and materially modified deals originating after November 1, 2008; therefore, the previously reported quarterly results have been restated to reflect the impact of adoption. As a result of the adoption, fiscal 2009 net revenues and net earnings were higher by $255 million and $55 million, respectively. The impact was due to the recognition of revenue previously deferred for certain deliverables bundled in multiple element arrangements where the arrangements also included services for which HP was unable to demonstrate fair value pursuant to the previous standards. The new standards allow for deliverables for which revenue was previously deferred to be separated and recognized as delivered, rather than over the longest service delivery period as a single unit with other elements in the arrangement. HP is not able to reasonably estimate the effect of adopting these standards on future financial periods as the impact will vary based on the nature and volume of new or materially modified deals in any given period.

For fiscal 2009 and future periods, pursuant to the guidance of ASU 2009-13, when a sales arrangement contains multiple elements, such as hardware and software products, licenses and/or services, HP allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software

Note 1: Summary of Significant Accounting Policies (Continued)

deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue, as amended.

HP limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges.

HP evaluates each deliverable in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and there are no customer-negotiated refund or return rights for the delivered elements. If the arrangement includes a customer-negotiated refund or return right relative to the delivered item and the delivery and performance of the undelivered item is considered probable and substantially in HP's control, the delivered element constitutes a separate unit of accounting. In instances when the aforementioned criteria are not met, the deliverable is combined with the undelivered elements and the allocation of the arrangement consideration and revenue recognition is determined for the combined unit as a single unit. Allocation of the consideration is determined at arrangement inception on the basis of each unit's relative selling price.

HP establishes VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. TPE of selling price is established by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. The best estimate of selling price is established considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product lifecycle. Consideration is also given to market conditions such as competitor pricing strategies and industry technology lifecycles.

For fiscal 2008 and fiscal 2007, pursuant to the previous guidance of revenue arrangements with multiple deliverables, for a sales arrangement with multiple elements, HP allocated revenue to each element based on its relative fair value, or for software, based on VSOE of fair value. In the absence of fair value for a delivered element, HP first allocated revenue to the fair value of the undelivered elements and the residual revenue to the delivered elements. Where the fair value for an undelivered element could not be determined, HP deferred revenue for the delivered elements until the undelivered elements were delivered or the fair value was determinable for the remaining undelivered elements. If the revenue for a delivered item was not recognized because it was not separable from the undelivered item, then HP also deferred the cost of the delivered item. HP limited the amount of revenue recognition for delivered elements to the amount that was not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges. For the purposes of income statement classification of products and services revenue, when HP could not determine fair value for all of the elements in an arrangement and the transaction was accounted for as a single unit of accounting, HP allocated revenue to products and services based on a rational and consistent methodology. This methodology utilized external and internal pricing inputs to derive HP's best estimate of fair value for the elements in the arrangement.

In instances when revenue is derived from sales of third-party vendor services, revenue is recorded at gross when HP is a principal to the transaction and net of costs when HP is acting as an agent

Note 1: Summary of Significant Accounting Policies (Continued)

between the customer and the vendor. Several factors are considered to determine whether HP is an agent or principal, most notably whether HP is the primary obligator to the customer, has established its own pricing, and has inventory and credit risks.

HP reports revenue net of any required taxes collected from customers and remitted to government authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Products

Hardware

Under HP's standard terms and conditions of sale, HP transfers title and risk of loss to the customer at the time product is delivered to the customer and revenue is recognized accordingly, unless customer acceptance is uncertain or significant obligations remain. HP reduces revenue for estimated customer returns, price protection, rebates and other programs offered under sales agreements established by HP with its distributors and resellers. HP records revenue from the sale of equipment under sales-type leases as product revenue at the inception of the lease. HP accrues the estimated cost of post-sale obligations, including basic product warranties, based on historical experience at the time HP recognizes revenue.

Software

In accordance with the specific guidance for recognizing software revenue, where applicable, HP recognizes revenue from perpetual software licenses at the inception of the license term assuming all revenue recognition criteria have been met. Term-based software license revenue is recognized on a subscription basis over the term of the license entitlement. HP uses the residual method to allocate revenue to software licenses at the inception of the license term when VSOE of fair value for all undelivered elements exists, such as post-contract support, and all other revenue recognition criteria have been satisfied. Revenue generated from maintenance and unspecified upgrades or updates on a when-and-if-available basis is recognized over the period such items are delivered.

Services

HP recognizes revenue from fixed-price support or maintenance contracts, including extended warranty contracts and software post-contract customer support agreements, ratably over the contract period and recognizes the costs associated with these contracts as incurred. For time and material contracts, HP recognizes revenue and costs as services are rendered. HP recognizes revenue from fixed-price consulting arrangements over the contract period on a proportional performance basis, as determined by the relationship of actual labor costs incurred to date to the estimated total contract labor costs, with estimates regularly revised during the life of the contract. HP recognizes revenue on certain design and build (design, development and/or construction of software and/or systems) projects using the percentage-of-completion method. HP uses the cost to cost method of measurement towards completion as determined by the percentage of cost incurred to date to the total estimated costs of the project. HP uses the completed contract method if reasonable and reliable cost estimates for a project cannot be made.

Note 1: Summary of Significant Accounting Policies (Continued)

Outsourcing services revenue is generally recognized when the service is provided and the amount earned is not contingent upon any future event. If the service is provided evenly during the contract term but service billings are uneven, revenue is recognized on a straight-line basis over the contract term. HP recognizes revenue from operating leases on a straight-line basis as service revenue over the rental period.

HP recognizes costs associated with outsourcing contracts as incurred, unless such costs relate to the transition phase of the outsourcing contract, in which case HP defers and subsequently amortizes these set-up costs over the contractual services period. Deferred contract costs are amortized on a straight-line basis over the remaining original term unless billing patterns indicate a more accelerated method is appropriate. Based on actual and projected contract financial performance indicators, the recoverability of deferred contract costs associated with a particular contract is analyzed on a periodic basis using the undiscounted estimated cash flows of the whole contract over its remaining contract term. If such undiscounted cash flows are insufficient to recover the long-lived assets and deferred contract costs, the deferred contract costs are written down based on a discounted cash flow model. If a cash flow deficiency remains after reducing the balance of the deferred contract costs to zero, any remaining long-lived assets related to that contract are evaluated for impairment.

HP recognizes losses on consulting and outsourcing arrangements in the period that the contractual loss becomes probable and estimable. HP records amounts invoiced to customers in excess of revenue recognized as deferred revenue until the revenue recognition criteria are met. HP records revenue that is earned and recognized in excess of amounts invoiced on fixed-price contracts as trade receivables.

Financing Income

Sales-type and direct-financing leases produce financing income, which HP recognizes at consistent rates of return over the lease term.

Shipping and Handling

HP includes costs related to shipping and handling in cost of sales for all periods presented.

Advertising

HP expenses advertising costs as incurred or when the advertising is first run. Such costs totaled approximately $0.7 billion in fiscal 2009, $1.0 billion in fiscal 2008 and $1.1 billion in fiscal 2007.

Taxes on Earnings

HP recognizes deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. HP records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Cash and Cash Equivalents

HP classifies investments as cash equivalents if the original maturity of an investment is three months or less. Cash and cash equivalents consist primarily of highly liquid investments in time deposits

Note 1: Summary of Significant Accounting Policies (Continued)

held in major banks and commercial paper. As of October 31, 2009 and 2008, the carrying value of cash and cash equivalents approximates fair value due to the short period of time to maturity. Interest income was approximately $119 million in fiscal 2009, $401 million in fiscal 2008 and $598 million in fiscal 2007.

Allowance for Doubtful Accounts

HP establishes an allowance for doubtful accounts to ensure trade and financing receivables are not overstated due to uncollectability. HP maintains bad debt reserves based on a variety of factors, including the length of time receivables are past due, trends in overall weighted-average risk rating of the total portfolio, macroeconomic conditions, significant one-time events, historical experience and the use of third-party credit risk models that generate quantitative measures of default probabilities based on market factors and the financial condition of customers. HP records a specific reserve for individual accounts when HP becomes aware of specific customer circumstances such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, HP would further adjust estimates of the recoverability of receivables.

Inventory

HP values inventory at the lower of cost or market, with cost computed on a first-in, first-out basis. Adjustments to reduce the cost of inventory to its net realizable value are made, if required, for estimated excess, obsolescence or impaired balances.

Property, Plant and Equipment

HP states property, plant and equipment at cost less accumulated depreciation. HP capitalizes additions and improvements and expenses maintenance and repairs as incurred. Depreciation is computed using straight-line or accelerated methods over the estimated useful lives of the assets. Estimated useful lives are 5 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment. HP depreciates leasehold improvements over the life of the lease or the asset, whichever is shorter. HP depreciates equipment held for lease over the initial term of the lease to the equipment's estimated residual value. The estimated useful lives of assets used solely to support a customer services contract generally do not exceed the term of the customer contract.

HP capitalizes certain internal and external costs incurred to acquire or create internal use software, principally related to software coding, designing system interfaces and installation and testing of the software. HP amortizes capitalized internal use software costs using the straight-line method over the estimated useful lives of the software, generally from three to five years.

Goodwill and Purchased Intangible Assets

Goodwill and purchased intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually. HP reviews goodwill and purchased intangible assets with indefinite lives for impairment annually at the beginning of its fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. For goodwill, HP performs a two-step impairment test. In the first step, HP compares the fair value of each reporting unit to its carrying value. Our reporting units are consistent with the reportable segments identified in Note 19. HP determines the fair value of its reporting units based on a weighting of

Note 1: Summary of Significant Accounting Policies (Continued)

income and market approaches. Under the income approach, HP calculates the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, HP estimates the fair value based on market multiples of revenue or earnings for comparable companies. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then HP must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, HP records an impairment loss equal to the difference.

The fair value of the indefinite-lived purchased intangible assets is estimated and compared to the carrying value. HP estimates the fair value of these intangible assets using an income approach. HP recognizes an impairment loss when the estimated fair value of the indefinite-lived purchased intangible assets is less than the carrying value.

HP amortizes purchased intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets, ranging from one to ten years.

Long-Lived Asset Impairment

HP evaluates property, plant and equipment and purchased intangible assets with finite lives for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. HP assesses the recoverability of the assets based on the undiscounted future cash flow the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When HP identifies an impairment, HP reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values.

Software Development Costs

Costs incurred to acquire or develop software for resale may be capitalized subsequent to the software product establishing technological feasibility. Capitalized software development costs are amortized using the greater of the straight-line amortization method or the ratio that current gross revenues for a product bear to the total current and anticipated future gross revenues for that product. The estimated useful lives for capitalized software for resale are generally three years or less. Software development costs incurred subsequent to a product establishing technological feasibility are usually not significant. In those instances, such costs are expensed as incurred.

Fair Value of Financial Instruments

HP measures certain financial assets and liabilities at fair value based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Financial instruments are primarily comprised of time deposits, money market funds, commercial paper, corporate and other debt securities, equity securities and other investments in common stock and common stock equivalents and derivatives. See Note 9 for a further discussion on fair value of financial instruments.

Note 1: Summary of Significant Accounting Policies (Continued)

Derivative Financial Instruments

HP uses derivative financial instruments, primarily forwards, swaps, and options, to hedge certain foreign currency and interest rate exposures. HP also may use other derivative instruments not designated as hedges such as forwards used to hedge foreign currency balance sheet exposures. HP does not use derivative financial instruments for speculative purposes. See Note 10 for a full description of HP's derivative financial instrument activities and related accounting policies, which is incorporated herein by reference.

Investments

HP's investments consist principally of time deposits, money market funds, commercial paper, corporate debt, other debt securities, and equity securities of publicly-traded and privately-held companies.

HP classifies its investments in debt securities and its equity investments in public companies as available-for-sale securities and carries them at fair value. HP determines fair values for investments in public companies using quoted market prices and records a charge to Interest and other, net when the change in fair values is determined to be an other-than-temporary change. HP carries equity investments in privately-held companies at cost or at fair value when HP recognizes an other-than-temporary impairment charge.

HP monitors its investment portfolio for impairment on a periodic basis. In the event that the carrying value of an investment in debt securities exceeds its fair value and the decline in value is determined to be an other-than-temporary decline and 1) HP does not intend to sell the debt security, and 2) when it is not more likely than not that HP will be required to sell the debt security prior to recovery of its amortized cost basis, HP records an impairment charge to Interest and other, net in the amount of the credit loss and the balance, if any, to other comprehensive income.

HP determined the declines in value of certain investments to be other-than-temporary declines. Accordingly, HP recorded impairments of approximately $24 million in fiscal 2009, $27 million in fiscal 2008 and $28 million in fiscal 2007. HP includes these impairments in Interest and other, net in the Consolidated Statements of Earnings. Depending on market and other conditions, HP may record additional impairments on its investment portfolio in the future.

Concentrations of Credit Risk

Financial instruments that potentially subject HP to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable from trade customers and from contract manufacturers, financing receivables and derivatives.

HP maintains cash and cash equivalents, short and long-term investments, derivatives and certain other financial instruments with various financial institutions. These financial institutions are located in many different geographical regions and HP's policy is designed to limit exposure with any one institution. As part of its cash and risk management processes, HP performs periodic evaluations of the relative credit standing of the financial institutions. HP has not sustained material credit losses from instruments held at financial institutions. HP utilizes forward contracts and other derivative contracts to protect against the effects of foreign currency fluctuations. Such contracts involve the risk of non-performance by the counterparty, which could result in a material loss.

Note 1: Summary of Significant Accounting Policies (Continued)

HP sells a significant portion of its products through third-party distributors and resellers and, as a result, maintains individually significant receivable balances with these parties. If the financial condition or operations of these distributors and resellers deteriorate substantially, HP's operating results could be adversely affected. The ten largest distributor and reseller receivable balances collectively, which were concentrated primarily in North America and Europe, represented approximately 22% of gross accounts receivable at October 31, 2009 and 18% at October 31, 2008. No single customer accounts for more than 10% of accounts receivable. Credit risk with respect to other accounts receivable and financing receivables is generally diversified due to the large number of entities comprising HP's customer base and their dispersion across many different industries and geographical regions. HP performs ongoing credit evaluations of the financial condition of its third-party distributors, resellers and other customers and requires collateral, such as letters of credit and bank guarantees, in certain circumstances. To ensure a receivable balance is not overstated due to uncollectibility, an allowance for doubtful accounts is maintained as required under U.S. GAAP. The past due or delinquency status of a receivable is based on the contractual payment terms of the receivable. The need to write off a receivable balance depends on the age, size and a determination of collectability of the receivable. HP generally has experienced longer accounts receivable collection cycles in its emerging markets, in particular Asia Pacific and Latin America, compared to its United States and European markets. In the event that accounts receivable collection cycles in emerging markets significantly deteriorate or one or more of HP's larger resellers or enterprise customers fail, HP's operating results could be adversely affected.

Other Concentration

HP obtains a significant number of components from single source suppliers due to technology, availability, price, quality or other considerations. The loss of a single source supplier, the deterioration of its relationship with a single source supplier, or any unilateral modification to the contractual terms under which HP is supplied components by a single source supplier could adversely affect HP's revenue and gross margins.

Stock-Based Compensation

Stock-based compensation expense for all share-based payment awards granted is determined based on the grant-date fair value. HP recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the share-based payment awards. HP estimated the forfeiture rate based on its historical experience for fiscal grant years where the majority of the vesting terms have been satisfied.

Foreign Currency Transactions

HP uses the U.S. dollar predominately as its functional currency. Assets and liabilities denominated in non-U.S. dollars are remeasured into U.S. dollars at current exchange rates for monetary assets and liabilities, and historical exchange rates for nonmonetary assets and liabilities. Net revenue, cost of sales and expenses are remeasured at average exchange rates in effect during each new reporting period, and net revenue, cost of sales and expenses related to the previously reported periods are remeasured at historical exchange rates. HP includes gains or losses from foreign currency remeasurement in net earnings. Certain foreign subsidiaries designate the local currency as their

Note 1: Summary of Significant Accounting Policies (Continued)

functional currency, and HP records the translation of their assets and liabilities into U.S. dollars at the balance sheet dates as translation adjustments and includes them as a component of accumulated other comprehensive loss.

Retirement and Post-Retirement Plans

HP has various defined benefit, other contributory and noncontributory retirement and post-retirement plans. In addition, HP has assumed additional retirement and post-retirement plans in connection with its acquisition of Electronic Data Systems Corporation ("EDS") in August 2008. HP generally amortizes unrecognized actuarial gains and losses on a straight-line basis over the remaining estimated service life of participants. The measurement date for all HP plans is October 31 for fiscal 2009 and September 30 for fiscal 2008 except that the measurement date for EDS plans is October 31 for fiscal 2008. See Note 16 for a full description of these plans and the accounting and funding policies, which is incorporated herein by reference.

Loss Contingencies

HP is involved in various lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. 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 December 17, 2009.

Accounting Pronouncements

In September 2006, the FASB issued a new accounting standard related to fair value measurements. The new standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB issued a new provision which delayed the effective date of the fair value measurements and disclosures 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). In August 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-05, "Measuring Liabilities at Fair Value" in relation to the fair value measurement of liabilities. HP adopted the applicable portions of the provisions of the new standards in the first and fourth quarters of fiscal 2009, and will adopt the provision related to the nonfinancial assets and nonfinancial liabilities in the first quarter of fiscal 2010. Although HP will continue to evaluate the application of the provision for the nonfinancial assets and nonfinancial liabilities, HP does not expect the adoption to have a material impact on its consolidated financial statements. See Note 9 for additional information pertaining to fair value measurements.

In December 2007, the FASB issued a new accounting standard related to business combinations. The new standard 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 with subsequent changes recognized in earnings; requires acquisition-related expenses and

Note 1: Summary of Significant Accounting Policies (Continued)

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 indefinite-lived intangible asset; and requires that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of provision for taxes. The new standard also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. In April 2009, the FASB issued a new standard which clarified the accounting for pre-acquisition contingencies. HP will adopt these new business combination standards in the first quarter of fiscal 2010. The impact of adoption will be largely dependent on the size and nature of the business combinations completed after the adoption of this statement.

In December 2007, the FASB issued a new accounting standard related to noncontrolling interests. The new standard establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The new standard also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. HP will adopt this new accounting standard in the first quarter of fiscal 2010. HP does not expect the adoption of this standard will have a material effect on its consolidated financial statements.

In May 2008, the FASB issued a new accounting standard related to convertible debt instruments. The new standard 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. HP will adopt this new accounting standard on a retrospective basis in the first quarter of fiscal 2010. HP does not expect the adoption of this standard will have a material effect on its consolidated financial statements.

In June 2008, the FASB issued a new accounting standard that clarifies whether instruments granted in share-based payment transactions should be included in computing earnings per share. Under the new standard, HP will be required to include restricted stock that contains non-forfeitable rights to dividends in its calculation of basic earnings per share ("EPS"), and will need to calculate basic EPS using the "two-class method." The two-class method of computing EPS is an earnings allocation formula that determines EPS for each class of common stock and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. HP will adopt this new accounting standard on a retrospective basis in the first quarter of fiscal 2010. HP does not expect the adoption of this standard will have a material effect on its calculation of basic EPS.

In November 2008, the FASB issued a new accounting standard related to defensive intangible assets. Defensive intangible assets are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. Under the new standard, defensive intangible assets must be initially recognized at fair value and amortized over the benefit period. HP will adopt this new accounting standard in the first quarter of fiscal 2010. The impact of adoption will be largely dependent on the size and nature of business combinations completed after the date of adoption.

Note 1: Summary of Significant Accounting Policies (Continued)

In December 2008, the FASB issued a new accounting standard that requires additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. HP will adopt this new accounting standard in the first quarter of fiscal 2010. HP will present the required disclosures in the prescribed format on a prospective basis upon adoption. This new standard will only affect the notes to HP's consolidated financial statements.

In June 2009, the FASB issued a new accounting standard related to transfers of financial assets. It amends previous guidance to remove the concept of a qualifying special-purpose entity and its exemption from consolidation in the transferor's financial statements. This new standard also establishes conditions for reporting a transfer of a portion of a financial asset as a sale, modifies the financial-asset derecognition criteria, revises how interests retained by the transferor in a sale of financial assets are initially measured, removes the guaranteed mortgage securitization recharacterization provisions, and requires additional disclosures. HP will adopt this new accounting standard in the first quarter of fiscal 2011. HP does not expect the adoption of this standard will have a material effect on its consolidated financial statements.

In June 2009, the FASB issued a new accounting standard related to the consolidation of variable interest entities. It eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This new standard also requires additional disclosures about an enterprise's involvement in variable interest entities. HP will adopt this new accounting standard in the first quarter of fiscal 2011. HP is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

During the fourth quarter of fiscal 2009, HP adopted the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles which only affected the specific references to GAAP literature in the notes to HP's consolidated financial statements.

In October 2009, the FASB issued ASU 2009-13. The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. Concurrently to issuing ASU 2009-13, the FASB also issued ASU 2009-14. ASU 2009-14 excludes software that is contained on a tangible product from the scope of software revenue guidance if the software is essential to the tangible product's functionality.

A further discussion of the financial impact of ASU 2009-13 and ASU 2009-14 appears under "Revenue Recognition" above.

Note 2: Stock-Based Compensation

HP's stock-based compensation plans include incentive compensation plans and an employee stock purchase plan ("ESPP").

Stock-based Compensation Expense and the Related Income Tax Benefits

Total stock-based compensation expense before income taxes for fiscal 2009, 2008 and 2007 was $635 million, $606 million and $629 million, respectively. The resulting income tax benefit for fiscal 2009, 2008 and 2007 was $199 million, $178 million and $182 million, respectively.

Note 2: Stock-Based Compensation (Continued)

Cash received from option exercises and purchases under the ESPP in fiscal 2009 was $1.8 billion. The actual tax benefit realized for the tax deduction from option exercises of the share-based payment awards in fiscal 2009 totaled $252 million. Cash received from option exercises and purchases under the ESPP in fiscal 2008 was $1.8 billion. The actual tax benefit realized for the tax deduction from option exercises of the share-based payment awards in fiscal 2008 totaled $412 million.

Incentive Compensation Plans

HP's incentive compensation plans include principal option plans adopted in 2004, 2000, 1995 and 1990 ("principal option plans"), as well as various stock option plans assumed through acquisitions under which stock-based awards are outstanding. Stock-based awards granted from the principal option plans include performance-based restricted units ("PRUs"), stock options and restricted stock awards. Employees meeting certain employment qualifications were eligible to receive stock-based awards in fiscal 2009. There were approximately 91,000 employees holding stock-based awards under one or more of the option plans as of October 31, 2009.

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. PRU awards may be granted to eligible employees, including HP's principal executive officer, principal financial officer and other executive officers. Each PRU award reflects a target number of shares that may be issued to the award recipient. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on results achieved versus company performance goals. Those goals are based on HP's annual cash flow from operations as a percentage of revenue and average total shareholder return ("TSR") relative to the S&P 500 over the performance period. Depending on HP's results during the three-year performance period, the actual number of shares that a grant recipient receives at the end of the period may range from 0% to 200% of the targeted shares granted, based on the calculations described below.

Cash flow performance goals are established at the beginning of each year. At the end of each year, a portion of the target number of shares may be credited in the award recipient's name depending on the achievement of the cash flow performance goal for that year. The number of shares credited varies between 0% if performance is below the minimum level and 150% if performance is at or above the maximum level. For performance between the minimum level and the maximum level, a proportionate percentage between 30% and 150% is applied based on relative performance between the minimum and the maximum levels.

Following the expiration of the three-year performance period, the number of shares credited to the award recipient during the performance period is adjusted by a TSR modifier. The TSR modifier, which is determined at the beginning of each performance period, varies between 0%, if the minimum level is not met, resulting in no payout under the PRU award, and 133%, if performance is at or above the maximum level. For performance between the minimum level and the maximum level, a proportionate TSR modifier between 66% and 133% is applied based on relative performance between the minimum and the maximum levels. The number of shares, if any, received by the PRU award recipient equals the number of shares credited to the award recipient during the performance period multiplied by the TSR modifier.

Recipients of PRU awards generally must remain employed by HP on a continuous basis through the end of the applicable three-year performance period in order to receive any portion of the shares

Note 2: Stock-Based Compensation (Continued)

subject to that award. Target shares subject to PRU awards do not have dividend equivalent rights and do not have the voting rights of common stock until earned and issued following the end of the applicable performance period.

Stock options granted under the principal option plans are generally non-qualified stock options, but the principal option plans permit some options granted to qualify as "incentive stock options" under the U.S. Internal Revenue Code. Stock options generally vest over four years from the date of grant. The exercise price of a stock option is equal to the fair market value of HP's common stock on the option grant date (as determined by the reported sale prices of HP's common stock when the market closes on that date). The contractual term of options granted since fiscal 2003 was generally eight years, while the contractual term of options granted prior to fiscal 2003 was generally ten years. Under the principal option plans, HP may choose, in certain cases, to establish a discounted exercise price at no less than 75% of fair market value on the grant date. HP has not granted any discounted options since fiscal 2003.

Under the principal option plans, HP granted certain employees cash-settled awards, restricted stock awards, or both. Restricted stock awards are non-vested stock awards that may include grants of restricted stock or grants of restricted stock units. Cash-settled awards and restricted stock awards are independent of option grants and are generally subject to forfeiture if employment terminates prior to the release of the restrictions. Such awards generally vest one to three years from the date of grant. During that period, ownership of the shares cannot be transferred. Restricted stock has the same cash dividend and voting rights as other common stock and is considered to be currently issued and outstanding. Restricted stock units have dividend equivalent rights equal to the cash dividend paid on restricted stock. Restricted stock units do not have the voting rights of common stock, and the shares underlying the restricted stock units are not considered issued and outstanding. HP expenses the fair market value of restricted stock awards, as determined on the date of grant, ratably over the period during which the restrictions lapse.

Performance-based Restricted Units

HP estimated the fair value of a target PRU share using the Monte Carlo simulation model, as the TSR modifier contains a market condition. The following weighted-average assumptions were used to determine the weighted-average fair values of the PRU awards for fiscal years ended October 31:

	2009	2008
Weighted-average fair value of grants per share	$40.56[1]	$40.21[2]
Expected volatility[3]	35%	26%
Risk-free interest rate	1.34%	3.13%
Dividend yield	0.88%	0.70%
Expected life in months	30	33

(1) 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

Note 2: Stock-Based Compensation (Continued)

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.

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

(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 October 31, 2009 and 2008 and changes during fiscal 2009 and 2008 were as follows:

	2009	2008
	Shares in thousands	
Outstanding at beginning of year	10,965	—
Granted	13,966	8,783
Vested	—	—
Change in units due to performance and market conditions	1,193	2,492
Forfeited	(1,401)	(310)
Outstanding at end of year	24,723	10,965
PRUs assigned a fair value at end of year	13,426	5,292

At October 31, 2009, there was $193 million of unrecognized pre-tax stock-based compensation expense related to PRUs with an assigned fair value, which HP expects to recognize over the remaining weighted-average vesting period of 1.5 years. At October 31, 2008, there was $108 million of unrecognized pre-tax stock-based compensation expense related to PRUs with an assigned fair value, which HP expected to recognize over the remaining weighted-average vesting period of 2.0 years.

Stock Options

HP utilized the Black-Scholes option pricing model to value the stock options granted under its principal option plans. HP examined its historical pattern of option exercises in an effort to determine if there were any discernable activity patterns based on certain employee populations. From this analysis, HP identified three employee populations on which to apply the Black-Scholes model. The table below presents the weighted-average expected life in months of the combined three identified employee populations. The expected life computation is based on historical exercise patterns and post-vesting termination behavior within each of the three populations identified. The risk-free interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

Note 2: Stock-Based Compensation (Continued)

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

	Stock Options[(1)]		
	2009	2008	2007
Weighted-average fair value of grants per share	$13.04	$15.26	$13.01
Implied volatility	43%	34%	28%
Risk-free interest rate	2.07%	3.09%	4.68%
Dividend yield	0.92%	0.69%	0.75%
Expected life in months	61	60	59

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

Option activity as of October 31 during each fiscal year was as follows:

	2009				2008			
	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	In thousands		In years	In millions	In thousands		In years	In millions
Outstanding at beginning of year	307,728	$34			367,339	$33		
Granted and assumed through acquisitions	2,190	$29			10,849	$49		
Exercised	(55,784)	$28			(54,949)	$26		
Forfeited/cancelled/expired	(20,920)	$57			(15,511)	$45		
Outstanding at end of year	233,214	$33	2.6	$3,643	307,728	$34	3.4	$2,752
Vested and expected to vest at end of year	231,134	$33	2.6	$3,623	304,198	$34	3.3	$2,731
Exercisable at end of year	207,757	$32	2.2	$3,399	252,049	$34	2.8	$2,423

In fiscal 2008, approximately 8 million stock options with a weighted-average exercise price of $50 per share were assumed through the acquisition of EDS.

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 October 31, 2009 and 2008. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of fiscal 2009 and fiscal 2008 and the exercise price, multiplied by the number of in-the-money options. Total intrinsic value of options exercised in fiscal 2009, 2008 and 2007 was $0.8 billion, $1.1 billion and $2.0 billion, respectively. Total fair value of options vested and expensed in fiscal 2009, 2008 and 2007 was $172 million, $264 million and $297 million, respectively, net of taxes.

Note 2: Stock-Based Compensation (Continued)

Information about options outstanding at October 31, 2009 was as follows:

Range of Exercise Prices	Options Outstanding: Shares Outstanding	Options Outstanding: Weighted-Average Remaining Contractual Life	Options Outstanding: Weighted-Average Exercise Price Per Share	Options Exercisable: Shares Exercisable	Options Exercisable: Weighted-Average Exercise Price Per Share
	In thousands	In years		In thousands	
$0-$9.99	415	6.9	$ 6	172	$ 5
$10-$19.99	24,129	1.8	$16	24,117	$16
$20-$29.99	77,523	2.7	$23	76,685	$23
$30-$39.99	53,094	3.3	$33	42,853	$33
$40-$49.99	56,997	2.8	$45	43,307	$45
$50-$59.99	15,953	0.9	$57	15,520	$57
$60 and over	5,103	1.2	$69	5,103	$69
	233,214	2.6	$33	207,757	$32

At October 31, 2009, there was $188 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 1.1 years. As of October 31, 2008, there was $425 million of unrecognized pre-tax stock-based compensation expense related to stock options, which HP expected to recognize over a weighted-average of 1.6 years.

Restricted Stock Awards

Non-vested restricted stock awards as of October 31, 2009 and 2008 and changes during fiscal 2009 and 2008 were as follows:

	2009: Shares	2009: Weighted-Average Grant Date Fair Value Per Share	2008: Shares	2008: Weighted-Average Grant Date Fair Value Per Share
	In thousands		In thousands	
Outstanding at beginning of year	12,930	$44	5,698	$29
Granted and assumed through acquisitions	836	$36	12,712	$45
Vested	(5,631)	$44	(4,010)	$32
Forfeited	(1,271)	$43	(1,470)	$28
Outstanding at end of year	6,864	$44	12,930	$44

Note 2: Stock-Based Compensation (Continued)

The details of restricted stock awards granted and assumed through acquisitions were as follows:

	2009		2008		2007	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
	In thousands		In thousands		In thousands	
Restricted stock	493	$36	1,393	$46	1,469	$43
Restricted stock units	343	$35	11,319	$45	151	$45
	836	$36	12,712	$45	1,620	$44

In fiscal 2008, approximately 11 million restricted stock units with a weighted-average grant date fair value of $45 per share were assumed through the acquisition of EDS.

The details of non-vested restricted stock awards at fiscal year end were as follows:

	2009	2008	2007
	Shares in thousands		
Non-vested at October 31:			
Restricted stock	1,771	2,835	4,763
Restricted stock units	5,093	10,095	935
	6,864	12,930	5,698

As of October 31, 2009, there was $117 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards, which HP expects to recognize over a weighted-average vesting period of 1.6 years. As of October 31, 2008, there was $263 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards, which HP expected to recognize over a weighted-average vesting period of 1.2 years.

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. For purchases made on or before April 30, 2009, employees purchased stock pursuant to the ESPP semi-annually at a price equal to 85% of the fair market value on the purchase date, and HP recognized expense based on a 15% discount of the fair market value for those purchases. Effective May 1, 2009, HP modified the ESPP to eliminate the 15% discount applicable to purchases made under the ESPP.

Note 2: Stock-Based Compensation (Continued)

The ESPP activity as of October 31 during each fiscal year was as follows:

	2009	2008	2007
	In millions, except weighted-average purchase price per share		
Compensation expense, net of taxes	$ 24	$ 58	$ 56
Shares purchased	6.16	9.68	8.74
Weighted-average purchase price per share	$ 33	$ 36	$ 39

	2009	2008	2007
	In thousands		
Employees eligible to participate	260	164	161
Employees who participated	49	50	51

Shares Reserved

Shares available for future grant and shares reserved for future issuance under the ESPP and incentive compensation plans were as follows:

	2009	2008	2007
	Shares in thousands		
Shares available for future grant at October 31:			
HP plans	95,311[1]	117,655	136,392
Assumed Compaq and EDS plans	82,449[2]	73,147	45,312
	177,760	190,802	181,704
Shares reserved for future issuance under all stock-related benefit plans at October 31	410,977	498,574	549,045

(1) Includes 24,267,000 shares that expired in November 2009.

(2) In November 2009, HP retired the assumed Compaq and EDS plans for purposes of granting new awards. The shares that had been reserved for future awards under those plans were returned to HP's pool of authorized shares and will not be available for issuance under any other HP plans.

HP had 21,494,000 shares of common stock reserved at October 31, 2007 for future issuances related to conversion of its zero-coupon subordinated notes, which were redeemed in March 2008.

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.

Note 3: Net Earnings Per Share (Continued)

The reconciliation of the numerators and denominators of the basic and diluted EPS calculations was as follows for the following fiscal years ended October 31:

	2009	2008	2007
	In millions, except per share amounts		
Numerator:			
Net earnings	$7,660	$8,329	$7,264
Adjustment for interest expense on zero-coupon subordinated convertible notes, net of taxes	—	3	7
Net earnings, adjusted	$7,660	$8,332	$7,271
Denominator:			
Weighted-average shares used to compute basic EPS	2,388	2,483	2,630
Effect of dilutive securities:			
Dilution from employee stock plans	49	81	78
Zero-coupon subordinated convertible notes	—	3	8
Dilutive potential common shares	49	84	86
Weighted-average shares used to compute diluted EPS	2,437	2,567	2,716
Net earnings per share:			
Basic	$ 3.21	$ 3.35	$ 2.76
Diluted	$ 3.14	$ 3.25	$ 2.68

HP excludes options with exercise prices that are greater than the average market price from the calculation of diluted EPS because their effect would be anti-dilutive. In fiscal 2009, 2008 and 2007, HP excluded from the calculation of diluted EPS options to purchase 85 million shares, 54 million shares and 60 million shares, respectively. HP also excluded from the calculation of diluted EPS options to purchase an additional 2 million shares, 28 million shares and 33 million shares in fiscal 2009, 2008 and 2007, respectively, whose combined exercise price, unamortized fair value and excess tax benefits were greater in each of those periods than the average market price for HP's common stock because their effect would be anti-dilutive.

As disclosed in Note 2, during fiscal 2009 and 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 and excludes such shares when they are not contingently issuable. Accordingly, for fiscal 2009, HP has included 6 million shares underlying the PRU awards granted in fiscal 2009 and 2008 when calculating diluted EPS as those shares became contingently issuable upon the satisfaction of the cash flow from operations condition with respect to the first year of the three-year performance period applicable to the fiscal 2009 awards and the first and second years of the three-year performance period applicable to the fiscal 2008 awards. HP has excluded all other shares underlying the fiscal 2009 and 2008 PRU awards when calculating diluted EPS as those shares are not contingently issuable. For fiscal 2008, HP has included 2 million shares underlying the PRU awards granted in fiscal 2008 when calculating diluted EPS as those shares became contingently issuable upon the satisfaction of the cash flow from operations condition with respect to the first year of the three-year performance period applicable to

Note 3: Net Earnings Per Share (Continued)

the fiscal 2008 awards. HP has excluded all other shares underlying the fiscal 2008 PRU awards when calculating diluted EPS as those shares were 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 above, 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 for the following fiscal years ended October 31:

Accounts and Financing Receivables

	2009	2008
	In millions	
Accounts receivable	$17,166	$17,481
Allowance for doubtful accounts	(629)	(553)
	$16,537	$16,928
Financing receivables	$ 2,723	$ 2,355
Allowance for doubtful accounts	(48)	(41)
	$ 2,675	$ 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 $568 million as of October 31, 2009. HP sold $1,667 million of trade receivables during fiscal 2009. As of October 31, 2009, HP had $269 million available under these programs.

Inventory

	2009	2008
	In millions	
Finished goods	$4,092	$5,219
Purchased parts and fabricated assemblies	2,036	2,660
	$6,128	$7,879

Note 4: Balance Sheet Details (Continued)

Other Current Assets

	2009	2008
	In millions	
Deferred tax assets — short-term	$ 4,979	$ 3,920
Value added taxes receivable from the government	2,650	3,115
Supplier and other receivables	3,439	3,082
Prepaid and other current assets	2,797	4,244
	$13,865	$14,361

Property, Plant and Equipment

	2009	2008
	In millions	
Land	$ 513	$ 526
Buildings and leasehold improvements	7,472	7,238
Machinery and equipment	12,959	11,121
	20,944	18,885
Accumulated depreciation	(9,682)	(8,047)
	$11,262	$10,838

Depreciation expense was approximately $3.2 billion in fiscal 2009, $2.4 billion in fiscal 2008 and $1.9 billion in fiscal 2007.

Long-Term Financing Receivables and Other Assets

	2009	2008
	In millions	
Financing receivables	$ 3,303	$ 2,722
Deferred tax assets — long-term	1,750	792
Other	6,236	6,954
	$11,289	$10,468

Other Accrued Liabilities

	2009	2008
	In millions	
Other accrued taxes	$ 2,784	$ 3,258
Warranty	1,777	1,973
Sales and marketing programs	2,724	2,958
Other	6,787	7,243
	$14,072	$15,432

Note 4: Balance Sheet Details (Continued)

Other Liabilities

	2009	2008
	In millions	
Pension, post-retirement, and post-employment liabilities	$ 6,427	$ 3,712
Deferred tax liability — long-term	4,230	3,162
Long-term deferred revenue	3,249	3,152
Other long-term liabilities	3,393	3,748
	$17,299	$13,774

Long-term deferred revenue represents service and product deferred revenue to be recognized after one year from the balance sheet date. Deferred revenue represents amounts received or billed in advance for fixed-price support or maintenance contracts, software customer support contracts, outsourcing services start-up or transition work, consulting and integration projects, product sales and leasing income. The fixed-price support or maintenance contracts include stand-alone product support packages, routine maintenance service contracts, upgrades or extensions to standard product warranty, as well as high availability services for complex, global, networked, multi-vendor environments. HP defers these service amounts at the time HP bills the customer, and HP then recognizes the amounts ratably over the contract life or as HP renders the services. HP also defers and subsequently amortizes certain set-up costs related to activities that enable the performance of the customer contract. Deferred contract costs, including set-up and other unbilled costs, are amortized on a straight-line basis over the remaining original contract term unless billing patterns indicate a more accelerated method is appropriate.

Note 5: Supplemental Cash Flow Information

Supplemental cash flow information to the Consolidated Statements of Cash Flows for the fiscal years ended October 31 2009, October 31, 2008 and October 31, 2007 was as follows:

	2009	2008	2007
		In millions	
Cash paid for income taxes, net	$643	$1,136	$956
Cash paid for interest	$572	$ 426	$489
Non-cash investing and financing activities:			
Issuance of common stock and stock awards assumed in business acquisitions	$ —	$ 316	$ 41
Purchase of assets under financing arrangements	$283	$ —	$ 57
Purchase of assets under capital leases	$131	$ 30	$ —

Note 6: Acquisitions

Acquisitions in fiscal 2009

In fiscal 2009, HP completed two acquisitions. Total consideration for the acquisitions was $390 million, which includes direct transaction costs and the assumption of certain liabilities in connection with the transactions. HP recorded $315 million of goodwill, $105 million of purchased intangibles and $7 million of in-process research and development charges (“IPR&D”) related to these transactions. Projects that qualify for treatment as IPR&D have not yet reached technical feasibility

Note 6: Acquisitions (Continued)

and have no alternative use. HP does not expect goodwill recorded with these acquisitions to be deductible for tax purposes. HP has not presented pro forma results of operations because the acquisitions are not material to HP's consolidated financial statements.

The largest of the two acquisitions is the acquisition of Lefthand Networks, Inc., a leading provider of storage virtualization and solutions, which has been integrated into HP's Enterprise Storage and Servers segment. The total purchase price paid was $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 IPR&D charges related to this acquisition. HP is amortizing the purchased intangibles on a straight-line basis over a weighted-average estimated life of 6.3 years.

Pending Acquisition

In November 2009, HP entered into a definitive agreement to acquire 3Com Corporation ("3Com"), a global enterprise provider of networking switching, routing and security solutions, at a price of $7.90 per share in cash or an enterprise value of approximately $2.7 billion. The acquisition is subject to customary closing conditions, including the receipt of domestic and foreign regulatory approvals and the approval of 3Com's stockholders. The transaction is expected to close in HP's second fiscal quarter of 2010.

Acquisitions in fiscal 2008

Acquisition of Electronic Data Systems Corporation

On August 26, 2008, HP completed its acquisition of EDS, a leading global technology services company, delivering a broad portfolio of information technology, applications and business process outsourcing services to clients in the manufacturing, financial services, healthcare, communications, energy, transportation, and consumer and retail industries and to governments around the world.

The purchase price for EDS was $13.0 billion, comprised of $12.7 billion cash paid for outstanding common stock, $328 million for the fair value of stock options and restricted stock units assumed, and $36 million for direct transaction costs. Of the total purchase price, $10.4 billion has been allocated to goodwill, $4.6 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.

Pro forma results for EDS acquisition

The following table presents the unaudited pro forma results for the year ended October 31, 2008. The unaudited pro forma financial information for the year ended October 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

Note 6: Acquisitions (Continued)

for depreciation expense for property, plant and equipment, adjustments to interest expense and related tax effects.

In millions, except per share data	2008
Net revenue	$136,022
Net earnings	$ 7,828
Basic net earnings per share	$ 3.15
Diluted net earnings per share	$ 3.05

Other acquisitions in fiscal 2008

HP also completed eight other acquisitions and a minority interest purchase during fiscal 2008. Total consideration for the acquisitions and the minority interest purchase was $1.6 billion, which includes direct transaction costs, the fair value of stock options assumed and certain liabilities recorded in connection with these transactions. HP recorded $1.0 billion of goodwill, $600 million of purchased intangibles and $15 million of IPR&D related to these transactions.

The largest of these transactions was the acquisition of Exstream Software, LLC, which has been integrated into HP's Imaging and Printing Group. The total purchase price paid was $720 million, which included direct transaction costs as well as certain debt that was repaid at the acquisition date. In connection with this acquisition, HP recorded $434 million of goodwill, $235 million of purchased intangibles and expensed $11 million for IPR&D. HP is amortizing the purchased intangibles on a straight-line basis over a weighted-average estimated life of 6.8 years.

Note 7: Goodwill and Purchased Intangible Assets

Goodwill

Goodwill allocated to HP's business segments as of October 31, 2009 and 2008 and changes in the carrying amount of goodwill during the fiscal year ended October 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	—	315	—	—	—	—	—	315
Goodwill adjustments	545	(55)	(22)	(6)	(3)	—	—	459
Balance at October 31, 2009	$16,829	$5,005	$6,140	$2,487	$2,460	$144	$44	$33,109

During fiscal 2009, HP recorded adjustments of approximately $306 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, net deferred tax liabilities and intangible assets. In addition, goodwill increased approximately $255 million as a result of currency translation related to certain of

Note 7: Goodwill and Purchased Intangible Assets (Continued)

EDS's foreign subsidiaries whose functional currency is not the U.S. dollar. These increases in goodwill were partially offset by tax adjustments for various previous acquisitions.

Based on the results of its annual impairment tests, HP determined that no impairment of goodwill existed as of August 1, 2009 or August 1, 2008. However, future goodwill impairment tests could result in a charge to earnings. HP will continue to evaluate goodwill on an annual basis as of the beginning of its fourth fiscal quarter and whenever events and changes in circumstances indicate that there may be a potential impairment.

Purchased Intangible Assets

HP's purchased intangible assets associated with completed acquisitions for each of the following fiscal years ended October 31 are composed of:

	2009			2008		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
			In millions			
Customer contracts, customer lists and distribution agreements	$ 6,763	$(3,034)	$3,729	$ 6,530	$(2,176)	$4,354
Developed and core technology and patents	4,171	(2,747)	1,424	4,189	(2,147)	2,042
Product trademarks	247	(222)	25	253	(109)	144
Total amortizable purchased intangible assets	11,181	(6,003)	5,178	10,972	(4,432)	6,540
Compaq trade name	1,422	—	1,422	1,422	—	1,422
Total purchased intangible assets	$12,603	$(6,003)	$6,600	$12,394	$(4,432)	$7,962

For fiscal 2009, HP recorded an increase of $83 million to purchased intangibles as a result of currency translation related to certain of EDS's foreign subsidiaries whose functional currency is not the U.S. dollar. HP also recorded an increase of $21 million to the estimated fair value of EDS's intangible assets acquired.

Based on the results of its annual impairment tests, HP determined that no impairment of the Compaq trade name existed as of August 1, 2009 or August 1, 2008. However, future impairment tests could result in a charge to earnings. HP will continue to evaluate the Compaq trade name on an annual basis as of the beginning of its fourth fiscal quarter and whenever events and changes in circumstances indicate that there may be a potential impairment.

The finite-lived purchased intangible assets consist of customer contracts, customer lists and distribution agreements, which have weighted-average useful lives of 8 years, and developed and core technology, patents and product trademarks, which have weighted-average useful lives of 5 years.

Note 7: Goodwill and Purchased Intangible Assets (Continued)

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

Fiscal year:	In millions
2010	$1,308
2011	1,053
2012	855
2013	717
2014	464
Thereafter	781
Total	$5,178

Note 8: 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 the Imaging and Printing Group ("IPG"), the Personal Systems Group ("PSG"), and Enterprise Storage and Servers ("ESS"). In fiscal 2009, HP recorded a net charge of $297 million in severance-related costs associated with the planned elimination of approximately 5,000 positions. As of October 31, 2009, approximately 2,100 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 $6 million related to severance costs associated with this plan.

Fiscal 2008 HP/EDS Restructuring Plan

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

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 $346 million, for the twelve months ended October 31, 2009, along with year-to-date adjustments to goodwill of $276 million. As of October 31, 2009, over 19,000 positions have been eliminated.

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 $465 million related to the cost to vacate duplicative facilities and severance costs.

Note 8: Restructuring Charges (Continued)

All restructuring costs associated with pre-acquisition EDS are reflected in the purchase price of EDS. These costs are subject to change based on the actual costs incurred. Changes to these estimates could 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 twelve months ended October 31, 2009 were as follows:

							As of October 31, 2009	
	Balance, October 31, 2008	Fiscal year 2009 charges (reversals)	Goodwill adjustments	Cash payments	Non-cash settlements and other adjustments	Balance, October 31, 2009	Total costs and adjustments to date	Total expected costs and adjustments
Fiscal 2009 Plan	$ —	$297	$ —	$ (59)	$ 10	$ 248	$ 297	$ 303
Fiscal 2008 HP/EDS Plan:								
Severance	$1,444	$279	$ 96	$(1,106)	$ 34	$ 747	$1,910	$1,940
Infrastructure	248	67	180	(47)	(29)	419	500	935
Total severance and other restructuring activities	$1,692	$346	$276	$(1,153)	$ 5	$1,166	$2,410	$2,875
Prior fiscal year plans	77	(3)	(2)	(25)	4	51	6,343	6,343
Total restructuring plans	$1,769	$640	$274	$(1,237)	$ 19	$1,465	$9,050	$9,521

At October 31, 2009 and October 31, 2008, HP included the long-term portion of the restructuring liability of $356 million and $670 million, respectively, in Other liabilities, and the short-term portion in Accrued restructuring in the accompanying Consolidated 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 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.

Note 9: Fair Value

HP adopted certain provisions of the new accounting standard related to fair value in the first and fourth quarters of fiscal 2009. 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. HP will adopt the remaining provisions related to the fair value of nonfinancial assets and nonfinancial liabilities in the first quarter of fiscal 2010 for the following major categories of nonfinancial assets and liabilities from the Consolidated Balance Sheet: Property, plant and equipment, Goodwill, Purchased intangible assets, and the asset retirement obligations within Other accrued liabilities and Other liabilities.

Note 9: Fair Value (Continued)

The new standard codifies a new framework for measuring fair value and expands related disclosures. The framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

The valuation techniques required by the new provisions are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect HP's assumptions about market participant assumptions based on best information available. Observable inputs are the preferred source of values. These two types of inputs create the following fair value hierarchy:

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

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

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

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

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

Derivative Instruments: As discussed in Note 10, HP mainly holds non-speculative forwards, swaps and options to hedge certain foreign currency and interest rate exposures. When active market quotes are not available, HP uses industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies. In certain cases, market-based observable inputs are not available and, in those cases, HP uses management judgment to develop assumptions which are used to determine fair value.

Note 9: Fair Value (Continued)

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

	Fair Value Measured Using			Total Balance
	Level 1	Level 2	Level 3	
	In millions			
Assets				
Time deposits	$ —	$ 8,925	$—	$ 8,925
Commercial paper	—	1,388	—	1,388
Money market funds	262	—	—	262
Other debt securities	15	372	36	423
Marketable equity securities	7	3	—	10
Derivatives	—	755	1	756
Total	$284	$11,443	$37	$11,764
Liabilities				
Derivatives	$ —	$ 773	$ 1	$ 774
Total	$ —	$ 773	$ 1	$ 774

The following tables present the changes in level 3 instruments in fiscal 2009 that are measured at fair value 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)		
	Other Debt Securities	Derivative Instruments	Total
	In millions		
Beginning balance at November 1, 2008	$ 64	$(1)	$ 63
Total gains or losses (realized/unrealized):			
Included in earnings[(1)]	(2)	2	—
Included in other comprehensive income	(25)	(2)	(27)
Purchases, issuances, and settlements	(1)	1	—
Ending balance at October 31, 2009	$ 36	$—	$ 36
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 October 31, 2009	$ (2)	$—	$ (2)

(1) Included in Interest and other, net in the accompanying Consolidated 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 October 31, 2009, such assets with a total fair value of

Note 9: Fair Value (Continued)

$39 million were measured using level 3 inputs. HP recorded an impairment charge of $18 million relating to these investments.

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 declines. HP determines fair values for investments in public companies using quoted market prices and records a charge to Interest and other, net when the change in fair values is determined to be an other-than-temporary change. HP carries equity investments in privately-held companies at cost or at fair value when HP recognizes an other-than-temporary impairment charge.

HP monitors its investment portfolio for impairment on a periodic basis. In the event that the carrying value of an investment in debt securities exceeds its fair value and the decline in value is determined to be an other-than-temporary decline and 1) HP does not intend to sell the debt security, and 2) when it is not more likely than not that HP will be required to sell the debt security prior to recovery of its amortized cost basis, HP records an impairment charge to Interest and other, net in the amount of the credit loss and the balance, if any, to other comprehensive income.

Effective November 1, 2008, HP adopted the accounting standards related to financial instruments 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 October 31, 2009, HP did not elect such option for any eligible financial instruments.

Note 10: Financial Instruments

Available-for-Sale Investments

Cash equivalents and investments at fair value for the following fiscal years ended October 31 were as follows:

	2009				2008			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	In millions							
Cash Equivalents								
Time deposits	$ 8,870	$—	$ —	$ 8,870	$5,397	$—	$ —	$5,397
Commercial paper	1,388	—	—	1,388	1,306	—	—	1,306
Money market funds	262	—	—	262	919	—	—	919
Total cash equivalents	$10,520	$—	$ —	$10,520	$7,622	$—	$ —	$7,622
Investments								
Debt securities:								
Time deposits	$ 55	$—	$ —	$ 55	$ 103	$—	$ —	$ 103
Other debt securities	419	49	(45)	423	104	1	(20)	85
Total debt securities	$ 474	$49	$(45)	$ 478	$ 207	$ 1	$(20)	$ 188
Equity securities in public companies	$ 3	$ 2	$ —	$ 5	$ 3	$ 2	$ —	$ 5
Total cash equivalents and investments	$10,997	$51	$(45)	$11,003	$7,832	$ 3	$(20)	$7,815

Cash equivalents consist of investments with original maturities of ninety days or less. Available-for-sale securities consist of short-term investments which mature within twelve months or less and long-term investments with maturities longer than twelve months. Investments include time deposits consisting of certificate of deposits, corporate commercial paper and other debt securities consisting primarily of fixed-interest securities and institutional bonds. As discussed in Note 9, HP estimated the fair values of its investments based on quoted market prices or pricing models using current market rates. These estimated fair values may not be representative of actual values that will be realized in the future.

The gross unrealized loss as of October 31, 2009 was due primarily to declines in certain debt securities. The gross unrealized loss includes $20 million that has been in a continuous loss position for more than twelve months. The gross unrealized loss as of October 31, 2008 had been in a continuous loss position for less than twelve months. HP does not intend to sell these debt securities and it is not likely that HP will be required to sell these debt securities prior to the recovery of the amortized cost.

Note 10: Financial Instruments (Continued)

Contractual maturities of short-term and long-term investments in available-for-sale securities at October 31, 2009 were as follows:

	Available-for-Sale Securities	
	Cost	Estimated Fair Value
	In millions	
Due in less than one year	$ 55	$ 55
Due in 1-5 years	26	26
Due in more than five years	393	397
	$474	$478

Proceeds from sales and maturities of available-for-sale and other securities were $171 million in fiscal 2009. There were no realized gains or losses on available-for-sale and other securities in fiscal 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 at the following fiscal years ended October 31 was as follows:

	2009	2008
	In millions	
Available-for-sale debt securities	$ 55	$ 93
Short-term investments	55	93
Available-for-sale debt securities	423	95
Available-for-sale equity securities	5	5
Equity securities in privately-held companies	129	145
Marketable trading securities and other investments	13	280
Included in long-term financing receivables and other assets	570	525
Total investments	$625	$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 Statements of Earnings. The net losses associated with these securities were $14 million for fiscal 2009. The net gains associated with these securities were $5 million for fiscal 2008.

Derivative Financial Instruments

On February 1, 2009, HP adopted the accounting standards related to derivative instruments and hedging. The adoption requires additional disclosures about HP's objectives and strategies for using derivative instruments, the accounting for the derivative instruments and related hedged items and the

Note 10: Financial Instruments (Continued)

effect of derivative instruments and related hedged items on the financial statements. The adoption had no financial impact on the consolidated 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 designates its derivatives as fair value hedges, cash flow hedges or hedges of the foreign currency exposure of a net investment in a foreign operation ("net investment hedges"). Additionally, for derivatives not designated as hedging instruments, HP categorizes those economic hedges as other derivatives. HP recognizes all derivatives in the Consolidated 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 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 October 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.

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

Note 10: Financial Instruments (Continued)

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

Cash Flow Hedges

HP uses a combination of forward contracts and options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted net revenue and, to a lesser extent, cost of sales, operating expense, and intercompany lease loan denominated in currencies other than the U.S. dollar. HP's foreign currency cash flow hedges mature generally within six to twelve months. However, certain leasing revenue-related forward contracts and intercompany lease loan forward contracts extend for the duration of the lease term, which can be up to five years. For derivative instruments that are designated and qualify as cash flow hedges, HP initially records the effective portion of the gain or loss on the derivative instrument in accumulated other comprehensive 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 fiscal 2009 and 2008, HP did not discontinue any cash flow hedge for which it was probable that a forecasted transaction would not occur.

Net Investment Hedges

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

Other Derivatives

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

Hedge Effectiveness

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

Note 10: Financial Instruments (Continued)

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 Statements of Earnings. As of October 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 in fiscal years 2009, 2008 and 2007.

Fair Value of Derivative Instruments in the Consolidated Balance Sheet

As discussed in Note 9, HP estimates the fair values of derivatives primarily based on pricing models using current market rates and records all derivatives on the balance sheet at fair value. The gross notional and fair value of derivative financial instruments in the Consolidated Balance Sheet as of October 31, 2009 were as follows:

	As of October 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					
Fair value hedges:					
Interest rate contracts	$ 7,575	$ —	$346	$ —	$ 5
Cash flow hedges:					
Foreign exchange contracts	15,056	116	12	389	33
Net investment hedges:					
Foreign exchange contracts	1,350	13	12	47	39
Total derivatives designated as hedging instruments	$23,981	$129	$370	$436	$ 77
Derivatives not designated as hedging instruments					
Foreign exchange contracts	$16,104	$206	$ 20	$163	$ 51
Interest rate contracts[2]	2,211	—	29	—	45
Total return contracts	268	2	—	2	—
Total derivatives not designated as hedging instruments	$18,583	$208	$ 49	$165	$ 96
Total derivatives	$42,564	$337	$419	$601	$173

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

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

Note 10: Financial Instruments (Continued)

Effect of Derivative Instruments on the Consolidated Statements of Earnings

The before-tax effect of a derivative instrument and related hedged item in a fair value hedging relationship for fiscal year ended October 31, 2009 was as follows:

Derivative Instrument	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item				
	Location	2009	Hedged Item	Location	2009
		In millions			In millions
Interest rate contracts	Interest and other, net	$232	Fixed-rate debt	Interest and other, net	$(236)

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for fiscal 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)	
	2009	Location	2009	Location	2009
	In millions		In millions		In millions
Cash flow hedges:					
Foreign exchange contracts	$(1,044)	Net revenue	$475	Net revenue	$—
Foreign exchange contracts	115	Cost of products	142	Cost of products	—
Foreign exchange contracts	(3)	Other operating expenses	(4)	Other operating expenses	—
Foreign exchange contracts	1	Interest and other, net	(4)	Interest and other, net	—
Foreign exchange contracts	29	Net revenue	9	Interest and other, net	7
Total cash flow hedges	$ (902)		$618		$ 7
Net investment hedges:					
Foreign exchange contracts	$ (169)	Interest and other, net	$ —	Interest and other, net	$—

(1) Amount of gain recognized in income on derivative represents a $7 million gain related to the amount excluded from the assessment of hedge effectiveness in fiscal 2009.

HP expects to reclassify net accumulated other comprehensive loss of $167 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.

Note 10: Financial Instruments (Continued)

The before-tax effect of derivative instruments not designated as hedging instruments on the Consolidated Statements of Earnings for fiscal 2009 was as follows:

	Gain (Loss) Recognized in Income on Derivative	
	Location	2009
		In millions
Foreign exchange contracts	Interest and other, net	$(989)
Total return contracts	Interest and other, net	(1)
Interest rate contracts	Interest and other, net	1
Total		$(989)

Other Financial Instruments

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

Note 11: 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 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 for the following fiscal years ended October 31:

	2009	2008
	In millions	
Minimum lease payments receivable	$ 6,413	$ 5,338
Allowance for doubtful accounts	(108)	(90)
Unguaranteed residual value	244	254
Unearned income	(571)	(466)
Financing receivables, net	5,978	5,036
Less current portion	(2,675)	(2,314)
Amounts due after one year, net	$ 3,303	$ 2,722

Note 11: Financing Receivables and Operating Leases (Continued)

As of October 31, 2009, scheduled maturities of HP's minimum lease payments receivable were as follows for the following fiscal years ended October 31:

	2010	2011	2012	2013	Thereafter	Total
Scheduled maturities of minimum lease payments receivable	$2,956	$1,816	$1,007	$427	$207	$6,413

Equipment leased to customers under operating leases was $3.0 billion at October 31, 2009 and $2.3 billion at October 31, 2008 and is included in machinery and equipment. Accumulated depreciation on equipment under lease was $0.9 billion at October 31, 2009 and $0.5 billion at October 31, 2008. As of October 31, 2009, minimum future rentals on non-cancelable operating leases related to leased equipment were as follows for the following fiscal years ended October 31:

	2010	2011	2012	2013	Thereafter	Total
Minimum future rentals on non-cancelable operating leases	$976	$647	$336	$114	$49	$2,122

Note 12: Guarantees

Guarantees and Indemnifications

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

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

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

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

Note 12: Guarantees (Continued)

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 were as follows for the following fiscal years ended October 31:

	2009	2008
	In millions	
Product warranty liability at beginning of year	$ 2,614	$ 2,376
Accruals for warranties issued	2,701	3,351
Adjustments related to pre-existing warranties (including changes in estimates)	(223)	(107)
Settlements made (in cash or in kind)	(2,683)	(3,006)
Product warranty liability at end of year	$ 2,409	$ 2,614

Note 13: Borrowings

Notes Payable and Short-Term Borrowings

Notes payable and short-term borrowings, including the current portion of long-term debt, were as follows for the following fiscal years ended October 31:

	2009		2008	
	Amount Outstanding	Weighted-Average Interest Rate	Amount Outstanding	Weighted-Average Interest Rate
	In millions			
Current portion of long-term debt	$1,143	1.0%	$ 2,674	4.3%
Commercial paper	294	1.2%	7,146	2.7%
Notes payable to banks, lines of credit and other	413	2.0%	356	5.3%
	$1,850		$10,176	

Notes payable to banks, lines of credit and other includes deposits associated with HP's banking-related activities of approximately $326 million and $262 million at October 31, 2009 and 2008, respectively.

Note 13: Borrowings (Continued)

Long-Term Debt

Long-term debt was as follows for the following fiscal years ended October 31:

	2009	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
$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	—
	12,514	7,497

Note 13: Borrowings (Continued)

	2009	2008
	In millions	
EDS Senior Notes		
$700 issued October 1999 at 7.125%, due October 2009	—	712
$1,100 issued June 2003 at 6.0%, due August 2013	1,140	1,150
$300 issued October 1999 at 7.45%, due October 2029	315	316
	1,455	2,178
Other, including capital lease obligations, at 3.75%-8.63%, due in calendar year 2009-2029 and at 3.75%-8.63%, due in calendar year 2008-2029	785	597
Fair value adjustment related to hedged debt	369	78
Less: current portion	(1,143)	(2,674)
Total long-term debt	$13,980	$ 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 for sale, from time to time, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants. The 2009 Shelf Registration Statement replaced a similar registration statement filed in May 2006 that expired in May 2009.

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

In October 2008, HP registered for the Commercial Paper Funding Facility ("CPFF") provided by the Federal Reserve Bank of New York. The 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 October 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

Note 13: Borrowings (Continued)

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 June 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's ability to have a U.S. commercial paper outstanding balance that exceeds the $6.4 billion supported these credit facilities is subject to a number of factors, including liquidity conditions and business performance.

HP also maintains uncommitted lines of credit from a number of financial institutions that are available through various foreign subsidiaries. The amount available for use as of October 31, 2009 was approximately $1.6 billion.

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

At October 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 $17.8 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 $1.6 billion under other programs.

Aggregate future maturities of long-term debt at face value (excluding a fair value adjustment related to hedged debt of $369 million, a premium on debt issuance of $56 million, and a discount on debt issuance of $28 million) were as follows at October 31, 2009:

	2010	2011	2012	2013	2014	Thereafter	Total
				In millions			
Aggregate future maturities of debt outstanding including capital lease obligations	$1,143	$2,121	$3,406	$2,654	$3,520	$1,882	$14,726

Interest expense on borrowings was approximately $597 million in fiscal 2009, $467 million in fiscal 2008, and $531 million in fiscal 2007.

Note 14: Taxes on Earnings

The domestic and foreign components of earnings were as follows for the following fiscal years ended October 31:

	2009	2008	2007
		In millions	
U.S.	$2,569	$ 2,232	$3,577
Non-U.S.	$6,846	$ 8,241	$5,600
	$9,415	$10,473	$9,177

Note 14: Taxes on Earnings (Continued)

The provision for (benefit from) taxes on earnings was as follows for the following fiscal years ended October 31:

	2009	2008	2007(1)
		In millions	
U.S. federal taxes:			
Current	$ 47	$ 405	$ 639
Deferred	956	686	229
Non-U.S. taxes:			
Current	1,156	922	1,281
Deferred	(356)	(85)	(125)
State taxes:			
Current	173	44	67
Deferred	(221)	172	(178)
	$1,755	$2,144	$1,913

(1) HP has revised the presentation for the fiscal years ended October 31, 2007 regarding the tax benefit of stock option plans for comparability purposes. The largest impacts of the revision was an increase in the current U.S. federal tax provision of $428 million and a decrease in the deferred U.S. federal tax provision of $428 million. This change does not affect previously reported results of operations or financial position for any periods presented, or previously reported totals for the provision for (benefit from) taxes on earnings.

Note 14: Taxes on Earnings (Continued)

The significant components of deferred tax assets and deferred tax liabilities were as follows for the following fiscal years ended October 31:

	2009		2008	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
	In millions			
Loss carryforwards	$ 9,191		$ 1,753	$ —
Credit carryforwards	1,444	—	1,549	—
Unremitted earnings of foreign subsidiaries	—	7,555	—	5,683
Inventory valuation	111	6	169	6
Intercompany transactions — profit in inventory	534	16	553	—
Intercompany transactions — excluding inventory	1,328	—	324	—
Fixed assets	119	9	152	8
Warranty	794	38	793	—
Employee and retiree benefits	2,692	80	1,955	123
Accounts receivable allowance	300	4	299	3
Capitalized research and development	879	—	1,192	—
Purchased intangible assets	28	1,594	30	1,961
Restructuring	459	17	596	—
Equity investments	81	—	70	—
Deferred revenue	949	12	918	—
Other	1,599	82	768	83
Gross deferred tax assets and liabilities	20,508	9,413	11,121	7,867
Valuation allowance	(8,678)	—	(1,801)	—
Total deferred tax assets and liabilities	$11,830	$9,413	$ 9,320	$7,867

The breakdown between current and long-term deferred tax assets and deferred tax liabilities was as follows for the following fiscal years ended October 31:

	2009	2008
	In millions	
Current deferred tax assets	$ 4,979	$ 3,920
Current deferred tax liabilities	(83)	(97)
Long-term deferred tax assets	1,751	792
Long-term deferred tax liabilities	(4,230)	(3,162)
Total deferred tax assets net of deferred tax liabilities	$ 2,417	$ 1,453

As of October 31, 2009, HP had $1.0 billion, $3.5 billion and $30.5 billion of federal, state and foreign net operating loss carryforwards, respectively. Amounts included in each of these respective totals begin to expire in fiscal 2010. Of the $30.5 billion of foreign net operating losses, $24.1 billion relates to foreign losses arising in fiscal 2009 pursuant to internal restructuring transactions. HP has provided a valuation allowance of $218 million for deferred tax assets related to federal and state net

Note 14: Taxes on Earnings (Continued)

operating losses and $8.0 billion on deferred tax assets related to foreign net operating loss carryforwards that HP does not expect to realize.

As of October 31, 2009, HP had recorded deferred tax assets for various tax credit carryforwards of $1.4 billion. This amount includes $687 million of foreign tax credit carryforwards which begin to expire in fiscal 2015, and against which HP has recorded a valuation allowance of $47 million. HP had alternative minimum tax credit carryforwards of $9 million, which do not expire, and research and development credit carryforwards of $395 million, which will begin to expire in fiscal 2019. HP also had tax credit carryforwards of $350 million in various states and foreign countries, for which HP has provided a valuation allowance of $179 million to reduce the related deferred tax asset. These credits begin to expire in fiscal 2010.

Gross deferred tax assets at October 31, 2009 and 2008 were reduced by valuation allowances of $8.7 billion and $1.8 billion, respectively. The valuation allowance increased by $6.9 billion in fiscal 2009. The valuation allowance increase consisted of $7.0 billion associated with foreign net operating loss carryovers arising in fiscal 2009 pursuant to internal restructuring transactions, reduced by $100 million of valuation allowance decreases associated with state and foreign net operating losses.

Gross deferred tax assets at October 31, 2008 and 2007 were reduced by valuation allowances of $1.8 billion and $1.5 billion, respectively. The valuation allowance increased by $258 million in fiscal 2008. The valuation allowance increases consisted of $449 million recorded for deferred tax assets acquired in current year acquisitions, $126 million recorded for deferred tax assets related to certain federal and state net operating loss carryovers and tax credits, and $47 million related to deferred tax assets for foreign tax credit carryovers. These increases were partially offset by a $203 million net reduction in the valuation allowances due to adjustments to deferred tax assets related to foreign net operating loss carryovers, and $161 million in the valuation allowances for deferred tax assets related to foreign tax credits and net operating losses carryovers as a result of the adoption of the accounting guidance for uncertainty in income taxes.

Net excess tax benefits resulting from the exercise of employee stock options and other employee stock programs, are recorded as an increase in stockholders' equity and were approximately $163 million in fiscal 2009, $316 million in fiscal 2008, and $530 million in fiscal 2007.

The differences between the U.S. federal statutory income tax rate and HP's effective tax rate were as follows for the following fiscal years ended October 31:

	2009	2008	2007
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	0.9	1.3	0.5
Lower rates in other jurisdictions, net	(12.2)	(16.9)	(13.2)
Research and development credit	(0.5)	(0.4)	(0.6)
Foreign net operating loss	(4.1)	—	—
Valuation allowance	(0.6)	—	(1.7)
Accrued taxes due to post-acquisition integration	0.6	2.0	—
Other, net	(0.5)	(0.5)	0.8
	18.6%	20.5%	20.8%

Note 14: Taxes on Earnings (Continued)

In fiscal 2009, HP recorded $547 million of net income tax benefits related to items unique to the year. The recorded amounts included $383 million of income tax benefits attributable to net deferred tax assets for foreign net operating loss carryovers arising pursuant to internal restructuring transactions. Also included were a net tax benefit of $154 million for the adjustment to estimated fiscal 2008 tax accruals upon filing the 2008 income tax returns, a $60 million income tax benefit for valuation allowance reversals for state and foreign net operating losses, and other miscellaneous items that resulted in a net tax charge of $50 million.

In fiscal 2008, HP recorded $251 million of net income tax expense related to items unique to the year. The recorded amounts consisted of a tax charge of $205 million associated with post-acquisition EDS integration, $44 million for the adjustment to estimated fiscal 2007 tax accruals upon filing the 2007 U.S. federal income tax return, and net tax charges of $2 million attributable to other items.

In October 2008, the Emergency Economic Stabilization Act of 2008 was signed into law, which included a retroactive two year extension of the research and development tax credit from January 1, 2008 through December 31, 2009. The retroactive income tax benefit of $45 million was recorded in HP's financial statements in the fourth quarter of fiscal 2008.

In fiscal 2007, HP recorded $80 million of net income tax benefit related to items unique to the year. The recorded amounts consisted of income tax benefits for valuation allowance reversals of $154 million attributable to deferred tax assets for state tax credits and $60 million attributable to deferred tax assets for foreign net operating losses, offset by a $96 million net increase to various tax reserves, a net tax charge of $18 million for the adjustment to estimated fiscal 2006 tax accruals upon filing the 2006 U.S. federal and state income tax returns, and a net tax charge of $20 million for other items.

As a result of certain employment actions and capital investments HP has undertaken, income from manufacturing and services in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, through 2022. The gross income tax benefits attributable to the tax status of these subsidiaries were estimated to be $853 million ($0.35 per share) in fiscal year 2009, $900 million ($0.35 per share) in fiscal year 2008, and $1.2 billion ($0.43 per share) in fiscal year 2007. The gross income tax benefits were offset partially by accruals of U.S. income taxes on undistributed earnings, among other factors.

The total amount of gross unrecognized tax benefits was $1.9 billion as of October 31, 2009, of which up to $950 million would affect HP's effective tax rate if realized. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at November 1, 2008	$2,333
Increases:	
For current year's tax positions	115
For prior years' tax positions	626
Decreases:	
For prior years' tax positions	(762)
Statute of limitations expiration	(293)
Settlements with taxing authorities	(131)
Balance at October 31, 2009	$1,888

Note 14: Taxes on Earnings (Continued)

HP recognizes interest income from favorable settlements and income tax receivables and interest expense and penalties accrued on unrecognized tax benefits within income tax expense. As of October 31, 2009, HP had accrued a net $115 million payable for interest and penalties. During fiscal 2009, HP recognized net interest income on tax overpayments and deficiencies, net of tax, of $40 million.

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

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

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 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.

Tax years of EDS through 2002 have been audited by the IRS, and all proposed adjustments have been resolved. The IRS is currently auditing EDS's tax years 2005 and 2006. On December 5, 2008, EDS received a RAR for exam years 2003 and 2004, proposing a tax deficiency of $82 million. This deficiency includes a $12 million effect on carrybacks to 2000 and 2001. HP is appealing certain issues and believes adequate reserves have been provided for all years.

On January 30, 2008, HP received a Notice of Deficiency from the IRS for its fiscal 2003 tax year. The Notice of Deficiency asserted that HP owes additional tax of $21 million. At the same time, HP received a RAR from the IRS for its fiscal 2002 tax year that proposed no change in HP's tax liability for that year. In addition to the proposed deficiency for fiscal 2003, the IRS's adjustments for both years, if sustained, would reduce tax refund claims HP has filed for net operating loss carrybacks to earlier fiscal years and reduce the tax benefits of tax credit carryforwards to subsequent years, by approximately $249 million. This amount reflects certain transfer pricing adjustments that were settled during fiscal 2008. HP plans to contest certain remaining adjustments proposed in the Notice of Deficiency and the RAR. Towards this end, HP filed a petition with the United States Tax Court on April 29, 2008. HP believes that it has provided adequate reserves for any tax deficiencies or reductions in refund claims that could result from the IRS actions.

Note 14: Taxes on Earnings (Continued)

On June 28, 2007, HP received a Notice of Deficiency from the IRS for its fiscal 1999 and 2000 tax years. The Notice of Deficiency asserted that HP owes additional tax of $13 million for these two years. At the same time, HP received a RAR from IRS for its fiscal 2001 tax year that proposed no change in HP's tax liability for that year. In addition to the proposed deficiencies for fiscal 1999 and 2000, the IRS's adjustments, if sustained, would reduce tax refund claims HP has filed for foreign tax credit and net operating loss carrybacks to earlier fiscal years and reduce the tax benefits of carryforwards to subsequent years, by approximately $80 million. HP plans to contest certain of the adjustments proposed in the Notice of Deficiency and the RAR. Towards this end, HP filed a Petition with the United States Tax Court on September 25, 2007. HP believes that it has provided adequate reserves for any tax deficiencies or reductions in refund claims that could result from the IRS actions.

HP has not provided for U.S. federal income and foreign withholding taxes on $16.5 billion of undistributed earnings from non-U.S. operations as of October 31, 2009 because HP intends to reinvest such earnings indefinitely outside of the United States. If HP were to distribute these earnings, foreign tax credits may become available under current law to reduce the resulting U.S. income tax liability. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. HP will remit non-indefinitely reinvested earnings of its non-US subsidiaries for which deferred U.S. federal and withholding taxes have been provided where excess cash has accumulated and it determines that it is advantageous for business operations, tax or cash management reasons.

Note 15: Stockholders' Equity

Dividends

The stockholders of HP common stock are entitled to receive dividends when and as declared by HP's Board of Directors. Dividends are paid quarterly. Dividends were $0.32 per common share in each of fiscal 2009, 2008 and 2007.

Stock Repurchase Program

HP's share repurchase program authorizes both open market and private repurchase transactions. In fiscal 2009, HP executed share repurchases of 120 million shares. Repurchases of 132 million shares were settled for $5.1 billion, which included 14 million shares repurchased in transactions that were executed in fiscal 2008 but settled in fiscal 2009. HP had approximately 2 million shares repurchased in the fourth quarter of fiscal 2009 that will be settled in the next fiscal year. In fiscal 2008, HP completed share repurchases of approximately 230 million shares. Repurchases of approximately 216 million shares were settled for $9.6 billion, which included approximately 1 million shares repurchased in transactions that were executed in fiscal 2007 but settled in fiscal 2008. In fiscal 2007, HP completed share repurchases of approximately 209 million shares. Repurchases of approximately 210 million shares were settled for $9.1 billion, which included approximately 1 million shares repurchased in transactions that were executed in fiscal 2006 but settled in fiscal 2007. The foregoing shares repurchased and settled in fiscal 2009, fiscal 2008 and fiscal 2007 were all open market repurchase transactions.

In addition to the above transactions, HP entered into an Accelerated Share Repurchase (the "ASR Program") with a third-party investment bank during the second quarter of fiscal 2007. Pursuant to the terms of the ASR Program, HP purchased 40 million shares of its common stock from the investment bank for $1.8 billion (the "Purchase Price") on March 30, 2007 (the "Purchase Date"). HP decreased its shares outstanding and reduced the outstanding shares used to calculate the weighted-

Note 15: Stockholders' Equity (Continued)

average common shares outstanding for both basic and diluted EPS on the Purchase Date. The shares delivered to HP included shares that the investment bank borrowed from third parties. The investment bank purchased an equivalent number of shares in the open market to cover its position with respect to the borrowed shares during a contractually specified averaging period that began on the Purchase Date and ended on June 6, 2007. At the end of the averaging period, the investment bank's total purchase cost based on the volume weighted-average purchase price of HP shares during the averaging period was approximately $90 million less than the Purchase Price. Accordingly, HP had the option to either receive additional shares of HP's common stock or a cash payment in the amount of the difference from the investment bank. In June 2007, HP received approximately 2 million additional shares purchased by the investment bank in the open market with a value approximately equal to that amount. HP reduced its shares outstanding upon receipt of those shares.

Also, HP entered into a prepaid variable share purchase program ("PVSPP") with a third-party investment bank during the first quarter of 2006 and prepaid approximately $1.7 billion in exchange for the right to receive a variable number of shares of its common stock weekly over a one-year period beginning in the second quarter of fiscal 2006 and ending during the second quarter of fiscal 2007. Under the PVSPP, the prices at which HP purchased the shares were subject to a minimum and maximum price that was determined in advance of any repurchases being completed under the program, thereby effectively hedging HP's repurchase price. The minimum and maximum number of shares HP could receive under the program was 52 million shares and 70 million shares, respectively. The exact number of shares to be repurchased was based upon the volume weighted-average market price of HP's shares during each weekly settlement period, subject to the minimum and maximum price as well as regulatory limitations on the number of shares HP was permitted to repurchase. HP decreased its shares outstanding each settlement period as shares were physically received. HP completed all repurchases under the PVSPP on March 9, 2007. As of that date, HP had cumulatively received a total of 53 million shares.

In fiscal 2009, there was no additional authorization for future share repurchases by HP's Board of Directors. In fiscal 2008 and fiscal 2007, HP's Board of Directors authorized an additional $16.0 billion and $8.0 billion for future share repurchases, respectively. As of October 31, 2009, HP had remaining authorization of approximately $4.0 billion for future share repurchases under the $8.0 billion repurchase authorization approved by HP's Board of Directors on September 19, 2008. On November 19, 2009, HP's Board of Directors authorized an additional $8.0 billion for future share repurchases.

Note 15: Stockholders' Equity (Continued)

Comprehensive Income

The changes in the components of other comprehensive income, net of taxes, were as follows for the following fiscal years ended October 31:

	2009	2008	2007
		In millions	
Net earnings	$ 7,660	$8,329	$7,264
Net change in unrealized gains/losses on available-for-sale securities:			
Change in net unrealized gains (losses), net of tax of $11 million in fiscal 2009, net of tax benefit of $7 million in fiscal 2008 and net of tax of $2 million in fiscal 2007	17	(17)	2
Net unrealized (gains) losses reclassified into earnings, with no tax effect in fiscal 2009 and fiscal 2008, and net of tax benefit of $7 million in fiscal 2007	(1)	1	(14)
	16	(16)	(12)
Net change in unrealized gains/losses on cash flow hedges:			
Change in net unrealized (losses) gains, net of tax benefit of $94 million in fiscal 2009, net of tax of $468 million in fiscal 2008 and net of tax benefit of $37 million in fiscal 2007	(163)	808	(63)
Net unrealized (gains) losses reclassified into earnings, net of tax of $468 million in fiscal 2009, net of tax benefit of $34 million in fiscal 2008 and net of tax of $26 million in fiscal 2007	(808)	58	45
	(971)	866	(18)
Net change in cumulative translation adjustment, net of tax of $227 million in fiscal 2009, net of tax benefit of $476 million in fiscal 2008 and net of tax of $37 million in fiscal 2007	304	(936)	106
Net change in unrealized components of defined benefit plans, net of tax benefit of $905 million in fiscal 2009, $42 million in fiscal 2008 and $1 million in fiscal 2007	(2,531)	(538)	(3)
Comprehensive income	$ 4,478	$7,705	$7,337

The components of accumulated other comprehensive (loss) income, net of taxes, were as follows for the following fiscal years ended October 31:

	2009	2008	2007
		In millions	
Net unrealized gain (loss) on available-for-sale securities	$ 4	$ (12)	$ 4
Net unrealized (loss) gain on cash flow hedges	(169)	802	(64)
Cumulative translation adjustment	(459)	(763)	173
Unrealized components of defined benefit plans	(2,623)	(92)	446
Accumulated other comprehensive (loss) income	$(3,247)	$ (65)	$ 559

Note 16: Retirement and Post-Retirement Benefit Plans

Acquisition of EDS

On August 26, 2008, EDS became a wholly owned subsidiary of HP. EDS sponsors qualified and non-qualified defined benefit pension plans covering substantially all of its employees. The majority of the EDS defined benefit pension plans are noncontributory. In most plans, employees become fully vested upon attaining two to five years of service, and benefits are based on many factors, which differ by country, but the most significant is years of service and earnings. The projected unit credit cost method is used for actuarial purposes. Plan assets and plan obligations associated with the EDS defined benefit pension plans were included as of the acquisition date and through October 31, 2008. On a global basis, EDS plan assets totaled $7.8 billion and plan obligations totaled $10.1 billion as of August 26, 2008. The U.S. portion of global assets and obligations totaled $4.1 billion and $5.0 billion respectively.

Defined Benefit Plans

HP sponsors a number of defined benefit pension plans worldwide, of which the most significant are in the United States. Both the HP Retirement Plan (the "Retirement Plan"), a traditional defined benefit pension plan based on pay and years of service, and the HP Company Cash Account Pension Plan (the "Cash Account Pension Plan"), under which benefits are accrued pursuant to a cash accumulation account formula based upon a percentage of pay plus interest, were frozen effective January 1, 2008. The Cash Account Pension Plan and the Retirement Plan were merged in 2005 for certain funding and investment purposes. The merged plan is referred to as the HP Pension Plan.

Following the acquisition of EDS, HP announced that it was modifying the EDS U.S. qualified and non-qualified plans for employees accruing benefits under the programs. Effective January 1, 2009, EDS employees in the U.S. ceased accruing pension benefits. The final pension benefit amount was calculated based on pay and service through December 31, 2008.

Effective October 30, 2009, the EDS U.S. qualified pension plan was also merged into the HP Pension Plan. The EDS U.S. qualified pension plan, like the Cash Account Pension Plan and the Retirement Plan, remains a separate sub-plan within the HP Pension Plan for purposes of determining benefit amounts. As a result, the merger had no impact on the separate benefit structures of the plans.

HP reduces the benefit payable to a U.S. employee under the Pension Plan for service before 1993, if any, by any amounts due to the employee under HP's frozen defined contribution Deferred Profit-Sharing Plan (the "DPSP"). HP closed the DPSP to new participants in 1993. The DPSP plan obligations are equal to the plan assets and are recognized as an offset to the Pension Plan when HP calculates its defined benefit pension cost and obligations. The fair value of plan assets and projected

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

benefit obligations for the U.S. defined benefit plans combined with the DPSP is as follows for the following fiscal years ended October 31:

	2009(1)		2008(1)	
	Plan Assets	Projected Benefit Obligation	Plan Assets	Projected Benefit Obligation
	In millions			
U.S. defined benefit plans	$8,371	$10,034	$7,313	$7,654
DPSP	872	872	910	910
Total	$9,243	$10,906	$8,223	$8,564

(1) 2009 and 2008 plan assets and projected benefit obligation include the EDS U.S. pension plans.

Post-Retirement Benefit Plans

Through fiscal 2005, substantially all of HP's U.S. employees at December 31, 2002 could become eligible for partially subsidized retiree medical benefits and retiree life insurance benefits under the Pre-2003 HP Retiree Medical Program (the "Pre-2003 Program") and certain other retiree medical programs. Plan participants in the Pre-2003 Program make contributions based on their choice of medical option and length of service. U.S. employees hired or rehired on or after January 1, 2003 may be eligible to participate in a post-retirement medical plan, the HP Retiree Medical Program, but must bear the full cost of their participation. Effective January 1, 2006, employees whose combination of age and years of service was less than 62 no longer were eligible for the subsidized Pre-2003 Program, but instead were eligible for the HP Retiree Medical Program. Employees no longer eligible for the Pre-2003 Program, as well as employees hired on or after January 1, 2003, are eligible for certain credits under the HP Retirement Medical Savings Account Plan ("RMSA Plan") upon attaining age 45. Upon retirement, former employees may use credits under the RMSA Plan for the reimbursement of certain eligible medical expenses, including premiums required for participation in the HP Retiree Medical Program. In February 2007, HP further limited future eligibility for the Pre-2003 HP Retiree Medical Program to those employees who were within five years of satisfying the program's retirement criteria on June 30, 2007. Employees not meeting the modified program criteria may become eligible for participation in the HP Retiree Medical Program. In November 2008, HP announced that it was changing the limits on future cost-sharing for the Pre-2003 Program whereby all future cost increases will be paid by participating retirees starting in 2011. In June 2008, HP modified the RMSA Plan to provide that generally only those employees who were employed with HP as of July 31, 2008 would be eligible to receive employer credits. In September 2008, HP further modified the RMSA Plan to provide that such employees would receive employer credits only in the form of matching contributions.

Defined Contribution Plans

HP offers various defined contribution plans for U.S. and non-U.S. employees. Total defined contribution expense was $568 million in fiscal 2009, $548 million in fiscal 2008 and $481 million in fiscal 2007. U.S. employees are automatically enrolled in the Hewlett-Packard Company 401(k) Plan (the "HP 401(k) Plan") when they meet eligibility requirements, unless they decline participation.

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Similar to HP, EDS offered participation in defined contribution plans for U.S. and non-U.S. employees.

During fiscal 2008, HP matched employee contributions to the HP 401(k) Plan with cash contributions up to a maximum of 6% of eligible compensation for U.S. employees hired prior to August 1, 2008. For U.S. employees hired on or after August 1, 2008 HP matched employee contributions up to a maximum of 4% of eligible compensation.

The employer match for the EDS plan was 25% of the employee contribution based on a maximum contribution of 6% of the employee's salary. Effective January 1, 2009, U.S. employees participating in the EDS 401(k) plan became eligible for a 4% HP matching contribution on eligible compensation. Similar to the HP 401(k) plan, contributions are invested at the direction of the employee in various funds, although the EDS 401(k) plan does not offer an HP stock fund.

Effective April 1, 2009, HP matching contributions under both the U.S. HP 401(k) Plan and the EDS 401(k) Plan were changed to a quarterly, discretionary, performance-based match of up to a maximum of 4% of eligible compensation for all U.S. employees, which will be determined each fiscal quarter based on business results. HP matching contributions will vary from 0% to 100% of the maximum 4% match, based on such factors as quarterly earnings, market share growth, and performance relative to market and economic conditions. HP's matching contributions for the quarter ended October 31, 2009 was 100% of the maximum 4% match.

Effective January 31, 2004, HP designated the HP Stock Fund, an investment option under the HP 401(k) Plan, as an Employee Stock Ownership Plan and, as a result, participants in the HP Stock Fund may receive dividends in cash or may reinvest such dividends into the HP Stock Fund. HP paid approximately $8 million, $9 million and $9 million in dividends for the HP common shares held by the HP Stock Fund in fiscal 2009, 2008 and 2007, respectively. HP records the dividends as a reduction of retained earnings in the Consolidated Statements of Stockholders' Equity. The HP Stock Fund held approximately 25 million shares of HP common stock at October 31, 2009.

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Pension and Post-Retirement Benefit Expense

HP's net pension and post-retirement benefit cost (gain) recognized in the Consolidated Statements of Earnings was as follows for the following fiscal years ended October 31:

	U.S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
	In millions								
Service cost	$ 27	$ 63	$ 130	$ 312	$ 281	$ 261	$ 14	$ 29	$ 31
Interest cost	592	296	260	619	475	366	70	78	77
Expected return on plan assets	(533)	(318)	(355)	(669)	(713)	(579)	(32)	(40)	(38)
Amortization and deferrals:									
Actuarial (gain) loss	(72)	(36)	(13)	71	1	87	6	19	26
Prior service benefit	—	—	—	(9)	(8)	(7)	(78)	(55)	(54)
Net periodic benefit cost	14	5	22	324	36	128	(20)	31	42
Curtailment (gain) loss	—	—	(541)	5	—	(13)	(2)	—	(26)
Settlement (gain) loss	(1)	(1)	8	12	(2)	4	—	—	—
Special termination benefits	—	—	307	55	4	4	—	—	60
Net benefit cost (gain)	$ 13	$ 4	$(204)	$ 396	$ 38	$ 123	$(22)	$ 31	$ 76

In fiscal 2009, HP recognized aggregate pension curtailment and settlement losses totaling $5 million and $12 million, respectively, resulting from workforce rebalancing initiatives in several non-U.S. countries. In the U.K., workforce rebalancing initiatives triggered pension termination benefits totaling $55 million. In the U.S., a settlement gain of $1 million was recognized for payout activity related to non-qualified plans. In Puerto Rico, a curtailment gain of $2 million was recognized for the closure of the retiree medical plan.

The weighted-average assumptions used to calculate net benefit cost were as follows for the following fiscal years ended October 31:

	U.S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Discount rate	8.0%	6.4%	5.9%	6.0%	5.2%	4.4%	8.2%	6.2%	5.8%
Average increase in compensation levels	2.0%	3.7%	4.0%	2.6%	3.3%	3.3%	—	—	—
Expected long-term return on assets	7.5%	6.7%	8.3%	6.9%	6.8%	6.7%	9.3%	8.7%	8.3%

The medical cost and related assumptions used to calculate the net post-retirement benefit cost for the following fiscal years ended October 31 were as follows:

	2009	2008	2007
Current medical cost trend rate	9.5%	7.5%	8.5%
Ultimate medical cost trend rate	5.5%	5.5%	5.5%
Year the medical cost rate reaches ultimate trend rate	2013	2010	2010

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

A 1.0 percentage point increase in the medical cost trend rate would have increased the fiscal 2009 service and interest components of the post-retirement benefit costs by $0.2 million, while a 1.0 percentage point decrease would have resulted in a decrease of $0.1 million in the same period.

Funded Status

The funded status of the defined benefit and post-retirement benefit plans was as follows for the following fiscal years ended October 31:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2009	2008	2009	2008	2009	2008
	In millions					
Change in fair value of plan assets:						
Fair value — beginning of year	$ 7,313	$ 4,258	$ 9,507	$ 9,816	$ 401	$ 489
Addition of plan — EDS	—	4,090	—	3,749	—	—
Acquisition/addition/(deletion) of plans	—	—	(4)	19	—	—
Actual return on plan assets	1,509	(782)	856	(2,673)	(15)	(56)
Employer contributions	55	25	531	145	31	52
Participants' contributions	—	—	84	84	9	48
Benefits paid	(488)	(274)	(449)	(302)	(74)	(131)
Settlements	(18)	(4)	(125)	(15)	—	—
Currency impact	—	—	925	(1,316)	—	—
Fair value — end of year	8,371	7,313	11,325	9,507	352	402
Change in benefit obligation:						
Projected benefit obligation — beginning of year	$ 7,654	$ 3,982	$10,468	$ 8,426	$1,096	$1,323
Addition of plan — EDS	—	4,977	—	5,105	—	—
Acquisition/addition/(deletion) of plans	—	—	(40)	34	(9)	—
Impact of change in measurement date	21	—	49	—	1	—
Service cost	27	63	312	281	14	29
Interest cost	592	296	619	475	70	78
Participants' contributions	—	—	84	84	9	48
Actuarial (gain) loss	2,245	(1,386)	2,106	(2,197)	60	(243)
Benefits paid	(488)	(274)	(449)	(302)	(74)	(131)
Plan amendments	1	—	(11)	—	(179)	—
Curtailment	—	—	(22)	—	—	—
Settlement	(18)	(4)	(125)	(15)	—	—
Special termination benefits	—	—	55	4	—	—
Currency impact	—	—	1,098	(1,427)	4	(8)
Projected benefit obligation — end of year	10,034	7,654	14,144	10,468	992	1,096
Plan assets less than benefit obligation	(1,663)	(341)	(2,819)	(961)	(640)	(694)
Contributions after measurement date	—	6	—	38	—	4
Net amount recognized	$(1,663)	$ (335)	$(2,819)	$ (923)	$ (640)	$ (690)
Accumulated benefit obligation	$10,031	$ 7,652	$13,217	$ 9,726		

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

The net amounts recognized for HP's defined benefit and post-retirement benefit plans in HP's Consolidated Balance Sheets as of October 31, 2009 and October 31, 2008 were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2009	2008	2009	2008	2009	2008
	In millions					
Non-current assets	$ 965	$ 811	$ 101	$ 748	$ —	$ —
Current liability	(29)	(37)	(38)	(48)	(43)	(70)
Non-current liability	(2,599)	(1,109)	(2,882)	(1,623)	(597)	(620)
Net amount recognized	$(1,663)	$ (335)	$(2,819)	$ (923)	$(640)	$(690)

The following table summarizes the pretax net experience loss and prior service benefit recognized in accumulated other comprehensive income for the company's defined benefit and post-retirement benefit plans as of October 31, 2009.

	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans
	In millions		
Net experience loss	$669	$3,275	$ 146
Prior service benefit	—	(95)	(503)
Total recognized in accumulated other comprehensive loss	$669	$3,180	$(357)

The following table summarizes the experience loss and prior service benefit that will be amortized from accumulated other comprehensive income and recognized as components of net periodic benefit cost (credit) during the next fiscal year.

	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans
	In millions		
Net experience loss	$27	$226	$ 21
Prior service benefit	—	(10)	(80)
Total to be recognized in accumulated other comprehensive (income) loss	$27	$216	$(59)

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

The weighted-average assumptions used to calculate the benefit obligation disclosed as of the 2009 and 2008 fiscal close were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2009	2008	2009	2008	2009	2008
Discount rate	5.9%	8.0%	5.0%	6.0%	5.4%	7.8%
Average increase in compensation levels	2.0%	2.0%	2.5%	2.6%	—	—
Current medical cost trend rate	—	—	—	—	—	9.5%
Ultimate medical cost trend rate	—	—	—	—	—	5.5%
Year the rate reaches ultimate trend rate	—	—	—	—	—	2013

Stemming from the plan changes announced in November 2008, the employer subsidy for the U.S. retiree medical plans will "freeze" in fiscal 2010. Therefore, trend rates for 2010 and beyond are no longer relevant to the liability calculation since the excess cost will be picked up by retirees.

A 1.0 percentage point increase in the medical cost trend rate would have increased the total post-retirement benefit obligation reported at October 31, 2009 by $3 million, while a 1.0 percentage point decrease would have resulted in a decrease of $3 million.

Defined benefit plans with projected benefit obligations exceeding the fair value of plan assets were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans	
	2009	2008	2009	2008
	In millions			
Aggregate fair value of plan assets	$3,516	$3,178	$ 9,247	$4,076
Aggregate projected benefit obligation	$6,144	$4,330	$12,167	$5,782

Defined benefit plans with accumulated benefit obligations exceeding the fair value of plan assets were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans	
	2009	2008	2009	2008
	In millions			
Aggregate fair value of plan assets	$3,515	$3,178	$7,040	$3,710
Aggregate accumulated benefit obligation	$6,141	$4,328	$9,263	$4,962

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Plan Asset Allocations

The weighted-average target and actual asset allocations across the HP and EDS plans at the respective measurement dates were as follows:

	U. S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	2009 Target	Plan Assets		2009 Target	Plan Assets		2009 Target	Plan Assets	
Asset Category	Allocation	2009	2008	Allocation	2009	2008	Allocation	2009	2008
Public equity securities		29.3%	27.1%		61.6%	59.5%		36.5%	49.5%
Private equity securities		10.9%	14.6%		—	—		33.5%	22.9%
Real estate and other		0.3%	0.5%		4.2%	6.2%		1.3%	2.1%
Equity-related investments	40.0%	40.5%	42.2%	65.5%	65.8%	65.7%	71.5%	71.3%	74.5%
Public debt securities	60.0%	58.7%	56.7%	34.5%	32.9%	33.4%	27.5%	25.9%	23.6%
Cash	0.0%	0.8%	1.1%	0.0%	1.3%	0.9%	1.0%	2.8%	1.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Investment Policy

HP's investment strategy for worldwide plan assets is to seek a competitive rate of return relative to an appropriate level of risk depending on the funded status of each plan. The majority of the plans' investment managers employ active investment management strategies with the goal of outperforming the broad markets in which they invest. Risk management practices include diversification across asset classes and investment styles and periodic rebalancing toward asset allocation targets. A number of the plans' investment managers are authorized to utilize derivatives for investment or liability exposures, and HP utilizes derivatives to effect asset allocation changes or to hedge certain investment or liability exposures.

The target asset allocation selected for each U.S. plan reflects a risk/return profile HP feels is appropriate relative to each plan's liability structure and return goals. HP conducts periodic asset-liability studies for U.S. plan assets in order to model various potential asset allocations in comparison to each plan's forecasted liabilities and liquidity needs. HP invests a portion of the U.S. defined benefit plan assets and post-retirement benefit plan assets in private market securities such as venture capital funds, private debt and private equity to provide diversification and higher expected returns.

Outside the United States, asset allocation decisions are typically made by an independent board of trustees. As in the U.S., investment objectives are aligned to generate returns that will enable the plan to meet its future obligations. In some countries local regulations require adjustments in asset allocation, typically leading to a higher percentage in fixed income than would otherwise be deployed. HP's corporate office acts in a consulting and governance role in reviewing investment strategy and providing a recommended list of investment managers for each country plan, with final decisions on asset allocation and investment managers made by local trustees.

Basis for Expected Long-Term Rate of Return on Plan Assets

The expected long-term rate of return on assets for each U.S. plan reflects the expected returns for each major asset class in which the plan invests and the weight of each asset class in the target mix.

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Expected asset class returns reflect the current yield on U.S. government bonds and risk premiums for each asset class. Because HP's investment policy is to employ primarily active investment managers who seek to outperform the broader market, the asset class expected returns are adjusted to reflect the expected additional returns net of fees.

HP closed the acquisition of EDS on August 26, 2008. Effective with the close of fiscal 2009, HP has merged the assets of the HP and EDS US pension plans after conducting an asset allocation study for the combined plan. The expected return on the plan assets, used in calculating the net benefit costs, is 8% for fiscal 2010, which reflects the result of the most recent asset allocation study and is commensurate with the investment strategy for the merged U.S. pension plan.

The approach used to arrive at the expected rate of return on assets for the non-U.S. plans reflects the asset allocation policy of each plan and the expected country real returns for equity and fixed income investments. On an annual basis, HP gathers empirical data from the local country subsidiaries to determine expected long-term rates of return for equity and fixed income securities. HP then weights these expected real rates of return based on country specific allocation mixes adjusted for inflation.

Future Contributions and Funding Policy

In fiscal 2010, HP expects to contribute approximately $745 million to its pension plans and approximately $30 million to cover benefit payments to U.S. non-qualified plan participants. HP expects to pay approximately $45 million to cover benefit claims for HP's post-retirement benefit plans. HP's funding policy is to contribute cash to its pension plans so that it meets at least the minimum contribution requirements, as established by local government, funding and taxing authorities.

Estimated Future Benefits Payable

HP estimates that the future benefits payable for the retirement and post-retirement plans in place were as follows at October 31, 2009:

	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans[1]
		In millions	
Fiscal year ending October 31			
2010	$ 453	$ 363	$ 92
2011	$ 474	$ 368	$ 93
2012	$ 519	$ 398	$ 90
2013	$ 556	$ 435	$ 88
2014	$ 470	$ 478	$ 86
Next five fiscal years to October 31, 2019	$2,858	$3,120	$414

(1) The estimated future benefits payable for the post-retirement plans are reflected net of the expected Medicare Part D subsidy.

Note 17: Commitments

HP leases certain real and personal property under non-cancelable operating leases. Certain leases require HP to pay property taxes, insurance and routine maintenance and include renewal options and

Note 17: Commitments (Continued)

escalation clauses. Rent expense was approximately $1,112 million in fiscal 2009, $935 million in fiscal 2008 and $767 million in fiscal 2007. The increase in fiscal 2009 rent expense was primarily a result of the EDS acquisition in August 2008. Sublease rental income was approximately $53 million in fiscal 2009, $37 million in fiscal 2008 and $44 million in fiscal 2007.

At October 31, 2009, property under capital lease which was comprised primarily of equipment and furniture was approximately $723 million and was included in property, plant and equipment in the accompanying Consolidated Balance Sheet. Accumulated depreciation on the property under capital lease was approximately $406 million at October 31, 2009. The related depreciation is included in depreciation expense.

Future annual minimum lease payments, sublease rental income commitments and capital lease commitments at October 31, 2009 were as follows:

	2010	2011	2012	2013	2014	Thereafter	Total
				In millions			
Minimum lease payments	$988	$779	$519	$365	$265	$637	$3,553
Less: Sublease rental income	(39)	(29)	(25)	(20)	(13)	(15)	(141)
	$949	$750	$494	$345	$252	$622	$3,412
Capital lease commitments	$134	$ 82	$ 60	$ 39	$ 23	$230	$ 568
Less: Interest payments	(18)	(11)	(7)	(4)	(3)	(2)	(45)
	$116	$ 71	$ 53	$ 35	$ 20	$228	$ 523

At October 31, 2009, HP had unconditional purchase obligations of approximately $2.0 billion. These unconditional purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on HP and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. Unconditional purchase obligations exclude agreements that are cancelable without penalty. These unconditional purchase obligations are related principally to inventory and other items. Future unconditional purchase obligations at October 31, 2009 were as follows:

	2010	2011	2012	2013	2014	Thereafter
			In millions			
Unconditional purchase obligations	$1,775	$118	$106	$15	$16	$3

Note 18: Litigation and Contingencies

HP is involved in lawsuits, claims, investigations and proceedings, including those identified below, consisting of intellectual property, commercial, securities, employment, employee benefits and environmental matters that arise in the ordinary course of business. HP records a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. HP believes it has adequate provisions for any such matters. HP reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Based on its experience, HP believes that any damage amounts claimed in the specific matters discussed below are not a meaningful indicator of HP's potential liability.

Note 18: Litigation and Contingencies (Continued)

Litigation is inherently unpredictable. However, HP believes that it has valid defenses with respect to legal matters pending against it. Nevertheless, it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies or because of the diversion of management's attention and the creation of significant expenses.

Litigation, Proceedings and Investigations

Copyright levies. As described below, proceedings are ongoing against HP in certain European Union ("EU") member countries, including litigation in Germany, seeking to impose levies upon equipment (such as multifunction devices ("MFDs"), personal computers ("PCs") and printers) and alleging that these devices enable producing private copies of copyrighted materials. The total levies due, if imposed, would be based upon the number of products sold and the per-product amounts of the levies, which vary. Some EU member countries that do not yet have levies on digital devices are expected to implement similar legislation to enable them to extend existing levy schemes, while some other EU member countries are expected to limit the scope of levy schemes and applicability in the digital hardware environment. HP, other companies and various industry associations are opposing the extension of levies to the digital environment and advocating alternative models of compensation to rights holders.

VerwertungsGesellschaft Wort ("VG Wort"), a collection agency representing certain copyright holders, instituted non-binding arbitration proceedings against HP in June 2001 in Germany before the arbitration board of the Patent and Trademark Office. The proceedings relate to whether and to what extent copyright levies for photocopiers should be imposed in accordance with copyright laws implemented in Germany on MFDs that allegedly enable the production of copies by private persons. Following unsuccessful arbitration, VG Wort filed a lawsuit against HP in May 2004 in the Stuttgart Civil Court in Stuttgart, Germany seeking levies on certain MFDs sold from 1997 to 2001. On December 22, 2004, the court held that HP is liable for payments regarding MFDs sold in Germany, and ordered HP to pay VG Wort an amount equal to 5% of the outstanding levies claimed, plus interest, on MFDs sold in Germany up to December 2001. VG Wort appealed this decision. On July 6, 2005, the Stuttgart Court of Appeals ordered HP to pay VG Wort levies based on the published tariffs for photocopiers in Germany (which range from EUR 38.35 to EUR 613.56 per unit), plus interest, on MFDs sold in Germany up to December 2001. HP appealed the Stuttgart Court of Appeals' decision to the Bundesgerichtshof (the German Federal Supreme Court). On January 30, 2008, the German Federal Supreme Court held that the MFDs covered by this lawsuit were photocopiers within the meaning of the German copyright law that was in effect until December 31, 2007, and, therefore, are subject to the levies on photocopiers established by that law. HP subsequently appealed the decision by filing a claim with the German Federal Constitutional Court challenging that ruling and the application of conventional photocopier levies for MFDs sold in Germany up to December 2001. On June 4, 2009, the German Constitutional Court declined to hear HP's appeal.

On September 26, 2005, VG Wort filed an additional lawsuit against HP in the Stuttgart Civil Court in Stuttgart, Germany seeking assurance of full payment of levies on MFD units sold in Germany between 1997 and 2001, as well as for MFDs sold from 2002 onwards. On July 26, 2007, the court issued a decision following the ruling of the Stuttgart Court of Appeals with respect to the initial VG Wort lawsuit as described above. HP appealed the decision. On March 25, 2009, the German Association for Information Technology, Telecommunications and New Media e.V. entered into a

Note 18: Litigation and Contingencies (Continued)

settlement agreement with VG Wort and Verwertungsgesellschaft Bild-Kunst, another collection agency representing copyright holders (“VG Bild-Kunst”), that provides for the payment of levies on MFDs sold from 2002 through 2007. The levies vary from approximately €13 to €307 per unit depending on the type of device, the date sold and the copy speed and are subject to reduction if VG Wort or VG Bild-Kunst grants more favorable rates in the future to parties within Germany that are not covered by the settlement. HP has acceded to the settlement and paid all amounts due thereunder.

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

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

On December 29, 2005, ZPU, a joint association of various German collection societies, instituted non-binding arbitration proceedings against HP before the arbitration board of the Patent and Trademark Office demanding reporting of every PC sold by HP in Germany from January 2002 through December 2005 and seeking a levy of 18.42 euros plus tax for each PC sold during that period. HP filed a notice of defense in connection with these proceedings in February 2006, and an arbitration hearing was held in December 2006. On July 31, 2007, the arbitration board issued a ruling proposing a levy of 15 euros plus tax for each PC sold during that period. HP has rejected the ruling of the arbitration board, and the arbitration proceedings have concluded. ZPU has filed a claim with the Munich Court of Appeals to which HP has responded. A hearing date has been set by the court for February 18, 2010.

Note 18: Litigation and Contingencies (Continued)

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

Sky Subscribers Services Limited and British Sky Broadcasting Limited v. EDS and EDS Limited (UK) is a lawsuit filed on August 17, 2004 by Sky Subscribers Services Limited and British Sky Broadcasting Limited against Electronic Data Systems Corporation ("EDS"), a company that HP acquired in August 2008, and EDS Limited (UK) ("EDS UK"), one of EDS's subsidiaries, alleging deceit, negligent misrepresentation, negligent misstatement and breach of contract. The claims arose out of a customer relationship management project that was awarded to EDS in 2000, the principal objective of which was to develop a customer call center in Scotland. EDS's main role in the project was as systems integrator. On November 12, 2004, EDS and EDS UK filed their defense and counterclaim denying the claims and seeking damages for monies owed under the contract. The trial of this action commenced on October 15, 2007, and final arguments concluded on July 30, 2008. At trial, the plaintiffs claimed damages in excess of £700 million, and EDS and EDS UK counterclaimed for damages of approximately £5 million. HP expects to receive a decision from the court in January 2010.

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

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

- A consolidated lawsuit captioned *In re HP Inkjet Printer Litigation* is pending in the United States District Court for the Northern District of California where the plaintiffs are seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees. On January 4, 2008, the court heard plaintiffs' motions for class certification and to add a class representative and HP's motion for summary judgment. On July 25, 2008, the court denied all three motions. On March 30, 2009, the plaintiffs filed a renewed motion for class certification. A hearing on the plaintiffs' motion for class certification is scheduled for January 8, 2010.

Note 18: Litigation and Contingencies (Continued)

- A lawsuit captioned Blennis v. HP was filed on January 17, 2007 in the United States District Court for the Northern District of California where the plaintiffs are seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees. A class certification hearing is scheduled for April 23, 2010.
- Four class actions against HP and its subsidiary, Hewlett-Packard (Canada) Co., are pending in Canada, one commenced in British Columbia in February 2006, two commenced in Quebec in April 2006 and May 2006, respectively, and one commenced in Ontario in June 2006, where the plaintiffs are seeking class certification, restitution, declaratory relief, injunctive relief and unspecified statutory, compensatory and punitive damages. A class authorization hearing for one of the cases pending in Quebec was tentatively scheduled for December 10, 2009; that hearing has been postponed and no new date has been set by the court.

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

Rich v. HP is a consumer class action filed against HP on May 22, 2006 in the United States District Court for the Northern District of California. The suit alleges that HP designed its color inkjet printers to unnecessarily use color ink in addition to black ink when printing black and white images and text. The plaintiffs are seeking to certify a nationwide injunctive class and a California-only damages class. A class certification hearing is scheduled for February 5, 2010.

On December 27, 2001, Cornell University and the Cornell Research Foundation, Inc. filed a complaint, amended on September 6, 2002, against HP in United States District Court for the Northern District of New York alleging that HP's PA-RISC 8000 family of microprocessors, and servers and workstations incorporating those processors, infringe a patent assigned to Cornell Research Foundation, Inc. that describes a way of executing microprocessor instructions. The complaint sought declaratory and injunctive relief and unspecified damages. The patent at issue in this litigation, United States Patent No. 4,807,115, expired on February 21, 2006. Therefore, the plaintiffs are no longer entitled to seek injunctive relief against HP. This matter was tried between May 19 and May 30, 2008, and, on May 30, 2008, a jury returned a verdict in favor of the plaintiffs in the amount of $184 million. On March 30, 2009, the trial court issued four post-trial decisions. The court denied several of HP's post-trial motions, but granted HP's motion to reduce the damages award. The court reduced the award to approximately $53 million and subsequently entered judgment in favor of the plaintiffs in that amount. On April 10, 2009, HP filed a notice that it will appeal the judgment to the United States Court of Appeals for the Federal Circuit. On May 15, 2009, the court awarded approximately $17 million in pre-judgment interest and approximately $1 million in costs and subsequently entered an

Note 18: Litigation and Contingencies (Continued)

amended judgment reflecting those awards. On June 2, 2009, the court entered a final amended judgment reflecting the total amount of damages, pre-judgment interest and taxable costs. On June 4, 2009, HP filed an amended notice of appeal.

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

- *Cunningham and Cunningham, et al. v. Electronic Data Systems Corporation* is a purported collective action filed on May 10, 2006 in the U.S. District Court for the Southern District of New York claiming that current and former EDS employees involved in installing and/or maintaining computer software and hardware were misclassified as exempt employees. Two other purported collective actions, *Steavens, et al. v. Electronic Data Systems Corporation*, which was filed on October 23, 2007, and *Azar v. Electronic Data Systems Corporation*, which was filed on February 20, 2009, are also now pending in the same court alleging similar facts.
- *Heffelfinger, et al. v. Electronic Data Systems Corporation* is a class action filed on November 2006 in California Superior Court claiming that certain EDS information technology workers in California were misclassified exempt employees. The case was subsequently transferred to the U.S. District Court for the Central District of California, which, on January 7, 2008, certified a class of information technology workers in California. On June 6, 2008, the court granted the defendant's motion for summary judgment. The plaintiffs subsequently filed an appeal with the U.S. Court of Appeals for the Ninth Circuit. Three other purported class actions originally filed in California Superior Court, *Jameson, et al. v. Electronic Data Systems Corporation*, which was filed on July 16, 2008, *Karlbom, et al. v. Electronic Data Systems Corporation*, which was filed on March 16, 2009, and *George, et al. v. Electronic Data Systems Corporation*, which was filed on April 2, 2009, are pending in the U.S. District Court for the Central or Southern District of California alleging similar facts.
- *Mathias v. Hewlett-Packard Company* is a purported collective action filed on August 21, 2009 in the United States District Court for the Northern District of Georgia, Atlanta Division. The lawsuit alleges that Mathias represents other similarly situated employees who were misclassified as exempt employees.

The United States of America, ex rel. Norman Rille and Neal Roberts v. Hewlett-Packard Company, et al. In 2004, two private individuals filed a civil "*qui tam*" complaint under the False Claims Act in the United States District Court for the Eastern District of Arkansas containing generalized allegations that HP and several other companies participated in an industry-wide practice of using partnership and alliance programs to make improper payments and cause the submission of false claims in connection with contracts to provide products and services to the federal government. On April 12, 2007, the U.S. Department of Justice intervened in the *qui tam* action and filed a complaint against HP (and several other companies in separate actions) on behalf of the United States containing allegations that HP violated the False Claims Act and the Anti-Kickback Act of 1986 by providing millions of dollars in kickbacks to its alliance partners, including "influencer fees" and "new business opportunity rebates." The U.S. complaint further alleges that HP violated the False Claims Act and the Anti-Kickback Act, breached its federal government contracts, induced the federal government to make payments to HP

Note 18: Litigation and Contingencies (Continued)

that HP was not entitled to receive under those contracts, and was unjustly enriched by expressly or impliedly making false statements, records or certifications to the federal government that it complied with and would continue to comply with the Anti-Kickback Act and by submitting claims to the government that allegedly were inflated because they included the amounts of the influencer fees and new business opportunity rebates. The U.S. complaint seeks treble damages plus civil penalties in connection with the alleged violations of the False Claims Act, double damages plus civil penalties in connection with the alleged violations of the Anti-Kickback Act and disgorgement of profits earned in connection with the breach of contract and unjust enrichment claims.

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

- In August 2006, HP was informally contacted by the Attorney General of the State of California requesting information concerning the processes employed in the leak investigation. On December 7, 2006, HP announced that it entered into an agreement with the California Attorney General to resolve civil claims arising from the leak investigation, including a claim made by the California Attorney General in a Santa Clara County Superior Court action filed on December 7, 2006, that HP committed unfair business practices under California law in connection with the leak investigation. As a result of this agreement, which includes an injunction, the California Attorney General will not pursue civil claims against HP or its current and former directors, officers and employees. Under the terms of the agreement, HP paid a total of $14.5 million and agreed to implement and maintain for five years a series of measures designed to ensure that HP's corporate investigations are conducted in accordance with California law and the company's high ethical standards. Of the $14.5 million, $13.5 million has been used to create a Privacy and Piracy Fund to assist California prosecutors in investigating and prosecuting consumer privacy and information piracy violations, $650,000 was used to pay statutory damages and $350,000 reimbursed the California Attorney General's office for its investigation costs. There was no finding of liability against HP as part of the settlement.
- Beginning in September 2006, HP received requests from the Committee on Energy and Commerce of the U.S. House of Representatives (the "Committee") for records and information concerning the leak investigation, securities transactions by HP officers and directors, including an August 25, 2006, securities transaction by Mark Hurd, HP's Chairman and Chief Executive Officer, and related matters. HP has responded to those requests. In addition, Mr. Hurd voluntarily gave testimony to the Committee regarding the leak investigation on September 28, 2006.
- In September 2006, HP was informally contacted by the U.S. Attorney for the Northern District of California requesting similar information concerning the processes employed in the leak investigation. HP has responded to that request.
- Beginning in September 2006, HP has received requests from the Division of Enforcement of the Securities and Exchange Commission for records and information and interviews with current and former HP directors and officers relating to the leak investigation, the resignation of Thomas J. Perkins from HP's Board of Directors, HP's May 22, 2006 and September 6, 2006 filings with the SEC on Form 8-K, stock repurchases by HP and securities transactions by its

Note 18: Litigation and Contingencies (Continued)

officers and directors that occurred between May 1 and October 1, 2006, and HP's policies, practices and approval of securities transactions. In May 2007, HP consented to the entry of an order by the SEC ordering HP to cease and desist from committing or causing violations of the public reporting requirements of the Securities Exchange Act of 1934, as amended. HP has been advised by the staff of the Division of Enforcement that the staff has completed its investigation and does not intend to recommend that any other SEC enforcement action be brought in connection with these matters.

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

In addition, four stockholder derivative lawsuits have been filed in California purportedly on behalf of HP stockholders seeking to recover damages for alleged breach of fiduciary duty and to require HP to improve its corporate governance and internal control procedures as a result of the activities of the leak investigation: *Staehr v. Dunn, et al.* was filed in Santa Clara County Superior Court on September 18, 2006; *Worsham v. Dunn, et al.* was filed in Santa Clara County Superior Court on September 14, 2006; *Tansey v. Dunn, et al.* was filed in Santa Clara County Superior Court on September 20, 2006; and *Hall v. Dunn, et al.* was filed in Santa Clara County Superior Court on September 25, 2006. On October 19, 2006, the Santa Clara County Superior Court consolidated the four California cases under the caption *In re Hewlett-Packard Company Derivative Litigation*. The consolidated complaint filed on November 19, 2006, also seeks to recover damages in connection with sales of HP stock alleged to have been made by certain current and former HP officers and directors while in possession of material non-public information. Two additional stockholder derivative lawsuits, *Pifko v. Babbio, et al.*, filed on September 19, 2006, and *Gross v. Babbio, et al.*, filed on November 21, 2006, were filed in Chancery Court, County of New Castle, Delaware; both seek to recover damages for alleged breaches of fiduciary duty and to obtain an order instructing the defendants to refrain from further breaches of fiduciary duty and to implement corrective measures that will prevent future occurrences of the alleged breaches of fiduciary duty. On January 24, 2007, the Delaware court consolidated the two cases under the caption *In re Hewlett-Packard Company Derivative Litigation* and subsequently stayed the proceedings, as the parties had reached a tentative settlement. The HP Board of Directors appointed a Special Litigation Committee consisting of independent Board members authorized to investigate, review and evaluate the facts and circumstances asserted in these derivative matters and to determine how HP should proceed in these matters. On December 14, 2007, HP and the plaintiffs in the California and Delaware derivative actions entered into an agreement to settle those lawsuits. Under the terms of the settlement, HP agreed to continue certain corporate governance changes until December 31, 2012 and to pay the plaintiffs' attorneys' fees. The California court granted final approval to the settlement on March 11, 2008 and subsequently granted plaintiffs' counsel's fee application and dismissed the action. On June 12, 2008, the Delaware court granted final approval to the settlement and the plaintiffs' application for attorneys' fees and also dismissed the action. Because neither the dismissal of the California nor the Delaware derivative action was thereafter appealed, both cases are now concluded.

Note 18: Litigation and Contingencies (Continued)

Environmental

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

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

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

Note 19: Segment Information

Description of Segments

HP is a leading global provider of products, technologies, software, solutions and services to individual consumers, small and medium sized businesses ("SMBs"), and large enterprises including customers in the government, health and education sectors. HP's offerings span personal computing and other access devices; imaging and printing-related products and services; enterprise information technology ("IT") infrastructure, including enterprise storage and server technology and networking products; software that optimizes business technology investments; financial services including leasing; and multi-vendor customer services, including technology support and maintenance, consulting and integration, information technology and business process outsourcing services and application services.

HP and its operations are organized into seven business segments for financial reporting purposes: Services, ESS, HP Software, PSG, IPG, HP Financial Services ("HPFS"), and Corporate Investments. HP's organizational structure is based on a number of factors that management uses to evaluate, view

Note 19: Segment Information (Continued)

and run its business operations, which include, but are not limited to, customer base, homogeneity of products and technology. The business segments disclosed in the accompanying Consolidated Financial Statements are based on this organizational structure and information reviewed by HP's management to evaluate the business segment results. Services, ESS and HP Software are reported collectively as a broader HP Enterprise Business. In order to provide a supplementary view of HP's business, aggregated financial data for the HP Enterprise Business is presented herein.

HP has reclassified segment operating results for fiscal 2008 and fiscal 2007 to conform to certain fiscal 2009 organizational realignments. None of the changes impacts HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share. Future changes to this organizational structure may result in changes to the business segments disclosed. A description of the types of products and services provided by each business segment follows.

HP Enterprise Business.

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

- *Services,* formerly HP Services, was renamed after the reorganization of the business units subsequent to the acquisition of EDS in August 2008. Services provides consulting, outsourcing and technology services across infrastructure, applications and business process domains. Services is divided into four main business units: infrastructure technology outsourcing, applications services, business process outsourcing and technology services. Infrastructure technology outsourcing delivers comprehensive services that encompass the data center and the workplace (desktop); network and communications; and security, compliance and business continuity. HP also offers a set of managed services, providing a cross-section of its broader infrastructure services for smaller discrete engagements. Applications services help clients revitalize and manage their applications assets through flexible, project-based, consulting services and longer-term outsourcing contracts. These full lifecycle services encompass application development, testing, modernization, system integration, maintenance and management. Business process outsourcing solutions include a broad array of enterprise shared services, customer relationship management services, financial process management services and administrative services. Technology services include consulting and support services, such as mission critical services, converged infrastructure services, networking services, data center transformation services and infrastructure services, as well as warranty support across HP's product lines.
- *Enterprise Storage and Servers* provides storage and server products. The various server offerings range from entry-level servers to high-end scalable servers, including Superdome servers. Industry standard servers include primarily entry-level and mid-range ProLiant servers, which run primarily Windows®[(1)], Linux and Novell operating systems and leverage Intel Corporation ("Intel") and Advanced Micro Devices ("AMD") processors. The business spans a range of product lines, including pedestal-tower servers, density-optimized rack servers and HP's BladeSystem family of server blades. Business critical systems include Itanium®[(2)]-based Integrity servers running on HP-UX, Windows®, Linux, OpenVMS and NonStop operating systems, including the high-end Superdome servers and fault-tolerant Integrity NonStop servers. Business critical systems also include the Reduced Instruction Set Computing ("RISC")-based servers with the HP 9000 line running on the HP-UX operating system, HP AlphaServers running on both Tru64 UNIX®[(3)] and OpenVMS, and MIPs-based NonStop servers. HP's StorageWorks

Note 19: Segment Information (Continued)

offerings include entry-level, mid-range and high-end arrays, storage area networks ("SANs"), network attached storage ("NAS"), storage management software, and virtualization technologies, as well as tape drives, tape libraries and optical archival storage.

- *HP Software* provides enterprise IT management software solutions, including professional services and support, that allow customers to manage and automate their IT infrastructure, operations, applications, IT services and business processes under the HP Business Technology Optimization ("BTO") brand. The portfolio of BTO solutions also includes tools to automate data center operations and IT processes. These solutions are reported as BTO Software. HP Software also provides a comprehensive suite of solutions that enables communication service providers to deploy revenue generating infrastructure and applications, customer intelligence and billing systems, and operational support systems. In addition, for media companies and distributors, HP Software provides solutions that address content management and streamlining of digital media workflows. HP Software further provides information management and business intelligence solutions, which include enterprise data warehousing, business continuity, data availability, records management, compliance and e-discovery products and services that enable our customers to extract more value from their structured and unstructured data and information. These solutions are reported as Other Software.

HP's other business segments are described below.

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

- *Imaging and Printing Group* provides consumer and commercial printer hardware, printing supplies, printing media and scanning devices. IPG is also focused on imaging solutions in the commercial markets, from managed print services solutions to addressing new growth opportunities in commercial printing and capturing high-value pages in areas such as industrial applications, outdoor signage, and the graphic arts business. Inkjet and Web Solutions delivers

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

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

(3) UNIX® is a registered trademark of The Open Group.

Note 19: Segment Information (Continued)

HP's consumer and SMB inkjet solutions (hardware, ink, media) and develops HP's retail and web businesses. It includes single function and all-in-one inkjet printers targeted toward consumers and SMBs as well as retail publishing solutions, Snapfish, and Logoworks. LaserJet and Enterprise Solutions delivers products and services to the enterprise segment. It includes LaserJet printers and supplies, multi-function printers, scanners, enterprise software solutions such as Exstream Software and Web Jetadmin, managed print services products and solutions, and Halo telepresence. Graphics solutions include large format printing (Designjet, Scitex, ColorSpan and NUR), large format supplies, WebPress supplies, Indigo printing, specialty printing systems, inkjet high-speed production solutions and light production solutions. Printer supplies include LaserJet toner and inkjet printer cartridges and other printing-related media.

- *HP Financial Services* supports and enhances HP's global product and services solutions, providing a broad range of value-added financial life-cycle management services. HPFS enables HP's worldwide customers to acquire complete IT solutions, including hardware, software and services. HPFS offers leasing, financing, utility programs, and asset recovery services, as well as financial asset management services, for large global and enterprise customers. HPFS also provides an array of specialized financial services to SMBs and educational and governmental entities. HPFS offers innovative, customized and flexible alternatives to balance unique customer cash flow, technology obsolescence and capacity needs.
- *Corporate Investments* includes HP Labs and certain business incubation projects. Revenue in this segment is attributable to the sale of certain network infrastructure products, including Ethernet switch products that enhance computing and enterprise solutions sold under the brand "ProCurve Networking."

Segment Data

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

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

Note 19: Segment Information (Continued)

Selected operating results information for each business segment was as follows for the following fiscal years ended October 31:

	Total Net Revenue			Earnings (Loss) from Operations		
	2009	2008[2]	2007[2]	2009	2008[2]	2007[2]
	In millions					
Services[1]	$ 34,693	$ 20,977	$ 15,329	$ 5,044	$ 2,518	$ 1,782
Enterprise Storage and Servers	15,359	19,400	18,639	1,518	2,577	2,148
HP Software	3,572	4,220	3,628	684	499	248
HP Enterprise Business	53,624	44,597	37,596	7,246	5,594	4,178
Personal Systems Group	35,305	42,295	36,409	1,661	2,375	1,939
Imaging and Printing Group	24,011	29,614	28,609	4,310	4,559	4,293
HP Financial Services	2,673	2,698	2,336	206	192	155
Corporate Investments	768	965	762	(56)	49	(57)
Segment total	$116,381	$120,169	$105,712	$13,367	$12,769	$10,508

(1) Includes the results of EDS, which was acquired on August 26, 2008, from the date of acquisition.

(2) Certain fiscal 2009 organizational reclassifications have been reflected retroactively to provide improved visibility and comparability. In fiscal 2008 and 2007, the reclassifications resulted in the transfer of revenue and operating profit among the Services, HP Software and Imaging and Printing Group financial reporting segments. In addition, certain previously allocated costs were reclassified to unallocated costs related to stock-based compensation expense. There was no impact on the previously reported financial results for the Enterprise Storage and Servers, Personal Systems Group, HP Financial Services and Corporate Investments segments.

Note 19: Segment Information (Continued)

The reconciliation of segment operating results information to HP consolidated totals was as follows for the following fiscal years ended October 31:

	2009	2008	2007
		In millions	
Net revenue:			
Segment total	$116,381	$120,169	$105,712
Elimination of intersegment net revenue and other	(1,829)	(1,805)	(1,426)
Total HP consolidated net revenue	$114,552	$118,364	$104,286
Earnings before taxes:			
Total segment earnings from operations	$ 13,367	$ 12,769	$ 10,508
Corporate and unallocated costs and eliminations	(219)	(461)	(439)
Unallocated costs related to certain stock-based compensation expense	(552)	(512)	(507)
Amortization of purchased intangible assets	(1,571)	(967)	(783)
In-process research and development charges	(7)	(45)	(190)
Acquisition-related charges	(242)	(41)	—
Restructuring charges	(640)	(270)	(387)
Pension curtailments and settlements, net	—	—	517
Interest and other, net	(721)	—	458
Total HP consolidated earnings before taxes	$ 9,415	$ 10,473	$ 9,177

HP allocates its assets to its business segments based on the primary segments benefiting from the assets. Corporate and unallocated assets are composed primarily of cash and cash equivalents. As described above, fiscal 2009 segment asset information is stated based on the fiscal 2009 organizational structure. Total assets by segment as well as for HP Enterprise Business and the reconciliation of segment assets to HP consolidated total assets were as follows at October 31:

	2009	2008	2007
		In millions	
Services	$ 43,555	$ 42,507	$17,232
Enterprise Storage and Servers	11,662	11,644	13,518
HP Software	8,936	8,919	8,366
HP Enterprise Business	$ 64,153	$ 63,070	$39,116
Personal Systems Group	14,825	16,436	14,153
Imaging and Printing Group	11,698	14,156	14,573
HP Financial Services	10,806	9,174	9,001
Corporate Investments	460	365	297
Corporate and unallocated assets	12,857	10,130	11,559
Total HP consolidated assets	$114,799	$113,331	$88,699

Note 19: Segment Information (Continued)

Major Customers

No single customer represented 10% or more of HP's total net revenue in any fiscal year presented.

Geographic Information

Net revenue, classified by the major geographic areas in which HP operates, was as follows for the following fiscal years ended October 31:

	2009	2008	2007
		In millions	
Net revenue:			
U.S.	$ 41,314	$ 36,932	$ 34,814
Non-U.S.	73,238	81,432	69,472
Total HP consolidated net revenue	$114,552	$118,364	$104,286

Net revenue by geographic area is based upon the sales location that predominately represents the customer location. Other than the United States, no single country represented more than 10% of HP's total consolidated net revenue in any period presented. HP reports revenue net of sales taxes, use taxes and value-added taxes directly imposed by governmental authorities on HP's revenue producing transactions with its customers.

At October 31, 2009 and 2008, Belgium and the United States had 10% or more of HP's total consolidated net assets. At October 31, 2007, no single country other than the United States had 10% or more of HP's total consolidated net assets.

No single country other than the United States had more than 10% of HP's total consolidated net property, plant and equipment in any period presented. HP's long-lived assets other than goodwill and purchased intangible assets, are composed principally of net property, plant and equipment.

Net property, plant and equipment, classified by major geographic areas in which HP operates, was as follows for the following fiscal years ended October 31:

	2009	2008	2007
		In millions	
Net property, plant and equipment:			
U.S.	$ 6,316	$ 6,223	$4,321
Non-U.S.	4,946	4,615	3,477
Total HP consolidated net property, plant and equipment	$11,262	$10,838	$7,798

Note 19: Segment Information (Continued)

Net revenue by segment and business unit

The following table provides net revenue by segment and business unit for the following fiscal years ended October 31:

	2009	2008[(2)]	2007[(2)]
		In millions	
Net revenue:			
Infrastructure technology outsourcing	$ 15,751	$ 7,488	$ 4,671
Technology services	9,789	10,297	9,441
Application services	6,032	2,411	1,102
Business process outsourcing	2,941	723	115
Other	180	58	—
Services[(1)]	34,693	20,977	15,329
Industry standard servers	9,296	11,657	11,380
Storage	3,473	4,205	3,706
Business critical systems	2,590	3,538	3,553
Enterprise Storage and Servers	15,359	19,400	18,639
Business technology optimization	2,385	2,792	2,276
Other software	1,187	1,428	1,352
HP Software	3,572	4,220	3,628
HP Enterprise Business	53,624	44,597	37,596
Notebooks	20,210	22,657	17,650
Desktops	12,864	16,643	15,889
Workstations	1,261	1,885	1,721
Handhelds	172	360	531
Other	798	750	618
Personal Systems Group	35,305	42,295	36,409
Supplies	16,532	18,472	17,018
Commercial hardware	4,778	7,422	7,371
Consumer hardware	2,701	3,720	4,220
Imaging and Printing Group	24,011	29,614	28,609
HP Financial Services	2,673	2,698	2,336
Corporate Investments	768	965	762
Total segments	116,381	120,169	105,712
Eliminations of inter-segment net revenue and other	(1,829)	(1,805)	(1,426)
Total HP consolidated net revenue	$114,552	$118,364	$104,286

(1) Includes the results of EDS, which was acquired on August 26, 2008, from the date of acquisition. The businesses included in the former HP consulting and integration business unit were divided among the application services and technology services business units and the HP Software

Note 19: Segment Information (Continued)

segment. The businesses included in the former outsourcing services business unit were divided among the infrastructure technology outsourcing and business process outsourcing business units. The infrastructure technology outsourcing, application services and business process outsourcing business units were added with the technology services business unit, and these four business units now comprise the Services segment.

(2) Certain fiscal 2009 organizational reclassifications have been reflected retroactively to provide improved visibility and comparability. In fiscal 2008 and 2007, the reclassifications resulted in the transfer of revenue among the Services, HP Software and Imaging and Printing Group financial reporting segments. In addition, revenue was transferred among the business units within the Services, HP Software, Imaging and Printing Group, and Personal Systems Group segments. There was no impact on the previously reported financial results for the Enterprise Storage and Servers, HP Financial Services and Corporate Investments segments.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
Quarterly Summary
(Unaudited)
(In millions, except per share amounts)

	Three-month periods ended			
	January 31 (Restated)	April 30 (Restated)	July 31 (Restated)	October 31[3]
2009				
Net revenue	$28,807	$27,383	$27,585	$30,777
Cost of sales[1]	22,073	20,945	21,031	23,475
Research and development	732	716	667	704
Selling, general and administrative	2,893	2,880	2,874	2,966
Amortization of purchased intangible assets	412	380	379	400
In-process research and development charges	6	—	—	1
Restructuring charges	146	94	362	38
Acquisition-related charges	48	75	59	60
Total costs and expenses	26,310	25,090	25,372	27,644
Earnings from operations	2,497	2,293	2,213	3,133
Interest and other, net	(232)	(180)	(177)	(132)
Earnings before taxes	2,265	2,113	2,036	3,001
Provision for taxes	409	392	365	589
Net earnings	$ 1,856	$ 1,721	$ 1,671	$ 2,412
Net earnings per share:[2]				
Basic	$ 0.77	$ 0.72	$ 0.70	$ 1.02
Diluted	$ 0.75	$ 0.71	$ 0.69	$ 0.99
Cash dividends paid per share	$ 0.08	$ 0.08	$ 0.08	$ 0.08
Range of per share stock prices on the New York Stock Exchange				
Low	$ 28.23	$ 25.39	$ 33.40	$ 42.14
High	$ 39.53	$ 37.40	$ 43.55	$ 49.20

The amounts previously reported in HP's Quarterly Reports on Form 10-Q for fiscal 2009 have been restated for the adoption of ASU 2009-13 and ASU 2009-14, which are discussed more fully in Note 1. The impact from the adoption was as follows:

	Three-month periods ended		
	January 31	April 30	July 31
Net Revenue	$ 7	$ 32	$ 134
Cost of sales	4	26	95
Earnings before taxes	3	6	39
Net earnings	2	5	29
Net earnings per share—Diluted	$—	$0.01	$0.02

	Three-month periods ended			
	January 31	April 30	July 31	October 31
2008				
Net revenue	$28,467	$28,262	$28,032	$33,603
Cost of sales[1]	21,444[4]	21,205[4]	21,197[4]	25,853[4]
Research and development	898	908	895	842
Selling, general and administrative	3,296[4]	3,331[4]	3,193[4]	3,506[4]
Amortization of purchased intangible assets	206	211	213	337
In-process research and development charges	—	13	—	32
Restructuring charges	10	4	5	251
Acquisition-related charges	—	—	—	41
Total costs and expenses	25,854	25,672	25,503	30,862
Earnings from operations	2,613	2,590	2,529	2,741
Interest and other, net	72	3	23	(98)
Earnings before taxes	2,685	2,593	2,552	2,643
Provision for taxes	552	536	525	531
Net earnings	$ 2,133	$ 2,057	$ 2,027	$ 2,112
Net earnings per share:[2]				
Basic	$ 0.83	$ 0.83	$ 0.82	$ 0.87
Diluted	$ 0.80	$ 0.80	$ 0.80	$ 0.84
Cash dividends paid per share	$ 0.08	$ 0.08	$ 0.08	$ 0.08
Range of per share stock prices on the New York Stock Exchange				
Low	$ 39.99	$ 40.16	$ 40.83	$ 30.03
High	$ 53.48	$ 49.69	$ 49.97	$ 49.20

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

(2) EPS for each quarter is computed using the weighted-average number of shares outstanding during that quarter, while EPS for the fiscal year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the EPS for each of the four quarters may not equal the EPS for the fiscal year.

(3) As a result of the adoption of ASU 2009-13 and ASU 2009-14, fourth quarter net revenue and net earnings were higher by $82 million and $19 million, respectively.

(4) Certain pursuit-related costs previously reported as Cost of sales have been realigned retroactively to Selling, general and administrative expenses due to organizational realignments.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

ITEM 9A. Controls and Procedures.

Controls and Procedures

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

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

See Management's Report on Internal Control over Financial Reporting in Item 8, which is incorporated herein by reference.

ITEM 9B. Other Information.

Not applicable.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

The names of the executive officers of HP and their ages, titles and biographies as of the date hereof are incorporated by reference from Part I, Item 1, above.

The following information is included in HP's Proxy Statement related to its 2010 Annual Meeting of Stockholders to be filed within 120 days after HP's fiscal year end of October 31, 2009 (the "Proxy Statement") and is incorporated herein by reference:

- Information regarding directors of HP who are standing for reelection and any persons nominated to become directors of HP is set forth under "Election of Directors."
- Information regarding HP's Audit Committee and designated "audit committee financial experts" is set forth under "Corporate Governance Principles and Board Matters—Board Structure and Committee Composition—Audit Committee."
- Information on HP's code of business conduct and ethics for directors, officers and employees, also known as the "Standards of Business Conduct," and on HP's Corporate Governance Guidelines is set forth under "Corporate Governance Principles and Board Matters."
- Information regarding Section 16(a) beneficial ownership reporting compliance is set forth under "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. Executive Compensation.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding HP's compensation of its named executive officers is set forth under "Executive Compensation."
- Information regarding HP's compensation of its directors is set forth under "Director Compensation and Stock Ownership Guidelines."
- The report of HP's HR and Compensation Committee is set forth under "HR and Compensation Committee Report on Executive Compensation."

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding security ownership of certain beneficial owners, directors and executive officers is set forth under "Common Stock Ownership of Certain Beneficial Owners and Management."
- Information regarding HP's equity compensation plans, including both stockholder approved plans and non-stockholder approved plans, is set forth in the section entitled "Equity Compensation Plan Information."

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding transactions with related persons is set forth under “Related Person Transaction Policies and Procedures.”
- Information regarding director independence is set forth under “Corporate Governance Principles and Board Matters—Director Independence.”

ITEM 14. Principal Accountant Fees and Services.

Information regarding principal auditor fees and services is set forth under “Principal Accountant Fees and Services” in the Proxy Statement, which information is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1. All Financial Statements:

The following financial statements are filed as part of this report under Item 8—"Financial Statements and Supplementary Data."

2. Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts for the three fiscal years ended October 31, 2009.

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements and notes thereto in Item 8 above.

3. Exhibits:

A list of exhibits filed or furnished with this report on Form 10-K (or incorporated by reference to exhibits previously filed or furnished by HP) is provided in the accompanying Exhibit Index. HP will furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request. Stockholders may request exhibits copies by contacting:

Hewlett-Packard Company
Attn: Investor Relations
3000 Hanover Street
Palo Alto, CA 94304
(866) GET-HPQ1 or (866) 438-4771

Schedule II

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
Valuation and Qualifying Accounts

	For the fiscal years ended October 31		
	2009	2008	2007
		In millions	
Allowance for doubtful accounts — accounts receivable:			
Balance, beginning of period	$ 553	$ 226	$ 220
Amount acquired through acquisition	—	245	3
Addition of bad debt provision	282	226	32
Deductions, net of recoveries	(206)	(144)	(29)
Balance, end of period	$ 629	$ 553	$ 226
Allowance for doubtful accounts — financing receivables:			
Balance, beginning of period	$ 90	$ 84	$ 80
Additions to allowance	63	49	15
Deductions, net of recoveries	(45)	(43)	(11)
Balance, end of period	$ 108	$ 90	$ 84

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: December 17, 2009

HEWLETT-PACKARD COMPANY

By: /s/ CATHERINE A. LESJAK

Catherine A. Lesjak
Executive Vice President and
Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Catherine A. Lesjak, Michael J. Holston and Paul T. Porrini, or any of them, his or her attorneys-in-fact, for such person in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ MARK V. HURD Mark V. Hurd	Chairman, Chief Executive Officer and President (Principal Executive Officer)	December 17, 2009
/s/ CATHERINE A. LESJAK Catherine A. Lesjak	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	December 17, 2009
/s/ JAMES T. MURRIN James T. Murrin	Senior Vice President and Controller (Principal Accounting Officer)	December 17, 2009
/s/ MARC L. ANDREESSEN Marc L. Andreessen	Director	December 17, 2009
/s/ LAWRENCE T. BABBIO, JR. Lawrence T. Babbio, Jr.	Director	December 17, 2009
/s/ SARI M. BALDAUF Sari M. Baldauf	Director	December 17, 2009
/s/ RAJIV L. GUPTA Rajiv L. Gupta	Director	December 17, 2009

Signature	Title(s)	Date
/s/ JOHN H. HAMMERGREN John H. Hammergren	Director	December 17, 2009
/s/ JOEL Z. HYATT Joel Z. Hyatt	Director	December 17, 2009
/s/ JOHN R. JOYCE John R. Joyce	Director	December 17, 2009
/s/ ROBERT L. RYAN Robert L. Ryan	Director	December 17, 2009
/s/ LUCILLE S. SALHANY Lucille S. Salhany	Director	December 17, 2009
/s/ G. KENNEDY THOMPSON G. Kennedy Thompson	Director	December 17, 2009

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
3(a)	Registrant's Certificate of Incorporation.	10-Q	001-04423	3(a)	June 12, 1998
3(b)	Registrant's Amendment to the Certificate of Incorporation.	10-Q	001-04423	3(b)	March 16, 2001
3(c)	Registrant's Amended and Restated By-Laws effective March 18, 2009.	8-K	001-04423	3.1	September 17, 2009
4(a)	Form of Senior Indenture.	S-3	333-30786	4.1	March 17, 2000
4(b)	Form of Registrant's Fixed Rate Note and Floating Rate Note and related Officers' Certificate.	8-K	001-04423	4.1, 4.2 and 4.4	May 24, 2001
4(c)	Form of Registrant's 6.50% Global Note due July 1, 2012, and form of related Officers' Certificate.	8-K	001-04423	4.2 and 4.3	June 27, 2002
4(d)	Form of Registrant's Fixed Rate Note and form of Floating Rate Note.	8-K	001-04423	4.1 and 4.2	December 11, 2002
4(e)	Indenture, dated as of June 1, 2000, between the Registrant and J.P. Morgan Trust Company, National Association (formerly Chase Manhattan Bank), as Trustee.	S-3	333-134327	4.9	June 7, 2006
4(f)	Form of Registrant's Floating Rate Global Note due March 1, 2012, form of 5.25% Global Note due March 1, 2012 and form of 5.40% Global Note due March 1, 2017.	8-K	001-04423	4.1, 4.2 and 4.3	February 28, 2007
4(g)	Form of Registrant's Floating Rate Global Note due June 15, 2009 and Floating Rate Global Note due June 15, 2010.	10-Q	001-04423	4(l)	September 7, 2007
4(h)	Form of Registrant's Floating Rate Global Note due September 3, 2009, 4.50% Global Note due March 1, 2013 and 5.50% Global Note due March 1, 2018.	8-K	001-04423	4.1, 4.2 and 4.3	February 29, 2008
4(i)	Form of Registrant's 6.125% Global Note due March 1, 2014 and form of related Officers' Certificate.	8-K	001-04423	4.1 and 4.2	December 8, 2008

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
4(j)	Form of Registrant's Floating Rate Global Note due February 24, 2011, 4.250% Global Note due February 24, 2012 and 4.750% Global Note due June 2, 2014 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	February 27, 2009
4(k)	Form of Registrant's Floating Rate Global Note due May 27, 2011, 2.25% Global Note due May 27, 2011 and 2.95% Global Note due August 15, 2012 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	May 28, 2009
4(l)	Speciman certificate for the Registrant's common stock.	8-A/A	001-04423	4.1	June 23, 2006
9	None.				
10(a)	Registrant's 2004 Stock Incentive Plan.*	S-8	333-114253	4.1	April 7, 2004
10(b)	Registrant's 2000 Stock Plan, amended and restated effective September 17, 2008.*	10-K	001-04423	10(b)	December 18, 2008
10(c)	Registrant's 1997 Director Stock Plan, amended and restated effective November 1, 2005.*	8-K	001-04423	99.4	November 23, 2005
10(d)	Registrant's 1995 Incentive Stock Plan, amended and restated effective May 1, 2007.*	10-Q	001-04423	10(d)	June 8, 2007
10(e)	Registrant's 1990 Incentive Stock Plan, amended and restated effective May 1, 2007.*	10-Q	001-04423	10(e)	June 8, 2007
10(f)	Compaq Computer Corporation 2001 Stock Option Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(f)	January 21, 2003
10(g)	Compaq Computer Corporation 1998 Stock Option Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(g)	January 21, 2003
10(h)	Compaq Computer Corporation 1995 Equity Incentive Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(h)	January 21, 2003
10(i)	Compaq Computer Corporation 1989 Equity Incentive Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(i)	January 21, 2003

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
10(j)	Compaq Computer Corporation 1985 Nonqualified Stock Option Plan for Non-Employee Directors.*	S-3	333-86378	10.5	April 18, 2002
10(k)	Amendment of Compaq Computer Corporation Non-Qualified Stock Option Plan for Non-Employee Directors, effective September 3, 2001.*	S-3	333-86378	10.11	April 18, 2002
10(l)	Compaq Computer Corporation 1998 Former Nonemployee Replacement Option Plan.*	S-3	333-86378	10.9	April 18, 2002
10(m)	Registrant's Excess Benefit Retirement Plan, amended and restated as of January 1, 2006.*	8-K	001-04423	10.2	September 21, 2006
10(n)	Hewlett-Packard Company Cash Account Restoration Plan, amended and restated as of January 1, 2005.*	8-K	001-04423	99.3	November 23, 2005
10(o)	Registrant's 2005 Pay-for-Results Plan.*	8-K	001-04423	99.5	November 23, 2005
10(p)	Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	8-K	001-04423	10.1	September 21, 2006
10(q)	First Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(q)	June 8, 2007
10(r)	Employment Agreement, dated March 29, 2005, between Registrant and Mark V. Hurd.*	8-K	001-04423	99.1	March 30, 2005
10(s)	Employment Agreement, dated June 9, 2005, between Registrant and R. Todd Bradley.*	10-Q	001-04423	10(x)	September 8, 2005
10(t)	Employment Agreement, dated July 11, 2005, between Registrant and Randall D. Mott.*	10-Q	001-04423	10(y)	September 8, 2005
10(u)	Registrant's Amended and Restated Severance Plan for Executive Officers.*	8-K	001-04423	99.1	July 27, 2005
10(v)	Form letter to participants in the Registrant's Pay-for-Results Plan for fiscal year 2006.*	10-Q	001-04423	10(w)	March 10, 2006
10(w)	Registrant's Executive Severance Agreement.*	10-Q	001-04423	10(u)(u)	June 13, 2002

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
10(x)	Registrant's Executive Officers Severance Agreement.*	10-Q	001-04423	10(v)(v)	June 13, 2002
10(y)	Form letter regarding severance offset for restricted stock and restricted units.*	8-K	001-04423	10.2	March 22, 2005
10(z)	Form of Indemnity Agreement between Compaq Computer Corporation and its executive officers.*	10-Q	001-04423	10(x)(x)	June 13, 2002
10(a)(a)	Form of Stock Option Agreement for Registrant's 2004 Stock Incentive Plan, Registrant's 2000 Stock Plan, as amended, Registrant's 1995 Incentive Stock Plan, as amended, the Compaq Computer Corporation 2001 Stock Option Plan, as amended, the Compaq Computer Corporation 1998 Stock Option Plan, as amended, the Compaq Computer Corporation 1995 Equity Incentive Plan, as amended and the Compaq Computer Corporation 1989 Equity Incentive Plan, as amended.*	10-Q	001-04423	10(a)(a)	June 8, 2007
10(b)(b)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan, Registrant's 2000 Stock Plan, as amended, and Registrant's 1995 Incentive Stock Plan, as amended.*	10-Q	001-04423	10(b)(b)	June 8, 2007
10(c)(c)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(c)(c)	June 8, 2007
10(d)(d)	Form of Stock Option Agreement for Registrant's 1990 Incentive Stock Plan, as amended.*	10-K	001-04423	10(e)	January 27, 2000
10(e)(e)	Form of Common Stock Payment Agreement and Option Agreement for Registrant's 1997 Director Stock Plan, as amended.*	10-Q	001-04423	10(j)(j)	March 11, 2005
10(f)(f)	Form of Restricted Stock Grant Notice for the Compaq Computer Corporation 1989 Equity Incentive Plan.*	10-Q	001-04423	10(w)(w)	June 13, 2002

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
10(g)(g)	Forms of Stock Option Notice for the Compaq Computer Corporation Non-Qualified Stock Option Plan for Non-Employee Directors, as amended.*	10-K	001-04423	10(r)(r)	January 14, 2005
10(h)(h)	Form of Long-Term Performance Cash Award Agreement for Registrant's 2004 Stock Incentive Plan and Registrant's 2000 Stock Plan, as amended.*	10-K	001-04423	10(t)(t)	January 14, 2005
10(i)(i)	Amendment One to the Long-Term Performance Cash Award Agreement for the 2004 Program.*	10-Q	001-04423	10(q)(q)	September 8, 2005
10(j)(j)	Form of Long-Term Performance Cash Award Agreement for the 2005 Program.*	10-Q	001-04423	10(r)(r)	September 8, 2005
10(k)(k)	Form of Long-Term Performance Cash Award Agreement.*	10-Q	001-04423	10(o)(o)	March 10, 2006
10(l)(l)	Second Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(l)(l)	December 18, 2007
10(m)(m)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	8-K	001-04423	10.1	January 24, 2008
10(n)(n)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California).*	8-K	001-04423	10.2	January 24, 2008
10(o)(o)	Form of Agreement Regarding Confidential Information and Proprietary Developments (Texas).*	10-Q	001-04423	10(o)(o)	March 10, 2008
10(p)(p)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(p)(p)	March 10, 2008
10(q)(q)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(q)(q)	March 10, 2008
10(r)(r)	Form of Stock Option Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(r)(r)	March 10, 2008
10(s)(s)	Form of Special Performance-Based Cash Incentive Notification Letter.*	8-K	001-04423	10.1	May 20, 2008

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
10(t)(t)	Form of Option Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(t)(t)	June 6, 2008
10(u)(u)	Form of Common Stock Payment Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(u)(u)	June 6, 2008
10(v)(v)	Third Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(v)(v)	December 18, 2008
10(w)(w)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-K	001-04423	10(w)(w)	December 18, 2008
10(x)(x)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	10-K	001-04423	10(x)(x)	December 18, 2008
10(y)(y)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-K	001-04423	10(y)(y)	December 18, 2008
10(z)(z)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-K	001-04423	10(z)(z)	December 18, 2008
10(a)(a)(a)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(a)(a)(a)	March 10, 2009
10(b)(b)(b)	First Amendment to the Hewlett-Packard Company Excess Benefit Retirement Plan.*	10-Q	001-04423	10(b)(b)(b)	March 10, 2009
10(c)(c)(c)	Fourth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(c)(c)(c)	June 5, 2009
10(d)(d)(d)	Fifth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(d)(d)(d)	September 4, 2009
11	None.				
12	Statement of Computation of Ratio of Earnings to Fixed Charges.‡				
13-14	None.				
16	None.				
18	None.				
21	Subsidiaries of the registrant as of October 31, 2009.‡				

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
22	None.				
23	Consent of Independent Registered Public Accounting Firm.‡				
24	Power of Attorney (included on the signature page).				
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.‡				
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.‡				
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
33-35	None.				
101.INS	XBRL Instance Document.§				
101.SCH	XBRL Taxonomy Extension Schema Document.§				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.§				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.§				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.§				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.§				

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

‡ Filed herewith.

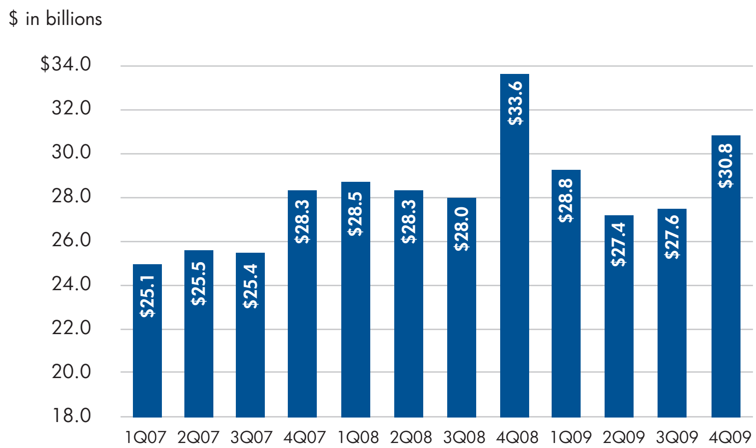
† Furnished herewith.

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

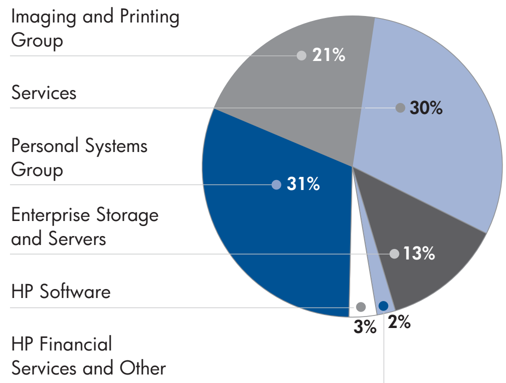
The registrant agrees to furnish to the Commission supplementally upon request a copy of (1) any instrument with respect to long-term debt not filed herewith as to which the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of the registrant and its subsidiaries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

Financial highlights

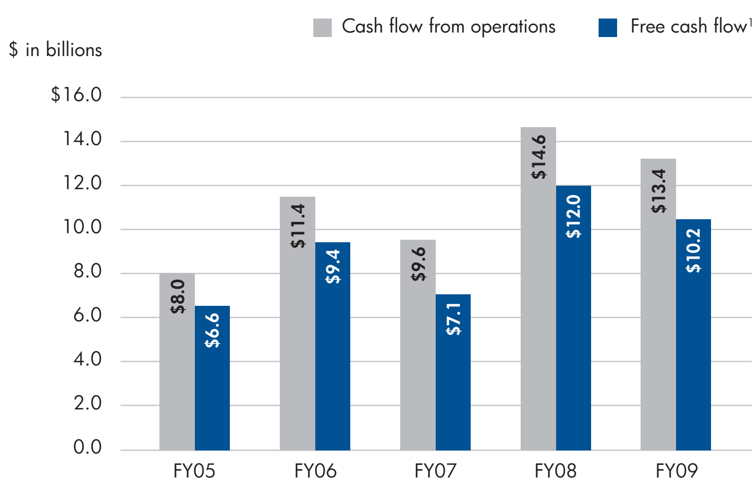
Revenue



FY09 revenue by segment

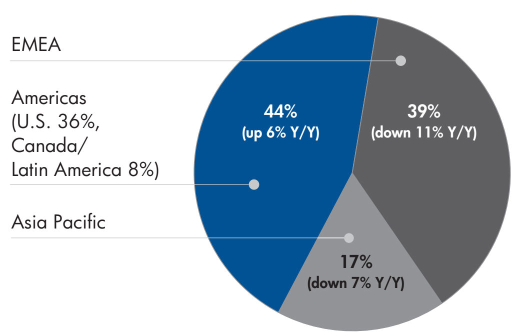


Cash flow



[1] Free cash flow equals cash flow from operations less net capital expenditures.

FY09 revenue by region



HP saved the following resources by using Reincarnation Matte (FSC), made with 100% recycled fiber and 50% post-consumer waste, processed chlorine free, designated Ancient Forest Friendly™, and manufactured with electricity that is offset with Green-e® certified renewable energy certificates: 25 fully grown trees, 11,452 gallons of water, 8 million BTUs of energy, 695 pounds of solid waste, and 2378 pounds of greenhouse gases.

Calculations based on research by Environmental Defense Fund and other members of the Paper Task Force.
www.newleafpaper.com

www.hp.com

4AA0-1916ENW, January 2010

2010
HP ANNUAL REPORT

A LETTER FROM THE CEO

Léo Apotheker
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

DEAR FELLOW STOCKHOLDERS,

I want all of you to know how honored I am to lead this great company and how excited I am about the opportunities that lie ahead. HP is the world's largest information technology company, which is impressive. However, even more impressive is what that scale means—the innovation we can drive into the marketplace, the breadth and depth of our portfolio, the expanse of our global reach, the talent and dedication of our more than 300,000 people, the solutions we can bring to our customers, the value we can create for our stockholders, and the impact we can have on the world.

In fiscal 2010, as HP navigated a fragile economic recovery, all of these advantages were clearly evident. HP rebounded powerfully from the recessionary conditions of the prior year and reported growth in each reported business segment and in each of our three geographic regions. Our people remained focused on delivering for our customers and executing for our stockholders.

For the year, we delivered:

- Net revenue of $126 billion, up 10 percent year-over-year
- GAAP operating profit of $11.5 billion, up 13 percent year-over-year
- GAAP diluted earnings per share of $3.69, up 18 percent year-over-year
- Non-GAAP operating profit of $14.4 billion, up 14 percent year-over-year*
- Non-GAAP diluted earnings per share of $4.58, up 19 percent year-over-year*

A POWERFUL PERFORMANCE ACROSS BUSINESSES AND GEOGRAPHIES

HP once again demonstrated the power of our diversification by performing across economic cycles. You will remember that during the worst of the 2009 recession, it was the strength of our resilient businesses such as supplies and services that helped preserve revenue and earnings. In fiscal 2010, we benefited from a technology refresh in commercial enterprises, and it was our product businesses that drove growth and margin expansion.

HP's Enterprise Business grew 7 percent year-over-year, led by 21 percent growth in Enterprise Storage and Servers. Industry Standard Servers, Blade Servers, and BladeSystem Matrix products continue to lead their categories with exceptional growth. In networking, we gained momentum throughout the year, culminating in 227 percent year-over-year growth in the fourth quarter, aided by the acquisition of 3Com Corporation and more than 50 percent growth in our ProCurve networking products. Services and Software held steady, growing roughly at market. As HP moves increasingly to deliver more solutions, we expect to scale our services and software businesses more rapidly.

In the Personal Systems Group, we demonstrated the strength of our balanced portfolio with growth in both commercial and consumer sectors. Overall, revenues grew 15 percent year-over-year and operating margins increased. In a very competitive environment, we did a good job of maintaining our No. 1 position in worldwide market share, as well as healthy average selling prices. We continue to differentiate through strong design and an outstanding customer experience across a full line of offerings that range from high-end gaming PCs to sleek, powerful notebooks to fashion-inspired netbooks and innovative smartphones.

In the Imaging and Printing Group, a similar pattern emerged with growth in commercial and consumer sectors. For the year, IPG grew 7 percent over fiscal 2009 levels, while still delivering more than 17 percent operating profit. At the end of fiscal 2009, we committed to placing more units and regaining share in 2010. For the full year, we grew units by 13 percent, growing LaserJet by 20 percent and Inkjet by 11 percent. Strong customer response to our new line of innovative web-connected printers helped us grow revenues and maintain attractive margins. Our growth initiatives in commercial print, graphics, and retail publishing also continued to gain solid traction with major new customer engagements and thousands of high-profile retail publishing solution placements. Billions of pages a year are moving from analog to digital, and we are exceptionally well-positioned with leading intellectual property to capture these high-value pages.

From a regional perspective, we saw a broad-based global recovery with growth of 11 percent in the Americas; 7 percent in Europe, the Middle East, and Africa; and 16 percent in Asia Pacific and Japan. Going forward, we are focused on moving beyond being a multinational company to being a truly global one with both deep local expertise and a comprehensive world view that brings the full value of HP to all customers.

INVESTING TO LEAD THE EVOLUTION OF THE INDUSTRY

Powerful trends and a wave of innovation are rapidly changing the technology landscape. At HP, we are investing to lead the evolution of the industry, and we continued to build our portfolio throughout the year. In fact, HP had the largest and best product releases in its history in fiscal 2010, from the data center to the cloud and from PCs to printers. With Superdome 2, we added a powerful new solution for business-critical systems.

POWERFUL TRENDS AND A WAVE OF INNOVATION ARE RAPIDLY CHANGING THE TECHNOLOGY LANDSCAPE. AT HP, WE ARE INVESTING TO LEAD THE EVOLUTION OF THE INDUSTRY, AND WE CONTINUED TO BUILD OUR PORTFOLIO THROUGHOUT THE YEAR.

BladeSystem Matrix and Virtual Connect significantly advance our strategy for converged and cloud-based infrastructures. Our ProLiant G7 servers deliver vastly improved performance, a much lower cost of ownership, and a return on investment measured in months. CloudStart helps clients quickly and easily realize the benefits of cloud computing. StoreOnce provides deduplication technology that comes straight out of HP Labs. In PCs and printers, TouchSmart and ePrint are redefining how we interact with technology and how we share the experiences of our life and work.

We are also continuing to build our portfolio through acquisitions, and the marketplace offered several strategic opportunities in fiscal 2010. With the acquisition of Palm, Inc., we added the most modern operating system in the market, positioning HP to drive innovation into the fast-growing area of connected mobility. In an increasingly mobile and cloud-based environment, security and storage solutions are critical for our customers. We are building out a security offering, helped by the recent acquisitions of ArcSight, Inc.; Fortify Software Inc.; and 3Com's TippingPoint business. In addition, our recent acquisition of 3PAR Inc. provided essential storage technology for high-end and cloud environments. At the foundation of the data center, enterprises are embracing converged infrastructure that is flexible, scalable, and shareable. With our acquisition of 3Com, we filled out our networking portfolio to deliver unmatched capacity, efficiency, and value. With HP, customers can realize tomorrow's next-generation converged infrastructure today.

FISCAL 2011 PRIORITIES

As we look to fiscal 2011, HP will continue to move aggressively to drive growth, expand margins, and deliver unparalleled value to our customers and stockholders.

We expect to grow by investing in portfolio enhancements and acquisitions, by covering more of the market with our sales force and channel partners, and by expanding that coverage more aggressively into high-growth emerging economies. Additionally, we plan increased investments in innovation. Over the last few years, we have rationalized our research and development spend, reduced inefficiency, and focused more acutely on practical applications, while at the same time delivering industry-leading products and technologies. Looking ahead, we will continue to speed the innovation cycle and deliver new technologies to market at scale with impact.

Our focus on margin expansion will also continue in the year ahead. We do this by increasing gross margins through a more profitable business mix and through efficiencies. In a company of HP's size, there are always opportunities to achieve a higher level of efficiency, and major initiatives in our supply chain operations, real estate portfolio, and service delivery model are expected to have a positive impact on our operating leverage in fiscal 2011.

We expect HP to continue moving up the technology stack into higher margin categories. By further developing our intellectual property portfolio, we plan to differentiate HP and leverage the enormous power, scale, and breadth of our market-leading products across the data center, printing, PCs, and mobile devices. This is the key to making HP the leading provider of strategic solutions that address our customers' biggest challenges.

AN EXTRAORDINARY OPPORTUNITY AHEAD

Since joining HP, I have been impressed with our financial strength, the breadth and quality of our portfolio, and the commitment and talent of our people. These are significant competitive advantages that position us to lead the industry and win in the marketplace. However, for all we have accomplished, I believe that our greatest opportunities lie ahead.

In the 21st century, information is the world's most valuable resource. At the heart of this evolution, information technology has expanded from a tool for productivity into tools for communication and collaboration, and today, information technology is rapidly becoming the fabric of society. Data flows from people to people, people to machines, machines to machines, and back again. Bits and bytes are the universal currency. As a result, our needs, our expectations, and our opportunities are changing.

The coming together of mobility and cloud computing puts your life and your business in the palm of your hand. Anywhere in the world, whether you are an individual, an employee, or a CEO, you expect your information *on*—across devices, screens, pages, and locations. This expectation is reshaping businesses and governments. Instant-On Enterprises are embedding technology into everything they do so their most important asset—information—is available in an instant, helping drive efficiency and spark innovation. Collectively, the right information at the right place at the right time can significantly increase the positive impact we have on our most vital issues, like improving healthcare, increasing access to education, and preserving the environment.

At HP, our mission is to innovate at every touchpoint of information—from creation to capture, from management to delivery, and all the collaboration that goes on in between. We create the solutions that transform data into value, bytes into experiences, and noise into knowledge. We drive that innovation at an unmatched scale to advance human progress.

A woman in Ghana can have a face-to-face conversation with her daughter in France or authenticate her mother's medication with a simple text message sent to the cloud. A fast-growing bank in India can delight customers with anytime, anywhere services. Or a start-up new media company in Canada can redefine journalism with on-demand, professional-quality publishing. Governments can anticipate threats while respecting the privacy of their citizens, build intelligent infrastructures to manage scarce resources, and reinvent vital services for growing urban and aging populations. The expanding global middle class can fully participate in the information economy, and the door of opportunity can open to the nearly 7 billion people in the global community.

At HP, we are well-positioned to create value for our customers and stockholders. The role of technology is becoming increasingly fundamental to the workings of our global society, and we are harnessing the power of information to improve the way people live, businesses operate, and the world works.

Best Regards,

Léo Apotheker
President and Chief Executive Officer

*Fiscal year 2010 non-GAAP financial information excludes $2.1 billion of adjustments on an after-tax basis, or $0.89 per diluted share, related primarily to the amortization of purchased intangible assets, restructuring charges, and acquisition-related charges. HP's management uses non-GAAP operating profit and non-GAAP diluted earnings per share (EPS) to evaluate and forecast HP's performance before gains, losses, or other charges that are considered by HP's management to be outside of HP's core business segment operating results. HP believes that presenting non-GAAP operating profit and non-GAAP diluted EPS, in addition to GAAP operating profit and GAAP diluted EPS, provides investors with greater transparency to the information used by HP's management in its financial and operational decision making. HP further believes that providing this additional non-GAAP information helps investors understand HP's operating performance and evaluate the efficacy of the methodology and information used by management to evaluate and measure such performance. This additional non-GAAP information is not intended to be considered in isolation or as a substitute for GAAP operating profit and GAAP diluted EPS.

MEMBERS OF THE BOARD

As of December 31, 2010

Marc L. Andreessen
DIRECTOR SINCE 2009
Mr. Andreessen is co-founder and a general partner of Andreessen Horowitz, a venture capital firm founded in July 2009, and co-founder and Chairman of Ning, Inc., an online platform for people to create their own social networks. From 1999 to July 2007, Mr. Andreessen served as Chairman of Opsware, Inc., a software company that he co-founded. From March to September 1999, Mr. Andreessen served as Chief Technology Officer of America Online, Inc., a software company. Mr. Andreessen co-founded Netscape Communications Corporation, a software company, and served in various positions, including Chief Technology Officer and Executive Vice President of Products, from 1994 to 1999. Mr. Andreessen also is a director of eBay Inc. and several private companies.

Léo Apotheker
DIRECTOR SINCE 2010
Mr. Apotheker has served as HP's President and Chief Executive Officer and as a member of HP's Board of Directors since November 2010. Mr. Apotheker served as Chief Executive Officer of SAP AG, a software company, from June 2009 until February 2010 after having served as co-Chief Executive Officer of SAP from April 2008 to May 2009. Previously, Mr. Apotheker served as worldwide Chairman of Customer Solutions and Operations for SAP from 2002 until April 2008. Mr. Apotheker occupied various other positions at SAP after joining the company in 1995, including Chairman of SAP EMEA from 1999 to 2002; Chairman of SAP for the South-West Europe Region from 1997 to 1999; and CEO of SAP France and SAP Belgium from 1995 to 1997. Mr. Apotheker also is Vice Chairman of the supervisory board of Schneider Electric SA.

Lawrence T. Babbio, Jr.
DIRECTOR SINCE 2002
Mr. Babbio has served as Senior Advisor to Warburg Pincus, a private equity firm, since June 2007. Previously, Mr. Babbio served as Vice Chairman and President of Verizon Communications, Inc., a telecommunications company, from 2000 until his retirement in April 2007. Mr. Babbio also served as Vice Chairman of Bell Atlantic Corporation, a telecommunications company, from 1995 until the formation of Verizon through the merger of Bell Atlantic and GTE Corporation, another telecommunications company, in 2000; as Executive Vice President and Chief Operating Officer of Bell Atlantic from 1994 to 1995; and as Chairman, Chief Executive Officer and President of Bell Atlantic Enterprises International, Inc. from 1991 to 1994.

Sari M. Baldauf
DIRECTOR SINCE 2006
Ms. Baldauf served as Executive Vice President and General Manager of the Networks business group of Nokia Corporation, a communications company, from 1998 until February 2005. She previously held various positions at Nokia since joining the company in 1983, including Executive Vice President of Nokia, Asia-Pacific from 1997 to 1998 and President of Nokia Cellular Systems from 1988 to 1996. Ms. Baldauf also was a member of the Executive Board of Nokia from 1994 until January 2005. Ms. Baldauf serves as a director of Daimler AG and three companies headquartered in Finland.

Rajiv L. Gupta
DIRECTOR SINCE 2009
Mr. Gupta has served as Chairman of Avantor Performance Materials, a manufacturer of chemistries and materials, since August 2010 and as Senior Advisor to New Mountain Capital, LLC, a private equity firm, since July 2009. Previously, Mr. Gupta served as Chairman and Chief Executive Officer of Rohm and Haas Company, a worldwide producer of specialty materials, from 1999 to April 2009. Mr. Gupta occupied various other positions at Rohm and Haas after joining the company in 1971, including Vice Chairman from 1998 to 1999; Director of the Electronic Materials business from 1996 to 1999; and Vice President and Regional Director of the Asia-Pacific Region from 1993 to 1998. Mr. Gupta also is a director of Tyco International Ltd., The Vanguard Group, and several private companies.

John H. Hammergren
DIRECTOR SINCE 2005
Mr. Hammergren has served as Chairman of McKesson Corporation, a healthcare services and information technology company, since 2002 and as President and Chief Executive Officer of McKesson since 2001. Mr. Hammergren joined McKesson in 1996 and held a number of management positions before becoming President and Chief Executive Officer. Mr. Hammergren also is a director of Nadro, S.A. de C.V. (Mexico).

Joel Z. Hyatt
DIRECTOR SINCE 2007
Mr. Hyatt has served as Vice Chairman of Current Media, LLC, a cable and satellite television company, since July 2009. Previously, Mr. Hyatt served as Chief Executive Officer of Current Media from 2002 until July 2009. From 1998 to 2003, Mr. Hyatt was a Lecturer in Entrepreneurship at the Stanford University Graduate School of Business. Previously, Mr. Hyatt was the founder and Chief Executive Officer of Hyatt Legal Plans, Inc., a provider of employer-sponsored group legal plans.

John R. Joyce
DIRECTOR SINCE 2007
Mr. Joyce has served as Vice Chairman and Chief Financial Officer of Silver Spring Networks, Inc., a utility networking solutions company, since September 2010. Previously, Mr. Joyce served as a managing director of Silver Lake, a private equity firm, from July 2005 until March 2010. Prior to joining Silver Lake, Mr. Joyce served in multiple roles during a 30-year career at International Business Machines Corporation, a global technology company, including Senior Vice President and Group Executive of the IBM Global Services division; Chief Financial Officer; President, IBM Asia Pacific; and Vice President and Controller for IBM's global operations. From 2005 to 2010, Mr. Joyce served as a director of Avago Technologies Limited and Gartner, Inc.

Raymond J. Lane
DIRECTOR SINCE 2010
Mr. Lane has served as HP's non-executive Chairman since November 2010. Mr. Lane has served as Managing Partner of Kleiner Perkins Caufield & Byers, a private equity firm, since 2000. Prior to joining Kleiner Perkins, Mr. Lane was President and Chief Operating Officer and a director of Oracle Corporation, a software company. Before joining Oracle in 1992, Mr. Lane was a senior partner of Booz Allen Hamilton, a consulting company. Prior to Booz Allen Hamilton, Mr. Lane served as a division vice president with Electronic Data Systems Corporation, an IT services company that HP acquired in August 2008. Mr. Lane also is a director of Quest Software, Inc. and several private companies.

Robert L. Ryan
DIRECTOR SINCE 2004
Mr. Ryan served as Senior Vice President and Chief Financial Officer of Medtronic, Inc., a medical technology company, from 1993 until his retirement in May 2005. Previously, Mr. Ryan held various positions with Union Texas Petroleum Corp., a petroleum products company, from 1982 to 1993, including Vice President, Finance, and Chief Financial Officer; Controller; and Treasurer. From 1996 to 2008, Mr. Ryan served as a director of UnitedHealth Group Incorporated. Mr. Ryan also is a director of General Mills, Inc.; Stanley Black & Decker, Inc.; and Citigroup, Inc.

Lucille S. Salhany
DIRECTOR SINCE 2002
Ms. Salhany has served as President and Chief Executive Officer of JHMedia, a consulting company, since 1997. Since 2003, she has been a partner and director of Echo Bridge Entertainment, an independent film distribution company. From 1999 to 2002, she was President and Chief Executive Officer of LifeFX Networks, Inc., a communications software company, which filed for federal bankruptcy protection in May 2002. Previously, Ms. Salhany served as President and Chief Executive Officer of United Paramount Network, a television network, from 1994 until 1997. From 1993 to 1994, she served as Chairman of Fox Broadcasting Company and also was a director of Fox Inc.

G. Kennedy Thompson
DIRECTOR SINCE 2006
Mr. Thompson has served as Senior Advisor to Aquiline Capital Partners LLC, a private equity firm, since May 2009. Previously, Mr. Thompson served as Chairman of Wachovia Corporation, a financial services company, from 2003 until June 2008. Mr. Thompson also served as Chief Executive Officer of Wachovia, formerly First Union Corporation, from 2000 until June 2008 and as President from 1999 until June 2008. Previously at First Union, Mr. Thompson served as Chairman for a portion of 2001; Vice Chairman from 1998 to 1999; and Executive Vice President from 1996 to 1998.

HP EXECUTIVE TEAM

As of December 31, 2010

Léo Apotheker
President and
Chief Executive Officer

Peter J. Bocian
Executive Vice President and
Chief Administrative Officer

R. Todd Bradley
Executive Vice President,
Personal Systems Group

Michael J. Holston
Executive Vice President,
General Counsel and Secretary

Vyomesh I. Joshi
Executive Vice President,
Imaging and Printing Group

Catherine A. Lesjak
Executive Vice President
and Chief Financial Officer

Ann M. Livermore
Executive Vice President,
HP Enterprise Business

Randall D. Mott
Executive Vice President and
Chief Information Officer

Marcela Perez de Alonso
Executive Vice President,
Human Resources

Shane V. Robison
Executive Vice President
and Chief Strategy and
Technology Officer

FORWARD-LOOKING STATEMENTS

This document 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 could differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of revenue, margins, expenses, earnings, earnings per share, the impact of acquisitions, or other financial items; any statements of the plans, strategies, and objectives of management for future operations; any statements concerning the expected development, performance, or market share relating to products or services; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on HP and its financial performance; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties, and assumptions include the impact of macroeconomic and geopolitical trends and events; the competitive pressures faced by HP's businesses; the development and transition of new products and services (and the enhancement of existing products and services) to meet customer needs and respond to emerging technological trends; the execution and performance of contracts by HP and its suppliers, customers, and partners; the protection of HP's intellectual property assets, including intellectual property licensed from third parties; integration and other risks associated with business combination and investment transactions; the hiring and retention of key employees; assumptions related to pension and other post-retirement costs; expectations and assumptions relating to the execution and timing of cost reduction programs and restructuring plans; the resolution of pending investigations, claims, and disputes; and other risks that are described in HP's filings with the Securities and Exchange Commission, including but not limited to HP's Annual Report on Form 10-K for the fiscal year ended October 31, 2010, which is included as part of this document. HP assumes no obligation and does not intend to update these forward-looking statements.

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

FORM 10-K

(Mark One)

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

For the fiscal year ended October 31, 2010

Or

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

For the transition period from to

Commission file number 1-4423

HEWLETT-PACKARD COMPANY
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-1081436** (I.R.S. employer identification no.)
3000 Hanover Street, Palo Alto, California (Address of principal executive offices)	**94304** (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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. (Check one):

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

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

The aggregate market value of the registrant's common stock held by non-affiliates was $121,784,010,000 based on the last sale price of common stock on April 30, 2010.

The number of shares of HP common stock outstanding as of November 30, 2010 was 2,190,425,610 shares.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT DESCRIPTION	10-K PART
Portions of the Registrant's proxy statement related to its 2011 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year end of October 31, 2010 are incorporated by reference into Part III of this Report.	III

Hewlett-Packard Company

Form 10-K

For the Fiscal Year Ended October 31, 2010

Table of Contents

Forward-Looking Statements

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Hewlett-Packard Company and its consolidated subsidiaries ("HP") may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of revenue, margins, expenses, earnings, earnings per share, tax provisions, cash flows, benefit obligations, share repurchases, currency exchange rates, the impact of acquisitions or other financial items; any statements of the plans, strategies and objectives of management for future operations, including execution of cost reduction programs and restructuring plans; any statements concerning the expected development, performance or market share relating to products or services; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on HP and its financial performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include the impact of macroeconomic and geopolitical trends and events; the competitive pressures faced by HP's businesses; the development and transition of new products and services (and the enhancement of existing products and services) to meet customer needs and respond to emerging technological trends; the execution and performance of contracts by HP and its suppliers, customers and partners; the protection of HP's intellectual property assets, including intellectual property licensed from third parties; integration and other risks associated with business combination and investment transactions; the hiring and retention of key employees; assumptions related to pension and other post-retirement costs; expectations and assumptions relating to the execution and timing of cost reduction programs and restructuring plans; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including but not limited to the items discussed in "Risk Factors" in Item 1A of this report, and that are otherwise described or updated from time to time in HP's Securities and Exchange Commission reports. HP assumes no obligation and does not intend to update these forward-looking statements.

PART I

ITEM 1. Business.

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

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

HP was incorporated in 1947 under the laws of the State of California as the successor to a partnership founded in 1939 by William R. Hewlett and David Packard. Effective in May 1998, we changed our state of incorporation from California to Delaware.

HP Products and Services; Segment Information

Our operations are organized into seven business segments: Services, Enterprise Storage and Servers ("ESS"), HP Software, the Personal Systems Group ("PSG"), the Imaging and Printing Group ("IPG"), HP Financial Services ("HPFS"), and Corporate Investments. Services, ESS and HP Software are reported collectively as a broader HP Enterprise Business. While the HP Enterprise Business is not an operating segment, we sometimes provide financial data aggregating the segments within it in order to provide a supplementary view of our business. In each of the past three fiscal years, notebooks, desktops and printing supplies each accounted for more than 10% of our consolidated net revenue. In fiscal 2009 and 2010, infrastructure technology outsourcing also accounted for more than 10% of our consolidated net revenue.

A summary of our net revenue, earnings from operations and assets for our segments and business units is found in Note 19 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. A discussion of factors potentially affecting our operations is set forth in "Risk Factors" in Item 1A, which is incorporated herein by reference.

HP Enterprise Business

The HP Enterprise Business provides servers, storage, software and information technology ("IT") services that enable enterprise and midmarket business customers to better manage their current IT environments and transform IT into a business enabler. HP Enterprise Business products, software and services help accelerate growth, minimize risk and reduce costs to optimize the business value of customers' IT investments. Companies around the globe leverage HP's infrastructure solutions to deploy next generation data centers and address business challenges ranging from compliance to business continuity. The HP Enterprise Business's modular IT systems and services are primarily standards-based and feature differentiated technologies in areas including power and cooling, unified management, security, virtualization and automation. Each of the three financial reporting segments within the HP Enterprise Business are described in detail below.

Services

Services provides consulting, outsourcing and technology services across infrastructure, applications and business process domains. Services delivers to its clients by leveraging investments in consulting and support professionals, infrastructure technology, applications, standardized methodologies, and global supply and delivery. Our services businesses also create opportunities for us to sell additional hardware units by offering solutions that encompass both products and services. Services is divided into four main business units: infrastructure technology outsourcing, technology services, applications services and business process outsourcing.

Infrastructure Technology Outsourcing. Infrastructure technology outsourcing delivers comprehensive services that streamline and optimize our clients' infrastructure to efficiently enhance performance, reduce costs, mitigate risk and enable business change. These services encompass the data center and the workplace (desktop); network and communications; and security, compliance and business continuity. We also offer a set of managed services, providing a cross-section of our broader infrastructure services for smaller discrete engagements.

Technology Services. HP provides consulting and support services, as well as warranty support across HP's product lines. HP specializes in keeping technology running with mission critical services, converged infrastructure services, networking services, data center transformation services and infrastructure services for storage, server and unified communication environments. HP's technology services offerings are available in the form of service contracts, pre-packaged offerings (HP Care Pack services) or on an individual basis.

Application Services. Applications services help clients revitalize and manage their applications assets through flexible, project-based, consulting services and longer-term outsourcing contracts. These full life cycle services encompass application development, testing, modernization, system integration, maintenance and management. Applications projects open doors to new infrastructure technology outsourcing and business process outsourcing opportunities and represent attractive cross-selling opportunities to current HP clients.

Business Process Outsourcing. Business process outsourcing is powered by a platform of underlying infrastructure technology, applications and standardized methodologies and is supplemented by IT experience and in-depth, industry-specific knowledge. These services encompass both industry-specific and cross-industry solutions. Our cross-industry solutions include a broad array of enterprise shared services, customer relationship management services, financial process management services and administrative services.

Enterprise Storage and Servers

The server market continues to shift towards standards-based architectures as proprietary hardware and operating systems are replaced by industry standard server platforms that typically offer compelling price and performance advantages by leveraging standards-based operating systems and microprocessor designs. At the same time, critical business functions continue to demand scalability and reliability. By providing a broad portfolio of storage and server solutions, ESS aims to optimize the combined product solutions required by different customers and provide solutions for a wide range of operating environments, spanning both the enterprise and the SMB markets. ESS provides storage and server products in a number of categories.

Industry Standard Servers. Industry standard servers include primarily entry-level and mid-range ProLiant servers, which run primarily Windows®, Linux and Novell operating systems and leverage Intel Corporation (“Intel”) and Advanced Micro Devices (“AMD”) processors. The business spans a range of product lines that include pedestal-tower servers, density-optimized rack servers and HP’s BladeSystem family of server blades. In fiscal 2010, HP’s industry standard server business continued to lead the industry in terms of units shipped and revenue. HP also has a leadership position in server blades, the fastest growing segment of the market.

Business Critical Systems. Business Critical Systems include HP Integrity servers based on the Intel® Itanium®-based processor that run HP-UX, Windows and OpenVMS operating systems, as well as fault-tolerant HP Integrity NonStop solutions. Business Critical Systems also include HP’s scale-up x86 ProLiant servers with more than four processors. In addition, HP continues to support the HP9000 servers and HP AlphaServers with compelling offers available to upgrade these legacy systems to current HP Integrity systems. During 2010, we introduced new Integrity blade servers and the Superdome 2 server solution based on the BladeSystem architecture.

Storage. HP’s StorageWorks offerings include entry-level, mid-range and high-end arrays, storage area networks, network attached storage, storage management software and virtualization technologies, as well as StoreOnce data deduplication solutions, tape drives, tape libraries and optical archival storage.

HP Software

HP Software is a leading provider of enterprise and service-provider software and services. Our portfolio consists of:

Enterprise IT management software. Enterprise IT management solutions, including support and professional services, allow customers to manage IT infrastructure, operations, applications, IT services, and business processes. These solutions also include tools to automate data center operations and IT processes. We market them as the HP business technology optimization suite, and we deliver them in the form of traditional software licenses and, in some cases, via a software-as-a-service distribution model.

Information management and business intelligence solutions. Our information management and business intelligence solutions include information data strategy, enterprise data warehousing, data integration, data protection, archiving, compliance, e-discovery and records management products. These solutions enable businesses to extract more value from their structured and unstructured information.

Communications and media solutions. Our communications and media industry solutions address the creation, delivery and management of consumer and enterprise communications services, with offerings in service delivery infrastructure and applications, real-time business support systems, next-generation operations support systems and digital media. These solutions enable operators, media companies, and network equipment providers to drive incremental revenue, enable new business models and reduce infrastructure costs.

Personal Systems Group

PSG is the leading provider of personal computers ("PCs") in the world based on unit volume shipped and annual revenue. PSG provides commercial PCs, consumer PCs, workstations, handheld computing devices, calculators and other related accessories, software and services for the commercial and consumer markets. We group commercial desktops, commercial notebooks and workstations into commercial clients and consumer desktop and consumer notebooks into consumer clients when describing our performance in these markets. Like the broader PC market, PSG continues to experience a shift toward mobile products such as notebooks. Both commercial and consumer PCs are based predominately on the Windows operating system and use Intel and AMD processors.

Commercial PCs. Commercial PCs are optimized for commercial uses, including enterprise and small- and medium- sized business ("SMB") customers, and for connectivity and manageability in networked environments. Commercial PCs include HP Compaq, HP Pro and HP Elite lines of business desktops and notebooks, as well as the All in One TouchSmart and Omni PCs, HP Mini-Note PCs, HP Blade PCs, Retail POS systems and HP TwinClients.

Consumer PCs. Consumer PCs include the HP and Compaq series of multi-media consumer desktops, notebooks and mini notebooks, including the TouchSmart line of touch-enabled all-in-one desktops and notebooks.

Workstations. Workstations are individual computing products designed for users demanding enhanced performance, such as computer animation, engineering design and other programs requiring high-resolution graphics. PSG provides workstations that run on both Windows® and Linux-based operating systems.

Handheld Computing. PSG provides a series of HP iPAQ Pocket PC handheld computing devices that run on Windows Mobile® software. These products range from basic PDAs to advanced "smartphone" devices with voice and data capability.

Imaging and Printing Group

IPG provides consumer and commercial printer hardware, printing supplies, printing media and scanning devices. IPG is also focused on imaging solutions in the commercial markets. These solutions range from managed print services solutions to addressing new growth opportunities in commercial printing and capturing high-value pages in areas such as industrial applications, outdoor signage, and the graphic arts business.

Inkjet and Web Solutions. Inkjet and web solutions include HP's consumer and SMB inkjet solutions (hardware, supplies, and media) and HP's retail and web businesses. These solutions include single function and all-in-one inkjet printers targeted toward consumers and SMBs as well as retail publishing solutions, Snapfish, and Logoworks.

LaserJet and Enterprise Solutions. LaserJet and enterprise solutions include LaserJet printers and supplies, multi-function printers ("MFDs"), scanners, and enterprise software solutions such as Exstream Software and Web Jetadmin.

Managed Enterprise Solutions. Managed enterprise solutions include managed print services products and solutions delivered to enterprise customers partnering with third-party software providers to offer workflow solutions in the enterprise environment.

Graphics Solutions. Graphics solutions include large format printing (Designjet and Scitex), large format supplies, WebPress supplies, Indigo printing, specialty printing systems and inkjet high-speed production solutions.

Printer Supplies. Printer supplies include LaserJet toner and inkjet printer cartridges, graphic solutions ink products and other printing-related media.

HP Financial Services

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

Corporate Investments

Corporate Investments includes Hewlett-Packard Laboratories, also known as HP Labs, network infrastructure products, mobile devices associated with the Palm acquisition, and certain business incubation projects. Revenue in this segment is attributable to the sale of certain network infrastructure products, including Ethernet switch products that enhance computing and enterprise solutions under the ProCurve, 3Com and TippingPoint brands. The segment also includes certain video collaboration products sold under the brand "Halo," and Palm smartphones, which are targeted at the consumer segment and include the Pixi and Pre models running on the WebOS operating system. Corporate Investments also derives revenue from licensing specific HP technology to third parties.

Sales, Marketing and Distribution

We manage our business and report our financial results based on the principal business segments described above. Our customers are organized by consumer and commercial customer groups, and distribution is organized by direct and channel. Within the channel, we have various types of partners that we utilize for various customer groups. The partners include:

- retailers that sell our products to the public through their own physical or Internet stores;
- resellers that sell our products and services, frequently with their own value-added products or services, to targeted customer groups;
- distribution partners that supply our solutions to smaller resellers with which we do not have direct relationships;

- independent distributors that sell our products into geographies or customer segments in which we have little or no presence;
- original equipment manufacturers ("OEMs") that integrate our products with their own hardware or software and sell the integrated products;
- independent software vendors ("ISVs") that provide their clients with specialized software products, and often assist us in selling our products and services to clients purchasing their products;
- systems integrators that provide various levels and kinds of expertise in designing and implementing custom IT solutions and often partner with our services business to extend their expertise or influence the sale of our products and services; and
- advisory firms that provide various levels of management and IT consulting, including some systems integration work, and that typically partner with our services business on client solutions that require our unique products and services.

The mix of HP's business by channel or direct sales differs substantially by business and region. We believe that customer buying patterns and different regional market conditions necessitate sales, marketing and distribution to be tailored accordingly. HP is focused on driving the depth and breadth of its coverage in addition to efficiencies and productivity gains in both the direct and indirect business.

The HP Enterprise Business manages most of our enterprise and public sector customer relationships and also has primary responsibility for simplifying sales processes across our segments to improve speed and effectiveness of customer delivery. In this capacity, the HP Enterprise Business manages our direct sales for value products including UNIX®, enterprise storage and software and pre-sales technical consultants, as well as our direct distribution activities for commercial products and go-to-market activities with systems integrators and ISVs. The HP Enterprise Business also drives HP horizontal and vertical solutions through our own services arm and through the partners previously listed above. The HP Enterprise Business drives HP's vertical sales and marketing approach in the communication, media and entertainment, financial services, manufacturing and distribution and public sector industries.

PSG manages SMB customer relationships and commercial reseller channels, due largely to the significant volume of commercial PCs that HP sells through these channels. In addition to commercial channel relationships, the Volume Direct organization, which is charged with the management of direct sales for volume products, is hosted within PSG. In addition, PSG manages direct online sales through the Consumer Exchange and the Small Business Exchange.

IPG manages HP's overall consumer-related sales and marketing activities, including our annual consumer product launch for the back-to-school and holiday seasons. IPG also manages consumer channel relationships with third-party retail locations for imaging and printing products, as well as other consumer products, including consumer PCs, which provides for a bundled sale opportunity between PCs and IPG products.

Manufacturing and Materials

We utilize a significant number of outsourced manufacturers ("OMs") around the world to manufacture HP-designed products. The use of OMs is intended to generate cost efficiencies and reduce time to market for HP-designed products. We use multiple OMs to maintain flexibility in our supply chain and manufacturing processes. In some circumstances, third-party OEMs manufacture products that we purchase and resell under the HP brand. In addition to our use of OMs, we currently manufacture a limited number of finished products from components and sub-assemblies that we acquire from a wide range of vendors.

We utilize two primary methods of fulfilling demand for products: building products to order and configuring products to order. We employ building products to order capabilities to maximize manufacturing and logistics efficiencies by producing high volumes of basic product configurations. Configuring products to order permits configuration of units to the particular hardware and software customization requirements of customers. Our inventory management and distribution practices in both building products to order and configuring products to order seek to minimize inventory holding periods by taking delivery of the inventory and manufacturing immediately prior to the sale or distribution of products to our customers.

We purchase materials, supplies and product subassemblies from a substantial number of vendors. For most of our products, we have existing alternate sources of supply, or such sources are readily available. However, we do rely on sole sources for laser printer engines, LaserJet supplies and parts for products with short life cycles (although some of these sources have operations in multiple locations in the event of a disruption). We are dependent upon Intel as a supplier of processors and Microsoft for various software products. However, we believe that disruptions with these suppliers would result in industry-wide dislocations and therefore would not disproportionately disadvantage us relative to our competitors. For processors, we also have a relationship with AMD, and we have continued to see solid acceptance of AMD processors in the market during fiscal 2010.

Like other participants in the high technology industry, we ordinarily acquire materials and components through a combination of blanket and scheduled purchase orders to support our requirements for periods averaging 90 to 120 days. From time to time, we experience significant price volatility and supply constraints for certain components that are not available from multiple sources. Frequently, we are able to obtain scarce components for somewhat higher prices on the open market, which may have an impact on gross margin but does not disrupt production. We also acquire component inventory in anticipation of supply constraints or enter into longer-term pricing commitments with vendors to improve the priority, price and availability of supply. See "Risk Factors—We depend on third-party suppliers, and our revenue and gross margin could suffer if we fail to manage suppliers properly," in Item 1A, which is incorporated herein by reference.

International

Our products and services are available worldwide. We believe this geographic diversity allows us to meet demand on a worldwide basis for both consumer and enterprise customers, draws on business and technical expertise from a worldwide workforce, provides stability to our operations, allows us to drive economies of scale, provides revenue streams to offset geographic economic trends and offers us an opportunity to access new markets for maturing products. In addition, we believe that future growth is dependent in part on our ability to develop products and sales models that target developing countries. In this regard, we believe that our broad geographic presence gives us a solid base upon which to build such future growth.

A summary of our domestic and international net revenue and net property, plant and equipment is set forth in Note 19 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. Approximately 65% of our overall net revenue in fiscal 2010 came from outside the United States. The substantial majority of our net revenue originating outside the United States was from customers other than foreign governments.

For a discussion of risks attendant to HP's foreign operations, see "Risk Factors—Due to the international nature of our business, political or economic changes or other factors could harm our future revenue, costs and expenses and financial condition," in Item 1A, "Quantitative and Qualitative Disclosure about Market Risk" in Item 7A and Note 10 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

Research and Development

We remain committed to innovation as a key element of HP's culture. Our development efforts are focused on designing and developing products, services and solutions that anticipate customers' changing needs and desires and emerging technological trends. Our efforts also are focused on identifying the areas where we believe we can make a unique contribution and the areas where partnering with other leading technology companies will leverage our cost structure and maximize our customers' experiences.

HP Labs, together with the various research and development groups within the five principal business segments, are responsible for our research and development efforts. HP Labs is part of our Corporate Investments segment.

Expenditures for research and development were $3.0 billion in fiscal 2010, $2.8 billion in fiscal 2009 and $3.5 billion in fiscal 2008. We anticipate that we will continue to have significant research and development expenditures in the future to provide a continuing flow of innovative, high-quality products and services to maintain and enhance our competitive position.

For a discussion of risks attendant to our research and development activities, see "Risk Factors— If we cannot continue to develop, manufacture and market products and services that meet customer requirements for innovation and quality, our revenue and gross margin may suffer," in Item 1A, which is incorporated herein by reference.

Patents

Our general policy has been to seek patent protection for those inventions and improvements likely to be incorporated into our products and services or where proprietary rights will improve our competitive position. At October 31, 2010, our worldwide patent portfolio included over 37,000 patents, which represents an increase over the number of patents in our patent portfolio at the end of both fiscal 2009 and fiscal 2008.

Patents generally have a term of twenty years from the time they are filed. As our patent portfolio has been built over time, the remaining terms on the individual patents vary. We believe that our patents and applications are important for maintaining the competitive differentiation of our products and services, enhancing our ability to access technology of third parties, and maximizing our return on research and development investments. No single patent is in itself essential to us as a whole or any of our principal business segments.

In addition to developing our patents, we license intellectual property from third parties as we deem appropriate. We have also granted and continue to grant to others licenses under patents owned by us when we consider these arrangements to be in our interest. These license arrangements include a number of cross-licenses with third parties.

For a discussion of risks attendant to intellectual property rights, see "Risk Factors—Our revenue, cost of sales, and expenses may suffer if we cannot continue to license or enforce the intellectual property rights on which our businesses depend or if third parties assert that we violate their intellectual property rights," in Item 1A, which is incorporated herein by reference.

Backlog

We believe that backlog is not a meaningful indicator of future business prospects due to the diversity of our products and services portfolio, including the large volume of products delivered from shelf or channel partner inventories and the shortening of product life cycles. Therefore, we believe that backlog information is not material to an understanding of our overall business.

Seasonality

General economic conditions have an impact on our business and financial results. From time to time, the markets in which we sell our products experience weak economic conditions that may negatively affect sales. We experience some seasonal trends in the sale of our products and services. For example, European sales often are weaker in the summer months and consumer sales often are stronger in the fourth calendar quarter. Demand during the spring and early summer months also may be adversely impacted by market anticipation of seasonal trends. See "Risk Factors—Our sales cycle makes planning and inventory management difficult and future financial results less predictable," in Item 1A, which is incorporated herein by reference.

Competition

We encounter aggressive competition in all areas of our business activity. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, reputation, distribution, range of products and services, ease of use of our products, account relationships, customer training, service and support, security and availability of application software and our Internet infrastructure offerings.

The markets for each of our business segments are characterized by vigorous competition among major corporations with long-established positions and a large number of new and rapidly growing firms. Product life cycles are short, and to remain competitive we must develop new products and services, periodically enhance our existing products and services and compete effectively on the basis of the factors listed above. In addition, we compete with many of our current and potential partners, including OEMs that design, manufacture and often market their products under their own brand names. Our successful management of these competitive partner relationships will continue to be critical to our future success. Moreover, we anticipate that we will have to continue to adjust prices on many of our products and services to stay competitive.

On a revenue basis we are the largest company offering our range of general purpose computers and personal information, imaging and printing products for industrial, scientific, business and consumer applications, and IT services. We are the leader or among the leaders in each of our principal business segments.

The competitive environments in which each segment operates are described below:

Enterprise Storage and Servers. The areas in which ESS operates are intensely competitive and are characterized by rapid and ongoing technological innovation and price reductions. Our competitors range from broad solution providers such as International Business Machines Corporation ("IBM") to more focused competitors such as EMC Corporation and NetApp, Inc. in storage and Dell, Inc. in industry standard servers. We believe that our important competitive advantages in this segment include the six technology components of our converged infrastructure initiatives: IT systems, power and cooling, security, management, virtualization and automation. We believe that our competitive advantages also include our global reach and our significant intellectual property portfolio and research and development capabilities, which will contribute to further enhancements of our product and service offerings and our ability to cross-sell our portfolio and leverage scale advantages in everything from brand to procurement leverage.

Services. Our service businesses including HP Enterprise Services and Technology Services compete in IT support services, consulting and integration, infrastructure technology outsourcing, business process outsourcing and application services. The IT support services and consulting and integration markets have been under significant pressure as our customers have reduced their IT budgets. However, this trend has benefited the outsourcing services business as customers drive toward lower IT management costs to enable more strategic investments. Our competitors include IBM Global Services, Computer Sciences Corporation, systems integration firms such as Accenture Ltd. and offshore companies such as Fujitsu Limited and India-based competitors Wipro Limited. Infosys Technologies Limited and Tata Consultancy Services Ltd. We also compete with other traditional hardware providers, such as Dell, which are increasingly offering services to support their products. Many of our competitors are able to offer a wide range of global services, and some of our competitors enjoy significant brand recognition. Our service businesses team with many companies to offer services, and those arrangements allow us to extend our reach and augment our capabilities. Our competitive advantages are evident in our deep technology expertise, which includes multi-vendor environments, virtualization and automation, our strong track record of collaboration with clients and partners, and the combination of our expertise in infrastructure management with skilled global resources in SAP, AG, Oracle Corporation and Microsoft Corporation platforms.

HP Software. The areas in which HP Software operates are fueled by rapidly changing customer requirements and technologies. We market enterprise IT management software in competition with IBM, CA, Inc. ("CAI"), BMC Software, Inc. and others. Our information management and business intelligence solutions compete with products from companies like Symantec Corporation, IBM, EMC, CAI, and Teradata Corporation. We also deliver communications and media solutions that compete with products from IBM and various other competitors. As new delivery mechanisms such as software-as-a-service come on the scene, we are also confronting less traditional competitors. Our differentiation lies in the breadth and depth of our software and services portfolio and the scope of our market coverage.

Personal Systems Group. The areas in which PSG operates are intensely competitive and are characterized by rapid price reductions and inventory depreciation. Our primary competitors for the branded personal computers are Dell, Acer Inc., ASUSTeK Computer Inc., Apple Inc., Lenovo Group Limited and Toshiba Corporation. In particular regions, we also experience competition from local companies and from generically-branded or "white box" manufacturers. Our competitive advantages include our broad product portfolio, our innovation and research and development capabilities, our brand and procurement leverage, our ability to cross-sell our portfolio of offerings, our extensive service and support offerings and the availability of our broad-based distribution of products from retail and commercial channels to direct sales.

Imaging and Printing Group. The markets for printer hardware and associated supplies are highly competitive, especially with respect to pricing and the introduction of new products and features. IPG's key competitors include Canon U.S.A., Inc., Lexmark International, Inc., Xerox Corporation, Seiko Epson Corporation, Samsung Electronics Co., Ltd. and Brother Industries, Ltd. In addition, independent suppliers offer refill and remanufactured alternatives for our supplies which, although generally offering lower print quality and reliability, may be offered at lower prices and put pressure on our supplies sales and margins. Other companies also have developed and marketed new compatible cartridges for HP's laser and inkjet products, particularly in jurisdictions outside of the United States where adequate intellectual property protection may not exist. In recent years, we and our competitors have regularly lowered prices on printer hardware both to reach new customers and in response to the competitive environment. Important areas for future growth include printer-based multi-function devices in the office space, digital presses in our imaging and graphics space and driving color printing expansion in the office. We believe we will continue to provide important new contributions in the home, the office and publishing environments by providing comprehensive solutions.

HP Financial Services. In our financing business, our competitors are captive financing companies, mainly IBM Global Financing, as well as banks and financial institutions. We believe our competitive advantage in this business over banks and financial institutions is our ability to finance products, services and total solutions.

For a discussion of risks attendant to these competitive factors, see "Risk Factors—The competitive pressures we face could harm our revenue, gross margin and prospects," in Item 1A, which is incorporated herein by reference.

Environment

Our operations are subject to regulation under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, and third-party damage or personal injury claims, if we were to violate or become liable under environmental laws.

Many of our products are subject to various federal, state, local and foreign laws governing chemical substances in products and their safe use, including laws regulating the manufacture and distribution of chemical substances and laws restricting the presence of certain substances in electronics products. Some of our products also are, or may in the future be, subject to requirements applicable to their energy consumption. In addition, we face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the chemical and materials composition of our products, their safe use, and their energy efficiency, including requirements relating to climate change. We also are subject to legislation in an increasing number of jurisdictions that makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products (sometimes referred to as "product take-back legislation"). In the event our products become non-compliant with these laws, they could be restricted from entering certain jurisdictions, and we could face other sanctions, including fines.

Our operations and ultimately our products are expected to become increasingly subject to federal, state, local and foreign laws and regulations and international treaties relating to climate change. As these laws, regulations and treaties and similar initiatives and programs are adopted and implemented throughout the world, we will be required to comply or potentially face market access limitations or other sanctions, including fines. However, we believe that technology will be fundamental to finding solutions to achieve compliance with and manage those requirements, and we are collaborating with industry, business groups and governments to find and promote ways that HP technology can be used address climate change and to facilitate compliance with these related laws, regulations and treaties.

We are committed to maintaining compliance with all environmental laws applicable to our operations, products and services and to reducing our environmental impact across all aspects of our business. We meet this commitment with a comprehensive environmental, health and safety policy, strict environmental management of our operations and worldwide environmental programs and services.

The liability for environmental remediation and other environmental costs is accrued when HP considers it probable and can reasonably estimate the costs. Environmental costs and accruals are presently not material to our operations or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse effect on HP's operations or financial condition, we do not currently anticipate material capital expenditures for environmental control facilities.

Executive Officers:

Léo Apotheker; age 57; President and Chief Executive Officer

Mr. Apotheker has served as President and Chief Executive Officer and as a member of the Board of Directors since November 2010. Previously, Mr. Apotheker served as Chief Executive Officer of SAP AG, a software company, from June 2009 until February 2010 after having served as co-Chief Executive Officer of SAP from April 2008 to May 2009. Prior to that, Mr. Apotheker served as worldwide Chairman of Customer Solutions and Operations for SAP from 2002 until April 2008.

Peter J. Bocian; age 56; Executive Vice President and Chief Administrative Officer

Mr. Bocian has served as Executive Vice President and Chief Administrative Officer since December 2008. Previously, Mr. Bocian served as Executive Vice President, Chief Financial Officer and Chief Administrative Officer of Starbucks Corporation, a roaster and retailer of specialty coffee, from October 2007 until November 2008 after having served as Executive Vice President and Chief Financial Officer designate of Starbucks since May 2007. Prior to joining Starbucks, Mr. Bocian served in various positions at NCR Corporation since 1983, most recently as Senior Vice President and Chief Financial Officer from September 2004 until May 2007.

R. Todd Bradley; age 52; Executive Vice President, Personal Systems Group

Mr. Bradley has served as Executive Vice President of HP's Personal Systems Group since June 2005.

Michael J. Holston; age 48; Executive Vice President, General Counsel and Secretary

Mr. Holston has served as Executive Vice President and General Counsel since February 2007 and as Secretary since March 2007. Prior to that, he was a partner in the litigation practice at Morgan, Lewis & Bockius LLP, where, among other clients, he supported HP as external counsel on a variety of litigation and regulatory matters for more than ten years.

Vyomesh I. Joshi; age 56; Executive Vice President, Imaging and Printing Group

Mr. Joshi has served as Executive Vice President of HP's Imaging and Printing Group since 2002. Mr. Joshi also is a director of Yahoo! Inc.

Catherine A. Lesjak; age 51; Executive Vice President and Chief Financial Officer

Ms. Lesjak has served as Executive Vice President and Chief Financial Officer since January 2007. Ms. Lesjak served as HP's interim Chief Executive Officer from August 2010 until November 2010. Previously, she served as Senior Vice President from 2003 until December 2006 and as Treasurer from 2003 until March 2007.

Ann M. Livermore; age 52; Executive Vice President, HP Enterprise Business

Ms. Livermore has served as Executive Vice President of the HP Enterprise Business since May 2004. Ms. Livermore also is a director of United Parcel Service, Inc.

John N. McMullen; age 52; Senior Vice President and Treasurer

Mr. McMullen has served as Senior Vice President and Treasurer since March 2007. Previously, he served as Vice President of Finance for HP's Imaging and Printing Group from May 2002 until 2007.

Randall D. Mott; age 54; Executive Vice President and Chief Information Officer

Mr. Mott has served as Executive Vice President and Chief Information Officer since July 2005.

James T. Murrin; age 50; Senior Vice President, Controller and Principal Accounting Officer

Mr. Murrin has served as Senior Vice President, Controller and Principal Accounting Officer since March 2007. Previously, he served as Vice President of Finance for the former Technology Solutions Group since 2004.

Marcela Perez de Alonso; age 56; Executive Vice President, Human Resources

Ms. Perez de Alonso has served as Executive Vice President, Human Resources since January 2004. In December 2010, we announced that Ms. Perez de Alonso will retire from HP following the hiring of her successor.

Shane V. Robison; age 57; Executive Vice President and Chief Strategy and Technology Officer

Mr. Robison has served as Executive Vice President and Chief Strategy and Technology Officer since May 2002.

Employees

We had approximately 324,600 employees worldwide as of October 31, 2010.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available on our website at http://www.hp.com/investor/home, as soon as reasonably practicable after HP electronically files such reports with, or furnishes those reports to, the Securities and Exchange Commission. HP's Corporate Governance Guidelines, Board of Directors committee charters (including the charters of the Audit Committee, HR and Compensation Committee, and Nominating and Governance Committee) and code of ethics entitled "Standards of Business Conduct" also are available at that same location on our website. Stockholders may request free copies of these documents from:

Hewlett-Packard Company
Attention: Investor Relations
3000 Hanover Street
Palo Alto, CA 94304
(866) GET-HPQ1 or (866) 438-4771
http://www.hp.com/investor/informationrequest

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ITEM 1A. Risk Factors.

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

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

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

Unlike many of our competitors, we have a portfolio of businesses and must allocate resources across these businesses while competing with companies that specialize in one or more of these product lines. As a result, we may invest less in certain areas of our businesses than our competitors do, and these competitors may have greater financial, technical and marketing resources available to them than our businesses that compete against them. Industry consolidation also may affect competition by creating larger, more homogeneous and potentially stronger competitors in the markets in which we compete, and our competitors also may affect our business by entering into exclusive arrangements with existing or potential customers or suppliers. In addition, companies with whom we have strategic alliances in some areas may be competitors in other areas. Those companies also may acquire or form alliances with our competitors, thereby reducing their business with us. Any inability to effectively manage these complicated relationships with strategic alliance partners could have an adverse effect on our results of operations.

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

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

Even if we are able to maintain or increase market share for a particular product, revenue could decline because the product is in a maturing industry. Revenue and margins also could decline due to increased competition from other types of products. For example, growing demand for an increasing array of mobile computing devices and the development of cloud-based solutions may reduce demand for some of our existing hardware products. In addition, refill and remanufactured alternatives for some of HP's LaserJet toner and inkjet cartridges compete with HP's supplies business. Other companies have also developed and marketed new compatible cartridges for HP's LaserJet and inkjet products, particularly in jurisdictions outside of the United States where adequate intellectual property protection may not exist.

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

The process of developing new high technology products and services and enhancing existing products and services is complex, costly and uncertain, and any failure by us to anticipate customers' changing needs and emerging technological trends accurately could significantly harm our market share and results of operations. For example, we must successfully address the increasing market demand for mobile computing devices in a variety of form factors that provide a compelling user experience. We must also attract and retain developers to ensure the continued availability and development of appealing and innovative software applications for our mobile computing devices. In addition, we are transitioning to an environment characterized by cloud-based computing and software being delivered as a service, and we must continue to successfully develop and deploy cloud-based solutions for our customers. We must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. After we develop a product, we must be able to manufacture appropriate volumes quickly and at low costs. To accomplish this, we must accurately forecast volumes, mixes of products and configurations that meet customer requirements, and we may not succeed at doing so at all or within a given product's life cycle. Any delay in the development, production or marketing of a new product could result in us not being among the first to market, which could further harm our competitive position.

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

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

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

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

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

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

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

- *Shortages.* Occasionally we may experience a shortage of, or a delay in receiving, certain components as a result of strong demand, capacity constraints, supplier financial weaknesses, inability of suppliers to borrow funds in the credit markets, disputes with suppliers (some of whom are also customers), disruptions in the operations of component suppliers, other problems experienced by suppliers or problems faced during the transition to new suppliers. In particular, our PC business relies heavily upon OMs to manufacture its products and is therefore dependent upon the continuing operations of those OMs to fulfill demand for our PC products. HP represents a substantial portion of the business of some of these OMs, and any changes to the nature or volume of business transacted by HP with a particular OM could adversely affect the operations and financial condition of the OM and lead to shortages or delays in receiving products from that OM. If shortages or delays persist, the price of these components may increase, we may be exposed to quality issues or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build products or provide services in a timely manner in the quantities or according to the specifications needed. Accordingly, our revenue and gross margin could suffer as we could lose time-sensitive sales, incur additional freight costs or be unable to pass on price increases to our customers. If we cannot adequately address supply issues, we might have to reengineer some products or service offerings, resulting in further costs and delays.
- *Oversupply.* In order to secure components for the provision of products or services, at times we may make advance payments to suppliers or enter into non-cancelable commitments with vendors. In addition, we may purchase components strategically in advance of demand to take advantage of favorable pricing or to address concerns about the availability of future components. If we fail to anticipate customer demand properly, a temporary oversupply could result in excess or obsolete components, which could adversely affect our gross margin.

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

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

- *Single source suppliers.* Our use of single source suppliers for certain components could exacerbate our supplier issues. We obtain a significant number of components from single sources due to technology, availability, price, quality or other considerations. For example, we rely on Intel Corporation to provide us with a sufficient supply of processors for many of our PCs, workstations, handheld computing devices and servers, and some of those processors are customized for our products. New products that we introduce may utilize custom components obtained from only one source initially until we have evaluated whether there is a need for additional suppliers. Replacing a single source supplier could delay production of some products as replacement suppliers initially may be subject to capacity constraints or other output limitations. For some components, such as customized components and some of the processors that we obtain from Intel, alternative sources may not exist or those alternative sources may be unable to produce the quantities of those components necessary to satisfy our production requirements. In addition, we sometimes purchase components from single source suppliers under short-term agreements that contain favorable pricing and other terms but that may be unilaterally modified or terminated by the supplier with limited notice and with little or no penalty. The performance of such single source suppliers under those agreements (and the renewal or extension of those agreements upon similar terms) may affect the quality, quantity and price of components to HP. The loss of a single source supplier, the deterioration of our relationship with a single source supplier, or any unilateral modification to the contractual terms under which we are supplied components by a single source supplier could adversely affect our revenue and gross margins.

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

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

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

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

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

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

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

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

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

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

- speculation in the press or investment community about, or actual changes in, our business, strategic position, market share, organizational structure, operations, financial condition, financial reporting and results, effectiveness of cost cutting efforts, value or liquidity of our investments, exposure to market volatility, prospects, business combination or investment transactions, or executive team;
- the announcement of new products, services, technological innovations or acquisitions by HP or its competitors;
- quarterly increases or decreases in revenue, gross margin, earnings or cash flow from operations, changes in estimates by the investment community or guidance provided by HP, and variations between actual and estimated financial results;
- announcements of actual and anticipated financial results by HP's competitors and other companies in the IT industry; and
- the timing and amount of share repurchases by HP.

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

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

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

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

Third parties also may claim that we or customers indemnified by us are infringing upon their intellectual property rights. For example, individuals and groups frequently purchase intellectual property assets for the sole purpose of asserting claims of infringement and attempting to extract settlements from large companies such as HP. The number of these claims has increased significantly in recent periods and may continue to increase in the future. If we cannot or do not license the infringed technology at all or on reasonable terms, or substitute similar technology from another source, our operations could be adversely affected. Even if we believe that the claims are without merit, they can be time-consuming and costly to defend and may divert management's attention and resources away from our business. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlement or license agreements, pay costly damage awards, or face a temporary or permanent injunction prohibiting us from importing, marketing or selling certain of our products. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations to us.

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

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

Sales outside the United States make up approximately 65% of our net revenue. In addition, an increasing portion of our business activity is being conducted in emerging markets, including Brazil, Russia, India and China. Our future revenue, gross margin, expenses and financial condition could suffer due to a variety of international factors, including:

- ongoing instability or changes in a country's or region's economic or political conditions, including inflation, recession, interest rate fluctuations and actual or anticipated military or political conflicts;
- longer accounts receivable cycles and financial instability among customers;
- trade regulations and procedures and actions affecting production, pricing and marketing of products;
- local labor conditions and regulations, including local labor issues faced by specific HP suppliers and OMs;
- managing a geographically dispersed workforce;
- changes in the regulatory or legal environment;
- differing technology standards or customer requirements;
- import, export or other business licensing requirements or requirements relating to making foreign direct investments, which could increase our cost of doing business in certain jurisdictions, prevent us from shipping products to particular countries or markets, affect our ability to obtain favorable terms for components, increase our operating costs or lead to penalties or restrictions;
- difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws; and
- fluctuations in freight costs, limitations on shipping and receiving capacity, and other disruptions in the transportation and shipping infrastructure at important geographic points of exit and entry for our products and shipments.

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

As approximately 65% of our sales are from countries outside of the United States, other currencies, particularly the euro, the British pound, Chinese yuan renminbi and the Japanese yen, can have an impact on HP's results (expressed in U.S. dollars). Currency variations also contribute to variations in sales of products and services in impacted jurisdictions. Accordingly, fluctuations in foreign currency rates, most notably the strengthening of the dollar against the euro, could adversely affect our revenue growth in future periods. In addition, currency variations can adversely affect margins on sales of our products in countries outside of the United States and margins on sales of products that include components obtained from suppliers located outside of the United States. We use a combination of forward contracts and options designated as cash flow hedges to protect against foreign currency exchange rate risks. The effectiveness of our hedges depends on our ability to accurately forecast future cash flows, which is particularly difficult during periods of uncertain demand for our products and services and highly volatile exchange rates. As a result, we could incur significant losses from our hedging activities if our forecasts are incorrect. In addition, our hedging activities may be ineffective or may not offset any or more than a portion of the adverse financial impact resulting from currency variations. Gains or losses associated with hedging activities also may impact our revenue and to a lesser extent our cost of sales and financial condition.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act. For example, as discussed in Note 18 to the Consolidated Financial Statements, the German Public Prosecutor's Office, the U.S. Department of Justice and the SEC have been investigating allegations that certain current and former employees of HP engaged in bribery, embezzlement and tax evasion or were involved in kickbacks or other improper payments. Although we implement policies and procedures designed to facilitate compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have an adverse effect on our business and reputation.

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

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

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

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

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

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

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

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

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

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

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

- The pricing and other terms of some of our IT services agreements, particularly our long-term IT outsourcing services agreements, require us to make estimates and assumptions at the time we enter into these contracts that could differ from actual results. Any increased or unexpected costs or unanticipated delays in connection with the performance of these engagements, including delays caused by factors outside our control, could make these agreements less profitable or unprofitable, which would have an adverse affect on the profit margin of our IT services business.
- Some of our IT services agreements require significant investment in the early stages that is expected to be recovered through billings over the life of the agreement. These agreements often involve the construction of new IT systems and communications networks and the development and deployment of new technologies. Substantial performance risk exists in each agreement with these characteristics, and some or all elements of service delivery under these agreements are dependent upon successful completion of the development, construction and deployment phases. Any failure to perform satisfactorily under these agreements may expose us to legal liability, result in the loss of customers and harm our reputation, which could decrease the revenues and profitability of our IT services business.

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

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

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

We make estimates and assumptions in connection with the preparation of HP's Consolidated Financial Statements, and any changes to those estimates and assumptions could adversely affect our results of operations.

In connection with the preparation of HP's Consolidated Financial Statements, we use certain estimates and assumptions based on historical experience and other factors. Our most critical accounting estimates are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. In addition, as discussed in Note 18 to the Consolidated Financial Statements, we make certain estimates, including decisions related to provisions for legal proceedings and other contingencies. While we believe that these estimates and assumptions are reasonable under the circumstances, they are subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could adversely affect our results of operations.

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

We are subject to income and other taxes in the United States and numerous foreign jurisdictions. Our tax liabilities are affected by the amounts we charge for inventory, services, licenses, funding and other items in intercompany transactions. We are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. In addition, our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of deferred tax assets, which are predominantly in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, President Obama's administration has announced proposals for other U.S. tax legislation that, if adopted, could adversely affect our tax rate. There are also other tax proposals that have been introduced, that are being considered, or that have been enacted by the United States Congress or the legislative bodies in foreign jurisdictions that could affect our tax rate, the carrying value of deferred tax assets, or our other tax liabilities. For example, the Commonwealth of Puerto Rico has enacted tax legislation effective on January 1, 2011 that, in certain situations, would impose a new, temporary excise tax relating to our non-Puerto Rican subsidiaries that sell products manufactured by our Puerto Rican subsidiaries. Any of these changes could affect our profitability.

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

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

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

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

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

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

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

In order to be successful, we must attract, retain and motivate executives and other key employees, including those in managerial, technical, sales, marketing and IT support positions. Hiring and retaining qualified executives, engineers, skilled solutions providers in the IT support business and qualified sales representatives are critical to our future, and competition for experienced employees in the IT industry can be intense. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash and share-based compensation. Our primary form of share-based incentive award is performance-based restricted stock units, which contain conditions relating to HP's long-term financial and stock price performance that makes the future value of those awards uncertain. If the anticipated value of such share-based incentive awards does not materialize, if our share-based compensation otherwise ceases to be viewed as a valuable benefit, or if our total compensation package is not viewed as being competitive, our ability to attract, retain, and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations.

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

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

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

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

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

- combining product offerings and entering into new markets in which we are not experienced;
- convincing customers and distributors that the transaction will not diminish client service standards or business focus, preventing customers and distributors from deferring purchasing decisions or switching to other suppliers (which could result in our incurring additional obligations in order to address customer uncertainty), minimizing sales force attrition and coordinating sales, marketing and distribution efforts;
- consolidating and rationalizing corporate IT infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code;
- minimizing the diversion of management attention from ongoing business concerns;
- persuading employees that business cultures are compatible, maintaining employee morale and retaining key employees, engaging with employee works councils representing an acquired company's non-U.S. employees, integrating employees into HP, correctly estimating employee benefit costs and implementing restructuring programs;
- coordinating and combining administrative, manufacturing, research and development and other operations, subsidiaries, facilities and relationships with third parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures;
- achieving savings from supply chain integration; and
- managing integration issues shortly after or pending the completion of other independent transactions.

Managing business combination and investment transactions requires varying levels of management resources, which may divert our attention from other business operations. These business combination and investment transactions also have resulted, and in the future may result, in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, asset impairment charges, charges from the elimination of duplicative facilities and contracts, in-process research and development charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans. Moreover, HP has incurred and will incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with business combination and investment transactions, and, to the extent that the value of goodwill or intangible assets with indefinite lives acquired in connection with a business combination and investment transaction becomes impaired, we may be required to incur additional material charges relating to the impairment of those assets. In order to complete an acquisition, we may issue common stock, potentially creating dilution for existing stockholders. In addition, we may borrow to finance an acquisition, and the amount and terms of any potential future acquisition-related borrowings, as well as other factors, could affect our liquidity and financial condition and potentially our credit ratings. Any potential future downgrades in our credit rating associated with an acquisition could adversely affect our ability to borrow and cost of borrowing and result in more restrictive borrowing terms. In addition, HP's effective tax rate on an ongoing basis is uncertain, and business combination and investment transactions could impact our effective tax rate. We also may experience risks relating to the challenges and costs of closing a business combination and investment transaction and the risk that an announced business combination and investment transaction may not close. As a result, any completed, pending or future transactions may contribute to financial results that differ from the investment community's expectations in a given quarter.

Unforeseen environmental costs could impact our future net earnings.

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

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

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

- authorizing blank check preferred stock, which HP could issue with voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, HP's directors and officers;

- specifying that HP stockholders may take action only at a duly called annual or special meeting of stockholders and otherwise in accordance with our bylaws and limiting the ability of our stockholders to call special meetings;
- requiring advance notice of proposals by HP stockholders for business to be conducted at stockholder meetings and for nominations of candidates for election to our Board of Directors;
- requiring a vote by the holders of two-thirds of HP's outstanding shares to amend certain bylaws relating to HP stockholder meetings, the Board of Directors and indemnification; and
- controlling the procedures for conduct of HP Board and stockholder meetings and election, appointment and removal of HP directors.

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

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control of HP could limit the opportunity for our stockholders to receive a premium for their shares of HP common stock and also could affect the price that some investors are willing to pay for HP common stock.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

As of October 31, 2010, we owned or leased a total of approximately 80 million square feet of space worldwide. We owned 45% of this space and leased the remaining 55%. Included in these amounts are 14 million square feet of vacated space, of which 2 million square feet is leased to non-HP interests. We believe that our existing properties are in good condition and are suitable for the conduct of our business.

As of October 31, 2010, HP core sales and support operations occupied approximately 10 million square feet. We own 34% of the space used for sales and support activities and lease the remaining 66%.

HP core manufacturing plants, research and development facilities and warehouse and administrative facilities occupied approximately 56 million square feet. We own 45% of our manufacturing, research and development, warehouse and administrative space and lease the remaining 55%. Our plants are equipped with machinery, most of which we own and which, in part, we developed to meet the special requirements of our manufacturing processes. We continue to execute on our plan to reduce our real estate costs and increase our productive utilization by consolidating into several hundred HP core real estate locations worldwide.

As mentioned above in Item 1. Business, we have seven business segments: Services, ESS, HP Software, PSG, IPG, HPFS, and Corporate Investments. Because of the interrelation of these segments, a majority of these segments use substantially all of the properties at least in part, and we retain the flexibility to use each of the properties in whole or in part for each of the segments.

Principal Executive Offices

Our principal executive offices, including our global headquarters, are located at 3000 Hanover Street, Palo Alto, California, United States of America.

Headquarters of Geographic Operations

The locations of our headquarters of geographic operations at October 31, 2010 were as follows:

Americas	*Europe, Middle East, Africa*	*Asia Pacific*
Houston, United States	Geneva, Switzerland	Singapore
Miami, United States		Tokyo, Japan
Mississauga, Canada		

Product Development and Manufacturing

The locations of our major product development, manufacturing, and HP Labs at October 31, 2010 were as follows:

Americas

Aguadilla, Puerto Rico

Cupertino, Roseville, San Diego, and Woodland, California

Fort Collins, Colorado

Boise, Idaho

Indianapolis, Indiana

Andover, Massachusetts

Corvallis, Oregon

LaVergne, Tennessee

Houston, Texas

Sandston, Virginia

Vancouver, Washington

Europe, Middle East, Africa

Herrenberg, Germany

Leixlip, Ireland

Kiryat-Gat, Nes Ziona, and Netanya, Israel

Amersfoort, The Netherlands

Sant Cugat del Valles, Spain

Erskine, United Kingdom

Asia Pacific

ChongQing and Shanghai, China

Udham Singh Nagar, India

Tokyo, Japan

Singapore

Hewlett-Packard Laboratories

Bangalore, India

Beijing, China

Bristol, United Kingdom

Fusionopolis, Singapore

Haifa, Israel

Palo Alto, United States

St. Petersburg, Russia

ITEM 3. Legal Proceedings.

Information with respect to this item may be found in Note 18 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Information regarding the market prices of HP common stock and the markets for that stock may be found in the "Quarterly Summary" in Item 8 and on the cover page of this Annual Report on Form 10-K, respectively, which are incorporated herein by reference. We have declared and paid cash dividends each fiscal year since 1965. The trend has been to declare $0.16 per share in each first fiscal quarter and third fiscal quarter and to pay $0.08 per share in each fiscal quarter. As of November 30, 2010, there were approximately 118,100 stockholders of record. Additional information concerning dividends may be found in "Selected Financial Data" in Item 6 and in Item 8, which are incorporated herein by reference.

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities in fiscal 2010 that have not been previously reported in a Quarterly Report on Form 10-Q.

Issuer Purchases of Equity Securities

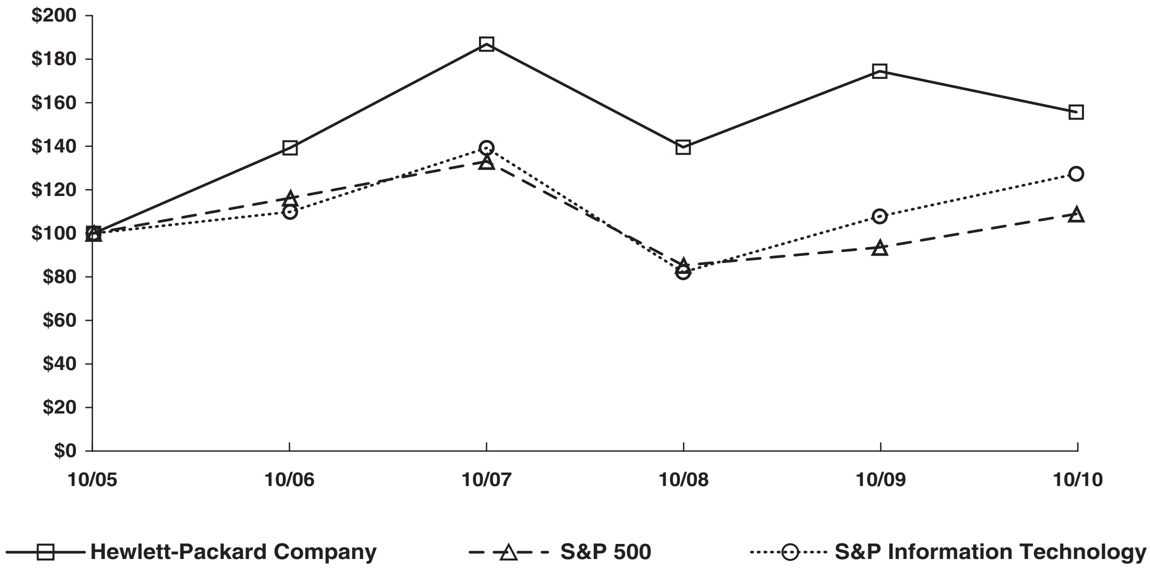
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
	In thousands, except per share amounts			
Month #1 (August 2010)	27,964	$41.97	27,964	$13,701,215
Month #2 (September 2010)	34,312	$39.52	34,312	$12,345,379
Month #3 (October 2010)	34,204	$41.90	34,204	$10,912,310
Total	96,480	$41.07	96,480	

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

As of October 31, 2010, HP had remaining authorization of $10.9 billion for future share repurchases under the $8.0 billion and $10.0 billion repurchase authorizations approved by HP's Board of Directors on November 19, 2009 and August 29, 2010, respectively.

Stock Performance Graph and Cumulative Total Return

The graph below shows the cumulative total stockholder return assuming the investment of $100 on the date specified (and the reinvestment of dividends thereafter) in each of HP common stock, the S&P 500 Index, and the S&P Information Technology Index.[(1)] The comparisons in the graph below are based upon historical data and are not indicative of, or intended to forecast, future performance of our common stock.



	10/05	10/06	10/07	10/08	10/09	10/10
Hewlett-Packard Company	100.00	139.54	187.52	139.83	174.99	156.07
S&P 500	100.00	116.34	133.28	85.17	93.52	108.97
S&P Information Technology	100.00	109.93	139.51	82.02	107.85	127.52

(1) The stock performance graph does not include HP's peer group because peer group information is represented and included in the S&P Information Technology Index.

ITEM 6. Selected Financial Data.

The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data," of this Form 10-K, which are incorporated herein by reference, in order to understand further the factors that may affect the comparability of the financial data presented below.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
Selected Financial Data

	For the fiscal years ended October 31				
	2010	2009	2008	2007	2006
	In millions, except per share amounts				
Net revenue	$126,033	$114,552	$118,364	$104,286	$91,658
Earnings from operations[1]	$ 11,479	$ 10,136	$ 10,473	$ 8,719	$ 6,560
Net earnings	$ 8,761	$ 7,660	$ 8,329	$ 7,264	$ 6,198
Net earnings per share					
Basic	$ 3.78	$ 3.21	$ 3.35	$ 2.76	$ 2.23
Diluted	$ 3.69	$ 3.14	$ 3.25	$ 2.68	$ 2.18
Cash dividends declared per share	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 0.32
At year-end:					
Total assets	$124,503	$114,799	$113,331	$ 88,699	$81,981
Long-term debt	$ 15,258	$ 13,980	$ 7,676	$ 4,997	$ 2,490

(1) Earnings from operations include the following items:

	2010	2009	2008	2007	2006
	In millions				
Amortization of purchased intangible assets	$1,484	$1,578	$ 1012	$ 973	$656
Restructuring charges	1,144	640	270	387	158
Pension curtailments and pension settlements, net	—	—	—	(517)	—
Acquisition-related charges	293	242	41	—	—
Total charges before taxes	$2,921	$2,460	$1,323	$ 843	$814
Total charges, net of taxes	$2,105	$1,733	$ 973	$ 690	$604

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

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

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

OVERVIEW

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

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

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

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

Competitive Positioning

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

Driving Operational Efficiency

We are working to optimize efficiency across the company. As part of those efforts, we are continuing to execute on our multi-year program to consolidate real estate locations worldwide to fewer core sites in order to reduce our IT spending and real estate costs. We are also continuing to implement the restructuring plan announced in the fourth quarter of fiscal 2008 to optimize the cost structure of our Services business and the restructuring plan announced in May 2009 to structurally change and improve the effectiveness of several of our product businesses. In June 2010, we announced and started implementing a new restructuring plan that will consolidate data centers, systems and tools to better position for growth our enterprise services business, which includes our infrastructure technology outsourcing, application services, and business process outsourcing business units. See Note 8 to the Consolidated Financial Statements in Item 8 for further discussion of these restructuring plans and the associated restructuring charges.

Investing for Growth

We are investing for growth by strengthening our position in our core markets and accelerating growth in adjacent markets in anticipation of market trends, such as data center consolidation and automation, cloud computing and virtualization, digitization, IT security, and mobility and connectivity. For example, we are increasing our sales coverage and investing in our sales channels to better address the markets we cover, including further expansion in emerging markets. We are creating innovative new products and developing new channels to connect with our customers. In addition, we have been making focused investments in innovation to strengthen our portfolio of products and services that we can offer to our customers, both through acquisitions and through organic growth. A critical component of this strategy was our acquisition of Electronic Data Systems Corporation ("EDS") in August 2008, which has increased the size and breadth of our services business and enabled us to provide comprehensive IT product and services solutions to our customers. In addition, with the completion of the acquisition of 3Com Corporation ("3Com") in April 2010, we are accelerating our investments in networking. In July 2010, we completed the acquisition of Palm, Inc. ("Palm"), which enhances our ability to participate more aggressively in the growing smartphone and connected mobile device markets. In September 2010, we completed the acquisition of 3PAR Inc. ("3PAR"), which expands our storage portfolio into enterprise-class public and private cloud computing environments. In October 2010, we completed the acquisition of ArcSight, Inc. ("ArcSight"), which enables us to offer customers an integrated security platform with a holistic approach to securing their networks, applications and sensitive data. These acquisitions have enabled us to expand in high-margin and high-growth industry segments and have further strengthened our portfolio of hardware, software and services.

Leveraging our Portfolio and Scale

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

The following provides an overview of our key fiscal 2010 financial metrics and demonstrates how our execution has translated into financial performance:

	HP[(1)] Consolidated	HP Enterprise Business Services	HP Enterprise Business ESS	HP Enterprise Business HP Software	HP Enterprise Business Total	PSG	IPG	HPFS
	In millions, except per share amounts							
Net revenue	$126,033	$34,935	$18,651	$3,586	$57,172	$40,741	$25,764	$3,047
Year-over-year net revenue % increase	10.0%	0.7%	21.4%	0.4%	6.6%	15.4%	7.3%	14.0%
Earnings from operations	$ 11,479	$ 5,609	$ 2,402	$ 759	$ 8,770	$ 2,032	$ 4,412	$ 281
Earnings from operations as a % of net revenue	9.1%	16.1%	12.9%	21.2%	15.3%	5.0%	17.1%	9.2%
Net earnings	$ 8,761							
Net earnings per share								
Basic	$ 3.78							
Diluted	$ 3.69							

(1) Includes Corporate Investments and eliminations.

Cash and cash equivalents at October 31, 2010 totaled $10.9 billion, a decrease of $2.4 billion from the October 31, 2009 balance of $13.3 billion. The decrease for fiscal 2010 was due primarily to $11.0 billion of cash used to repurchase common stock, $8.1 billion of net cash paid for business acquisitions, and $3.5 billion net investment in property, plant and equipment, all of which were partially offset by $11.9 billion of cash provided from operations, $6.0 billion of increased net borrowings, and $2.6 billion of proceeds related to issuance of common stock under employee stock plans.

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

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

For a further discussion of trends, uncertainties and other factors that could impact our operating results, see the section entitled "Risk Factors" in Item 1A, which is incorporated herein by reference.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

General

The Consolidated Financial Statements of HP are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net revenue and expenses, and the disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of HP's Board of Directors. Management believes that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.

The summary of significant accounting policies is included in Note 1 to the consolidated financial statements in Item 8. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. Management believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

Revenue Recognition

We enter into contracts to sell our products and services, and, while the majority of our sales agreements contain standard terms and conditions, there are agreements that contain multiple elements or non-standard terms and conditions. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the price should be allocated among the elements and when to recognize revenue for each element. We recognize revenue for delivered elements only when the delivered elements have standalone value, uncertainties regarding customer acceptance are resolved and there are no customer-negotiated refund or return rights for the delivered elements. If the arrangement includes a customer-negotiated refund or return right relative to the delivered item and the delivery and performance of the undelivered item is considered probable and substantially in our control, the delivered element constitutes a separate unit of accounting. Changes in the allocation of the sales price between elements may impact the timing of revenue recognition but will not change the total revenue recognized on the contract.

We recognize revenue as work progresses on certain fixed price contracts, such as consulting arrangements. Using a proportional performance method, we estimate the total expected labor costs in order to determine the amount of revenue earned to date. We follow this basis because reasonably dependable estimates of the labor costs applicable to various stages of a contract can be made. Total contract profit is subject to revisions throughout the life of the contract. We record changes in revenue to income, as a result of revisions to cost estimates, in the period in which the facts that give rise to the revision become known.

We recognize revenue on certain design and build (design, development and/or constructions of software and/or systems) projects using the percentage-of-completion method. We use the cost-to-cost method of measurement towards completion as determined by the percentage of cost incurred to date to the total estimated costs of the project. In circumstances when reasonable and reliable cost estimates for a project cannot be made, we recognize revenue using the completed contract method.

We record estimated reductions to revenue for customer and distributor programs and incentive offerings, including price protection, promotions, other volume-based incentives and expected returns. Future market conditions and product transitions may require us to take actions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered. Additionally, certain incentive programs require us to estimate, based on historical experience and the specific terms and conditions of the incentive, the number of customers who will actually redeem the incentive.

Under our current revenue recognition policies, which were applied in fiscal 2010 and 2009, we establish vendor-specific objective evidence ("VSOE") of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. Third-party evidence of selling price is established by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. The best estimate of selling price ("ESP") is established considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product life cycle. Consideration is also given to market conditions such as competitor pricing strategies and industry technology life cycles. When determining our best estimate of selling price, we apply management judgment when establishing margin objectives and pricing strategies and evaluating market conditions and product life cycles. We may modify or develop new go-to-market practices in the future. As these go-to-market strategies evolve, we may modify our pricing practices in the future, which may result in changes in selling prices, impacting both VSOE and ESP. The aforementioned factors may result in a different allocation of revenue to the deliverables in multiple element arrangements from the current fiscal year, which may change the pattern and timing of revenue recognition for these elements but will not change the total revenue recognized for the arrangement.

For 2008, pursuant to the previous guidance for revenue arrangements with multiple deliverables, HP allocated revenue to each element based on relative fair value, or, for software, based on VSOE of fair value.

Warranty Provision

We provide for the estimated cost of product warranties at the time we recognize revenue. We evaluate our warranty obligations on a product group basis. Our standard product warranty terms generally include post-sales support and repairs or replacement of a product at no additional charge for a specified period of time. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, we base our estimated warranty obligation upon warranty terms, ongoing product failure rates, repair costs, product call rates, average cost per call, and current period product shipments. If actual product failure rates, repair rates or any other post sales support costs were to differ from our estimates, we would be required to make revisions to the estimated warranty liability. Warranty terms generally range from 90 days to three years for parts and labor, depending upon the product. Over the last three fiscal years, the annual warranty provision has averaged approximately 3.5% of annual net product revenue, while actual annual warranty costs have experienced favorable trends and averaged approximately 3.3% of annual net product revenue.

Business Combinations

We allocate the purchase price of acquired companies to the tangible assets acquired, liabilities assumed and intangible assets acquired, including in-process research and development ("IPR&D"), based on their estimated fair values. The excess of the purchase price over these fair values is recorded as goodwill. We engage independent third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

Critical estimates in valuing certain intangible assets include but are not limited to: future expected cash flows from customer contracts, customer lists, distribution agreements, and acquired developed technologies and patents; expected costs to develop IPR&D into commercially viable products and estimating cash flows from projects when completed; brand awareness and market position, as well as assumptions about the period of time the brand will continue to be used in our product portfolio; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed, as more fully discussed in Note 6 to the Consolidated Financial Statements in Item 8.

Valuation of Goodwill and Purchased Intangible Assets

We review goodwill and purchased intangible assets with indefinite lives for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The provisions of the accounting standard for goodwill and other intangibles require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. In general, our reporting units are consistent with the reportable segments identified in Note 19 to the Consolidated Financial Statements in Item 8. However, for certain businesses within Corporate Investments, the reporting unit is one step below the segment level. We determine the fair value of our reporting units based on a weighting of income and market approaches. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, we estimate the fair value based on market multiples of revenue or earnings for comparable companies. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. We also compare the fair value of purchased intangible assets with indefinite lives to their carrying value. We estimate the fair value of these intangible assets using an income approach. We recognize an impairment loss when the estimated fair value of the intangible asset is less than the carrying value.

Determining the fair value of a reporting unit or an indefinite-lived purchased intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, assumed royalty rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units.

Our annual goodwill impairment analysis, which we performed during the fourth quarter of fiscal 2010, did not result in an impairment charge. The excess of fair value over carrying value for each of HP's reporting units as of August 1, 2010, the annual testing date, ranged from approximately

$760 million to approximately $33 billion. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test, we applied a hypothetical 10% decrease to the fair values of each reporting unit. This hypothetical 10% decrease would result in excess fair value over carrying value ranging from approximately $360 million to approximately $29 billion for each of HP's reporting units.

Restructuring

We have engaged, and may continue to engage, in restructuring actions, which require management to utilize significant estimates related to the timing and the expenses for severance and other employee separation costs, realizable values of assets made redundant or obsolete, lease cancellation and other exit costs. If the actual amounts differ from our estimates, the amount of the restructuring charges could be materially impacted. For a full description of our restructuring actions, refer to our discussions of restructuring in the Results of Operations section and Note 8 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

Stock-Based Compensation Expense

We recognize stock-based compensation expense for all share-based payment awards, net of an estimated forfeiture rate. We recognize compensation cost for only those shares expected to vest on a straight-line basis over the requisite service period of the award.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. We utilize the Black-Scholes option pricing model to value the stock options granted under our principal option plans. To implement this model, we examined our historical pattern of option exercises to determine if there were any discernable activity patterns based on certain employee populations. From this analysis, we identified three employee populations to which to apply the Black-Scholes model. We determined that implied volatility calculated based on actively traded options on HP common stock is a better indicator of expected volatility and future stock price trends than historical volatility.

We issue performance-based restricted units ("PRUs") representing hypothetical shares of HP common stock. Each PRU award reflects a target number of shares that may be issued to the award recipient. We determine the actual number of shares the recipient receives at the end of a three-year performance period based on results achieved versus goals based on our annual cash flow from operations as a percentage of revenue and total shareholder return ("TSR") relative to the S&P 500 over the performance period. We use historic volatility for PRU awards as implied volatility cannot be used when simulating multivariate prices for companies in the S&P 500. We estimate the fair value of PRUs using the Monte Carlo simulation model, as the TSR modifier contains a market condition. We update the estimated expense, net of forfeitures, for the cash flow performance against the goal for that year at the end of each reporting period.

The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 2 to the Consolidated Financial Statements in Item 8 for a further discussion on stock-based compensation.

Taxes on Earnings

We calculate our current and deferred tax provisions based on estimates and assumptions that could differ from the final positions reflected in our income tax returns filed during the subsequent year. We record adjustments based on filed returns when we have identified and finalized them, which is generally in the third and fourth quarters of the subsequent year for U.S. federal and state provisions, respectively.

We recognize deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which we expect the differences to reverse. We record a valuation allowance to reduce the deferred tax assets to the amount that we are more likely than not to realize.

We have considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, we would increase the valuation allowance and make a corresponding charge to earnings in the period in which we make such determination. Likewise, if we later determine that we are more likely than not to realize the net deferred tax assets, we would reverse the applicable portion of the previously provided valuation allowance. In order for us to realize our deferred tax assets, we must be able to generate sufficient taxable income in the tax jurisdictions in which the deferred tax assets are located.

Our effective tax rate includes the impact of certain undistributed foreign earnings for which we have not provided U.S. taxes because we plan to reinvest such earnings indefinitely outside the United States. We plan foreign earnings remittance amounts based on projected cash flow needs as well as the working capital and long-term investment requirements of our foreign subsidiaries and our domestic operations. Based on these assumptions, we estimate the amount we will distribute to the United States and provide the U.S. federal taxes due on these amounts. Further, as a result of certain employment actions and capital investments we have undertaken, income from manufacturing activities in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, for fiscal years through 2024. Material changes in our estimates of cash, working capital and long-term investment requirements in the various jurisdictions in which we do business could impact our effective tax rate.

We are subject to income taxes in the United States and approximately eighty foreign countries, and we are subject to routine corporate income tax audits in many of these jurisdictions. We believe that our tax return positions are fully supported, but tax authorities are likely to challenge certain positions, which may not be fully sustained. However, our income tax expense includes amounts intended to satisfy income tax assessments that result from these challenges. Determining the income tax expense for these potential assessments and recording the related assets and liabilities requires management judgments and estimates. We evaluate our uncertain tax positions in accordance with the guidance for accounting for uncertainty in income taxes. We believe that our reserve for uncertain tax positions, including related interest, is adequate. The amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. Our reserve for uncertain tax positions is attributable primarily to uncertainties concerning the tax treatment of our international operations, including the allocation of income among different jurisdictions, and related interest. We review our reserves quarterly, and we may adjust such reserves because of proposed assessments by tax authorities, changes in facts and circumstances, issuance of new regulations or new case law, previously unavailable information obtained during the course of an examination, negotiations between tax authorities of different countries concerning our transfer prices, execution of Advanced Pricing Agreements, resolution with respect to individual audit issues, the resolution of entire audits, or the expiration of statutes of limitations.

See Note 14 to the Consolidated Financial Statements in Item 8 for a further discussion on taxes on earnings.

Allowance for Doubtful Accounts

We determine our allowance for doubtful accounts using a combination of factors to ensure that we have not overstated our trade and financing receivables balances due to uncollectibility. We maintain an allowance for doubtful accounts for all customers based on a variety of factors, including the use of third-party credit risk models that generate quantitative measures of default probabilities based on market factors, the financial condition of customers, the length of time receivables are past due, trends in overall weighted-average risk rating of the total portfolio, macroeconomic conditions, significant one-time events and historical experience. Also, we record specific provisions for individual accounts when we become aware of specific customer circumstances, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, we would further adjust our estimates of the recoverability of receivables either upward or downward. The annual provision for doubtful accounts has averaged approximately 0.03% of net revenue over the last three fiscal years. Using our third-party credit risk model at October 31, 2010, a 50-basis-point deterioration in the weighted-average default probabilities of our significant customers would have resulted in an approximately $64 million increase to our trade allowance at the end of fiscal year 2010.

Inventory

We state our inventory at the lower of cost or market. We make adjustments to reduce the cost of inventory to its net realizable value, if required, at the product group level for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, rapid technological changes, product life cycle and development plans, component cost trends, product pricing, physical deterioration and quality issues. Revisions to these adjustments would be required if these factors differ from our estimates.

Fair Value of Financial Instruments

We measure certain financial assets and liabilities at fair value based on valuation techniques using the best information available, which may include quoted market prices, market comparables, and discounted cash flow projections. Financial instruments are primarily comprised of time deposits, money market funds, commercial paper, corporate and other debt securities, equity securities and other investments in common stock and common stock equivalents and derivative instruments.

Cash Equivalents and Investments: We hold time deposits, money market funds, commercial paper, other debt securities primarily consisting of corporate and foreign government notes and bonds, and common stock and equivalents. In general, and where applicable, we use quoted prices in active markets for identical assets to determine fair value. If quoted prices in active markets for identical assets are not available to determine fair value, then we use 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, we use internally developed valuation models, whose inputs include bid prices, and third party valuations utilizing underlying asset assumptions.

Derivative Instruments: As discussed in Note 10 to the Consolidated Financial Statements in Item 8, we mainly hold non-speculative forwards, swaps and options to hedge certain foreign currency and interest rate exposures. When active market quotes are not available, we use industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies. In certain cases, market-based observable inputs are not available and, in those cases, we use management judgment to develop assumptions which are used to determine fair value.

Retirement Benefits

Our pension and other post-retirement benefit costs and obligations are dependent on various assumptions. Our major assumptions relate primarily to discount rates, salary growth, long-term return on plan assets and medical cost trend rates. We base the discount rate assumption on current investment yields of high quality fixed income investments during the retirement benefits maturity period. The salary growth assumptions reflect our long-term actual experience and future and near-term outlook. Long-term return on plan assets is determined based on historical portfolio results and management's expectation of the future economic environment, as well as target asset allocations.

Our medical cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. Actual results that differ from our assumptions are accumulated and are amortized generally over the estimated future working life of the plan participants.

Our major assumptions vary by plan and the weighted-average rates used are set forth in Note 16 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. Each assumption has different sensitivity characteristics, and, in general, changes, if any, have moved in the same direction over the last several years. For fiscal 2010, changes in the weighted-average rates for the HP benefit plans would have had the following impact on our net periodic benefit cost:

- A decrease of 25 basis points in the long-term rate of return would have increased our net benefit cost by approximately $50 million;
- A decrease of 25 basis points in the discount rate would have increased our net benefit cost by approximately $65 million; and
- An increase of 25 basis points in the future compensation rate would have increased our net benefit cost by approximately $24 million.

Loss Contingencies

We are involved in various lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. We record a provision for a liability when we believe that 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. We review these provisions at least quarterly and adjust 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 our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows. See Note 18 to the Consolidated Financial Statements in Item 8 for a further discussion of litigation and contingencies.

ACCOUNTING PRONOUNCEMENTS

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

CONSTANT CURRENCY PRESENTATION

Revenue from our international operations has historically represented, and we expect will continue to represent, a majority of our overall net revenue. As a result, our revenue growth has been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. In order to provide a framework for assessing how each of our business segments performed excluding the impact of foreign currency fluctuations, we present the year-over-year percentage change in revenue performance on a constant currency basis, which assumes no change in the exchange rate from the prior-year period. This constant currency disclosure is provided in addition to, and not as a substitute for, the year-over-year percentage change in revenue on an as-reported basis.

RESULTS OF OPERATIONS

The following discussion compares the historical results of operations on a GAAP basis for the fiscal years ended October 31, 2010, 2009, and 2008. Unless otherwise noted, all comparative performance data included below reflect year-over-year comparisons.

Results of operations in dollars and as a percentage of net revenue were as follows for the following fiscal years ended October 31:

	2010		2009		2008	
			In millions			
Net revenue	$126,033	100.0%	$114,552	100.0%	$118,364	100.0%
Cost of sales[1]	96,089	76.2%	87,524	76.4%	89,699	75.8%
Gross profit	29,944	23.8%	27,028	23.6%	28,665	24.2%
Research and development	2,959	2.3%	2,819	2.5%	3,543	3.0%
Selling, general and administrative	12,585	10.1%	11,613	10.1%	13,326	11.3%
Amortization of purchased intangible assets	1,484	1.1%	1,578	1.4%	1,012	0.9%
Restructuring charges	1,144	1.0%	640	0.6%	270	0.2%
Acquisition-related charges	293	0.2%	242	0.2%	41	—
Earnings from operations	11,479	9.1%	10,136	8.8%	10,473	8.8%
Interest and other, net	(505)	(0.4)%	(721)	(0.6)%	—	—
Earnings before taxes	10,974	8.7%	9,415	8.2%	10,473	8.8%
Provision for taxes	2,213	1.7%	1,755	1.5%	2,144	1.8%
Net earnings	$ 8,761	7.0%	$ 7,660	6.7%	$ 8,329	7.0%

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

Net Revenue

The components of the weighted net revenue change were as follows for the following fiscal years ended October 31:

	2010	2009
	Percentage Points	
Personal Systems Group	4.8	(5.9)
Enterprise Storage and Servers	2.9	(3.4)
Imaging and Printing Group	1.5	(4.7)
HP Financial Services	0.3	—
Corporate Investments/Other	0.3	(0.2)
Services	0.2	11.6
HP Software	—	(0.6)
Total HP	10.0	(3.2)

Fiscal 2010

In fiscal 2010, total HP net revenue increased 10% (8.3% on a constant currency basis). U.S. net revenue increased 7.8% to $44.5 billion, while net revenue from outside of the United States increased 11.3% to $81.5 billion. As reflected in the table above, the PSG segment was the largest contributor to HP net revenue growth as a result of balanced growth across the regions. An analysis of the change in net revenue for each business segment is included under "Segment Information" below.

Fiscal 2009

In fiscal 2009, the global slowdown of IT and consumer spending impacted each of our segments. Net revenue decreased 3.2% in fiscal 2009 (increased 1.3% on a constant currency basis). The unfavorable currency impact for fiscal 2009 was due primarily to the movement of the dollar against the euro. For fiscal 2009, the Services segment contributed favorably to the total HP net revenue change primarily as a result of the EDS acquisition. U.S. net revenue increased 12% to $41.3 billion for fiscal 2009 as compared to fiscal 2008, while net revenue from outside of the United States decreased 10% to $73.2 billion. The increase in U.S. net revenue in fiscal 2009 was primarily a result of the acquisition of EDS. An analysis of the change in net revenue for each business segment is included under "Segment Information" below.

Gross Margin

Fiscal 2010

In fiscal 2010, total HP gross margin increased by 0.2 percentage points. The increase was a result of an increased mix in networking products and rate increase in Services, the effect of which was partially offset by strong revenue growth in personal computers and printer hardware that have lower gross margins.

Services gross margin increased in fiscal 2010 due primarily to the continued focus on operating improvements, including delivery efficiencies and cost controls in our technology services business, and EDS-related acquisition synergies.

ESS gross margin declined in fiscal 2010 due primarily to a product mix shift resulting from the strength in industry standard servers ("ISS"), the effect of which was partially offset by lower product costs and strong volume.

HP Software gross margin increased in fiscal 2010 primarily as a result of a higher license and support mix, the effect of which was partially offset by a reduced services gross margin rate.

PSG gross margin declined in fiscal 2010 primarily as a result of higher component costs, the effect of which was partially offset by lower warranty and logistics expenses.

IPG gross margin declined in fiscal 2010 due primarily to a higher mix of hardware and a correspondingly lower mix of supplies, the effect of which was partially offset by cost savings associated with our ongoing efforts to optimize our supply chain.

HPFS gross margin increased in fiscal 2010 primarily as a result of higher portfolio margins due to favorable financing conditions and higher remarketing margin, the effect of which was partially offset by higher bad debt.

Corporate Investments gross margin increased in fiscal 2010 primarily as a result of the impact from the 3Com acquisition along with lower product costs for our network infrastructure products.

Fiscal 2009

Total HP gross margin decreased by 0.6 percentage points in fiscal 2009. From a segment perspective and on a weighted basis, ESS had the largest impact to the total company gross margin decline due to product mix shift and rate declines.

Services gross margin increased in fiscal 2009 due primarily to the continued focus on cost structure improvements, including delivery efficiencies and cost controls in our technology services business, and EDS-related acquisition synergies. This was partially offset by the mix effect from the acquisition of the EDS business, which has lower gross margins.

ESS gross margin decreased in fiscal 2009 due primarily to competitive pricing across each of the segment business units and product mix shifts.

HP Software gross margin increased in fiscal 2009 primarily as a result of favorable support and services revenue mix and improved services margins, the effect of which was partially offset by an unfavorable license revenue mix.

PSG gross margin declined in fiscal 2009, resulting from average selling prices ("ASPs") declining at a faster pace than component costs combined with a mix shift towards lower-end products, the effects of which were partially offset by lower warranty and supply chain costs and improvements in the option attach rate.

IPG gross margin improved in fiscal 2009 primarily as a result of an increase in the supplies mix and supplies pricing, the effect of which was partially offset by hardware margin declines.

HPFS gross margin declined in fiscal 2009 primarily as a result of unfavorable currency impacts, lower margins relating to end-of-lease activities, higher bad debt expenses and lower margins for remarketing and buyout activities, the effect of which was partially offset by higher portfolio margins.

Corporate Investments gross margin declined in fiscal 2009 primarily as a result of a unit volume decline in the sale of network infrastructure products and competitive pricing pressures.

Operating Expenses

Research and Development

Total research and development ("R&D") expense increased in fiscal 2010 due primarily to additional expenses from acquired companies. In fiscal 2010, R&D expense as a percentage of net revenue increased for Corporate Investments, HP Software and Services, decreased for ESS, PSG, and IPG and was flat for HPFS.

Total R&D expense decreased in fiscal 2009 due primarily to favorable currency impacts related to the movement of the dollar against the euro, as well as effective cost controls, the effect of which was partially offset by additional expenses related primarily to Services. In fiscal 2009, R&D expense as a percentage of net revenue decreased for ESS, PSG, and IPG, and increased for HP Software, Services and Corporate Investments.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense increased in fiscal 2010 due primarily to higher field selling and marketing costs as a result of our investments in sales resources to grow revenue. In fiscal 2010, SG&A expense as a percentage of net revenue increased for Corporate Investments and IPG, and decreased for ESS, HP Software, PSG, HPFS and Services even as we invested in incremental sales resources across the segments.

Total SG&A expense decreased in fiscal 2009 due primarily to favorable currency impacts related to the movement of the dollar against the euro, lower compensation expense as well as effective cost management, the impact of which was partially offset by additional expenses related to the EDS acquisition. In fiscal 2009, SG&A expense as a percentage of net revenue decreased for each of our segments, except for Corporate Investments.

Amortization of Purchased Intangible Assets

The decrease in amortization expense in fiscal 2010 was due primarily to certain intangible assets associated with prior acquisitions reaching the end of their amortization periods, the effect of which was partially offset by increased amortization of purchased intangible assets from acquisitions completed during fiscal 2010.

The increase in amortization expense in fiscal 2009 was due primarily to amortization expenses related to the intangible assets purchased as part of the EDS acquisition.

For more information on our amortization of purchased intangibles assets, see Note 7 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Restructuring

Restructuring charges for fiscal 2010 were $1.1 billion. These charges included $650 million of severance and facility costs related to our fiscal 2010 enterprise services restructuring plan, $429 million of severance and facility costs related to our fiscal 2008 restructuring plan, $46 million and $18 million associated with the Palm and 3Com restructuring plans, respectively, and an increase of $1 million related to adjustments to other restructuring plans.

Restructuring charges for fiscal 2009 were $640 million. These charges included $346 million of severance and facility costs related to our fiscal 2008 restructuring plan, $297 million of severance costs associated with our fiscal 2009 restructuring plan, and a reduction of $3 million related to adjustments to other restructuring plans.

Restructuring charges for fiscal 2008 were $270 million, which included $246 million of charges due primarily to severance and facility costs related to the EDS acquisition and a net charge of $24 million relating to adjustments for existing restructuring programs.

For more information on our restructuring charges, see Note 8 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

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

Acquisition-Related Charges

In fiscal 2010, we recorded acquisition-related charges of $293 million primarily for consulting and integration costs, acquisition costs and retention bonuses associated with the EDS, 3Com, Palm, 3PAR and ArcSight acquisitions.

In fiscal 2009, we recorded acquisition-related charges of $242 million primarily for consulting and integration costs as well as retention bonuses associated with the EDS acquisition.

Interest and Other, Net

Interest and other, net improved by $216 million in fiscal 2010. The improvement was driven primarily by lower currency losses on balance sheet remeasurement items, lower interest expenses on debt balances due to lower interest rates, and a value-added tax refund, the effect of which was partially offset by an increase to our litigation accruals.

Interest and other, net decreased by $721 million in fiscal 2009. The decrease was driven primarily by higher interest expenses due to higher average debt balances principally related to the EDS acquisition, lower interest income as a result of lower interest rates, and higher currency losses on balance sheet remeasurement items. Additionally, there were higher gains from the sale of real estate in fiscal 2008 as compared to fiscal 2009.

Provision for Taxes

Our effective tax rates were 20.2%, 18.6% and 20.5% in fiscal 2010, 2009 and 2008, respectively. HP's effective tax rate generally differs from the U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from HP's operations in lower-tax jurisdictions throughout the world. HP has not provided U.S. taxes for all of its international earnings because HP plans to reinvest some of those earnings indefinitely outside the United States.

The increase in the overall tax rate in fiscal 2010 was due primarily to a decrease in the income tax benefits related to foreign earnings.

The decrease in the overall tax rate in fiscal 2009 was due primarily to the net income tax benefits recorded for fiscal 2009 which were related to foreign net operating losses, adjustments to estimated fiscal 2008 tax accruals upon filing the 2008 income tax returns, valuation allowance reversals for state and foreign net operating losses, and other miscellaneous items.

For a full reconciliation of our effective tax rate to the U.S. federal statutory rate of 35% and further explanation of our provision for taxes, see Note 14 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Segment Information

A description of the products and services, as well as financial data, for each segment can be found in Note 19 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. We have realigned segment financial data for the fiscal years ended October 31, 2009 and 2008 to reflect changes in HP's organizational structure that occurred at the beginning of the first quarter of fiscal 2010. We describe these changes more fully in Note 19. We have presented the business segments in this Annual Report on Form 10-K based on the distinct nature of various businesses such as customer base, homogeneity of products and technology. The discussions below include the results of each of our segments.

HP Enterprise Business

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

Services

	For fiscal years ended October 31		
	2010	2009	2008
		In millions	
Net revenue	$34,935	$34,693	$20,977
Earnings from operations	$ 5,609	$ 5,044	$ 2,518
Earnings from operations as a % of net revenue	16.1%	14.5%	12.0%

The components of the weighted net revenue change by business unit were as follows for the following fiscal years ended October 31:

	2010	2009
	Percentage Points	
Infrastructure technology outsourcing	1.2	37.1
Other	0.1	0.9
Technology services	(0.1)	(1.4)
Application services	(0.2)	18.0
Business process outsourcing	(0.3)	10.8
Total Services	0.7	65.4

Services net revenue increased 0.7% (decreased 1.7% when adjusted for currency) in fiscal 2010. Net revenue in infrastructure technology outsourcing increased by 2.6% in fiscal 2010. The revenue increase was due to favorable currency impact and growth in data center services and networking services. Net revenue in technology services declined by 0.4% in fiscal 2010. The revenue decline was due primarily to lower contract revenue tied to reduced levels of enterprise hardware sales in the prior-year period and market conditions in the current-year period, the effect of which was partially offset by a favorable currency impact. Net revenue in application services decreased by 1.1% in fiscal 2010. The revenue decrease was driven primarily by market conditions and existing contract completion, the effect of which was partially offset by new business and a favorable currency impact. Net revenue in business process outsourcing decreased by 3.5% in fiscal 2010. The revenue decrease was due primarily to a divestiture completed at the end of the third quarter of fiscal 2010 and economic conditions in certain industries with key clients, the effect of which was partially offset by a favorable currency impact.

Services earnings from operations as a percentage of net revenue increased by 1.6 percentage points in fiscal 2010. Operating margin increased primarily due to continued focus on operating improvements and cost initiatives that favorably impacted the cost structure of our enterprise services business, delivery efficiencies and cost controls in our technology services business, as well as EDS-related acquisition synergies.

Services net revenue increased 65.4% (71.6% when adjusted for currency) in fiscal 2009. The increase in revenues is due primarily to the acquisition of EDS on August 26, 2008. Net revenue in infrastructure technology outsourcing, application services and business process outsourcing increased due to the EDS acquisition. The net revenue increase in infrastructure technology outsourcing, application services, and business process outsourcing was partially offset by unfavorable currency impacts and a decline in spending from existing customers not being offset with new growth due to slowing demand in the current economic environment. Application services and business process outsourcing were impacted to a greater degree than infrastructure technology outsourcing. Net revenue in technology services declined due primarily to unfavorable currency impacts and weak economic conditions, the effect of which was partially offset by growth in extended warranty.

Services earnings from operations as a percentage of net revenue increased by 2.5 percentage points in fiscal 2009. The operating margin increased due primarily to a decrease in operating expenses as a percentage of revenue. There was also an increase in gross margin for fiscal 2009. Operating expense declined as a result of a continued focus on cost structure improvements from overall cost controls. The gross margin in our Services segment increased for fiscal 2009 from fiscal 2008 due primarily to the continued focus on cost structure improvements, including delivery efficiencies and cost controls in our technology services business, and EDS-related acquisition synergies. This was partially offset by the mix effect from the acquisition of the EDS business, which has lower gross margins.

Enterprise Storage and Servers

	For the fiscal years ended October 31		
	2010	2009	2008
		In millions	
Net revenue	$18,651	$15,359	$19,400
Earnings from operations	$ 2,402	$ 1,518	$ 2,577
Earnings from operations as a % of net revenue	12.9%	9.9%	13.3%

The components of the weighted net revenue change by business unit were as follows for the following fiscal years ended October 31:

	2010	2009
	Percentage Points	
Industry standard servers	21.3	(12.1)
Storage	2.0	(3.8)
Business critical systems	(1.9)	(4.9)
Total ESS	21.4	(20.8)

ESS net revenue increased 21.4% (18.9% when adjusted for currency) for fiscal 2010. ESS blades revenue increased by 37% in fiscal 2010. ISS net revenue increased by 35% in fiscal 2010, driven primarily by unit volume growth coupled with increased average unit prices due to improving market conditions and demand for the latest generation of ISS products. Storage net revenue increased by 9% in fiscal 2010, driven primarily by strong performance in products related to our acquisition of Lefthand Networks, and growth in high-end disk products and storage networking products. Business critical systems ("BCS") net revenue decreased 12%, due primarily to market conditions and competitive pressures, the effect of which was partially offset by new product introductions in the fourth quarter of fiscal 2010.

ESS earnings from operations as a percentage of net revenue increased by 3.0 percentage points in fiscal 2010, driven by decreases in operating expenses as a percentage of net revenue, the effect of which was partially offset by declines in gross margin. Operating expenses as a percentage of net revenue decreased as a result of operating leverage benefits from increased volume and cost controls. The gross margin decline in fiscal 2010 was due primarily to a product mix shift resulting from the strength in ISS, the effect of which was partially offset by lower product costs and strong volume.

ESS net revenue decreased 20.8% (16.0% when adjusted for currency) in fiscal 2009. The revenue decline was due primarily to the economic slowdown and overall weak demand environment. ISS net revenue declined 20% in fiscal 2009 due to declines in unit volume. ISS average unit prices declined in fiscal 2009 while improving in the second half of fiscal 2009 as a result of a new product ramp up. Total ESS blades revenue declined by 2% in fiscal 2009. BCS net revenue decreased 27% in fiscal 2009 driven by a decline in Integrity server revenue due to weaker market conditions and by the planned phase-out of the PA-RISC and Alpha Server product lines. Storage net revenue declined 17% in fiscal 2009 due to a decline in disk and tape products as a result of a weaker demand environment, the effects of which were partially offset by revenue resulting from the acquisition of Lefthand Networks, which was completed in the first quarter of fiscal 2009.

In fiscal 2009, ESS earnings from operations as a percentage of net revenue decreased by 3.4 percentage points, due primarily to a decline in gross margin. Gross margin in fiscal 2009 decreased due primarily to competitive pricing across each of the segment business units and product mix shifts. Operating expense as a percentage of net revenue in fiscal 2009 was generally consistent with the fiscal 2008.

HP Software

	For the fiscal years ended October 31		
	2010	2009	2008
		In millions	
Net revenue	$3,586	$3,572	$4,220
Earnings from operations	$ 759	$ 684	$ 499
Earnings from operations as a % of net revenue	21.2%	19.1%	11.8%

The components of the weighted net revenue change by business unit were as follows for the following fiscal years ended October 31:

	2010	2009
	Percentage Points	
Business technology optimization	1.5	(9.7)
Other software	(1.1)	(5.7)
Total HP Software	0.4	(15.4)

HP Software net revenue increased 0.4% (decreased 1.8% when adjusted for currency) in fiscal 2010, due to growth in business technology optimization ("BTO"), information management and business intelligence, the effect of which was offset by weakness in sales of communication and media solutions. In fiscal 2010, support and license revenue increased while services revenue declined. Net revenue from business technology optimization increased 2% in fiscal 2010, due to growth in support and license renewals. Net revenue from our other software businesses decreased 3% in fiscal 2010, due to a decline in revenue from sales of communication and media solutions resulting from market conditions in the Asia Pacific region and EMEA (Europe, Middle East and Africa). The revenue increase in information management was due primarily to increases in license and support revenue. The revenue increase in business intelligence solutions was primarily a result of increases in support and services.

HP Software earnings from operations as a percentage of net revenue increased by 2.1 percentage points in fiscal 2010. The operating margin improvement in fiscal 2010 was due primarily to an increase in gross margin and a decrease in operating expenses as a percentage of net revenue. The increase in gross margin in fiscal 2010 was primarily a result of a higher license and support mix, the effect of which was partially offset by a reduced services gross margin rate. The decrease in operating expenses as a percentage of net revenue in fiscal 2010 was due primarily to lower field selling, administrative and acquisition integration costs.

HP Software net revenue decreased 15.4% (10.8% when adjusted for currency) in fiscal 2009, due to softening in enterprise spending and declines in large deals. For fiscal 2009, revenue from licenses and services declined, the effect of which was partially offset by increased support revenue as a result of renewal rate increases. Net revenue from BTO decreased 15% in fiscal 2009 as compared to fiscal 2008. Net revenue from other software decreased 17% in fiscal 2009 as compared to fiscal 2008, due to declines in revenues for communication and media solutions, business intelligence solutions and information management.

HP Software earnings from operations as a percentage of net revenue increased by 7.3 percentage points in fiscal 2009. The operating margin improvement in fiscal 2009 was due primarily to increased gross margin coupled with decreased operating expenses as a percentage of net revenue. The increase in gross margin in fiscal 2009 resulted primarily from a favorable support and services revenue mix and improved services margins, the effect of which was partially offset by an unfavorable license revenue mix. The decrease in operating expenses as a percentage of net revenue in fiscal 2009 was due primarily to continued cost controls.

Personal Systems Group

	For the fiscal years ended October 31		
	2010	2009	2008
		In millions	
Net revenue	$40,741	$35,305	$42,295
Earnings from operations	$ 2,032	$ 1,661	$ 2,375
Earnings from operations as a % of net revenue	5.0%	4.7%	5.6%

The components of the weighted net revenue change by business unit were as follows for the following fiscal years ended October 31:

	2010	2009
	Percentage Points	
Desktop PCs	7.4	(8.9)
Notebook PCs	6.6	(5.8)
Workstations	1.5	(1.5)
Handhelds	(0.2)	(0.4)
Other	0.1	0.1
Total PSG	15.4	(16.5)

PSG revenue increased 15.4% (12.8% when adjusted for currency) in fiscal 2010. The revenue increase resulted from balanced growth across all regions. PSG unit volume and net revenue increased across all business units except the handhelds business unit in fiscal 2010. Unit volume was up 14% as the commercial refresh cycle and continued demand for consumer notebooks drove an increase in shipments. In fiscal 2010, net revenue from notebook PCs increased 12% while desktop PCs revenue increased 20%. Workstations revenue increased 42% while handhelds revenue declined 49%. In fiscal

2010, net revenue for consumer clients increased 12% while commercial client revenue increased 20%. Net revenue in Other increased 6% due primarily to increased sales of calculators, home servers and warranty extensions. For fiscal 2010, the favorable impact on PSG net revenue from unit increases was accompanied by a 1% increase in ASPs.

PSG earnings from operations as a percentage of net revenue increased 0.3 percentage points in fiscal 2010. The increase was driven by improvements in operating expenses as a percentage of net revenue, the effect of which was offset partially by a slight decline in gross margins. The decrease in operating expenses as a percentage of net revenue was due to effective cost controls and operating leverage benefits from increased volume. The decrease in gross margins was a result of higher component costs, the effect of which was partially offset by lower warranty and logistics expenses.

PSG net revenue decreased 16.5% (11.6% when adjusted for currency) in fiscal 2009. The revenue decline was primarily the result of the overall slowdown in the global economy. Despite the overall regional declines, revenue in China increased for fiscal 2009. PSG net revenue decreased across all businesses in fiscal 2009. Unit volume increased slightly in fiscal 2009, as an increase in notebook PC volume was offset by a decline in desktop PCs, workstations, and handheld devices. The unit volume increase in notebook PCs was due in part to growth of the HP and Compaq mini notebooks. In fiscal 2009, net revenue for notebook PCs decreased 11%, while net revenue for desktop PCs decreased 23%. Workstations and handheld revenues declined 33% and 52%, respectively, in fiscal 2009. In fiscal 2009, net revenue for consumer clients decreased 14%, while net revenue for commercial clients decreased 19%. The net revenue increase in Other PSG was related primarily to increased sales of extended warranties, support services and third-party branded options. In fiscal 2009, PSG net revenue was also impacted by ASP declines. ASPs in consumer clients declined 21%, while ASPs in commercial clients declined 16%. ASPs declined due primarily to a competitive pricing environment, component cost reductions and the impact of currency combined with a mix shift toward lower-end models. The ASP decline in fiscal 2009 was offset slightly by an increase in the option and monitor attach rates.

PSG earnings from operations as a percentage of net revenue decreased by 0.9 percentage points in fiscal 2009. The decrease was due primarily to a gross margin decline resulting from ASPs declining at a faster pace than component costs combined with a mix shift toward lower-end products, the effects of which were partially offset by lower warranty and supply chain costs and improvements in the option attach rate. The decrease in operating expenses as a percentage of net revenue in fiscal 2009 was the result of effective cost controls.

Imaging and Printing Group

	For the fiscal years ended October 31		
	2010	2009	2008
		In millions	
Net revenue	$25,764	$24,011	$29,614
Earnings from operations	$ 4,412	$ 4,310	$ 4,559
Earnings from operations as a % of net revenue	17.1%	18.0%	15.4%

The components of the weighted net revenue change by business unit were as follows for the following fiscal years ended October 31:

	2010	2009
	Percentage Points	
Commercial hardware	3.3	(8.9)
Supplies	3.0	(6.6)
Consumer hardware	1.0	(3.4)
Total IPG	7.3	(18.9)

IPG net revenue increased 7.3% (8.4% when adjusted for currency) in fiscal 2010, reflecting a continued improvement in market conditions. Net revenue for commercial hardware increased 17% in fiscal 2010, due primarily to unit volume growth of 19% driven by improved product availability. Supplies net revenue increased 4% in fiscal 2010, due primarily to increased printing, which resulted in stronger supply usage. Net revenue for consumer hardware increased 9% in fiscal 2010, driven primarily by unit volume growth of 11%.

IPG earnings from operations as a percentage of net revenue decreased by 0.9 percentage points in fiscal 2010, due primarily to a decline in gross margin and increases in operating expenses as a percentage of net revenue. The gross margin decline in fiscal 2010 was due primarily to a higher mix of hardware and a correspondingly lower mix of supplies, the effect of which was partially offset by cost savings associated with our ongoing efforts to optimize our supply chain. The increase in operating expenses as a percentage of net revenue in fiscal 2010 was due primarily to increased marketing activities, the effect of which was partially offset by reduced administrative expenses.

IPG net revenue decreased 18.9% (16.5% when adjusted for currency) in fiscal 2009, reflecting the impact of the global economic slowdown. Net revenue for commercial hardware declined 36% in fiscal 2009. The net revenue decline in commercial hardware was driven by a unit volume decline of 38% in fiscal 2009, due primarily to worldwide market weaknesses impacting both our laser and our graphics businesses. Supplies net revenue declined 11% in fiscal 2009. The supplies net revenue decline in fiscal 2009 was across all platforms and was the result of reductions in channel inventory and unfavorable currency impacts, the effect of which was partially moderated by supplies pricing. Net revenue for consumer hardware declined 27% in fiscal 2009. The net revenue decline in consumer hardware was driven by a unit volume decline of 24% in fiscal 2009, reflecting the weak demand environment and channel inventory reductions.

IPG earnings from operations as a percentage of net revenue increased 2.6 percentage points in fiscal 2009. Operating margin improvement in fiscal 2009 was a combination of an increase in gross margin and a decrease in operating expenses as a percentage of net revenue. The improvement in gross margin in fiscal 2009 resulted primarily from an increase in the supplies mix and supplies pricing, the effect of which was partially offset by hardware margin declines due to unfavorable currency impacts and declines in average revenue per unit. The decrease in operating expenses as a percentage of net revenue in fiscal 2009 was due primarily to effective cost controls.

HP Financial Services

	For the fiscal years ended October 31		
	2010	2009	2008
		In millions	
Net revenue	$3,047	$2,673	$2,698
Earnings from operations	$ 281	$ 206	$ 192
Earnings from operations as a % of net revenue	9.2%	7.7%	7.1%

HPFS net revenue increased by 14% in fiscal 2010. The net revenue increase was due to portfolio growth as a result of higher customer demand, a higher operating lease mix due to higher service-led financing volume, and higher end-of-lease rental, buyout and remarketing activity, along with favorable currency movements.

HPFS earnings from operations as a percentage of net revenue increased by 1.5 percentage points in fiscal 2010 due primarily to an increase in gross margin and a decrease in operating expenses as a percentage of revenue. The increase in gross margin was the result of higher portfolio margins due to favorable financing conditions and higher remarketing margin, the effect of which was partially offset by higher bad debt and lower buyout margins. The decrease in operating expenses as a percentage of revenue was driven primarily by improved cost efficiencies.

HPFS net revenue decreased by 0.9% in fiscal 2009. The net revenue decrease was due to unfavorable currency movements. On a constant currency basis, fiscal 2009 net revenue increased due primarily to portfolio growth, increased operating lease mix and higher buyout activities, the effect of which was partially offset by lower levels of remarketing and end-of-lease activity.

HPFS earnings from operations as a percentage of net revenue increased by 0.6 percentage points in fiscal 2009 due primarily to a decrease in operating expenses, the effect of which was partially offset by a decline in gross margin. The operating expense decrease was due to continued cost controls. The decline in gross margin was driven by an unfavorable currency impact, lower margins relating to end of lease activity, higher bad debt expenses, and lower remarketing and buyout margins, the effect of which was partially offset by higher portfolio margins.

Financing Originations

	For the fiscal years ended October 31		
	2010	2009	2008
		In millions	
Total financing originations	$5,987	$5,210	$4,872

New financing originations, which represent the amount of financing provided to customers for equipment and related software and services including intercompany activity, increased 14.9% in fiscal 2010 from fiscal 2009 and 6.9% in fiscal 2009 from fiscal 2008. The increases reflect higher financing associated with HP product sales and services offerings resulting from improved integration and engagement with HP's sales efforts and a favorable currency impact.

Portfolio Assets and Ratios

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

The portfolio assets and ratios derived from the segment balance sheet for HPFS were as follows for the following fiscal years ended October 31:

	2010	2009
	In millions	
Portfolio assets[1]	$11,418	$10,017
Allowance for doubtful accounts[2]	140	108
Operating lease equipment reserve	83	71
Total reserves	223	179
Net portfolio assets	$11,195	$ 9,838
Reserve coverage	2.0%	1.8%
Debt to equity ratio[3]	7.0x	7.0x

(1) Portfolio assets include gross financing receivables of approximately $6.7 billion and $6.1 billion at October 31, 2010 and October 31, 2009, respectively, and net equipment under operating leases of $2.5 billion and $2.2 billion at October 31, 2010 and October 31, 2009, respectively, as disclosed in Note 11 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. Portfolio assets also include capitalized profit on intercompany equipment transactions of approximately $800 million and $700 million at October 31, 2010 and October 31, 2009, respectively, and intercompany leases of approximately $1.3 billion and $1.0 billion at October 31, 2010 and October 31, 2009, respectively, both of which are eliminated in consolidation.

(2) Allowance for doubtful accounts includes both the short-term and the long-term portions of the allowance on financing receivables.

(3) HPFS debt consists of intercompany equity that is treated as debt for segment reporting purposes, intercompany debt and debt issued directly by HPFS.

Net portfolio assets at October 31, 2010 increased 13.8% from October 31, 2009. The increase resulted from higher levels of financing originations in fiscal 2010 and a favorable currency impact. The overall reserve coverage ratio increased as a percentage of the portfolio assets. HPFS funds its operations mainly through a combination of intercompany debt and equity.

HPFS recorded net bad debt expenses of $75 million and $50 million in fiscal 2010 and fiscal 2009, respectively.

Corporate Investments

	For the fiscal years ended October 31		
	2010	2009	2008
		In millions	
Net revenue	$1,863	$ 768	$965
Earnings (loss) from operations	$ 132	$ (56)	$ 49
Earnings (loss) from operations as a % of net revenue	7.1%	(7.3)%	5.1%

Net revenue in Corporate Investments relates primarily to network infrastructure products sold under the "ProCurve Networking," "3Com" and "TippingPoint" brands. In fiscal 2010, revenue from ProCurve Networking increased 33.9%, driven by improved market demand and continued investment in sales coverage. The revenue increase in Corporate Investments was also due to revenues resulting from the acquisitions of 3Com and Palm, which HP completed in April 2010 and July 2010, respectively.

Corporate Investments reported positive earnings from operations in fiscal 2010 due primarily to higher earnings from operations generated by network infrastructure products. Gross margin rate in Corporate Investments for fiscal 2010 increased primarily as a result of the impact from the 3Com acquisition along with lower product costs in the sale of network infrastructure products. The earnings from operations in Corporate Investments were also impacted by expenses carried in the segment associated with corporate development, global alliances and HP Labs; such expenses declined from fiscal 2009.

In fiscal 2009, net revenue in Corporate Investments related primarily to network infrastructure products sold under the brand "ProCurve Networking." Revenue from network infrastructure products decreased 19.6%, resulting from the slowdown in the networking market and a resulting decrease in sales of enterprise ethernet switch products. Partially offsetting the revenue decline was revenue resulting from the acquisition of Colubris Networks, Inc. ("Colubris"), which HP acquired in October 2008.

Corporate Investments reported a loss from operations in fiscal 2009 as compared to the positive earnings from operations reported in fiscal 2008 due primarily to lower earnings from operations generated by network infrastructure products. Gross margin in Corporate Investments declined for fiscal 2009 as the result of a unit volume decline in the sale of network infrastructure products and competitive pricing pressure. The loss from operations in Corporate Investments was also impacted by expenses carried in the segment associated with corporate development, global alliances and HP Labs, which declined from fiscal 2008.

LIQUIDITY AND CAPITAL RESOURCES

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

LIQUIDITY

We use cash generated by operations as our primary source of liquidity; we believe that internally generated cash flows are generally sufficient to support business operations, capital expenditures and the payment of stockholder dividends, in addition to a level of discretionary investments and share repurchases. We are able to supplement this near-term liquidity, if necessary, with broad access to capital markets and credit line facilities made available by various foreign and domestic financial institutions. Our liquidity is subject to various risks including the market risks identified in the section entitled "Qualitative and Quantitative Disclosures about Market Risk" in Item 7A.

	For the fiscal years ended October 31		
	2010	2009	2008
		In billions	
Cash and cash equivalents	$10.9	$13.3	$10.2
Total debt	$22.3	$15.8	$17.9
Available borrowing resources[1]	$13.8	$18.1	$11.7

[1] In addition to these available borrowing resources, we are able to offer for sale, from time to time, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants under a shelf registration statement filed with the SEC in May 2009 (the "2009 Shelf Registration Statement").

Our cash position remains strong, and we believe our cash balances and anticipated cash flow generated from operations are sufficient to cover cash outlays expected in fiscal 2011.

On December 2, 2010, HP issued $2.0 billion of U.S. Dollar Global Notes under the 2009 Shelf Registration Statement. The Global Notes were fixed rate notes at market rates with maturities of five and ten years from the date of issuance.

Cash Flows

The following table summarizes the key cash flow metrics from our consolidated statements of cash flow:

	For the fiscal years ended October 31		
	2010	2009	2008
		In millions	
Net cash provided by operating activities	$ 11,922	$13,379	$ 14,591
Net cash used in investing activities	(11,359)	(3,580)	(13,711)
Net cash used in financing activities	(2,913)	(6,673)	(2,020)
Net increase (decrease) in cash and cash equivalents	$ (2,350)	$ 3,126	$ (1,140)

Operating Activities

Net cash provided by operating activities decreased by approximately $1.5 billion for fiscal 2010, as compared to fiscal 2009. The decrease was due primarily to an increase in accounts and financing receivables resulting from higher revenues in the fourth quarter and higher payments for account payable activities, the impact of which was partially offset by the increase in net earnings. Net cash provided by operating activities decreased by approximately $1.2 billion for fiscal 2009, as compared to fiscal 2008. The decrease was due primarily to increased utilization of cash resources for payment of operating liabilities such as accounts payable, other current liabilities and restructuring along with a decrease in net earnings, the impact of which was partially offset by the increased generation of cash resources through the utilization of operating assets such as inventory and other current assets along with increased amortization expense.

Our key working capital metrics are as follows:

	October 31		
	2010	**2009**	**2008**
Days of sales outstanding in accounts receivable	50	48	45
Days of supply in inventory	23	23	27
Days of purchases outstanding in accounts payable	(52)	(57)	(52)
Cash conversion cycle	21	14	20

Days of sales outstanding in accounts receivable ("DSO") measures the average number of days our receivables are outstanding. DSO is calculated by dividing ending accounts receivable, net of allowance for doubtful accounts, by a 90-day average net revenue. Our accounts receivable balance was $18.5 billion as of October 31, 2010.

Days of supply in inventory ("DOS") measures the average number of days from procurement to sale of our product. DOS is calculated by dividing ending inventory by a 90-day average cost of goods sold. Our inventory balance was $6.5 billion as of October 31, 2010.

Days of purchases outstanding in accounts payable ("DPO") measures the average number of days our accounts payable balances are outstanding. DPO is calculated by dividing ending accounts payable by a 90-day average cost of goods sold. Our accounts payable balance was $14.4 billion as of October 31, 2010.

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

The cash conversion cycle for fiscal 2010 increased by 7 days as compared to fiscal 2009. The increase in DSO was due primarily to linearity and fewer cash discounts in the fourth quarter. DOS remained flat year over year. The decrease in DPO was due primarily to a change in purchasing linearity in the fourth quarter.

The cash conversion cycle for fiscal 2009 decreased by 6 days as compared to fiscal 2008. The increase in DSO was due primarily to our improving penetration into the enterprise market which tends to have a higher DSO profile, optimizing terms to drive shareholder value as well as more sales in the month of October. The decrease in DOS was due to lower inventory levels driven primarily by improved inventory management. The increase in DPO was due primarily to a change in purchasing linearity as business recovered through the fourth quarter.

Investing Activities

Net cash used in investing activities increased by approximately $7.8 billion for fiscal 2010 as compared to fiscal 2009 due primarily to higher cash payments made in connection with fiscal 2010 acquisitions and decreased by approximately $10.1 billion for fiscal 2009 as compared to fiscal 2008 due primarily to higher cash payments made in connection with fiscal 2008 acquisitions.

Financing Activities

Net cash used in financing activities decreased by approximately $3.8 billion for fiscal 2010, as compared to fiscal 2009. The decrease was due primarily to a higher net issuance of commercial paper, the impact of which was partially offset by increased repurchases of our common stock and lower global debt issuance. Net cash used in financing activities increased by approximately $4.7 billion for fiscal 2009, as compared to fiscal 2008. The increase was due primarily to higher net repayments of commercial paper and debt, the impact of which was partially offset by decreased repurchases of our common stock.

For more information on our share repurchase programs, see Item 5 and Note 15 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

CAPITAL RESOURCES

Debt Levels

	For the fiscal years ended October 31		
	2010	2009	2008
	In millions, except interest rates and ratios		
Short-term debt	$ 7,046	$ 1,850	$10,176
Long-term debt	$15,258	$13,980	$ 7,676
Debt-equity ratio	0.55x	0.39x	0.46x
Weighted-average interest rate	2.0%	2.7%	3.6%

We maintain debt levels that we establish through consideration of a number of factors, including cash flow expectations, cash requirements for operations, investment plans (including acquisitions), share repurchase activities, overall cost of capital, and targeted capital structure.

Short-term debt and long-term debt increased by $5.2 billion and $1.3 billion, respectively, for fiscal 2010 as compared to fiscal 2009. The net increase in total debt is due primarily to spending on acquisitions and share repurchases. In fiscal 2009, short-term debt decreased by $8.3 billion and long-term debt increased by $6.3 billion as compared to fiscal 2008. This was primarily due to the replacement of short-term debt with long-term debt as capital market conditions improved from the prior year, the impact of which was partially offset by a reclassification of $1 billion from long-term to short-term.

Our debt-equity ratio is calculated as the carrying value of debt divided by the carrying value of equity. Our debt-equity ratio increased by 0.16x in fiscal 2010, due primarily to the issuance of $3.0 billion of U.S Dollar Global Notes in September and a $4 billion net increase in commercial paper at the end of fiscal 2010. Our debt-equity ratio decreased by 0.07x in fiscal 2009 due primarily to the net repayment of $2.0 billion in debt.

Our weighted-average interest rate reflects the average effective rate on our borrowings prevailing during the year; it factors in the impact of swapping some of our global notes with fixed interest rates for global notes with floating interest rates. For more information on our interest rate swaps, see Note 10 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. The lower weighted-average interest rates over the past three years is a result of the combination of lower market interest rates and swapping some of our fixed interest obligations associated with some of our fixed global notes for variable rate obligations through interest rate swaps in a declining rates environment.

For more information on our borrowings, see Note 13 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Available Borrowing Resources

At October 31, 2010, we had the following resources available to obtain short-term or long-term financings if we need additional liquidity:

	At October 31, 2010
	In millions
2009 Shelf Registration Statement[1]	Unspecified
Commercial paper programs[1]	$12,100
Uncommitted lines of credit[1]	$ 1,500
Revolving trade receivables-based facilities[2]	$ 175

(1) For more information on our available borrowings resources, see Note 13 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

(2) For more information on our revolving trade receivables-based facilities, see Note 4 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Credit Ratings

Our credit risk is evaluated by three independent rating agencies based upon publicly available information as well as information obtained in our ongoing discussions with them. The ratings for the fiscal year ended October 31, 2010 were:

	For the fiscal year ended October 31, 2010		
	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings Services
Short-term debt ratings	A-1	Prime-1	F1
Long-term debt ratings	A	A2	A+

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

CONTRACTUAL AND OTHER OBLIGATIONS

The impact that we expect our contractual and other obligations as of October 31, 2010 to have on our liquidity and cash flow in future periods is as follows:

		Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			In millions		
Principal payments on long-term debt[1]	$16,294	$2,111	$ 7,945	$4,600	$1,638
Interest payments on long-term debt[2]	1,489	386	570	173	360
Operating lease obligations	3,565	879	1,426	630	630
Purchase obligations[3]	2,644	1,973	609	62	—
Capital lease obligations	548	111	123	242	72
Total	$24,540	$5,460	$10,673	$5,707	$2,700

(1) Amounts represent the expected principal cash payments relating to our long-term debt and do not include any fair value adjustments or discounts and premiums.

(2) Amounts represent the expected interest cash payments relating to our long-term debt. We have outstanding interest rate swap agreements accounted for as fair value hedges that have the economic effect of modifying the fixed interest obligations associated with some of our fixed global notes for variable rate obligations. The impact of these interest rate swaps was factored into the calculation of the future interest payments on long-term debt.

(3) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. These purchase obligations are related principally to inventory and other items. Purchase obligations exclude agreements that are cancellable without penalty. Purchase obligations also exclude open purchase orders that are routine arrangements entered into in the ordinary course of business as they are difficult to quantify in a meaningful way. Even though open purchase orders are considered enforceable and legally binding, the terms generally allow us the option to cancel, reschedule, and adjust our requirements based on our business need prior to the delivery of goods or performance of services.

In addition to the above, at October 31, 2010, we had approximately $2.0 billion of recorded liabilities and related interest and penalties pertaining to uncertainty in income tax positions, which will be partially offset by $90 million of deferred tax assets and interest receivable. These liabilities and related interest and penalties include $55 million expected to be paid within one year. For the remaining amount, we are unable to make a reasonable estimate as to when cash settlement with the tax authorities might occur due to the uncertainties related to these tax matters. See Note 14 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on taxes.

Funding Commitments

In fiscal 2011, we expect to contribute approximately $817 million to our pension and post-retirement plan funding. Our funding policy is to contribute cash to our pension plans so that we meet at least the minimum contribution requirements, as established by local government, funding and taxing authorities. Funding for the years following 2011 would be based on the then current market conditions, actuarial estimates and plan funding status. See Note 16 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on pension activity.

As a result of our approved restructuring plans, we expect future cash expenditures of approximately $2.1 billion. We expect to make cash payments of approximately $1.4 billion in fiscal 2011 with remaining cash payments through 2016. See Note 8 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on restructuring activities.

Guarantees and Indemnifications

See Note 12 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on liabilities that may arise from guarantees and indemnifications.

Litigation and Contingencies

See Note 18 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on liabilities that may arise from litigation and contingencies.

Off-Balance Sheet Arrangements

As part of our ongoing business, we have not participated in transactions that generate material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of October 31, 2010, we are not involved in any material unconsolidated SPEs.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

In the normal course of business, we are exposed to foreign currency exchange rate, interest rate and equity price risks that could impact our financial position and results of operations. Our risk management strategy with respect to these three market risks may include the use of derivative financial instruments. We use derivative contracts only to manage existing underlying exposures of HP. Accordingly, we do not use derivative contracts for speculative purposes. Our risks, risk management strategy and a sensitivity analysis estimating the effects of changes in fair values for each of these exposures are outlined below.

Actual gains and losses in the future may differ materially from the sensitivity analyses based on changes in the timing and amount of interest rate, foreign currency exchange rate and equity price movements and our actual exposures and hedges.

Foreign currency exchange rate risk

We are exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, anticipated purchases and assets, liabilities and debt denominated in currencies other than the U.S. dollar. We transact business in approximately 40 currencies worldwide, of which the most significant foreign currency to our operations for fiscal 2010 were the euro, the Japanese yen, Chinese yuan renminbi and the British pound. For most currencies, we are a net receiver of the foreign currency and therefore benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. Even where we are a net receiver, a weaker U.S. dollar may adversely affect certain expense figures taken alone. We use a combination of forward contracts and options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in our forecasted net revenue and, to a lesser extent, cost of sales and inter-company lease loan denominated in currencies other than the U.S. dollar. In addition, when debt is denominated in a foreign currency, we may use swaps to exchange the foreign currency principal and interest obligations for U.S. dollar-denominated amounts to manage the exposure to changes in foreign currency exchange rates. We also use other derivatives not designated as hedging instruments consisting primarily of forward contracts to hedge foreign currency balance sheet exposures. For these types of derivatives and hedges we recognize the gains and losses on these foreign currency forward contracts in the same period as the remeasurement losses and gains of the related foreign currency-denominated exposures. Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures, primarily if such exposure acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency or the currency is difficult or too expensive to hedge.

We have performed sensitivity analyses as of October 31, 2010 and 2009, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant. The analyses cover all of our foreign currency contracts offset by the underlying exposures. The foreign currency exchange rates we used were based on market rates in effect at October 31, 2010 and 2009. The sensitivity analyses indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a foreign exchange loss of $122 million and $106 million at October 31, 2010 and October 31, 2009, respectively.

Interest rate risk

We also are exposed to interest rate risk related to our debt and investment portfolios and financing receivables. We issue long-term debt in either U.S. dollars or foreign currencies based on market conditions at the time of financing. We then typically use interest rate and/or currency 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 the exchange of fixed for floating interest payments. However, we may choose not to swap fixed for floating interest payments or may terminate a previously executed swap if we believe a larger proportion of fixed-rate debt would be beneficial. In order to hedge the fair value of certain fixed-rate investments, we may enter into interest rate swaps that convert fixed interest returns into variable interest returns. We may use cash flow hedges to hedge the variability of LIBOR-based interest income received on certain variable-rate investments. We may also enter into interest rate swaps that convert variable rate interest returns into fixed-rate interest returns.

We have performed sensitivity analyses as of October 31, 2010 and 2009, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of interest rates across the entire yield curve, with all other variables held constant. The analyses cover our debt, investment instruments, financing receivables and interest rate swaps. The analyses use actual maturities for the debt, investments and interest rate swaps and approximate maturities for financing receivables. The discount rates we used were based on the market interest rates in effect at October 31, 2010 and 2009. The sensitivity analyses indicated that a hypothetical 10% adverse movement in interest rates would result in a loss in the fair values of our debt, investment instruments and financing receivables, net of interest rate swap positions, of $28 million at October 31, 2010 and $33 million at October 31, 2009.

Equity price risk

We are also exposed to equity price risk inherent in our portfolio of publicly traded equity securities, which had an estimated fair value of $9 million at October 31, 2010 and $5 million at October 31, 2009. We monitor our equity investments for impairment on a periodic basis. Generally, we do not attempt to reduce or eliminate our market exposure on these equity securities. However, we may use derivative transactions to hedge certain positions from time to time. We do not purchase our equity securities with the intent to use them for speculative purposes. A hypothetical 30% adverse change in the stock prices of our publicly traded equity securities would result in a loss in the fair values of our marketable equity securities of approximately $3 million and $1 million at October 31, 2010 and 2009, respectively. The aggregate cost of privately-held companies, and other investments was $163 million at October 31, 2010 and $142 million at October 31, 2009.

ITEM 8. Financial Statements and Supplementary Data.

Table of Contents

Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders of
Hewlett-Packard Company**

We have audited the accompanying consolidated balance sheets of Hewlett-Packard Company and subsidiaries as of October 31, 2010 and 2009, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hewlett-Packard Company and subsidiaries at October 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in fiscal year 2010, Hewlett-Packard Company and subsidiaries changed their method of accounting for business combinations with the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, *Business Combinations*, and their method of accounting for noncontrolling interests with the adoption of the amendments to FASB ASC 810, *Consolidation*, both effective November 1, 2009. In fiscal year 2009, Hewlett-Packard Company and subsidiaries changed their method of accounting for revenue recognition with the adoption of amendments to the FASB ASC resulting from Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, and Accounting Standards Update No. 2009-14, *Certain Revenue Arrangements That Include Software Elements*, both adopted effective November 1, 2008 and their method of accounting for the measurement date provisions for their defined benefit postretirement plans in accordance with the guidance provided in FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB No. 87, 88, 106 and 132(R)* (codified primarily in FASB ASC Topic 715, *Compensation—Retirement Benefits*).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hewlett-Packard Company's internal control over financial reporting as of October 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 15, 2010, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
December 15, 2010

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Hewlett-Packard Company

We have audited Hewlett-Packard Company's internal control over financial reporting as of October 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hewlett-Packard Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hewlett-Packard Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Hewlett-Packard Company and subsidiaries as of October 31, 2010 and 2009, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2010, and our report dated December 15, 2010, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
December 15, 2010

Management's Report on Internal Control Over Financial Reporting

HP's management is responsible for establishing and maintaining adequate internal control over financial reporting for HP. HP's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. HP's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of HP; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of HP are being made only in accordance with authorizations of management and directors of HP; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of HP's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

HP's management assessed the effectiveness of HP's internal control over financial reporting as of October 31, 2010, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on the assessment by HP's management, we determined that HP's internal control over financial reporting was effective as of October 31, 2010. The effectiveness of HP's internal control over financial reporting as of October 31, 2010 has been audited by Ernst & Young LLP, HP's independent registered public accounting firm, as stated in their report which appears on page 71 of this Annual Report on Form 10-K.

/s/ LÉO APOTHEKER	/s/ CATHERINE A. LESJAK
Léo Apotheker	Catherine A. Lesjak
President and Chief Executive Officer	*Executive Vice President and Chief Financial Officer*
December 15, 2010	December 15, 2010

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings

	For the fiscal years ended October 31		
	2010	2009	2008
	In millions, except per share amounts		
Net revenue:			
Products	$ 84,799	$ 74,051	$ 91,697
Services	40,816	40,124	26,297
Financing income	418	377	370
Total net revenue	126,033	114,552	118,364
Costs and expenses:			
Cost of products	65,064	56,503	69,342
Cost of services	30,723	30,695	20,028
Financing interest	302	326	329
Research and development	2,959	2,819	3,543
Selling, general and administrative	12,585	11,613	13,326
Amortization of purchased intangible assets	1,484	1,578	1,012
Restructuring charges	1,144	640	270
Acquisition-related charges	293	242	41
Total operating expenses	114,554	104,416	107,891
Earnings from operations	11,479	10,136	10,473
Interest and other, net	(505)	(721)	—
Earnings before taxes	10,974	9,415	10,473
Provision for taxes	2,213	1,755	2,144
Net earnings	$ 8,761	$ 7,660	$ 8,329
Net earnings per share:			
Basic	$ 3.78	$ 3.21	$ 3.35
Diluted	$ 3.69	$ 3.14	$ 3.25
Weighted-average shares used to compute net earnings per share:			
Basic	2,319	2,388	2,483
Diluted	2,372	2,437	2,567

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

	October 31	
	2010	**2009**
	In millions, except par value	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,929	$ 13,279
Short-term investments	5	55
Accounts receivable	18,481	16,537
Financing receivables	2,986	2,675
Inventory	6,466	6,128
Other current assets	15,317	13,865
Total current assets	54,184	52,539
Property, plant and equipment	11,763	11,262
Long-term financing receivables and other assets	12,225	11,289
Goodwill	38,483	33,109
Purchased intangible assets	7,848	6,600
Total assets	$124,503	$114,799
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 7,046	$ 1,850
Accounts payable	14,365	14,809
Employee compensation and benefits	4,256	4,071
Taxes on earnings	802	910
Deferred revenue	6,727	6,182
Accrued restructuring	911	1,109
Other accrued liabilities	15,296	14,072
Total current liabilities	49,403	43,003
Long-term debt	15,258	13,980
Other liabilities	19,061	17,052[1]
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' equity		
Preferred stock, $0.01 par value (300 shares authorized; none issued)	—	—
Common stock, $0.01 par value (9,600 shares authorized; 2,204 and 2,365 shares issued and outstanding, respectively)	22	24
Additional paid-in capital	11,569	13,804
Retained earnings	32,695	29,936
Accumulated other comprehensive loss	(3,837)	(3,247)
Total HP stockholders' equity	40,449	40,517
Non-controlling interests	332	247[1]
Total stockholders' equity	40,781	40,764
Total liabilities and stockholders' equity	$124,503	$114,799

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	For the fiscal years ended October 31		
	2010	2009	2008
		In millions	
Cash flows from operating activities:			
Net earnings	$ 8,761	$ 7,660	$ 8,329
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	4,820	4,780	3,401
Stock-based compensation expense	668	635	606
Provision for doubtful accounts—accounts and financing receivables	156	345	275
Provision for inventory	189	221	214
Restructuring charges	1,144	640	270
Deferred taxes on earnings	197	379	773
Excess tax benefit from stock-based compensation	(294)	(162)	(293)
Other, net	169	22	(61)
Changes in assets and liabilities:			
Accounts and financing receivables	(2,398)	(549)	(264)
Inventory	(270)	1,532	89
Accounts payable	(698)	(153)	1,749
Taxes on earnings	723	733	235
Restructuring	(1,334)	(1,237)	(165)
Other assets and liabilities	89	(1,467)	(567)
Net cash provided by operating activities	11,922	13,379	14,591
Cash flows from investing activities:			
Investment in property, plant and equipment	(4,133)	(3,695)	(2,990)
Proceeds from sale of property, plant and equipment	602	495	425
Purchases of available-for-sale securities and other investments	(51)	(160)	(178)
Maturities and sales of available-for-sale securities and other investments	200	171	280
Payments made in connection with business acquisitions, net	(8,102)	(391)	(11,248)
Proceeds from business divestiture, net	125	—	—
Net cash used in investing activities	(11,359)	(3,580)	(13,711)
Cash flows from financing activities:			
Issuance (repayment) of commercial paper and notes payable, net	4,156	(6,856)	5,015
Issuance of debt	3,156	6,800	3,121
Payment of debt	(1,323)	(2,710)	(1,843)
Issuance of common stock under employee stock plans	2,617	1,837	1,810
Repurchase of common stock	(11,042)	(5,140)	(9,620)
Excess tax benefit from stock-based compensation	294	162	293
Dividends	(771)	(766)	(796)
Net cash used in financing activities	(2,913)	(6,673)	(2,020)
(Decrease) increase in cash and cash equivalents	(2,350)	3,126	(1,140)
Cash and cash equivalents at beginning of period	13,279	10,153	11,293
Cash and cash equivalents at end of period	$ 10,929	$13,279	$ 10,153

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Common Stock							
	Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total HP Stockholders' Equity	Non-controlling Interests	Total
	In millions, except number of shares in thousands							
Balance October 31, 2007	2,579,714	$26	$16,381	$21,560	$ 559	$ 38,526	$ 43	$ 38,569
Net earnings				8,329		8,329	10	8,339
Net unrealized loss on available-for-sale securities					(16)	(16)		(16)
Net unrealized gain on cash flow hedges					866	866		866
Unrealized components of defined benefit pension plans					(538)	(538)		(538)
Cumulative translation adjustment					(936)	(936)		(936)
Comprehensive income						7,705	10	7,715
Issuance of common stock in connection with employee stock plans and other	65,235		2,034			2,034		2,034
Repurchases of common stock	(229,646)	(2)	(5,325)	(4,809)		(10,136)		(10,136)
Net excess tax benefits from employee stock plans			316			316		316
Dividends				(796)		(796)		(796)
Stock-based compensation expense			606			606		606
Cumulative effect of change in accounting principle				687		687		687
Changes in ownership of non-controlling interests							184	184
Balance October 31, 2008	2,415,303	$24	$14,012	$24,971	$ (65)	$ 38,942	$237	$ 39,179
Net earnings				7,660		7,660	78	7,738
Net unrealized gain on available-for-sale securities					16	16		16
Net unrealized loss on cash flow hedges					(971)	(971)		(971)
Unrealized components of defined benefit pension plans					(2,531)	(2,531)		(2,531)
Cumulative translation adjustment					304	304		304
Comprehensive income						4,478	78	4,556
Issuance of common stock in connection with employee stock plans and other	69,157	1	1,783			1,784		1,784
Repurchases of common stock	(119,651)	(1)	(2,789)	(1,922)		(4,712)		(4,712)
Net excess tax benefits from employee stock plans			163			163		163
Dividends				(766)		(766)		(766)
Stock-based compensation expense			635			635		635
Cumulative effect of change in accounting principle				(7)		(7)		(7)
Changes in ownership of non-controlling interests							(68)	(68)
Balance October 31, 2009	2,364,809	$24	$13,804	$29,936	$(3,247)	$ 40,517	$247	$ 40,764
Net earnings				8,761		8,761	109	8,870
Net unrealized gain on available-for-sale securities					16	16		16
Net unrealized loss on cash flow hedges					(32)	(32)		(32)
Unrealized components of defined benefit pension plans					(602)	(602)		(602)
Cumulative translation adjustment					28	28	4	32
Comprehensive income						8,171	113	8,284
Issuance of common stock in connection with employee stock plans and other	80,335	1	2,606			2,607		2,607
Repurchases of common stock	(241,246)	(3)	(5,809)	(5,259)		(11,071)		(11,071)
Net excess tax benefits from employee stock plans			300			300		300
Dividends				(743)		(743)	(28)	(771)
Stock-based compensation expense			668			668		668
Balance October 31, 2010	2,203,898	$22	$11,569	$32,695	$(3,837)	$ 40,449	$332	$ 40,781

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

Note 1: Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Hewlett-Packard Company, its wholly-owned subsidiaries and its controlled majority-owned subsidiaries (collectively, "HP"). HP accounts for equity investments in companies over which HP has the ability to exercise significant influence, but does not hold a controlling interest, under the equity method, and HP records its proportionate share of income or losses in interest and other, net in the Consolidated Statements of Earnings. HP has eliminated all significant intercompany accounts and transactions.

Reclassifications and Segment Reorganization

HP has made certain organizational realignments in order to optimize its operating structure. Reclassifications of prior year financial information have been made to conform to the current year presentation. None of the changes impacts HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share. See Note 19 for a further discussion of HP's segment reorganization.

Use of Estimates

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 Financial Statements and accompanying notes. Actual results could differ materially from those estimates.

Revenue Recognition

Net revenue is derived primarily from the sale of products and services. The following revenue recognition policies define the manner in which HP accounts for sales transactions.

HP recognizes revenue when persuasive evidence of a sales arrangement exists, delivery has occurred or services are rendered, the sales price or fee is fixed or determinable and collectibility is reasonably assured. Additionally, HP recognizes hardware revenue on sales to channel partners, including resellers, distributors or value-added solution providers at the time of sale when the channel partners have economic substance apart from HP and HP has completed its obligations related to the sale.

HP's current revenue recognition policies, which were applied in fiscal 2010 and fiscal 2009, provide that, when a sales arrangement contains multiple elements, such as hardware and software products, licenses and/or services, HP allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue, as amended.

Note 1: Summary of Significant Accounting Policies (Continued)

HP limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges.

HP evaluates each deliverable in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and there are no customer-negotiated refund or return rights for the delivered elements. If the arrangement includes a customer-negotiated refund or return right relative to the delivered item and the delivery and performance of the undelivered item is considered probable and substantially in HP's control, the delivered element constitutes a separate unit of accounting. In instances when the aforementioned criteria are not met, the deliverable is combined with the undelivered elements and the allocation of the arrangement consideration and revenue recognition is determined for the combined unit as a single unit. Allocation of the consideration is determined at arrangement inception on the basis of each unit's relative selling price.

HP establishes VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. TPE of selling price is established by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. The best estimate of selling price is established considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product life cycle. Consideration is also given to market conditions such as competitor pricing strategies and industry technology life cycles.

For fiscal 2008, pursuant to the previous guidance for revenue arrangements with multiple deliverables prior to the adoption of Accounting Standards Update ("ASU") No. 2009-13, "Multiple Deliverable Revenue Arrangements," for a sales arrangement with multiple elements, HP allocated revenue to each element based on its relative fair value, or for software, based on VSOE of fair value. In the absence of fair value for a delivered element, HP first allocated revenue to the fair value of the undelivered elements and the residual revenue to the delivered elements. Where the fair value for an undelivered element could not be determined, HP deferred revenue for the delivered elements until the undelivered elements were delivered or the fair value was determinable for the remaining undelivered elements. If the revenue for a delivered item was not recognized because it was not separable from the undelivered item, then HP also deferred the cost of the delivered item. HP limited the amount of revenue recognition for delivered elements to the amount that was not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges. For the purposes of income statement classification of products and services revenue, when HP could not determine fair value for all of the elements in an arrangement and the transaction was accounted for as a single unit of accounting, HP allocated revenue to products and services based on a rational and consistent methodology. This methodology utilized external and internal pricing inputs to derive HP's best estimate of fair value for the elements in the arrangement.

In instances when revenue is derived from sales of third-party vendor services, revenue is recorded at gross when HP is a principal to the transaction and net of costs when HP is acting as an agent between the customer and the vendor. Several factors are considered to determine whether HP is an agent or principal, most notably whether HP is the primary obligor to the customer, has established its own pricing, and has inventory and credit risks.

Note 1: Summary of Significant Accounting Policies (Continued)

HP reports revenue net of any required taxes collected from customers and remitted to government authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Products

Hardware

Under HP's standard terms and conditions of sale, HP transfers title and risk of loss to the customer at the time product is delivered to the customer and revenue is recognized accordingly, unless customer acceptance is uncertain or significant obligations remain. HP reduces revenue for estimated customer returns, price protection, rebates and other programs offered under sales agreements established by HP with its distributors and resellers. HP records revenue from the sale of equipment under sales-type leases as product revenue at the inception of the lease. HP accrues the estimated cost of post-sale obligations, including basic product warranties, based on historical experience at the time HP recognizes revenue.

Software

In accordance with the specific guidance for recognizing software revenue, where applicable, HP recognizes revenue from perpetual software licenses at the inception of the license term assuming all revenue recognition criteria have been met. Term-based software license revenue is recognized on a subscription basis over the term of the license entitlement. HP uses the residual method to allocate revenue to software licenses at the inception of the license term when VSOE of fair value for all undelivered elements exists, such as post-contract support, and all other revenue recognition criteria have been satisfied. Revenue generated from maintenance and unspecified upgrades or updates on a when-and-if-available basis is recognized over the period such items are delivered.

Services

HP recognizes revenue from fixed-price support or maintenance contracts, including extended warranty contracts and software post-contract customer support agreements, ratably over the contract period and recognizes the costs associated with these contracts as incurred. For time and material contracts, HP recognizes revenue and costs as services are rendered. HP recognizes revenue from fixed-price consulting arrangements over the contract period on a proportional performance basis, as determined by the relationship of actual labor costs incurred to date to the estimated total contract labor costs, with estimates regularly revised during the life of the contract. HP recognizes revenue on certain design and build (design, development and/or construction of software and/or systems) projects using the percentage-of-completion method. HP uses the cost to cost method of measurement towards completion as determined by the percentage of cost incurred to date to the total estimated costs of the project. HP uses the completed contract method if reasonable and reliable cost estimates for a project cannot be made.

Outsourcing services revenue is generally recognized when the service is provided and the amount earned is not contingent upon any future event. If the service is provided evenly during the contract term but service billings are uneven, revenue is recognized on a straight-line basis over the contract term. HP recognizes revenue from operating leases on a straight-line basis as service revenue over the rental period.

Note 1: Summary of Significant Accounting Policies (Continued)

HP recognizes costs associated with outsourcing contracts as incurred, unless such costs relate to the transition phase of the outsourcing contract, in which case HP defers and subsequently amortizes these set-up costs over the contractual services period. Deferred contract costs are amortized on a straight-line basis over the remaining original term unless billing patterns indicate a more accelerated method is appropriate. Based on actual and projected contract financial performance indicators, the recoverability of deferred contract costs associated with a particular contract is analyzed on a periodic basis using the undiscounted estimated cash flows of the whole contract over its remaining contract term. If such undiscounted cash flows are insufficient to recover the long-lived assets and deferred contract costs, the deferred contract costs are written down based on a discounted cash flow model. If a cash flow deficiency remains after reducing the balance of the deferred contract costs to zero, any remaining long-lived assets related to that contract are evaluated for impairment.

HP recognizes losses on consulting and outsourcing arrangements in the period that the contractual loss becomes probable and estimable. HP records amounts invoiced to customers in excess of revenue recognized as deferred revenue until the revenue recognition criteria are met. HP records revenue that is earned and recognized in excess of amounts invoiced on fixed-price contracts as trade receivables.

Financing Income

Sales-type and direct-financing leases produce financing income, which HP recognizes at consistent rates of return over the lease term.

Deferred Revenue and Related Deferred Contract Costs

Deferred revenue represents amounts received in advance for product support contracts, software customer support contracts, outsourcing start-up services work, consulting and integration projects, product sales or leasing income. The product support contracts include stand-alone product support packages, routine maintenance service contracts, upgrades or extensions to standard product warranty, as well as high availability services for complex, global, networked, multi-vendor environments. HP defers these service amounts at the time HP bills the customer, and HP then generally recognizes the amounts ratably over the support contract life or as HP delivers the services. HP also defers and subsequently amortizes certain costs related to start-up activities that enable the performance of the customer's long-term services contract. Deferred contract costs, including start-up and other unbilled costs, are generally amortized on a straight-line basis over the contract term unless specific customer contract terms and conditions indicate a more accelerated method is more appropriate.

Shipping and Handling

HP includes costs related to shipping and handling in cost of sales for all periods presented.

Advertising

HP expenses advertising costs as incurred or when the advertising is first run. Such costs totaled approximately $1.0 billion in fiscal 2010, $0.7 billion in fiscal 2009 and $1.0 billion in fiscal 2008.

Note 1: Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

Stock-based compensation expense for all share-based payment awards granted is determined based on the grant-date fair value. HP recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the share-based payment awards. HP estimated the forfeiture rate based on its historical experience for fiscal grant years where the majority of the vesting terms have been satisfied.

Foreign Currency Transactions

HP uses the U.S. dollar predominately as its functional currency. Assets and liabilities denominated in non-U.S. dollars are remeasured into U.S. dollars at current exchange rates for monetary assets and liabilities and historical exchange rates for nonmonetary assets and liabilities. Net revenue, cost of sales and expenses are remeasured at average exchange rates in effect during each new reporting period, and net revenue, cost of sales and expenses related to the previously reported periods are remeasured at historical exchange rates. HP includes gains or losses from foreign currency remeasurement in net earnings. Certain foreign subsidiaries designate the local currency as their functional currency, and HP records the translation of their assets and liabilities into U.S. dollars at the balance sheet dates as translation adjustments and includes them as a component of accumulated other comprehensive income (loss).

Taxes on Earnings

HP recognizes deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. HP records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Cash and Cash Equivalents

HP classifies investments as cash equivalents if the original maturity of an investment is ninety days or less. Cash and cash equivalents consist primarily of highly liquid investments in time deposits held in major banks and commercial paper. As of October 31, 2010 and 2009, the carrying value of cash and cash equivalents approximates fair value due to the short period of time to maturity.

Investments

HP's investments consist principally of time deposits, money market funds, commercial paper, corporate debt, other debt securities, and equity securities of publicly-traded and privately-held companies.

HP classifies its investments in debt securities and its equity investments in public companies as available-for-sale securities and carries them at fair value. HP determines fair values for investments in public companies using quoted market prices and records a charge to Interest and other, net when the change in fair values is determined to be an other-than-temporary change. HP carries equity investments in privately-held companies at cost or at fair value when HP recognizes an other-than-temporary impairment charge.

Note 1: Summary of Significant Accounting Policies (Continued)

HP monitors its investment portfolio for impairment on a periodic basis. When the carrying value of an investment in debt securities exceeds its fair value and the decline in value is determined to be an other-than-temporary decline, and when HP does not intend to sell the debt securities and it is not more likely than not that HP will be required to sell the debt securities prior to recovery of its amortized cost basis, HP records an impairment charge to Interest and other, net in the amount of the credit loss and the balance, if any, to other comprehensive income (loss).

Concentrations of Credit Risk

Financial instruments that potentially subject HP to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable from trade customers and from contract manufacturers, financing receivables and derivatives.

HP maintains cash and cash equivalents, short- and long-term investments, derivatives and certain other financial instruments with various financial institutions. These financial institutions are located in many different geographical regions, and HP's policy is designed to limit exposure with any one institution. As part of its cash and risk management processes, HP performs periodic evaluations of the relative credit standing of the financial institutions. HP has not sustained material credit losses from instruments held at financial institutions. HP utilizes forward contracts and other derivative contracts to protect against the effects of foreign currency fluctuations. Such contracts involve the risk of non-performance by the counterparty, which could result in a material loss.

HP sells a significant portion of its products through third-party distributors and resellers and, as a result, maintains individually significant receivable balances with these parties. If the financial condition or operations of all of these distributors' and resellers' aggregated accounts deteriorate substantially, HP's operating results could be adversely affected. The ten largest distributor and reseller receivable balances collectively, which were concentrated primarily in North America and Europe, represented approximately 18% of gross accounts receivable at October 31, 2010 and 22% at October 31, 2009. No single customer accounts for more than 10% of accounts receivable. Credit risk with respect to other accounts receivable and financing receivables is generally diversified due to the large number of entities comprising HP's customer base and their dispersion across many different industries and geographical regions. HP performs ongoing credit evaluations of the financial condition of its third-party distributors, resellers and other customers and requires collateral, such as letters of credit and bank guarantees, in certain circumstances. To ensure a receivable balance is not overstated due to uncollectibility, an allowance for doubtful accounts is maintained as required under U.S. GAAP. The past due or delinquency status of a receivable is based on the contractual payment terms of the receivable. The need to write off a receivable balance depends on the age, size and a determination of collectability of the receivable. HP generally has experienced longer accounts receivable collection cycles in its emerging markets, in particular Asia Pacific and Latin America, compared to its markets in the United States and Europe. In the event that accounts receivable collection cycles in emerging markets significantly deteriorate or one or more of HP's larger resellers or enterprise customers fails, HP's operating results could be adversely affected.

Other Concentration

HP obtains a significant number of components from single source suppliers due to technology, availability, price, quality or other considerations. The loss of a single source supplier, the deterioration

Note 1: Summary of Significant Accounting Policies (Continued)

of its relationship with a single source supplier, or any unilateral modification to the contractual terms under which HP is supplied components by a single source supplier could adversely affect HP's revenue and gross margins.

Allowance for Doubtful Accounts

HP establishes an allowance for doubtful accounts to ensure trade and financing receivables are not overstated due to uncollectability. HP maintains bad debt reserves based on a variety of factors, including the length of time receivables are past due, trends in overall weighted-average risk rating of the total portfolio, macroeconomic conditions, significant one-time events, historical experience and the use of third-party credit risk models that generate quantitative measures of default probabilities based on market factors and the financial condition of customers. HP records a specific reserve for individual accounts when HP becomes aware of specific customer circumstances, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to the specific customer change, HP would further adjust estimates of the recoverability of receivables.

Inventory

HP values inventory at the lower of cost or market, with cost computed on a first-in, first-out basis. Adjustments to reduce the cost of inventory to its net realizable value are made, if required, for estimated excess, obsolescence or impaired balances.

Property, Plant and Equipment

HP states property, plant and equipment at cost less accumulated depreciation. HP capitalizes additions and improvements and expenses maintenance and repairs as incurred. Depreciation is computed using straight-line or accelerated methods over the estimated useful lives of the assets. Estimated useful lives are 5 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment. HP depreciates leasehold improvements over the life of the lease or the asset, whichever is shorter. HP depreciates equipment held for lease over the initial term of the lease to the equipment's estimated residual value. The estimated useful lives of assets used solely to support a customer services contract generally do not exceed the term of the customer contract.

HP capitalizes certain internal and external costs incurred to acquire or create internal use software, principally related to software coding, designing system interfaces and installation and testing of the software. HP amortizes capitalized internal use software costs using the straight-line method over the estimated useful lives of the software, generally from three to five years.

Software Development Costs

Costs incurred to acquire or develop software for resale may be capitalized subsequent to the software product establishing technological feasibility. Capitalized software development costs are amortized using the greater of the straight-line amortization method or the ratio that current gross revenues for a product bear to the total current and anticipated future gross revenues for that product. The estimated useful lives for capitalized software for resale are generally three years or less. Software development costs incurred subsequent to a product establishing technological feasibility are usually not significant. In those instances, such costs are expensed as incurred.

Note 1: Summary of Significant Accounting Policies (Continued)

Business Combinations

HP has adopted the new accounting standard related to business combinations. HP has included the results of operations of the businesses that it acquired in fiscal 2010 in HP's consolidated results as of the respective dates of acquisition. HP allocates the purchase price of its acquisitions to the tangible assets, liabilities and intangible assets acquired, including in-process research and development ("IPR&D"), based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. IPR&D is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, HP will record a charge for the value of the related intangible asset to HP's Consolidated Statement of Earnings in the period it is abandoned. Acquisition-related expenses and restructuring costs are recognized separately from the business combination and are expensed as incurred.

Goodwill and Purchased Intangible Assets

Goodwill and purchased intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually. HP reviews goodwill and purchased intangible assets with indefinite lives for impairment annually at the beginning of its fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. For goodwill, HP performs a two-step impairment test. In the first step, HP compares the fair value of each reporting unit to its carrying value. In general, HP's reporting units are consistent with the reportable segments identified in Note 19. However, for certain businesses within the Corporate Investments segment, the reporting unit is one step below the segment level. HP determines the fair value of its reporting units based on a weighting of income and market approaches. Under the income approach, HP calculates the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, HP estimates the fair value based on market multiples of revenue or earnings for comparable companies. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then HP must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, HP records an impairment loss equal to the difference.

HP estimates the fair value of indefinite-lived purchased intangible assets using an income approach. HP recognizes an impairment loss when the estimated fair value of the indefinite-lived purchased intangible assets is less than the carrying value.

HP amortizes purchased intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets, ranging from one to ten years.

Long-Lived Asset Impairment

HP evaluates property, plant and equipment and purchased intangible assets with finite lives for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. HP assesses the recoverability of the assets based on the undiscounted future cash flow and recognizes an impairment loss when the estimated undiscounted future cash flow expected to

Note 1: Summary of Significant Accounting Policies (Continued)

result from the use of the asset plus the net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When HP identifies an impairment, HP reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values.

Fair Value of Financial Instruments

HP measures certain financial assets and liabilities at fair value based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Financial instruments are primarily comprised of time deposits, money market funds, commercial paper, corporate and other debt securities, equity securities and other investments in common stock and common stock equivalents and derivatives. See Note 9 for a further discussion on fair value of financial instruments.

Derivative Financial Instruments

HP uses derivative financial instruments, primarily forwards, swaps, and options, to hedge certain foreign currency and interest rate exposures. HP also may use other derivative instruments not designated as hedges such as forwards used to hedge foreign currency balance sheet exposures. HP does not use derivative, financial instruments for speculative purposes. See Note 10 for a full description of HP's derivative financial instrument activities and related accounting policies.

Retirement and Post-Retirement Plans

HP has various defined benefit, other contributory and noncontributory retirement and post-retirement plans. In addition, HP has assumed additional retirement and post-retirement plans in connection with its acquisition of Electronic Data Systems Corporation ("EDS") in August 2008. HP generally amortizes unrecognized actuarial gains and losses on a straight-line basis over the remaining estimated service life of participants. The measurement date for all HP plans is October 31 for fiscal 2010 and fiscal 2009. See Note 10 for a full description of these plans and the accounting and funding policies.

Loss Contingencies

HP is involved in various lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. 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.

Note 1: Summary of Significant Accounting Policies (Continued)

Accounting Pronouncements

In December 2007, the FASB issued a new accounting standard related to non-controlling interests. The standard establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interests, changes in a parent's ownership interest, and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The standard also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. In January 2010, the FASB issued Accounting Standards Update No. 2010-02, "Consolidation: Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification." This update clarifies the scope of the decrease in ownership provisions and also requires expanded disclosures. HP adopted these standards in the first quarter of fiscal 2010 with retrospective application of the presentation and disclosure requirements. Non-controlling interests of $247 million at October 31, 2009 were reclassified from Other liabilities to Stockholders' equity in the Consolidated Condensed Balance Sheet as of October 31, 2009. Elimination of the income attributable to non-controlling interests, recorded in Interest and other, net, was not material for fiscal years 2010, 2009 and 2008 and is disclosed in the Consolidated Statements of Stockholders' Equity.

Note 2: Stock-Based Compensation

HP's stock-based compensation plans include incentive compensation plans and an employee stock purchase plan ("ESPP").

Stock-based Compensation Expense and the Related Income Tax Benefits

Total stock-based compensation expense before income taxes for fiscal 2010, 2009 and 2008 was $668 million, $635 million and $606 million, respectively. The resulting income tax benefit for fiscal 2010, 2009 and 2008 was $216 million, $199 million and $178 million, respectively.

Cash received from option exercises and purchases under the ESPP was $2.6 billion in fiscal 2010 and $1.8 billion for both fiscal 2009 and 2008. The actual tax benefit realized for the tax deduction from option exercises of the share-based payment awards in fiscal 2010, 2009 and 2008 was $414 million, $252 million and $412 million, respectively.

Incentive Compensation Plans

HP's incentive compensation plans include principal equity plans adopted in 2004 (as amended in 2010), 2000, 1995 and 1990 ("principal equity plans"), as well as various equity plans assumed through acquisitions under which stock-based awards are outstanding. Stock-based awards granted from the principal equity plans include performance-based restricted units ("PRUs"), stock options and restricted stock awards. Employees meeting certain employment qualifications are eligible to receive stock-based awards.

In fiscal 2008, HP implemented a program that provides for the issuance of PRUs representing hypothetical shares of HP common stock. PRU awards may be granted to eligible employees, including HP's principal executive officer, principal financial officer and other executive officers. Each PRU award reflects a target number of shares ("Target Shares") that may be issued to the award recipient

Note 2: Stock-Based Compensation (Continued)

before adjusting for performance and market conditions. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on results achieved versus company performance goals. Those goals are based on HP's annual cash flow from operations as a percentage of revenue and total shareholder return ("TSR") relative to the S&P 500 over the three-year performance period. Depending on the results achieved during the three-year performance period, the actual number of shares that a grant recipient receives at the end of the period may range from 0% to 200% of the Target Shares granted, based on the calculations described below.

Cash flow performance goals are established at the beginning of each year. At the end of each year, a portion of the Target Shares may be credited in the award recipient's name depending on the achievement of the cash flow performance goal for that year. The number of shares credited varies between 0% if performance is below the minimum level and 150% if performance is at or above the maximum level. For performance between the minimum level and the maximum level, a proportionate percentage between 30% and 150% is applied based on relative performance between the minimum and the maximum levels.

Following the expiration of the three-year performance period, the number of shares credited to the award recipient during the performance period is adjusted by a TSR modifier. The TSR modifier varies between 0%, if the minimum level is not met, resulting in no payout under the PRU award, and 133%, if performance is at or above the maximum level. For performance between the minimum level and the maximum level, a proportionate TSR modifier between 66% and 133% is applied based on relative performance between the minimum and the maximum levels. The number of shares, if any, received by the PRU award recipient equals the number of shares credited to the award recipient during the performance period multiplied by the TSR modifier.

Recipients of PRU awards generally must remain employed by HP on a continuous basis through the end of the applicable three-year performance period in order to receive any portion of the shares subject to that award. Target Shares subject to PRU awards do not have dividend equivalent rights and do not have the voting rights of common stock until earned and issued following the end of the applicable performance period. The expense for these awards, net of estimated forfeitures, is recorded over the requisite service period based on the number of target shares that are expected to be earned and the achievement of the cash flow goals during the performance period.

Stock options granted under the principal equity plans are generally non-qualified stock options, but the principal equity plans permit some options granted to qualify as "incentive stock options" under the U.S. Internal Revenue Code. Stock options generally vest over four years from the date of grant. The exercise price of a stock option is equal to the fair market value of HP's common stock on the option grant date (as determined by the reported sale prices of HP's common stock when the market closes on that date). The contractual term of options granted since fiscal 2003 was generally eight years, while the contractual term of options granted prior to fiscal 2003 was generally ten years. Prior to March 2010, HP could choose, in certain cases, to establish a discounted exercise price at no less than 75% of fair market value on the grant date. HP has not granted any discounted options since fiscal 2003.

Under the principal equity plans, HP granted certain employees cash-settled awards, restricted stock awards, or both. Restricted stock awards are non-vested stock awards that may include grants of restricted stock or grants of restricted stock units. Cash-settled awards and restricted stock awards are independent of option grants and are generally subject to forfeiture if employment terminates prior to

Note 2: Stock-Based Compensation (Continued)

the release of the restrictions. Such awards generally vest one to three years from the date of grant. During that period, ownership of the shares cannot be transferred. Restricted stock has the same cash dividend and voting rights as other common stock and is considered to be currently issued and outstanding. Restricted stock units have dividend equivalent rights equal to the cash dividend paid on restricted stock. Restricted stock units do not have the voting rights of common stock, and the shares underlying the restricted stock units are not considered issued and outstanding. However, shares underlying restricted stock units are included in the calculation of diluted earnings per share (“EPS”). HP expenses the fair market value of restricted stock awards, as determined on the date of grant, ratably over the period during which the restrictions lapse.

Performance-based Restricted Units

HP estimates the fair value of a target PRU share using the Monte Carlo simulation model, as the TSR modifier contains a market condition. The following weighted-average assumptions were used to determine the weighted-average fair values of the PRU awards for fiscal years ended October 31:

	2010	2009	2008
Weighted-average fair value of grants per share	$57.13[(1)]	$40.56[(2)]	$40.21[(3)]
Expected volatility[(4)]	38%	35%	26%
Risk-free interest rate	0.73%	1.34%	3.13%
Dividend yield	0.64%	0.88%	0.70%
Expected life in months	22	30	33

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

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

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

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

Note 2: Stock-Based Compensation (Continued)

Non-vested PRUs as of October 31, 2010 and 2009 and changes during fiscal 2010 and 2009 were as follows:

	2010	2009
	Shares in thousands	
Outstanding Target Shares at beginning of year	21,093	8,473
Granted	7,388	13,966
Vested	(7,186)[1]	—
Change in units due to performance and market conditions achievement for PRUs vested in the year	(108)	—
Forfeited	(2,679)	(1,346)
Outstanding Target Shares at end of year	18,508	21,093
Outstanding Target Shares of PRUs assigned a fair value at end of year	10,201[2]	9,796[3]

(1) Vested shares were issued to award recipients in November 2010.

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

(3) Excludes target shares for the third year for PRUs granted in fiscal 2008 and for the second and third years for PRUs granted in fiscal 2009 as the measurement date has not yet been established. The measurement date and related fair value for the excluded PRUs will be established when the annual cash flow goals are approved.

At October 31, 2010, there was $222 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 1.2 years. At October 31, 2009, there was $193 million of unrecognized pre-tax stock-based compensation expense related to PRUs with an assigned fair value, which HP expected to recognize over the remaining weighted-average vesting period of 1.5 years.

Stock Options

HP utilized the Black-Scholes option pricing model to value the stock options granted under its principal equity plans. HP examined its historical pattern of option exercises in an effort to determine if there were any discernable activity patterns based on certain employee populations. From this analysis, HP identified three employee populations on which to apply the Black-Scholes model. The table below presents the weighted-average expected life in months of the combined three identified employee populations. The expected life computation is based on historical exercise patterns and post-vesting termination behavior within each of the three populations identified. The risk-free interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

Note 2: Stock-Based Compensation (Continued)

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

	2010	2009	2008
Weighted-average fair value of grants per share[(1)]	$13.33	$13.04	$15.26
Implied volatility	30%	43%	34%
Risk-free interest rate	2.06%	2.07%	3.09%
Dividend yield	0.68%	0.92%	0.69%
Expected life in months	61	61	60

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

Option activity as of October 31 during each fiscal year was as follows:

	2010				2009			
	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	In thousands		In years	In millions	In thousands		In years	In millions
Outstanding at beginning of year	233,214	$33			307,728	$34		
Granted and assumed through acquisitions	11,939	$22			2,190	$29		
Exercised	(75,002)	$34			(55,784)	$28		
Forfeited/cancelled/expired	(27,235)	$55			(20,920)	$57		
Outstanding at end of year	142,916	$28	2.7	$2,140	233,214	$33	2.6	$3,643
Vested and expected to vest at end of year	141,082	$28	2.7	$2,114	231,134	$33	2.6	$3,623
Exercisable at end of year	125,232	$28	2.1	$1,895	207,757	$32	2.2	$3,399

In fiscal 2010, stock options to purchase approximately 10 million shares with a weighted-average exercise price of $19 per share were assumed through acquisitions.

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 October 31, 2010 and 2009. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of fiscal 2010 and fiscal 2009 and the exercise price, multiplied by the number of in-the-money options. Total intrinsic value of options exercised in fiscal 2010, 2009 and 2008 was $1.3 billion, $0.8 billion and $1.1 billion, respectively. Total grant date fair value of options vested and expensed in fiscal 2010, 2009 and 2008 was $93 million, $172 million and $264 million, respectively, net of taxes.

Note 2: Stock-Based Compensation (Continued)

Information about options outstanding at October 31, 2010 was as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price Per Share	Shares Exercisable	Weighted-Average Exercise Price Per Share
	In thousands	In years		In thousands	
$0-$9.99	2,075	7.8	$ 7	177	$ 6
$10-$19.99	22,174	2.5	$15	17,757	$16
$20-$29.99	58,806	2.0	$23	56,725	$23
$30-$39.99	33,614	2.8	$32	32,182	$32
$40-$49.99	22,749	4.2	$43	15,825	$43
$50-$59.99	1,509	5.7	$52	578	$52
$60 and over	1,989	1.6	$77	1,988	$77
	142,916	2.7	$28	125,232	$28

At October 31, 2010, there was $280 million of unrecognized pre-tax stock-based compensation expense related to stock options, which HP expects to recognize over a weighted-average vesting period of 1.6 years. At October 31, 2009, there was $188 million of unrecognized pre-tax stock-based compensation expense related to stock options, which HP expected to recognize over the remaining weighted-average vesting period of 1.1 years.

Restricted Stock Awards

Non-vested restricted stock awards as of October 31, 2010 and 2009 and changes during fiscal 2010 and 2009 were as follows:

	2010		2009	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
	In thousands		In thousands	
Outstanding at beginning of year	6,864	$44	12,930	$44
Granted and assumed through acquisitions	4,821	$48	836	$36
Vested	(5,202)	$46	(6,532)	$44
Forfeited	(635)	$46	(370)	$45
Outstanding at end of year	5,848	$45	6,864	$44

Note 2: Stock-Based Compensation (Continued)

The details of restricted stock awards granted and assumed through acquisitions were as follows:

	2010		2009	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
	In thousands		In thousands	
Restricted stock	1,543	$48	493	$36
Restricted stock units	3,278	$48	343	$35
	4,821	$48	836	$36

In fiscal 2010, approximately 3 million restricted stock units with a weighted-average grant date fair value of $48 per share were assumed through acquisitions.

The details of non-vested restricted stock awards at fiscal year end were as follows:

	2010	2009
	Shares in thousands	
Non-vested at October 31:		
Restricted stock	1,936	1,771
Restricted stock units	3,912	5,093
	5,848	6,864

At October 31, 2010, there was $152 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards, which HP expects to recognize over the remaining weighted-average vesting period of 1.5 years. At October 31, 2009, there was $117 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards, which HP expected to recognize over the remaining weighted-average vesting period of 1.6 years.

Employee Stock Purchase Plan

HP sponsors the Hewlett-Packard Company 2000 Employee Stock Purchase Plan (the "ESPP"), also known as the Share Ownership Plan, 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. The ESPP expired in November 2010.

For purchases made on or before April 30, 2009, employees purchased stock pursuant to the ESPP semi-annually at a price equal to 85% of the fair market value on the purchase date, and HP recognized expense based on a 15% discount of the fair market value for those purchases. Effective May 1, 2009, HP modified the ESPP to eliminate the 15% discount applicable to purchases made under the ESPP.

Note 2: Stock-Based Compensation (Continued)

The ESPP activity as of October 31 during each fiscal year was as follows:

	2010	2009	2008
	In millions, except weighted-average purchase price per share		
Compensation expense, net of taxes	$ —	$ 24	$ 58
Shares purchased	1.62	6.16	9.68
Weighted-average purchase price per share	$ 47	$ 33	$ 36

	2010	2009	2008
	In thousands		
Employees eligible to participate	251	260	164
Employees who participated	18	49	50

Shares Reserved

Shares available for future grant and shares reserved for future issuance under the ESPP and incentive compensation plans were as follows:

	2010	2009	2008
	Shares in thousands		
Shares available for future grant at October 31:			
HP plans	124,553[(1)]	95,311[(1)]	117,655
Assumed Compaq and EDS plans	—	82,449[(2)]	73,147
	124,553	177,760	190,802
Shares reserved for future issuance under all stock-related benefit plans at October 31	296,973	410,977	498,574

(1) Includes 30 million and 24 million shares that expired in November 2010 and November 2009, respectively.

(2) In November 2009, HP retired the assumed Compaq and EDS plans for purposes of granting new awards. The shares that had been reserved for future awards under those plans were returned to HP's pool of authorized shares and will not be available for issuance under any other HP plans.

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.

The reconciliation of the numerators and denominators of the basic and diluted EPS calculations was as follows for the following fiscal years ended October 31:

	2010	2009	2008
	In millions, except per share amounts		
Numerator:			
Net earnings[1]	$8,761	$7,660	$8,329
Adjustment for interest expense on zero-coupon subordinated convertible notes, net of taxes	—	—	3
Net earnings, adjusted	$8,761	$7,660	$8,332
Denominator:			
Weighted-average shares used to compute basic EPS	2,319	2,388	2,483
Effect of dilutive securities:			
Dilutive effect of employee stock plans	53	49	81
Zero-coupon subordinated convertible notes	—	—	3
Dilutive potential common shares	53	49	84
Weighted-average shares used to compute diluted EPS	2,372	2,437	2,567
Net earnings per share:			
Basic	$ 3.78	$ 3.21	$ 3.35
Diluted	$ 3.69	$ 3.14	$ 3.25

(1) Net earnings available to participating securities were not significant for fiscal years 2010, 2009 and 2008. HP considers restricted stock that provides the holder with a non-forfeitable right to receive dividends to be a participating security.

HP excludes options with exercise prices that are greater than the average market price from the calculation of diluted EPS because their effect would be anti-dilutive. In fiscal years 2010, 2009 and 2008, HP excluded from the calculation of diluted EPS options to purchase 5 million shares, 85 million shares and 54 million shares, respectively. HP also excluded from the calculation of diluted EPS options to purchase an additional 2 million shares, 2 million shares and 28 million shares in fiscal years 2010, 2009 and 2008, respectively, whose combined exercise price, unamortized fair value and excess tax benefits were greater in each of those periods than the average market price for HP's common stock because their effect would be anti-dilutive.

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 above, 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 for the following fiscal years ended October 31:

Accounts and Financing Receivables

	2010	2009
	In millions	
Accounts receivable	$19,006	$17,166
Allowance for doubtful accounts	(525)	(629)
	$18,481	$16,537
Financing receivables	$ 3,050	$ 2,723
Allowance for doubtful accounts	(64)	(48)
	$ 2,986	$ 2,675

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 $524 million as of October 31, 2010. HP sold $1,753 million of trade receivables during fiscal 2010. As of October 31, 2010, HP had $175 million available under these programs.

Inventory

	2010	2009
	In millions	
Finished goods	$4,431	$4,092
Purchased parts and fabricated assemblies	2,035	2,036
	$6,466	$6,128

Other Current Assets

	2010	2009
	In millions	
Deferred tax assets—short-term	$ 5,833	$ 4,979
Value added taxes receivable from various governments	3,366	2,650
Supplier and other receivables	2,737	3,439
Prepaid and other current assets	3,381	2,797
	$15,317	$13,865

Note 4: Balance Sheet Details (Continued)

Property, Plant and Equipment

	2010	2009
	In millions	
Land	$ 530	$ 513
Buildings and leasehold improvements	8,523	7,472
Machinery and equipment	13,874	12,959
	22,927	20,944
Accumulated depreciation	(11,164)	(9,682)
	$ 11,763	$11,262

Depreciation expense was approximately $3.3 billion in fiscal 2010, $3.2 billion in fiscal 2009 and $2.4 billion in fiscal 2008.

Subsequent event

On November 16, 2010 HP sold land and buildings for approximately $415 million realizing a gain of approximately $280 million. The sale is part of the company's multi-year program to consolidate real estate locations worldwide to reduce real estate costs.

Long-Term Financing Receivables and Other Assets

	2010	2009
	In millions	
Financing receivables, net	$ 3,584	$ 3,303
Deferred tax assets—long term	2,070	1,750
Other	6,571	6,236
	$12,225	$11,289

Other Accrued Liabilities

	2010	2009
	In millions	
Other accrued taxes	$ 3,216	$ 2,784
Warranty	1,774	1,777
Sales and marketing programs	3,374	2,724
Other	6,932	6,787
	$15,296	$14,072

Note 4: Balance Sheet Details (Continued)

Other Liabilities

	2010	2009
	In millions	
Pension, post-retirement, and post-employment liabilities	$ 6,754	$ 6,427
Deferred tax liability—long-term	5,239	4,230
Long term deferred revenue	3,303	3,249
Other long-term liabilities	3,765	3,146
	$19,061	$17,052

Note 5: Supplemental Cash Flow Information

Supplemental cash flow information to the Consolidated Statements of Cash Flows was as follows for the following fiscal years ended October 31:

	2010	2009	2008
		In millions	
Cash paid for income taxes, net	$1,293	$643	$1,136
Cash paid for interest	$ 384	$572	$ 426
Non-cash investing and financing activities:			
Issuance of common stock and stock awards assumed in business acquisitions	$ 93	$ —	$ 316
Purchase of assets under financing arrangements	$ —	$283	$ —
Purchase of assets under capital leases	$ 122	$131	$ 30

Note 6: Acquisitions

Acquisitions in fiscal 2010

In fiscal 2010, HP completed eleven acquisitions. The purchase price allocation for these acquisitions as set forth in the table below reflects various preliminary fair value estimates and analyses, including preliminary work performed by third-party valuation specialists, which are subject to change within the measurement period as valuations are finalized. The primary areas of the preliminary purchase price allocations that are not yet finalized relate to the fair values of certain tangible assets and liabilities acquired, the valuation of intangible assets acquired, certain legal matters, income and non-income based taxes, and residual goodwill. We expect to continue to obtain information to assist us in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that HP determines to be material will be applied retrospectively to the period of acquisition in HP's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected.

Pro forma results of operations for these acquisitions have not been presented because they are not material to HP's consolidated results of operations, either individually or in the aggregate. Goodwill, which represents the excess of the purchase price over the net tangible and intangible assets acquired, is not deductible for tax purposes.

Note 6: Acquisitions (Continued)

The following table presents the aggregate purchase price allocation, including those items that are still preliminary allocations, for all of HP's acquisitions in fiscal 2010:

	In millions
Net tangible assets	$1,400
Amortizable intangible assets	2,402
In-process research and development	331
Goodwill	5,230
Total purchase price	$9,363

The largest acquisitions completed in fiscal 2010 are as follows:

Acquisition of 3Com Corporation ("3Com")

On April 12, 2010, HP completed its acquisition of 3Com, a global enterprise provider of networking switching, routing and security solutions, at a price of $7.90 per share in cash. HP reports the financial results of the 3Com business in the Corporate Investments segment. The aggregate purchase price of $3.3 billion consisted of cash paid for outstanding common stock, vested in-the-money stock awards and the estimated fair value of earned unvested stock awards assumed by HP. In connection with this acquisition, HP recorded approximately $1.3 billion of goodwill, amortizable purchased intangible assets of $987 million and IPR&D assets of $106 million. HP is amortizing the purchased intangible assets on a straight-line basis over an estimated weighted-average life of 5.1 years.

Acquisition of Palm, Inc. ("Palm")

On July 1, 2010, HP completed the acquisition of Palm, a provider of smartphones powered by the Palm webOS mobile operating system. HP reports the financial results of the Palm business in the Corporate Investments segment. The aggregate purchase price was $1.8 billion, which included cash paid for common stock, vested-in-the-money stock awards, the estimated fair value of earned unvested stock awards assumed as well as certain debt that was repaid at the acquisition date. In connection with this acquisition, HP recorded approximately $879 million of goodwill, amortizable purchased intangible assets of $344 million and IPR&D assets of $80 million. HP is amortizing the purchased intangible assets on a straight-line basis over an estimated weighted-average life of 6.2 years.

Acquisition of 3PAR Inc. ("3PAR")

On September 27, 2010, HP completed the acquisition of 3PAR, a provider of utility storage. HP reports the financial results of the 3PAR business in its Enterprise Storage and Servers ("ESS") segment. The aggregate purchase price was $2.3 billion, which included cash paid for common stock, vested-in-the-money stock awards and the estimated fair value of earned unvested stock awards assumed at the acquisition date. In connection with this acquisition, HP recorded approximately $1.6 billion of goodwill, amortizable purchased intangible assets of $569 million and IPR&D assets of $101 million. HP is amortizing the purchased intangible assets on a straight-line basis over an estimated weighted-average life of 6.0 years.

Note 6: Acquisitions (Continued)

Acquisition of ArcSight Inc. ("ArcSight")

On October 22, 2010, HP completed the acquisition of ArcSight, a security and compliance management company. HP reports the financial results of the ArcSight business in the HP Software segment. The aggregate purchase price was $1.7 billion, which included cash paid for common stock, vested-in-the-money stock awards and the estimated fair value of earned unvested stock awards assumed at the acquisition date. In connection with this acquisition, HP recorded approximately $1.2 billion of goodwill, amortizable purchased intangible assets of $393 million and IPR&D assets of $41 million. HP is amortizing the purchased intangible assets on a straight-line basis over an estimated weighted-average life of 6.8 years.

Acquisitions in prior years

In fiscal 2009, HP completed two acquisitions. Total consideration for the acquisitions was $390 million, which includes direct transaction costs and the assumption of certain liabilities in connection with the transactions. The largest of the two acquisitions was the acquisition of Lefthand Networks, Inc., a leading provider of storage virtualization and solutions, which has been integrated into ESS, at a purchase price of $347 million. In fiscal 2009, HP recorded $315 million of goodwill, $105 million of purchased intangibles and $7 million of IPR&D related to these transactions.

In fiscal 2008, HP completed nine acquisitions and a minority interest purchase for a total consideration of $14.6 billion. The largest acquisition was the acquisition of EDS for a purchase price of $13.0 billion. The purchase price comprised of $12.7 billion cash paid for outstanding common stock, $328 million for the fair value of stock options and restricted stock units assumed, and $36 million for direct transaction costs. Of the total purchase price, $10.4 billion has been allocated to goodwill, $4.6 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. HP included the results of EDS in its consolidated results of operations starting on August 26, 2008, the closing date of the acquisition.

Pro forma results for EDS acquisition

The following table presents the unaudited pro forma results for the year ended October 31, 2008. The unaudited pro forma financial information for the year ended October 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

Note 6: Acquisitions (Continued)

for depreciation expense for property, plant and equipment, adjustments to interest expense and related tax effects.

In millions, except per share data	2008
Net revenue	$136,022
Net earnings	$ 7,828
Basic net earnings per share	$ 3.15
Diluted net earnings per share	$ 3.05

Note 7: Goodwill and Purchased Intangible Assets

Goodwill

Goodwill allocated to HP's business segments as of October 31, 2010 and 2009 and changes in the carrying amount of goodwill during the fiscal year ended October 31, 2010 and 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	—	315	—	—	—	—	—	315
Goodwill adjustments	545	(55)	(22)	(6)	(3)	—	—	459
Balance at October 31, 2009	$16,829	$5,005	$6,140	$2,487	$2,460	$144	$ 44	$33,109
Goodwill acquired during the period	17	1,635	1,407	18	—	—	2,153	5,230
Goodwill adjustments	121	(30)	(2)	(5)	(4)	—	64	144
Balance at October 31, 2010	$16,967	$6,610	$7,545	$2,500	$2,456	$144	$2,261	$38,483

During fiscal 2010, HP recorded approximately $5.2 billion of goodwill related to acquisitions based on its preliminary purchase price allocations. In addition, HP recorded goodwill adjustments primarily related to an increase to the deferred tax liability on outside basis differences of EDS foreign subsidiaries at acquisition. HP also recorded an increase to goodwill as a result of currency translation related to 3Com's subsidiary whose functional currency is not the U.S. dollar. These increases to goodwill were partially offset by tax adjustments primarily related to tax deductible stock-based awards for certain acquisitions for which the acquisition date preceded the effective date of the new accounting standard for business combinations.

During fiscal 2009, HP recorded adjustments of approximately $306 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, net deferred tax liabilities and intangible assets. In addition,

Note 7: Goodwill and Purchased Intangible Assets (Continued)

goodwill increased approximately $255 million as a result of currency translation related to certain of EDS's foreign subsidiaries whose functional currency is not the U.S. dollar. These increases in goodwill were partially offset by tax adjustments for various previous acquisitions.

Based on the results of its annual impairment tests, HP determined that no impairment of goodwill existed as of August 1, 2010 or August 1, 2009. However, future goodwill impairment tests could result in a charge to earnings. HP will continue to evaluate goodwill on an annual basis as of the beginning of its fourth fiscal quarter and whenever events and changes in circumstances indicate that there may be a potential impairment.

Purchased Intangible Assets

HP's purchased intangible assets associated with completed acquisitions for each of the following fiscal years ended October 31 are composed of:

	2010			2009		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	In millions					
Customer contracts, customer lists and distribution agreements	$ 7,503	$(3,864)	$3,639	$ 6,763	$(3,034)	$3,729
Developed and core technology and patents	5,763	(3,384)	2,379	4,171	(2,747)	1,424
Product trademarks	346	(239)	107	247	(222)	25
Total amortizable purchased intangible assets	13,612	(7,487)	6,125	11,181	(6,003)	5,178
IPR&D	301	—	301	—	—	—
Compaq trade name	1,422	—	1,422	1,422	—	1,422
Total purchased intangible assets	$15,335	$(7,487)	$7,848	$12,603	$(6,003)	$6,600

For fiscal 2010, HP recorded approximately $2.7 billion of purchased intangible assets and IPR&D related to acquisitions based on its preliminary purchase price allocations.

For fiscal 2009, HP recorded an increase of $83 million to purchased intangibles as a result of currency translation related to certain of EDS's foreign subsidiaries whose functional currency is not the U.S. dollar. HP also recorded an increase of $21 million to the estimated fair value of EDS's intangible assets acquired.

Based on the results of its annual impairment tests, HP determined that no impairment of the indefinite-lived Compaq trade name existed as of August 1, 2010 or August 1, 2009. However, future impairment tests could result in a charge to earnings. HP will continue to evaluate the Compaq trade name on an annual basis as of the beginning of its fourth fiscal quarter and whenever events and changes in circumstances indicate that there may be an indicator of potential impairment.

The finite-lived purchased intangible assets consist of customer contracts, customer lists and distribution agreements, which have weighted-average useful lives of 8 years, and developed and core technology, patents and product trademarks, which have weighted-average useful lives of 5 years.

Note 7: Goodwill and Purchased Intangible Assets (Continued)

Estimated future amortization expense related to finite-lived purchased intangible assets at October 31, 2010 is as follows:

Fiscal year:	In millions
2011	$1,513
2012	1,296
2013	1,142
2014	803
2015	681
Thereafter	690
Total	$6,125

Note 8: Restructuring Charges

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

Fiscal 2010 Acquisitions

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

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

Fiscal 2010 ES Restructuring Plan

On June 1, 2010, HP's management announced a plan to restructure its enterprise services business, which includes its infrastructure technology outsourcing, business process outsourcing and application services business units. The multi-year restructuring program includes plans to consolidate commercial data centers, tools and applications. The total expected cost of the plan that will be

Note 8: Restructuring Charges (Continued)

recorded as restructuring charges is approximately $1.0 billion, including severance costs to eliminate approximately 9,000 positions and infrastructure charges. For fiscal 2010, a restructuring charge of $650 million was recorded primarily related to severance costs. HP expects to record the majority of the remaining severance costs by the second quarter of fiscal 2011 and the majority of the infrastructure charges through fiscal 2012. The timing of the charges is based upon planned termination dates and site closure and consolidation plans. The majority of the associated cash payments are expected to be paid out through the fourth quarter of fiscal 2012. As of October 31, 2010, approximately 2,100 positions have been eliminated.

Fiscal 2009 Restructuring Plan

In May 2009, HP's management approved and initiated a restructuring plan to structurally change and improve the effectiveness of the Imaging and Printing Group (“IPG”), the Personal Systems Group (“PSG”), and Enterprise Storage and Servers (“ESS”) businesses. The total expected cost of the plan is $292 million in severance-related costs associated with the planned elimination of approximately 5,000 positions. As of October 31, 2010, approximately 4,200 positions had been eliminated. HP expects the remaining positions to be eliminated and a majority of the restructuring costs to be paid out through the first quarter of fiscal 2011.

Fiscal 2008 HP/EDS Restructuring Plan

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

The restructuring plan includes severance cost to eliminate approximately 25,000 positions. As of October 31, 2010, the vast majority of the positions had been eliminated, and the associated severance costs had been paid out. The infrastructure charges in the restructuring plan include facility closure and consolidation costs and the costs associated with early termination of certain contractual obligations. HP expects to record the majority of these costs through fiscal 2011 based upon the execution of site closure and consolidation plans. The associated cash payments are expected to be paid out through fiscal 2016.

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

Note 8: Restructuring Charges (Continued)

Summary of Restructuring Plans

The adjustments to the accrued restructuring expenses related to all of HP's restructuring plans described above for the twelve months ended October 31, 2010 were as follows:

	Balance, October 31, 2009	Fiscal year 2010 charges (reversals)	Cash payments	Non-cash settlements and other adjustments	Balance, October 31, 2010	As of October 31, 2010: Total costs and adjustments to date	As of October 31, 2010: Total expected costs and adjustments
				In millions			
Fiscal 2010 acquisitions	$ —	$ 64	$ (20)	$ —	$ 44	$ 64	$ 88
Fiscal 2010 ES Plan:							
Severance	$ —	$ 630	$ (55)	$ 45	$ 620	$ 630	$ 761
Infrastructure	—	20	(6)	(10)	4	20	231
Total ES Plan	$ —	$ 650	$ (61)	$ 35	$ 624	$ 650	$ 992
Fiscal 2009 Plan	$ 248	$ (5)	$ (177)	$ (9)	$ 57	$ 292	$ 292
Fiscal 2008 HP/EDS Plan:							
Severance	$ 747	$ 236	$ (873)	$(35)	$ 75	$2,146	$2,146
Infrastructure	419	193	(185)	(19)	408	693	1,239
Total HP/EDS Plan	$1,166	$ 429	$(1,058)	$(54)	$ 483	$2,839	$3,385
Total restructuring plans	$1,414	$1,138	$(1,316)	$(28)	$1,208	$3,845	$4,757

During fiscal 2010, HP had completed payouts of restructuring liabilities associated with previous restructuring actions and recorded a restructuring charge in fiscal 2010 of $6 million associated with these actions. At October 31, 2009, HP had $51 million of restructuring liabilities associated with these actions.

At October 31, 2010 and October 31, 2009, HP included the long-term portion of the restructuring liability of $297 million and $356 million, respectively, in Other liabilities, and the short-term portion in Accrued restructuring in the accompanying Consolidated Balance Sheets.

Note 9: Fair Value

HP adopted the provisions related to the fair value of nonfinancial assets and nonfinancial liabilities in the first quarter of fiscal 2010 for the following major categories of nonfinancial items from the Consolidated Balance Sheet: Property, plant and equipment; Goodwill; Purchased intangible assets; Accrued restructuring; and the asset retirement obligations within Other accrued liabilities and Other liabilities. The provisions of the accounting standard related to measuring fair value and related disclosures are applied to nonfinancial assets and nonfinancial liabilities whenever they are required to be measured at fair value, such as when accounting for a business combination, when evaluating and/or determining impairment, or in accordance with certain other accounting pronouncements. Except for assets and liabilities acquired in business combinations as discussed in Note 6, HP did not measure any material nonfinancial assets and nonfinancial liabilities at fair value on a non-recurring basis in fiscal 2010.

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

Note 9: Fair Value (Continued)

Valuation techniques used by HP are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect HP's assumptions about market participant assumptions based on best information available. Observable inputs are the preferred source of values. These two types of inputs create the following fair value hierarchy:

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

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

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

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

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

Derivative Instruments: As discussed in Note 10, HP mainly holds non-speculative forwards, swaps and options to hedge certain foreign currency and interest rate exposures. When active market quotes are not available, HP uses industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies. In certain cases, market-based observable inputs are not available and, in those cases, HP uses management judgment to develop assumptions which are used to determine fair value.

Note 9: Fair Value (Continued)

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

	As of October 31, 2010				As of October 31, 2009			
	Fair Value Measured Using			Total Balance	Fair Value Measured Using			Total Balance
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
	In millions							
Assets								
Time deposits	$ —	$6,598	$—	$6,598	$ —	$ 8,925	$—	$ 8,925
Commercial paper	—	—	—	—	—	1,388	—	1,388
Money market funds	971	—	—	971	262	—	—	262
Marketable equity securities	11	3	—	14	7	3	—	10
Foreign bonds	8	365	—	373	10	367	—	377
Corporate bonds and other debt securities	3	6	50	59	5	5	36	46
Derivatives:								
Interest rate contracts	—	735	—	735	—	375	—	375
Foreign exchange contracts	—	150	32	182	—	379	1	380
Other derivatives	—	5	6	11	—	1	—	1
Total Assets	$993	$7,862	$88	$8,943	$284	$11,443	$37	$11,764
Liabilities								
Derivatives:								
Interest rate contracts	$ —	$ 89	$—	$ 89	$ —	$ 51	$—	$ 51
Foreign exchange contracts	—	880	10	890	—	720	1	721
Other derivatives	—	—	—	—	—	2	—	2
Total Liabilities	$ —	$ 969	$10	$ 979	$ —	$ 773	$ 1	$ 774

The following table presents the changes in Level 3 instruments in fiscal years 2010 and 2009 that were measured at fair value on a recurring basis. The majority of the Level 3 balances consist of

Note 9: Fair Value (Continued)

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)		
	Other Debt Securities	Derivative Instruments	Total
		In millions	
Beginning balance at November 1, 2009	$36	$ —	$ 36
Total (losses) gains (realized/unrealized):			
Included in earnings[1]	(8)	2	(6)
Included in OCI	14	67	81
Purchases, issuances, and settlements	8	(41)	(33)
Ending balance at October 31, 2010	$50	$ 28	$ 78
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 October 31, 2010	$(8)	$ 2	$ (6)

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

	Fair Value Measured Using Significant Unobservable Inputs (Level 3)		
	Other Debt Securities	Derivative Instruments	Total
		In millions	
Beginning balance at November 1, 2008	$ 64	$(1)	$ 63
Total (losses) gains (realized/unrealized):			
Included in earnings[1]	(2)	2	—
Included in OCI	(25)	(2)	(27)
Purchases, issuances, and settlements	(1)	1	—
Ending balance at October 31, 2009	$ 36	$—	$ 36
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 October 31, 2009	$ (2)	$—	$ (2)

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

HP measures certain assets including cost and equity method investments at fair value on a non-recurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. In fiscal years 2010 and 2009, HP recorded an impairment charge of $5 million and $22 million, respectively.

Note 10: Financial Instruments

Cash Equivalents and Available-for-Sale Investments

Cash equivalents and available-for-sale investments at fair value as of October 31, 2010 and October 31, 2009 were as follows:

	October 31, 2010				October 31, 2009			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	In millions							
Cash Equivalents								
Time deposits	$6,590	$—	$ —	$6,590	$ 8,870	$—	$ —	$ 8,870
Commercial paper	—	—	—	—	1,388	—	—	1,388
Money market funds	971	—	—	971	262	—	—	262
Total cash equivalents	7,561	—	—	7,561	10,520	—	—	10,520
Available-for-Sale Investments								
Debt securities:								
Time deposits	8	—	—	8	55	—	—	55
Foreign bonds	315	58	—	373	328	49	—	377
Corporate bonds and other debt securities	89	—	(30)	59	91	—	(45)	46
Total debt securities	412	58	(30)	440	474	49	(45)	478
Equity securities in public companies	5	4	—	9	3	2	—	5
Total cash equivalents and available-for-sale investments	$7,978	$62	$(30)	$8,010	$10,997	$51	$(45)	$11,003

Cash equivalents consist of investments in time deposits, commercial paper and money market funds with original maturities of ninety days or less. Interest income related to cash and cash equivalents was approximately $111 million in fiscal 2010, $119 million in fiscal 2009 and $401 million in fiscal 2008. Time deposits were primarily issued by institutions outside the U.S. as of October 31, 2010 and October 31, 2009. Available-for-sale securities consist of short-term investments which mature within twelve months or less and long-term investments with maturities longer than twelve months. Investments include primarily time deposits, fixed-interest securities, and institutional bonds. HP estimates the fair values of its investments based on quoted market prices or pricing models using current market rates. These estimated fair values may not be representative of actual values that will be realized in the future.

The gross unrealized loss as of October 31, 2010 was due primarily to declines in the fair value of certain debt securities and included $28 million that has been in a continuous loss position for more than twelve months. The gross unrealized loss as of October 31, 2009 was due primarily to declines in the fair value of certain debt securities and included $20 million that had been in a continuous loss

Note 10: Financial Instruments (Continued)

position for more than twelve months. HP does not intend to sell these debt securities, and it is not likely that HP will be required to sell these debt securities prior to the recovery of the amortized cost.

HP determined the declines in value of certain investments to be other-than-temporary declines. Accordingly, HP recorded impairments relating to credit losses of approximately $12 million in fiscal 2010, $24 million in fiscal 2009 and $27 million in fiscal 2008. HP includes these impairments in Interest and other, net in the Consolidated Statements of Earnings. Depending on market and other conditions, HP may record additional impairments with respect to its investment portfolio in the future.

Contractual maturities of short-term and long-term investments in available-for-sale debt securities at October 31, 2010 were as follows:

	October 31, 2010	
	Cost	Estimated Fair Value
	In millions	
Due in less than one year	$ 5	$ 5
Due in 1-5 years	15	15
Due in more than five years	392	420
	$412	$440

Proceeds from sales and maturities of available-for-sale and other securities were $200 million and $171 million in fiscal years 2010 and 2009, respectively. There were $8 million of gross realized gains on total investments in fiscal 2010. There were no realized gains or losses on total investments in fiscal 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 October 31, 2010 and October 31, 2009 was as follows:

	October 31, 2010	October 31, 2009
	In millions	
Time deposits	$ —	$ 55
Available-for-sale debt securities	5	—
Short-term investments	5	55
Time deposits	8	—
Available-for-sale debt securities	427	423
Available-for-sale equity securities	9	5
Equity securities in privately-held companies	154	129
Other investments	9	13
Included in long-term financing receivables and other assets	607	570
Total investments	$612	$625

Equity securities in privately held companies include cost basis and equity method investments. Other investments include marketable trading securities held to generate returns that HP expects to

Note 10: Financial Instruments (Continued)

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 Statements of Earnings. The net losses associated with these securities were $7 million and $14 million in fiscal years 2010 and 2009, respectively.

Derivative Financial Instruments

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

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

Certain of HP's derivative instruments contain credit-risk-related contingent features, such as a provision whereby HP and the counterparties to the derivative instruments could request collateralization on derivative instruments in net liability positions if HP's or the counterparties' credit rating falls below certain thresholds. As of October 31, 2010 and October 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.

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

Note 10: Financial Instruments (Continued)

interest rate swaps to mitigate the market risk exposures in connection with the debt to achieve primarily U.S. dollar LIBOR-based floating interest expense. The swap transactions generally involve principal and interest obligations for U.S. dollar-denominated amounts. Alternatively, HP may choose not to swap fixed for floating interest payments or may terminate a previously executed swap if it believes a larger proportion of fixed-rate debt would be beneficial. When investing in fixed-rate instruments, HP may enter into interest rate swaps that convert the fixed interest returns into variable 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 Statements of Earnings in the current period.

Cash Flow Hedges

HP uses a combination of forward contracts and options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted net revenue and, to a lesser extent, cost of sales, operating expense, and intercompany lease loan denominated in currencies other than the U.S. dollar. HP's foreign currency cash flow hedges mature generally within six to twelve months. However, certain leasing revenue-related forward contracts and intercompany lease loan forward contracts extend for the duration of the lease term, which can be up to five years. For derivative instruments that are designated and qualify as cash flow hedges, HP initially records the effective portion of the gain or loss on the derivative instrument in accumulated other comprehensive income or loss as a separate component of stockholders' equity and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized in earnings. HP reports the effective portion of cash flow hedges in the same financial statement line item as the changes in value of the hedged item. During fiscal years 2010, 2009 and 2008, HP did not discontinue any cash flow hedge for which it was probable that a forecasted transaction would not occur.

Net Investment Hedges

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

Other Derivatives

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

Note 10: Financial Instruments (Continued)

Hedge Effectiveness

For interest rate swaps designated as fair value hedges, HP measures effectiveness by offsetting the change in fair value of the hedged debt with the change in fair value of the derivative. For foreign currency options and forward contracts designated as cash flow or net investment hedges, HP measures effectiveness by comparing the cumulative change in the hedge contract with the cumulative change in the hedged item, both of which are based on forward rates. HP recognizes any ineffective portion of the hedge, as well as amounts not included in the assessment of effectiveness, in the Consolidated Statements of Earnings. As of October 31, 2010 and October 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 in fiscal years 2010, 2009 and 2008.

Fair Value of Derivative Instruments in the Consolidated Balance Sheets

As discussed in Note 9, HP estimates the fair values of derivatives primarily based on pricing models using current market rates and records all derivatives on the balance sheet at fair value. The gross notional and fair value of derivative financial instruments in the Consolidated Balance Sheets were recorded as follows:

	As of October 31, 2010					As of October 31, 2009				
	Gross Notional[(1)]	Other Current Assets	Long-term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities	Gross Notional[(1)]	Other Current Assets	Long-term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities
	In millions									
Derivatives designated as hedging instruments										
Fair value hedges:										
Interest rate contracts	$ 8,575	$ —	$656	$ —	$ —	$ 7,575	$ —	$346	$ —	$ 5
Cash flow hedges:										
Foreign exchange contracts	16,862	98	20	503	83	15,056	116	12	389	33
Net investment hedges:										
Foreign exchange contracts	1,466	8	2	58	62	1,350	13	12	47	39
Total derivatives designated as hedging instruments	26,903	106	678	561	145	23,981	129	370	436	77
Derivatives not designated as hedging instruments										
Foreign exchange contracts	13,701	51	3	129	55	16,104	206	20	163	51
Interest rate contracts[(2)]	2,200	—	79	—	89	2,211	—	29	—	45
Other derivatives	397	5	6	—	—	268	2	—	2	—
Total derivatives not designated as hedging instruments	16,298	56	88	129	144	18,583	208	49	165	96
Total derivatives	$43,201	$162	$766	$690	$289	$42,564	$337	$419	$601	$173

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

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

Note 10: Financial Instruments (Continued)

Effect of Derivative Instruments on the Consolidated Statements of Earnings

The before-tax effect of a derivative instrument and related hedged item in a fair value hedging relationship for fiscal years ended October 31, 2010 and October 31, 2009 was as follows:

	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item				
Derivative Instrument	**Location**	**2010**	**Hedged Item**	**Location**	**2010**
		In millions			**In millions**
Interest rate contracts	Interest and other, net	$316	Fixed-rate debt	Interest and other, net	$(299)

	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item				
Derivative Instrument	**Location**	**2009**	**Hedged Item**	**Location**	**2009**
		In millions			**In millions**
Interest rate contracts	Interest and other, net	$232	Fixed-rate debt	Interest and other, net	$(236)

Note 10: Financial Instruments (Continued)

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for fiscal years 2010 and 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)	
	2010	Location	2010	Location	2010
	In millions		In millions		In millions
Cash flow hedges:					
Foreign exchange contracts	$273	Net revenue	$325	Net revenue	$—
Foreign exchange contracts	50	Cost of products	80	Cost of products	—
Foreign exchange contracts	1	Other operating expenses	—	Other operating expenses	—
Foreign exchange contracts	20	Interest and other, net	—	Interest and other, net	—
Foreign exchange contracts	25	Net revenue	26	Interest and other, net	9
Total cash flow hedges	$369		$431		$ 9
Net investment hedges:					
Foreign exchange contracts	$(82)	Interest and other, net	$ —	Interest and other, net	$—

(1) Amount of gain recognized in income on derivative represents a $9 million gain related to the amount excluded from the assessment of hedge effectiveness in fiscal 2010.

	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)	
	2009	Location	2009	Location	2009
	In millions		In millions		In millions
Cash flow hedges:					
Foreign exchange contracts	$(1,044)	Net revenue	$475	Net revenue	$—
Foreign exchange contracts	115	Cost of products	142	Cost of products	—
Foreign exchange contracts	(3)	Other operating expenses	(4)	Other operating expenses	—
Foreign exchange contracts	1	Interest and other, net	(4)	Interest and other, net	—
Foreign exchange contracts	29	Net revenue	9	Interest and other, net	7
Total cash flow hedges	$ (902)		$618		$ 7
Net investment hedges:					
Foreign exchange contracts	$ (169)	Interest and other, net	$ —	Interest and other, net	$—

(1) Amount of gain recognized in income on derivative represents a $7 million gain related to the amount excluded from the assessment of hedge effectiveness in fiscal 2009.

Note 10: Financial Instruments (Continued)

HP expects to reclassify an estimated net accumulated other comprehensive loss of $200 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 Statements of Earnings for fiscal years 2010 and 2009 was as follows:

	Gain (Loss) Recognized in Income on Derivative	
	Location	2010
		In millions
Foreign exchange contracts	Interest and other, net	$(764)
Other derivatives	Interest and other, net	8
Interest rate contracts	Interest and other, net	6
Total		$(750)

	Gain (Loss) Recognized in Income on Derivative	
	Location	2009
		In millions
Foreign exchange contracts	Interest and other, net	$(989)
Other derivatives	Interest and other, net	(1)
Interest rate contracts	Interest and other, net	1
Total		$(989)

Other Financial Instruments

For the balance of HP's financial instruments, accounts receivable, financing receivables, notes payable and short-term borrowings, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities. The estimated fair value of HP's short- and long-term debt was approximately $22.5 billion at October 31, 2010, compared to a carrying value of $22.3 billion at that date. The estimated fair value of HP's short- and long-term debt was approximately $16.0 billion at October 31, 2009, compared to a carrying value of $15.8 billion at that date. The estimated fair value of the debt is based primarily on quoted market prices, as well as borrowing rates currently available to HP for bank loans with similar terms and maturities.

Note 11: Financing Receivables and Operating Leases

Financing receivables represent sales-type and direct-financing leases resulting from the placement 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 billed receivables from operating leases. The components of net financing receivables, which are

Note 11: Financing Receivables and Operating Leases (Continued)

included in financing receivables and long-term financing receivables and other assets, were as follows for the following fiscal years ended October 31:

	2010	2009
	In millions	
Minimum lease payments receivable	$ 7,094	$ 6,413
Allowance for doubtful accounts	(140)	(108)
Unguaranteed residual value	212	244
Unearned income	(596)	(571)
Financing receivables, net	6,570	5,978
Less current portion	(2,986)	(2,675)
Amounts due after one year, net	$ 3,584	$ 3,303

As of October 31, 2010, scheduled maturities of HP's minimum lease payments receivable were as follows for the following fiscal years ended October 31:

	2011	2012	2013	2014	Thereafter	Total
Scheduled maturities of minimum lease payments receivable	$3,320	$1,951	$1,113	$520	$190	$7,094

Equipment leased to customers under operating leases was $3.5 billion at October 31, 2010 and $3.0 billion at October 31, 2009 and is included in machinery and equipment. Accumulated depreciation on equipment under lease was $1.0 billion at October 31, 2010 and $0.9 billion at October 31, 2009. As of October 31, 2010, minimum future rentals on non-cancelable operating leases related to leased equipment were as follows for the following fiscal years ended October 31:

	2011	2012	2013	2014	Thereafter	Total
Minimum future rentals on non-cancelable operating leases	$1,169	$785	$398	$127	$46	$2,525

Note 12: Guarantees

Guarantees and Indemnifications

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

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

Note 12: Guarantees (Continued)

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.

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 were as follows for the following fiscal years ended October 31:

	2010	2009
	In millions	
Product warranty liability at beginning of year	$ 2,409	$ 2,614
Accruals for warranties issued	2,689	2,701
Adjustments related to pre-existing warranties (including changes in estimates)	(53)	(223)
Settlements made (in cash or in kind)	(2,598)	(2,683)
Product warranty liability at end of year	$ 2,447	$ 2,409

Note 13: Borrowings

Notes Payable and Short-Term Borrowings

Notes payable and short-term borrowings, including the current portion of long-term debt, were as follows for the following fiscal years ended October 31:

	2010		2009	
	Amount Outstanding	Weighted-Average Interest Rate	Amount Outstanding	Weighted-Average Interest Rate
	In millions			
Commercial paper	$4,432	0.3%	$ 294	1.2%
Current portion of long-term debt	2,216	2.2%	1,143	1.0%
Notes payable to banks, lines of credit and other	398	1.5%	413	2.0%
	$7,046		$1,850	

Note 13: Borrowings (Continued)

Notes payable to banks, lines of credit and other includes deposits associated with HP's banking-related activities of approximately $348 million and $326 million at October 31, 2010 and 2009, respectively.

Long-Term Debt

Long-term debt was as follows for the following fiscal years ended October 31:

	2010	2009
	In millions	
U.S. Dollar Global Notes		
2002 Shelf Registration Statement:		
$500 issued at discount to par at a price of 99.505% in June 2002 at 6.5%, due July 2012	$ 500	$ 499
2006 Shelf Registration Statement:		
$600 issued at par in February 2007 at three-month USD LIBOR plus 0.11%, due March 2012	600	600
$900 issued at discount to par at a price of 99.938% in February 2007 at 5.25%, due March 2012	900	900
$500 issued at discount to par at a price of 99.694% in February 2007 at 5.4%, due March 2017	499	499
$1,000 issued at par in June 2007 at three-month USD LIBOR plus 0.06%, paid June 2010	—	1,000
$1,500 issued at discount to par at a price of 99.921% in March 2008 at 4.5%, due March 2013	1,499	1,499
$750 issued at discount to par at a price of 99.932% in March 2008 at 5.5%, due March 2018	750	750
$2,000 issued at discount to par at a price of 99.561% in December 2008 at 6.125%, due March 2014	1,994	1,992
$275 issued at par in February 2009 at three-month USD LIBOR plus 1.75%, due February 2011	275	275
$1,000 issued at discount to par at a price of 99.956% in February 2009 at 4.25%, due February 2012	1,000	1,000
$1,500 issued at discount to par at a price of 99.993% in February 2009 at 4.75%, due June 2014	1,500	1,500
2009 Shelf Registration Statement:		
$750 issued at par in May 2009 at three-month USD LIBOR plus 1.05%, due May 2011	750	750
$1,000 issued at discount to par at a price of 99.967% in May 2009 at 2.25%, due May 2011	1,000	1,000
250 issued at discount to par at a price of 99.984% in May 2009 at 2.95%, due August 2012	250	250
$800 issued at par in September 2010 at three-month USD LIBOR plus 0.125%, due September 2012	800	—

Note 13: Borrowings (Continued)

	2010	2009
	In millions	
$1,100 issued at discount to par of 99.921% in September 2010 at 1.25% due September 2013	1,099	—
$1,100 issued at discount to par of 99.887% in September 2010 at 2.125% due September 2015	1,099	—
	14,515	12,514
EDS Senior Notes		
$1,100 issued June 2003 at 6.0%, due August 2013	1,130	1,140
$300 issued October 1999 at 7.45%, due October 2029	315	315
	1,445	1,455
Other, including capital lease obligations, at 0.59%-8.63%, due in calendar year 2010-2024	845	785
Fair value adjustment related to hedged debt	669	369
Less: current portion	(2,216)	(1,143)
Total long-term debt	$15,258	$13,980

As disclosed in Note 9 to the Consolidated Financial Statements, HP uses interest rate swaps to mitigate the market risk exposures in connection with certain fixed interest global notes to achieve primarily U.S. dollar LIBOR-based floating interest expense. The table above does not reflect the interest rate swap impact on the interest rate.

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

In May 2009, HP filed a shelf registration statement (the "2009 Shelf Registration Statement") with the SEC to enable the company to offer for sale, from time to time, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants. The 2009 Shelf Registration Statement replaced other registration statements filed in March 2002 and May 2006.

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

HP has a $3.0 billion five-year credit facility expiring in May 2012. In February 2009, HP entered into a $3.5 billion 364-day credit facility. The February credit facility expired in February 2010, at which time HP entered into a new $3.5 billion 364-day credit facility maintaining the total amount available under its credit facilities at $6.5 billion. Commitment fees, interest rates and other terms of borrowing under the credit facilities vary based on HP's external credit ratings. The credit facilities are senior unsecured committed borrowing arrangements primarily to support the issuance of U.S. commercial paper. HP's ability to have a U.S. commercial paper outstanding balance that exceeds the $6.5 billion

Note 13: Borrowings (Continued)

supported by these credit facilities is subject to a number of factors, including liquidity conditions and business performance.

Included in Other, including capital lease obligations, are borrowings that are collateralized by certain financing receivable assets. As of October 31, 2010, the carrying value of the assets approximated the carrying value of the borrowings of $130 million.

As of October 31, 2010, HP had the capacity 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 $13.8 billion of available borrowing resources, including $12.1 billion under its commercial paper programs and approximately $1.5 billion relating to uncommitted lines of credit.

Aggregate future maturities of long-term debt at face value (excluding a fair value adjustment related to hedged debt of $669 million, a premium on debt issuance of $45 million, and a discount on debt issuance of $17 million) were as follows at October 31, 2010:

	2011	2012	2013	2014	2015	Thereafter	Total
				In millions			
Aggregate future maturities of debt outstanding including capital lease obligations	$2,208	$4,272	$3,775	$3,720	$1,111	$1,691	$16,777

Interest expense on borrowings was approximately $417 million in fiscal 2010, $597 million in fiscal 2009, and $467 million in fiscal 2008.

Subsequent event

On December 2, 2010, HP issued $2 billion of U.S. Dollar Global Notes under the 2009 Shelf Registration Statement. The Global Notes consisted of fixed rate notes at market rates with maturities of five and ten years from the date of issuance.

Note 14: Taxes on Earnings

The domestic and foreign components of earnings were as follows for the following fiscal years ended October 31:

	2010	2009	2008
		In millions	
U.S.	$ 4,027	$2,569	$ 2,232
Non-U.S.	6,947	6,846	8,241
	$10,974	$9,415	$10,473

The provision for (benefit from) taxes on earnings was as follows for the following fiscal years ended October 31:

	2010	2009	2008
		In millions	
U.S. federal taxes:			
Current	$ 484	$ 47	$ 405
Deferred	231	956	686
Non-U.S. taxes:			
Current	1,345	1,156	922
Deferred	21	(356)	(85)
State taxes:			
Current	187	173	44
Deferred	(55)	(221)	172
	$2,213	$1,755	$2,144

Note 14: Taxes on Earnings (Continued)

The significant components of deferred tax assets and deferred tax liabilities were as follows for the following fiscal years ended October 31:

	2010		2009	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
	In millions			
Loss carryforwards	$ 9,832	$ —	$ 9,191	$ —
Credit carryforwards	733	—	1,444	—
Unremitted earnings of foreign subsidiaries	—	7,529	—	7,555
Inventory valuation	153	10	111	6
Intercompany transactions—profit in inventory	514	1	534	16
Intercompany transactions—excluding inventory	2,339	—	1,328	—
Fixed assets	163	15	119	9
Warranty	723	48	794	38
Employee and retiree benefits	2,800	29	2,692	80
Accounts receivable allowance	290	9	300	4
Capitalized research and development	597	—	879	—
Purchased intangible assets	11	1,885	28	1,594
Restructuring	404	13	459	17
Equity investments	59	—	81	—
Deferred revenue	975	24	949	12
Other	1,587	251	1,599	82
Gross deferred tax assets and liabilities	21,180	9,814	20,508	9,413
Valuation allowance	(8,755)	—	(8,678)	—
Total deferred tax assets and liabilities	$12,425	$9,814	$11,830	$9,413

The breakdown between current and long-term deferred tax assets and deferred tax liabilities was as follows for the following fiscal years ended October 31:

	2010	2009
	In millions	
Current deferred tax assets	$ 5,833	$ 4,979
Current deferred tax liabilities	(53)	(83)
Long-term deferred tax assets	2,070	1,751
Long-term deferred tax liabilities	(5,239)	(4,230)
Total deferred tax assets net of deferred tax liabilities	$ 2,611	$ 2,417

As of October 31, 2010, HP had $2.8 billion, $4.1 billion and $29.8 billion of federal, state and foreign net operating loss carryforwards, respectively. Amounts included in each of these respective totals will begin to expire in fiscal 2011. HP also has a capital loss carryforward of approximately $275 million which will expire in fiscal 2015. HP has provided a valuation allowance of $145 million for deferred tax assets related to federal and state net operating losses, $106 million for deferred tax assets related to capital loss carryforwards, and $8.0 billion for deferred tax assets related to foreign net operating loss carryforwards that HP does not expect to realize.

Note 14: Taxes on Earnings (Continued)

As of October 31, 2010, HP had recorded deferred tax assets for various tax credit carryforwards of $733 million. This amount includes $74 million of U.S. foreign tax credit carryforwards which begin to expire in fiscal 2011 and against which HP has recorded a valuation allowance of $47 million. HP had alternative minimum tax credit carryforwards of $11 million, which do not expire, and U.S. research and development credit carryforwards of $293 million, which will begin to expire in fiscal 2024. HP also had tax credit carryforwards of $356 million in various states and foreign countries for which HP has provided a valuation allowance of $176 million to reduce the related deferred tax asset. These credits will begin to expire in fiscal 2011.

Gross deferred tax assets at October 31, 2010 and 2009 were reduced by valuation allowances of $8.8 billion and $8.7 billion, respectively. The valuation allowance increased by $77 million in fiscal 2010, consisting of $106 million associated with federal capital loss carryovers, and a net $29 million decrease associated with various net operating losses and tax credits.

Gross deferred tax assets at October 31, 2009 and 2008 were reduced by valuation allowances of $8.7 billion and $1.8 billion, respectively. The valuation allowance increased by $6.9 billion in fiscal 2009. The valuation allowance increase consisted of $7.0 billion associated with foreign net operating loss carryovers arising in fiscal 2009 pursuant to internal restructuring transactions, reduced by $100 million of valuation allowance decreases associated with state and foreign net operating losses.

Net excess tax benefits resulting from the exercise of employee stock options and other employee stock programs are recorded as an increase in stockholders' equity and were approximately $300 million in fiscal 2010, $163 million in fiscal 2009, and $316 million in fiscal 2008.

The differences between the U.S. federal statutory income tax rate and HP's effective tax rate were as follows for the following fiscal years ended October 31:

	2010	2009	2008
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	1.3	0.9	1.3
Lower rates in other jurisdictions, net	(18.3)	(12.2)	(16.9)
Research and development credit	(0.1)	(0.5)	(0.4)
Foreign net operating loss	—	(4.1)	—
Valuation allowance	0.8	(0.6)	—
Accrued taxes due to post-acquisition integration	—	0.6	2.0
Other, net	1.5	(0.5)	(0.5)
	20.2%	18.6%	20.5%

In fiscal 2010, HP recorded $26 million of net income tax benefits related to items unique to the year. These amounts included adjustments to prior year foreign income tax accruals and credits, settlement of tax audit matters, valuation allowance adjustments, and other miscellaneous discrete items.

In fiscal 2009, HP recorded $547 million of net income tax benefits related to items unique to the year. The recorded amounts included $383 million of income tax benefits attributable to net deferred tax assets for foreign net operating loss carryovers arising pursuant to internal restructuring transactions. Also included were a net tax benefit of $154 million for the adjustment to estimated fiscal 2008 tax accruals upon filing the 2008 income tax returns, a $60 million income tax benefit for

Note 14: Taxes on Earnings (Continued)

valuation allowance reversals for state and foreign net operating losses, and other miscellaneous items that resulted in a net tax charge of $50 million.

In fiscal 2008, HP recorded $251 million of net income tax expense related to items unique to the year. The recorded amounts consisted of a tax charge of $205 million associated with the post-acquisition EDS integration, $44 million for the adjustment to estimated fiscal 2007 tax accruals upon filing the 2007 U.S. federal income tax return, and net tax charges of $2 million attributable to other items.

In October 2008, the Emergency Economic Stabilization Act of 2008 was signed into law, which included a retroactive two year extension of the research and development tax credit from January 1, 2008 through December 31, 2009. The retroactive income tax benefit of $45 million was recorded in HP's financial statements in the fourth quarter of fiscal 2008.

As a result of certain employment actions and capital investments HP has undertaken, income from manufacturing and services in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, through 2024. The gross income tax benefits attributable to the tax status of these subsidiaries were estimated to be $966 million ($0.41 per share) in fiscal year 2010, $853 million ($0.35 per share) in fiscal year 2009, and $900 million ($0.35 per share) in fiscal year 2008. The gross income tax benefits were offset partially by accruals of U.S. income taxes on undistributed earnings, among other factors.

Note 14: Taxes on Earnings (Continued)

The total amount of gross unrecognized tax benefits was $2.1 billion as of October 31, 2010. A reconciliation of unrecognized tax benefits is as follows:

Balance at November 1, 2007	$2,271
Increases:	
For current year's tax positions	101
For prior years' tax positions	739
Decreases:	
For prior years' tax positions	(751)
Statute of limitations expiration	(16)
Settlements with taxing authorities	(11)
Balance at October 31, 2008	$2,333
Increases:	
For current year's tax positions	115
For prior years' tax positions	626
Decreases:	
For prior years' tax positions	(762)
Statute of limitations expiration	(293)
Settlements with taxing authorities	(131)
Balance at October 31, 2009	$1,888
Increases:	
For current year's tax positions	27
For prior years' tax positions	347
Decreases:	
For prior years' tax positions	(120)
Statute of limitations expiration	(1)
Settlements with taxing authorities	(56)
Balance at October 31, 2010	$2,085

Up to $680 million, $950 million and $1.0 billion of HP's unrecognized tax benefits at October 31, 2008, 2009 and 2010, respectively, would affect HP's effective tax rate if realized.

HP recognizes interest income from favorable settlements and income tax receivables and interest expense and penalties accrued on unrecognized tax benefits within income tax expense. As of October 31, 2010, HP had accrued a net $181 million payable for interest and penalties. During fiscal 2010, HP recognized net interest expense net of tax on net deficiencies of $66 million.

Note 14: Taxes on Earnings (Continued)

HP engages in continuous discussion and negotiation with taxing authorities regarding tax matters in various jurisdictions. HP does not expect complete resolution of any IRS audit cycle within the next 12 months. However, it is reasonably possible that certain federal, foreign and state tax issues may be concluded in the next 12 months, including issues involving transfer pricing and other matters. Accordingly, HP believes it is reasonably possible that its existing unrecognized tax benefits may be reduced by an amount up to $442 million within the next 12 months.

HP is subject to income tax in the United States and approximately 80 foreign countries and is subject to routine corporate income tax audits in many of these jurisdictions. In addition, HP is subject to numerous ongoing audits by state and foreign tax authorities. HP has received from the IRS Notices of Deficiency for its fiscal 1999, 2000, 2003, 2004 and 2005 tax years, and Revenue Agent's Reports ("RAR") for its fiscal 2001, 2002 and 2006 tax years. The IRS began an audit of HP's 2007 income tax returns in 2009, and began its audit of HP's 2008 income tax returns during 2010. With respect to major foreign and state tax jurisdictions, HP is no longer subject to tax authority examinations for years prior to 1999. HP believes that adequate accruals have been provided for all open tax years.

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 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.

Tax years of EDS through 2002 have been audited by the IRS, and all proposed adjustments have been resolved. The IRS is currently auditing EDS's tax years 2005, 2006, 2007 and the short period ended August 26, 2008. On December 5, 2008, EDS received a RAR for exam years 2003 and 2004, proposing a tax deficiency of $82 million. This deficiency includes a $12 million effect on carrybacks to 2000 and 2001. HP is appealing certain issues and believes adequate reserves have been provided for all years.

On January 30, 2008, HP received a Notice of Deficiency from the IRS for its fiscal 2003 tax year. The Notice of Deficiency asserted that HP owes additional tax of $21 million. At the same time, HP received an RAR from the IRS for its fiscal 2002 tax year that proposed no change in HP's tax liability for that year. In addition to the proposed deficiency for fiscal 2003, the IRS's adjustments for both years, if sustained, would reduce tax refund claims HP has filed for net operating loss carrybacks to earlier fiscal years and reduce the tax benefits of tax credit carryforwards to subsequent years, by approximately $249 million. This amount reflects certain transfer pricing adjustments that were settled during fiscal 2008. HP plans to contest certain remaining adjustments proposed in the Notice of Deficiency and the RAR. Towards this end, HP filed a petition with the United States Tax Court on April 29, 2008. HP believes that it has provided adequate reserves for any tax deficiencies or reductions in refund claims that could result from the IRS actions.

On June 28, 2007, HP received a Notice of Deficiency from the IRS for its fiscal 1999 and 2000 tax years. The Notice of Deficiency asserted that HP owes additional tax of $13 million for these two years. At the same time, HP received a RAR from IRS for its fiscal 2001 tax year that proposed no change in HP's tax liability for that year. In addition to the proposed deficiencies for fiscal 1999 and 2000, the IRS's adjustments, if sustained, would reduce tax refund claims HP has filed for foreign tax

Note 14: Taxes on Earnings (Continued)

credit and net operating loss carrybacks to earlier fiscal years and reduce the tax benefits of carryforwards to subsequent years, by approximately $80 million. HP plans to contest certain of the adjustments proposed in the Notice of Deficiency and the RAR. Towards this end, HP filed a Petition with the United States Tax Court on September 25, 2007. HP believes that it has provided adequate reserves for any tax deficiencies or reductions in refund claims that could result from the IRS actions.

HP has not provided for U.S. federal income and foreign withholding taxes on $21.9 billion of undistributed earnings from non-U.S. operations as of October 31, 2010 because HP intends to reinvest such earnings indefinitely outside of the United States. If HP were to distribute these earnings, foreign tax credits may become available under current law to reduce the resulting U.S. income tax liability. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. HP will remit non-indefinitely reinvested earnings of its non-US subsidiaries for which deferred U.S. federal and withholding taxes have been provided where excess cash has accumulated and it determines that it is advantageous for business operations, tax or cash management reasons.

Note 15: Stockholders' Equity

Dividends

The stockholders of HP common stock are entitled to receive dividends when and as declared by HP's Board of Directors. Dividends are paid quarterly. Dividends declared were $0.32 per common share in each of fiscal 2010, 2009 and 2008.

Stock Repurchase Program

HP's share repurchase program authorizes both open market and private repurchase transactions. In fiscal 2010, HP executed share repurchases of 241 million shares. Repurchases of 240 million shares were settled for $11.0 billion, which included 3 million shares repurchased in transactions that were executed in fiscal 2009 but settled in fiscal 2010. HP had approximately 4 million shares repurchased in the fourth quarter of fiscal 2010 that will be settled in the next fiscal year. In fiscal 2009, HP completed share repurchases of approximately 120 million shares. Repurchases of approximately 132 million shares were settled for $5.1 billion, which included approximately 14 million shares repurchased in transactions that were executed in fiscal 2008 but settled in fiscal 2009. In fiscal 2008, HP completed share repurchases of approximately 230 million shares. Repurchases of approximately 216 million shares were settled for $9.6 billion, which included approximately 1 million shares repurchased in transactions that were executed in fiscal 2007 but settled in fiscal 2008. The foregoing shares repurchased and settled in fiscal 2010, fiscal 2009 and fiscal 2008 were all open market repurchase transactions.

In fiscal 2010, HP's Board of Directors authorized an additional $18.0 billion for future share repurchases. In fiscal 2009, there was no additional authorization for future share repurchases by HP's Board of Directors. In fiscal 2008, HP's Board of Directors authorized an additional $16.0 billion for future share repurchases. As of October 31, 2010, HP had remaining authorization of approximately $10.9 billion for future share repurchases.

Note 15: Stockholders' Equity (Continued)

Comprehensive Income

The changes in the components of other comprehensive income, net of taxes, were as follows for the following fiscal years ended October 31:

	2010	2009	2008
		In millions	
Net earnings	$8,761	$ 7,660	$8,329
Net change in unrealized gains (losses) on available-for-sale securities:			
Change in net unrealized gains (losses), net of tax of $9 million in fiscal 2010, net of tax of $11 million in fiscal 2009 and net of tax benefit of $7 million in fiscal 2008	16	17	(17)
Net unrealized (gains) losses reclassified into earnings, with no tax effect in fiscal 2010, fiscal 2009 and fiscal 2008	—	(1)	1
	16	16	(16)
Net change in unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses) recognized in OCI, net of tax of $119 million in fiscal 2010, net of tax benefit of $362 million in fiscal 2009 and net of tax of $468 million in fiscal 2008	250	(540)	808
(Gains) losses reclassified into income, net of tax of $149 million in fiscal 2010, net of tax of $187 million in fiscal 2009 and net of tax benefit of $34 million in fiscal 2008	(282)	(431)	58
	(32)	(971)	866
Net change in cumulative translation adjustment, net of tax of $31 million in fiscal 2010, net of tax of $227 million in fiscal 2009 and net of tax benefit of $476 million in fiscal 2008	28	304	(936)
Net change in unrealized components of defined benefit plans, net of tax benefit of $83 million in fiscal 2010, $905 million in fiscal 2009 and $42 million in fiscal 2008	(602)	(2,531)	(538)
Comprehensive income	$8,171	$ 4,478	$7,705

The components of accumulated other comprehensive loss, net of taxes, were as follows for the following fiscal years ended October 31:

	2010	2009	2008
		In millions	
Net unrealized gain (loss) on available-for-sale securities	$ 20	$ 4	$ (12)
Net unrealized (loss) gain on cash flow hedges	(201)	(169)	802
Cumulative translation adjustment	(431)	(459)	(763)
Unrealized components of defined benefit plans	(3,225)	(2,623)	(92)
Accumulated other comprehensive loss	$(3,837)	$(3,247)	$ (65)

Note 16: Retirement and Post-Retirement Benefit Plans

Acquisition of EDS

On August 26, 2008, EDS became a wholly-owned subsidiary of HP. EDS sponsors qualified and non-qualified defined benefit pension plans covering substantially all of its employees. The majority of the EDS defined benefit pension plans are noncontributory. In most plans, employees become fully vested upon attaining two to five years of service, and benefits are based on many factors, which differ by country, but the most significant is years of service and earnings. The projected unit credit cost method is used for actuarial purposes. Plan assets and plan obligations associated with the EDS defined benefit pension plans were included as of the acquisition date and through October 31, 2008. On a global basis, EDS plan assets totaled $7.8 billion and plan obligations totaled $10.1 billion as of August 26, 2008. The U.S. portion of global assets and obligations totaled $4.1 billion and $5.0 billion, respectively.

Defined Benefit Plans

HP sponsors a number of defined benefit pension plans worldwide, of which the most significant are in the United States. Both the HP Retirement Plan (the "Retirement Plan"), a traditional defined benefit pension plan based on pay and years of service, and the HP Company Cash Account Pension Plan (the "Cash Account Pension Plan"), under which benefits are accrued pursuant to a cash accumulation account formula based upon a percentage of pay plus interest, were frozen effective January 1, 2008. The Cash Account Pension Plan and the Retirement Plan were merged in 2005 for certain funding and investment purposes. The merged plan is referred to as the HP Pension Plan.

Following the acquisition of EDS, HP announced that it was modifying the EDS U.S. qualified and non-qualified plans for employees accruing benefits under the programs. Effective January 1, 2009, EDS employees in the U.S. ceased accruing pension benefits, and the final pension benefit for EDS employees who retire on and after that date will be calculated based on pay and service through December 31, 2008.

Effective October 30, 2009, the EDS U.S. qualified pension plan was also merged into the HP Pension Plan. The EDS U.S. qualified pension plan, like the Cash Account Pension Plan and the Retirement Plan, remains a separate sub-plan within the HP Pension Plan for purposes of determining benefit amounts. As a result, the merger had no impact on the separate benefit structures of the plans.

HP reduces the benefit payable to a U.S. employee under the Retirement Plan for service before 1993, if any, by any amounts due to the employee under HP's frozen defined contribution Deferred Profit-Sharing Plan (the "DPSP"). HP closed the DPSP to new participants in 1993. The DPSP plan obligations are equal to the plan assets and are recognized as an offset to the Pension Plan when HP calculates its defined benefit pension cost and obligations. The fair value of plan assets and projected

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

benefit obligations for the U.S. defined benefit plans combined with the DPSP is as follows for the following fiscal years ended October 31:

	2010		2009	
	Plan Assets	Projected Benefit Obligation	Plan Assets	Projected Benefit Obligation
	In millions			
U.S. defined benefit plans	$ 9,427	$10,902	$8,371	$10,034
DPSP	927	927	872	872
Total	$10,354	$11,829	$9,243	$10,906

Post-Retirement Benefit Plans

Through fiscal 2005, substantially all of HP's U.S. employees at December 31, 2002 could become eligible for partially subsidized retiree medical benefits and retiree life insurance benefits under the Pre-2003 HP Retiree Medical Program (the "Pre-2003 Program") and certain other retiree medical programs. Plan participants in the Pre-2003 Program make contributions based on their choice of medical option and length of service. U.S. employees hired or rehired on or after January 1, 2003 may become eligible to participate in a post-retirement medical plan, the HP Retiree Medical Program, but must bear the full cost of their participation. Effective January 1, 2006, employees whose combination of age and years of service was less than 62 no longer were eligible for the subsidized Pre-2003 Program, but instead were eligible for the HP Retiree Medical Program. Employees no longer eligible for the Pre-2003 Program, as well as employees hired on or after January 1, 2003, are eligible for certain credits under the HP Retirement Medical Savings Account Plan ("RMSA Plan") upon attaining age 45. Upon retirement, former employees may use credits under the RMSA Plan for the reimbursement of certain eligible medical expenses, including premiums required for coverage under the HP Retiree Medical Program. In February 2007, HP further limited future eligibility for the Pre-2003 HP Retiree Medical Program to those employees who were within five years of satisfying the program's retirement criteria on June 30, 2007. Employees not meeting the modified program criteria may become eligible for participation in the HP Retiree Medical Program. In November 2008, HP announced that it was changing the limits on future cost-sharing for the Pre-2003 Program whereby all future cost increases will be paid by participating retirees starting in 2011. In June 2008, HP modified the RMSA Plan to provide that generally only those employees who were employed with HP as of July 31, 2008 would be eligible to receive employer credits. In September 2008, HP further modified the RMSA Plan to provide that such employees would receive employer credits only in the form of matching contributions.

HP currently collects a retiree drug subsidy from the U.S. federal government relating to the retiree prescription drug benefits that it provides. Collecting the retiree drug subsidy is one of several alternatives under Medicare Part D that employers have in financing these benefits. In March 2010, HP decided to contract with a prescription drug plan, leveraging the employer group waiver plan process, to provide group benefits under Medicare Part D as an alternative to collecting the retiree drug subsidy. This change in retiree prescription drug financing strategy will take effect in 2013, and, due to the health care reform legislation enacted in March 2010, is expected to give HP access to greater U.S. federal subsidies over time to help pay for retiree benefits. Aside from this impact, the health care

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

reform legislation is not expected to affect the cost of HP's retiree welfare programs because the subsidy offered by HP is fixed.

During fiscal year 2010, HP also announced the elimination of company-paid retiree life insurance effective January 1, 2011.

Defined Contribution Plans

HP offers various defined contribution plans for U.S. and non-U.S. employees. Total defined contribution expense was $535 million in fiscal 2010, $568 million in fiscal 2009 and $548 million in fiscal 2008. U.S. employees are automatically enrolled in the Hewlett-Packard Company 401(k) Plan (the "HP 401(k) Plan") when they meet eligibility requirements, unless they decline participation. Similar to HP, EDS offered participation in defined contribution plans for U.S. and non-U.S. employees, including an EDS 401(k) Plan.

During fiscal 2008, HP matched employee contributions to the HP 401(k) Plan with cash contributions up to a maximum of 6% of eligible compensation for U.S. employees hired prior to August 1, 2008. For U.S. employees hired on or after August 1, 2008 HP matched employee contributions up to a maximum of 4% of eligible compensation.

The employer match for the EDS 401(k) Plan was 25% of the employee contribution based on a maximum contribution of 6% of the employee's salary. Effective January 1, 2009, U.S. employees participating in the EDS 401(k) Plan became eligible for a 4% matching contribution on eligible compensation. Similar to the HP 401(k) Plan, contributions are invested at the direction of the employee in various funds, although the EDS 401(k) Plan does not offer an HP stock fund.

Effective April 1, 2009, HP matching contributions under both the HP 401(k) Plan and the EDS 401(k) Plan were changed to a quarterly, discretionary, performance-based match of up to a maximum of 4% of eligible compensation for all U.S. employees to be determined each fiscal quarter based on business results. HP matching contributions may vary from 0% to 100% of the maximum 4% match, based on such factors as quarterly earnings, market share growth, and performance relative to market and economic conditions. HP's matching contributions for each of the quarters in fiscal 2010 were 100% of the maximum 4% match. Effective November 2010, the quarterly employer matching contributions in the HP 401(k) Plan and the EDS 401(k) Plan will no longer be discretionary, but will be equal to 100% of an employee's contributions, up to a maximum of 4% of eligible compensation.

Effective January 31, 2004, HP designated the HP Stock Fund, an investment option under the HP 401(k) Plan, as an Employee Stock Ownership Plan and, as a result, participants in the HP Stock Fund may receive dividends in cash or may reinvest such dividends into the HP Stock Fund. HP paid approximately $7 million, $8 million, and $9 million in dividends for the HP common shares held by the HP Stock Fund in fiscal 2010, 2009, and 2008, respectively. HP records the dividends as a reduction of retained earnings in the Consolidated Statements of Stockholders' Equity. The HP Stock Fund held approximately 22 million shares of HP common stock at October 31, 2010.

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Pension and Post-Retirement Benefit Expense

HP's net pension and post-retirement benefit cost (gain) recognized in the Consolidated Statements of Earnings was as follows for the following fiscal years ended October 31:

	U.S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
	In millions								
Service cost	$ 1	$ 27	$ 63	$ 319	$ 312	$ 281	$ 12	$ 14	$ 29
Interest cost	578	592	296	657	619	475	47	70	78
Expected return on plan assets	(662)	(533)	(318)	(756)	(669)	(713)	(32)	(32)	(40)
Amortization and deferrals:									
Actuarial loss (gain)	27	(72)	(36)	214	71	1	14	6	19
Prior service benefit	—	—	—	(11)	(9)	(8)	(87)	(78)	(55)
Net periodic benefit cost	(56)	14	5	423	324	36	(46)	(20)	31
Curtailment (gain) loss	—	—	—	(6)	5	—	(13)	(2)	—
Settlement loss (gain)	7	(1)	(1)	7	12	(2)	—	—	—
Special termination benefits	—	—	—	29	55	4	—	—	—
Net benefit (gain) cost	$ (49)	$ 13	$ 4	$ 453	$ 396	$ 38	$(59)	$(22)	$ 31

In fiscal 2010, HP recognized aggregate pension curtailment gains and settlement losses totaling $6 million and $7 million, respectively, resulting from workforce rebalancing initiatives in several non-U.S. countries. In the United Kingdom, workforce rebalancing initiatives triggered pension termination benefits totaling $29 million. In the United States, a settlement loss of $7 million was recognized for payout activity related to non-qualified plans and a curtailment gain of $13 million was recognized for the elimination of life insurance benefits.

The weighted-average assumptions used to calculate net benefit cost were as follows for the following fiscal years ended October 31:

	U.S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Discount rate	5.9%	8.0%	6.4%	5.0%	6.0%	5.2%	5.4%	8.2%	6.2%
Average increase in compensation levels	2.0%	2.0%	3.7%	2.5%	2.6%	3.3%	—	—	—
Expected long-term return on assets	8.0%	7.5%	6.7%	7.0%	6.9%	6.8%	9.5%	9.3%	8.7%

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

The medical cost and related assumptions used to calculate the net post-retirement benefit cost for the following fiscal years ended October 31 were as follows:

	2010[1]	2009	2008
Current medical cost trend rate	—	9.5%	7.5%
Ultimate medical cost trend rate	—	5.5%	5.5%
Year the medical cost rate reaches ultimate trend rate	—	2013	2010

(1) In connection with the plan changes announced in November 2008, the employer subsidy for the U.S. retiree medical plans was "frozen" in fiscal 2010. Therefore, trend rates for 2010 and beyond are no longer relevant to the liability calculation since any excess cost will be paid by retirees.

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Funded Status

The funded status of the defined benefit and post-retirement benefit plans was as follows for the following fiscal years ended October 31:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2010	2009	2010	2009	2010	2009
			In millions			
Change in fair value of plan assets:						
Fair value—beginning of year	$ 8,371	$ 7,313	$11,325	$ 9,507	$ 352	$ 401
Acquisition/addition/(deletion) of plans	—	—	—	(4)	—	—
Actual return on plan assets	1,224	1,509	1,430	856	56	(15)
Employer contributions	290	55	482	531	25	31
Participants' contributions	—	—	72	84	49	9
Benefits paid	(440)	(488)	(366)	(449)	(108)	(74)
Settlements	(18)	(18)	(73)	(125)	—	—
Currency impact	—	—	(110)	925	—	—
Fair value—end of year	9,427	8,371	12,760	11,325	374	352
Change in benefit obligation:						
Projected benefit obligation—beginning of year	$10,034	$ 7,654	$14,144	$10,468	$ 992	$1,096
Acquisition/addition/(deletion) of plans	—	—	5	(40)	—	(9)
Impact of change in measurement date	—	21	—	49	—	1
Service cost	1	27	319	312	12	14
Interest cost	578	592	658	619	47	70
Participants' contributions	—	—	72	84	49	9
Actuarial loss (gain)	747	2,245	1,514	2,106	(120)	60
Benefits paid	(440)	(488)	(366)	(449)	(109)	(74)
Plan amendments	—	1	(26)	(11)	(28)	(179)
Curtailment	—	—	(12)	(22)	—	—
Settlement	(18)	(18)	(73)	(125)	—	—
Special termination benefits	—	—	29	55	—	—
Currency impact	—	—	(175)	1,098	2	4
Projected benefit obligation—end of year	10,902	10,034	16,089	14,144	845	992
Plan assets less than benefit obligation	(1,475)	(1,663)	(3,329)	(2,819)	(471)	(640)
Net amount recognized	$ (1,475)	$ (1,663)	$ (3,329)	$ (2,819)	$(471)	$ (640)
Accumulated benefit obligation	$10,900	$10,031	$15,204	$13,217		

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

The net amounts recognized for HP's defined benefit and post-retirement benefit plans in HP's Consolidated Balance Sheets as of October 31, 2010 and October 31, 2009 were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2010	2009	2010	2009	2010	2009
	In millions					
Non-current assets	$ —	$ 965	$ 95	$ 101	$ —	$ —
Current liability	(30)	(29)	(37)	(38)	(39)	(43)
Non-current liability	(1,445)	(2,599)	(3,387)	(2,882)	(432)	(597)
Net amount recognized	$(1,475)	$(1,663)	$(3,329)	$(2,819)	$(471)	$(640)

The following table summarizes the pretax net experience loss (gain) and prior service benefit recognized in accumulated other comprehensive (income) loss for the company's defined benefit and post-retirement benefit plans as of October 31, 2010.

	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans
	In millions		
Net experience loss (gain)	$820	$3,868	$ (11)
Prior service benefit	—	(114)	(432)
Total recognized in accumulated other comprehensive loss (income)	$820	$3,754	$(443)

The following table summarizes the experience loss and prior service benefit that will be amortized from accumulated other comprehensive income and recognized as components of net periodic benefit cost (credit) during the next fiscal year.

	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans
	In millions		
Net experience loss	$34	$261	$ 2
Prior service benefit	—	(14)	(83)
Total to be recognized in accumulated other comprehensive loss (income)	$34	$247	$(81)

The weighted-average assumptions used to calculate the benefit obligation disclosed as of the 2010 and 2009 fiscal close were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2010	2009	2010	2009	2010	2009
Discount rate	5.6%	5.9%	4.4%	5.0%	4.4%	5.4%
Average increase in compensation levels	2.0%	2.0%	2.5%	2.5%	—	—

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Defined benefit plans with projected benefit obligations exceeding the fair value of plan assets were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans	
	2010	2009	2010	2009
	In millions			
Aggregate fair value of plan assets	$ 9,427	$3,516	$11,907	$ 9,247
Aggregate projected benefit obligation	$10,902	$6,144	$15,331	$12,167

Defined benefit plans with accumulated benefit obligations exceeding the fair value of plan assets were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans	
	2010	2009	2010	2009
	In millions			
Aggregate fair value of plan assets	$ 9,427	$3,515	$10,529	$7,040
Aggregate accumulated benefit obligation	$10,900	$6,141	$13,140	$9,263

Fair Value Considerations

The table below sets forth the fair value of our plan assets as of October 31, 2010 by asset category, using the same three-level hierarchy of fair-value inputs described in Note 9.

	U.S. Defined Benefit Plans				Non-U.S. Defined Benefit Plans				Post-Retirement Benefit Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	In millions											
Asset Category:												
Equity securities												
U.S.	$1,460	$ 4	$ —	$1,464	$1,028	$ 195	$ 64	$ 1,287	$ 68	$ —	$ —	$ 68
Non-U.S.	1,193	—	—	1,193	5,265	652	—	5,917	40	—	—	40
Debt securities												
Corporate	—	2,931	—	2,931	2,031	887	6	2,924	—	57	—	57
Government[(1)]	1,314	992	—	2,306	626	376	—	1,002	14	30	—	44
Alternative Investments												
Private Equities[(2)]	2	—	1,034	1,036	—	—	14	14	—	—	154	154
Hybrids	—	—	6	6	3	18	—	21	—	—	1	1
Hedge Funds	—	—	—	—	102	7	231	340	—	—	—	—
Real Estate Funds	—	—	—	—	363	171	225	759	—	—	—	—
Insurance Group Annuity Contracts	—	—	—	—	17	54	74	145	—	—	—	—
Cash and Cash Equivalents[(3)]	7	484	—	491	305	27	—	332	5	5	—	10
Other[(4)]	—	—	—	—	7	10	2	19	—	—	—	—
Total	$3,976	$4,411	$1,040	$9,427	$9,747	$2,397	$616	$12,760	$127	$92	$155	$374

(1) Includes debt issued by national, state and local governments and agencies.

(2) Includes limited partnerships and venture capital partnerships.

(3) Includes cash and cash equivalents such as short-term marketable securities.

(4) Includes international insured contracts and unsettled transactions.

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Changes in fair value measurements of Level 3 investments during the year ended October 31, 2010, were as follows:

	U.S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans								Post-Retirement Benefit Plans		
	Alternative Investments			Equity	Debt Securities	Alternative Investments			Insurance			Alternative Investments		
	Private Equities	Hybrids	Total	US Equities	Corporate Debt	Private Equities	Hedge Funds	Real Estate	Group Annuities	Other	Total	Private Equities	Hybrids	Total
	In millions													
Beginning balance at October 31, 2009	$ 911	$ 20	$ 931	$ —	$ —	$10	$ 49	$219	$74	$ 2	$354	$135	$ 3	$138
Actual return on plan assets:														
Relating to assets still held at the reporting date	—	—	—	(4)	—	1	26	19	3	—	45	19	(2)	17
Relating to assets sold during the period	—	—	—	—	—	—	8	3	(1)	—	10	—	—	—
Purchases, sales, settlements (net)	123	(14)	109	68	5	3	148	(16)	(2)	—	206	—	—	—
Transfers in and/or out of Level 3	—	—	—	—	1	—	—	—	—	—	1	—	—	—
Ending balance at October 31, 2010	$1,034	$ 6	$1,040	$64	$ 6	$14	$231	$225	$74	$ 2	$616	$154	$ 1	$155

Plan Asset Valuations

The following is a description of the valuation methodologies used for pension plan assets measured at fair value. There have been no changes in the methodologies used during the reporting period.

Investments in securities are valued at the closing price reported on the stock exchange in which the individual securities are traded. For corporate, government, and asset-backed debt securities, fair value is based upon observable inputs of comparable market transactions. For corporate and government debt securities traded on active exchanges, fair value is based upon observable quoted prices. Underlying assets for alternative investments such as limited partnerships, joint ventures and private equities are determined by the general partner or the general partner's designee on a quarter or periodic basis. The valuation for these assets requires judgment due to the absence of quoted market prices, and these assets are therefore classified as Level 3. Cash and cash equivalents includes money market accounts, which are valued based on the net asset value of the shares. Other assets were valued based upon the level of input (e.g., quoted prices, observable inputs (other than Level 1) or unobservable inputs that were significant to the fair value measurement of the assets).

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Plan Asset Allocations

The weighted-average target and actual asset allocations across the HP and EDS plans at the respective measurement dates were as follows:

	U. S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	2010 Target	Plan Assets		2010 Target	Plan Assets		2010 Target	Plan Assets	
Asset Category	Allocation	2010	2009	Allocation	2010	2009	Allocation	2010	2009
Public equity securities		28.2%	29.3%		57.6%	61.6%		28.9%	36.5%
Private equity securities		11.1%	10.9%		2.9%	—		41.4%	33.5%
Real estate and other		—	0.3%		6.1%	4.2%		—	1.3%
Equity related investments	40.0%	39.3%	40.5%	71.1%	66.6%	65.8%	70.3%	70.3%	71.3%
Public debt securities	60.0%	55.5%	58.7%	28.8%	30.8%	32.9%	27.0%	27.0%	25.9%
Cash	—	5.2%	0.8%	0.1%	2.6%	1.3%	2.7%	2.7%	2.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Investment Policy

HP's investment strategy for worldwide plan assets is to seek a competitive rate of return relative to an appropriate level of risk depending on the funded status of each plan. The majority of the plans' investment managers employ active investment management strategies with the goal of outperforming the broad markets in which they invest. Risk management practices include diversification across asset classes and investment styles and periodic rebalancing toward asset allocation targets. A number of the plans' investment managers are authorized to utilize derivatives for investment or liability exposures, and HP utilizes derivatives to effect asset allocation changes or to hedge certain investment or liability exposures.

The target asset allocation selected for each U.S. plan reflects a risk/return profile HP feels is appropriate relative to each plan's liability structure and return goals. HP conducts periodic asset-liability studies for U.S. plan assets in order to model various potential asset allocations in comparison to each plan's forecasted liabilities and liquidity needs. HP invests a portion of the U.S. defined benefit plan assets and post-retirement benefit plan assets in private market securities such as venture capital funds to provide diversification and higher expected returns.

Outside the United States, asset allocation decisions are typically made by an independent board of trustees. As in the U.S., investment objectives are designed to generate returns that will enable the plan to meet its future obligations. In some countries local regulations require adjustments in asset allocation, typically leading to a higher percentage in fixed income than would otherwise be deployed. HP's investment subsidiary acts in a consulting and governance role in reviewing investment strategy and providing a recommended list of investment managers for each country plan, with final decisions on asset allocation and investment managers made by local trustees.

Basis for Expected Long-Term Rate of Return on Plan Assets

The expected long-term rate of return on assets for each U.S. plan reflects the expected returns for each major asset class in which the plan invests and the weight of each asset class in the target mix.

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Expected asset class returns reflect the current yield on U.S. government bonds and risk premiums for each asset class. Because HP's investment policy is to employ primarily active investment managers who seek to outperform the broader market, the asset class expected returns are adjusted to reflect the expected additional returns net of fees.

HP closed the acquisition of EDS on August 26, 2008. Effective immediately before the close of fiscal 2009, HP merged the assets of the HP and EDS U.S. pension plans. The expected return on the plan assets, used in calculating the net benefit costs, is 8.0% for fiscal 2011, which reflects the result of the most recent asset allocation study and is commensurate with the investment strategy for the merged U.S. pension plan.

The approach used to arrive at the expected rate of return on assets for the non-U.S. plans reflects the asset allocation policy of each plan and the expected country real returns for equity and fixed income investments. On an annual basis, HP gathers empirical data from the local country subsidiaries to determine expected long-term rates of return for equity and fixed income securities. HP then weights these expected real rates of return based on country specific allocation mixes adjusted for inflation.

Future Contributions and Funding Policy

In fiscal 2011, HP expects to contribute approximately $747 million to its pension plans and approximately $30 million to cover benefit payments to U.S. non-qualified plan participants. HP expects to pay approximately $40 million to cover benefit claims for HP's post-retirement benefit plans. HP's funding policy is to contribute cash to its pension plans so that it meets at least the minimum contribution requirements, as established by local government, funding and taxing authorities.

Estimated Future Benefits Payable

HP estimates that the future benefits payable for the retirement and post-retirement plans in place were as follows at October 31, 2010:

	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans(1)
		In millions	
Fiscal year ending October 31			
2011	$ 532	$ 403	$ 84
2012	$ 559	$ 417	$ 83
2013	$ 580	$ 444	$ 78
2014	$ 607	$ 482	$ 76
2015	$ 509	$ 517	$ 75
Next five fiscal years to October 31, 2020	$2,993	$3,285	$341

(1) The estimated future benefits payable for the post-retirement plans are reflected net of the expected Medicare Part D subsidy.

Note 17: Commitments

HP leases certain real and personal property under non-cancelable operating leases. Certain leases require HP to pay property taxes, insurance and routine maintenance and include renewal options and escalation clauses. Rent expense was approximately $1,062 million in fiscal 2010, $1,112 million in fiscal 2009 and $935 million in fiscal 2008. Sublease rental income was approximately $46 million in fiscal 2010, $53 million in fiscal 2009 and $37 million in fiscal 2008.

At October 31, 2010 and October 31, 2009, property under capital lease, which was comprised primarily of equipment and furniture, was approximately $688 million and $723 million, respectively and was included in property, plant and equipment in the accompanying Consolidated Balance Sheets. Accumulated depreciation on the property under capital lease was approximately $482 million and $406 million, respectively, at October 31, 2010 and October 31, 2009. The related depreciation is included in depreciation expense.

Future annual minimum lease payments, sublease rental income commitments and capital lease commitments at October 31, 2010 were as follows:

	2011	2012	2013	2014	2015	Thereafter	Total
				In millions			
Minimum lease payments	$917	$855	$622	$373	$279	$643	$3,689
Less: Sublease rental income	(38)	(27)	(24)	(15)	(7)	(13)	(124)
	$879	$828	$598	$358	$272	$630	$3,565
Capital lease commitments	$111	$ 72	$ 51	$227	$ 15	$ 72	$ 548
Less: Interest payments	(14)	(12)	(9)	(7)	(4)	(19)	(65)
	$ 97	$ 60	$ 42	$220	$ 11	$ 53	$ 483

At October 31, 2010, HP had unconditional purchase obligations of approximately $2.6 billion. These unconditional purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on HP and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. Unconditional purchase obligations exclude agreements that are cancelable without penalty. These unconditional purchase obligations are related principally to inventory and other items. Future unconditional purchase obligations at October 31, 2010 were as follows:

	2011	2012	2013	2014	2015	Thereafter	Total
			In millions				
Unconditional purchase obligations	$1,973	$483	$126	$36	$26	$ —	$2,644

Note 18: Litigation and Contingencies

HP is involved in lawsuits, claims, investigations and proceedings, including those identified below, consisting of intellectual property, commercial, securities, employment, employee benefits and environmental matters that arise in the ordinary course of business. HP records a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. HP believes it has adequate provisions for any such matters. HP reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Based on its experience, HP believes that any damage amounts claimed

Note 18: Litigation and Contingencies (Continued)

in the specific matters discussed below are not a meaningful indicator of HP's potential liability. Litigation is inherently unpredictable. However, HP believes that it has valid defenses with respect to legal matters pending against it. Nevertheless, it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies or because of the diversion of management's attention and the creation of significant expenses.

Litigation, Proceedings and Investigations

Copyright levies. As described below, proceedings are ongoing or have been concluded involving HP in certain European Union ("EU") member countries, including litigation in Germany and Belgium, seeking to impose or modify levies upon equipment (such as multifunction devices ("MFDs"), personal computers ("PCs") and printers) and alleging that these devices enable producing private copies of copyrighted materials. The levies are generally based upon the number of products sold and the per-product amounts of the levies, which vary. Some EU member countries that do not yet have levies on digital devices are expected to implement similar legislation to enable them to extend existing levy schemes, while some other EU member countries are expected to limit the scope of levy schemes and applicability in the digital hardware environment. HP, other companies and various industry associations have opposed the extension of levies to the digital environment and have advocated alternative models of compensation to rights holders.

VerwertungsGesellschaft Wort ("VG Wort"), a collection agency representing certain copyright holders, instituted legal proceedings against HP in the Stuttgart Civil Court seeking levies on printers. On December 22, 2004, the court held that HP is liable for payments regarding all printers using ASCII code sold in Germany but did not determine the amount payable per unit. HP appealed this decision in January 2005 to the Stuttgart Court of Appeals. On May 11, 2005, the Stuttgart Court of Appeals issued a decision confirming that levies are due. On June 6, 2005, HP filed an appeal to the German Federal Supreme Court in Karlsruhe. On December 6, 2007, the German Federal Supreme Court issued a judgment that printers are not subject to levies under the existing law. The court issued a written decision on January 25, 2008, and VG Wort subsequently filed an application with the German Federal Supreme Court under Section 321a of the German Code of Civil Procedure contending that the court did not consider their arguments. On May 9, 2008, the German Federal Supreme Court denied VG Wort's application. VG Wort appealed the decision by filing a claim with the German Federal Constitutional Court challenging the ruling that printers are not subject to levies. On September 21, 2010, the Constitutional Court published a decision holding that the German Federal Supreme Court erred by not referring questions on interpretation of German copyright law to the Court of Justice of the European Union and therefore revoked the German Federal Supreme Court decision and remitted the matter to it. The German Federal Supreme Court has set a hearing date of March 24, 2011.

In September 2003, VG Wort filed a lawsuit against Fujitsu Siemens Computer GmbH ("FSC") in the Munich Civil Court in Munich, Germany seeking levies on PCs. This is an industry test case in Germany, and HP has agreed not to object to the delay if VG Wort sues HP for such levies on PCs following a final decision against FSC. On December 23, 2004, the Munich Civil Court held that PCs are subject to a levy and that FSC must pay €12 plus compound interest for each PC sold in Germany since March 2001. FSC appealed this decision in January 2005 to the Munich Court of Appeals. On December 15, 2005, the Munich Court of Appeals affirmed the Munich Civil Court decision. FSC filed an appeal with the German Federal Supreme Court in February 2006. On October 2, 2008, the German

Note 18: Litigation and Contingencies (Continued)

Federal Supreme Court issued a judgment that PCs were not photocopiers within the meaning of the German copyright law that was in effect until December 31, 2007 and, therefore, not subject to the levies on photocopiers established by that law. VG Wort has filed a claim with the German Federal Constitutional Court challenging that ruling. FSC and BITKOM have responded to VG Wort's claim, and the parties are awaiting a decision by the court as to whether it will accept or decide on the claim for judicial review.

Reprobel, a cooperative society with the authority to collect and distribute the remuneration for reprography to Belgian copyright holders, requested HP by extra-judicial means to amend certain copyright levy declarations submitted for inkjet MFDs sold in Belgium from January 2005 to December 2009 to enable it to collect copyright levies calculated based on the generally higher copying speed when the MFDs are operated in draft print mode rather than when operated in normal print mode. In March 2010, HP filed a lawsuit against Reprobel in the French-speaking chambers of the Court of First Instance of Brussels seeking a declaratory judgment that no copyright levies are payable on sales of MFDs in Belgium or, alternatively, that copyright levies payable on such MFDs must be assessed based on the copying speed when operated in the normal print mode set by default in the device. The schedule for the court proceedings has been determined, and no decision from the court is expected before September 2012.

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

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

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

- A consolidated lawsuit captioned *In re HP Inkjet Printer Litigation* is pending in the United States District Court for the Northern District of California where the plaintiffs are seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees. On January 4, 2008, the court heard plaintiffs' motions for class certification and to add a class representative and HP's motion for summary judgment. On July 25, 2008, the

Note 18: Litigation and Contingencies (Continued)

court denied all three motions. On March 30, 2009, the plaintiffs filed a renewed motion for class certification. A hearing on the plaintiffs' motion for class certification scheduled for April 9, 2010 was postponed.

- A lawsuit captioned *Blennis v. HP* was filed on January 17, 2007 in the United States District Court for the Northern District of California where the plaintiffs are seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees. A class certification hearing was scheduled for May 21, 2010 but was taken off the calendar.
- A lawsuit captioned *Rich v. HP* was filed against HP on May 22, 2006 in the United States District Court for the Northern District of California. The suit alleges that HP designed its color inkjet printers to unnecessarily use color ink in addition to black ink when printing black and white images and text. The plaintiffs are seeking to certify a nationwide injunctive class and a California-only damages class. A class certification hearing was scheduled for May 7, 2010 but was taken off the calendar.
- Four class actions against HP and its subsidiary, Hewlett-Packard (Canada) Co., are pending in Canada, one commenced in British Columbia in February 2006, two commenced in Quebec in April 2006 and May 2006, respectively, and one commenced in Ontario in June 2006, where the plaintiffs are seeking class certification, restitution, declaratory relief, injunctive relief and unspecified statutory, compensatory and punitive damages. In March 2010, one of the Quebec cases was voluntarily dismissed by the plaintiff.

On August 25, 2010, HP and the plaintiffs in *In re HP Inkjet Printer Litigation*, *Blennis v. HP* and *Rich v. HP* entered into an agreement to settle those lawsuits on behalf of the proposed classes, which agreement is subject to approval of the court before it becomes final. Under the terms of the proposed settlement, the lawsuits will be consolidated, and eligible class members will each have the right to obtain e-credits not to exceed $5 million in the aggregate for use in purchasing printers or printer supplies through HP's website. As part of the proposed settlement, HP also agreed to provide class members with additional information regarding HP inkjet printer functionality and to change the content of certain software and user guide messaging provided to users regarding the life of inkjet printer cartridges. In addition, class counsel and the class representatives will be paid attorneys' fees and expenses and stipends in an amount that is yet to be approved by the court. On October 1, 2010, the court granted preliminary approval of the proposed settlement. The court has scheduled a fairness hearing on January 28, 2011 to determine whether to grant final approval of the proposed settlement.

Baggett v. HP is a consumer class action filed against HP on June 6, 2007 in the United States District Court for the Central District of California alleging that HP employs a technology in its LaserJet color printers whereby the printing process shuts down prematurely, thus preventing customers from using the toner that is allegedly left in the cartridge. The plaintiffs also allege that HP fails to disclose to consumers that they will be unable to utilize the toner remaining in the cartridge after the printer shuts down. The complaint seeks certification of a nationwide class of purchasers of all HP LaserJet color printers and seeks unspecified damages, restitution, disgorgement, injunctive relief, attorneys' fees and costs. On September 29, 2009, the court granted HP's motion for summary judgment against the named plaintiff and denied plaintiff's motion for class certification as moot. On November 3, 2009, the court entered judgment against the named plaintiff. On November 17, 2009, plaintiff filed an appeal of the court's summary judgment ruling with the United States Court of Appeals for the Ninth Circuit. On August 25, 2010, HP and the plaintiff entered into an agreement to

Note 18: Litigation and Contingencies (Continued)

settle the lawsuit on behalf of the proposed class, which agreement is subject to approval of the court before it becomes final. Under the terms of the proposed settlement, eligible class members will each have the right to obtain e-credits not to exceed $5 million in the aggregate for use in purchasing printers or printer supplies through HP's website. In addition, class counsel and the class representative will be paid attorneys' fees and expenses and stipends in an amount that is yet to be approved by the court. On October 13, 2010, the court granted preliminary approval of the proposed settlement. The court has scheduled a fairness hearing for January 31, 2011 to determine whether to grant final approval of the proposed settlement.

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

- *Cunningham and Cunningham, et al. v. Electronic Data Systems Corporation* is a purported collective action filed on May 10, 2006 in the U.S. District Court for the Southern District of New York claiming that current and former EDS employees involved in installing and/or maintaining computer software and hardware were misclassified as exempt employees. Another purported collective action, *Steavens, et al. v. Electronic Data Systems Corporation*, which was filed on October 23, 2007, is also now pending in the same court alleging similar facts. The *Steavens* case has been consolidated for pretrial purposes with the *Cunningham* case. On December 14, 2010, the court granted conditional certification of the class in the consolidated *Cunningham* and *Steavens* matter.
- *Heffelfinger, et al. v. Electronic Data Systems Corporation* is a class action filed in November 2006 in California Superior Court claiming that certain EDS information technology workers in California were misclassified as exempt employees. The case was subsequently transferred to the U.S. District Court for the Central District of California, which, on January 7, 2008, certified a class of information technology workers in California. On June 6, 2008, the court granted the defendant's motion for summary judgment. The plaintiffs subsequently filed an appeal with the U.S. Court of Appeals for the Ninth Circuit, which is pending. Two other purported class actions originally filed in California Superior Court, *Karlbom, et al. v. Electronic Data Systems Corporation*, which was filed on March 16, 2009, and *George, et al. v. Electronic Data Systems Corporation*, which was filed on April 2, 2009, allege similar facts. The *Karlbom* case is pending in San Diego County Superior Court but has been temporarily stayed based on the pending motions in the *Steavens* consolidated matter. The *George* case is pending in the U.S. District Court for the Southern District of New York and has been consolidated for pretrial purposes with the *Cunningham* and *Steavens* cases.

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

- On April 30 and May 10, 2010, the DRI issued show cause notices to HPI, seven current HP employees and one former HP employee alleging that HP has underpaid customs duties while importing products and spare parts into India and seeking to recover an aggregate of approximately $370 million, plus penalties. On June 2, 2010, the DRI issued an additional show

Note 18: Litigation and Contingencies (Continued)

cause notice to HPI and three current HPI employees alleging that HP failed to pay customs duties on the appropriate value of recovery CDs containing Microsoft operating systems and seeking to recover approximately $5.3 million, plus penalties. HP has deposited a total of approximately $16.7 million with the DRI and agreed to post a provisional bond in exchange for the DRI's agreement not to seize HP products and spare parts and not to interrupt the transaction of business by HP in India.

- On June 17, 2010, the DRI issued show cause notices to HPI and two current HPI employees regarding non-inclusion of the value of software contained in the products imported from third party original design manufacturers. The total amount of the alleged unpaid customs duties relating to such software, including the interest proposed to be demanded under these notices, is approximately $130,000, which amount HPI has deposited with the DRI. The DRI is also seeking to impose penalties.
- On October 1, 2010, in connection with an existing DRI investigation commenced against SAP AG, the DRI issued a show cause notice to HPI alleging underpayment of customs duties related to the importation of certain SAP software. The amount of the alleged duty differential is approximately $38,000, which amount has been deposited with the DRI. The DRI is also seeking to impose interest and penalties.

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

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

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

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

HP is cooperating with these investigating agencies.

In addition, as described below, HP is involved in stockholder derivative litigation arising from the Russia GPO deal, the related investigations and other matters commenced against current and former

Note 18: Litigation and Contingencies (Continued)

members of the HP Board of Directors in which the plaintiffs are seeking to recover certain compensation paid by HP to the defendants and other damages:

- *Henrietta Klein v. Mark V. Hurd, et al.,* is a lawsuit filed on September 24, 2010 in California Superior Court alleging the individual defendants wasted corporate assets and breached their fiduciary duties by failing to implement and oversee HP's compliance with the FCPA.
- *Saginaw Police & Fire Pension Fund v. Marc L. Andreessen, et al.,* is a lawsuit filed on October 19, 2010 in United States District Court for the Northern District of California alleging, among other things, that the defendants breached their fiduciary duties and were unjustly enriched by consciously disregarding HP's alleged violations of the FCPA.

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

- In August 2006, HP was informally contacted by the Attorney General of the State of California requesting information concerning the processes employed in the leak investigation. On December 7, 2006, HP announced that it entered into an agreement with the California Attorney General to resolve civil claims arising from the leak investigation, including a claim made by the California Attorney General in a Santa Clara County Superior Court action filed on December 7, 2006, that HP committed unfair business practices under California law in connection with the leak investigation. As a result of this agreement, which includes an injunction, the California Attorney General will not pursue civil claims against HP or its current and former directors, officers and employees. Under the terms of the agreement, HP paid a total of $14.5 million and agreed to implement and maintain for five years a series of measures designed to ensure that HP's corporate investigations are conducted in accordance with California law and the company's high ethical standards. Of the $14.5 million, $13.5 million has been used to create a Privacy and Piracy Fund to assist California prosecutors in investigating and prosecuting consumer privacy and information piracy violations, $650,000 was used to pay statutory damages and $350,000 reimbursed the California Attorney General's office for its investigation costs. There was no finding of liability against HP as part of the settlement.
- Beginning in September 2006, HP received requests from the Committee on Energy and Commerce of the U.S. House of Representatives (the "Committee") for records and information concerning the leak investigation, securities transactions by HP officers and directors, including an August 25, 2006, securities transaction by Mark Hurd, HP's former Chairman and Chief Executive Officer, and related matters. HP has responded to those requests. In addition, Mr. Hurd voluntarily gave testimony to the Committee regarding the leak investigation on September 28, 2006.
- In September 2006, HP was informally contacted by the U.S. Attorney for the Northern District of California requesting similar information concerning the processes employed in the leak investigation. HP has responded to that request.

Note 18: Litigation and Contingencies (Continued)

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

In addition, four stockholder derivative lawsuits have been filed in California purportedly on behalf of HP stockholders seeking to recover damages for alleged breach of fiduciary duty and to require HP to improve its corporate governance and internal control procedures as a result of the activities of the leak investigation: *Staehr v. Dunn, et al.* was filed in Santa Clara County Superior Court on September 18, 2006; *Worsham v. Dunn, et al.* was filed in Santa Clara County Superior Court on September 14, 2006; *Tansey v. Dunn, et al.* was filed in Santa Clara County Superior Court on September 20, 2006; and *Hall v. Dunn, et al.* was filed in Santa Clara County Superior Court on September 25, 2006. On October 19, 2006, the Santa Clara County Superior Court consolidated the four California cases under the caption *In re Hewlett-Packard Company Derivative Litigation*. The consolidated complaint filed on November 19, 2006, also seeks to recover damages in connection with sales of HP stock alleged to have been made by certain current and former HP officers and directors while in possession of material non-public information. Two additional stockholder derivative lawsuits, *Pifko v. Babbio, et al.*, filed on September 19, 2006, and *Gross v. Babbio, et al.*, filed on November 21, 2006, were filed in Chancery Court, County of New Castle, Delaware; both seek to recover damages for alleged breaches of fiduciary duty and to obtain an order instructing the defendants to refrain from further breaches of fiduciary duty and to implement corrective measures that will prevent future occurrences of the alleged breaches of fiduciary duty. On January 24, 2007, the Delaware court consolidated the two cases under the caption *In re Hewlett-Packard Company Derivative Litigation* and subsequently stayed the proceedings, as the parties had reached a tentative settlement. The HP Board of Directors appointed a Special Litigation Committee consisting of independent Board members authorized to investigate, review and evaluate the facts and circumstances asserted in these derivative matters and to determine how HP should proceed in these matters. On December 14, 2007, HP and the plaintiffs in the California and Delaware derivative actions entered into an agreement to settle those lawsuits. Under the terms of the settlement, HP agreed to continue certain corporate governance changes until December 31, 2012 and to pay the plaintiffs' attorneys' fees. The California court granted final approval to the settlement on March 11, 2008 and subsequently granted plaintiffs' counsel's fee application and dismissed the action. On June 12, 2008, the Delaware court granted final approval to the settlement and the plaintiffs' application for attorneys' fees and also dismissed the action. Because neither the dismissal of the California nor the Delaware derivative action was thereafter appealed, both cases are now concluded.

Note 18: Litigation and Contingencies (Continued)

Environmental

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

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

Note 19: Segment Information

Description of Segments

HP is a leading global provider of products, technologies, software, solutions and services to individual consumers, small- and medium-sized businesses, and large enterprises, including customers in the government, health and education sectors. HP's offerings span multi-vendor customer services, including infrastructure technology and business process outsourcing, technology support and maintenance, application development and support services, and consulting and integration services; enterprise information technology infrastructure, including enterprise storage and server technology, networking products and solutions, information management software and software that optimizes business technology investments; personal computing and other access devices; and imaging and printing-related products and services.

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

Note 19: Segment Information (Continued)

HP has reclassified segment operating results for fiscal 2009 and fiscal 2008 to conform to certain fiscal 2010 organizational realignments. None of the changes impacts HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share. Future changes to this organizational structure may result in changes to the business segments disclosed.

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

HP Enterprise Business.

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

- *Services* provides consulting, outsourcing and technology services across infrastructure, applications and business process domains. Services is divided into four main business units: infrastructure technology outsourcing, technology services, applications services and business process outsourcing. Infrastructure technology outsourcing delivers comprehensive services that encompass the data center and the workplace (desktop); network and communications; and security, compliance and business continuity. HP also offers a set of managed services, providing a cross-section of its broader infrastructure services for smaller discrete engagements. Technology services include consulting and support services, such as mission critical services, converged infrastructure services, networking services, data center transformation services and infrastructure services, as well as warranty support across HP's product lines. Applications services help clients revitalize and manage their applications assets through flexible, project-based, consulting services and longer-term outsourcing contracts. These full life cycle services encompass application development, testing, modernization, system integration, maintenance and management. Business process outsourcing solutions include a broad array of enterprise shared services, customer relationship management services, financial process management services and administrative services.
- *Enterprise Storage and Servers* provides storage and server products. The various server offerings range from entry-level servers to high-end scalable servers, including Superdome servers. Industry standard servers include primarily entry-level and mid-range ProLiant servers, which run primarily Windows, Linux and Novell operating systems and leverage Intel Corporation ("Intel") and Advanced Micro Devices ("AMD") processors. The business spans a range of product lines, including pedestal-tower servers, density-optimized rack servers and HP's BladeSystem family of server blades. Business Critical Systems include HP Integrity servers based on the Intel Itanium-based processor that run HP-UX, Microsoft Windows and OpenVMS operating systems, as well as fault-tolerant HP Integrity NonStop solutions. Business Critical Systems' portfolio of server solutions includes Scale-up x86 ProLiant Servers, the BladeSystem architecture-based Integrity blade servers and the Superdome 2 server solution. HP's StorageWorks offerings include entry-level, mid-range and high-end arrays, storage area networks ("SANs"), network attached storage ("NAS"), storage management software, and virtualization technologies, as well as StoreOnce data deduplication solutions, tape drives, tape libraries and optical archival storage.
- *HP Software* provides enterprise software and services. Enterprise IT management products and services, which are marketed as HP's business technology optimization (BTO) portfolio, help customers to manage IT infrastructure and services, operations, applications, and business processes and to automate data center operations and IT processes. Solutions are delivered in the form of traditional software licenses and, in some cases, via a software-as-a-service (SaaS) distribution model. Other software includes information management, business intelligence, and

Note 19: Segment Information (Continued)

communications and media solutions. Our information management products and services automate the retention, management, search and segregation of information across the enterprise. Business intelligence solutions enable businesses to standardize on consistent data management schemes, connect and share data across the enterprise and apply analytics. Communications and media solutions enable service providers, media companies, and network equipment providers to create, deliver, and manage consumer and enterprise communications services.

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

- *Personal Systems Group* provides commercial PCs, consumer PCs, workstations, handheld computing devices, calculators and other related accessories, software and services for the commercial and consumer markets. Commercial PCs are optimized for commercial uses, including enterprise and small- and medium-sized business ("SMB") customers, and for connectivity and manageability in networked environments. Commercial PCs include the HP Compaq, HP Pro, and HP Elite lines of business desktops and notebooks, as well as the All in One Touchsmart and Omni PCs, HP Mini-Note PC, HP Blade PCs, Retail POS systems, and HP Thin Clients. Consumer PCs are targeted at the home user and include the HP Pavilion and Compaq Presario series of multi media consumer desktops and notebooks, as well as the HP Pavilion Elite desktops, HP Envy Premium notebooks, Touchsmart PCs, All in One PC, HP and Compaq Mini notebooks, and the Media Smart Home Server. HP's Z series desktop workstations and HP Elitebook Mobile Workstations provide advanced graphics, computing, and large modeling capabilities, certified with applications in a wide range of industries and running both Windows and Linux operating systems. PSG provides a series of HP iPAQ Pocket PC handheld computing devices that run on Windows Mobile software. These products range from basic PDAs to advanced devices with voice and data capability.
- *Imaging and Printing Group* provides consumer and commercial printer hardware, printing supplies, printing media and scanning devices. IPG is also focused on imaging solutions in the commercial markets. These solutions range from managed print services solutions to addressing new growth opportunities in commercial printing and capturing high-value pages in areas such as industrial applications, outdoor signage, and the graphic arts business. Inkjet and Web Solutions delivers HP's consumer and SMB inkjet solutions (hardware, supplies, media) and develops HP's retail and web businesses. It includes single function and all-in-one inkjet printers targeted toward consumers and SMBs as well as retail publishing solutions, Snapfish, and Logoworks. LaserJet and Enterprise Solutions delivers products and services to the enterprise segment. It includes LaserJet printers and supplies, multi-function printers, scanners, and enterprise software solutions such as Exstream Software and Web Jetadmin. Managed enterprise solutions include managed print services products and solutions delivered to enterprise customers partnering with third-party software providers to offer workflow solutions in the enterprise environment. Graphics solutions include large format printing (Designjet and Scitex), large format supplies, WebPress supplies, Indigo printing, specialty printing systems and inkjet high-speed production solutions. Printer supplies include LaserJet toner and inkjet printer cartridges and other printing-related media.
- *HP Financial Services* supports and enhances HP's global product and services solutions, providing a broad range of value-added financial life cycle management services. HPFS enables HP's worldwide customers to acquire complete IT solutions, including hardware, software and

Note 19: Segment Information (Continued)

services. HPFS offers leasing, financing, utility programs, and asset recovery services, as well as financial asset management services, for large global and enterprise customers. HPFS also provides an array of specialized financial services to SMBs and educational and governmental entities. HPFS offers innovative, customized and flexible alternatives to balance unique customer cash flow, technology obsolescence and capacity needs.

- *Corporate Investments* includes HP Labs, network infrastructure products, mobile devices associated with the Palm acquisition, and certain business incubation projects. Revenue in this segment is attributable to the sale of certain network infrastructure products, which span from the data center to the edge of the network and are sold under the ProCurve, 3Com and TippingPoint brands. The segment also includes certain video collaboration products sold under the brand "Halo," and Palm smartphones, which are targeted at the consumer segment and include the Pixi and Pre models running on the WebOS operating system. This segment also derives revenue from licensing specific HP technology to third parties.

Segment Data

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

Selected operating results information for each business segment was as follows for the following fiscal years ended October 31:

	Total Net Revenue			Earnings (Loss) from Operations		
	2010	2009	2008	2010	2009	2008
	In millions					
Services[1]	$ 34,935	$ 34,693	$ 20,977	$ 5,609	$ 5,044	$ 2,518
Enterprise Storage and Servers	18,651	15,359	19,400	2,402	1,518	2,577
HP Software	3,586	3,572	4,220	759	684	499
HP Enterprise Business	57,172	53,624	44,597	8,770	7,246	5,594
Personal Systems Group	40,741	35,305	42,295	2,032	1,661	2,375
Imaging and Printing Group	25,764	24,011	29,614	4,412	4,310	4,559
HP Financial Services	3,047	2,673	2,698	281	206	192
Corporate Investments[2]	1,863	768	965	132	(56)	49
Segment total	$128,587	$116,381	$120,169	$15,627	$13,367	$12,769

(1) Includes the results of EDS, which was acquired on August 26, 2008, from the date of acquisition.

(2) Includes the results of 3Com and Palm acquisitions completed in April 2010 and July 2010, respectively.

Note 19: Segment Information (Continued)

The reconciliation of segment operating results information to HP consolidated totals was as follows for the following fiscal years ended October 31:

	2010	2009	2008
		In millions	
Net revenue:			
Segment total	$128,587	$116,381	$120,169
Elimination of intersegment net revenue and other	(2,554)	(1,829)	(1,805)
Total HP consolidated net revenue	$126,033	$114,552	$118,364
Earnings before taxes:			
Total segment earnings from operations	$ 15,627	$ 13,367	$ 12,769
Corporate and unallocated costs and eliminations	(614)	(219)	(461)
Unallocated costs related to certain stock-based compensation expense	(613)	(552)	(512)
Amortization of purchased intangible assets	(1,484)	(1,578)	(1,012)
Acquisition-related charges	(293)	(242)	(41)
Restructuring charges	(1,144)	(640)	(270)
Interest and other, net	(505)	(721)	—
Total HP consolidated earnings before taxes	$ 10,974	$ 9,415	$ 10,473

HP allocates its assets to its business segments based on the primary segments benefiting from the assets. The total assets allocated to Corporate Investments increased 870% in fiscal 2010 mostly due to the 3Com and Palm acquisitions. As described above, fiscal 2010 segment asset information is stated based on the fiscal 2010 organizational structure. Total assets by segment as well as for HP Enterprise Business and the reconciliation of segment assets to HP consolidated total assets were as follows at October 31:

	2010	2009	2008
		In millions	
Services	$ 44,218	$ 43,555	$ 42,507
Enterprise Storage and Servers	14,760	11,662	11,644
HP Software	10,653	8,936	8,919
HP Enterprise Business	$ 69,631	$ 64,153	$ 63,070
Personal Systems Group	15,832	14,825	16,436
Imaging and Printing Group	12,090	11,698	14,156
HP Financial Services	12,054	10,806	9,174
Corporate Investments	4,460	460	365
Corporate and unallocated assets	10,436	12,857	10,130
Total HP consolidated assets	$124,503	$114,799	$113,331

Note 19: Segment Information (Continued)

Major Customers

No single customer represented 10% or more of HP's total net revenue in any fiscal year presented.

Geographic Information

Net revenue, classified by the major geographic areas in which HP operates, was as follows for the following fiscal years ended October 31:

	2010	2009	2008
		In millions	
Net revenue:			
U.S.	$ 44,542	$ 41,314	$ 36,932
Non-U.S.	81,491	73,238	81,432
Total HP consolidated net revenue	$126,033	$114,552	$118,364

Net revenue by geographic area is based upon the sales location that predominately represents the customer location. For each of the years ended October 31, 2010, 2009 and 2008, other than the United States, no country represented more than 10% of HP's total consolidated net revenue. HP reports revenue net of sales taxes, use taxes and value-added taxes directly imposed by governmental authorities on HP's revenue producing transactions with its customers.

At October 31, 2010, the United States held 10% or more of HP's total consolidated net assets. At October 31, 2009 and 2008, Belgium and the United States comprised 10% or more of HP's total consolidated net assets.

No single country other than the United States had more than 10% of HP's total consolidated net property, plant and equipment in any period presented. HP's long-lived assets other than goodwill and purchased intangible assets are composed principally of net property, plant and equipment.

Net property, plant and equipment, classified by major geographic areas in which HP operates, was as follows for the following fiscal years ended October 31:

	2010	2009
	In millions	
Net property, plant and equipment:		
U.S.	$ 6,479	$ 6,316
Non-U.S.	5,284	4,946
Total HP consolidated net property, plant and equipment	$11,763	$11,262

Note 19: Segment Information (Continued)

Net revenue by segment and business unit

The following table provides net revenue by segment and business unit for the following fiscal years ended October 31:

	2010	2009[3]	2008[3]
		In millions	
Net revenue:			
Infrastructure technology outsourcing	$ 15,963	$ 15,554	$ 7,778
Technology services	9,681	9,719	10,007
Application services	6,123	6,194	2,411
Business process outsourcing	2,872	2,977	723
Other	296	249	58
Services[1]	34,935	34,693	20,977
Industry standard servers	12,574	9,296	11,657
Storage	3,785	3,473	4,205
Business critical systems	2,292	2,590	3,538
Enterprise Storage and Servers	18,651	15,359	19,400
Business technology optimization	2,440	2,385	2,792
Other software	1,146	1,187	1,428
HP Software	3,586	3,572	4,220
HP Enterprise Business	57,172	53,624	44,597
Notebooks	22,545	20,210	22,657
Desktops	15,478	12,864	16,643
Workstations	1,786	1,261	1,885
Handhelds	87	172	360
Other	845	798	750
Personal Systems Group	40,741	35,305	42,295
Supplies	17,249	16,532	18,472
Commercial hardware	5,569	4,778	7,422
Consumer hardware	2,946	2,701	3,720
Imaging and Printing Group	25,764	24,011	29,614
HP Financial Services	3,047	2,673	2,698
Corporate Investments[2]	1,863	768	965
Total segments	128,587	116,381	120,169
Eliminations of inter-segment net revenue and other	(2,554)	(1,829)	(1,805)
Total HP consolidated net revenue	$126,033	$114,552	$118,364

(1) Includes the results of EDS, which was acquired on August 26, 2008, from the date of acquisition.

(2) Includes the results of 3Com and Palm acquisitions completed in April 2010 and July 2010, respectively.

(3) Certain fiscal 2010 organizational reclassifications have been reflected retroactively to provide improved visibility and comparability. In fiscal 2009 and fiscal 2008, the reclassifications resulted in the transfer of revenue among the business units within the Services segment only. There was no impact on the previously reported segment financial results.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
Quarterly Summary
(Unaudited)
(In millions, except per share amounts)

	Three-month periods ended in fiscal 2010			
	January 31	April 30	July 31	October 31
Net revenue	$31,177	$30,849	$30,729	$33,278
Cost of sales[(1)]	24,062	23,601	23,402	25,024
Research and development	681	722	742	814
Selling, general and administrative	2,932	3,064	3,154	3,435
Amortization of purchased intangible assets	330	347	383	424
Restructuring charges	131	180	598	235
Acquisition-related charges	38	77	127	51
Total costs and expenses	28,174	27,991	28,406	29,983
Earnings from operations	3,003	2,858	2,323	3,295
Interest and other, net	(199)	(91)	(134)	(81)
Earnings before taxes	2,804	2,767	2,189	3,214
Provision for taxes	554	567	416	676
Net earnings	$ 2,250	$ 2,200	$ 1,773	$ 2,538
Net earnings per share:[(2)]				
Basic	$ 0.95	$ 0.94	$ 0.76	$ 1.13
Diluted	$ 0.93	$ 0.91	$ 0.75	$ 1.10
Cash dividends paid per share	$ 0.08	$ 0.08	$ 0.08	$ 0.08
Range of per share stock prices on the New York Stock Exchange				
Low	$ 46.80	$ 46.46	$ 41.94	$ 37.32
High	$ 52.95	$ 54.75	$ 52.95	$ 47.80

	Three-month periods ended in fiscal 2009			
	January 31	April 30	July 31	October 31
Net revenue	$28,807	$27,383	$27,585	$30,777
Cost of sales[(1)]	22,073	20,945	21,031	23,475
Research and development	732	716	667	704
Selling, general and administrative	2,893	2,880	2,874	2,966
Amortization of purchased intangible assets	418	380	379	401
Restructuring charges	146	94	362	38
Acquisition-related charges	48	75	59	60
Total costs and expenses	26,310	25,090	25,372	27,644
Earnings from operations	2,497	2,293	2,213	3,133
Interest and other, net	(232)	(180)	(177)	(132)
Earnings before taxes	2,265	2,113	2,036	3,001
Provision for taxes	409	392	365	589
Net earnings	$ 1,856	$ 1,721	$ 1,671	$ 2,412
Net earnings per share:[(2)]				
Basic	$ 0.77	$ 0.72	$ 0.70	$ 1.02
Diluted	$ 0.75	$ 0.71	$ 0.69	$ 0.99
Cash dividends paid per share	$ 0.08	$ 0.08	$ 0.08	$ 0.08
Range of per share stock prices on the New York Stock Exchange				
Low	$ 28.23	$ 25.39	$ 33.40	$ 42.14
High	$ 39.53	$ 37.40	$ 43.55	$ 49.20

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

(2) EPS for each quarter is computed using the weighted-average number of shares outstanding during that quarter, while EPS for the fiscal year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the EPS for each of the four quarters may not equal the EPS for the fiscal year.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

ITEM 9A. Controls and Procedures.

Controls and Procedures

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

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

See Management's Report on Internal Control over Financial Reporting in Item 8, which is incorporated herein by reference.

ITEM 9B. Other Information.

The disclosure below is included in this report in lieu of filing a Current Report on Form 8-K to report events that have occurred within four business days prior to the filing of this report.

On December 15, 2010, HP entered into a Letter Agreement (the "Agreement") with Catherine A. Lesjak, HP's Executive Vice President and Chief Financial Officer. The following is a summary of the principal terms of the Agreement:

- The term of the Agreement is three years, during which time Ms. Lesjak will continue to serve as HP's Executive Vice President and Chief Financial Officer.
- During the term of the Agreement, Ms. Lesjak's annual base salary and target annual incentive will be maintained at their current levels, and the long-term incentive awards that she has been granted to date will not be reduced, provided that the Board of Directors may grant future increases, and provided further that each may be reduced if, respectively, the base salaries, target annual incentives, and/or long-term incentive awards are reduced for substantially all other Executive Vice Presidents in a substantially similar manner.
- In the event of a "qualifying termination" (as defined in the Agreement) of her employment with HP during the term of the Agreement, Ms. Lesjak will receive (i) a cash severance benefit under the Hewlett-Packard Company Severance Plan for Executive Officers calculated by multiplying by two the sum of (A) her annual base salary as in effect immediately before termination of employment and (B) average annualized cash bonus under the Hewlett-Packard

Company 2005 Pay for Results Plan (the "PfR Plan") for the two full fiscal years' prior to termination of employment, (ii) a pro-rata annual cash bonus under the PfR Plan for the fiscal year in which her termination occurs, (iii) payout on any performance-based restricted stock unit awards based on actual performance as if she had remained employed during the entire performance period, and (iv) the release of all restrictions and accelerated vesting of other equity awards.

- In the event of a "qualifying termination" (as defined in the Agreement) of her employment with HP during the term of the Agreement and within 12 months after a "change in control" of HP (as defined in the Hewlett-Packard Company Amended and Restated 2004 Stock Incentive Plan), Ms Lesjak will receive the same benefits described in the preceding paragraph except that (i) the pro-rata annual cash bonus under the PfR Plan for the fiscal year in which her termination occurs will be determined assuming continued accruals with respect to such bonus at the rate in effect immediately prior to the change in control, and (ii) the payout on her performance-based restricted stock unit awards will be determined assuming target performance on all metrics for all uncompleted periods.

The foregoing summary of the Agreement does not purport to be complete and is qualified in its entirety by reference to the Agreement, which is filed hereto as Exhibit 10(l)(l)(l) and is incorporated herein by reference.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

The names of the executive officers of HP and their ages, titles and biographies as of the date hereof are incorporated by reference from Part I, Item 1, above.

The following information is included in HP's Proxy Statement related to its 2011 Annual Meeting of Stockholders to be filed within 120 days after HP's fiscal year end of October 31, 2010 (the "Proxy Statement") and is incorporated herein by reference:

- Information regarding directors of HP who are standing for reelection and any persons nominated to become directors of HP is set forth under "Election of Directors."
- Information regarding HP's Audit Committee and designated "audit committee financial experts" is set forth under "Board Structure and Committee Composition—Audit Committee."
- Information on HP's code of business conduct and ethics for directors, officers and employees, also known as the "Standards of Business Conduct," and on HP's Corporate Governance Guidelines is set forth under "Corporate Governance Principles and Board Matters."
- Information regarding Section 16(a) beneficial ownership reporting compliance is set forth under "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. Executive Compensation.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding HP's compensation of its named executive officers is set forth under "Executive Compensation."
- Information regarding HP's compensation of its directors is set forth under "Director Compensation and Stock Ownership Guidelines."
- The report of HP's HR and Compensation Committee is set forth under "HR and Compensation Committee Report on Executive Compensation."

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding security ownership of certain beneficial owners, directors and executive officers is set forth under "Common Stock Ownership of Certain Beneficial Owners and Management."
- Information regarding HP's equity compensation plans, including both stockholder approved plans and non-stockholder approved plans, is set forth in the section entitled "Equity Compensation Plan Information."

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding transactions with related persons is set forth under "Transactions with Related Persons."

- Information regarding director independence is set forth under "Corporate Governance Principles and Board Matters—Director Independence."

ITEM 14. Principal Accountant Fees and Services.

Information regarding principal auditor fees and services is set forth under "Principal Accountant Fees and Services" in the Proxy Statement, which information is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1. All Financial Statements:

The following financial statements are filed as part of this report under Item 8—"Financial Statements and Supplementary Data."

2. Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts for the three fiscal years ended October 31, 2010.

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements and notes thereto in Item 8 above.

3. Exhibits:

A list of exhibits filed or furnished with this report on Form 10-K (or incorporated by reference to exhibits previously filed or furnished by HP) is provided in the accompanying Exhibit Index. HP will furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request. Stockholders may request exhibits copies by contacting:

Hewlett-Packard Company
Attn: Investor Relations
3000 Hanover Street
Palo Alto, CA 94304
(866) GET-HPQ1 or (866) 438-4771

Schedule II

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
Valuation and Qualifying Accounts

	For the fiscal years ended October 31		
	2010	2009	2008
		In millions	
Allowance for doubtful accounts—accounts receivable:			
Balance, beginning of period	$ 629	$ 553	$ 226
Increase in allowance from acquisitions	7	—	245
Addition of bad debt provision	80	282	226
Deductions, net of recoveries	(191)	(206)	(144)
Balance, end of period	$ 525	$ 629	$ 553
Allowance for doubtful accounts—financing receivables:			
Balance, beginning of period	$ 108	$ 90	$ 84
Additions to allowance	76	63	49
Deductions, net of recoveries	(44)	(45)	(43)
Balance, end of period	$ 140	$ 108	$ 90

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: December 15, 2010

HEWLETT-PACKARD COMPANY

By: /s/ CATHERINE A. LESJAK

Catherine A. Lesjak
Executive Vice President and
Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Catherine A. Lesjak, Michael J. Holston and Paul T. Porrini, or any of them, his or her attorneys-in-fact, for such person in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ LÉO APOTHEKER Léo Apotheker	President, Chief Executive Officer and Director (Principal Executive Officer)	December 15, 2010
/s/ CATHERINE A. LESJAK Catherine A. Lesjak	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	December 15, 2010
/s/ JAMES T. MURRIN James T. Murrin	Senior Vice President and Controller (Principal Accounting Officer)	December 15, 2010
/s/ MARC L. ANDREESSEN Marc L. Andreessen	Director	December 15, 2010
/s/ LAWRENCE T. BABBIO, JR. Lawrence T. Babbio, Jr.	Director	December 15, 2010
/s/ SARI M. BALDAUF Sari M. Baldauf	Director	December 15, 2010

Signature	Title(s)	Date
/s/ RAJIV L. GUPTA Rajiv L. Gupta	Director	December 15, 2010
/s/ JOHN H. HAMMERGREN John H. Hammergren	Director	December 15, 2010
/s/ JOEL Z. HYATT Joel Z. Hyatt	Director	December 15, 2010
/s/ JOHN R. JOYCE John R. Joyce	Director	December 15, 2010
/s/ RAYMOND J. LANE Raymond J. Lane	Director	December 15, 2010
/s/ ROBERT L. RYAN Robert L. Ryan	Director	December 15, 2010
/s/ LUCILLE S. SALHANY Lucille S. Salhany	Director	December 15, 2010
/s/ G. KENNEDY THOMPSON G. Kennedy Thompson	Director	December 15, 2010

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
3(a)	Registrant's Certificate of Incorporation.	10-Q	001-04423	3(a)	June 12, 1998
3(b)	Registrant's Amendment to the Certificate of Incorporation.	10-Q	001-04423	3(b)	March 16, 2001
3(c)	Registrant's Amended and Restated By-Laws effective November 1, 2010.‡				
4(a)	Form of Senior Indenture.	S-3	333-30786	4.1	March 17, 2000
4(b)	Form of Registrant's Fixed Rate Note and Floating Rate Note and related Officers' Certificate.	8-K	001-04423	4.1, 4.2 and 4.4	May 24, 2001
4(c)	Form of Registrant's 6.50% Global Note due July 1, 2012, and form of related Officers' Certificate.	8-K	001-04423	4.2 and 4.3	June 27, 2002
4(d)	Form of Registrant's Fixed Rate Note and form of Floating Rate Note.	8-K	001-04423	4.1 and 4.2	December 11, 2002
4(e)	Indenture, dated as of June 1, 2000, between the Registrant and J.P. Morgan Trust Company, National Association (formerly Chase Manhattan Bank), as Trustee.	S-3	333-134327	4.9	June 7, 2006
4(f)	Form of Registrant's Floating Rate Global Note due March 1, 2012, form of 5.25% Global Note due March 1, 2012 and form of 5.40% Global Note due March 1, 2017.	8-K	001-04423	4.1, 4.2 and 4.3	February 28, 2007
4(g)	Form of Registrant's Floating Rate Global Note due September 3, 2009, 4.50% Global Note due March 1, 2013 and 5.50% Global Note due March 1, 2018.	8-K	001-04423	4.1, 4.2 and 4.3	February 29, 2008
4(h)	Form of Registrant's 6.125% Global Note due March 1, 2014 and form of related Officers' Certificate.	8-K	001-04423	4.1 and 4.2	December 8, 2008
4(i)	Form of Registrant's Floating Rate Global Note due February 24, 2011, 4.250% Global Note due February 24, 2012 and 4.750% Global Note due June 2, 2014 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	February 27, 2009
4(j)	Form of Registrant's Floating Rate Global Note due May 27, 2011, 2.25% Global Note due May 27, 2011 and 2.95% Global Note due August 15, 2012 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	May 28, 2009
4(k)	Form of Registrant's Floating Rate Global Note due September 13, 2012, Form of 1.250% Global Note due September 13, 2013, and Form of 2.125% Global Note due September 13, 2015 and related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	September 13, 2010
4(l)	Speciman certificate for the Registrant's common stock.	8-A/A	001-04423	4.1	June 23, 2006
9	None.				

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
10(a)	Registrant's 2004 Stock Incentive Plan.*	S-8	333-114253	4.1	April 7, 2004
10(b)	Registrant's 2000 Stock Plan, amended and restated effective September 17, 2008.*	10-K	001-04423	10(b)	December 18, 2008
10(c)	Registrant's 1997 Director Stock Plan, amended and restated effective November 1, 2005.*	8-K	001-04423	99.4	November 23, 2005
10(d)	Registrant's 1995 Incentive Stock Plan, amended and restated effective May 1, 2007.*	10-Q	001-04423	10(d)	June 8, 2007
10(e)	Registrant's 1990 Incentive Stock Plan, amended and restated effective May 1, 2007.*	10-Q	001-04423	10(e)	June 8, 2007
10(f)	Compaq Computer Corporation 2001 Stock Option Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(f)	January 21, 2003
10(g)	Compaq Computer Corporation 1998 Stock Option Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(g)	January 21, 2003
10(h)	Compaq Computer Corporation 1995 Equity Incentive Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(h)	January 21, 2003
10(i)	Compaq Computer Corporation 1989 Equity Incentive Plan, amended and restated effective November 21, 2002.*	10-K	001-04423	10(i)	January 21, 2003
10(j)	Compaq Computer Corporation 1985 Nonqualified Stock Option Plan for Non-Employee Directors.*	S-3	333-86378	10.5	April 18, 2002
10(k)	Amendment of Compaq Computer Corporation Non-Qualified Stock Option Plan for Non-Employee Directors, effective September 3, 2001.*	S-3	333-86378	10.11	April 18, 2002
10(l)	Compaq Computer Corporation 1998 Former Nonemployee Replacement Option Plan.*	S-3	333-86378	10.9	April 18, 2002
10(m)	Registrant's Excess Benefit Retirement Plan, amended and restated as of January 1, 2006.*	8-K	001-04423	10.2	September 21, 2006
10(n)	Hewlett-Packard Company Cash Account Restoration Plan, amended and restated as of January 1, 2005.*	8-K	001-04423	99.3	November 23, 2005
10(o)	Registrant's 2005 Pay-for-Results Plan.*	8-K	001-04423	99.5	November 23, 2005
10(p)	Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	8-K	001-04423	10.1	September 21, 2006
10(q)	First Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(q)	June 8, 2007
10(r)	Employment Agreement, dated June 9, 2005, between Registrant and R. Todd Bradley.*	10-Q	001-04423	10(x)	September 8, 2005

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
10(s)	Employment Agreement, dated July 11, 2005, between Registrant and Randall D. Mott.*	10-Q	001-04423	10(y)	September 8, 2005
10(t)	Registrant's Amended and Restated Severance Plan for Executive Officers.*	8-K	001-04423	99.1	July 27, 2005
10(u)	Form letter to participants in the Registrant's Pay-for-Results Plan for fiscal year 2006.*	10-Q	001-04423	10(w)	March 10, 2006
10(v)	Registrant's Executive Severance Agreement.*	10-Q	001-04423	10(u)(u)	June 13, 2002
10(w)	Registrant's Executive Officers Severance Agreement.*	10-Q	001-04423	10(v)(v)	June 13, 2002
10(x)	Form letter regarding severance offset for restricted stock and restricted units.*	8-K	001-04423	10.2	March 22, 2005
10(y)	Form of Indemnity Agreement between Compaq Computer Corporation and its executive officers.*	10-Q	001-04423	10(x)(x)	June 13, 2002
10(z)	Form of Stock Option Agreement for Registrant's 2004 Stock Incentive Plan, Registrant's 2000 Stock Plan, as amended, Registrant's 1995 Incentive Stock Plan, as amended, the Compaq Computer Corporation 2001 Stock Option Plan, as amended, the Compaq Computer Corporation 1998 Stock Option Plan, as amended, the Compaq Computer Corporation 1995 Equity Incentive Plan, as amended and the Compaq Computer Corporation 1989 Equity Incentive Plan, as amended.*	10-Q	001-04423	10(a)(a)	June 8, 2007
10(a)(a)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan, Registrant's 2000 Stock Plan, as amended, and Registrant's 1995 Incentive Stock Plan, as amended.*	10-Q	001-04423	10(b)(b)	June 8, 2007
10(b)(b)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(c)(c)	June 8, 2007
10(c)(c)	Form of Stock Option Agreement for Registrant's 1990 Incentive Stock Plan, as amended.*	10-K	001-04423	10(e)	January 27, 2000
10(d)(d)	Form of Common Stock Payment Agreement and Option Agreement for Registrant's 1997 Director Stock Plan, as amended.*	10-Q	001-04423	10(j)(j)	March 11, 2005
10(e)(e)	Form of Restricted Stock Grant Notice for the Compaq Computer Corporation 1989 Equity Incentive Plan.*	10-Q	001-04423	10(w)(w)	June 13, 2002
10(f)(f)	Forms of Stock Option Notice for the Compaq Computer Corporation Non-Qualified Stock Option Plan for Non-Employee Directors, as amended.*	10-K	001-04423	10(r)(r)	January 14, 2005

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
10(g)(g)	Form of Long-Term Performance Cash Award Agreement for Registrant's 2004 Stock Incentive Plan and Registrant's 2000 Stock Plan, as amended.*	10-K	001-04423	10(t)(t)	January 14, 2005
10(h)(h)	Amendment One to the Long-Term Performance Cash Award Agreement for the 2004 Program.*	10-Q	001-04423	10(q)(q)	September 8, 2005
10(i)(i)	Form of Long-Term Performance Cash Award Agreement for the 2005 Program.*	10-Q	001-04423	10(r)(r)	September 8, 2005
10(j)(j)	Form of Long-Term Performance Cash Award Agreement.*	10-Q	001-04423	10(o)(o)	March 10, 2006
10(k)(k)	Second Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(l)(l)	December 18, 2007
10(l)(l)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	8-K	001-04423	10.1	January 24, 2008
10(m)(m)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California).*	8-K	001-04423	10.2	January 24, 2008
10(n)(n)	Form of Agreement Regarding Confidential Information and Proprietary Developments (Texas).*	10-Q	001-04423	10(o)(o)	March 10, 2008
10(o)(o)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(p)(p)	March 10, 2008
10(p)(p)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(q)(q)	March 10, 2008
10(q)(q)	Form of Stock Option Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(r)(r)	March 10, 2008
10(r)(r)	Form of Special Performance-Based Cash Incentive Notification Letter.*	8-K	001-04423	10.1	May 20, 2008
10(s)(s)	Form of Option Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(t)(t)	June 6, 2008
10(t)(t)	Form of Common Stock Payment Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(u)(u)	June 6, 2008
10(u)(u)	Third Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(v)(v)	December 18, 2008
10(v)(v)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-K	001-04423	10(w)(w)	December 18, 2008
10(w)(w)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	10-K	001-04423	10(x)(x)	December 18, 2008
10(x)(x)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-K	001-04423	10(y)(y)	December 18, 2008

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
10(y)(y)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-K	001-04423	10(z)(z)	December 18, 2008
10(z)(z)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(a)(a)(a)	March 10, 2009
10(a)(a)(a)	First Amendment to the Hewlett-Packard Company Excess Benefit Retirement Plan.*	10-Q	001-04423	10(b)(b)(b)	March 10, 2009
10(b)(b)(b)	Fourth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(c)(c)(c)	June 5, 2009
10(c)(c)(c)	Fifth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(d)(d)(d)	September 4, 2009
10(d)(d)(d)	Amended and Restated Hewlett-Packard Company 2004 Stock Incentive Plan.*	8-K	001-04423	10.2	March 23, 2010
10(e)(e)(e)	Employment Agreement, dated September 29, 2010, between the Registrant and Léo Apotheker.*	8-K	001-04423	10.1	October 1, 2010
10(f)(f)(f)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*‡				
10(g)(g)(g)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*‡				
10(h)(h)(h)	Form of Stock Notification and Award Agreement for awards of restricted stock.*‡				
10(i)(i)(i)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*‡				
10(j)(j)(j)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California—new hires).*‡				
10(k)(k)(k)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California—current employees).*‡				
10(l)(l)(l)	Letter Agreement, dated December 15, 2010, between the Registrant and Catherine A. Lesjak.*‡				
11	None.				
12	Statement of Computation of Ratio of Earnings to Fixed Charges.‡				
13-14	None.				
16	None.				
18	None.				
21	Subsidiaries of the Registrant as of October 31, 2010.‡				

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
22	None.				
23	Consent of Independent Registered Public Accounting Firm.‡				
24	Power of Attorney (included on the signature page)				
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.‡				
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.‡				
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
33-35	None.				
101.INS	XBRL Instance Document.§				
101.SCH	XBRL Taxonomy Extension Schema Document.§				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.§				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.§				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.§				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.§				

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

‡ Filed herewith.

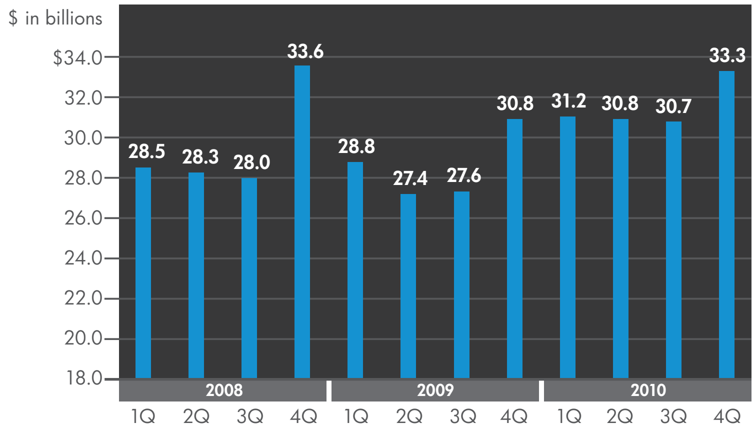
† Furnished herewith.

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

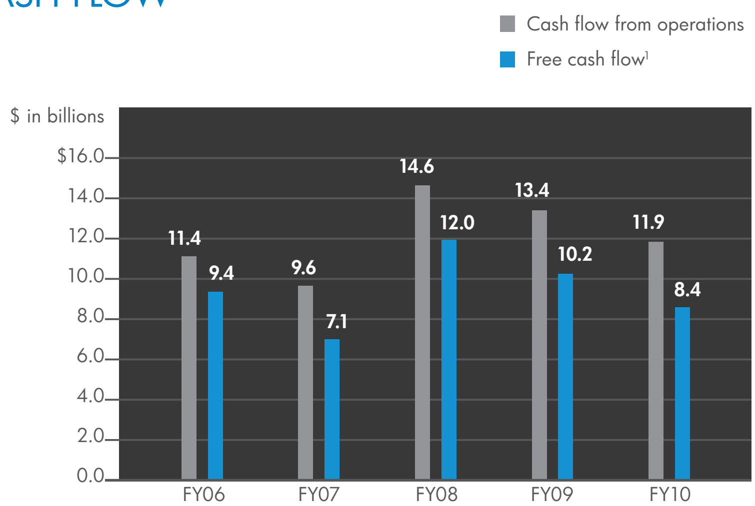
The registrant agrees to furnish to the Commission supplementally upon request a copy of (1) any instrument with respect to long-term debt not filed herewith as to which the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of the registrant and its subsidiaries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

FINANCIAL HIGHLIGHTS

REVENUE

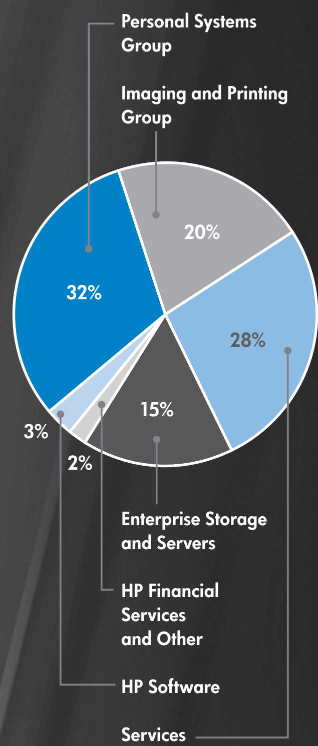


CASH FLOW

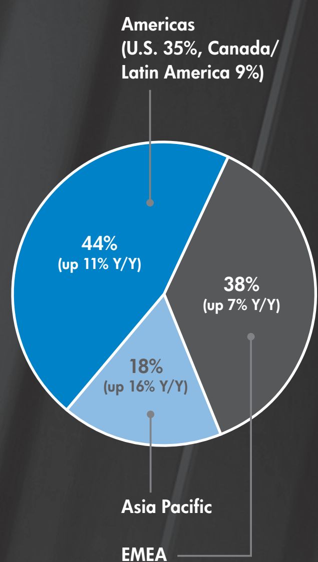


[1] Free cash flow equals cash flow from operations less net capital expenditures.

VENUE BY SEGMENT



FY10 REVENUE BY REGION



www.hp.com

For the cover of this annual report, HP saved the following resources by using 6,720 pounds of Reincarnation Matte (FSC), made with 100% recycled fiber and 60% post-consumer waste, processed chlorine free, designated Ancient Forest Friendly™, and manufactured with electricity that is offset with Green-e® certified renewable energy certificates: 43 fully grown trees, 19,903 gallons of water, 14 million BTUs of energy, 1,208 pounds of solid waste, and 4,133 pounds of greenhouse gases. Calculations based on research by Environmental Defense Fund and other members of the Paper Task Force. www.newleafpaper.com

4AA3-2579ENW, Created January 2011

HEWLETT PACKARD CO (HPQ)

10-K
Annual report pursuant to section 13 and 15(d)
Filed on 12/14/2011
Filed Period 10/31/2011

Use these links to rapidly review the document
Table of Contents
ITEM 8. Financial Statements and Supplementary Data.
All Financial Statements

Table of Contents

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

FORM 10-K

(Mark One)

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

For the fiscal year ended October 31, 2011

Or

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

For the transition period from to

Commission file number 1-4423

HEWLETT-PACKARD COMPANY
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-1081436** (I.R.S. employer identification no.)
3000 Hanover Street, Palo Alto, California (Address of principal executive offices)	**94304** (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ☐ No ☒

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes ☒ No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐

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 (Check one):

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

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

The aggregate market value of the registrant's common stock held by non-affiliates was $85,752,487,000 based on the last sale price of common stock on April 30, 2011

The number of shares of HP common stock outstanding as of November 30, 2011 was 1,984,033,497 shares

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT DESCRIPTION	10-K PART
Portions of the Registrant's proxy statement related to its 2012 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year end of October 31, 2011 are incorporated by reference into Part III of this Report	III

Table of Contents

Hewlett-Packard Company

Form 10-K

For the Fiscal Year Ended October 31, 2011

Table of Contents

[Table of Contents](#)

Forward-Looking Statements

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Hewlett-Packard Company and its consolidated subsidiaries ("HP") may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of revenue, margins, expenses, earnings, earnings per share, tax provisions, cash flows, benefit obligations, share repurchases, currency exchange rates, the impact of acquisitions or other financial items; any statements of the plans, strategies and objectives of management for future operations, including execution of restructuring and integration plans; any statements concerning the expected development, performance or market share relating to products or services; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on HP and its financial performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include the impact of macroeconomic and geopolitical trends and events; the competitive pressures faced by HP's businesses; the development and transition of new products and services (and the enhancement of existing products and services) to meet customer needs and respond to emerging technological trends; the execution and performance of contracts by HP and its suppliers, customers and partners; the protection of HP's intellectual property assets, including intellectual property licensed from third parties; integration and other risks associated with business combination and investment transactions; the hiring and retention of key employees; assumptions related to pension and other post-retirement costs; expectations and assumptions relating to the execution and timing of restructuring and integration plans; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including but not limited to the items discussed in "Risk Factors" in Item 1A of this report, and that are otherwise described or updated from time to time in HP's Securities and Exchange Commission reports. HP assumes no obligation and does not intend to update these forward-looking statements.

PART I

ITEM 1. Business.

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

- personal computing and other access devices;
- multi-vendor customer services, including infrastructure technology and business process outsourcing, technology support and maintenance, application development and support services and consulting and integration services;
- imaging and printing-related products and services; and
- enterprise information technology infrastructure, including enterprise storage and server technology, networking products and solutions, IT management software, information management solutions and security intelligence/risk management solutions.

HP was incorporated in 1947 under the laws of the State of California as the successor to a partnership founded in 1939 by William R. Hewlett and David Packard. Effective in May 1998, we changed our state of incorporation from California to Delaware.

HP Products and Services; Segment Information

Our operations are organized into seven business segments: the Personal Systems Group ("PSG"), Services, the Imaging and Printing Group ("IPG"), Enterprise Servers, Storage and Networking ("ESSN"), HP Software, HP Financial Services ("HPFS") and Corporate Investments. In each of the past three fiscal years, notebooks, desktops and printing supplies each accounted for more than 10% of our consolidated net revenue. In fiscal 2010 and 2011, infrastructure technology outsourcing services also accounted for more than 10% of our consolidated net revenue. Industry standard servers accounted for more than 10% of our consolidated net revenue in fiscal 2011.

A summary of our net revenue, earnings from operations and assets for our segments and business units is found in Note 19 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. A discussion of factors potentially affecting our operations is set forth in "Risk Factors" in Item 1A, which is incorporated herein by reference.

Personal Systems Group

PSG provides commercial personal computers ("PCs"), consumer PCs, workstations, calculators and other related accessories, software and services for the commercial and consumer markets. We group commercial notebooks, commercial desktops and workstations into commercial clients and consumer notebooks and consumer desktops into consumer clients when describing our performance in these markets. Like the broader PC market, PSG continues to experience a shift toward mobile products such as notebooks. Both commercial and consumer PCs are based predominately on the Windows operating system and use Intel Corporation ("Intel") and Advanced Micro Devices ("AMD") processors.

Commercial PCs. Commercial PCs are optimized for commercial uses, including enterprise and SMB customers, and for connectivity and manageability in networked environments. Commercial PCs include the HP ProBook and the HP EliteBook lines of notebooks and the Compaq Pro, Compaq Elite, HP Pro and HP Elite lines of business desktops, as well as the All in One TouchSmart and Omni PCs, HP Mini-Note PCs, retail POS systems, HP Thin Clients and HP Slate Tablet PCs.

Consumer PCs. Consumer PCs include the HP and Compaq series of multi-media consumer notebooks, desktops and mini notebooks, including the TouchSmart line of touch-enabled all-in-one notebooks and desktops.

Workstations. Workstations are individual computing products designed for users demanding enhanced performance, such as computer animation, engineering design and other programs requiring high-resolution graphics. PSG provides workstations that run on both Windows and Linux-based operating systems.

Services

Services provides consulting, outsourcing and technology services across infrastructure, applications and business process domains. Services delivers to its clients by leveraging investments in consulting and support professionals, infrastructure technology, applications, standardized methodologies, and global supply and delivery. Our services businesses also create opportunities for us to sell additional hardware and software by offering solutions that encompass both products and services. Services is divided into four main business units: infrastructure technology outsourcing, technology services, applications services and business process outsourcing.

Infrastructure Technology Outsourcing. Infrastructure Technology Outsourcing delivers comprehensive services that streamline and optimize our clients' infrastructure to efficiently enhance performance, reduce costs, mitigate risk and enable business change. These services encompass the data center and the workplace (desktop); network and communications; and security, compliance and business continuity. We also offer a set of managed services, providing a cross-section of our broader infrastructure services for smaller discrete engagements.

Technology Services. Technology Services provides support and consulting services, as well as warranty support across HP's product lines. HP specializes in keeping technology running with mission critical services, converged infrastructure services, networking services, data center transformation services and infrastructure services for storage, server and unified communication environments. HP's technology services offerings are available in the form of service contracts, pre-packaged offerings (HP Care Pack services) or on an individual basis.

Application Services. Applications Services helps clients revitalize and manage their applications assets through flexible, project-based, consulting services and longer-term outsourcing contracts. These full life cycle services encompass application development, testing, modernization, system integration, maintenance and management. Applications Services also provides industry-focused technology consulting and systems integration solutions and services that use cloud computing, hybrid delivery, enterprise mobility, information management and real-time analytics. Applications projects open doors to new infrastructure technology outsourcing and business process outsourcing opportunities and represent attractive cross-selling opportunities to current HP clients.

Business Process Outsourcing. Business Process Outsourcing is powered by a platform of underlying infrastructure technology, applications and standardized methodologies and is supplemented by IT experience and in-depth, industry-specific knowledge. These services encompass both industry-specific and cross-industry solutions. Our cross-industry solutions include a broad array of enterprise shared services, customer relationship management services, financial process management services and administrative services.

Imaging and Printing Group

IPG provides consumer and commercial printer hardware, supplies, media and scanning devices. IPG is also focused on imaging solutions in the commercial markets. These solutions range from managed print services to capturing high-value pages in areas such as industrial applications, outdoor signage, and the graphic arts business.

Inkjet and Web Solutions. Inkjet and Web Solutions delivers HP's consumer and SMB inkjet solutions (hardware, supplies, media, web-connected hardware and services) and develops HP's retail publishing and web businesses. It includes single function and all-in-one inkjet printers targeted toward consumers and SMBs, as well as retail publishing solutions, Snapfish and ePrintCenter.

LaserJet and Enterprise Solutions. LaserJet and Enterprise Solutions delivers products, services and solutions to the medium-sized business and enterprise segments, including LaserJet printers and supplies, multi-function devices, scanners, web-connected hardware and services and enterprise software solutions, such as Exstream Software and Web Jetadmin.

Managed Enterprise Solutions. Managed Enterprise Solutions provides managed print services products and solutions delivered to enterprise customers partnering with third-party software providers to offer workflow solutions in the enterprise environment.

Graphics Solutions. Graphics Solutions provides large format printing (Designjet and Scitex), large format supplies, WebPress supplies, Indigo printing, specialty printing systems and inkjet high-speed production solutions. Graphic Solutions targets print service providers, architects, engineers, designers and industrial solution providers.

Printer Supplies. Our printer supplies offerings include LaserJet toner and inkjet printer cartridges, graphic solutions ink products and other printing-related media.

Enterprise Servers, Storage and Networking

ESSN provides server, storage and networking products in a number of categories. Our Converged Infrastructure portfolio of servers, storage and networking combined with HP Software's Cloud Service Automation software suite creates HP's CloudSystem. This integrated solution enables enterprise and service provider clients to deliver infrastructure, platform and software as a service in a private, public or hybrid cloud environment. By providing a broad portfolio of server, storage and networking solutions, ESSN aims to optimize the combined product solutions required by different customers and provide solutions for a wide range of operating environments, spanning both the enterprise and the SMB markets.

Industry Standard Servers. Industry Standard Servers offers primarily entry-level and mid-range ProLiant servers, which run primarily Windows, Linux and Novell operating systems and leverage Intel and AMD processors. The business spans a range of product lines that include pedestal-tower servers, density-optimized rack servers and HP's BladeSystem family of server blades.

Business Critical Systems. Business Critical Systems delivers mission-critical Converged Infrastructure with a portfolio of HP Integrity servers based on the Intel Itanium processor that run the HP-UX and OpenVMS operating systems, as well as HP Integrity NonStop solutions. Our Integrity servers feature scalable blades built on a blade infrastructure with HP's unique Blade Link technology and the Superdome 2 server solution. Business Critical Systems also offers HP's scale-up x86 ProLiant servers for scalability of systems with more than four industry standard processors. In addition, HP continues to support the HP9000 servers and HP AlphaServers by offering customers the opportunity to upgrade these legacy systems to current HP Integrity systems.

Storage. Our storage offerings include storage platforms for high-end, mid-range and small business environments. Our flagship product is the HP 3PAR Utility Storage Platform, which is designed for virtualization, cloud and IT-as-a-service. The Storage business has a broad range of products including storage area networks, network attached storage, storage management software and virtualization technologies, StoreOnce data deduplication solutions, tape drives and tape libraries. These offerings enable customers to optimize their existing storage systems, build new virtualization solutions and plan their transition to cloud computing.

Networking. Our switch, router, wireless LAN and TippingPoint network security products deliver open, scalable, secure, agile and consistent solutions for the data center, campus and branch networks. Our networking solutions are based on HP's FlexNetwork architecture, which is designed to enable simplified server virtualization, unified communications and multi-media application delivery for the enterprise.

HP Software

HP Software provides enterprise IT management software, information management solutions and security intelligence/risk management solutions. Solutions are delivered in the form of traditional software licenses or as software-as-a-service. Augmented by support and professional services, HP Software solutions allow large IT organizations to manage infrastructure, operations, application life cycles, application quality and security, IT services, business processes, and structured and unstructured data. In addition, these solutions help businesses proactively safeguard digital assets, comply with corporate and regulatory policies, and control internal and external security risks.

HP Financial Services

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

Corporate Investments

Corporate Investments includes business intelligence solutions, HP Labs, webOS software and certain business incubation projects. Business intelligence solutions enable businesses to standardize on consistent data management schemes, connect and share data across the enterprise and apply analytics. This segment also derives revenue from licensing specific HP technology to third parties. In addition, revenue from the sale of webOS devices was reported as part of this segment prior to the wind down of the webOS device business in the fourth quarter of fiscal 2011, which negatively impacted segment net revenue, gross margin and loss from operations as a result of contra revenue associated with sales incentive programs and expenses related to supplier-related obligations and inventory write downs.

Sales, Marketing and Distribution

We manage our business and report our financial results based on the principal business segments described above. Our customers are organized by consumer and commercial customer groups, and distribution is organized by direct and channel. Within the channel, we have various types of partners that we utilize for various customer groups. The partners include:

- retailers that sell our products to the public through their own physical or Internet stores;
- resellers that sell our products and services, frequently with their own value-added products or services, to targeted customer groups;
- distribution partners that supply our solutions to smaller resellers with which we do not have direct relationships;
- independent distributors that sell our products into geographies or customer segments in which we have little or no presence;
- original equipment manufacturers ("OEMs") that integrate our products with their own hardware or software and sell the integrated products;
- independent software vendors ("ISVs") that provide their clients with specialized software products, and often assist us in selling our products and services to clients purchasing their products;
- systems integrators that provide various levels and kinds of expertise in designing and implementing custom IT solutions and often partner with our services business to extend their expertise or influence the sale of our products and services; and
- advisory firms that provide various levels of management and IT consulting, including some systems integration work, and that typically partner with our services business on client solutions that require our unique products and services.

The mix of HP's business by channel or direct sales differs substantially by business and region. We believe that customer buying patterns and different regional market conditions necessitate sales, marketing and distribution to be tailored accordingly. HP is focused on driving the depth and breadth of its coverage in addition to efficiencies and productivity gains in both the direct and indirect business.

HP's Enterprise Sales and Marketing organization ("Enterprise Sales") manages most of our enterprise and public sector customer relationships and also has primary responsibility for simplifying sales processes across our segments to improve speed and effectiveness of customer delivery. In this capacity, Enterprise Sales also works closely with HP's enterprise businesses (Services, ESSN and HP Software), which manage specialty resources focused on their specific products, including UNIX, servers, storage, networking, software and support offerings. Enterprise Sales manages our direct distribution activities for commercial products and go-to-market activities with systems integrators and ISVs. Enterprise Sales also is responsible for driving HP's horizontal and vertical solutions with both HP's enterprise services business and the partners listed above. In addition, Enterprise Sales drives HP's vertical sales and marketing approach in the communication, media and entertainment, financial services, manufacturing and distribution and public sector industries.

PSG manages SMB customer relationships and commercial reseller channels relationships, due largely to the significant volume of commercial PCs that HP sells through these channels. PSG also leads the Volume Direct organization, which is charged with the processing of direct sales for volume products. In addition, PSG manages direct online sales through the Consumer Exchange and the Small Business Exchange.

IPG manages HP's overall consumer-related sales and marketing relationships. IPG also manages consumer channel relationships with third-party retail locations for imaging and printing products, as well as other consumer products, including consumer PCs, which provides for a bundled sale opportunity between PCs and IPG products.

Manufacturing and Materials

We utilize a significant number of outsourced manufacturers ("OMs") around the world to manufacture HP-designed products. The use of OMs is intended to generate cost efficiencies and reduce time to market for HP-designed products. We use multiple OMs to maintain flexibility in our supply chain and manufacturing processes. In some circumstances, third-party OEMs manufacture products that we purchase and resell under the HP brand. In addition to our use of OMs, we currently manufacture a limited number of finished products from components and sub-assemblies that we acquire from a wide range of vendors.

We utilize two primary methods of fulfilling demand for products: building products to order and configuring products to order. We build products to order to maximize manufacturing and logistics efficiencies by producing high volumes of basic product configurations. Configuring products to order permits configuration of units to the particular hardware and software customization requirements of customers. Our inventory management and distribution practices in both building products to order and configuring products to order seek to minimize inventory holding periods by taking delivery of the inventory and manufacturing immediately prior to the sale or distribution of products to our customers.

We purchase materials, supplies and product subassemblies from a substantial number of vendors. For most of our products, we have existing alternate sources of supply, or such sources are readily available. However, we do rely on sole sources for laser printer engines, LaserJet supplies and parts for products with short life cycles (although some of these sources have operations in multiple locations in the event of a disruption). We are dependent upon Intel as a supplier of processors and Microsoft Corporation ("Microsoft") for various software products. However, we believe that disruptions with these suppliers would result in industry-wide dislocations and therefore would not disproportionately disadvantage us relative to our competitors. For processors, we also have a relationship with AMD, and we have continued to see solid acceptance of AMD processors in the market.

Like other participants in the high technology industry, we ordinarily acquire materials and components through a combination of blanket and scheduled purchase orders to support our requirements for periods averaging 90 to 120 days. From time to time, we experience significant price volatility and supply constraints for certain components that are not available from multiple sources. Frequently, we are able to obtain scarce components for somewhat higher prices on the open market, which may have an impact on gross margin but does not disrupt production. We also acquire component inventory in anticipation of supply constraints or enter into longer-term pricing commitments with vendors to improve the priority, price and availability of supply. See "Risk Factors—We depend on third-party suppliers, and our revenue and gross margin could suffer if we fail to manage suppliers properly," in Item 1A, which is incorporated herein by reference.

International

Our products and services are available worldwide. We believe this geographic diversity allows us to meet demand on a worldwide basis for both consumer and enterprise customers, draws on business and technical expertise from a worldwide workforce, provides stability to our operations, allows us to drive economies of scale, provides revenue streams to offset geographic economic trends and offers us an opportunity to access new markets for maturing products. In addition, we believe that future growth is dependent in part on our ability to develop products and sales models that target developing countries. In this regard, we believe that our broad geographic presence gives us a solid base upon which to build such future growth.

A summary of our domestic and international net revenue and net property, plant and equipment is set forth in Note 19 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. Approximately 65% of our overall net revenue in fiscal 2011 came from outside the United States. The substantial majority of our net revenue originating outside the United States was from customers other than foreign governments.

For a discussion of risks attendant to HP's foreign operations, see "Risk Factors—Due to the international nature of our business, political or economic changes or other factors could harm our future revenue, costs and expenses and financial condition," in Item 1A, "Quantitative and Qualitative Disclosure about Market Risk" in Item 7A and Note 10 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

Research and Development

We remain committed to innovation as a key element of HP's culture. Our development efforts are focused on designing and developing products, services and solutions that anticipate customers' changing needs and desires and emerging technological trends. Our efforts also are focused on identifying the areas where we believe we can make a unique contribution and the areas where partnering with other leading technology companies will leverage our cost structure and maximize our customers' experiences.

HP Labs, together with the various research and development groups within the five principal business segments, are responsible for our research and development efforts. HP Labs is part of our Corporate Investments segment.

Expenditures for research and development were $3.3 billion in fiscal 2011, $3.0 billion in fiscal 2010 and $2.8 billion in fiscal 2009. We anticipate that we will continue to have significant research and development expenditures in the future to provide a continuing flow of innovative, high-quality products and services to maintain and enhance our competitive position.

For a discussion of risks attendant to our research and development activities, see "Risk Factors—If we cannot successfully execute on our strategy and continue to develop, manufacture and market products, services and solutions that meet customer requirements for innovation and quality, our revenue and gross margin may suffer," in Item 1A, which is incorporated herein by reference.

Patents

Our general policy has been to seek patent protection for those inventions and improvements likely to be incorporated into our products and services or where proprietary rights will improve our competitive position. At October 31, 2011, our worldwide patent portfolio included over 36,000 patents, which represents a slight decrease over the number of patents in our patent portfolio at the end of fiscal 2010 but an increase over the number of patents in our patent portfolio at the end of fiscal 2009.

Patents generally have a term of twenty years from the time they are filed. As our patent portfolio has been built over time, the remaining terms on the individual patents vary. We believe that our patents and applications are important for maintaining the competitive differentiation of our products and services, enhancing our ability to access technology of third parties, and maximizing our return on research and development investments. No single patent is in itself essential to us as a whole or any of our principal business segments.

In addition to developing our patents, we license intellectual property from third parties as we deem appropriate. We have also granted and continue to grant to others licenses under patents owned by us when we consider these arrangements to be in our interest. These license arrangements include a number of cross-licenses with third parties.

For a discussion of risks attendant to intellectual property rights, see "Risk Factors—Our revenue, cost of sales, and expenses may suffer if we cannot continue to license or enforce the intellectual property rights on which our businesses depend or if third parties assert that we violate their intellectual property rights," in Item 1A, which is incorporated herein by reference.

Backlog

We believe that backlog is not a meaningful indicator of future business prospects due to the diversity of our products and services portfolio, including the large volume of products delivered from shelf or channel partner inventories and the shortening of product life cycles. Therefore, we believe that backlog information is not material to an understanding of our overall business.

Seasonality

General economic conditions have an impact on our business and financial results. From time to time, the markets in which we sell our products experience weak economic conditions that may negatively affect sales. We experience some seasonal trends in the sale of our products and services. For example, European sales often are weaker in the summer months and consumer sales often are stronger in the fourth calendar quarter. Demand during the spring and early summer months also may be adversely impacted by market anticipation of seasonal trends. See "Risk Factors—Our sales cycle makes planning and inventory management difficult and future financial results less predictable," in Item 1A, which is incorporated herein by reference.

Competition

We encounter aggressive competition in all areas of our business activity. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, reputation, distribution, range of products and services, ease of use of our products, account relationships, customer training, service and support, and security.

The markets for each of our business segments are characterized by vigorous competition among major corporations with long-established positions and a large number of new and rapidly growing firms. Product life cycles are short, and to remain competitive we must develop new products and services, periodically enhance our existing products and services and compete effectively on the basis of the factors listed above. In addition, we compete with many of our current and potential partners, including OEMs that design, manufacture and often market their products under their own brand names. Our successful management of these competitive partner relationships will continue to be critical to our future success. Moreover, we anticipate that we will have to continue to adjust prices on many of our products and services to stay competitive.

On a revenue basis we are the largest company offering our range of general purpose computers and personal information, imaging and printing products for industrial, scientific, business and consumer applications, and IT services. We are the leader or among the leaders in each of our principal business segments.

The competitive environments in which each segment operates are described below:

Personal Systems Group. The areas in which PSG operates are intensely competitive and are characterized by price competition and inventory depreciation. Our primary competitors for the branded personal computers are Dell, Acer Inc., ASUSTeK Computer Inc., Apple Inc., Lenovo Group Limited and Toshiba Corporation. In particular regions, we also experience competition from local companies and from generically-branded or "white box" manufacturers. Our competitive advantages include our broad product portfolio, our innovation and research and development capabilities, our brand and procurement leverage, our ability to cross-sell our portfolio of offerings, our extensive service and support offerings and the availability of our broad-based distribution of products from retail and commercial channels to direct sales.

Services. Our service businesses, including HP Enterprise Services and Technology Services, compete in IT support services, consulting and integration, infrastructure technology outsourcing, business process outsourcing and application services. The IT support services and consulting and integration markets have been under significant pressure as our customers have reduced their IT budgets. However, this trend has benefited the outsourcing services business as customers drive toward lower IT management costs to enable more strategic investments. Our competitors include IBM Global Services, Computer Sciences Corporation, systems integration firms such as Accenture Ltd. and offshore companies such as Fujitsu Limited and India-based competitors Wipro Limited, Infosys Technologies Limited and Tata Consultancy Services Ltd. We also compete with other traditional hardware providers, such as Dell, which are increasingly offering services to support their products. Many of our competitors are able to offer a wide range of global services, and some of our competitors enjoy significant brand recognition. Our service businesses team with many companies to offer services, and those arrangements allow us to extend our reach and augment our capabilities. Our competitive advantages are evident in our deep technology expertise, which includes multi-vendor environments, virtualization and automation, our strong track record of collaboration with clients and partners, and the combination of our expertise in infrastructure management with skilled global resources in SAP, AG, Oracle Corporation and Microsoft platforms, among others.

Imaging and Printing Group. The markets for printer hardware and associated supplies are highly competitive, especially with respect to pricing and the introduction of new products and features across IPG's consumer, small- to medium-sized business, graphics and enterprise customer segments. Key competitors include Canon U.S.A., Inc., Lexmark International, Inc., Xerox Corporation, Seiko Epson Corporation, Samsung Electronics Co., Ltd. and Brother Industries, Ltd. In addition, independent suppliers offer refill and remanufactured alternatives for HP original inkjet and toner supplies which, although generally offering lower print quality and reliability, are typically offered at lower prices and put pressure on our supplies sales and margins. Other companies also have developed and marketed new compatible cartridges for HP's laser and inkjet products, particularly outside of the United States where intellectual property protection is inadequate or ineffective. In recent years, we and our competitors have regularly lowered prices on printer hardware to reach new customers and in response to the competitive environment. Important opportunities for future growth include accelerating high-usage unit share, pursuing long-term high-value recurring businesses, capitalizing on the analog to digital transition in graphics, web and mobile content solutions, and continuing to develop cloud-based, document-centric commercial solutions and services.

Enterprise Servers, Storage and Networking. The areas in which ESSN operates are intensely competitive and are characterized by rapid and ongoing technological innovation and price competition.

Our competitors range from broad solution providers such as International Business Machines Corporation ("IBM") to more focused competitors such as EMC Corporation and NetApp, Inc. in storage and Dell, Inc. in industry standard servers. We believe that our important competitive advantages in this segment include the six technology components of our converged infrastructure initiatives: IT systems, power and cooling, security, management, virtualization and automation. We believe that our competitive advantages also include our global reach and our significant intellectual property portfolio and research and development capabilities, which will contribute to further enhancements of our product and service offerings and our ability to cross-sell our portfolio and leverage scale advantages in everything from brand to procurement leverage.

HP Software. The areas in which HP Software operates are fueled by rapidly changing customer requirements and technologies. We market enterprise IT management software in competition with IBM, CA, Inc., BMC Software, Inc. and others. Our information management solutions compete with products from companies like IBM, EMC, and Symantec Corporation. We also deliver enterprise security/risk intelligence solutions that compete with products from Symantec, IBM, Cisco, and McAfee. As new delivery mechanisms such as software-as-a-service come on the scene, we are also confronting less traditional competitors. Our differentiation lies in the breadth and depth of our software and services portfolio and the scope of our market coverage.

HP Financial Services. In our financing business, our competitors are captive financing companies, mainly IBM Global Financing, as well as banks and financial institutions. We believe our competitive advantage in this business over banks and financial institutions is our ability to finance products, services and total solutions.

For a discussion of risks attendant to these competitive factors, see "Risk Factors—Competitive pressures could harm our revenue, gross margin and prospects," in Item 1A, which is incorporated herein by reference.

Environment

Our operations are subject to regulation under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, and third-party damage or personal injury claims, if we were to violate or become liable under environmental laws.

Many of our products are subject to various federal, state, local and foreign laws governing chemical substances in products and their safe use, including laws regulating the manufacture and distribution of chemical substances and laws restricting the presence of certain substances in electronics products. Some of our products also are, or may in the future be, subject to requirements applicable to their energy consumption. In addition, we face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the chemical and materials composition of our products, their safe use, and their energy efficiency, including requirements relating to climate change. We also are subject to legislation in an increasing number of jurisdictions that makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products (sometimes referred to as "product take-back legislation"). In the event our products become non-compliant with these laws, they could be restricted from entering certain jurisdictions, and we could face other sanctions, including fines.

Our operations and ultimately our products are expected to become increasingly subject to federal, state, local and foreign laws and regulations and international treaties relating to climate change. As these laws, regulations and treaties and similar initiatives and programs are adopted and implemented throughout the world, we will be required to comply or potentially face market access limitations or other sanctions, including fines. However, we believe that technology will be fundamental to finding solutions to achieve compliance with and manage those requirements, and we are collaborating with industry, business groups and governments to find and promote ways that HP technology can be used to address climate change and to facilitate compliance with these related laws, regulations and treaties.

We are committed to maintaining compliance with all environmental laws applicable to our operations, products and services and to reducing our environmental impact across all aspects of our business. We meet this commitment with a comprehensive environmental, health and safety policy, strict environmental management of our operations and worldwide environmental programs and services.

The liability for environmental remediation and other environmental costs is accrued when HP considers it probable and can reasonably estimate the costs. Environmental costs and accruals are presently not material to our operations or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse effect on HP's operations or financial condition, we do not currently anticipate material capital expenditures for environmental control facilities.

Executive Officers:

R. Todd Bradley; age 53; Executive Vice President, Personal Systems Group

Mr. Bradley has served as Executive Vice President of HP's Personal Systems Group since June 2005.

David A. Donatelli; age 46; Executive Vice President and General Manager, Enterprise Servers, Storage, Networking and Technology Services

Mr. Donatelli has served as Executive Vice President and General Manager of HP's Enterprise Servers, Storage and Networking segment since May 2009 and of HP's Technology Services business unit since June 2011. Previously, Mr. Donatelli served as President of the storage division of EMC Corporation, an information technology company, from September 2007 to April 2009. Prior to that, Mr. Donatelli served as Executive Vice President of Storage Product Operations at EMC from 2006 to September 2007.

John M. Hinshaw; age 41; Executive Vice President, Global Technology and Business Processes

Mr. Hinshaw has served as Executive Vice President, Global Technology and Business Processes since November 2011. Previously, Mr. Hinshaw served as Vice President and General Manager of Information Solutions at The Boeing Company, an aerospace company, from January 2011 to October 2011 and as Global Chief Information Officer for Boeing from June 2007 to December 2010. Prior to that, Mr. Hinshaw spent 14 years at Verizon Wireless, a telecommunications company, serving most recently as Senior Vice President and Chief Information Officer from 2005 to June 2007.

Michael J. Holston; age 49; Executive Vice President, General Counsel and Secretary

Mr. Holston has served as Executive Vice President and General Counsel since February 2007 and as Secretary since March 2007. Prior to that, he was a partner in the litigation practice at Morgan, Lewis & Bockius LLP, where, among other clients, he supported HP as external counsel on a variety of litigation and regulatory matters for more than ten years.

Martin J. Homlish; age 59; Executive Vice President and Chief Marketing Officer

Mr. Homlish has served as Executive Vice President and Chief Marketing Officer since May 2011. Previously, he served as Executive Vice President and Chief Marketing Officer at SAP AG, a software company, from 2000 until April 2011.

Vyomesh I. Joshi; age 57; Executive Vice President, Imaging and Printing Group

Mr. Joshi has served as Executive Vice President of HP's Imaging and Printing Group since 2002. Mr. Joshi also is a director of Yahoo! Inc.

Tracy S. Keogh; age 50; Executive Vice President, Human Resources

Ms. Keogh has served as Executive Vice President, Human Resources since April 2011. Previously, Ms. Keogh served as Senior Vice President of Human Resources at Hewitt Associates, a provider of human resources consulting services, from May 2007 until March 2011. Ms. Keogh served as the Chief Human Resources Officer for Bloomberg LP, a financial information provider, during 2006.

Catherine A. Lesjak; age 52; Executive Vice President and Chief Financial Officer

Ms. Lesjak has served as Executive Vice President and Chief Financial Officer since January 2007. Ms. Lesjak served as HP's interim Chief Executive Officer from August 2010 until November 2010. Previously, she served as Senior Vice President from 2003 until December 2006 and as Treasurer from 2003 until March 2007.

Michael R. Lynch; age 46; Executive Vice President, Information Management

Mr. Lynch has served as Executive Vice President, Information Management since November 2011. Since 1996, Mr. Lynch has served as Chief Executive Officer of Autonomy Corporation plc, an information management company that HP acquired in 2011.

John N. McMullen; age 53; Senior Vice President and Treasurer

Mr. McMullen has served as Senior Vice President and Treasurer since March 2007. Previously, he served as Vice President of Finance for HP's Imaging and Printing Group from May 2002 until 2007.

James T. Murrin; age 51; Senior Vice President, Controller and Principal Accounting Officer

Mr. Murrin has served as Senior Vice President, Controller and Principal Accounting Officer since March 2007. Previously, he served as Vice President of Finance for the former Technology Solutions Group since 2004.

William L. Veghte; age 44; Executive Vice President, HP Software

Mr. Veghte has served as Executive Vice President of HP Software since May 2010. Previously, Mr. Veghte served as Senior Vice President of the Windows business group at Microsoft Corporation, a software company, from February 2008 until January 2010 after having served in various other positions at Microsoft since joining the company in 1990, including Vice President, North America from August 2004 to February 2008.

Giovanni G. Visentin; age 49; Executive Vice President and General Manager, Enterprise Services

Mr. Visentin has served as Executive Vice President and General Manager of HP's enterprise services business since August 2011. Previously, Mr. Visentin served as Senior Vice President and General Manager of the Americas Region of HP's enterprise services business from January 2011 to August 2011. Before joining HP, Mr. Visentin served as General Manager of Integrated Technology

Services for North America for IBM, a global technology firm, from August 2007 to January 2011 after having served in various other positions at IBM since joining the company in 1985.

Margaret C. Whitman; age 55; President and Chief Executive Officer

Ms. Whitman has served as HP's President and Chief Executive Officer since September 2011. She has also served as a member of the Board of Directors of HP since January 2011. From March 2011 to September 2011, Ms. Whitman served as a part-time strategic advisor to Kleiner, Perkins, Caulfield & Byers, a private equity firm. Previously, Ms. Whitman served as President and Chief Executive Officer of eBay Inc., an online marketplace and payments company, from 1998 to March 2008. Prior to joining eBay, Ms. Whitman held executive-level positions at Hasbro Inc., a toy company, FTD, Inc., a floral products company, The Stride Rite Corporation, a footwear company, The Walt Disney Company, an entertainment company, and Bain & Company, a consulting company. Ms. Whitman also serves as a director of The Procter & Gamble Company and Zipcar, Inc.

Jan Zadak; age 47; Executive Vice President, Global Sales and Enterprise Marketing

Mr. Zadak has served as Executive Vice President of Global Sales and Enterprise Marketing since April 2011. Previously, Mr. Zadak served as Senior Vice President and Managing Director of HP Europe, the Middle East and Africa from April 2010 to April 2011. Prior to that, Mr. Zadak held various other positions with HP since joining the company in 2002, including Senior Vice President of Sales for the former HP Enterprise Business in EMEA from June 2007 to April 2010 and Vice President and Managing Director of Central and Eastern Europe for the former HP Enterprise Business from August 2005 to April 2007.

Employees

We had approximately 349,600 employees worldwide as of October 31, 2011.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available on our website at http://www hp.com/investor/home, as soon as reasonably practicable after HP electronically files such reports with, or furnishes those reports to, the Securities and Exchange Commission. HP's Corporate Governance Guidelines, Board of Directors committee charters (including the charters of the Audit Committee, HR and Compensation Committee, and Nominating and Governance Committee) and code of ethics entitled "Standards of Business Conduct" also are available at that same location on our website. Stockholders may request free copies of these documents from:

Hewlett-Packard Company
Attention: Investor Relations
3000 Hanover Street
Palo Alto, CA 94304
(866) GET-HPQ1 or (866) 438-4771
http://www hp.com/investor/informationrequest

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ITEM 1A. Risk Factors.

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

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

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

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

Companies with whom we have alliances in some areas may be competitors in other areas. For example, in the second quarter of fiscal 2011, an alliance partner that also markets a line of competing servers announced that it intends to cease software development for our Itanium-based servers, which has resulted in orders for our servers being canceled or delayed. If that decision is not reversed or if another solution is not successfully implemented, there would be reduced demand for our Itanium-based servers over the longer term. In addition, companies with whom we have alliances also may acquire or form alliances with our competitors, thereby reducing their business with us. Any inability to effectively manage these complicated relationships with alliance partners could have an adverse effect on our results of operations.

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

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

Even if we are able to maintain or increase market share for a particular product, revenue could decline because the product is in a maturing industry. Revenue and margins also could decline due to increased competition from other types of products. For example, growing demand for an increasing array of mobile computing devices and the development of cloud-based solutions may reduce demand for some of our existing hardware products. In addition, refill and remanufactured alternatives for some of HP's LaserJet toner and inkjet cartridges compete with HP's supplies business. Other companies have also developed and marketed new compatible cartridges for HP's LaserJet and inkjet products, particularly in jurisdictions outside of the United States where adequate intellectual property protection may not exist.

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

Our long-term strategy is focused on leveraging our portfolio of hardware, software and services as we adapt to a changing/hybrid model of IT delivery and consumption driven by the growing adoption of cloud computing and increased demand for solutions. To successfully execute on this strategy, we need to continue to evolve our historically hardware-centric business model towards a model that includes more software and higher value services offerings. In addition, we need to continue to further evolve the focus of our organization towards the delivery of integrated IT solutions for our customers. Any failure to successfully execute this strategy could adversely affect our operating results.

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

In the course of conducting our business, we must adequately address quality issues associated with our products and services, including defects in our engineering, design and manufacturing processes and unsatisfactory performance under service contracts, as well as defects in third- party components included in our products and unsatisfactory performance by third-party contractors. In order to address quality issues, we work extensively with our customers and suppliers and engage in product testing to determine the causes of problems and to determine appropriate solutions. However, the products and services that we offer are complex, and our regular testing and quality control efforts may not be effective in controlling or detecting all quality issues or errata, particularly with respect to faulty components manufactured by third parties. If we are unable to determine the cause, find an appropriate solution or offer a temporary fix (or "patch") to address quality issues with our products, we may delay shipment to customers, which would delay revenue recognition and could adversely affect our revenue and reported results. Finding solutions to quality issues can be expensive and may result in additional warranty, replacement and other costs, adversely affecting our profits. If new or existing customers have difficulty operating our products or are dissatisfied with our services, our operating margins could be adversely affected, and we could face possible claims if we fail to meet our customers' expectations. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our brand and reputation, which could adversely affect our operating results.

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

Our revenue and gross margin depend significantly on worldwide economic conditions and the demand for technology hardware, software and services in the markets in which we compete. Economic weakness and uncertainty, including the ongoing macroeconomic challenges in the United States and the debt crisis in certain countries in the European Union, have resulted, and may result in the future, in decreased revenue, gross margin, earnings or growth rates and difficulty managing inventory levels. In addition, sustained uncertainty about current global economic conditions may adversely affect demand for our products and services. Economic weakness and uncertainty also make it more difficult for us to make accurate forecasts of revenue, gross margin and expenses.

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

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

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

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

- *Shortages.* Occasionally we may experience a shortage of, or a delay in receiving, certain components as a result of strong demand, capacity constraints, supplier financial weaknesses, inability of suppliers to borrow funds in the credit markets, disputes with suppliers (some of whom are also customers), disruptions in the operations of component suppliers, other problems experienced by suppliers or problems faced during the transition to new suppliers. For example, as discussed under "Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses" below, we obtain disk drive components from suppliers with operations in Thailand that have been severely impacted by the recent floods in that region, which has caused a short-term reduction in the supply of those components. In addition, our PC business relies heavily upon OMs to manufacture its products and is therefore dependent upon the continuing operations of those OMs to fulfill demand for our PC products. HP represents a substantial portion of the business of some of these OMs, and any changes to the nature or volume of business transacted by HP with a particular OM could adversely affect the operations and financial condition of the OM and lead to shortages or delays in receiving products from that OM. If shortages or delays persist, the price of these components may increase, and we may be exposed to quality issues or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build products or provide services in a timely manner in the quantities or according to the specifications needed. Accordingly, our revenue and gross margin could suffer as we could lose time-sensitive sales, incur additional freight costs or be unable to pass on price increases to our customers. If we cannot adequately address supply issues, we might have to reengineer some products or service offerings, resulting in further costs and delays.

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

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

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

- *Single source suppliers.* Our use of single source suppliers for certain components could exacerbate our supplier issues. We obtain a significant number of components from single sources due to technology, availability, price, quality or other considerations. For example, we rely on Intel to provide us with a sufficient supply of processors for many of our PCs, workstations and servers, and some of those processors are customized for our products. New products that we introduce may utilize custom components obtained from only one source initially until we have evaluated whether there is a need for additional suppliers. Replacing a single source supplier could delay production of some products as replacement suppliers initially may be subject to capacity constraints or other output limitations. For some components, such as customized components and some of the processors that we obtain from Intel, alternative sources may not exist or those alternative sources may be unable to produce the quantities of those components necessary to satisfy our production requirements. In addition, we sometimes purchase components from single source suppliers under short-term agreements that contain favorable pricing and other terms but that may be unilaterally modified or terminated by the supplier with limited notice and with little or no penalty. The performance of such single source suppliers under those agreements (and the renewal or extension of those agreements upon similar terms) may affect the quality, quantity or price of components to HP. The loss of a single source supplier, the deterioration of our relationship with a single source supplier, or any unilateral modification to the contractual terms under which we are supplied components by a single source supplier could adversely affect our revenue and gross margins.

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

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

In late July 2011, Thailand began experiencing severe flooding that has caused widespread damage to the local manufacturing industry. HP obtains disk drive components used in its PCs, servers and storage devices from suppliers with operations in Thailand that were and continue to be severely impacted by the flooding. We have experienced and expect to continue to experience a short-term reduction in the supply of these disk drive components. If we are unable to support our ongoing demand for disk drive components, the revenue, gross margins and results of operations of our PC, server and storage businesses may be adversely affected.

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

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

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

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

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

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

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

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

- speculation in the media or investment community about, or actual changes in, our business, strategic position, market share, organizational structure, operations, financial condition, financial reporting and results, effectiveness of cost-cutting efforts, value or liquidity of our investments, exposure to market volatility, prospects, business combination or investment transactions, stock price performance or executive team;
- the announcement of new or planned products, services, technological innovations, acquisitions, divestitures or other significant transactions by HP or its competitors;
- quarterly increases or decreases in revenue, gross margin, earnings or cash flow from operations, changes in estimates by the investment community or guidance provided by HP, and variations between actual and estimated financial results;
- announcements of actual and anticipated financial results by HP's competitors and other companies in the IT industry; and
- the timing and amount of share repurchases by HP.

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

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

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

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

Third parties also may claim that we or customers indemnified by us are infringing upon their intellectual property rights. For example, individuals and groups frequently purchase intellectual property assets for the purpose of asserting claims of infringement and attempting to extract settlements from companies such as HP and their customers. The number of these claims has increased significantly in recent periods and may continue to increase in the future. If we cannot or do not license infringed intellectual property at all or on reasonable terms, or if we are required to substitute similar technology from another source, our operations could be adversely affected. Even if we believe that intellectual property claims are without merit, they can be time-consuming and costly to defend and may divert management's attention and resources away from our business. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlement or license agreements, pay costly damage awards, or face a temporary or permanent injunction prohibiting us from importing, marketing or selling certain of our products. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable or unwilling to uphold its contractual obligations to us.

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

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

Sales outside the United States make up approximately 65% of our net revenue. In addition, an increasing portion of our business activity is being conducted in emerging markets, including Brazil, Russia, India and China. Our future revenue, gross margin, expenses and financial condition could suffer due to a variety of international factors, including:

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

- longer collection cycles and financial instability among customers;
- trade regulations and procedures and actions affecting production, pricing and marketing of products;
- local labor conditions and regulations, including local labor issues faced by specific HP suppliers and OMs;
- managing a geographically dispersed workforce;
- changes in the regulatory or legal environment;
- differing technology standards or customer requirements;
- import, export or other business licensing requirements or requirements relating to making foreign direct investments, which could increase our cost of doing business in certain jurisdictions, prevent us from shipping products to particular countries or markets, affect our ability to obtain favorable terms for components, increase our operating costs or lead to penalties or restrictions;
- difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws; and
- fluctuations in freight costs, limitations on shipping and receiving capacity, and other disruptions in the transportation and shipping infrastructure at important geographic points of exit and entry for our products and shipments.

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

As approximately 65% of our sales are from countries outside of the United States, other currencies, including the euro, the British pound, Chinese yuan renminbi and the Japanese yen, can have an impact on HP's results (expressed in U.S. dollars). In particular, the uncertainty with respect to the ability of certain European countries to continue to service their sovereign debt obligations and the related European financial restructuring efforts may cause the value of the euro to fluctuate. Currency variations also contribute to variations in sales of products and services in impacted jurisdictions. For example, in the event that one or more European countries were to replace the euro with another currency, HP sales into such countries, or into Europe generally, would likely be adversely affected until stable exchange rates are established. Accordingly, fluctuations in foreign currency rates, most notably the strengthening of the dollar against the euro, could adversely affect our revenue growth in future periods. In addition, currency variations can adversely affect margins on sales of our products in countries outside of the United States and margins on sales of products that include components obtained from suppliers located outside of the United States. We use a combination of forward contracts and options designated as cash flow hedges to protect against foreign currency exchange rate risks. The effectiveness of our hedges depends on our ability to accurately forecast future cash flows, which is particularly difficult during periods of uncertain demand for our products and services and highly volatile exchange rates. As a result, we could incur significant losses from our hedging activities if our forecasts are incorrect. In addition, our hedging activities may be ineffective or may not offset any or more than a portion of the adverse financial impact resulting from currency variations. Gains or losses associated with hedging activities also may impact our revenue and to a lesser extent our cost of sales and financial condition.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act. For example, as discussed in Note 18 to the Consolidated Financial Statements, the German Public Prosecutor's Office, the U.S. Department of Justice and the SEC have been investigating allegations that certain current and former employees of HP engaged in bribery, embezzlement and tax evasion or were involved in kickbacks or other improper payments. Although we implement policies and procedures designed to facilitate compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have an adverse effect on our business and reputation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Failure to maintain our credit ratings could adversely affect our liquidity, capital position, borrowing costs and access to capital markets.

Our credit risk is evaluated by three independent rating agencies. Two of those rating agencies, Standard & Poor's Ratings Services and Fitch Ratings Services, downgraded our ratings on November 30 and December 2, 2011, respectively. Our credit ratings remain under negative outlook by Fitch Ratings Services and have been under review for possible downgrade by Moody's Investors Service since October 28, 2011. These downgrades have increased the cost of borrowing under our credit facilities, have reduced market capacity for our commercial paper, and may require the posting of additional collateral under some of our derivative contracts. There can be no assurance that we will be able to maintain our current credit ratings, and any additional actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, may further impact us in a similar manner and may have a negative impact on our liquidity, capital position and access to capital markets.

We make estimates and assumptions in connection with the preparation of HP's Consolidated Financial Statements, and any changes to those estimates and assumptions could adversely affect our results of operations.

In connection with the preparation of HP's Consolidated Financial Statements, we use certain estimates and assumptions based on historical experience and other factors. Our most critical accounting estimates are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. In addition, as discussed in Note 18 to the Consolidated Financial Statements, we make certain estimates, including decisions related to provisions for legal proceedings and other contingencies. While we believe that these estimates and assumptions are reasonable under the circumstances, they are subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could adversely affect our results of operations.

[Table of Contents](#)

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

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

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

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

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

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

We have an operating framework that includes a disciplined focus on operational efficiency. As part of this framework, we have adopted several initiatives, including our ongoing initiative to transform our supply chain and leverage our corporate infrastructure and a more recent initiative to implement better tools, standardize key processes, integrate critical IT systems, minimize redundant or legacy systems and take other actions to improve our productivity, sales, forecasting and business decisions. We also implemented a multi-year restructuring plan in the third quarter of fiscal 2010 relating to our enterprise services business.

Our ability to achieve the anticipated cost savings and other benefits from these initiatives within the expected time frame is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. In addition, we are vulnerable to increased risks associated with implementing changes to our tools, processes and systems given our large portfolio of businesses, the broad range of geographic regions in which we and our customers and partners operate, and the number of acquisitions that HP has completed in recent years. There are also significant risks associated with our enterprise services workforce restructuring plan, including potential delays in the implementation of that plan in highly regulated locations outside of the United States, particularly in Europe and Asia, decreases in employee morale, and the failure to meet operational targets due to the loss of employees. If these estimates and assumptions are incorrect, if we are unsuccessful at implementing changes to our tools, processes and systems, if we experience delays, or if other unforeseen events occur, our business and results of operations could be adversely affected.

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

In order to be successful, we must attract, retain, train, motivate, develop and transition qualified executives and other key employees, including those in managerial, technical, sales, marketing and IT support positions. Identifying, developing internally or hiring externally, training and retaining qualified executives, engineers, skilled solutions providers in the IT support business and qualified sales representatives are critical to our future, and competition for experienced employees in the IT industry can be intense. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash and share-based compensation. Our share-based incentive awards include stock options, restricted stock units and performance-based restricted units, some of which contain conditions relating to HP's stock price performance and HP's long-term financial performance that make the future value of those awards uncertain. If the anticipated value of such share-based incentive awards does not materialize, if our share-based compensation otherwise ceases to be viewed as a valuable benefit, or if our total compensation package is not viewed as being competitive, our ability to attract, retain, and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. Further, changes in our management team may be disruptive to our business, and any failure to successfully transition and assimilate key new hires or promoted employees could adversely affect our business and results of operations.

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

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

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

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

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

- combining product offerings and entering into new markets in which we are not experienced;
- convincing customers and distributors that the transaction will not diminish client service standards or business focus, preventing customers and distributors from deferring purchasing decisions or switching to other suppliers (which could result in our incurring additional obligations in order to address customer uncertainty), minimizing sales force attrition and coordinating sales, marketing and distribution efforts;
- consolidating and rationalizing corporate IT infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code;
- minimizing the diversion of management attention from ongoing business concerns;

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

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

- achieving savings from supply chain integration; and

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

Managing business combination and investment transactions requires varying levels of management resources, which may divert our attention from other business operations. These business combination and investment transactions also have resulted, and in the future may result, in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, asset impairment charges, charges from the elimination of duplicative facilities and contracts, in-process research and development charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans. Moreover, HP has incurred and will incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with business combination and investment transactions, and, to the extent that the value of goodwill or intangible assets with indefinite lives acquired in connection with a business combination and investment transaction becomes impaired, we may be required to incur additional material charges relating to the impairment of those assets. In order to complete an acquisition, we may issue common stock, potentially creating dilution for existing stockholders. We may also borrow to finance acquisitions, and the amount and terms of any potential future acquisition related or other borrowings, as well as other factors, could affect our liquidity and financial condition. In addition, HP's effective tax rate on an ongoing basis is uncertain, and business combination and investment transactions could adversely impact our effective tax rate. We also may experience risks relating to the challenges and costs of closing a business combination and investment transaction and the risk that an announced business combination and investment transaction may not close. As a result, any completed, pending or future transactions may contribute to financial results that differ from the investment community's expectations in a given quarter.

Unforeseen environmental costs could impact our future net earnings.

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

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

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

- authorizing blank check preferred stock, which HP could issue with voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, HP's directors and officers;
- specifying that HP stockholders may take action only at a duly called annual or special meeting of stockholders and otherwise in accordance with our bylaws and limiting the ability of our stockholders to call special meetings;
- requiring advance notice of proposals by HP stockholders for business to be conducted at stockholder meetings and for nominations of candidates for election to our Board of Directors;
- requiring a vote by the holders of two-thirds of HP's outstanding shares to amend certain bylaws relating to HP stockholder meetings, the Board of Directors and indemnification; and
- controlling the procedures for conduct of HP Board and stockholder meetings and election, appointment and removal of HP directors.

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

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control of HP could limit the opportunity for our stockholders to receive a premium for their shares of HP common stock and also could affect the price that some investors are willing to pay for HP common stock.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

As of October 31, 2011, we owned or leased a total of approximately 70 million square feet of space worldwide. We owned 47% of this space and leased the remaining 53%. Included in these amounts are 12 million square feet of vacated space, of which 2 million square feet is leased to non-HP interests. We believe that our existing properties are in good condition and are suitable for the conduct of our business.

As of October 31, 2011, HP core data centers, manufacturing plants, research and development facilities, and warehouse operations occupied 27 million square feet. We own 53% of our data center, manufacturing, research and development, and warehouse space and lease the remaining 47%. The remainder of our space is used for administrative and support activities and occupies 31 million square feet. We own 39% of our administrative and support space and lease the remaining 61%. As of

October 31, 2011, we have largely completed our plan to reduce our real estate costs and increase our productive utilization by consolidating into several hundred HP core real estate locations worldwide.

As mentioned above in Item 1. Business, we have seven business segments: PSG, Services, IPG, ESSN, HP Software, HPFS and Corporate Investments. Because of the interrelation of these segments, a majority of these segments use substantially all of the properties at least in part, and we retain the flexibility to use each of the properties in whole or in part for each of the segments.

Principal Executive Offices

Our principal executive offices, including our global headquarters, are located at 3000 Hanover Street, Palo Alto, California, United States of America.

Headquarters of Geographic Operations

The locations of our headquarters of geographic operations at October 31, 2011 were as follows:

Americas	*Europe, Middle East, Africa*	*Asia Pacific*
Houston, United States	Geneva, Switzerland	Singapore
Miami, United States		Tokyo, Japan
Mississauga, Canada		

Product Development and Manufacturing

The locations of our major product development, manufacturing, and HP Labs at October 31, 2011 were as follows:

Americas	*Europe, Middle East, Africa*	*Hewlett-Packard Laboratories*
Cupertino, Roseville, San Diego, and Woodland, California	Leixlip, Ireland	Bangalore, India
Houston, Texas	Kiryat-Gat, Nes Ziona, and Netanya, Israel	Beijing, China
Corvallis, Oregon	Erskine, United Kingdom	Bristol, United Kingdom
Aguadilla, Puerto Rico	Sant Cugat del Valles, Spain	Fusionopolis, Singapore
Indianapolis, Indiana		Haifa, Israel
Andover, Massachusetts	*Asia Pacific*	Palo Alto, United States
Boise, Idaho	Singapore	St. Petersburg, Russia
LaVergne, Tennessee	ChongQing and Shanghai, China	
Vancouver, Washington	Udham Singh Nagar, India	
Ft Collins, Colorado	Tokyo, Japan	
Sandston, Virginia		

ITEM 3. Legal Proceedings.

Information with respect to this item may be found in Note 18 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Information regarding the market prices of HP common stock and the markets for that stock may be found in the "Quarterly Summary" in Item 8 and on the cover page of this Annual Report on Form 10-K, respectively, which are incorporated herein by reference. We have declared and paid cash dividends each fiscal year since 1965. In fiscal 2011, we declared dividends of $0.16 per share and $0.24 per share in the first and third quarters, respectively, and paid dividends of $0.08 per share in each of the first and second quarters and $0.12 per share in each of the third and fourth quarters. In fiscal 2010, we declared dividends of $0.16 per share in the first and third quarters and paid dividends of $0.08 per share in each quarter. As of November 30, 2011, there were approximately 111,200 stockholders of record. Additional information concerning dividends may be found in "Selected Financial Data" in Item 6 and in Item 8, which are incorporated herein by reference.

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities in fiscal 2011.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
	In thousands, except per share amounts			
Month #1 (August 2011)	10,074	$ 31.51	10,074	$ 10,977,582
Month #2 (September 2011)	7,088	$ 25.76	7,088	$ 10,795,008
Month #3 (October 2011)	—	—	—	$ 10,795,008
Total	17,162	$ 29.13	17,162	

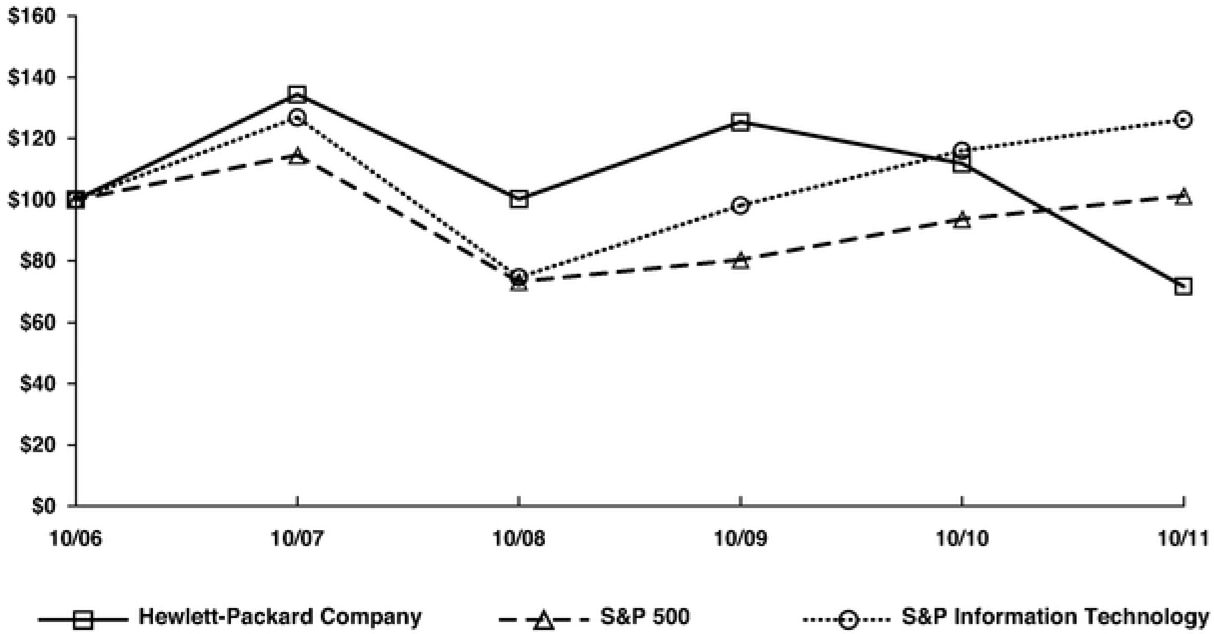
HP repurchased shares in the fourth quarter of fiscal 2011 under an ongoing program to manage the dilution created by shares issued under employee stock plans as well as to repurchase shares opportunistically. This program, which does not have a specific expiration date, authorizes repurchases in the open market or in private transactions. All shares repurchased in the fourth quarter of fiscal 2011 were purchased in open market transactions.

As of October 31, 2011, HP had remaining authorization of $10.8 billion for future share repurchases, including $0.8 billion remaining under the $10.0 billion repurchase authorization approved by HP's Board of Directors on August 29, 2010 and $10.0 billion under the additional repurchase authorization approved on July 21, 2011.

Table of Contents

Stock Performance Graph and Cumulative Total Return

The graph below shows the cumulative total stockholder return assuming the investment of $100 on the date specified (and the reinvestment of dividends thereafter) in each of HP common stock, the S&P 500 Index, and the S&P Information Technology Index.[1] The comparisons in the graph below are based upon historical data and are not indicative of, or intended to forecast, future performance of our common stock.



	10/06	10/07	10/08	10/09	10/10	10/11
Hewlett-Packard Company	100.00	134.39	100.21	125.40	111.85	71.69
S&P 500	100.00	114.56	73.21	80.38	93.66	101.24
S&P Information Technology	100.00	126.90	74.61	98.11	116.00	126.18

(1) The stock performance graph does not include HP's peer group because peer group information is represented and included in the S&P Information Technology Index.

ITEM 6. Selected Financial Data.

The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data," of this Form 10-K, which are incorporated herein by reference, in order to understand further the factors that may affect the comparability of the financial data presented below.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
Selected Financial Data

	For the fiscal years ended October 31				
	2011	2010	2009	2008	2007
	In millions, except per share amounts				
Net revenue	$ 127,245	$ 126,033	$ 114,552	$ 118,364	$ 104,286
Earnings from operations[1]	$ 9,677	$ 11,479	$ 10,136	$ 10,473	$ 8,719
Net earnings	$ 7,074	$ 8,761	$ 7,660	$ 8,329	$ 7,264
Net earnings per share					
Basic	$ 3.38	$ 3.78	$ 3.21	$ 3.35	$ 2.76
Diluted	$ 3.32	$ 3.69	$ 3.14	$ 3.25	$ 2.68
Cash dividends declared per share	$ 0.40	$ 0.32	$ 0.32	$ 0.32	$ 0.32
At year-end:					
Total assets	$ 129,517	$ 124,503	$ 114,799	$ 113,331	$ 88,699
Long-term debt	$ 22,551	$ 15,258	$ 13,980	$ 7,676	$ 4,997

(1) Earnings from operations include the following items, which may materially affect the comparability of the earnings data presented:

	2011	2010	2009	2008	2007
	In millions				
Amortization of purchased intangible assets	$ 1,607	$ 1,484	$ 1,578	$ 1,012	$ 973
Impairment of goodwill and purchased intangible assets	885	—	—	—	—
webOS device business wind down	755	—	—	—	—
Restructuring charges	645	1,144	640	270	387
Pension curtailments and pension settlements, net	—	—	—	—	(517)
Acquisition-related charges	182	293	242	41	—
Total charges before taxes	$ 4,074	$ 2,921	$ 2,460	$ 1,323	$ 843
Total charges, net of taxes	$ 3,130	$ 2,105	$ 1,733	$ 973	$ 690

[Table of Contents](#)

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

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

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

OVERVIEW

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

- personal computing and other access devices;
- multi-vendor customer services, including infrastructure technology and business process outsourcing, technology support and maintenance, application development and support services and consulting and integration services;
- imaging and printing-related products and services; and
- enterprise information technology infrastructure, including enterprise storage and server technology, networking products and solutions, IT management software, information management solutions and security intelligence/risk management solutions.

We have seven business segments for financial reporting purposes: the Personal Systems Group ("PSG"), Services, the Imaging and Printing Group ("IPG"), Enterprise Servers, Storage and Networking ("ESSN"), HP Software, HP Financial Services ("HPFS") and Corporate Investments.

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

Strategic Focus

The core of our business is our hardware products, which include our PC, server, storage, networking, and imaging and printing products. Our software business provides enterprise IT management software, information management solutions and security intelligence/risk management solutions delivered in the form of traditional software licenses or as software-as-a-service that allow us to differentiate our hardware products and deploy them in a manner that helps our customers solve problems and meets our customers' needs to manage their infrastructure, operations, application life cycles, application quality and security, business processes, and structured and unstructured data. Our Converged Infrastructure portfolio of servers, storage and networking combined with our Cloud Service Automation software suite enables enterprise and service provider clients to deliver infrastructure, platform and software-as-a-service in a private, public or hybrid cloud environment. Layered on top of our hardware and software businesses is our services business, which provides opportunities to drive usage of HP products and solutions, enables us to implement and manage all the technologies upon which our customers rely, and gives us a platform to be more solution-oriented and a better strategic partner with our customers.

Leveraging our Portfolio and Scale

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

Investing in our Business

We are investing in our business to strengthen our position in our core markets and accelerate growth in adjacent markets in anticipation of market trends, such as cloud computing, unstructured data, data center consolidation and automation, digitization, analytics and IT security. We are also creating innovative new products and developing new channels to connect with our customers. In addition, we have been making focused investments to strengthen our portfolio of products and services that we can offer to our customers, both through organic investments as well as through acquisitions. These investments will allow us to expand in higher margin and higher growth industry segments and further strengthen our portfolio of hardware, software and services.

Driving Operational Effectiveness

We are continuing to work to optimize operational effectiveness across the company. Operational effectiveness remains critical to the success of HP, and we are implementing efficiency, productivity and quality initiatives throughout the company. For example, we are continuing to execute our ongoing initiatives to transform our supply chain and leverage our corporate infrastructure. We have also adopted an initiative to implement better tools, standardize key processes, integrate critical IT systems, minimize redundant or legacy systems and take other actions to improve our productivity, sales, forecasting and business decisions. In addition, we are continuing to implement the multi-year restructuring plan announced in June 2010 relating to our enterprise services business. See Note 8 to the Consolidated Financial Statements in Item 8 for further discussion of this restructuring plan and the associated restructuring charges.

The following provides an overview of our key fiscal 2011 financial metrics:

	HP[1] Consolidated	PSG	Services	IPG	ESSN	HP Software	HPFS
	In millions, except per share amounts						
Net revenue	$ 127,245	$39,574	$35,954	$25,783	$22,241	$ 3,217	$3,596
Year-over-year net revenue % increase (decrease)	1.0%	(2.9)%	1.2%	0.1%	9.3%	17.9%	18.0%
Earnings from operations	$ 9,677	$ 2,350	$ 5,149	$ 3,973	$ 3,026	$ 698	$ 348
Earnings from operations as a % of net revenue	7.6%	5.9%	14.3%	15.4%	13.6%	21.7%	9.7%
Net earnings	$ 7,074						
Net earnings per share							
Basic	$ 3.38						
Diluted	$ 3.32						

(1) Includes Corporate Investments and eliminations.

Cash and cash equivalents at October 31, 2011 totaled $8.0 billion, a decrease of $2.9 billion from the October 31, 2010 balance of $10.9 billion. The decrease for fiscal 2011 was due primarily to $10.5 billion of net cash paid for business acquisitions, $10.1 billion of cash used to repurchase common stock and $3.5 billion net investment in property, plant and equipment, the effect of which was partially offset by $12.6 billion of cash provided from operations and $8.3 billion from the net issuance of debt.

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

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

For a further discussion of trends, uncertainties and other factors that could impact our operating results, see the section entitled "Risk Factors" in Item 1A, which is incorporated herein by reference.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

General

The Consolidated Financial Statements of HP are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net revenue and expenses, and the disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of HP's Board of Directors. Management believes that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.

The summary of significant accounting policies is included in Note 1 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. Management believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

Revenue Recognition

We enter into contracts to sell our products and services, and, while the majority of our sales agreements contain standard terms and conditions, there are agreements that contain multiple elements or non-standard terms and conditions. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the price should be allocated among the elements and when to recognize revenue for each element. We recognize revenue for delivered elements as separate units of accounting only when the delivered elements have standalone value, uncertainties regarding customer acceptance are resolved and there are no customer-negotiated refund or return rights for the delivered elements. For elements with no standalone value, we recognize revenue consistent with the pattern of the associated deliverables. If the arrangement includes a customer-negotiated refund or return right relative to the delivered item and the delivery and performance of the undelivered item is considered probable and substantially in our control, the delivered element constitutes a separate unit of accounting. Changes in the allocation of the sales price between elements may impact the timing of revenue recognition but will not change the total revenue recognized on the contract.

We recognize revenue as work progresses on certain fixed-price contracts, such as consulting arrangements. Using a proportional performance method, we estimate the total expected labor costs in order to determine the amount of revenue earned to date. We follow this basis because reasonably dependable estimates of the labor costs applicable to various stages of a contract can be made. Total contract profit is subject to revisions throughout the life of the contract. We record changes in revenue to income, as a result of revisions to cost estimates, in the period in which the facts that give rise to the revision become known.

We recognize revenue on certain design and build (design, development and/or constructions of software and/or systems) projects using the percentage-of-completion method. We use the cost-to-cost method of measurement towards completion as determined by the percentage of cost incurred to date to the total estimated costs of the project. In circumstances when reasonable and reliable cost estimates for a project cannot be made, we recognize revenue using the completed contract method.

We record estimated reductions to revenue for customer and distributor programs and incentive offerings, including price protection, promotions, other volume-based incentives and expected returns. Future market conditions and product transitions may require us to take actions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered. Additionally, certain incentive programs require us to estimate, based on historical experience and the specific terms and conditions of the incentive, the number of customers who will actually redeem the incentive.

Under our revenue recognition policies, we establish the selling prices used for each deliverable based on the vendor-specific objective evidence ("VSOE"), if available, third-party evidence, if VSOE is not available, or estimated selling price if neither VSOE nor third-party evidence is available. We establish VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. Third-party evidence of selling price is established by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. The best estimate of selling price ("ESP") is established considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product life cycle. Consideration is also given to market conditions such as competitor pricing strategies and industry technology life cycles. When determining ESP, we apply management judgment to establish margin objectives and pricing strategies and to evaluate market conditions and product life cycles. We may modify or develop new go-to-market practices in the future. As these go-to-market strategies evolve, we may modify our pricing practices in the future, which may result in changes in selling prices, impacting both VSOE and ESP. The aforementioned factors may result in a different allocation of revenue to the deliverables in multiple element arrangements from the current fiscal year, which may change the pattern and timing of revenue recognition for these elements but will not change the total revenue recognized for the arrangement.

Warranty Provision

We provide for the estimated cost of product warranties at the time we recognize revenue. We evaluate our warranty obligations on a product group basis. Our standard product warranty terms generally include post-sales support and repairs or replacement of a product at no additional charge for a specified period of time. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, we base our estimated warranty obligation upon warranty terms, ongoing product failure rates, repair costs, product call rates, average cost per call, and current period product shipments. If actual product failure rates, repair rates or any other post sales support costs were to differ from our estimates, we would be required to make revisions to the estimated warranty liability. Warranty terms generally range from 90 days to three years for parts and labor, depending upon the product. Over the last three fiscal years, the annual warranty provision has averaged approximately 3.3% of annual net product revenue, while actual annual warranty costs have experienced favorable trends and averaged approximately 3.2% of annual net product revenue.

Business Combinations

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired, including in-process research and development ("IPR&D"), based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. We engage independent third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer contracts, customer lists, distribution agreements, and acquired developed technologies and patents; expected costs to develop IPR&D into commercially viable products and estimating cash flows from projects when completed; brand awareness and market position, as well as assumptions about the period of time the brand will continue to be used in our product portfolio; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed, as more fully discussed in Note 6 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Valuation of Goodwill and Purchased Intangible Assets

We review goodwill and purchased intangible assets with indefinite lives for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The provisions of the accounting standard for goodwill and other intangibles require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. In general, our reporting units are consistent with the reportable segments identified in Note 19 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. However, for the webOS business within Corporate Investments, the reporting unit is one step below the segment level. We determine the fair value of our reporting units based on a weighting of income and market approaches. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, we estimate the fair value based on market multiples of revenue or earnings for comparable companies. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference. We also compare the fair value of purchased intangible assets with indefinite lives to their carrying value. We estimate the fair value of these intangible assets using an income approach. We recognize an impairment loss when the estimated fair value of the intangible asset is less than the carrying value.

Determining the fair value of a reporting unit or an indefinite-lived purchased intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, assumed royalty rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units.

Our annual goodwill impairment analysis, which we performed during the fourth quarter of fiscal 2011, resulted in an impairment charge for the webOS business as discussed in Note 7 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. There was no impairment for HP's remaining reporting units. The excess of fair value over carrying value for each of HP's reporting units as of August 1, 2011, the annual testing date, ranged from approximately $0.4 billion to approximately $25.6 billion. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test, we applied a hypothetical 10% decrease to the fair values of each reporting unit. This hypothetical 10% decrease would result in excess fair value over carrying value ranging from approximately $0.2 billion to approximately $22.7 billion for each of HP's reporting units.

We also performed our annual impairment analysis of the indefinite-lived intangible asset valued at $1.4 billion. There was no impairment of the indefinite-lived intangible as a result of the analysis. The excess of fair value over carrying value of the Compaq trade name in the PSG business is approximately $144 million as of August 1, 2011, the annual testing date. In order to evaluate the sensitivity of the fair value calculation, we applied a hypothetical 10% decrease to the fair value of the intangible which resulted in an excess of fair value over carrying value of approximately $13 million. In addition, if a future change in HP's branding strategy resulted in the reclassification of the Compaq trade name from an indefinite-lived intangible to a definite-lived intangible, there would be a significant decrease in the fair value of the asset.

We will continue to evaluate goodwill and indefinite-lived intangibles on an annual basis as of the beginning of its fourth fiscal quarter or whenever events, changes in circumstances or changes in management business strategy indicate that there may be a potential indicator of impairment. On December 9, 2011, we announced that we had determined to contribute the webOS software to the open source community. We are currently evaluating the impact that this decision will have on the $273 million in related intangible assets and goodwill recorded on the consolidated balance sheet.

Restructuring

We have engaged, and may continue to engage, in restructuring actions, which require management to utilize significant estimates related to the timing and the expenses for severance and other employee separation costs, realizable values of assets made redundant or obsolete, lease cancellation and other exit costs. If the actual amounts differ from our estimates, the amount of the restructuring charges could be materially impacted. For a full description of our restructuring actions, refer to our discussions of restructuring in the Results of Operations section and Note 8 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

Stock-Based Compensation Expense

We recognize stock-based compensation expense for all share-based payment awards, net of an estimated forfeiture rate. We recognize compensation cost for only those shares expected to meet the service and performance vesting conditions on a straight-line basis over the requisite service period of the award. These compensation costs are determined at the aggregate grant level for service-based awards and at the individual vesting tranche level for awards with performance and/or market conditions.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. We utilize the Black-Scholes option pricing model to value the service-based stock options granted under our principal option plans. To implement this model, we examined our historical pattern of option exercises to determine if there were any discernable activity patterns based on certain employee populations. From this analysis, we identified three employee populations to which to apply the Black-Scholes model. We determined that implied volatility calculated based on actively traded options on HP common stock is a better indicator of expected volatility and future stock price trends than historical volatility.

We issued performance-based restricted units ("PRUs") representing hypothetical shares of HP common stock. Each PRU award reflected a target number of shares that may be issued to the award recipient. We determine the actual number of shares the recipient receives at the end of a three-year performance period based on results achieved versus goals based on our annual cash flow from operations as a percentage of revenue and total shareholder return ("TSR") relative to the S&P 500 over the performance period. We use historic volatility for PRU awards, as implied volatility cannot be used when simulating multivariate prices for companies in the S&P 500. We estimate the fair value of PRUs using the Monte Carlo simulation model, as the TSR modifier contains a market condition. We update the estimated expense, net of forfeitures, for the cash flow performance against the goal for that year at the end of each reporting period.

The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and recognize expense only for those shares expected to meet the service and performance vesting conditions. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 2 to the Consolidated Financial Statements in Item 8 for a further discussion on stock-based compensation.

Taxes on Earnings

We calculate our current and deferred tax provisions based on estimates and assumptions that could differ from the final positions reflected in our income tax returns filed during the subsequent year. We record adjustments based on filed returns when we have identified and finalized them, which is generally in the third and fourth quarters of the subsequent year for U.S. federal and state provisions, respectively.

We recognize deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which we expect the differences to reverse. We record a valuation allowance to reduce the deferred tax assets to the amount that we are more likely than not to realize.

We have considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, we would increase the valuation allowance and make a corresponding charge to earnings in the period in which we make such determination. Likewise, if we later determine that we are more likely than not to realize the net deferred tax assets, we would reverse the applicable portion of the previously provided valuation allowance. In order for us to realize our deferred tax assets, we must be able to generate sufficient taxable income in the tax jurisdictions in which the deferred tax assets are located.

Our effective tax rate includes the impact of certain undistributed foreign earnings for which we have not provided U.S. taxes because we plan to reinvest such earnings indefinitely outside the United States. We plan foreign earnings remittance amounts based on projected cash flow needs as well as the working capital and long-term investment requirements of our foreign subsidiaries and our domestic operations. Based on these assumptions, we estimate the amount we will distribute to the United States and provide the U.S. federal taxes due on these amounts. Further, as a result of certain employment actions and capital investments we have undertaken, income from manufacturing activities in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, for fiscal years through 2024. Material changes in our estimates of cash, working capital and long-term investment requirements in the various jurisdictions in which we do business could impact our effective tax rate.

We are subject to income taxes in the United States and approximately 80 foreign countries, and we are subject to routine corporate income tax audits in many of these jurisdictions. We believe that our tax return positions are fully supported, but tax authorities are likely to challenge certain positions, which may not be fully sustained. However, our income tax expense includes amounts intended to satisfy income tax assessments that result from these challenges. Determining the income tax expense for these potential assessments and recording the related assets and liabilities requires management judgments and estimates. We evaluate our uncertain tax positions in accordance with the guidance for accounting for uncertainty in income taxes. We believe that our reserve for uncertain tax positions, including related interest, is adequate. The amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. Our reserve for uncertain tax positions is attributable primarily to uncertainties concerning the tax treatment of our international operations, including the allocation of income among different jurisdictions, and related interest. We review our reserves quarterly, and we may adjust such reserves because of proposed assessments by tax authorities, changes in facts and circumstances, issuance of new regulations or new case law, previously unavailable information obtained during the course of an examination, negotiations between tax authorities of different countries concerning our transfer prices, execution of Advanced Pricing Agreements, resolution with respect to individual audit issues, the resolution of entire audits, or the expiration of statutes of limitations.

See Note 14 to the Consolidated Financial Statements in Item 8 for a further discussion on taxes on earnings.

Allowance for Doubtful Accounts

We determine our allowance for doubtful accounts using a combination of factors to ensure that we have not overstated our trade and financing receivables balances due to uncollectibility. We maintain an allowance for doubtful accounts for all customers based on a variety of factors, including the use of third-party credit risk models that generate quantitative measures of default probabilities based on market factors, the financial condition of customers, the length of time receivables are past due, trends in overall weighted-average risk rating of the total portfolio, macroeconomic conditions, significant one-time events and historical experience. Also, we record specific provisions for individual accounts when we become aware of specific customer circumstances, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If the circumstances related to the customer change, we would further adjust our estimates of the recoverability of receivables either upward or downward. The annual provision for doubtful accounts has averaged approximately 0.16% of net revenue over the last three fiscal years. Using our third-party credit risk model at October 31, 2011, a 50-basis-point deterioration in the weighted-average default probabilities of our significant customers would have resulted in an approximately $62 million increase to our trade allowance at the end of fiscal year 2011.

Inventory

We state our inventory at the lower of cost or market. We make adjustments to reduce the cost of inventory to its net realizable value, if required, at the product group level for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, rapid technological changes, product life cycle and development plans, component cost trends, product pricing, physical deterioration and quality issues. Revisions to these adjustments would be required if these factors differ from our estimates.

Fair Value of Financial Instruments

We measure certain financial assets and liabilities at fair value based on valuation techniques using the best information available, which may include quoted market prices, market comparables and discounted cash flow projections. Financial instruments are primarily comprised of time deposits, money market funds, commercial paper, corporate and other debt securities, equity securities and other investments in common stock and common stock equivalents and derivative instruments.

Cash Equivalents and Investments: We hold time deposits, money market funds, commercial paper, other debt securities primarily consisting of corporate and foreign government notes and bonds, and common stock and equivalents. In general, and where applicable, we use quoted prices in active markets for identical assets to determine fair value. If quoted prices in active markets for identical assets are not available to determine fair value, then we use 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, we use internally developed valuation models, whose inputs include bid prices, and third party valuations utilizing underlying asset assumptions.

Derivative Instruments: As discussed in Note 10 to the Consolidated Financial Statements in Item 8, we mainly hold non-speculative forwards, swaps and options to hedge certain foreign currency and interest rate exposures. When active market quotes are not available, we use industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies. In certain cases, market-based observable inputs are not available and, in those cases, we use management judgment to develop assumptions which are used to determine fair value.

Retirement Benefits

Our pension and other post-retirement benefit costs and obligations are dependent on various assumptions. Our major assumptions relate primarily to discount rates, salary growth and long-term return on plan assets. We base the discount rate assumption on current investment yields of high quality fixed-income investments during the retirement benefits maturity period. The salary growth assumptions reflect our long-term actual experience and future and near-term outlook. Long-term return on plan assets is determined based on historical portfolio results and management's expectations related to the future economic environment, as well as target asset allocations.

Our major assumptions vary by plan and the weighted-average rates used are set forth in Note 16 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. Each assumption has different sensitivity characteristics, and, in general, changes, if any, have moved in the same direction over the last several years. For fiscal 2011, changes in the weighted-average rates for the HP benefit plans would have had the following impact on our net periodic benefit cost:

- A decrease of 25 basis points in the long-term rate of return would have increased our net benefit cost by approximately $56 million;
- A decrease of 25 basis points in the discount rate would have increased our net benefit cost by approximately $82 million; and
- An increase of 25 basis points in the future compensation rate would have increased our net benefit cost by approximately $18 million.

Loss Contingencies

We are involved in various lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. We record a provision for a liability when we believe that 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. We review these provisions at least quarterly and adjust 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 our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows. See Note 18 to the Consolidated Financial Statements in Item 8 for a further discussion of litigation and contingencies.

ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board ("FASB") issued amendments to the FASB Accounting Standards Codification relating to the presentation of comprehensive income in our financial statements. The amendments require the presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We will adopt these amendments in the fourth quarter of fiscal 2012.

CONSTANT CURRENCY PRESENTATION

Revenue from our international operations has historically represented, and we expect will continue to represent, a majority of our overall net revenue. As a result, our revenue growth has been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. In order to provide a framework for assessing how each of our business segments performed excluding the impact of foreign currency fluctuations, we present the year-over-year percentage change in revenue performance on a constant currency basis, which assumes no change in the exchange rate from the prior-year period. This constant currency disclosure is provided in addition to, and not as a substitute for, the year-over-year percentage change in revenue on an as-reported basis.

RESULTS OF OPERATIONS

The following discussion compares the historical results of operations on a GAAP basis for the fiscal years ended October 31, 2011, 2010, and 2009. Unless otherwise noted, all comparative performance data included below reflect year-over-year comparisons.

Table of Contents

Results of operations in dollars and as a percentage of net revenue were as follows for the following fiscal years ended October 31:

	2011(1)		2010(2)		2009(2)	
			In millions			
Net revenue	$127,245	100.0%	$126,033	100.0%	$114,552	100.0%
Cost of sales(3)	97,529	76.6%	95,956	76.1%	87,489	76.4%
Gross profit	29,716	23.4%	30,077	23.9%	27,063	23.6%
Research and development	3,254	2.6%	2,959	2.3%	2,819	2.5%
Selling, general and administrative	13,466	10.6%	12,718	10.2%	11,648	10.2%
Amortization of purchased intangible assets	1,607	1.3%	1,484	1.2%	1,578	1.3%
Impairment of goodwill and purchased intangibles assets	885	0.7%	—	—	—	—
Restructuring charges	645	0.5%	1,144	0.9%	640	0.6%
Acquisition-related charges	182	0.1%	293	0.2%	242	0.2%
Earnings from operations	9,677	7.6%	11,479	9.1%	10,136	8.8%
Interest and other, net(4)	(695)	(0.5)%	(505)	(0.4)%	(721)	(0.6)%
Earnings before taxes	8,982	7.1%	10,974	8.7%	9,415	8.2%
Provision for taxes	1,908	1.5%	2,213	1.7%	1,755	1.5%
Net earnings	$ 7,074	5.6%	$ 8,761	7.0%	$ 7,660	6.7%

(1) In August 2011, we announced that we would wind down the webOS device business. The table below sets forth the impact of these webOS-related actions on the specific line items in the table above:

	Impact of webOS related actions in fiscal 2011
Net revenue	$ (142)
Cost of sales	$ 548
Gross profit	$ (690)
Research and development	$ 23
Selling, general and administrative	$ 42
Impairment of goodwill and purchased intangible assets	$ 885
Restructuring charges	$ 33
Earnings from operations	$ (1,673)

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

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

(4) For fiscal 2011, Interest and other, net includes $276 million of charges in connection with the acquisition of Autonomy Corporation plc ("Autonomy"), which is primarily comprised of the $265 million net cost of British pound options bought to limit foreign exchange rate risk.

Table of Contents

Net Revenue

The components of the weighted net revenue change were as follows for the following fiscal years ended October 31:

	2011	2010(1)
	Percentage Points	
Enterprise Servers, Storage and Networking	1.5	3.7
HP Financial Services	0.4	0.3
HP Software	0.4	0.1
Services	0.3	0.1
Imaging and Printing Group	—	1.5
Corporate Investments/Other	(0.7)	(0.5)
Personal Systems Group	(0.9)	4.8
Total HP	1.0	10.0

(1) Reflects certain reclassifications made to historical results to conform to the current year presentation as noted in Note 19 to the Consolidated Financial Statements in Item 8.

Fiscal 2011

In fiscal 2011, total HP net revenue increased 1.0% (decreased 0.9% on a constant currency basis). U.S. net revenue decreased 1.0% to $44.1 billion, while net revenue from outside of the United States increased 2.0% to $83.1 billion. As reflected in the table above, the ESSN segment was the largest contributor to HP net revenue growth as a result of balanced growth across all regions. ESSN segment net revenue growth was helped by the strong performance in products related to our 3PAR Inc. ("3PAR") and 3Com Corporation ("3Com") acquisitions. An analysis of the change in net revenue for each business segment is included under "Segment Information" below.

Fiscal 2010

In fiscal 2010, total HP net revenue increased 10.0% (8.3% on a constant currency basis). U.S. net revenue increased 7.8% to $44.5 billion, while net revenue from outside of the United States increased 11.3% to $81.5 billion. For fiscal 2010, the PSG segment was the largest contributor to HP net revenue growth as a result of balanced growth across the regions. An analysis of the change in net revenue for each business segment is included under "Segment Information" below.

Gross Margin

Fiscal 2011

In fiscal 2011, total HP gross margin decreased by 0.5 percentage points. The decline was driven by a lower gross margin in the Services, IPG and Corporate Investments segments, the effect of which was partially offset by a favorable commodity pricing environment in the PSG and ESSN segments, and a favorable mix from higher HP Software and HP Networking revenue.

PSG gross margin increased in fiscal 2011 primarily as a result of a favorable commodity pricing environment, combined with lower warranty costs.

Services gross margin decreased in fiscal 2011 due primarily to lower than expected revenue, rate concessions arising from recent contract renewals, a lower than expected resource utilization rate and a higher mix of lower-margin Infrastructure Technology Outsourcing revenue. The decrease was partially offset by a continued focus on operating improvements and cost initiatives that favorably impacted the cost structure of both our enterprise services and technology services businesses.

IPG gross margin declined in fiscal 2011 due primarily to increased logistics costs and supply chain constraints in LaserJet printer engines and toner as a result of the earthquake and tsunami in Japan, and an unfavorable currency impact driven primarily by the strength of the yen. In addition, IPG gross margin declined due to a continuing mix shift in Consumer Hardware and Commercial Hardware toward lower price point products, coupled with a lower mix of supplies revenue. These effects were partially offset by reductions in IPG's cost structure as a result of continued efforts to optimize our supply chain.

ESSN gross margin increased in fiscal 2011 primarily as a result of lower product costs and a higher mix of networking products, the effect of which was partially offset by price declines as a result of competitive pressure.

HP Software gross margin decreased in fiscal 2011 due primarily to rate declines in licenses and services.

HPFS gross margin decreased in fiscal 2011 due primarily to lower portfolio margins from a higher mix of operating leases, the effect of which was partially offset by lower bad debt expense as a percentage of revenue and higher margins on lease extensions and buyouts.

Corporate Investments gross margin decreased in fiscal 2011 primarily as a result of the impact of the wind down of the webOS device business, which resulted in expenses for supplier-related obligations, sales incentive programs and inventory write downs.

Fiscal 2010

In fiscal 2010, total HP gross margin increased by 0.3 percentage points. The increase was a result of an increased mix in networking products and rate increase in Services, the effect of which was partially offset by strong revenue growth in personal computers and printer hardware that have lower gross margins.

PSG gross margin declined in fiscal 2010 primarily as a result of higher component costs, the effect of which was partially offset by lower warranty and logistics expenses.

Services gross margin increased in fiscal 2010 due primarily to the continued focus on operating improvements, including delivery efficiencies and cost controls in our technology services business and acquisition synergies related to the acquisition of Electronic Data Systems Corporation ("EDS").

IPG gross margin declined in fiscal 2010 due primarily to a higher mix of hardware and a correspondingly lower mix of supplies, the effect of which was partially offset by cost savings associated with our ongoing efforts to optimize our supply chain.

ESSN gross margin increased in fiscal 2010 due primarily to lower product costs and strong volume, the effect of which was partially offset by a product mix shift resulting from the strength in Industry Standard Servers ("ISS"), which has lower gross margins.

HP Software gross margin increased in fiscal 2010 primarily as a result of a higher license and support mix, the effect of which was partially offset by a reduced services gross margin rate.

HPFS gross margin increased in fiscal 2010 primarily as a result of higher portfolio margins due to favorable financing conditions and higher remarketing margin, the effect of which was partially offset by higher bad debt and lower buyout margin.

Corporate Investments gross margin increased in fiscal 2010 primarily as a result of the impact from the acquisition Palm, Inc. ("Palm").

Operating Expenses

Research and Development

Total research and development ("R&D") expense increased in fiscal 2011 due primarily to additional expenses from acquired companies. In fiscal 2011, R&D expense increased for ESSN, Corporate Investments and HP Software and decreased for Services and PSG. The increase for ESSN was driven by acquisition investments and innovation-focused spend in networking and storage products. The increase for Corporate Investments was due to investments in the development of webOS and webOS devices during the first three quarters of fiscal 2011.

Total R&D expense increased in fiscal 2010 due primarily to additional expenses from acquired companies. In fiscal 2010, R&D expense increased for ESSN, IPG, Corporate Investments, HP Software and Services, and decreased for PSG.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense increased in fiscal 2011 due primarily to higher field selling costs as a result of our investments in sales resources to grow revenue. The increase in fiscal 2011 was partially offset by $334 million in net gains on the sale of real estate and a $77 million net gain on the divestiture of our Halo video collaboration products business. In fiscal 2011, SG&A expense as a percentage of net revenue increased for each of our segments except for HPFS, Services and IPG, each of which experienced a decrease.

Total SG&A expense increased in fiscal 2010 due primarily to higher field selling and marketing costs as a result of our investments in sales resources to grow revenue. In fiscal 2010, SG&A expense as a percentage of net revenue decreased for each of our segments except for IPG, which experienced an increase.

Amortization of Purchased Intangible Assets

The increase in amortization expense in fiscal 2011 was due primarily to increased amortization of purchased intangible assets from acquisitions completed during fiscal 2010. This increase was partially offset by decreased amortization expenses related to certain intangible assets associated with prior acquisitions reaching the end of their amortization periods.

The decrease in amortization expense in fiscal 2010 was due primarily to certain intangible assets associated with prior acquisitions reaching the end of their amortization periods, the effect of which was partially offset by increased amortization of purchased intangible assets from acquisitions completed during fiscal 2010.

For more information on our amortization of purchased intangibles assets, see Note 7 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Impairment of goodwill and purchased intangible assets

As a result of the decision to wind down the webOS device business in the fourth quarter of fiscal 2011, HP recorded an impairment charge to goodwill and certain purchased intangible assets associated with the Palm acquisition. For more information on our impairment charges, see Note 7 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Restructuring Charges

Restructuring charges for fiscal 2011 were $645 million. These charges included $326 million of severance and facility costs related to our fiscal 2008 restructuring plan, $266 million of severance and facility costs related to our fiscal 2010 enterprise services restructuring plan and $33 million related to the decision to wind down the webOS device business.

Restructuring charges for fiscal 2010 were $1.1 billion. These charges included $650 million of severance and facility costs related to our fiscal 2010 enterprise services restructuring plan, $429 million of severance and facility costs related to our fiscal 2008 restructuring plan, $46 million and $18 million associated with the Palm and 3Com restructuring plans, respectively, and an increase of $1 million related to adjustments to other restructuring plans.

Restructuring charges for fiscal 2009 were $640 million. These charges included $346 million of severance and facility costs related to our fiscal 2008 restructuring plan, $297 million of severance costs associated with our fiscal 2009 restructuring plan, and a reduction of $3 million related to adjustments to other restructuring plans.

For more information on our restructuring charges, see Note 8 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

As part of our ongoing business operations, we incurred workforce rebalancing charges for severance and related costs within certain business segments in fiscal 2011. Workforce rebalancing activities are considered part of normal operations as we continue to optimize our cost structure. Workforce rebalancing costs are included in our business segment results, and we expect to incur additional workforce rebalancing costs in the future.

Acquisition-related Charges

In fiscal 2011, we recorded acquisition-related charges of $182 million primarily for consulting and integration costs associated with the Autonomy acquisition, as well as retention bonuses for acquisitions completed in fiscal 2010.

In fiscal 2010, we recorded acquisition-related charges of $293 million primarily for consulting and integration costs, acquisition costs and retention bonuses associated with the EDS, 3Com, Palm, 3PAR and ArcSight, Inc. acquisitions.

Interest and Other, Net

Interest and other, net expense increased by $190 million in fiscal 2011. The increase was driven by $276 million of charges incurred in connection with the acquisition of Autonomy, which is primarily comprised of the $265 million net cost of British pound options bought to limit foreign exchange rate risk. The increase was also as a result of higher interest expenses due to higher average debt balances, the effect of which was partially offset by lower litigation costs and lower currency transaction losses.

Interest and other, net improved by $216 million in fiscal 2010. The improvement was driven primarily by lower currency losses on balance sheet remeasurement items, lower interest expenses on debt balances due to lower interest rates, and a value-added tax refund, the effect of which was partially offset by an increase to our litigation accruals.

Provision for Taxes

Our effective tax rates were 21.2%, 20.2% and 18.6% in fiscal 2011, 2010 and 2009, respectively. Our effective tax rate generally differs from the U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from our operations in lower-tax jurisdictions throughout the world. The jurisdictions with favorable tax rates that have the most significant effective tax rate impact in the periods presented include Singapore, the Netherlands, China, Ireland and Puerto Rico. We plan to reinvest some of the earnings of these jurisdictions indefinitely outside the United States and therefore have not provided U.S. taxes on those indefinitely reinvested earnings.

The increase in the overall tax rate in fiscal 2011 was due primarily to nondeductible goodwill and increases in valuation allowances. The increase in the overall tax rate in fiscal 2010 was due primarily to a decrease in the income tax benefits related to foreign earnings.

For a full reconciliation of our effective tax rate to the U.S. federal statutory rate of 35% and further explanation of our provision for taxes, see Note 14 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Segment Information

A description of the products and services, as well as financial data, for each segment can be found in Note 19 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. We have realigned segment financial data for the fiscal years ended October 31, 2010 and 2009 to reflect changes in HP's organizational structure that occurred at the beginning of the first quarter of fiscal 2011. We describe these changes more fully in Note 19. We have presented the business segments in this Annual Report on Form 10-K based on the distinct nature of various businesses such as customer base, homogeneity of products and technology. The discussions below include the results of each of our segments.

Personal Systems Group

	For the fiscal years ended October 31		
	2011	2010	2009
		In millions	
Net revenue	$ 39,574	$ 40,741	$ 35,305
Earnings from operations	$ 2,350	$ 2,032	$ 1,661
Earnings from operations as a % of net revenue	5.9%	5.0%	4.7%

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)

The components of the weighted net revenue change by PSG business unit were as follows for the following fiscal years ended October 31:

	2011	2010
	Percentage Points	
Workstations	1.1	1.5
Desktop PCs	(0.7)	7.5
Notebook PCs	(3.2)	6.7
Other	(0.1)	(0.3)
Total PSG	(2.9)	15.4

PSG revenue decreased 2.9% (decreased 4.7% when adjusted for currency) in fiscal 2011 due primarily to softness in the consumer PC markets, the effect of which was partially offset by strength in commercial businesses. Unit volume was up 2.3% due primarily to the continued commercial refresh cycle, the effect of which was partially offset by a decline in volume in the consumer business. In fiscal 2011, Workstations revenue increased 24.1% due to the ongoing corporate refresh cycle and strength in the commercial PC market. Net revenue from Desktop PCs decreased 1.7% while Notebook PCs revenue decreased 5.7% as a result of consumer market softness. In fiscal 2011, net revenue for consumer clients decreased 15.4% while commercial client revenue increased 9.2%. Net revenue in Other decreased 6.6% due primarily to the wind down of the handheld business and decreased sales of consumer warranty extensions. For fiscal 2011, the favorable impact on PSG net revenue from unit increases was offset by a 5% decrease in average selling prices ("ASPs") due primarily to the competitive pricing environment.

PSG earnings from operations as a percentage of net revenue increased 0.9 percentage points in fiscal 2011. The increase was driven by improvements in gross margin resulting primarily from a favorable component pricing environment and lower warranty costs. Partially offsetting the increase in gross margin was an increase in operating expenses as a percentage of net revenue due primarily to unfavorable currency impact and increased selling costs.

PSG revenue increased 15.4% (12.8% when adjusted for currency) in fiscal 2010. The revenue increase resulted from balanced growth across all regions. PSG unit volume and net revenue increased across all business units except Other in fiscal 2010. Unit volume was up 14% as the commercial refresh cycle and continued demand for consumer notebooks drove an increase in shipments. In fiscal 2010, net revenue from Notebook PCs increased 12% while Desktop PCs revenue increased 20%. Workstations revenue increased 42%. In fiscal 2010, net revenue for consumer clients increased 12% while commercial client revenue increased 20%. Net revenue in Other decreased 10% due primarily to lower handheld volumes, offset slightly by increased sales of calculators, home servers and warranty extensions. For fiscal 2010, the favorable impact on PSG net revenue from unit increases was accompanied by a 1% increase in ASPs.

PSG earnings from operations as a percentage of net revenue increased 0.3 percentage points in fiscal 2010. The increase was driven by improvements in operating expenses as a percentage of net revenue, the effect of which was offset partially by a slight decline in gross margins. The decrease in operating expenses as a percentage of net revenue was due to effective cost controls and operating leverage benefits from increased volume. The decrease in gross margins was a result of higher component costs, the effect of which was partially offset by lower warranty and logistics expenses.

Services

	For fiscal years ended October 31		
	2011	2010	2009
		In millions	
Net revenue	$ 35,954	$ 35,529	$ 35,380
Earnings from operations	$ 5,149	$ 5,661	$ 5,102
Earnings from operations as a % of net revenue	14.3%	15.9%	14.4%

The components of the weighted net revenue change by Services business unit were as follows for the following fiscal years ended October 31:

	2011	2010
	Percentage Points	
Infrastructure Technology Outsourcing	0.7	1.1
Technology Services	0.7	(0.1)
Application Services	0.2	(0.4)
Business Process Outsourcing	(0.6)	(0.3)
Other	0.2	0.1
Total Services	1.2	0.4

Services net revenue increased 1.2% (decreased 1.3% when adjusted for currency) in fiscal 2011 due to revenue increases in Infrastructure Technology Outsourcing and Technology Services. Infrastructure Technology Outsourcing net revenue increased by 2% in fiscal 2011. An increase in product-related revenue and a favorable currency impact were partially offset by a shortfall in short-term project contracts with existing clients. Technology Services net revenue increased by 2% in fiscal 2011, due primarily to growth in our consulting business and a favorable currency impact, the effect of which was partially offset by reduced sales of third-party hardware. Application Services net revenue increased by 1% in fiscal 2011. The increase was driven by a favorable currency impact, the effect of which was partially offset by declines in short-term project work and weakness in public sector spending. Business Process Outsourcing net revenue decreased by 7% in fiscal 2011 due primarily to the ExcellerateHRO divestiture completed at the end of the third quarter of fiscal 2010.

Services earnings from operations as a percentage of net revenue decreased by 1.6 percentage points in fiscal 2011. Operating margin decreased due primarily to lower than expected revenue, rate concessions arising from recent contract renewals, a lower than expected resource utilization rate and a higher mix of lower-margin Infrastructure Technology Outsourcing revenue. The decrease in operating margin was partially offset by a reduction in bad debt expense and a continued focus on operating improvements and cost initiatives that favorably impacted the cost structure of both our enterprise services and technology services businesses.

Services net revenue increased 0.4% (decreased 2.0% when adjusted for currency) in fiscal 2010. Net revenue in Infrastructure Technology Outsourcing increased by 3% in fiscal 2010. The revenue increase was due to favorable currency impact and growth in data center services and networking services. Net revenue in Technology Services was flat in fiscal 2010, due primarily to lower contract revenue tied to reduced levels of enterprise hardware sales in the prior-year period and market conditions in the current-year period, the effect of which was partially offset by a favorable currency impact. Net revenue in Application Services decreased by 2% in fiscal 2010. The revenue decrease was driven primarily by market conditions and existing contract completion, the effect of which was partially

Table of Contents

offset by new business and a favorable currency impact. Net revenue in Business Process Outsourcing decreased by 4% in fiscal 2010. The revenue decrease was due primarily to a divestiture completed at the end of the third quarter of fiscal 2010 and challenging economic conditions in certain industries, the effect of which was partially offset by a favorable currency impact.

Services earnings from operations as a percentage of net revenue increased by 1.5 percentage points in fiscal 2010. Operating margin increased primarily due to continued focus on operating improvements and cost initiatives that favorably impacted the cost structure of our enterprise services business, delivery efficiencies and cost controls in our technology services business, as well as EDS-related acquisition synergies.

Imaging and Printing Group

	For the fiscal years ended October 31		
	2011	2010	2009
		In millions	
Net revenue	$ 25,783	$ 25,764	$ 24,011
Earnings from operations	$ 3,973	$ 4,412	$ 4,310
Earnings from operations as a % of net revenue	15.4%	17.1%	18.0%

The components of the weighted net revenue change by IPG business unit were as follows for the following fiscal years ended October 31:

	2011	2010
	Percentage Points	
Commercial Hardware	0.9	3.3
Supplies	(0.4)	3.0
Consumer Hardware	(0.4)	1.0
Total IPG	0.1	7.3

IPG net revenue increased 0.1% (decreased 0.9% when adjusted for currency) in fiscal 2011, due primarily to a net revenue increase in Commercial Hardware. Net revenue for Commercial Hardware increased 4% in fiscal 2011 due primarily to double-digit net revenue growth in the graphics business, coupled with strong performance in transactional laser products in emerging geographies. These effects were partially offset by supply chain constraints in LaserJet printers as a result of the earthquake and tsunami in Japan. Net revenue for Supplies decreased 1% in fiscal 2011, driven by reductions in channel inventory and slower demand, particularly in EMEA. These effects were partially offset by growth in large format printing supplies. Net revenue for Consumer Hardware decreased 4% in fiscal 2011, driven primarily by overall reductions in consumer electronics spending and competitive pricing pressures reflected in a mix shift towards lower-priced products and a decline in the average revenue per unit of 6%.

IPG earnings from operations as a percentage of net revenue decreased by 1.7 percentage points in fiscal 2011, due primarily to a decline in gross margin, the effect of which was partially offset by lower operating expenses as a percentage of net revenue. The gross margin decline in fiscal 2011 was due primarily to increased logistics costs and supply chain constraints in LaserJet printers as a result of the Japan earthquake and tsunami, an unfavorable currency impact driven primarily by the strength of the yen, a continued mix shift in Consumer Hardware and Commercial Hardware to lower price point products coupled with a lower mix of supplies. These effects were partially offset by reductions in IPG's cost structure as a result of continued efforts to optimize our supply chain. The decrease in operating expenses as a percentage of net revenue in fiscal 2011 was due primarily to reduced marketing and administrative expenses, the effect of which was partially offset by higher field selling cost expenses.

IPG net revenue increased 7.3% (8.4% when adjusted for currency) in fiscal 2010, reflecting a continued improvement in market conditions. Net revenue for Commercial Hardware increased 17% in fiscal 2010, due primarily to unit volume growth of 19% driven by improved product availability. Supplies net revenue increased 4% in fiscal 2010, due primarily to increased printing, which resulted in stronger supply usage. Net revenue for Consumer Hardware increased 9% in fiscal 2010, driven primarily by unit volume growth of 11%.

IPG earnings from operations as a percentage of net revenue decreased by 0.9 percentage points in fiscal 2010, due primarily to a decline in gross margin and increases in operating expenses as a percentage of net revenue. The gross margin decline in fiscal 2010 was due primarily to a higher mix of Hardware and a correspondingly lower mix of Supplies, the effect of which was partially offset by cost savings associated with our ongoing efforts to optimize our supply chain. The increase in operating expenses as a percentage of net revenue in fiscal 2010 was due primarily to increased marketing activities, the effect of which was partially offset by reduced administrative expenses.

Enterprise Servers, Storage and Networking

	For the fiscal years ended October 31		
	2011	2010	2009
		In millions	
Net revenue	$ 22,241	$ 20,356	$ 16,121
Earnings from operations	$ 3,026	$ 2,825	$ 1,657
Earnings from operations as a % of net revenue	13.6%	13.9%	10.3%

The components of the weighted net revenue change by ESSN business unit were as follows for the following fiscal years ended October 31:

	2011	2010
	Percentage Points	
Industry Standard Servers	4.7	20.3
HP Networking	4.3	5.9
Storage	1.3	1.9
Business Critical Systems ("BCS")	(1.0)	(1.8)
Total ESSN	9.3	26.3

ESSN net revenue increased 9.3% (7.3% when adjusted for currency) in fiscal 2011 due to growth in HP Networking and ISS. Total revenue from server and storage blades increased by 10% in fiscal 2011. ISS net revenue increased by 8% in fiscal 2011, driven primarily by unit volume growth coupled with increased average unit prices due to favorable demand for the latest generation of ISS products. The revenue increase was also driven by expansion in our converged infrastructure solutions and strong demand from public and private cloud customers. HP Networking net revenue increased by 51% due largely to our acquisition of 3Com in April 2010, strong market demand for our core data center products and the impact of our continued investments in sales coverage. Storage net revenue increased by 7% in fiscal 2011 driven primarily by strong performance in products related to our acquisition of 3PAR in September 2010 and growth in scale out storage arrays, entry-level arrays and StoreOnce data deduplication products. BCS net revenue decreased by 9% in fiscal 2011 mainly as a result of orders being delayed or cancelled following an announcement by an alliance partner that it intends to cease software development for our Itanium-based servers. The impact from reduced sales of Itanium-based servers was partially offset by higher demand for the latest generation of BCS scale-up x86 products and growth in NonStop servers.

ESSN earnings from operations as a percentage of net revenue decreased by 0.3 percentage points in fiscal 2011 driven by an increase in operating expenses as a percentage of net revenue, the effect of which was partially offset by an increase in gross margin. The increase in operating expenses as a percentage of net revenue was due primarily to additional expenses associated with acquisitions and investments in R&D and sales coverage. The gross margin increase was driven by lower product costs and a higher mix of networking products, the effect of which was partially offset by price declines as a result of competitive pressure.

ESSN net revenue increased 26.3% (23.8% when adjusted for currency) for fiscal 2010. ESSN blades revenue increased by 37% in fiscal 2010. ISS net revenue increased by 35% in fiscal 2010, driven primarily by unit volume growth coupled with increased average unit prices due to improving market conditions and demand for the latest generation of ISS products. Storage net revenue increased by 9% in fiscal 2010, driven primarily by strong performance in products related to our acquisition of Lefthand Networks, and growth in high-end disk products and storage networking products. BCS net revenue decreased 12%, due primarily to market conditions and competitive pressures, the effect of which was partially offset by new product introductions in the fourth quarter of fiscal 2010. HP Networking net revenue increased by 124% due to the acquisition of 3Com, improved market demand and continued investment in sales coverage.

ESSN earnings from operations as a percentage of net revenue increased by 3.6 percentage points in fiscal 2010, driven by a decrease in operating expenses as a percentage of net revenue and an increase in gross margin. Operating expenses as a percentage of net revenue decreased as a result of operating leverage benefits from increased volume and cost controls, partially offset by acquisitions. The gross margin increase in fiscal 2010 was due primarily to lower product costs and strong volume, the effect of which was partially offset by a product mix shift resulting from the strength in ISS.

HP Software

	For the fiscal years ended October 31		
	2011	2010 In millions	2009
Net revenue	$ 3,217	$ 2,729	$ 2,655
Earnings from operations	$ 698	$ 782	$ 731
Earnings from operations as a % of net revenue	21.7%	28.7%	27.5%

HP Software net revenue increased 17.9% (16.3% when adjusted for currency) in fiscal 2011 due to revenues from acquired companies as well as growth in the organic business. The revenue growth was driven by good performance from our security and management suite offerings. In fiscal 2011, net revenue from services, licenses and support increased by 25%, 24% and 11%, respectively.

HP Software earnings from operations as a percentage of net revenue decreased by 7.0 percentage points in fiscal 2011. The operating margin decline was due primarily to the impact of deferred revenue write-downs and integration costs associated with acquisitions and investments in sales coverage and

R&D, the effect of which was partially offset by the capitalization of certain software development costs.

HP Software net revenue increased 2.8% (0.6% when adjusted for currency) in fiscal 2010 mainly due to growth in support and license renewals. In fiscal 2010 net revenue from both support and licenses increased by 4%, while net revenue from services decreased by 4%.

HP Software earnings from operations as a percentage of net revenue increased by 1.2 percentage points in fiscal 2010. The operating margin improvement in fiscal 2010 was due primarily to an increase in gross margin and a decrease in operating expenses as a percentage of net revenue. The increase in gross margin in fiscal 2010 was primarily a result of a higher license and support mix, the effect of which was partially offset by a reduced services gross margin rate. The decrease in operating expenses as a percentage of net revenue in fiscal 2010 was due primarily to lower field selling, administrative and acquisition integration costs.

HP Financial Services

	For the fiscal years ended October 31		
	2011	2010	2009
		In millions	
Net revenue	$ 3,596	$ 3,047	$ 2,673
Earnings from operations	$ 348	$ 281	$ 206
Earnings from operations as a % of net revenue	9.7%	9.2%	7.7%

HPFS net revenue increased by 18.0% in fiscal 2011. The net revenue increase was due primarily to portfolio growth as a result of higher customer demand, a higher operating lease mix due to higher service-led financing volume, higher end-of-lease revenue from residual expirations in line with portfolio growth, and higher early buyout revenue and favorable currency movements.

HPFS earnings from operations as a percentage of net revenue increased by 0.5 percentage points in fiscal 2011 due primarily to a decrease in operating expenses as a percentage of revenue, the effect of which was partially offset by a decrease in gross margin. The decrease in operating expenses was due primarily to continued improvement in cost efficiencies. The decrease in gross margin was the result of lower portfolio margins from a higher mix of operating leases, the effect of which was partially offset by lower bad debt expense as a percentage of revenue and higher margins on lease extensions and buyouts.

HPFS net revenue increased by 14.0% in fiscal 2010. The net revenue increase was due to portfolio growth as a result of higher customer demand, a higher operating lease mix due to higher service-led financing volume, higher end-of-lease rental, buyout and remarketing activity, and favorable currency movements.

HPFS earnings from operations as a percentage of net revenue increased by 1.5 percentage points in fiscal 2010 due primarily to an increase in gross margin and a decrease in operating expenses as a percentage of revenue. The increase in gross margin was the result of higher portfolio margins due to favorable financing conditions and higher remarketing margins, the effect of which was partially offset by higher bad debt and lower buyout margins. The decrease in operating expenses as a percentage of revenue was driven primarily by improved cost efficiencies.

Table of Contents

Financing Originations

	For the fiscal years ended October 31		
	2011	2010	2009
		In millions	
Total financing originations	$ 6,765	$ 5,987	$ 5,210

New financing originations, which represent the amount of financing provided to customers for equipment and related software and services, including intercompany activity, increased 13.0% and 14.9% in fiscal 2011 and fiscal 2010, respectively. The increases reflect higher financing associated with HP product sales and services offerings resulting from improved integration and engagement with HP's sales efforts and a favorable currency impact.

Portfolio Assets and Ratios

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

The portfolio assets and ratios derived from the segment balance sheet for HPFS were as follows for the following fiscal years ended October 31:

	2011	2010
	In millions	
Portfolio assets(1)	$ 12,699	$ 11,418
Allowance for doubtful accounts(2)	130	140
Operating lease equipment reserve	84	83
Total reserves	214	223
Net portfolio assets	$ 12,485	$ 11,195
Reserve coverage	1.7%	2.0%
Debt to equity ratio(3)	7.0x	7.0x

(1) Portfolio assets include gross financing receivables of approximately $7.3 billion and $6.7 billion at October 31, 2011 and October 31, 2010, respectively, and net equipment under operating leases of $2.7 billion and $2.5 billion at October 31, 2011 and October 31, 2010, respectively, as disclosed in Note 11 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. Portfolio assets also include capitalized profit on intercompany equipment transactions of approximately $1.0 billion and $0.8 billion at October 31, 2011 and October 31, 2010, respectively, and intercompany leases of approximately $1.7 billion and $1.3 billion at October 31, 2011 and October 31, 2010, respectively, both of which are eliminated in consolidation.

(2) Allowance for doubtful accounts includes both the short-term and the long-term portions of the allowance on financing receivables.

(3) HPFS debt consists of intercompany equity that is treated as debt for segment reporting purposes, intercompany debt and debt issued directly by HPFS.

Net portfolio assets at October 31, 2011 increased 11.5% from October 31, 2010. The increase resulted from higher levels of financing originations in fiscal 2011 and a favorable currency impact. The overall reserve coverage ratio decreased as a percentage of the portfolio assets. HPFS funds its operations mainly through a combination of intercompany debt and equity.

HPFS recorded net bad debt expenses of $60 million and $75 million in fiscal 2011 and fiscal 2010, respectively.

Corporate Investments

	For the fiscal years ended October 31		
	2011	2010	2009
		In millions	
Net revenue	$ 322	$ 346	$ 191
Loss from operations	$ (1,616)	$ (366)	$ (300)
Loss from operations as a % of net revenue	(501.9)%	(105.8)%	(157.1)%

Net revenue in Corporate Investments in fiscal 2011 relates primarily to mobile devices associated with the Palm acquisition, business intelligence solutions and licensing of HP technology to third parties. In fiscal 2011, the revenue decrease was due primarily to lower business intelligence solutions revenue, the effect of which was partially offset by revenue from webOS devices. Business intelligence solutions revenue declined mainly due to lower revenue from consulting services.

Corporate Investments reported a higher loss from operations in fiscal 2011 due primarily to $755 million of expenses for supplier-related obligations and sales incentive programs related to winding down the webOS device business. The loss from operations in Corporate Investments was also due to expenses carried in the segment associated with corporate development, global alliances and HP Labs, which expenses increased from fiscal 2010 and were partially offset by a gain on the divestiture of HP's Halo video collaboration products business.

Net revenue in Corporate Investments in fiscal 2010 relates primarily to business intelligence solutions and licensing of HP technology to third parties. The revenue increase in Corporate Investments was also due to revenue resulting from the acquisition of Palm, which HP completed in July 2010.

Corporate Investments reported a loss from operations in fiscal 2010 due primarily to the impact from investments in research and product development. The earnings from operations in Corporate Investments were also impacted by expenses carried in the segment associated with corporate development, global alliances and HP Labs that declined from fiscal 2009.

LIQUIDITY AND CAPITAL RESOURCES

Our cash balances are held in numerous locations throughout the world, with substantially all of those amounts held outside of the United States. A majority of the amounts held outside of the United States are generally utilized to support non-U.S. liquidity needs. Most of the amounts held outside of the United States could be repatriated to the United States but, under current law, would be subject to United States federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. We have provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered indefinitely reinvested outside of the United States. Repatriation could result in additional U.S. federal income tax payments in future years. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is that cash balances would remain outside of the United States and we would meet U.S. liquidity needs through ongoing cash flows, external borrowings, or both. We utilize a variety of tax planning and financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed. We do not expect restrictions or potential taxes on repatriation of amounts held outside of the United States to have a material effect on HP's overall liquidity, financial condition or results of operations.

LIQUIDITY

We use cash generated by operations as our primary source of liquidity; we believe that internally generated cash flows are generally sufficient to support business operations, capital expenditures and the payment of stockholder dividends, in addition to discretionary investments and share repurchases. We are able to supplement this near-term liquidity, if necessary, with broad access to capital markets and credit line facilities made available by various foreign and domestic financial institutions. Our liquidity is subject to various risks including the market risks identified in the section entitled "Qualitative and Quantitative Disclosures about Market Risk" in Item 7A.

	For the fiscal years ended October 31		
	2011	2010	2009
		In billions	
Cash and cash equivalents	$ 8.0	$ 10.9	$ 13.3
Total debt	$ 30.6	$ 22.3	$ 15.8
Available borrowing resources[(1)(2)]	$ 14.6	$ 13.8	$ 18.1

(1) In addition to these available borrowing resources, we are able to offer for sale, from time to time, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants under a shelf registration statement filed with the SEC in May 2009 (the "2009 Shelf Registration Statement").

(2) Available borrowing resources does not include £2.2 billion ($3.6 billion) in borrowing resources under our 364-day senior unsecured bridge term loan agreement that was entered into in August 2011 and terminated in November 2011.

Our cash position remains strong, and we believe our cash balances and anticipated cash flow generated from operations are sufficient to cover cash outlays expected in fiscal 2012.

Cash Flows

The following table summarizes the key cash flow metrics from our consolidated statements of cash flow:

	For the fiscal years ended October 31		
	2011	2010	2009
		In millions	
Net cash provided by operating activities	$ 12,639	$ 11,922	$ 13,379
Net cash used in investing activities	(13,959)	(11,359)	(3,580)
Net cash used in financing activities	(1,566)	(2,913)	(6,673)
Net (decrease) increase in cash and cash equivalents	$ (2,886)	$ (2,350)	$ 3,126

Operating Activities

Net cash provided by operating activities increased by approximately $0.7 billion for fiscal 2011, as compared to fiscal 2010. The increase was due primarily to higher cash generated through the utilization of operating assets, primarily accounts and financing receivables, and lower utilization of cash resources for payment of accounts payable, the impact of which was partially offset by decrease in net earnings and cash utilized as a result of higher inventory levels. Net cash provided by operating activities decreased by approximately $1.5 billion for fiscal 2010, as compared to fiscal 2009. The decrease was due primarily to an increase in accounts and financing receivables resulting from higher revenues in the fourth quarter and higher payments for account payable activities, the impact of which was partially offset by the increase in net earnings.

Our key working capital metrics are as follows:

	October 31		
	2011	2010	2009
Days of sales outstanding in accounts receivable	51	50	48
Days of supply in inventory	27	23	23
Days of purchases outstanding in accounts payable	(52)	(52)	(57)
Cash conversion cycle	26	21	14

Days of sales outstanding in accounts receivable ("DSO") measures the average number of days our receivables are outstanding. DSO is calculated by dividing ending accounts receivable, net of allowance for doubtful accounts, by a 90-day average net revenue. Our accounts receivable balance was $18.2 billion as of October 31, 2011.

Days of supply in inventory ("DOS") measures the average number of days from procurement to sale of our product. DOS is calculated by dividing ending inventory by a 90-day average cost of goods sold. Our inventory balance was $7.5 billion as of October 31, 2011.

Days of purchases outstanding in accounts payable ("DPO") measures the average number of days our accounts payable balances are outstanding. DPO is calculated by dividing ending accounts payable by a 90-day average cost of goods sold. Our accounts payable balance was $14.7 billion as of October 31, 2011.

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

The cash conversion cycle for fiscal 2011 increased by five days as compared to fiscal 2010. The increase in DSO was primarily the result of unfavorable impact on receivables from the Autonomy acquisition, extended payment terms and an increase in unbilled and aged accounts receivables, the effect of which was offset by a favorable currency impact due to the strengthening U.S. dollar. The increase in DOS was a result of higher inventory levels at October 31, 2011 due primarily to a macro economic slow down impacting our consumer businesses, the timing of shipments in our commercial hardware businesses and strategic purchases of certain components. DPO remained flat year over year.

The cash conversion cycle for fiscal 2010 increased by seven days as compared to fiscal 2009. The increase in DSO was due primarily to linearity and fewer cash discounts in the fourth quarter. DOS remained flat year over year. The decrease in DPO was due primarily to a change in purchasing linearity in the fourth quarter.

Investing Activities

Net cash used in investing activities increased by $2.6 billion for fiscal 2011, as compared to fiscal 2010, and increased by approximately $7.8 billion for fiscal 2010, as compared to fiscal 2009. The increases were due primarily to higher investments in acquisitions in both 2011 and 2010.

Financing Activities

Net cash used in financing activities decreased by approximately $1.3 billion for fiscal 2011, as compared to fiscal 2010. The decrease was due primarily to higher net proceeds from the issuance of debt and a decrease in cash paid for repurchases of our common stock, the impact of which was partially offset by higher net repayment of commercial paper and a decrease in cash received from the issuance of common stock under employee stock plans. Net cash used in financing activities decreased by approximately $3.8 billion for fiscal 2010, as compared to fiscal 2009. The decrease was due primarily to a higher net issuance of commercial paper, the impact of which was partially offset by increased repurchases of our common stock and lower global debt issuances.

For more information on our share repurchase programs, see Item 5 and Note 15 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

CAPITAL RESOURCES

Debt Levels

	For the fiscal years ended October 31		
	2011	2010 In millions, except interest rates and ratios	2009
Short-term debt	$ 8,083	$ 7,046	$ 1,850
Long-term debt	$ 22,551	$ 15,258	$ 13,980
Debt-equity ratio	0.79x	0.55x	0.39x
Weighted-average interest rate	2.4%	2.0%	2.7%

We maintain debt levels that we establish through consideration of a number of factors, including cash flow expectations, cash requirements for operations, investment plans (including acquisitions), share repurchase activities, overall cost of capital, and targeted capital structure.

Short-term debt and long-term debt increased by $1.0 billion and $7.3 billion, respectively, for fiscal 2011, as compared to fiscal 2010. The net increase in total debt is due primarily to investments in acquisitions and share repurchases. In fiscal 2010, short-term debt and long-term debt increased by $5.2 billion and $1.3 billion, respectively, as compared to fiscal 2009. This was due primarily to spending on acquisitions and share repurchases.

Our debt-equity ratio is calculated as the carrying value of debt divided by the carrying value of equity. Our debt-equity ratio increased by 0.24x in fiscal 2011, due primarily to the issuance of $11.6 billion of U.S Dollar Global Notes and a decrease in shareholders equity by $1.8 billion at the end of fiscal 2011. Our debt-equity ratio increased by 0.16x in fiscal 2010, due primarily to the issuance of $3.0 billion of U.S Dollar Global Notes and a $4 billion net increase in commercial paper at the end of fiscal 2010.

Our weighted-average interest rate reflects the average effective rate on our borrowings prevailing during the year; it factors in the impact of swapping some of our global notes with fixed interest rates for global notes with floating interest rates. For more information on our interest rate swaps, see Note 10 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. The lower weighted-average interest rate over the past three years is a result of the combination of lower market interest rates and swapping some of our fixed interest obligations associated with some of our fixed global notes for variable rate obligations through interest rate swaps in a declining rates environment.

On December 9, 2011, HP issued $3 billion of U.S. Dollar Global Notes under the 2009 Shelf Registration Statement. The Global Notes consisted of fixed rate notes at market rates with maturities of three, five and ten years from the date of issuance.

For more information on our borrowings, see Note 13 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Available Borrowing Resources

At October 31, 2011, we had the following resources available to obtain short-term or long-term financings if we need additional liquidity:

	At October 31, 2011 In millions
2009 Shelf Registration Statement[1]	Unspecified
Commercial paper programs[1]	$13,285
364-day senior unsecured bridge term loan agreement[1][2]	$ 3,604
Uncommitted lines of credit[1]	$ 1,300
Revolving trade receivables-based facilities[3]	$ 701

(1) For more information on our available borrowings resources, see Note 13 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

(2) The 364-day senior unsecured bridge term loan agreement was terminated in November 2011.

(3) For more information on our revolving trade receivables-based facilities, see Note 4 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Credit Ratings

Our credit risk is evaluated by three independent rating agencies based upon publicly available information as well as information obtained in our ongoing discussions with them. The ratings as of October 31, 2011 were:

	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings Services
Short-term debt ratings	A-1	Prime-1	F1
Long-term debt ratings	A	A2	A+

Table of Contents

Standard & Poor's Ratings Services downgraded our short-term and long term ratings on November 30, 2011, and Fitch Ratings Services downgraded our long term ratings on December 2, 2011. Accordingly, the ratings as of December 14, 2011 were:

	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings Services
Short-term debt ratings	A-2	Prime-1	F1
Long-term debt ratings	BBB+	A2	A

Our credit ratings remain under negative outlook by Fitch Ratings Services and have been under review for possible downgrade by Moody's Investors Service since October 28, 2011. While we do not have any rating downgrade triggers that would accelerate the maturity of a material amount of our debt, these downgrades have increased the cost of borrowing under our credit facilities, have reduced market capacity for our commercial paper, and may require the posting of additional collateral under some of our derivative contracts. In addition, any further downgrade in our credit ratings by any of the three rating agencies may further impact us in a similar manner, and, depending on the extent of the downgrade, could have a negative impact on our liquidity and capital position. We will rely on alternative sources of funding, including drawdowns under our credit facilities or the issuance of debt or other securities under our existing shelf registration statement, if necessary to offset reductions in the market capacity for our commercial paper.

CONTRACTUAL AND OTHER OBLIGATIONS

The impact that we expect our contractual and other obligations as of October 31, 2011 to have on our liquidity and cash flow in future periods is as follows:

		Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			In millions		
Principal payments on long-term debt[1]	$ 25,953	$ 4,238	$ 10,476	$ 4,800	$ 6,439
Interest payments on long-term debt[2]	5,064	651	993	643	2,777
Operating lease obligations	3,283	811	1,112	650	710
Purchase obligations[3]	2,297	2,009	183	40	65
Capital lease obligations	423	82	285	18	38
Total	$ 37,020	$ 7,791	$ 13,049	$ 6,151	$ 10,029

(1) Amounts represent the expected principal cash payments relating to our long-term debt and do not include any fair value adjustments or discounts and premiums.

(2) Amounts represent the expected interest cash payments relating to our long-term debt. We have outstanding interest rate swap agreements accounted for as fair value hedges that have the economic effect of modifying the fixed interest obligations associated with some of our fixed global notes for variable rate obligations. The impact of these interest rate swaps was factored into the calculation of the future interest payments on long-term debt.

(3) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the

transaction. These purchase obligations are related principally to inventory and other items. Purchase obligations exclude agreements that are cancellable without penalty. Purchase obligations also exclude open purchase orders that are routine arrangements entered into in the ordinary course of business, as they are difficult to quantify in a meaningful way. Even though open purchase orders are considered enforceable and legally binding, the terms generally allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to the delivery of goods or performance of services.

In addition to the above, at October 31, 2011, we had approximately $2.1 billion of recorded liabilities and related interest and penalties pertaining to uncertainty in income tax positions, which will be partially offset by $293 million of deferred tax assets and interest receivable. These liabilities and related interest and penalties include $77 million expected to be paid within one year. For the remaining amount, we are unable to make a reasonable estimate as to when cash settlement with the tax authorities might occur due to the uncertainties related to these tax matters. See Note 14 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on taxes.

Funding Commitments

In fiscal 2012, we expect to contribute approximately $658 million to our pension and post-retirement plan funding. Our funding policy is to contribute cash to our pension plans so that we meet at least the minimum contribution requirements, as established by local government, funding and taxing authorities. Funding for the years following 2012 would be based on the then current market conditions, actuarial estimates and plan funding status. See Note 16 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on pension activity.

As a result of our approved restructuring plans, we expect future cash expenditures of approximately $1.1 billion. We expect to make cash payments of approximately $0.9 billion in fiscal 2012 with remaining cash payments through 2016. See Note 8 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on restructuring activities.

Guarantees and Indemnifications

See Note 12 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on liabilities that may arise from guarantees and indemnifications.

Litigation and Contingencies

See Note 18 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, for additional information on liabilities that may arise from litigation and contingencies.

Off-Balance Sheet Arrangements

As part of our ongoing business, we have not participated in transactions that generate material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of October 31, 2011, we are not involved in any material unconsolidated SPEs.

HP has revolving trade receivables-based facilities permitting it to sell certain trade receivables to third parties on both a non-recourse and a partial recourse basis. The total aggregate capacity of the facilities was $1.5 billion as of October 31, 2011, including a $1.0 billion partial recourse facility entered into in May 2011 and an aggregate capacity of $0.5 billion in non-recourse facilities. For more information on our revolving trade receivables-based facilities, see Note 4 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

In the normal course of business, we are exposed to foreign currency exchange rate, interest rate and equity price risks that could impact our financial position and results of operations. Our risk management strategy with respect to these three market risks may include the use of derivative financial instruments. We use derivative contracts only to manage existing underlying exposures of HP. Accordingly, we do not use derivative contracts for speculative purposes. Our risks, risk management strategy and a sensitivity analysis estimating the effects of changes in fair values for each of these exposures are outlined below.

Actual gains and losses in the future may differ materially from the sensitivity analyses based on changes in the timing and amount of interest rate, foreign currency exchange rate and equity price movements and our actual exposures and hedges.

Foreign currency exchange rate risk

We are exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, anticipated purchases and assets, liabilities and debt denominated in currencies other than the U.S. dollar. We transact business in approximately 76 currencies worldwide, of which the most significant foreign currencies to our operations for fiscal 2011 were the euro, the Japanese yen, Chinese yuan renminbi and the British pound. For most currencies, we are a net receiver of the foreign currency and therefore benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. Even where we are a net receiver, a weaker U.S. dollar may adversely affect certain expense figures taken alone. We use a combination of forward contracts and options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in our forecasted net revenue and, to a lesser extent, cost of sales and inter-company lease loan denominated in currencies other than the U.S. dollar. In addition, when debt is denominated in a foreign currency, we may use swaps to exchange the foreign currency principal and interest obligations for U.S. dollar-denominated amounts to manage the exposure to changes in foreign currency exchange rates. We also use other derivatives not designated as hedging instruments consisting primarily of forward contracts to hedge foreign currency balance sheet exposures. For these types of derivatives and hedges we recognize the gains and losses on these foreign currency forward contracts in the same period as the remeasurement losses and gains of the related foreign currency-denominated exposures. Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures, primarily if such exposure acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency or the currency is difficult or too expensive to hedge.

We have performed sensitivity analyses as of October 31, 2011 and 2010, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant. The analyses cover all of our foreign currency contracts offset by the underlying exposures. The foreign currency exchange rates we used were based on market rates in effect at October 31, 2011 and 2010. The sensitivity analyses indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a foreign exchange loss of $96 million and $122 million at October 31, 2011 and October 31, 2010, respectively.

Interest rate risk

We also are exposed to interest rate risk related to our debt and investment portfolios and financing receivables. We issue long-term debt in either U.S. dollars or foreign currencies based on market conditions at the time of financing. We then typically use interest rate and/or currency 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 the exchange of fixed for floating interest payments. However, we may choose not to swap fixed for floating interest payments or may terminate a previously executed swap if we believe a larger proportion of fixed-rate debt would be beneficial. In order to hedge the fair value of certain fixed-rate investments, we may enter into interest rate swaps that convert fixed interest returns into variable interest returns. We may use cash flow hedges to hedge the variability of LIBOR-based interest income received on certain variable-rate investments. We may also enter into interest rate swaps that convert variable rate interest returns into fixed-rate interest returns.

We have performed sensitivity analyses as of October 31, 2011 and 2010, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of interest rates across the entire yield curve, with all other variables held constant. The analyses cover our debt, investment instruments, financing receivables and interest rate swaps. The analyses use actual or approximate maturities for the debt, investments, interest rate swaps and financing receivables. The discount rates we used were based on the market interest rates in effect at October 31, 2011 and 2010. The sensitivity analyses indicated that a hypothetical 10% adverse movement in interest rates would result in a loss in the fair values of our debt, investment instruments and financing receivables, net of interest rate swap positions, of $145 million at October 31, 2011 and $28 million at October 31, 2010.

Equity price risk

We are also exposed to equity price risk inherent in our portfolio of publicly traded equity securities, which had an estimated fair value of $117 million at October 31, 2011 and $9 million at October 31, 2010. We monitor our equity investments for impairment on a periodic basis. Generally, we do not attempt to reduce or eliminate our market exposure on these equity securities. However, we may use derivative transactions to hedge certain positions from time to time. We do not purchase our equity securities with the intent to use them for speculative purposes. A hypothetical 30% adverse change in the stock prices of our publicly traded equity securities would result in a loss in the fair values of our marketable equity securities of approximately $35 million and $3 million at October 31, 2011 and 2010, respectively. The aggregate cost of investments in privately-held companies, and other investments was $57 million at October 31, 2011 and $163 million at October 31, 2010.

Table of Contents

ITEM 8. Financial Statements and Supplementary Data.

Table of Contents

Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders of
Hewlett-Packard Company**

We have audited the accompanying consolidated balance sheets of Hewlett-Packard Company and subsidiaries as of October 31, 2011 and 2010, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hewlett-Packard Company and subsidiaries at October 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in fiscal year 2010, Hewlett-Packard Company and subsidiaries changed their method of accounting for business combinations with the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, *Business Combinations,* effective November 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hewlett-Packard Company's internal control over financial reporting as of October 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 14, 2011, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
December 14, 2011

Table of Contents

Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders of
Hewlett-Packard Company**

We have audited Hewlett-Packard Company's internal control over financial reporting as of October 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hewlett-Packard Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hewlett-Packard Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Hewlett-Packard Company and subsidiaries as of October 31, 2011 and 2010, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2011, and our report dated December 14, 2011, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
December 14, 2011

Management's Report on Internal Control Over Financial Reporting

HP's management is responsible for establishing and maintaining adequate internal control over financial reporting for HP. HP's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. HP's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of HP; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of HP are being made only in accordance with authorizations of management and directors of HP; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of HP's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

HP's management assessed the effectiveness of HP's internal control over financial reporting as of October 31, 2011, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on the assessment by HP's management, we determined that HP's internal control over financial reporting was effective as of October 31, 2011. The effectiveness of HP's internal control over financial reporting as of October 31, 2011 has been audited by Ernst & Young LLP, HP's independent registered public accounting firm, as stated in their report which appears on page 73 of this Annual Report on Form 10-K.

/s/ MARGARET C. WHITMAN	/s/ CATHERINE A. LESJAK
Margaret C. Whitman *President and Chief Executive Officer* December 14, 2011	Catherine A. Lesjak *Executive Vice President and Chief Financial Officer* December 14, 2011

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings

	For the fiscal years ended October 31		
	2011	2010	2009
	In millions, except per share amounts		
Net revenue:			
Products	$ 84,757	$ 84,799	$ 74,051
Services	42,039	40,816	40,124
Financing income	449	418	377
Total net revenue	127,245	126,033	114,552
Costs and expenses:			
Cost of products	65,167	65,064	56,503
Cost of services	32,056	30,590	30,660
Financing interest	306	302	326
Research and development	3,254	2,959	2,819
Selling, general and administrative	13,466	12,718	11,648
Amortization of purchased intangible assets	1,607	1,484	1,578
Impairment of goodwill and purchased intangible assets	885	—	—
Restructuring charges	645	1,144	640
Acquisition-related charges	182	293	242
Total operating expenses	117,568	114,554	104,416
Earnings from operations	9,677	11,479	10,136
Interest and other, net	(695)	(505)	(721)
Earnings before taxes	8,982	10,974	9,415
Provision for taxes	1,908	2,213	1,755
Net earnings	$ 7,074	$ 8,761	$ 7,660
Net earnings per share:			
Basic	$ 3.38	$ 3.78	$ 3.21
Diluted	$ 3.32	$ 3.69	$ 3.14
Weighted-average shares used to compute net earnings per share:			
Basic	2,094	2,319	2,388
Diluted	2,128	2,372	2,437

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

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

	October 31	
	2011	2010
	In millions, except par value	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,043	$ 10,929
Accounts receivable	18,224	18,481
Financing receivables	3,162	2,986
Inventory	7,490	6,466
Other current assets	14,102	15,322
Total current assets	51,021	54,184
Property, plant and equipment	12,292	11,763
Long-term financing receivables and other assets	10,755	12,225
Goodwill	44,551	38,483
Purchased intangible assets	10,898	7,848
Total assets	$129,517	$124,503
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 8,083	$ 7,046
Accounts payable	14,750	14,365
Employee compensation and benefits	3,999	4,256
Taxes on earnings	1,048	802
Deferred revenue	7,449	6,727
Accrued restructuring	654	911
Other accrued liabilities	14,459	15,296
Total current liabilities	50,442	49,403
Long-term debt	22,551	15,258
Other liabilities	17,520	19,061
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' equity		
Preferred stock, $0.01 par value (300 shares authorized; none issued)	—	—
Common stock, $0.01 par value (9,600 shares authorized; 1,991 and 2,204 shares issued and outstanding, respectively)	20	22
Additional paid-in capital	6,837	11,569
Retained earnings	35,266	32,695
Accumulated other comprehensive loss	(3,498)	(3,837)
Total HP stockholders' equity	38,625	40,449
Non-controlling interests	379	332
Total stockholders' equity	39,004	40,781
Total liabilities and stockholders' equity	$129,517	$124,503

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

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	For the fiscal years ended October 31		
	2011	2010	2009
		In millions	
Cash flows from operating activities:			
Net earnings	$ 7,074	$ 8,761	$ 7,660
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	4,984	4,820	4,780
Impairment of goodwill and purchased intangible assets	885	—	—
Stock-based compensation expense	685	668	635
Provision for doubtful accounts—accounts and financing receivables	81	156	345
Provision for inventory	217	189	221
Restructuring charges	645	1,144	640
Deferred taxes on earnings	166	197	379
Excess tax benefit from stock-based compensation	(163)	(294)	(162)
Other, net	(46)	169	22
Changes in assets and liabilities:			
Accounts and financing receivables	(227)	(2,398)	(549)
Inventory	(1,252)	(270)	1,532
Accounts payable	275	(698)	(153)
Taxes on earnings	610	723	733
Restructuring	(1,002)	(1,334)	(1,237)
Other assets and liabilities	(293)	89	(1,467)
Net cash provided by operating activities	12,639	11,922	13,379
Cash flows from investing activities:			
Investment in property, plant and equipment	(4,539)	(4,133)	(3,695)
Proceeds from sale of property, plant and equipment	999	602	495
Purchases of available-for-sale securities and other investments	(96)	(51)	(160)
Maturities and sales of available-for-sale securities and other investments	68	200	171
Payments in connection with business acquisitions, net of cash acquired	(10,480)	(8,102)	(391)
Proceeds from business divestiture, net	89	125	—
Net cash used in investing activities	(13,959)	(11,359)	(3,580)
Cash flows from financing activities:			
(Payments) issuance of commercial paper and notes payable, net	(1,270)	4,156	(6,856)
Issuance of debt	11,942	3,156	6,800
Payment of debt	(2,336)	(1,323)	(2,710)
Issuance of common stock under employee stock plans	896	2,617	1,837
Repurchase of common stock	(10,117)	(11,042)	(5,140)
Excess tax benefit from stock-based compensation	163	294	162
Cash dividends paid	(844)	(771)	(766)
Net cash used in financing activities	(1,566)	(2,913)	(6,673)
(Decrease) increase in cash and cash equivalents	(2,886)	(2,350)	3,126
Cash and cash equivalents at beginning of period	10,929	13,279	10,153
Cash and cash equivalents at end of period	$ 8,043	$ 10,929	$ 13,279

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

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total HP Stockholders' Equity	Non-controlling Interests	Total
	In millions, except number of shares in thousands							
Balance October 31, 2008	2,415,303	$ 24	$ 14,012	$ 24,971	$ (65)	$ 38,942	$ 237	$ 39,179
Net earnings				7,660		7,660	78	7,738
Net unrealized gain on available-for-sale securities					16	16		16
Net unrealized loss on cash flow hedges					(971)	(971)		(971)
Net unrealized components of defined benefit pension plans					(2,531)	(2,531)		(2,531)
Net cumulative translation adjustment					304	304		304
Comprehensive income						4,478	78	4,556
Issuance of common stock in connection with employee stock plans and other	69,157	1	1,783			1,784		1,784
Repurchases of common stock	(119,651)	(1)	(2,789)	(1,922)		(4,712)		(4,712)
Net excess tax benefits from employee stock plans			163			163		163
Cash dividends declared				(766)		(766)		(766)
Stock-based compensation expense			635			635		635
Cumulative effect of change in accounting principle				(7)		(7)		(7)
Changes in ownership of non-controlling interests							(68)	(68)
Balance October 31, 2009	2,364,809	$ 24	$ 13,804	$ 29,936	$ (3,247)	$ 40,517	$ 247	$ 40,764
Net earnings				8,761		8,761	109	8,870
Net unrealized gain on available-for-sale securities					16	16		16
Net unrealized loss on cash flow hedges					(32)	(32)		(32)
Net unrealized components of defined benefit pension plans					(602)	(602)		(602)
Net cumulative					28	28	4	32

translation adjustment								
Comprehensive income						8,171	113	8,284
Issuance of common stock in connection with employee stock plans and other	80,335	1	2,606			2,607		2,607
Repurchases of common stock	(241,246)	(3)	(5,809)	(5,259)		(11,071)		(11,071)
Net excess tax benefits from employee stock plans			300			300		300
Cash dividends declared				(743)		(743)	(28)	(771)
Stock-based compensation expense			668			668		668
Balance October 31, 2010	2,203,898	$ 22	$ 11,569	$ 32,695	$ (3,837)	$ 40,449	$ 332	$ 40,781
Net earnings				7,074		7,074	74	7,148
Net unrealized gain on available-for-sale securities					17	17		17
Net unrealized gain on cash flow hedges					160	160		160
Net unrealized components of defined benefit pension plans					116	116		116
Net cumulative translation adjustment					46	46	(17)	29
Comprehensive income						7,413	57	7,470
Issuance of common stock in connection with employee stock plans and other	45,461	1	751			752		752
Repurchases of common stock	(258,853)	(3)	(6,296)	(3,669)		(9,968)		(9,968)
Net excess tax benefits from employee stock plans			128			128		128
Cash dividends declared				(834)		(834)	(10)	(844)
Stock-based compensation expense			685			685		685
Balance October 31, 2011	1,990,506	$ 20	$ 6,837	$ 35,266	$ (3,498)	$ 38,625	$ 379	$ 39,004

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Hewlett-Packard Company, its wholly-owned subsidiaries and its controlled majority-owned subsidiaries (collectively, "HP"). HP accounts for equity investments in companies over which HP has the ability to exercise significant influence, but does not hold a controlling interest, under the equity method, and HP records its proportionate share of income or losses in interest and other, net in the Consolidated Statements of Earnings. HP has eliminated all significant intercompany accounts and transactions.

Reclassifications and Segment Reorganization

In connection with organizational realignments implemented in the first quarter of fiscal 2011, certain costs previously reported as cost of sales have been reclassified as selling, general and administrative expenses to better align those costs with the functional areas that benefit from those expenditures. HP has made certain segment and business unit realignments in order to optimize its operating structure. Reclassifications of prior year financial information have been made to conform to the current year presentation. None of the changes impacts HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share. See Note 19 for a further discussion of HP's segment reorganization.

Use of Estimates

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 Financial Statements and accompanying notes. Actual results could differ materially from those estimates.

Revenue Recognition

Net revenue is derived primarily from the sale of products and services. The following revenue recognition policies define the manner in which HP accounts for sales transactions.

HP recognizes revenue when persuasive evidence of a sales arrangement exists, delivery has occurred or services are rendered, the sales price or fee is fixed or determinable and collectibility is reasonably assured. Additionally, HP recognizes hardware revenue on sales to channel partners, including resellers, distributors or value-added solution providers at the time of sale when the channel partners have economic substance apart from HP, and HP has completed its obligations related to the sale.

HP's revenue recognition policies provide that, when a sales arrangement contains multiple elements, such as hardware and software products, licenses and/or services, HP allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE"), if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

then allocated to each software deliverable using the guidance for recognizing software revenue, as amended.

HP limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges.

HP evaluates each deliverable in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and there are no customer-negotiated refund or return rights for the delivered elements. If the arrangement includes a customer-negotiated refund or return right relative to the delivered item, and the delivery and performance of the undelivered item is considered probable and substantially in HP's control, the delivered element constitutes a separate unit of accounting. In instances when the aforementioned criteria are not met, the deliverable is combined with the undelivered elements and the allocation of the arrangement consideration and revenue recognition is determined for the combined unit as a single unit. Allocation of the consideration is determined at arrangement inception on the basis of each unit's relative selling price.

HP establishes VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. TPE of selling price is established by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. The best estimate of selling price is established considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product life cycle. Consideration is also given to market conditions such as competitor pricing strategies and industry technology life cycles.

In instances when revenue is derived from sales of third-party vendor services, revenue is recorded on a gross basis when HP is a principal to the transaction and net of costs when HP is acting as an agent between the customer and the vendor. Several factors are considered to determine whether HP is a principal or an agent, most notably whether HP is the primary obligor to the customer, has established its own pricing, and has inventory and credit risks.

HP reports revenue net of any required taxes collected from customers and remitted to government authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Products

Hardware

Under HP's standard terms and conditions of sale, HP transfers title and risk of loss to the customer at the time product is delivered to the customer and revenue is recognized accordingly, unless customer acceptance is uncertain or significant obligations remain. HP reduces revenue for estimated customer returns, price protection, rebates and other programs offered under sales agreements established by HP with its distributors and resellers. HP records revenue from the sale of equipment under sales-type leases as product revenue at the inception of the lease. HP accrues the estimated cost of post-sale obligations, including basic product warranties, based on historical experience at the time HP recognizes revenue.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

Software

In accordance with the specific guidance for recognizing software revenue, where applicable, HP recognizes revenue from perpetual software licenses at the inception of the license term assuming all revenue recognition criteria have been met. Term-based software license revenue is recognized on a subscription basis over the term of the license entitlement. HP uses the residual method to allocate revenue to software licenses at the inception of the license term when VSOE of fair value for all undelivered elements exists, such as post-contract support, and all other revenue recognition criteria have been satisfied. Revenue generated from maintenance and unspecified upgrades or updates on a when-and-if-available basis is recognized over the period such items are delivered. HP recognizes revenue for software hosting or software-as-a-service (SaaS) arrangements as the service is delivered, generally on a straight-line basis, over the contractual period of performance. In software hosting arrangements where software licenses are sold, the associated software revenue is recognized according to whether perpetual licenses or term licenses are sold, subject to the above guidance. In SaaS arrangements where software licenses are not sold, the entire arrangement is recognized on a subscription basis over the term of the arrangement.

Services

HP recognizes revenue from fixed-price support or maintenance contracts, including extended warranty contracts and software post-contract customer support agreements, ratably over the contract period and recognizes the costs associated with these contracts as incurred. For time and material contracts, HP recognizes revenue and costs as services are rendered. HP recognizes revenue from fixed-price consulting arrangements over the contract period on a proportional performance basis, as determined by the relationship of actual labor costs incurred to date to the estimated total contract labor costs, with estimates regularly revised during the life of the contract. HP recognizes revenue on certain design and build (design, development and/or construction of software and/or systems) projects using the percentage-of-completion method. HP uses the cost-to-cost method of measurement towards completion as determined by the percentage of cost incurred to date to the total estimated costs of the project. HP uses the completed contract method if reasonable and reliable cost estimates for a project cannot be made.

Outsourcing services revenue is generally recognized when the service is provided and the amount earned is not contingent upon any future event. If the service is provided evenly during the contract term but service billings are uneven, revenue is recognized on a straight-line basis over the contract term. HP recognizes revenue from operating leases on a straight-line basis as service revenue over the rental period.

HP recognizes costs associated with outsourcing contracts as incurred, unless such costs relate to the startup phase of the outsourcing contract which generally has no standalone value, in which case HP defers and subsequently amortizes these set-up costs over the contractual services period. Deferred contract costs are amortized on a straight-line basis over the remaining original term unless an accelerated method is deemed more appropriate. Based on actual and projected contract financial performance indicators, the recoverability of deferred contract costs associated with a particular contract is analyzed on a periodic basis using the undiscounted estimated cash flows of the whole contract over its remaining contract term. If such undiscounted cash flows are insufficient to recover the long-lived assets and deferred contract costs, the deferred contract costs are written down based on a discounted cash flow model. If a cash flow deficiency remains after reducing the balance of the

Note 1: Summary of Significant Accounting Policies (Continued)

deferred contract costs to zero, any remaining long-lived assets related to that contract are evaluated for impairment. HP recognizes losses on consulting and outsourcing arrangements in the period that the contractual loss becomes probable and estimable.

HP records amounts invoiced to customers in excess of revenue recognized as deferred revenue until the revenue recognition criteria are met. HP records revenue that is earned and recognized in excess of amounts invoiced on fixed-price contracts as trade receivables.

Financing Income

Sales-type and direct-financing leases produce financing income, which HP recognizes at consistent rates of return over the lease term.

Deferred Revenue and related Deferred Contract Costs

Deferred revenue represents amounts received in advance for product support contracts, software customer support contracts, outsourcing start-up services work, consulting and integration projects, product sales or leasing income. The product support contracts include stand-alone product support packages, routine maintenance service contracts, upgrades or extensions to standard product warranty, as well as high availability services for complex, global, networked, multi-vendor environments. HP defers these service amounts at the time HP bills the customer, and HP then generally recognizes the amounts ratably over the support contract life or as HP delivers the services. HP also defers and subsequently amortizes certain costs related to start-up activities that enable the performance of the customer's long-term services contract. Deferred contract costs, including start-up and other unbilled costs, are generally amortized on a straight-line basis over the contract term unless specific customer contract terms and conditions indicate a more accelerated method is more appropriate.

Shipping and Handling

HP includes costs related to shipping and handling in cost of sales for all periods presented.

Advertising

HP expenses advertising costs as incurred or when the advertising is first run. Such costs totaled approximately $1.2 billion in fiscal 2011, $1.0 billion in fiscal 2010 and $0.7 billion in fiscal 2009.

Stock-Based Compensation

Stock-based compensation expense for all share-based payment awards granted is determined based on the grant-date fair value. HP recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those shares expected to meet the service and performance vesting conditions, on a straight-line basis over the requisite service period of the award. These compensation costs are determined at the aggregate grant level for service-based awards and at the individual vesting tranche level for awards with performance and/or market conditions. HP estimates the forfeiture rate based on its historical experience.

Foreign Currency Transactions

HP uses the U.S. dollar predominately as its functional currency. Assets and liabilities denominated in non-U.S. dollars are remeasured into U.S. dollars at current exchange rates for

Note 1: Summary of Significant Accounting Policies (Continued)

monetary assets and liabilities and at historical exchange rates for nonmonetary assets and liabilities. Net revenue, cost of sales and expenses are remeasured at average exchange rates in effect during each new reporting period, and net revenue, cost of sales and expenses related to the previously reported periods are remeasured at historical exchange rates. HP includes gains or losses from foreign currency remeasurement in net earnings. Certain foreign subsidiaries designate the local currency as their functional currency, and HP records the translation of their assets and liabilities into U.S. dollars at the balance sheet dates as translation adjustments and includes them as a component of accumulated other comprehensive income (loss).

Taxes on Earnings

HP recognizes deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. HP records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Cash and Cash Equivalents

HP classifies investments as cash equivalents if the original maturity of an investment is three months or less. Cash equivalents consist primarily of highly liquid investments in time deposits held in major banks and commercial paper. As of October 31, 2011 and 2010, the carrying value of cash and cash equivalents approximates fair value due to the short period of time to maturity.

Investments

HP's investments consist principally of time deposits, money market funds, commercial paper, corporate debt, other debt securities, and equity securities of publicly-traded and privately-held companies.

Debt and marketable equity securities are generally considered available-for-sale and are reported at fair value with unrealized gains and losses, net of applicable taxes, recorded in accumulated other comprehensive income, a component of equity. The realized gains and losses for available-for-sale securities are included in other income and expense in the Consolidated Statement of Earnings. Realized gains and losses are calculated based on the specific identification method.

HP monitors its investment portfolio for impairment on a periodic basis. When the carrying value of an investment in debt securities exceeds its fair value and the decline in value is determined to be an other-than-temporary decline, and when HP does not intend to sell the debt securities and it is not more likely than not that HP will be required to sell the debt securities prior to recovery of its amortized cost basis, HP records an impairment charge to Interest and other, net in the amount of the credit loss and the balance, if any, to other comprehensive income (loss). HP carries equity investments in privately-held companies at cost or at fair value when HP recognizes an other-than-temporary impairment charge.

Concentrations of Credit Risk

Financial instruments that potentially subject HP to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable from trade customers and from contract manufacturers, financing receivables and derivatives.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

HP maintains cash and cash equivalents, short- and long-term investments, derivatives and certain other financial instruments with various financial institutions. These financial institutions are located in many different geographical regions, and HP's policy is designed to limit exposure with any one institution. As part of its cash and risk management processes, HP performs periodic evaluations of the relative credit standing of the financial institutions. HP has not sustained material credit losses from instruments held at financial institutions. HP utilizes forward contracts and other derivative contracts to protect against the effects of foreign currency fluctuations. Such contracts involve the risk of non-performance by the counterparty, which could result in a material loss.

HP sells a significant portion of its products through third-party distributors and resellers and, as a result, maintains individually significant receivable balances with these parties. If the financial condition or operations of all of these distributors' and resellers' aggregated accounts deteriorate substantially, HP's operating results could be adversely affected. The ten largest distributor and reseller receivable balances, which were concentrated primarily in North America and Europe, collectively represented approximately 18% of gross accounts receivable at both October 31, 2011 and October 31, 2010. No single customer accounts for more than 10% of accounts receivable. Credit risk with respect to other accounts receivable and financing receivables is generally diversified due to the large number of entities comprising HP's customer base and their dispersion across many different industries and geographical regions. HP performs ongoing credit evaluations of the financial condition of its third-party distributors, resellers and other customers and requires collateral, such as letters of credit and bank guarantees, in certain circumstances. The past due or delinquency status of a receivable is based on the contractual payment terms of the receivable.

Other Concentration

HP obtains a significant number of components from single source suppliers due to technology, availability, price, quality or other considerations. The loss of a single source supplier, the deterioration of its relationship with a single source supplier, or any unilateral modification to the contractual terms under which HP is supplied components by a single source supplier could adversely affect HP's revenue and gross margins.

Allowance for Doubtful Accounts

HP establishes an allowance for doubtful accounts for trade and financing receivables. HP maintains bad debt reserves based on a variety of factors, including the length of time receivables are past due, trends in overall weighted-average risk rating of the total portfolio, macroeconomic conditions, significant one-time events, historical experience and the use of third-party credit risk models that generate quantitative measures of default probabilities based on market factors and the financial condition of customers. HP records a specific reserve for individual accounts when HP becomes aware of specific customer circumstances, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If there are additional changes in the circumstances related to the specific customer, HP would further adjust estimates of the recoverability of receivables.

See Note 11 for a full description of the credit quality of financing receivables and the allowance for credit losses.

Note 1: Summary of Significant Accounting Policies (Continued)

Inventory

HP values inventory at the lower of cost or market, with cost computed on a first-in, first-out basis. Adjustments to reduce the cost of inventory to its net realizable value are made, if required, for estimated excess, obsolescence or impaired balances.

Property, Plant and Equipment

HP states property, plant and equipment at cost less accumulated depreciation. HP capitalizes additions and improvements and expenses maintenance and repairs as incurred. Depreciation is computed using straight-line or accelerated methods over the estimated useful lives of the assets. Estimated useful lives are five to 40 years for buildings and improvements and three to 15 years for machinery and equipment. HP depreciates leasehold improvements over the life of the lease or the asset, whichever is shorter. HP depreciates equipment held for lease over the initial term of the lease to the equipment's estimated residual value. The estimated useful lives of assets used solely to support a customer services contract generally do not exceed the term of the customer contract.

HP capitalizes certain internal and external costs incurred to acquire or create internal use software, principally related to software coding, designing system interfaces and installation and testing of the software. HP amortizes capitalized internal use software costs using the straight-line method over the estimated useful lives of the software, generally from three to five years.

Software Development Costs

Costs incurred to acquire or develop software for resale are capitalized subsequent to the software product establishing technological feasibility, if significant. Capitalized software development costs are amortized using the greater of the straight-line amortization method or the ratio that current gross revenues for a product bear to the total current and anticipated future gross revenues for that product. The estimated useful lives for capitalized software for resale are generally three years or less. Software development costs incurred subsequent to a product establishing technological feasibility are usually not significant. In those instances, such costs are expensed as incurred.

Business Combinations

HP includes the results of operations of the businesses that it has acquired in HP's consolidated results as of the respective dates of acquisition. Due to new accounting standards effective in fiscal 2010, HP allocates the fair value of the purchase consideration of its acquisitions to the tangible assets, liabilities and intangible assets acquired, including in-process research and development ("IPR&D"), based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. The primary items that generate goodwill include the value of the synergies between the acquired companies and HP and the acquired assembled workforce, neither of which qualifies as an amortizable intangible asset. IPR&D is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, HP records a charge for the value of the related intangible asset to HP's Consolidated Statement of Earnings in the period it is abandoned. Acquisition-related expenses and restructuring costs are recognized separately from the business combination and are expensed as incurred. Prior to fiscal 2010, IPR&D was expensed as of the acquisition date, direct transaction costs were included as

Note 1: Summary of Significant Accounting Policies (Continued)

part of the fair value of purchase consideration, and restructuring costs were included as a part of the assumed obligation in deriving the fair value of purchase consideration allocation.

Goodwill and Purchased Intangible Assets

Goodwill and purchased intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually. HP reviews goodwill and purchased intangible assets with indefinite lives for impairment annually at the beginning of its fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. For goodwill, HP performs a two-step impairment test. In the first step, HP compares the fair value of each reporting unit to its carrying value. In general, HP's reporting units are consistent with the reportable segments identified in Note 19. However, for the webOS business within the Corporate Investments segment, the reporting unit is one step below the reporting segment level. HP determines the fair values of its reporting units based on a weighting of income and market approaches. Under the income approach, HP calculates the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, HP estimates the fair value based on market multiples of revenue or earnings for comparable companies. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then HP must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, HP records an impairment loss equal to the difference.

HP estimates the fair value of indefinite-lived purchased intangible assets using an income approach. HP recognizes an impairment loss when the estimated fair value of the indefinite-lived purchased intangible assets is less than the carrying value.

HP amortizes purchased intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets, ranging from one to ten years.

Long-Lived Asset Impairment

HP evaluates property, plant and equipment and purchased intangible assets with finite lives for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. HP assesses the recoverability of the assets based on the undiscounted future cash flow and recognizes an impairment loss when the estimated undiscounted future cash flow expected to result from the use of the asset plus the net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When HP identifies an impairment, HP reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values.

Fair Value of Financial Instruments

HP measures certain financial assets and liabilities at fair value based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Financial instruments are primarily comprised of time deposits, money market funds, commercial paper, corporate and other debt securities, equity securities and other investments in common stock and common stock equivalents and derivatives. See Note 9 for a further discussion on fair value of financial instruments.

Derivative Financial Instruments

HP uses derivative financial instruments, primarily forwards, swaps, and options, to hedge certain foreign currency and interest rate exposures. HP also may use other derivative instruments not designated as hedges, such as forwards used to hedge foreign currency balance sheet exposures. HP does not use derivative financial instruments for speculative purposes. See Note 10 for a full description of HP's derivative financial instrument activities and related accounting policies.

Retirement and Post-Retirement Plans

HP has various defined benefit, other contributory and noncontributory retirement and post-retirement plans. HP generally amortizes unrecognized actuarial gains and losses on a straight-line basis over the remaining estimated service life of participants. The measurement date for all HP plans is October 31. See Note 16 for a full description of these plans and the accounting and funding policies.

Loss Contingencies

HP is involved in various lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. HP records a loss provision when it believes it is both probable that a liability has been incurred and the amount can be reasonably estimated. See Note 18 for a full description of HP's loss contingencies and related accounting policies.

Note 2: Stock-Based Compensation

HP's stock-based compensation plans include incentive compensation plans and an employee stock purchase plan ("ESPP").

Stock-Based Compensation Expense and Related Income Tax Benefits

Total stock-based compensation expense before income taxes for fiscal 2011, 2010 and 2009 was $685 million, $668 million and $635 million, respectively. The resulting income tax benefit for fiscal 2011, 2010 and 2009 was $219 million, $216 million and $199 million, respectively.

Cash received from option exercises and purchases under the ESPP was $0.9 billion in fiscal 2011, $2.6 billion in fiscal 2010 and $1.8 billion for fiscal 2009. The actual tax benefit realized for the tax deduction from option exercises of the share-based payment awards in fiscal 2011, 2010 and 2009 was $220 million, $414 million and $252 million, respectively.

Incentive Compensation Plans

HP's incentive compensation plans include principal equity plans adopted in 2004 (as amended in 2010), 2000, 1995 and 1990 ("principal equity plans"), as well as various equity plans assumed through acquisitions under which stock-based awards are outstanding. Stock-based awards granted from the principal equity plans include performance-based restricted units ("PRUs"), stock options and restricted stock awards. Employees meeting certain employment qualifications are eligible to receive stock-based awards.

Table of Contents

Note 2: Stock-Based Compensation (Continued)

In fiscal 2008, HP implemented a program that provides for the issuance of PRUs representing hypothetical shares of HP common stock. PRU awards may be granted to eligible employees, including HP's principal executive officer, principal financial officer and other executive officers. Each PRU award reflects a target number of shares ("Target Shares") that may be issued to the award recipient before adjusting for performance and market conditions. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on results achieved versus company performance goals. Those goals are based on HP's annual cash flow from operations as a percentage of revenue and total shareholder return ("TSR") relative to the S&P 500 over the three-year performance period. Depending on the results achieved during the three-year performance period, the actual number of shares that a grant recipient receives at the end of the period may range from 0% to 200% of the Target Shares granted, based on the calculations described below.

Cash flow performance goals are established at the beginning of each fiscal year. At the end of each fiscal year, a portion of the Target Shares may be credited in the award recipient's name depending on the achievement of the cash flow performance goal for that year. The number of shares credited varies between 0%, if performance is below the minimum level, and 150%, if performance is at or above the maximum level. For performance between the minimum level and the maximum level, a proportionate percentage between 30% and 150% is applied based on relative performance between the minimum and the maximum levels.

Following the expiration of the three-year performance period, the number of shares credited to the award recipient during the performance period is adjusted by a TSR modifier. The TSR modifier varies between 0%, if the minimum level is not met, resulting in no payout under the PRU award, and 133%, if performance is at or above the maximum level. For performance between the minimum level and the maximum level, a proportionate TSR modifier between 66% and 133% is applied based on relative performance between the minimum and the maximum levels. The number of shares, if any, received by the PRU award recipient equals the number of shares credited to the award recipient during the performance period multiplied by the TSR modifier.

Recipients of PRU awards generally must remain employed by HP on a continuous basis through the end of the applicable three-year performance period in order to receive any portion of the shares subject to that award. Target Shares subject to PRU awards do not have dividend equivalent rights and do not have the voting rights of common stock until earned and issued, following the end of the applicable performance period. The expense for these awards, net of estimated forfeitures, is recorded over the requisite service period based on the number of Target Shares that are expected to be earned and the achievement of the cash flow goals during the performance period.

Stock options granted under the principal equity plans are generally non-qualified stock options, but the principal equity plans permit some options granted to qualify as "incentive stock options" under the U.S. Internal Revenue Code. Stock options generally vest over three to four years from the date of grant. The exercise price of a stock option is equal to the fair market value of HP's common stock on the option grant date (as determined by the reported sale prices of HP's common stock when the market closes on that date). The contractual term of options granted since fiscal 2003 was generally eight years, while the contractual term of options granted prior to fiscal 2003 was generally ten years. Prior to March 2010, HP could choose, in certain cases, to establish a discounted exercise price at no less than 75% of fair market value on the grant date. HP has not granted any discounted options since fiscal 2003. In fiscal 2011, HP granted performance-contingent stock options that require the

Table of Contents

Note 2: Stock-Based Compensation (Continued)

satisfaction of both service and market conditions prior to the expiration of the awards in order for them to vest.

Under the principal equity plans, HP granted certain employees cash-settled awards, restricted stock awards, or both. Restricted stock awards are non-vested stock awards that may include grants of restricted stock or grants of restricted stock units. Cash-settled awards and restricted stock awards are independent of option grants and are generally subject to forfeiture if employment terminates prior to the release of the restrictions. Such awards generally vest one to three years from the date of grant. During that period, ownership of the shares cannot be transferred. Restricted stock has the same cash dividend and voting rights as other common stock and is considered to be currently issued and outstanding. Restricted stock units have dividend equivalent rights equal to the cash dividend paid on restricted stock. Restricted stock units do not have the voting rights of common stock, and the shares underlying the restricted stock units are not considered issued and outstanding. However, shares underlying restricted stock units are included in the calculation of diluted earnings per share ("EPS"). HP expenses the fair market value of restricted stock awards, as determined on the date of grant, ratably over the period during which the restrictions lapse.

Performance-based Restricted Units

HP estimates the fair value of a target PRU share using the Monte Carlo simulation model, as the TSR modifier contains a market condition. The following weighted-average assumptions were used to determine the weighted-average fair values of the PRU awards for fiscal years ended October 31:

	2011	2010	2009
Weighted-average fair value of grants per share	$ 27.59[1]	$ 57.13[2]	$ 40.56[3]
Expected volatility[4]	30%	38%	35%
Risk-free interest rate	0.38%	0.73%	1.34%
Dividend yield	0.75%	0.64%	0.88%
Expected life in months	19	22	30

(1) Reflects the weighted-average fair value for the third year of the three-year performance period applicable to PRUs granted in fiscal 2009, for the second year of the three-year performance period applicable to PRUs granted in fiscal 2010 and for the first year of the three-year performance period applicable to PRUs granted in fiscal 2011. The estimated fair value of a target share for the third year for PRUs granted in fiscal 2010 and for the second and third years for PRUs granted in fiscal 2011 will be determined on the measurement date applicable to those PRUs, which will be the date that the annual cash flow goals are approved for those PRUs, and the expense will be amortized over the remainder of the applicable three-year performance period.

(2) Reflects the weighted-average fair value for the third year of the three-year performance period applicable to PRUs granted in fiscal 2008, for the second year of the three-year performance period applicable to PRUs granted in fiscal 2009 and for the first year of the three-year performance period applicable to PRUs granted in fiscal 2010.

(3) 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.

Note 2: Stock-Based Compensation (Continued)

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

Non-vested PRUs as of October 31, 2011 and 2010 and changes during fiscal 2011 and 2010 were as follows:

	2011	2010
	Shares in thousands	
Outstanding Target Shares at beginning of year	18,508	21,093
Granted	5,950	7,388
Vested	—	(7,186)[1]
Change in units due to performance and market conditions achievement for PRUs vested in the year[2]	(10,862)	(108)
Forfeited	(2,214)	(2,679)
Outstanding Target Shares at end of year	11,382	18,508
Outstanding Target Shares of PRUs assigned a fair value at end of year	5,867[3]	10,201[4]

(1) Vested shares relate to awards vested under the 2008 PRU plan.

(2) The minimum level of TSR was not met for PRUs granted in fiscal 2009, which resulted in the cancellation of approximately 10.9 million Target Shares on October 31, 2011.

(3) Excludes Target Shares for the third year for PRUs granted in fiscal 2010 and for the second and third years for PRUs granted in fiscal 2011, as the measurement date has not yet been established. The measurement date and related fair value for the excluded PRUs will be established when the annual cash flow goals are approved.

(4) Excludes Target Shares for the third year for PRUs granted in fiscal 2009 and for the second and third years for PRUs granted in fiscal 2010, as the measurement date has not yet been established.

At October 31, 2011, there was $82 million of unrecognized pre-tax stock-based compensation expense related to PRUs with an assigned fair value, which HP expected to recognize over the remaining weighted-average vesting period of 1.4 years. At October 31, 2010, there was $222 million of unrecognized pre-tax stock-based compensation expense related to PRUs with an assigned fair value, which HP expected to recognize over the remaining weighted-average vesting period of 1.2 years.

Stock Options

HP utilized the Black-Scholes option pricing model to value the service-based stock options granted under its principal equity plans. HP examined its historical pattern of option exercises in an effort to determine if there were any discernable activity patterns based on certain employee populations. From this analysis, HP identified three employee populations for which to apply the Black-Scholes model. The table below presents the weighted-average expected life in months of the combined three identified employee populations. The expected life computation is based on historical exercise patterns and post-vesting termination behavior within each of the three populations identified. The risk-free interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. HP estimates the fair value of the

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 2: Stock-Based Compensation (Continued)

performance-contingent stock options using a combination of the Monte Carlo simulation model and lattice model, as these awards contain market conditions.

The weighted-average fair value of stock options was estimated using the following weighted-average assumptions:

	2011	2010	2009
Weighted-average fair value of grants per share[1]	$ 7.85	$ 13.33	$ 13.04
Implied volatility	41%	30%	43%
Risk-free interest rate	1.20%	2.06%	2.07%
Dividend yield	1.97%	0.68%	0.92%
Expected life in months	63	61	61

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

Option activity as of October 31 during each fiscal year was as follows:

	2011				2010			
	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	In thousands		In years	In millions	In thousands		In years	In millions
Outstanding at beginning of year	142,916	$ 28			233,214	$ 33		
Granted and assumed through acquisitions	18,804	$ 21			11,939	$ 22		
Exercised	(37,121)	$ 23			(75,002)	$ 34		
Forfeited/cancelled/expired	(4,356)	$ 39			(27,235)	$ 55		
Outstanding at end of year	120,243	$ 28	3.0	$ 460	142,916	$ 28	2.7	$ 2,140
Vested and expected to vest at end of year	117,066	$ 28	2.9	$ 442	141,082	$ 28	2.7	$ 2,114
Exercisable at end of year	97,967	$ 29	2.0	$ 332	125,232	$ 28	2.1	$ 1,895

In relation to fiscal 2011 acquisitions, HP assumed approximately 6 million shares of options with a weighted-average exercise price of $14 per share. In relation to fiscal 2010 acquisitions, HP assumed approximately 10 million shares of options with a weighted-average exercise price of $19 per share.

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 October 31, 2011 and 2010. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of fiscal 2011 and fiscal 2010 and the exercise price, multiplied by the number of in-the-money options. Total intrinsic value of options exercised in fiscal 2011, 2010 and 2009 was $0.7 billion, $1.3 billion and $0.8 billion, respectively. Total grant date fair value of options vested and expensed in fiscal 2011, 2010 and 2009 was $95 million, $93 million and $172 million, respectively, net of taxes.

Table of Contents

Note 2: Stock-Based Compensation (Continued)

Information about options outstanding at October 31, 2011 was as follows:

Range of Exercise Prices	Options Outstanding: Shares Outstanding (In thousands)	Options Outstanding: Weighted-Average Remaining Contractual Life (In years)	Options Outstanding: Weighted-Average Exercise Price Per Share	Options Exercisable: Shares Exercisable (In thousands)	Options Exercisable: Weighted-Average Exercise Price Per Share
$0-$9.99	2,456	6.8	$ 6	2,028	$ 6
$10-$19.99	14,307	4.6	$ 15	7,652	$ 15
$20-$29.99	56,375	2.5	$ 22	43,818	$ 22
$30-$39.99	23,838	2.5	$ 32	22,965	$ 32
$40-$49.99	20,336	3.4	$ 43	19,078	$ 43
$50-$59.99	1,171	5.3	$ 52	666	$ 51
$60 and over	1,760	0.7	$ 75	1,760	$ 75
	120,243	3.0	$ 28	97,967	$ 29

At October 31, 2011, there was $264 million of unrecognized pre-tax stock-based compensation expense related to stock options, which HP expected to recognize over a weighted-average vesting period of 2.3 years. At October 31, 2010, there was $280 million of unrecognized pre-tax stock-based compensation expense related to stock options, which HP expected to recognize over a weighted-average vesting period of 1.6 years.

Restricted Stock Awards

Non-vested restricted stock awards as of October 31, 2011 and 2010 and changes during fiscal 2011 and 2010 were as follows:

	2011: Shares (In thousands)	2011: Weighted-Average Grant Date Fair Value Per Share	2010: Shares (In thousands)	2010: Weighted-Average Grant Date Fair Value Per Share
Outstanding at beginning of year	5,848	$ 45	6,864	$ 44
Granted and assumed through acquisitions	17,569	$ 38	4,821	$ 48
Vested	(5,660)	$ 41	(5,202)	$ 46
Forfeited	(944)	$ 43	(635)	$ 46
Outstanding at end of year	16,813	$ 39	5,848	$ 45

Table of Contents

Note 2: Stock-Based Compensation (Continued)

The details of restricted stock awards granted and assumed through acquisitions were as follows:

	2011		2010	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
	In thousands		In thousands	
Restricted stock	335	$ 42	1,543	$ 48
Restricted stock units	17,234	$ 38	3,278	$ 48
	17,569	$ 38	4,821	$ 48

In fiscal 2011, there were no restricted stock units assumed through acquisitions. In fiscal 2010, approximately 3 million restricted stock units with a weighted-average grant date fair value of $48 per share were assumed through acquisitions.

The details of non-vested restricted stock awards at fiscal year end were as follows:

	2011	2010
	Shares in thousands	
Non-vested at October 31:		
Restricted stock	984	1,936
Restricted stock units	15,829	3,912
	16,813	5,848

At October 31, 2011, there was $526 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards, which HP expected to recognize over the remaining weighted-average vesting period of 1.4 years. At October 31, 2010, there was $152 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards, which HP expected to recognize over the remaining weighted-average vesting period of 1.5 years.

Employee Stock Purchase Plan

HP sponsors the Hewlett-Packard Company 2011 Employee Stock Purchase Plan (the "2011 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. Purchases made prior to fiscal year 2011 were made under the Hewlett-Packard Company 2000 Employee Stock Purchase Plan (the "2000 ESPP"), which expired in November 2010.

For purchases made on October 31, 2011, employees purchased stock under the 2011 ESPP at a price equal to 95% of the fair market value on the purchase date. Because all the criteria of a non-compensatory plan were met, no stock-based compensation expense was recorded in connection with those purchases. From May 1, 2009 to October 31, 2010, no discount was offered for purchases made under the 2000 ESPP. For purchases made on or before April 30, 2009, employees purchased stock under the 2000 ESPP semi-annually at a price equal to 85% of the fair market value on the purchase date, and HP recognized the expense based on a 15% discount of the fair market value for those purchases.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 2: Stock-Based Compensation (Continued)

The ESPP activity as of October 31 during each fiscal year was as follows:

	2011	2010	2009
	In millions, except weighted-average purchase price per share		
Compensation expense, net of taxes	$ —	$ —	$ 24
Shares purchased	1.75	1.62	6.16
Weighted-average purchase price per share	$ 25	$ 47	$ 33

	2011	2010	2009
	In thousands		
Employees eligible to participate	261	251	260
Employees who participated	18	18	49

Shares Reserved

Shares available for future grant and shares reserved for future issuance under the ESPP and incentive compensation plans were as follows:

	2011	2010	2009
	Shares in thousands		
Shares available for future grant at October 31:			
HP plans	172,259	124,553(1)	95,311(1)
Assumed Compaq and EDS plans	—	—	82,449(2)
	172,259	124,553	177,760
Shares reserved for future issuance under all stock-related benefit plans at October 31	319,602	296,973	410,977

(1) Includes 30 million and 24 million shares that expired in November 2010 and November 2009, respectively.

(2) In November 2009, HP retired the assumed Compaq and EDS plans for purposes of granting new awards. The shares that had been reserved for future awards under those plans were returned to HP's pool of authorized shares and will not be available for issuance under any other HP plans.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 3: Net Earnings Per Share

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

The reconciliation of the numerators and denominators of the basic and diluted EPS calculations was as follows for the following fiscal years ended October 31:

	2011	2010	2009
	In millions, except per share amounts		
Numerator:			
Net earnings[(1)]	$ 7,074	$ 8,761	$ 7,660
Denominator:			
Weighted-average shares used to compute basic EPS	2,094	2,319	2,388
Dilutive effect of employee stock plans	34	53	49
Weighted-average shares used to compute diluted EPS	2,128	2,372	2,437
Net earnings per share:			
Basic	$ 3.38	$ 3.78	$ 3.21
Diluted	$ 3.32	$ 3.69	$ 3.14

(1) Net earnings available to participating securities were not significant for fiscal years 2011, 2010 and 2009. HP considers restricted stock that provides the holder with a non-forfeitable right to receive dividends to be a participating security.

HP excludes options with exercise prices that are greater than the average market price from the calculation of diluted EPS because their effect would be anti-dilutive. In fiscal years 2011, 2010 and 2009, HP excluded from the calculation of diluted EPS options to purchase 25 million shares, 5 million shares and 85 million shares, respectively. In addition, HP also excluded from the calculation of diluted EPS options to purchase an additional 1 million shares, 2 million shares and 2 million shares in fiscal years 2011, 2010 and 2009, respectively, whose combined exercise price, unamortized fair value and excess tax benefits were greater in each of those periods than the average market price for HP's common stock because their effect would be anti-dilutive.

Table of Contents

Note 4: Balance Sheet Details

Balance sheet details were as follows for the following fiscal years ended October 31:

Accounts and Financing Receivables

	2011	2010
	In millions	
Accounts receivable	$ 18,694	$ 19,006
Allowance for doubtful accounts	(470)	(525)
	$ 18,224	$ 18,481
Financing receivables	$ 3,220	$ 3,050
Allowance for doubtful accounts	(58)	(64)
	$ 3,162	$ 2,986

HP has revolving trade receivables-based facilities permitting it to sell certain trade receivables to third parties. In accordance with the accounting requirements under the Accounting Standards Codification relating to "Transfers and Servicing," trade receivables are derecognized from the Consolidated Balance Sheet when sold to third parties. The total aggregate capacity of the facilities was $1.5 billion as of October 31, 2011, including a $1.0 billion partial recourse facility entered into in May 2011 and an aggregate capacity of $0.5 billion in non-recourse facilities. The recourse obligation is measured using market data from similar transactions and reported as a current liability in the Consolidated Balance Sheet. The recourse obligation as of October 31, 2011 was not material.

For fiscal 2011 and 2010, trade receivables sold under these facilities were $2.8 billion and $1.7 billion, respectively, which approximates the amount of cash received. The resulting losses on the sales of trade accounts receivable for the twelve months ended October 31, 2011 were not material. HP had $701 million as of October 31, 2011 and $175 million as of October 31, 2010 available under these programs.

Inventory

	2011	2010
	In millions	
Finished goods	$ 4,869	$ 4,431
Purchased parts and fabricated assemblies	2,621	2,035
	$ 7,490	$ 6,466

Table of Contents

Note 4: Balance Sheet Details (Continued)

Other Current Assets

	2011	2010
	In millions	
Deferred tax assets—short-term	$ 5,374	$ 5,833
Value-added taxes receivable from various governments	2,480	3,366
Supplier and other receivables	2,762	2,737
Prepaid and other current assets	3,486	3,386
	$ 14,102	$ 15,322

Property, Plant and Equipment

	2011	2010
	In millions	
Land	$ 687	$ 530
Buildings and leasehold improvements	8,620	8,523
Machinery and equipment	16,155	13,874
	25,462	22,927
Accumulated depreciation	(13,170)	(11,164)
	$ 12,292	$ 11,763

Depreciation expense was approximately $3.4 billion in fiscal 2011, $3.3 billion in fiscal 2010 and $3.2 billion in fiscal 2009.

Long-Term Financing Receivables and Other Assets

	2011	2010
	In millions	
Financing receivables, net	$ 4,015	$ 3,584
Deferred tax assets—long-term	1,283	2,070
Other	5,457	6,571
	$ 10,755	$ 12,225

Other Accrued Liabilities

	2011	2010
	In millions	
Other accrued taxes	$ 2,414	$ 3,216
Warranty	1,773	1,774
Sales and marketing programs	3,317	3,374
Other	6,955	6,932
	$ 14,459	$ 15,296

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 4: Balance Sheet Details (Continued)

Other Liabilities

	2011	2010
	In millions	
Pension, post-retirement, and post-employment liabilities	$ 5,414	$ 6,754
Deferred tax liability—long-term	5,163	5,239
Long-term deferred revenue	3,453	3,303
Other long-term liabilities	3,490	3,765
	$ 17,520	$ 19,061

Note 5: Supplemental Cash Flow Information

Supplemental cash flow information to the Consolidated Statements of Cash Flows was as follows for the following fiscal years ended October 31:

	2011	2010	2009
	In millions		
Cash paid for income taxes, net	$ 1,134	$ 1,293	$ 643
Cash paid for interest	$ 451	$ 384	$ 572
Non-cash investing and financing activities:			
Issuance of common stock and stock awards assumed in business acquisitions	$ 23	$ 93	$ —
Purchase of assets under financing arrangements	$ —	$ —	$ 283
Purchase of assets under capital leases	$ 10	$ 122	$ 131

Note 6: Acquisitions

Acquisitions in fiscal 2011

In fiscal 2011, HP completed four acquisitions. The estimated fair value of the assets acquired and liabilities assumed at the acquisition date for all four acquisitions, as set forth in the table below, reflects various preliminary fair value estimates and analyses, including preliminary work performed by third-party valuation specialists, which are subject to change within the measurement period as valuations are finalized. The fair values of certain tangible assets and liabilities acquired, the valuation of intangible assets acquired, certain legal matters, income and non-income-based taxes, and residual goodwill are not yet finalized and subject to change. HP expects to continue to obtain information to assist it in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that HP determines to be material will be applied retrospectively to the period of acquisition in HP's Consolidated Financial Statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected.

Pro forma results of operations for these acquisitions have not been presented because they are not material to HP's consolidated results of operations, either individually or in the aggregate. Goodwill, which represents the excess of the fair value of purchase consideration over the net tangible and intangible assets acquired, generally is not deductible for tax purposes.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 6: Acquisitions (Continued)

The following table presents the aggregate estimated fair values of the assets acquired and liabilities assumed, including those items that are still preliminary allocations, for all of HP's acquisitions in fiscal 2011:

	In millions
In-process research and development	$ 3
Amortizable intangible assets	4,699
Net liabilities assumed	(206)
Net assets acquired	4,496
Goodwill	6,868
Total fair value consideration	$ 11,364

Acquisition of Autonomy Corporation plc

HP's largest acquisition in fiscal 2011 was its acquisition of Autonomy Corporation plc ("Autonomy"). As of October 31, 2011, HP owned an approximately 99% equity interest in Autonomy, and HP expects to acquire a 100% equity interest before the end of the first quarter of fiscal 2012. Autonomy is a provider of infrastructure software for the enterprise. HP reports the financial results of the Autonomy business in the HP Software segment. The acquisition date fair value consideration of $11 billion consisted of cash paid for outstanding common stock, convertible bonds, vested in-the-money stock awards and the estimated fair value of earned unvested stock awards assumed by HP. In connection with this acquisition, HP recorded approximately $6.6 billion of goodwill and amortizable purchased intangible assets of $4.6 billion. HP is amortizing the purchased intangible assets on a straight-line basis over an estimated weighted-average life of 8.8 years.

Acquisitions in prior years

In fiscal 2010, HP completed eleven acquisitions. Total fair value of purchase consideration for the acquisitions was $9.4 billion, which includes cash paid for common stock, vested-in-the-money stock awards, the estimated fair value of earned unvested stock awards assumed, as well as certain debt that was repaid at the acquisition date. In connection with these acquisitions, HP recorded approximately $5.2 billion of goodwill, $2.4 billion of purchased intangibles and $331 million of IPR&D. The largest four of the eleven acquisitions were the acquisitions of 3Com Corporation ("3Com"), Palm, Inc. ("Palm"), 3PAR Inc. ("3PAR") and ArcSight, Inc. ("ArcSight").

In fiscal 2009, HP completed two acquisitions. Total fair value of purchase consideration for the acquisitions was $390 million, which includes direct transaction costs and the assumption of certain liabilities in connection with the transactions. In connection with these transactions, HP recorded $315 million of goodwill, $105 million of purchased intangibles and $7 million of IPR&D. The larger of the two acquisitions was the acquisition of Lefthand Networks, Inc.

Table of Contents

Note 7: Goodwill and Purchased Intangible Assets

Goodwill

Goodwill allocated to HP's business segments as of October 31, 2011 and 2010 and changes in the carrying amount of goodwill during the fiscal years ended October 31, 2011 and 2010 are as follows:

	Personal Systems Group	Services	Imaging and Printing Group	Enterprise Servers, Storage and Networking	HP Software	HP Financial Services	Corporate Investments	Total
	In millions							
Balance at October 31, 2009	$2,487	$16,829	$2,460	$ 5,005	$ 6,140	$ 144	$ 44	$33,109
Goodwill acquired during the period	18	17	—	1,635	1,407	—	2,153	5,230
Goodwill adjustments	(5)	121	(4)	(30)	(2)	—	64	144
Balance at October 31, 2010	$2,500	$16,967	$2,456	$ 6,610	$ 7,545	$ 144	$ 2,261	$38,483
Goodwill acquired during the period	—	66	16	—	6,786	—	—	6,868
Goodwill adjustments/ reclassifications	(2)	247	(1)	1,460	(268)	—	(1,423)	13
Impairment loss	—	—	—	—	—	—	(813)	(813)
Balance at October 31, 2011	$2,498	$17,280	$2,471	$ 8,070	$14,063	$ 144	$ 25	$44,551

During fiscal 2011, HP recorded approximately $6.9 billion of goodwill related to acquisitions based on its preliminary estimated fair values of the assets acquired and liabilities assumed. In connection with organizational realignments implemented in the first quarter of fiscal 2011, HP also reclassified goodwill related to HP's networking business from Corporate Investments to Enterprise Servers, Storage and Networking ("ESSN") and goodwill related to the communications and media solutions business from HP Software to Services.

In the fourth quarter of fiscal 2011, HP determined that it would wind down the manufacture and sale of webOS devices resulting from the Palm acquisition, including webOS smartphones and the HP TouchPad. HP also announced that it would continue to explore alternatives to optimize the value of the webOS technology, including, among others, licensing the webOS software or the related intellectual property or selling all or a portion of the webOS assets. The decision triggered an impairment review of the related goodwill and purchased intangible assets recorded in connection with the Palm acquisition. HP first performed an impairment review of the purchased intangible assets, which represents the value for the webOS technology, carrier relationships and the trade name. Based on the information available at the time of the review, HP determined that there was no future value for the carrier relationships and the trade name but that the carrying value of the webOS technology approximates its fair value. HP estimated the fair value of the webOS technology based on several methods, including the market approach using recent comparable transactions and the discounted cash flow approach using estimated cash flows from potential licensing agreements. Based on that analysis, HP recognized an impairment loss of $72 million primarily related to the carrier relationships and the trade name. HP then performed a goodwill impairment test by comparing the carrying value of the relevant reporting unit to the fair value of that reporting unit. The fair value of the reporting unit was significantly below the carrying value due to HP's decision to wind down the sale of all webOS devices.

Table of Contents

Note 7: Goodwill and Purchased Intangible Assets (Continued)

As a result, HP recorded a goodwill impairment charge of $813 million. Both the goodwill impairment charge and the intangible asset impairment charge were included in the Impairment of Goodwill and Purchased Intangible Assets line item in the Consolidated Statement of Earnings. On December 9, 2011, HP announced that it had determined to contribute the webOS software to the open source community and support its development going forward. HP is currently evaluating the impact that this decision will have on the $273 million in related intangible assets and goodwill recorded on the Consolidated Balance Sheet.

During fiscal 2010, HP recorded approximately $5.2 billion of goodwill related to acquisitions based on its preliminary estimated fair value of the assets acquired and liabilities assumed. In addition, HP recorded goodwill adjustments primarily related to an increase to the deferred tax liability on outside basis differences of the foreign subsidiaries of Electronic Data Systems Corporation ("EDS") at acquisition. HP also recorded an increase to goodwill as a result of currency translation related to an acquired subsidiary whose functional currency is not the U.S. dollar. These increases to goodwill were partially offset by tax adjustments primarily related to tax deductible stock-based awards for certain acquisitions for which the acquisition date preceded the effective date of the new accounting standard for business combinations.

Purchased Intangible Assets

HP's purchased intangible assets associated with completed acquisitions for each of the following fiscal years ended October 31 are composed of:

	2011			2010		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	In millions					
Customer contracts, customer lists and distribution agreements	$ 6,346	$ (2,376)	$ 3,970	$ 7,075	$ (3,436)	$3,639
Developed and core technology and patents	7,226	(1,944)	5,282	3,797	(1,418)	2,379
Product trademarks	336	(121)	215	199	(92)	107
Total amortizable purchased intangible assets	13,908	(4,441)	9,467	11,071	(4,946)	6,125
IPR&D	9	—	9	301	—	301
Compaq trade name	1,422	—	1,422	1,422	—	1,422
Total purchased intangible assets	$15,339	(4,441)	10,898	$12,794	$ (4,946)	$7,848

For fiscal 2011, HP recorded approximately $4.7 billion of purchased intangible assets and IPR&D related to acquisitions based on its preliminary estimated fair value of the assets acquired and liabilities assumed. For fiscal 2010, HP recorded approximately $2.7 billion of purchased intangible assets and IPR&D related to acquisitions based on its preliminary estimated fair value of the assets acquired and liabilities assumed. During fiscal 2011, HP reclassified approximately $290 million of IPR&D as developed technology.

Table of Contents

Note 7: Goodwill and Purchased Intangible Assets (Continued)

At October 31, 2011 and at October 31, 2010, $4.7 billion and $2.5 billion, respectively, of intangible assets reached the end of their amortizable periods. The tables above reflect the elimination of the cost and accumulated amortization of such assets.

HP also performed its annual impairment test for all other reporting units and for the indefinite-lived Compaq trade name. As a result of the analysis, HP concluded that no impairment of goodwill existed as of August 1, 2011, apart from the impairment in the webOS device business discussed above. There was no impairment of goodwill and indefinite-lived intangible assets as of August 1, 2010. However, future impairment tests could result in a charge to earnings. The excess of fair value over carrying value for the indefinite-lived Compaq trade name is approximately $144 million as of August 1, 2011, the annual testing date. In order to evaluate the sensitivity of the fair value calculation, we applied a hypothetical 10% decrease to the fair value of the intangible, which resulted in an excess of fair value over carrying value of approximately $13 million. In addition, if a future change in HP's branding strategy resulted in the reclassification of the Compaq trade name from an indefinite-lived intangible to a definite-lived intangible, there would be a significant decrease in the fair value of the asset.

HP will continue to evaluate goodwill and indefinite-lived intangibles on an annual basis as of the beginning of its fourth fiscal quarter, or whenever events, changes in circumstances or changes in management's business strategy indicate that there may be a potential indicator of impairment.

The finite-lived purchased intangible assets consist of customer contracts, customer lists and distribution agreements, which have weighted-average useful lives of 8 years, and developed and core technology, patents and product trademarks, which have weighted-average useful lives of 7 years.

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

Fiscal year:	In millions	
2012	$	1,885
2013		1,732
2014		1,410
2015		1,237
2016		1,073
Thereafter		2,130
Total	$	9,467

Note 8: Restructuring Charges

HP records restructuring charges associated with management-approved restructuring plans to either reorganize one or more of HP's business segments, or to remove duplicative headcount and infrastructure associated with one or more business acquisitions. Restructuring charges can include severance costs to eliminate a specified number of employee positions, infrastructure charges to vacate facilities and consolidate operations, and contract cancellation cost. Restructuring charges are recorded based upon planned employee termination dates and site closure and consolidation plans. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over a

Note 8: Restructuring Charges (Continued)

multi-year period. HP records the short-term portion of the restructuring liability in Accrued restructuring and the long-term portion in Other liabilities in the Consolidated Balance Sheets.

Fiscal 2010 Acquisitions

In connection with the acquisitions of Palm and 3Com in fiscal 2010, HP's management approved and initiated plans to restructure the operations of the acquired companies, including severance for employees, contract cancellation costs, costs to vacate duplicative facilities and other items. The total expected combined cost of the plans is $121 million, which includes $33 million of additional restructuring costs recorded in the fourth quarter of fiscal 2011 in connection with HP's decision to wind down the webOS device business. As of October 31, 2011, HP had recorded the majority of the costs of the plans based upon the anticipated timing of planned terminations and facility closure costs. With respect to the Palm plan, no further restructuring charges are anticipated, and the majority of the remaining costs are expected to be paid out through fiscal 2012. The remaining costs pertaining to the 3Com plan are expected to be paid out through fiscal 2016 as fixed lease payments are made.

Fiscal 2010 ES Restructuring Plan

On June 1, 2010, HP's management announced a plan to restructure its enterprise services business, which includes its Infrastructure Technology Outsourcing, Business Process Outsourcing and Application Services business units. The multi-year restructuring program includes plans to consolidate commercial data centers, tools and applications. The total expected cost of the plan that will be recorded as restructuring charges is approximately $1.0 billion, and includes severance costs to eliminate approximately 9,000 positions and infrastructure charges. As of October 31, 2011, HP had recorded the majority of the severance costs. HP expects to record the majority of the infrastructure charges through fiscal 2012. The timing of the charges is based upon planned termination dates and site closure and consolidation plans. The majority of the associated cash payments are expected to be paid out through the fourth quarter of fiscal 2012. As of October 31, 2011, approximately 5,700 positions have been eliminated with the remaining anticipated over the next 12 months.

Fiscal 2009 Restructuring Plan

In May 2009, HP's management approved and initiated a restructuring plan to structurally change and improve the effectiveness of the Imaging and Printing Group ("IPG"), the Personal Systems Group ("PSG"), and Enterprise Servers, Storage and Networking ("ESSN") businesses. The total expected cost of the plan was $294 million in severance-related costs associated with the planned elimination of approximately 4,400 positions. As of October 31, 2011, all planned eliminations had occurred and the majority of the restructuring costs have been paid out.

Fiscal 2008 HP/EDS Restructuring Plan

In connection with the acquisition of EDS on August 26, 2008, HP's management approved and initiated a restructuring plan to combine and align HP's services businesses, eliminate duplicative overhead functions and consolidate and vacate duplicative facilities. The restructuring plan is expected to be implemented over four years from the acquisition date at a total expected cost of $3.4 billion. Approximately $1.5 billion of the expected costs were associated with pre-acquisition EDS and were reflected in the fair value of purchase consideration of EDS. These costs are subject to change based

Table of Contents

Note 8: Restructuring Charges (Continued)

on the actual costs incurred. The remaining costs are primarily associated with HP and will be recorded as a restructuring charge.

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

Summary of Restructuring Plans

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

	Balance, October 31, 2010	Fiscal year 2011 charges	Cash payments	Non-cash settlements and other adjustments	Balance, October 31, 2011	As of October 31, 2011 Total costs and adjustments to date	As of October 31, 2011 Total expected costs and adjustments
	In millions						
Fiscal 2010 acquisitions	$ 44	$ 51	$ (36)	$ —	$ 59	$ 114	$ 121
Fiscal 2010 ES Plan:							
Severance	$ 620	$ 93	$ (229)	$ 9	$ 493	$ 723	$ 724
Infrastructure	4	173	(170)	(4)	3	193	268
Total ES Plan	$ 624	$ 266	$ (399)	$ 5	$ 496	$ 916	$ 992
Fiscal 2009 Plan	$ 57	$ 2	$ (54)	$ (5)	$ —	$ 294	$ 294
Fiscal 2008 HP/EDS Plan:							
Severance	$ 75	$ 45	$ (110)	$ (10)	$ —	$ 2,190	$ 2,190
Infrastructure	408	281	(404)	(27)	258	974	1,167
Total HP/ EDS Plan	$ 483	$ 326	$ (514)	$ (37)	$ 258	$ 3,164	$ 3,357
Total restructuring plans	$ 1,208	$ 645	$ (1,003)	$ (37)	$ 813	$ 4,488	$ 4,764

At October 31, 2011 and October 31, 2010, HP included the long-term portion of the restructuring liability of $159 million and $297 million, respectively, in Other liabilities, and the short-term portion of $654 million and $911 million, respectively, in Accrued restructuring in the accompanying Consolidated Balance Sheets.

Note 9: Fair Value

HP determines fair value based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

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

Note 9: Fair Value (Continued)

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

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

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

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

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

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

Derivative Instruments: As discussed in Note 10, HP mainly holds non-speculative forwards, swaps and options to hedge certain foreign currency and interest rate exposures. When active market quotes are not available, HP uses industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies. In certain cases, market-based observable inputs are not available and, in those cases, HP uses management judgment to develop assumptions which are used to determine fair value.

Table of Contents

Note 9: Fair Value (Continued)

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

	As of October 31, 2011				As of October 31, 2010			
	Fair Value Measured Using				Fair Value Measured Using			
	Level 1	Level 2	Level 3	Total Balance	Level 1	Level 2	Level 3	Total Balance
	In millions							
Assets								
Time deposits	$ —	$ 5,120	$ —	$ 5,120	$ —	$ 6,598	$ —	$ 6,598
Money market funds	236	—	—	236	971	—	—	971
Marketable equity securities	120	2	—	122	11	3	—	14
Foreign bonds	7	376	—	383	8	365	—	373
Corporate bonds and other debt securities	3	2	48	53	3	6	50	59
Derivatives:								
Interest rate contracts	—	593	—	593	—	735	—	735
Foreign exchange contracts	—	269	35	304	—	150	32	182
Other derivatives	—	25	6	31	—	5	6	11
Total Assets	$ 366	$ 6,387	$ 89	$ 6,842	$ 993	$ 7,862	$ 88	$ 8,943
Liabilities								
Derivatives:								
Interest rate contracts	$ —	$ 71	$ —	$ 71	$ —	$ 89	$ —	$ 89
Foreign exchange contracts	—	823	9	832	—	880	10	890
Other derivatives	—	1	—	1	—	—	—	—
Total Liabilities	$ —	$ 895	$ 9	$ 904	$ —	$ 969	$ 10	$ 979

Table of Contents

Note 10: Financial Instruments

Cash Equivalents and Available-for-Sale Investments

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

	October 31, 2011				October 31, 2010			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	In millions							
Cash Equivalents								
Time deposits	$5,112	$ —	$ —	$ 5,112	$6,590	$ —	$ —	$ 6,590
Money market funds	236	—	—	236	971	—	—	971
Total cash equivalents	5,348	—	—	5,348	7,561	—	—	7,561
Available-for-Sale Investments								
Debt securities:								
Time deposits	8	—	—	8	8	—	—	8
Foreign bonds	317	66	—	383	315	58	—	373
Corporate bonds and other debt securities	74	—	(21)	53	89	—	(30)	59
Total debt securities	399	66	(21)	444	412	58	(30)	440
Equity securities in public companies	114	4	—	118	5	4	—	9
Total cash equivalents and available-for-sale investments	$5,861	$ 70	$ (21)	$ 5,910	$7,978	$ 62	$ (30)	$ 8,010

Cash equivalents consist of investments in time deposits, commercial paper and money market funds with original maturities of three months or less. Interest income related to cash and cash equivalents was approximately $167 million in fiscal 2011, $111 million in fiscal 2010 and $119 million in fiscal 2009. Time deposits were primarily issued by institutions outside the U.S. as of October 31, 2011 and October 31, 2010. Available-for-sale securities consist of short-term investments which mature within twelve months or less and long-term investments with maturities greater than twelve months. Investments primarily include institutional bonds, equity securities in public companies, fixed-interest securities and time deposits. HP estimates the fair values of its investments based on quoted market prices or pricing models using current market rates. These estimated fair values may not be representative of actual values that will be realized in the future.

The gross unrealized loss as of October 31, 2011 was due primarily to declines in certain debt securities of $21 million that has been in a continuous loss position for more than twelve months. The gross unrealized loss as of October 31, 2010 was due primarily to declines in the fair value of certain debt securities and included $28 million that had been in a continuous loss position for more than twelve months. HP does not intend to sell these debt securities, and it is not likely that HP will be required to sell these debt securities prior to the recovery of the amortized cost. In fiscal 2011, HP

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 10: Financial Instruments (Continued)

recognized an insignificant impairment charge associated with debt securities. In fiscal years 2010 and 2009, HP recognized an impairment charge of $12 million and $24 million, respectively, on total investments.

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

	October 31, 2011	
	Cost	Estimated Fair Value
	In millions	
Due in one to five years	$ 80	$ 59
Due in more than five years	319	385
	$ 399	$ 444

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

	October 31, 2011	October 31, 2010
	In millions	
Available-for-sale debt securities	$ —	$ 5
Included in Other current assets	—	5
Available-for-sale debt securities	444	435
Available-for-sale equity securities	118	9
Equity securities in privately-held companies	48	154
Other investments	8	9
Included in long-term financing receivables and other assets	$ 618	$ 607
Total investments	$ 618	$ 612

Equity securities in privately held companies include cost basis and equity method investments. Other investments include marketable trading securities. HP includes gains or losses from changes in fair value of these securities, offset by losses or gains on the related liabilities, in Interest and other, net, in HP's Consolidated Statements of Earnings. The net impact associated with these securities was not material in fiscal years 2011 and 2010, respectively.

Derivative Financial Instruments

HP is a global company that is exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of its business. As part of its risk management strategy, HP uses derivative instruments, primarily forward contracts, option contracts, interest rate swaps, and total return swaps, to hedge certain foreign currency, interest rate and, to a lesser extent, equity exposures. HP's objective is to offset gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting fair values of assets and liabilities. HP does not have any leveraged derivatives and does not use derivative contracts for speculative purposes. HP designates its derivatives as fair value hedges, cash flow hedges

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 10: Financial Instruments (Continued)

or hedges of the foreign currency exposure of a net investment in a foreign operation ("net investment hedges"). Additionally, for derivatives not designated as hedging instruments, HP categorizes those economic hedges as other derivatives. HP recognizes all derivatives, on a gross basis, in the Consolidated 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 Statements of Cash Flows.

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

To further mitigate credit exposure to counterparties, HP may enter into collateral security arrangements with its counterparties. These arrangements require HP to post collateral or to hold collateral from counterparties when the derivative fair values exceed contractually established thresholds which are generally based on the credit ratings of HP and its counterparties. Such funds are generally transferred within two business days. As of October 31, 2011, HP had posted $96 million associated with the counterparties under these collateralized arrangements. Collateral amounts as of October 31, 2010 were not material.

Fair Value Hedges

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

Note 10: Financial Instruments (Continued)

than the U.S. dollar. HP's foreign currency cash flow hedges mature generally within twelve months. However, certain leasing revenue-related forward contracts and intercompany lease loan forward contracts extend for the duration of the lease term, which can be up to five years. For derivative instruments that are designated and qualify as cash flow hedges, HP initially records the effective portion of the gain or loss on the derivative instrument in accumulated other comprehensive income or loss as a separate component of stockholders' equity and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized in earnings. HP reports the effective portion of cash flow hedges in the same financial statement line item as the changes in value of the hedged item. During fiscal years 2011, 2010 and 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. These derivative instruments are designated as net investment hedges and, as such, HP records the effective portion of the gain or loss on the derivative instrument together with changes in the hedged items in cumulative translation adjustment as a separate component of stockholders' equity.

Other Derivatives

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

Hedge Effectiveness

For interest rate swaps designated as fair value hedges, HP measures effectiveness by offsetting the change in fair value of the hedged debt with the change in fair value of the derivative. For foreign 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 Statements of Earnings. As of October 31, 2011 and 2010, the portion of hedging instruments' gain or loss excluded from the assessment of effectiveness was not material for fair value, cash flow or net investment hedges. Hedge ineffectiveness for fair value, cash flow and net investment hedges was not material in fiscal years 2011, 2010 and 2009.

[Table of Contents](#)

Note 10: Financial Instruments (Continued)

Fair Value of Derivative Instruments in the Consolidated Balance Sheets

As discussed in Note 9, HP estimates the fair values of derivatives primarily based on pricing models using current market rates and records all derivatives on the balance sheet at fair value. The gross notional and fair value of derivative financial instruments in the Consolidated Balance Sheets was recorded as follows:

	As of October 31, 2011					As of October 31, 2010				
	Gross Notional(1)	Other Current Assets	Long-term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities	Gross Notional(1)	Other Current Assets	Long-term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities
	In millions									
Derivatives designated as hedging instruments										
Fair value hedges:										
Interest rate contracts	$ 10,075	$ 30	$ 508	$ —	$ —	$ 8,575	$ —	$ 656	$ —	$ —
Cash flow hedges:										
Foreign exchange contracts	21,666	192	30	324	126	16,862	98	20	503	83
Net investment hedges:										
Foreign exchange contracts	1,556	7	4	44	56	1,466	8	2	58	62
Total derivatives designated as hedging instruments	33,297	229	542	368	182	26,903	106	678	561	145
Derivatives not designated as hedging instruments										
Foreign exchange contracts	13,994	66	5	244	38	13,701	51	3	129	55
Interest rate contracts(2)	2,200	—	55	—	71	2,200	—	79	—	89
Other derivatives	410	25	6	—	1	397	5	6	—	—
Total derivatives not designated as hedging instruments	16,604	91	66	244	110	16,298	56	88	129	144
Total derivatives	$ 49,901	$ 320	$ 608	$ 612	$ 292	$ 43,201	$ 162	$ 766	$ 690	$ 289

(1) Represents the face amounts of contracts that were outstanding as of October 31, 2011 and October 31, 2010, respectively

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

Effect of Derivative Instruments on the Consolidated Statements of Earnings

The before-tax effect of a derivative instrument and related hedged item in a fair value hedging relationship for fiscal years ended October 31, 2011 and October 31, 2010 was as follows:

Derivative Instrument	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item				
	Location	2011	Hedged Item	Location	2011
		In millions			In millions
Interest rate contracts	Interest and other, net	$ (119)	Fixed-rate debt	Interest and other, net	$ 128

Derivative Instrument	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item				
	Location	2010	Hedged Item	Location	2010
		In millions			In millions
Interest rate contracts	Interest and other, net	$ 316	Fixed-rate debt	Interest and other, net	$ (299)

Table of Contents

Note 10: Financial Instruments (Continued)

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for fiscal years 2011 and 2010 were as follows:

	Gain (Loss) Recognized in Other Comprehensive Income ("OCI") on Derivative (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)		Gain Recognized in Income on Derivative (Ineffective portion and Amount Excluded from Effectiveness Testing)	
	2011	Location	2011	Location	2011
	In millions		In millions		In millions
Cash flow hedges:					
Foreign exchange contracts	$ (278)	Net revenue	$ (616)	Net revenue	$ —
Foreign exchange contracts	41	Cost of products	38	Cost of products	—
Foreign exchange contracts	2	Other operating expenses	4	Other operating expenses	—
Foreign exchange contracts	(116)	Interest and other, net	(91)	Interest and other, net	—
Foreign exchange contracts	(23)	Net revenue	7	Interest and other, net	4
Total cash flow hedges	$ (374)		$ (658)		$ 4
Net investment hedges:					
Foreign exchange contracts	$ (52)	Interest and other, net	$ —	Interest and other, net	$ —

	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 (Ineffective portion and Amount Excluded from Effectiveness Testing)	
	2010	Location	2010	Location	2010
	In millions		In millions		In millions
Cash flow hedges:					
Foreign exchange contracts	$ 273	Net revenue	$ 325	Net revenue	$ —
Foreign exchange contracts	50	Cost of products	80	Cost of products	—
Foreign exchange contracts	1	Other operating expenses	—	Other operating expenses	—
Foreign exchange contracts	20	Interest and other, net	—	Interest and other, net	—
Foreign exchange contracts	25	Net revenue	26	Interest and other, net	9
Total cash flow hedges	$ 369		$ 431		$ 9
Net investment hedges:					
Foreign exchange contracts	$ (82)	Interest and other, net	$ —	Interest and other, net	$ —

As of October 31, 2011, HP expects to reclassify an estimated net accumulated other comprehensive loss of approximately $45 million, net of taxes, to earnings in the next twelve months

Note 10: Financial Instruments (Continued)

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 Statements of Earnings for fiscal years 2011 and 2010 were as follows:

	Gain (Loss) Recognized in Income on Derivative	
	Location	2011
		In millions
Foreign exchange contracts	Interest and other, net	$(117)
Other derivatives	Interest and other, net	19
Interest rate contracts	Interest and other, net	(6)
Total		$(104)

	Gain (Loss) Recognized in Income on Derivative	
	Location	2010
		In millions
Foreign exchange contracts	Interest and other, net	$(764)
Other derivatives	Interest and other, net	8
Interest rate contracts	Interest and other, net	6
Total		$(750)

Other Financial Instruments

For the balance of HP's financial instruments, accounts receivable, financing receivables, notes payable and short-term borrowings, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities. The estimated fair value of HP's short- and long-term debt was approximately $31.1 billion at October 31, 2011, compared to a carrying value of $30.6 billion at that date. The estimated fair value of HP's short- and long-term debt was approximately $22.5 billion at October 31, 2010, compared to a carrying value of $22.3 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 11: Financing Receivables and Operating Leases

Financing receivables represent sales-type and direct-financing leases resulting from the placement of HP and third-party products. These receivables typically have terms from two to five years and are usually collateralized by a security interest in the underlying assets. Financing receivables also include billed receivables from operating leases. The components of net financing receivables, which are

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 11: Financing Receivables and Operating Leases (Continued)

included in financing receivables and long-term financing receivables and other assets, were as follows for the following fiscal years ended October 31:

	2011	2010
	In millions	
Minimum lease payments receivable	$ 7,721	$ 7,094
Unguaranteed residual value	233	212
Unearned income	(647)	(596)
Financing receivables, gross	7,307	6,710
Allowance for doubtful accounts	(130)	(140)
Financing receivables, net	7,177	6,570
Less current portion	(3,162)	(2,986)
Amounts due after one year, net	$ 4,015	$ 3,584

As of October 31, 2011, scheduled maturities of HP's minimum lease payments receivable were as follows for the following fiscal years ended October 31:

	2012	2013	2014	2015	Thereafter	Total
Scheduled maturities of minimum lease payments receivable	$ 3,518	$ 2,256	$ 1,257	$ 517	$ 173	$ 7,721

Equipment leased to customers under operating leases was $4.0 billion at October 31, 2011 and $3.5 billion at October 31, 2010 and is included in machinery and equipment. Accumulated depreciation on equipment under lease was $1.3 billion at October 31, 2011 and $1.0 billion at October 31, 2010. As of October 31, 2011, minimum future rentals on non-cancelable operating leases related to leased equipment were as follows for the following fiscal years ended October 31:

	2012	2013	2014	2015	Thereafter	Total
Minimum future rentals on non-cancelable operating leases	$ 1,273	$ 801	$ 414	$ 152	$ 42	$ 2,682

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

Table of Contents

Note 11: Financing Receivables and Operating Leases (Continued)

The credit risk profile of the gross financing receivables, based on internally assigned ratings, was as follows for the following fiscal years ended October 31:

Risk Rating	2011	2010
	In millions	
Low	$ 4,261	$ 3,793
Moderate	2,989	2,829
High	57	88
Total	$ 7,307	$ 6,710

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

The allowance for doubtful accounts balance is comprised of a general reserve, which is determined based on a percentage of the financing receivables balance, and a specific reserve, which is established for certain leases with identified exposures, such as customer default, bankruptcy or other events, that make it unlikely that HP will recover its investment in the lease. The general reserve percentages are maintained on a regional basis and are based on several factors, which include consideration of historical credit losses and portfolio delinquencies, trends in the overall weighted-average risk rating of the portfolio, and information derived from competitive benchmarking.

The allowance for doubtful accounts and the related financing receivables were as follows for the following fiscal years ended October 31:

Allowance for doubtful accounts	2011
	In millions
Balance, beginning of period	$ 140
Additions to allowance	58
Deductions, net of recoveries	(68)
Balance, end of period	$ 130

	2011	2010
	In millions	
Allowance for financing receivables individually evaluated for loss	$ 35	$ 53
Allowance for financing receivables collectively evaluated for loss	95	87
Total	$ 130	$ 140
Gross financing receivables individually evaluated for loss	$ 157	$ 271
Gross financing receivables collectively evaluated for loss	7,150	6,439
Total	$ 7,307	$ 6,710

Accounts are generally put on non-accrual status (cessation of interest accrual) when they reach 90 days past due. In certain circumstances, such as when the delinquency is deemed to be of an administrative nature, accounts may still accrue interest when they reach 90 days past due. A write-off or specific reserve is generally recorded when an account reaches 180 days past due. Total financing receivables on non-accrual status were $157 million and $271 million at October 31, 2011 and 2010, respectively. Total financing receivables greater than 90 days past due and still accruing interest were $71 million and $83 million at October 31, 2011 and 2010, respectively.

Note 12: Guarantees

Guarantees and Indemnifications

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

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

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

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.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 12: Guarantees (Continued)

The changes in HP's aggregate product warranty liabilities were as follows for the following fiscal years ended October 31:

	2011	2010
	In millions	
Product warranty liability at beginning of year	$ 2,447	$ 2,409
Accruals for warranties issued	2,657	2,689
Adjustments related to pre-existing warranties (including changes in estimates)	(33)	(53)
Settlements made (in cash or in kind)	(2,620)	(2,598)
Product warranty liability at end of year	$ 2,451	$ 2,447

Note 13: Borrowings

Notes Payable and Short-Term Borrowings

Notes payable and short-term borrowings, including the current portion of long-term debt, were as follows for the following fiscal years ended October 31:

	2011		2010	
	Amount Outstanding	Weighted-Average Interest Rate	Amount Outstanding	Weighted-Average Interest Rate
	In millions			
Commercial paper	$ 3,215	0.4%	$ 4,432	0.3%
Current portion of long-term debt	4,345	2.4%	2,216	2.2%
Notes payable to banks, lines of credit and other	523	2.9%	398	1.5%
	$ 8,083		$ 7,046	

Notes payable to banks, lines of credit and other includes deposits associated with HP's banking-related activities of approximately $355 million and $348 million at October 31, 2011 and 2010, respectively.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 13: Borrowings (Continued)

Long-Term Debt

Long-term debt was as follows for the following fiscal years ended October 31:

	2011	2010
	In millions	
U.S. Dollar Global Notes		
2002 Shelf Registration Statement:		
$500 issued at discount to par at a price of 99.505% in June 2002 at 6.5%, due July 2012	$ 500	$ 500
2006 Shelf Registration Statement:		
$600 issued at par in February 2007 at three-month USD LIBOR plus 0.11%, due March 2012	600	600
$900 issued at discount to par at a price of 99.938% in February 2007 at 5.25%, due March 2012	900	900
$500 issued at discount to par at a price of 99.694% in February 2007 at 5.4%, due March 2017	499	499
$1,500 issued at discount to par at a price of 99.921% in March 2008 at 4.5%, due March 2013	1,500	1,499
$750 issued at discount to par at a price of 99.932% in March 2008 at 5.5%, due March 2018	750	750
$2,000 issued at discount to par at a price of 99.561% in December 2008 at 6.125%, due March 2014	1,996	1,994
$275 issued at par in February 2009 at three-month USD LIBOR plus 1.75%, paid February 2011	—	275
$1,000 issued at discount to par at a price of 99.956% in February 2009 at 4.25%, due February 2012	1,000	1,000
$1,500 issued at discount to par at a price of 99.993% in February 2009 at 4.75%, due June 2014	1,500	1,500

Table of Contents

Note 13: Borrowings (Continued)

	2011	2010
	In millions	
2009 Shelf Registration Statement:		
$750 issued at par in May 2009 at three-month USD LIBOR plus 1.05%, paid May 2011	—	750
$1,000 issued at discount to par at a price of 99.967% in May 2009 at 2.25%, paid May 2011	—	1,000
$250 issued at discount to par at a price of 99.984% in May 2009 at 2.95%, due August 2012	250	250
$800 issued at par in September 2010 at three-month USD LIBOR plus 0.125%, due September 2012	800	800
$1,100 issued at discount to par at a price of 99.921% in September 2010 at 1.25% due September 2013	1,099	1,099
$1,100 issued at discount to par at a price of 99.887% in September 2010 at 2.125% due September 2015	1,099	1,099
$650 issued at discount to par at a price of 99.911% in December 2010 at 2.2% due December 2015	650	—
$1,350 issued at discount to par at a price of 99.827% in December 2010 at 3.75% due December 2020	1,348	—
$1,750 issued at par in May 2011 at three month USD LIBOR plus 0.28%, due May 2013	1,750	—
$500 issued at par in May 2011 at three month USD LIBOR plus 0.4%, due May 2014	500	—
$500 issued at discount to par at a price of 99.971% in May 2011 at 1.55%, due May 2014	500	—
$1,000 issued at discount to par at a price of 99.958% in May 2011 at 2.65%, due June 2016	1,000	—
$1,250 issued at discount to par at a price of 99.799% in May 2011 at 4.3%, due June 2021	1,248	—
$750 issued at discount to par at a price of 99.977% in September 2011 at 2.35%, due March 2015	750	—
$1,300 issued at discount to par at a price of 99.784% in September 2011 at 3.0% , due September 2016	1,297	—
$1,000 issued at discount to par at a price of 99.816% in September 2011 at 4.375% due September 2021	998	—
$1,200 issued at discount to par at a price of 99.863% in September 2011 at 6.0% due September 2041	1,198	—
$350 issued at par in September 2011 at three-month USD LIBOR plus 1.55%, due September 2014	350	—
	24,082	14,515

Table of Contents

Note 13: Borrowings (Continued)

	2011	2010
	In millions	
EDS Senior Notes		
$1,100 issued June 2003 at 6.0%, due August 2013	1,120	1,130
$300 issued October 1999 at 7.45%, due October 2029	315	315
	1,435	1,445
Other, including capital lease obligations, at 0.60%-8.63%, due in calendar years 2012-2024	836	845
Fair value adjustment related to hedged debt	543	669
Less: current portion	(4,345)	(2,216)
Total long-term debt	$ 22,551	$ 15,258

As disclosed in Note 10 to the Consolidated Financial Statements, HP uses interest rate swaps to mitigate the market risk exposures in connection with certain fixed interest global notes to achieve primarily U.S. dollar LIBOR-based floating interest expense. The table above does not reflect the interest rate swap impact on the interest rate.

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

In May 2009, HP filed a shelf registration statement (the "2009 Shelf Registration Statement") with the SEC to enable the company to offer for sale, from time to time, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants. The 2009 Shelf Registration Statement replaced other registration statements filed in March 2002 and May 2006.

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

HP has a $3.0 billion five-year credit facility that expires in May 2012 and a $4.5 billion four-year credit facility that expires in February 2015. Commitment fees, interest rates and other terms of borrowing under the credit facilities vary based on HP's external credit ratings. The credit facilities are senior unsecured committed borrowing arrangements primarily to support the issuance of U.S. commercial paper. HP's ability to have a U.S. commercial paper outstanding balance that exceeds the $7.5 billion supported by these credit facilities is subject to a number of factors, including liquidity conditions and business performance.

In August 2011, HP entered in to a new £5.0 billion ($8.1 billion) 364-day senior unsecured bridge term loan agreement (the "Bridge Facility") to support the funding of the Autonomy acquisition. Under the terms of the Bridge Facility, the amount of credit available declines in an amount equal to the proceeds of any future issuance by HP of certain equity securities or the incurrence by HP of certain indebtedness. As of October 31, 2011, £2.2 billion ($3.6 billion) in borrowing capacity remained available under the Bridge Facility. The Bridge Facility was terminated in November 2011.

Note 13: Borrowings (Continued)

Within Other, including capital lease obligations, are borrowings that are collateralized by certain financing receivable assets. As of October 31, 2011, the carrying value of the assets approximated the carrying value of the borrowings of $247 million.

As of October 31, 2011, HP had the capacity 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 $14.6 billion of available borrowing resources, including $13.3 billion under its commercial paper programs, approximately $1.3 billion relating to uncommitted lines of credit, and £2.2 billion ($3.6 billion) under the Bridge Facility.

Aggregate future maturities of long-term debt at face value (excluding a fair value adjustment related to hedged debt of $543 million, a premium on debt issuance of $35 million, and a discount on debt issuance of $21 million) were as follows at October 31, 2011:

	2012	2013	2014	2015	2016	Thereafter	Total
				In millions			
Aggregate future maturities of debt outstanding including capital lease obligations	$4,312	$5,685	$5,067	$1,858	$2,955	$ 6,462	$26,339

Interest expense on borrowings was approximately $551 million in fiscal 2011, $417 million in fiscal 2010 and $597 million in fiscal 2009.

Subsequent Event

On December 9, 2011, HP issued $3 billion of U.S. Dollar Global Notes under the 2009 Shelf Registration Statement. The Global Notes consisted of fixed rate notes at market rates with maturities of three, five and ten years from the date of issuance.

Note 14: Taxes on Earnings

The domestic and foreign components of earnings were as follows for the following fiscal years ended October 31:

	2011	2010	2009
		In millions	
U.S.	$ 3,039	$ 4,027	$ 2,569
Non-U.S.	5,943	6,947	6,846
	$ 8,982	$ 10,974	$ 9,415

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 14: Taxes on Earnings (Continued)

The provision for (benefit from) taxes on earnings was as follows for the following fiscal years ended October 31:

	2011	2010	2009
		In millions	
U.S. federal taxes:			
Current	$ 390	$ 484	$ 47
Deferred	(590)	231	956
Non-U.S. taxes:			
Current	1,177	1,345	1,156
Deferred	611	21	(356)
State taxes:			
Current	141	187	173
Deferred	179	(55)	(221)
	$ 1,908	$ 2,213	$ 1,755

The significant components of deferred tax assets and deferred tax liabilities were as follows for the following fiscal years ended October 31:

	2011		2010	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
	In millions			
Loss carryforwards	$ 9,793	$ —	$ 9,832	$ —
Credit carryforwards	2,739	—	733	—
Unremitted earnings of foreign subsidiaries	—	8,209	—	7,529
Inventory valuation	236	12	153	10
Intercompany transactions—profit in inventory	418	—	514	1
Intercompany transactions—excluding inventory	1,529	—	2,339	—
Fixed assets	255	63	163	15
Warranty	747	—	723	48
Employee and retiree benefits	1,819	18	2,800	29
Accounts receivable allowance	262	2	290	9
Capitalized research and development	294	—	597	—
Purchased intangible assets	125	2,738	11	1,885
Restructuring	233	—	404	13
Equity investments	58	6	59	—
Deferred revenue	1,025	38	975	24
Other	2,296	233	1,587	251
Gross deferred tax assets and liabilities	21,829	11,319	21,180	9,814
Valuation allowance	(9,057)	—	(8,755)	—
Total deferred tax assets and liabilities	$ 12,772	$ 11,319	$ 12,425	$ 9,814

Note 14: Taxes on Earnings (Continued)

The breakdown between current and long-term deferred tax assets and deferred tax liabilities was as follows for the following fiscal years ended October 31:

	2011	2010
	In millions	
Current deferred tax assets	$ 5,374	$ 5,833
Current deferred tax liabilities	(41)	(53)
Long-term deferred tax assets	1,283	2,070
Long-term deferred tax liabilities	(5,163)	(5,239)
Total deferred tax assets net of deferred tax liabilities	$ 1,453	$ 2,611

As of October 31, 2011, HP had $2.1 billion, $4.9 billion and $30.2 billion of federal, state and foreign net operating loss carryforwards, respectively. Amounts included in each of these respective totals will begin to expire in fiscal 2012. HP also has a capital loss carryforward of approximately $287 million which will begin to expire in fiscal 2012. HP has provided a valuation allowance of $132 million for deferred tax assets related to federal and state net operating losses, $106 million for deferred tax assets related to capital loss carryforwards and $8.5 billion for deferred tax assets related to foreign net operating loss carryforwards that HP does not expect to realize.

As of October 31, 2011, HP had recorded deferred tax assets for various tax credit carryforwards of $2.7 billion. This amount includes $1.9 billion of U.S. foreign tax credit carryforwards which begin to expire in fiscal 2013 and against which HP has recorded a valuation allowance of $47 million. HP had alternative minimum tax credit carryforwards of $25 million, which do not expire, and U.S. research and development credit carryforwards of $517 million, which will begin to expire in fiscal 2020. HP also had tax credit carryforwards of $331 million in various states and foreign countries for which HP has provided a valuation allowance of $197 million to reduce the related deferred tax asset. These credits will begin to expire in fiscal 2012.

Gross deferred tax assets at October 31, 2011, 2010 and 2009 were reduced by valuation allowances of $9.1 billion, $8.8 billion and $8.7 billion, respectively. Total valuation allowances increased by $307 million in fiscal 2011, associated with various net operating losses, tax credits and other deferred tax assets. Valuation allowances increased by $77 million in fiscal 2010, consisting of $106 million associated with federal capital loss carryovers, and a net $29 million decrease associated with various net operating loss carryovers and credits. Valuation allowances increased by $6.9 billion in fiscal 2009, consisting of $7.0 billion associated with foreign net operating loss carryovers arising in fiscal 2009 associated with internal restructuring transactions, reduced by $100 million associated with state and foreign net operating losses.

Net excess tax benefits resulting from the exercise of employee stock options and other employee stock programs are recorded as an increase in stockholders' equity and were approximately $128 million in fiscal 2011, $300 million in fiscal 2010, and $163 million in fiscal 2009.

Table of Contents

Note 14: Taxes on Earnings (Continued)

The differences between the U.S. federal statutory income tax rate and HP's effective tax rate were as follows for the following fiscal years ended October 31:

	2011	2010	2009
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	0.5	1.3	0.9
Lower rates in other jurisdictions, net	(24.0)	(18.3)	(12.2)
Research and development credit	(0.6)	(0.1)	(0.5)
Foreign net operating loss	—	—	(4.1)
Valuation allowance	5.2	0.8	(0.6)
Accrued taxes due to post-acquisition integration	—	—	0.6
Nondeductible goodwill	3.4	—	—
Other, net	1.7	1.5	(0.5)
	21.2%	20.2%	18.6%

The jurisdictions with favorable tax rates that have the most significant effective tax rate impact in the periods presented include Singapore, the Netherlands, China, Ireland and Puerto Rico. HP plans to reinvest some of the earnings of these jurisdictions indefinitely outside the United States and therefore has not provided U.S. taxes on those indefinitely reinvested earnings.

In fiscal 2011, HP recorded $325 million of net income tax charges related to items unique to the year. These amounts included $468 million of tax charges for increases to foreign and state valuation allowances, offset by $78 million of income tax benefits for adjustments to prior year foreign income tax accruals, $63 million of income tax benefits for uncertain tax position reserve adjustments and settlement of tax audit matters, and $2 million of tax benefits associated with miscellaneous prior period items.

In fiscal 2010, HP recorded $26 million of net income tax benefits related to items unique to the year. These amounts included adjustments to prior year foreign income tax accruals and credits, settlement of tax audit matters, valuation allowance adjustments and other miscellaneous discrete items.

In fiscal 2009, HP recorded $547 million of net income tax benefits related to items unique to the year. The recorded amounts included $383 million of income tax benefits attributable to net deferred tax assets for foreign net operating loss carryovers arising pursuant to internal restructuring transactions. Also included were a net tax benefit of $154 million for the adjustment to estimated fiscal 2008 tax accruals upon filing the 2008 income tax returns, a $60 million income tax benefit for valuation allowance reversals for state and foreign net operating losses, and other miscellaneous items that resulted in a net tax charge of $50 million.

As a result of certain employment actions and capital investments HP has undertaken, income from manufacturing and services in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, through 2024. The gross income tax benefits attributable to these actions and investments were estimated to be $1.3 billion (approximately $0.62 basic earnings per share) in fiscal year 2011, $966 million (approximately $0.41 basic earnings per share) in fiscal year 2010 and $853 million (approximately $0.35 basic earnings per share) in fiscal year 2009. The gross income tax benefits were offset partially by accruals of U.S. income taxes on undistributed earnings, among other factors.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 14: Taxes on Earnings (Continued)

The total amount of gross unrecognized tax benefits was $2.1 billion as of October 31, 2011. A reconciliation of unrecognized tax benefits is as follows:

Balance at October 31, 2008	$	2,333
Increases:		
For current year's tax positions		115
For prior years' tax positions		626
Decreases:		
For prior years' tax positions		(762)
Statute of limitations expiration		(293)
Settlements with taxing authorities		(131)
Balance at October 31, 2009	$	1,888
Increases:		
For current year's tax positions		27
For prior years' tax positions		347
Decreases:		
For prior years' tax positions		(120)
Statute of limitations expiration		(1)
Settlements with taxing authorities		(56)
Balance at October 31, 2010	$	2,085
Increases:		
For current year's tax positions		384
For prior years' tax positions		426
Decreases:		
For prior years' tax positions		(159)
Statute of limitations expiration		(20)
Settlements with taxing authorities		(598)
Balance at October 31, 2011	$	2,118

Up to $1.1 billion, $1.0 billion and $950 million of HP's unrecognized tax benefits at October 31, 2011, 2010 and 2009, respectively, would affect HP's effective tax rate if realized.

HP recognizes interest income from favorable settlements and income tax receivables and interest expense and penalties accrued on unrecognized tax benefits within income tax expense. As of October 31, 2011, HP had accrued a net $205 million payable for interest and penalties. During fiscal 2011, HP recognized net interest expense net of tax on net deficiencies of $24 million.

HP engages in continuous discussion and negotiation with taxing authorities regarding tax matters in various jurisdictions. HP does not expect complete resolution of any IRS audit cycle within the next 12 months. However, it is reasonably possible that certain federal, foreign and state tax issues may be concluded in the next 12 months, including issues involving transfer pricing and other matters. Accordingly, HP believes it is reasonably possible that its existing unrecognized tax benefits may be reduced by an amount up to $249 million within the next 12 months.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 14: Taxes on Earnings (Continued)

HP is subject to income tax in the United States and approximately 80 foreign countries and is subject to routine corporate income tax audits in many of these jurisdictions. In addition, HP is subject to numerous ongoing audits by state and foreign tax authorities. The IRS began an audit of HP's 2008 income tax returns in 2010 and began its audit of HP's 2009 income tax returns during 2011. HP has received from the IRS Notices of Deficiency for its fiscal 1999, 2000, 2003, 2004 and 2005 tax years, and Revenue Agent's Reports ("RAR") for its fiscal 2001, 2002, 2006 and 2007 tax years. The proposed IRS adjustments for these tax years would, if sustained, reduce the benefits of tax refund claims HP has filed for net operating loss carrybacks to earlier fiscal years and tax credit carryforwards to subsequent years by approximately $557 million. HP has filed petitions with the United States Tax Court regarding certain proposed IRS adjustments regarding tax years 1999 through 2003 and is continuing to contest additional adjustments proposed by the IRS for other tax years. HP believes that it has provided adequate reserves for any tax deficiencies or reductions in tax benefits that could result from the IRS actions. With respect to major foreign and state tax jurisdictions, HP is no longer subject to tax authority examinations for years prior to 1999. HP believes that adequate accruals have been provided for all open tax years.

Tax years of EDS through 2002 have been audited by the IRS, and all proposed adjustments have been resolved. The IRS is currently auditing EDS's tax years 2007 and the short period ended August 26, 2008. EDS has received RAR's for exam years 2003, 2004, 2005 and 2006, proposing total tax deficiencies of $110 million, including $30 million of reduction in carrybacks to prior years. HP is contesting certain issues and believes it has provided adequate reserves for any tax deficiencies or reductions in tax benefit that could result from the IRS actions.

HP has not provided for U.S. federal income and foreign withholding taxes on $29.1 billion of undistributed earnings from non-U.S. operations as of October 31, 2011 because HP intends to reinvest such earnings indefinitely outside of the United States. If HP were to distribute these earnings, foreign tax credits may become available under current law to reduce the resulting U.S. income tax liability. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. HP will remit non-indefinitely reinvested earnings of its non-US subsidiaries for which deferred U.S. federal and withholding taxes have been provided where excess cash has accumulated and it determines that it is advantageous for business operations, tax or cash management reasons.

Note 15: Stockholders' Equity

Dividends

The stockholders of HP common stock are entitled to receive dividends when and as declared by HP's Board of Directors. Dividends are paid quarterly. Dividends declared were $0.40 per common share in fiscal 2011 and $0.32 per common share in each of fiscal 2010 and 2009.

Share Repurchase Program

HP's share repurchase program authorizes both open market and private repurchase transactions. In fiscal 2011, HP executed share repurchases of 259 million shares. Repurchases of 262 million shares were settled for $10.1 billion, which included 4 million shares repurchased in transactions that were executed in fiscal 2010 but settled in fiscal 2011. HP had no shares repurchased in the fourth quarter of fiscal 2011 that will be settled in the next fiscal year. In fiscal 2010, HP executed share repurchases of 241 million shares. Repurchases of 240 million shares were settled for $11.0 billion, which included

Table of Contents

Note 15: Stockholders' Equity (Continued)

3 million shares repurchased in transactions that were executed in fiscal 2009 but settled in fiscal 2010. In fiscal 2009, HP completed share repurchases of approximately 120 million shares. Repurchases of approximately 132 million shares were settled for $5.1 billion, which included approximately 14 million shares repurchased in transactions that were executed in fiscal 2008 but settled in fiscal 2009. The foregoing shares repurchased and settled in fiscal 2011, fiscal 2010 and fiscal 2009 were all open market repurchase transactions.

In fiscal 2011, HP's Board of Directors authorized an additional $10 billion for future share repurchases. In fiscal 2010, HP's Board of Directors authorized an additional $18.0 billion for future share repurchases. In fiscal 2009, there was no additional authorization for future share repurchases by HP's Board of Directors. As of October 31, 2011, HP had remaining authorization of approximately $10.8 billion for future share repurchases.

Comprehensive Income

The changes in the components of other comprehensive income, net of taxes, were as follows for the following fiscal years ended October 31:

	2011	2010	2009
	In millions		
Net earnings	$7,074	$8,761	$ 7,660
Net change in unrealized gains on available-for-sale securities:			
Change in net unrealized gains with no tax effect in fiscal 2011, net of tax of $9 million in fiscal 2010 and net of tax of $11 million in fiscal 2009	17	16	17
Net unrealized gains reclassified into earnings, with no tax effect	—	—	(1)
	17	16	16
Net change in unrealized gains (losses) on cash flow hedges:			
Unrealized (losses) gains recognized in OCI, net of tax benefit of $86 million in fiscal 2011, net of tax of $119 million in fiscal 2010 and net of tax benefit of $362 million in fiscal 2009	(288)	250	(540)
Losses (gains) reclassified into income, net of tax benefit of $210 million in fiscal 2011, net of tax of $149 million in fiscal 2010 and net of tax of $187 million in fiscal 2009	448	(282)	(431)
	160	(32)	(971)
Net change in cumulative translation adjustment, net of tax of $20 million in fiscal 2011, net of tax of $31 million in fiscal 2010 and net of tax of $227 million in fiscal 2009	46	28	304
Net change in unrealized components of defined benefit plans, net of tax benefit of $229 million in fiscal 2011, $83 million in fiscal 2010 and $905 million in fiscal 2009	116	(602)	(2,531)
Comprehensive income	$7,413	$8,171	$ 4,478

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 15: Stockholders' Equity (Continued)

The components of accumulated other comprehensive loss, net of taxes, were as follows for the following fiscal years ended October 31:

	2011	2010	2009
		In millions	
Net unrealized gain on available-for-sale securities	$ 37	$ 20	$ 4
Net unrealized loss on cash flow hedges	(41)	(201)	(169)
Cumulative translation adjustment	(385)	(431)	(459)
Unrealized components of defined benefit plans	(3,109)	(3,225)	(2,623)
Accumulated other comprehensive loss	$ (3,498)	$ (3,837)	$ (3,247)

Note 16: Retirement and Post-Retirement Benefit Plans

Defined Benefit Plans

HP sponsors a number of defined benefit pension plans worldwide, of which the most significant are in the United States. Both the HP Retirement Plan (the "Retirement Plan"), a traditional defined benefit pension plan based on pay and years of service, and the HP Company Cash Account Pension Plan (the "Cash Account Pension Plan"), under which benefits are accrued pursuant to a cash accumulation account formula based upon a percentage of pay plus interest, were frozen effective January 1, 2008. The Cash Account Pension Plan and the Retirement Plan were merged in 2005 for certain funding and investment purposes. The merged plan is referred to as the HP Pension Plan.

Following the acquisition of EDS on August 26, 2008, HP announced that it was modifying the EDS U.S. qualified and non-qualified plans for employees accruing benefits under those plans. Effective January 1, 2009, EDS employees in the U.S. ceased accruing pension benefits, and the final pension benefit for EDS employees who retire on and after that date will be calculated based on pay and service through December 31, 2008.

Effective October 30, 2009, the EDS U.S. qualified pension plan was also merged into the HP Pension Plan. The EDS U.S. qualified pension plan, like the Cash Account Pension Plan and the Retirement Plan, remains a separate sub-plan within the HP Pension Plan for purposes of determining benefit amounts. As a result, the merger had no impact on the separate benefit structures of the plans.

HP reduces the benefit payable to a U.S. employee under the Retirement Plan for service before 1993, if any, by any amounts due to the employee under HP's frozen defined contribution Deferred Profit-Sharing Plan (the "DPSP"). HP closed the DPSP to new participants in 1993. The DPSP plan obligations are equal to the plan assets and are recognized as an offset to the Pension Plan when HP calculates its defined benefit pension cost and obligations. The fair value of plan assets and projected

Table of Contents

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

benefit obligations for the U.S. defined benefit plans combined with the DPSP are as follows for the following fiscal years ended October 31:

	2011		2010	
	Plan Assets	Projected Benefit Obligation	Plan Assets	Projected Benefit Obligation
	In millions			
U.S. defined benefit plans	$ 10,662	$ 11,945	$ 9,427	$ 10,902
DPSP	945	945	927	927
Total	$ 11,607	$ 12,890	$ 10,354	$ 11,829

Post-Retirement Benefit Plans

Through fiscal 2005, substantially all of HP's U.S. employees at December 31, 2002 could become eligible for partially subsidized retiree medical benefits and retiree life insurance benefits under the Pre-2003 HP Retiree Medical Program (the "Pre-2003 Program") and certain other retiree medical programs. Plan participants in the Pre-2003 Program make contributions based on their choice of medical option and length of service. U.S. employees hired or rehired on or after January 1, 2003 may become eligible to participate in a post-retirement medical plan, the HP Retiree Medical Program, but must bear the full cost of their participation. Effective January 1, 2006, employees whose combination of age and years of service was less than 62 were no longer eligible for the subsidized Pre-2003 Program, but instead were eligible for the HP Retiree Medical Program. Employees no longer eligible for the Pre-2003 Program, as well as employees hired on or after January 1, 2003, are eligible for certain credits under the HP Retirement Medical Savings Account Plan ("RMSA Plan") upon attaining age 45. Upon retirement, former employees may use credits under the RMSA Plan for the reimbursement of certain eligible medical expenses, including premiums required for coverage under the HP Retiree Medical Program. In February 2007, HP further limited future eligibility for the Pre-2003 HP Retiree Medical Program to those employees who were within five years of satisfying the program's retirement criteria on June 30, 2007. Employees not meeting the modified program criteria may become eligible for participation in the HP Retiree Medical Program. In November 2008, HP announced that it was changing the limits on future cost-sharing for the Pre-2003 Program whereby all future cost increases will be paid by participating retirees starting in 2011. In June 2008, HP modified the RMSA Plan to provide that generally only those employees who were employed with HP as of July 31, 2008 would be eligible to receive employer credits. In September 2008, HP further modified the RMSA Plan to provide that such employees would receive employer credits only in the form of matching contributions.

HP currently collects a retiree drug subsidy from the U.S. federal government relating to the retiree prescription drug benefits that it provides. Collecting the retiree drug subsidy is one of several alternatives under Medicare Part D that employers have in financing these benefits. In March 2010, HP decided to contract with a prescription drug plan, leveraging the employer group waiver plan process, to provide group benefits under Medicare Part D as an alternative to collecting the retiree drug subsidy. This change in retiree prescription drug financing strategy will take effect in 2013, and, due to the health care reform legislation enacted in March 2010, is expected to give HP access to greater U.S. federal subsidies over time to help pay for retiree benefits. Aside from this impact, the health care

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

reform legislation is not expected to affect the cost of HP's retiree welfare programs because the subsidy offered by HP to retiree participants is fixed.

During fiscal year 2010, HP also announced the elimination of company-paid retiree life insurance effective January 1, 2011.

Defined Contribution Plans

HP offers various defined contribution plans for U.S. and non-U.S. employees. Total defined contribution expense was $626 million in fiscal 2011, $535 million in fiscal 2010 and $568 million in fiscal 2009. U.S. employees are automatically enrolled in the Hewlett-Packard Company 401(k) Plan (the "HP 401(k) Plan") when they meet eligibility requirements, unless they decline participation. Similar to HP, EDS offered participation in defined contribution plans for U.S. and non-U.S. employees, including an EDS 401(k) Plan.

At the time of the EDS acquisition in August 2008, the employer match for the EDS 401(k) Plan was 25% of the employee contribution based on a maximum contribution of 6% of the employee's salary. Effective January 1, 2009, U.S. employees participating in the EDS 401(k) Plan became eligible for a 4% matching contribution on eligible compensation. Similar to the HP 401(k) Plan, contributions are invested at the direction of the employee in various funds, although the EDS 401(k) Plan does not offer an HP stock fund.

Effective April 1, 2009, HP matching contributions under both the HP 401(k) Plan and the EDS 401(k) Plan were changed to a quarterly, discretionary, performance-based match of up to a maximum of 4% of eligible compensation for all U.S. employees to be determined each fiscal quarter based on business results. HP's matching contributions for each of the subsequent quarters in fiscal 2009 and all of the quarters in fiscal 2010 were 100% of the maximum 4% match. Effective at the beginning of fiscal 2011, the quarterly employer matching contributions in the HP 401(k) Plan and the EDS 401(k) Plan were no longer discretionary, but equal to 100% of an employee's contributions, up to a maximum of 4% of eligible compensation. Effective December 31, 2010, the EDS 401(k) Plan was merged into the HP 401(k) Plan.

Effective January 31, 2004, HP designated the HP Stock Fund, an investment option under the HP 401(k) Plan, as an employee stock ownership plan and, as a result, participants in the HP Stock Fund may receive dividends in cash or may reinvest such dividends into the HP Stock Fund. HP paid approximately $8 million, $7 million and $8 million in dividends for the HP common shares held by the HP Stock Fund in fiscal 2011, 2010 and 2009, respectively. HP records the dividends as a reduction of retained earnings in the Consolidated Statements of Stockholders' Equity. The HP Stock Fund held approximately 21 million shares of HP common stock at October 31, 2011.

Table of Contents

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Pension and Post-Retirement Benefit Expense

HP's net pension and post-retirement benefit cost (gain) recognized in the Consolidated Statements of Earnings was as follows for the following fiscal years ended October 31:

	U.S. Defined Benefit Plans			Non-U S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
	In millions								
Service cost	$ 1	$ 1	$ 27	$ 343	$ 319	$ 312	$ 9	$ 12	$ 14
Interest cost	594	578	592	694	657	619	35	47	70
Expected return on plan assets	(744)	(662)	(533)	(890)	(756)	(669)	(37)	(32)	(32)
Amortization and deferrals:									
Actuarial loss (gain)	33	27	(72)	235	214	71	3	14	6
Prior service benefit	—	—	—	(14)	(11)	(9)	(83)	(87)	(78)
Net periodic benefit cost	(116)	(56)	14	368	423	324	(73)	(46)	(20)
Curtailment (gain) loss	—	—	—	—	(6)	5	—	(13)	(2)
Settlement loss (gain)	3	7	(1)	9	7	12	—	—	—
Special termination benefits	—	—	—	16	29	55	—	—	—
Net benefit (gain) cost	$(113)	$ (49)	$ 13	$ 393	$ 453	$ 396	$(73)	$(59)	$(22)

The weighted-average assumptions used to calculate net benefit cost were as follows for the following fiscal years ended October 31:

	U.S. Defined Benefit Plans			Non-U S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Discount rate	5.6%	5.9%	8.0%	4.4%	5.0%	6.0%	4.4%	5.4%	8.2%
Average increase in compensation levels	2.0%	2.0%	2.0%	2.5%	2.5%	2.6%	—	—	—
Expected long-term return on assets	8.0%	8.0%	7.5%	6.8%	7.0%	6.9%	10.5%	9.5%	9.3%

Table of Contents

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Funded Status

The funded status of the defined benefit and post-retirement benefit plans was as follows for the following fiscal years ended October 31:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2011	2010	2011	2010	2011	2010
	In millions					
Change in fair value of plan assets:						
Fair value—beginning of year	$ 9,427	$ 8,371	$ 12,760	$ 11,325	$ 374	$ 352
Acquisition/addition/(deletion) of plans	—	—	51	—	—	—
Actual return on plan assets	1,389	1,224	20	1,430	56	56
Employer contributions	279	290	458	482	24	25
Participants' contributions	—	—	65	72	55	49
Benefits paid	(424)	(440)	(450)	(366)	(115)	(108)
Settlements	(9)	(18)	(49)	(73)	—	—
Currency impact	—	—	325	(110)	—	—
Fair value—end of year	10,662	9,427	13,180	12,760	394	374
Change in benefit obligation:						
Projected benefit obligation—beginning of year	$ 10,902	$ 10,034	$ 16,089	$ 14,144	$ 845	$ 992
Acquisition/addition/(deletion) of plans	—	—	36	5	9	—
Service cost	1	1	343	319	9	12
Interest cost	594	578	694	658	35	47
Participants' contributions	—	—	65	72	55	49
Actuarial loss (gain)	881	747	(632)	1,514	(23)	(120)
Benefits paid	(424)	(440)	(450)	(366)	(115)	(109)
Plan amendments	—	—	(154)	(26)	—	(28)
Curtailment	—	—	—	(12)	—	—
Settlement	(9)	(18)	(50)	(73)	—	—
Special termination benefits	—	—	16	29	—	—
Currency impact	—	—	371	(175)	1	2
Projected benefit obligation—end of year	11,945	10,902	16,328	16,089	816	845
Plan assets less than benefit obligation	(1,283)	(1,475)	(3,148)	(3,329)	(422)	(471)
Net amount recognized	$ (1,283)	$ (1,475)	$ (3,148)	$ (3,329)	$ (422)	$ (471)
Accumulated benefit obligation	$ 11,943	$ 10,900	$ 15,413	$ 15,204		

Table of Contents

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

The net amounts recognized for HP's defined benefit and post-retirement benefit plans in HP's Consolidated Balance Sheets as of October 31, 2011 and October 31, 2010 were as follows:

	U S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2011	2010	2011	2010	2011	2010
	In millions					
Non-current assets	$ —	$ —	$ 418	$ 95	$ —	$ —
Current liability	(32)	(30)	(43)	(37)	(30)	(39)
Non-current liability	(1,251)	(1,445)	(3,523)	(3,387)	(392)	(432)
Net amount recognized	$ (1,283)	$ (1,475)	$ (3,148)	$ (3,329)	$ (422)	$ (471)

The following table summarizes the pretax net experience loss (gain) and prior service benefit recognized in accumulated other comprehensive (income) loss for the company's defined benefit and post-retirement benefit plans as of October 31, 2011.

	U.S. Defined Benefit Plans	Non-U S. Defined Benefit Plans	Post-Retirement Benefit Plans
	In millions		
Net experience loss (gain)	$ 1,020	$ 3,949	$ (48)
Prior service benefit	—	(268)	(349)
Total recognized in accumulated other comprehensive loss (income)	$ 1,020	$ 3,681	$ (397)

The following table summarizes the experience loss and prior service benefit that will be amortized from accumulated other comprehensive income and recognized as components of net periodic benefit cost (credit) during the next fiscal year.

	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans
	In millions		
Net experience loss	$ 43	$ 252	$ (4)
Prior service benefit	—	(25)	(87)
Total to be recognized in accumulated other comprehensive loss (income)	$ 43	$ 227	$ (91)

The weighted-average assumptions used to calculate the benefit obligation disclosed as of the 2011 and 2010 fiscal close were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2011	2010	2011	2010	2011	2010
Discount rate	4.8%	5.6%	4.5%	4.4%	4.4%	4.4%
Average increase in compensation levels	2.0%	2.0%	2.5%	2.5%	—	—

Table of Contents

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Defined benefit plans with projected benefit obligations exceeding the fair value of plan assets were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans	
	2011	2010	2011	2010
	In millions			
Aggregate fair value of plan assets	$ 10,662	$ 9,427	$ 9,851	$ 11,907
Aggregate projected benefit obligation	$ 11,945	$ 10,902	$ 13,418	$ 15,331

Defined benefit plans with accumulated benefit obligations exceeding the fair value of plan assets were as follows:

	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans	
	2011	2010	2011	2010
	In millions			
Aggregate fair value of plan assets	$ 10,662	$ 9,427	$ 8,465	$ 10,529
Aggregate accumulated benefit obligation	$ 11,943	$ 10,900	$ 11,323	$ 13,140

Table of Contents

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Fair Value Considerations

The table below sets forth the fair value of our plan assets as of October 31, 2011 by asset category, using the same three-level hierarchy of fair-value inputs described in Note 9.

	U.S. Defined Benefit Plans				Non-U S. Defined Benefit Plans				Post-Retirement Benefit Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	In millions											
Asset Category:												
Equity securities												
U S	$ 974	$ —	$ —	$ 974	$ 1,140	$ 200	$ 30	$ 1,370	$ 16	$ —	$ —	$ 16
Non-U S	850	—	—	850	4,066	354	—	4,420	7	—	—	7
Debt securities												
Corporate	—	3,031	—	3,031	2,254	694	3	2,951	—	22	—	22
Government(1)	1,801	1,331	—	3,132	810	465	—	1,275	5	22	—	27
Alternative Investments												
Private Equities(2)	3	—	1,356	1,359	—	1	20	21	—	—	227	227
Hybrids	—	—	4	4	—	790	—	790	—	—	1	1
Hedge Funds	—	—	—	—	107	152	300	559	—	—	—	—
Real Estate Funds	—	—	—	—	349	138	199	686	—	—	—	—
Insurance Group Annuity Contracts	—	—	—	—	16	46	89	151	—	—	—	—
Common Collective Trusts and 103-12 Investment Entities	—	843	—	843	—	—	—	—	—	21	—	21
Registered Investment Companies(3)	206	375	—	581	—	—	—	—	69	7	—	76
Cash and Cash Equivalents(4)	(4)	68	—	64	573	8	(4)	577	—	2	—	2
Other(5)	(117)	(59)	—	(176)	217	144	19	380	(5)	—	—	(5)
Total	$ 3,713	$ 5,589	$ 1,360	$ 10,662	$ 9,532	$ 2,992	$ 656	$ 13,180	$ 92	$ 74	$ 228	$ 394

(1) Includes debt issued by national, state and local governments and agencies

(2) Includes limited partnerships and venture capital partnerships

(3) Includes cash and cash equivalents, equities, and fixed income investments

(4) Includes cash and cash equivalents such as short-term marketable securities

(5) Includes international insured contracts, derivative instruments and unsettled transactions

Table of Contents

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Changes in fair value measurements of Level 3 investments during the year ended October 31, 2011, were as follows:

	U.S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans									Post-Retirement Benefit Plans		
	Alternative Investments			Equity	Debt Securities	Alternative Investments							Alternative Investments		
	Private Equities	Hybrids	Total	US Equities	Corporate Debt	Private Equities	Hedge Funds	Real Estate	Insurance Group Annuities	Cash	Other	Total	Private Equities	Hybrids	Total
	In millions														
Beginning balance at October 31, 2010	$ 1,034	$ 6	$1,040	$ 64	$ 6	$ 14	$ 231	$ 225	$ 74	$ —	$ 2	$616	$ 154	$ 1	$155
Actual return on plan assets:															
Relating to assets still held at the reporting date	127	—	127	30	—	3	(26)	(26)	17	—	—	(2)	32	—	32
Relating to assets sold during the period	154	1	155	—	—	—	—	—	—	—	(1)	(1)	18	—	18
Purchases, sales, settlements (net)	(29)	(1)	(30)	—	1	3	30	—	(18)	—	(1)	15	23	—	23
Transfers in and/or out of Level 3	70	(2)	68	(64)	(4)	—	65	—	16	(4)	19	28	—	—	—
Ending balance at October 31, 2011	$ 1,356	$ 4	$1,360	$ 30	$ 3	$ 20	$ 300	$ 199	$ 89	$ (4)	$ 19	$656	$ 227	$ 1	$228

The table below sets forth the fair value of our plan assets as of October 31, 2010 by asset category, using the same three-level hierarchy of fair-value inputs described in Note 9.

	U.S. Defined Benefit Plans				Non-U.S. Defined Benefit Plans				Post-Retirement Benefit Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	In millions											
Asset Category:												
Equity securities												
U S	$1,460	$ 4	$ —	$1,464	$1,028	$ 195	$ 64	$ 1,287	$ 68	$ —	$ —	$ 68
Non-U S	1,193	—	—	1,193	5,265	652	—	5,917	40	—	—	40
Debt securities												
Corporate	—	2,931	—	2,931	2,031	887	6	2,924	—	57	—	57
Government(1)	1,314	992	—	2,306	626	376	—	1,002	14	30	—	44
Alternative Investments												
Private Equities(2)	2	—	1,034	1,036	—	—	14	14	—	—	154	154
Hybrids	—	—	6	6	3	18	—	21	—	—	1	1
Hedge Funds	—	—	—	—	102	7	231	340	—	—	—	—
Real Estate Funds	—	—	—	—	363	171	225	759	—	—	—	—
Insurance Group Annuity Contracts	—	—	—	—	17	54	74	145	—	—	—	—
Cash and Cash Equivalents(3)	7	484	—	491	305	27	—	332	5	5	—	10
Other(4)	—	—	—	—	7	10	2	19	—	—	—	—
Total	$3,976	$4,411	$1,040	$9,427	$9,747	$2,397	$ 616	$12,760	$ 127	$ 92	$ 155	$374

(1) Includes debt issued by national, state and local governments and agencies

(2) Includes limited partnerships and venture capital partnerships

(3) Includes cash and cash equivalents such as short-term marketable securities

(4) Includes international insured contracts and unsettled transactions

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Changes in fair value measurements of Level 3 investments during the year ended October 31, 2010, were as follows:

	U S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans								Post-Retirement Benefit Plans		
	Alternative Investments			Equity	Debt Securities	Alternative Investments						Alternative Investments		
	Private Equities	Hybrids	Total	US Equities	Corporate Debt	Private Equities	Hedge Funds	Real Estate	Insurance Group Annuities	Other	Total	Private Equities	Hybrids	Total
	In millions													
Beginning balance at October 31, 2009	$ 911	$ 20	$ 931	$ —	$ —	$ 10	$ 49	$ 219	$ 74	$ 2	$ 354	$ 135	$ 3	$ 138
Actual return on plan assets:														
Relating to assets still held at the reporting date	—	—	—	(4)	—	1	26	19	3	—	45	19	(2)	17
Relating to assets sold during the period	—	—	—	—	—	—	8	3	(1)	—	10	—	—	—
Purchases, sales, settlements (net)	123	(14)	109	68	5	3	148	(16)	(2)	—	206	—	—	—
Transfers in and/or out of Level 3	—	—	—	—	1	—	—	—	—	—	1	—	—	—
Ending balance at October 31, 2010	$ 1,034	$ 6	$ 1,040	$ 64	$ 6	$ 14	$ 231	$ 225	$ 74	$ 2	$ 616	$ 154	$ 1	$ 155

Plan Asset Valuations

The following is a description of the valuation methodologies used for pension plan assets measured at fair value. There have been no changes in the methodologies used during the reporting period.

Investments in securities are valued at the closing price reported on the stock exchange in which the individual securities are traded. For corporate, government and asset-backed debt securities, fair value is based upon observable inputs of comparable market transactions. For corporate and government debt securities traded on active exchanges, fair value is based upon observable quoted prices. Underlying assets for alternative investments such as limited partnerships, joint ventures and private equities are determined by the general partner or the general partner's designee on a quarter or periodic basis. Common collective trusts, interest in 103-12 entities and registered investment companies are valued at the net asset value established by the funds sponsor, based upon fair value of the assets underlying the funds. The valuation for some of these assets requires judgment due to the absence of quoted market prices, and these assets are therefore classified as Level 3. Cash and cash equivalents includes money market accounts, which are valued based on the net asset value of the shares. Other assets were valued based upon the level of input (e.g., quoted prices, observable inputs (other than Level 1) or unobservable inputs that were significant to the fair value measurement of the assets).

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Plan Asset Allocations

The weighted-average target and actual asset allocations across the HP and EDS plans at the respective measurement dates were as follows:

	U. S. Defined Benefit Plans			Non-U S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	2011 Target	Plan Assets		2011 Target	Plan Assets		2011 Target	Plan Assets	
Asset Category	Allocation	2011	2010	Allocation	2011	2010	Allocation	2011	2010
Public equity securities		23.0%	28.2%		48.2%	57.6%		12.2%	28.9%
Private equity securities		12.8%	11.1%		6.2%	2.9%		57.9%	41.4%
Real estate and other		(1.7)%	—		8.1%	6.1%		(1.3)%	—
Equity related investments	40.0%	34.1%	39.3%	67.0%	62.5%	66.6%	68.0%	68.8%	70.3%
Public debt securities	60.0%	63.3%	55.5%	31.1%	33.2%	30.8%	30.0%	27.6%	27.0%
Cash	—	2.6%	5.2%	1.9%	4.3%	2.6%	2.0%	3.6%	2.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Investment Policy

HP's investment strategy for worldwide plan assets is to seek a competitive rate of return relative to an appropriate level of risk depending on the funded status of each plan. The majority of the plans' investment managers employ active investment management strategies with the goal of outperforming the broad markets in which they invest. Risk management practices include diversification across asset classes and investment styles and periodic rebalancing toward asset allocation targets. A number of the plans' investment managers are authorized to utilize derivatives for investment or liability exposures, and HP utilizes derivatives to effect asset allocation changes or to hedge certain investment or liability exposures.

The target asset allocation selected for each U.S. plan reflects a risk/return profile HP feels is appropriate relative to each plan's liability structure and return goals. HP conducts periodic asset-liability studies for U.S. plan assets in order to model various potential asset allocations in comparison to each plan's forecasted liabilities and liquidity needs. HP invests a portion of the U.S. defined benefit plan assets and post-retirement benefit plan assets in private market securities such as venture capital funds to provide diversification and higher expected returns.

Outside the United States, asset allocation decisions are typically made by an independent board of trustees. As in the U.S., investment objectives are designed to generate returns that will enable the plan to meet its future obligations. In some countries, local regulations require adjustments in asset allocation, typically leading to a higher percentage in fixed income than would otherwise be deployed. HP's investment subsidiary acts in a consulting and governance role in reviewing investment strategy and providing a recommended list of investment managers for each country plan, with final decisions on asset allocation and investment managers made by local trustees.

Basis for Expected Long-Term Rate of Return on Plan Assets

The expected long-term rate of return on assets for each U.S. plan reflects the expected returns for each major asset class in which the plan invests and the weight of each asset class in the target mix.

Table of Contents

Note 16: Retirement and Post-Retirement Benefit Plans (Continued)

Expected asset class returns reflect the current yield on U.S. government bonds and risk premiums for each asset class. Because HP's investment policy is to employ primarily active investment managers who seek to outperform the broader market, the asset class expected returns are adjusted to reflect the expected additional returns net of fees.

HP closed the acquisition of EDS on August 26, 2008. Effective immediately before the close of fiscal 2009, HP merged the assets of the HP and EDS U.S. pension plans. The expected return on the plan assets, used in calculating the net benefit costs, is 7.6% for fiscal 2012, which reflects the result of the most recent asset allocation study and is commensurate with the investment strategy for the merged U.S. pension plan.

The approach used to arrive at the expected rate of return on assets for the non-U.S. plans reflects the asset allocation policy of each plan and the expected country real returns for equity and fixed income investments. On an annual basis, HP gathers empirical data from the local country subsidiaries to determine expected long-term rates of return for equity and fixed income securities. HP then weights these expected real rates of return based on country specific allocation mixes adjusted for inflation.

Future Contributions and Funding Policy

In fiscal 2012, HP expects to contribute approximately $597 million to its pension plans and approximately $31 million to cover benefit payments to U.S. non-qualified plan participants. HP expects to pay approximately $30 million to cover benefit claims for HP's post-retirement benefit plans. HP's funding policy is to contribute cash to its pension plans so that it meets at least the minimum contribution requirements, as established by local government, funding and taxing authorities.

Estimated Future Benefits Payable

HP estimates that the future benefits payable for the retirement and post-retirement plans in place were as follows at October 31, 2011:

	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans[(1)]
		In millions	
Fiscal year ending October 31			
2012	$ 490	$ 450	$ 72
2013	$ 489	$ 443	$ 67
2014	$ 505	$ 477	$ 66
2015	$ 534	$ 506	$ 64
2016	$ 576	$ 552	$ 63
Next five fiscal years to October 31, 2021	$ 3,336	$ 3,562	$ 286

(1) The estimated future benefits payable for the post-retirement plans are reflected net of the expected Medicare Part D subsidy.

Table of Contents

Note 17: Commitments

HP leases certain real and personal property under non-cancelable operating leases. Certain leases require HP to pay property taxes, insurance and routine maintenance and include renewal options and escalation clauses. Rent expense was approximately $1,042 million in fiscal 2011, $1,062 million in fiscal 2010 and $1,112 million in fiscal 2009. Sublease rental income was approximately $38 million in fiscal 2011, $46 million in fiscal 2010 and $53 million in fiscal 2009.

At October 31, 2011 and October 31, 2010, property under capital lease, which was comprised primarily of equipment and furniture, was approximately $577 million and $688 million, respectively, and was included in property, plant and equipment in the accompanying Consolidated Balance Sheets. Accumulated depreciation on the property under capital lease was approximately $454 million and $482 million, respectively, at October 31, 2011 and October 31, 2010. The related depreciation is included in depreciation expense.

Future annual minimum lease payments, sublease rental income commitments and capital lease commitments at October 31, 2011 were as follows:

	2012	2013	2014	2015	2016	Thereafter	Total
				In millions			
Minimum lease payments	$ 845	$ 631	$ 529	$ 407	$ 268	$ 713	$ 3,393
Less: Sublease rental income	(34)	(27)	(21)	(15)	(10)	(3)	(110)
	$ 811	$ 604	$ 508	$ 392	$ 258	$ 710	$ 3,283
Capital lease commitments	$ 82	$ 81	$ 204	$ 11	$ 7	$ 38	$ 423
Less: Interest payments	(9)	(4)	(4)	(3)	(2)	(15)	(37)
	$ 73	$ 77	$ 200	$ 8	$ 5	$ 23	$ 386

At October 31, 2011, HP had unconditional purchase obligations of approximately $2.3 billion. These unconditional purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on HP and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. Unconditional purchase obligations exclude agreements that are cancelable without penalty. These unconditional purchase obligations are related principally to inventory and other items. Future unconditional purchase obligations at October 31, 2011 were as follows:

	2012	2013	2014	2015	2016	Thereafter	Total
				In millions			
Unconditional purchase obligations	$ 2,009	$ 138	$ 45	$ 32	$ 8	$ 65	$ 2,297

Note 18: Litigation and Contingencies

HP is involved in lawsuits, claims, investigations and proceedings, including those identified below, consisting of intellectual property, commercial, securities, employment, employee benefits and environmental matters that arise in the ordinary course of business. HP records a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. HP believes it has adequate provisions for any such matters, and, as of October 31, 2011, it was not reasonably possible that an additional material loss had been incurred in an amount in excess of the amounts already recognized on HP's financial statements. HP reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Based on its experience, HP believes that any damage amounts claimed in the specific matters discussed below are not a meaningful indicator of HP's potential liability. Litigation is inherently unpredictable. However, HP believes that it has valid defenses with respect to legal matters pending against it. Nevertheless, cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Litigation, Proceedings and Investigations

Copyright levies. As described below, proceedings are ongoing or have been concluded involving HP in certain European Union ("EU") member countries, including litigation in Germany, Belgium and Austria, seeking to impose or modify levies upon equipment (such as multifunction devices ("MFDs"), personal computers ("PCs") and printers) and alleging that these devices enable producing private copies of copyrighted materials. Descriptions of some of the ongoing proceedings are included below. The levies are generally based upon the number of products sold and the per-product amounts of the levies, which vary. Some EU member countries that do not yet have levies on digital devices are expected to implement similar legislation to enable them to extend existing levy schemes, while some other EU member countries are expected to limit the scope of levy schemes and applicability in the digital hardware environment. HP, other companies and various industry associations have opposed the extension of levies to the digital environment and have advocated alternative models of compensation to rights holders.

VerwertungsGesellschaft Wort ("VG Wort"), a collection agency representing certain copyright holders, instituted legal proceedings against HP in the Stuttgart Civil Court seeking levies on printers. On December 22, 2004, the court held that HP is liable for payments regarding all printers using ASCII code sold in Germany but did not determine the amount payable per unit. HP appealed this decision in January 2005 to the Stuttgart Court of Appeals. On May 11, 2005, the Stuttgart Court of Appeals issued a decision confirming that levies are due. On June 6, 2005, HP filed an appeal to the German Federal Supreme Court in Karlsruhe. On December 6, 2007, the German Federal Supreme Court issued a judgment that printers are not subject to levies under the existing law. The court issued a written decision on January 25, 2008, and VG Wort subsequently filed an application with the German Federal Supreme Court under Section 321a of the German Code of Civil Procedure contending that the court did not consider their arguments. On May 9, 2008, the German Federal Supreme Court denied VG Wort's application. VG Wort appealed the decision by filing a claim with the German Federal Constitutional Court challenging the ruling that printers are not subject to levies. On September 21, 2010, the Constitutional Court published a decision holding that the German Federal Supreme Court erred by not referring questions on interpretation of German copyright law to the Court of Justice of the European Union ("CJEU") and therefore revoked the German Federal

Note 18: Litigation and Contingencies (Continued)

Supreme Court decision and remitted the matter to it. On July 21, 2011, the German Federal Supreme Court stayed the proceedings and referred several questions to the CJEU with regard to the interpretation of the European Copyright Directive.

In September 2003, VG Wort filed a lawsuit against Fujitsu Siemens Computer GmbH ("FSC") in the Munich Civil Court in Munich, Germany seeking levies on PCs. This is an industry test case in Germany, and HP has agreed not to object to the delay if VG Wort sues HP for such levies on PCs following a final decision against FSC. On December 23, 2004, the Munich Civil Court held that PCs are subject to a levy and that FSC must pay €12 plus compound interest for each PC sold in Germany since March 2001. FSC appealed this decision in January 2005 to the Munich Court of Appeals. On December 15, 2005, the Munich Court of Appeals affirmed the Munich Civil Court decision. FSC filed an appeal with the German Federal Supreme Court in February 2006. On October 2, 2008, the German Federal Supreme Court issued a judgment that PCs were not photocopiers within the meaning of the German copyright law that was in effect until December 31, 2007 and, therefore, not subject to the levies on photocopiers established by that law. VG Wort subsequently filed a claim with the German Federal Constitutional Court challenging that ruling. In January 2011, the Constitutional Court published a decision holding that the German Federal Supreme Court decision was inconsistent with the German Constitution and revoking the German Federal Supreme Court decision. The Constitutional Court remitted the matter to the German Federal Supreme Court for further action. On July 21, 2011, the German Federal Supreme Court stayed the proceedings and referred several questions to the CJEU with regard to the interpretation of the European Copyright Directive.

Reprobel, a cooperative society with the authority to collect and distribute the remuneration for reprography to Belgian copyright holders, requested HP by extra-judicial means to amend certain copyright levy declarations submitted for inkjet MFDs sold in Belgium from January 2005 to December 2009 to enable it to collect copyright levies calculated based on the generally higher copying speed when the MFDs are operated in draft print mode rather than when operated in normal print mode. In March 2010, HP filed a lawsuit against Reprobel in the French-speaking chambers of the Court of First Instance of Brussels seeking a declaratory judgment that no copyright levies are payable on sales of MFDs in Belgium or, alternatively, that copyright levies payable on such MFDs must be assessed based on the copying speed when operated in the normal print mode set by default in the device. The schedule for the court proceedings has been determined, and no decision from the court is expected before September 2012.

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

Skold, et al. v. Intel Corporation and Hewlett-Packard Company is a lawsuit in which HP was joined on June 14, 2004 that is pending in state court in Santa Clara County, California. The lawsuit alleges that Intel Corporation ("Intel") misled the public by suppressing and concealing the alleged material fact that systems that use the Intel Pentium 4 processor are less powerful and slower than systems using the Intel Pentium III processor and processors made by a competitor of Intel. The lawsuit alleges that HP aided and abetted Intel's allegedly unlawful conduct. The plaintiffs seek unspecified damages,

Note 18: Litigation and Contingencies (Continued)

restitution, attorneys' fees and costs, and certification of a nationwide class. On February 27, 2009, the court denied with prejudice plaintiffs' motion for nationwide class certification for a third time. On August 31, 2011, the California Court of Appeal reversed the trial court's denial of class certification and remanded the case back to the trial court for further proceedings. On November 23, 2011, plaintiffs filed a motion seeking to certify a nationwide class asserting claims under the California Consumers Legal Remedies Act and the California Unfair Competition Law. A hearing on plaintiffs' motion is currently scheduled for March 2, 2012.

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

- A consolidated lawsuit captioned *In re HP Inkjet Printer Litigation* is pending in the United States District Court for the Northern District of California where the plaintiffs are seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees. On January 4, 2008, the court heard plaintiffs' motions for class certification and to add a class representative and HP's motion for summary judgment. On July 25, 2008, the court denied all three motions. On March 30, 2009, the plaintiffs filed a renewed motion for class certification. A hearing on the plaintiffs' motion for class certification scheduled for April 9, 2010 was postponed.

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

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

- Two class actions against HP and its subsidiary, Hewlett-Packard (Canada) Co., are pending in Canada, one commenced in British Columbia in February 2006 and one commenced in Ontario in June 2006, where the plaintiffs are seeking class certification, restitution, declaratory relief, injunctive relief and unspecified statutory, compensatory and punitive damages.

On August 25, 2010, HP and the plaintiffs in *In re HP Inkjet Printer Litigation*, *Blennis v. HP* and *Rich v. HP* entered into an agreement to settle those lawsuits on behalf of the proposed classes, which agreement is subject to approval of the court before it becomes final. Under the terms of the proposed settlement, the lawsuits will be consolidated, and eligible class members will each have the right to

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 18: Litigation and Contingencies (Continued)

obtain e-credits not to exceed $5 million in the aggregate for use in purchasing printers or printer supplies through HP's website. As part of the proposed settlement, HP also agreed to provide class members with additional information regarding HP inkjet printer functionality and to change the content of certain software and user guide messaging provided to users regarding the life of inkjet printer cartridges. In addition, class counsel and the class representatives will be paid attorneys' fees and expenses and stipends. On March 29, 2011, the court granted final approval of the settlement. On April 27, 2011, certain class members who objected to the settlement filed an appeal of the court's order granting final approval of the settlement.

Goldblatt v. HP is a consumer class action filed against HP on December 1, 2011 in the United States District Court for the Northern District of California alleging that HP printers have a design defect in the software installed on the printers which could allow hackers and unauthorized users to gain access to the printers, steal personal and confidential information from consumers and otherwise control and cause physical damage to the printers. The plaintiff also alleges that HP was aware of this security vulnerability and failed to disclose it to consumers. The complaint seeks certification of a nationwide class of purchasers of all HP printers and seeks unspecified damages, restitution, punitive damages, injunctive relief, attorneys' fees and costs.

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

- *Cunningham and Cunningham, et al. v. Electronic Data Systems Corporation* is a purported collective action filed on May 10, 2006 in the U.S. District Court for the Southern District of New York claiming that current and former EDS employees allegedly involved in installing and/or maintaining computer software and hardware were misclassified as exempt employees. Another purported collective action, *Steavens, et al. v. Electronic Data Systems Corporation*, which was filed on October 23, 2007, is also now pending in the same court alleging similar facts. The *Steavens* case has been consolidated for pretrial purposes with the *Cunningham* case. On December 14, 2010, the court granted conditional certification of a class consisting of employees in 20 legacy EDS job codes in the consolidated *Cunningham* and *Steavens* matter. Plaintiffs also allege various state law class claims for misclassification, but plaintiffs have not yet sought class certification for those.

- *Heffelfinger, et al. v. Electronic Data Systems Corporation* is a class action filed in November 2006 in California Superior Court claiming that certain EDS information technology workers in California were misclassified as exempt employees. The case was subsequently transferred to the U.S. District Court for the Central District of California, which, on January 7, 2008, certified a class of information technology workers in California. On June 6, 2008, the court granted the defendant's motion for summary judgment. The plaintiffs subsequently filed an appeal with the U.S. Court of Appeals for the Ninth Circuit. A hearing on the appeal was held in August 2011, and the decision is pending. Two other purported class actions originally filed in California Superior Court, *Karlbom, et al. v. Electronic Data Systems Corporation*, which was filed on March 16, 2009, and *George, et al. v. Electronic Data Systems Corporation*, which was filed on April 2, 2009, allege similar facts. The *Karlbom* case is pending in San Diego County Superior

Note 18: Litigation and Contingencies (Continued)

Court but has been temporarily stayed based on the pending *Steavens* consolidated matter. The *George* case was pending in the U.S. District Court for the Southern District of New York and had been consolidated for pretrial purposes with the *Cunningham* and *Steavens* cases. On September 9, 2011, the court granted a request by the plaintiffs' counsel in the *George* matter to amend the plaintiffs' complaint and sever the case from the *Steavens* consolidated matter. The plaintiff thereafter filed his first amended complaint on October 21, 2011. On November 23, 2011, the court transferred the *George* matter back to the U.S. District Court for the Central District of California.

- *Blake, et al. v. Hewlett-Packard Company* is a purported collective action filed on February 17, 2011 in the U.S. District Court for the Southern District of Texas claiming that a class of information technology and help desk support personnel were misclassified as exempt employees. No substantive rulings have been made in the case.

In addition to the above matters, on May 24, 2011, a purported collective action captioned *Fenn, et al. v. Hewlett-Packard Company* was filed in the United States District Court for the District of Idaho. The suit alleges that customer service representatives working in HP's U.S. call centers are not paid for time spent on start-up and shut-down tasks (such as booting up and shutting down their computers) in violation of the Fair Labor Standards Act. On December 12, 2011, the court denied plaintiff's motion for conditional class certification.

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

- On April 30 and May 10, 2010, the DRI issued show cause notices to HPI, seven current HP employees and one former HP employee alleging that HP has underpaid customs duties while importing products and spare parts into India and seeking to recover an aggregate of approximately \$370 million, plus penalties. On June 2, 2010, the DRI issued an additional show cause notice to HPI and three current HPI employees alleging that HP failed to pay customs duties on the appropriate value of recovery CDs containing Microsoft operating systems and seeking to recover approximately \$5.3 million, plus penalties. HP has deposited a total of approximately \$16.7 million with the DRI and agreed to post a provisional bond in exchange for the DRI's agreement not to seize HP products and spare parts and not to interrupt the transaction of business by HP in India.

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

- On October 1, 2010, in connection with an existing DRI investigation commenced against SAP AG, the DRI issued a show cause notice to HPI alleging underpayment of customs duties related to the importation of certain SAP software. The amount of the alleged duty differential

Note 18: Litigation and Contingencies (Continued)

is approximately $38,000, which amount has been deposited with the DRI. The DRI is also seeking to impose interest and penalties.

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

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

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

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

HP is cooperating with these investigating agencies.

ECT Proceedings. In January 2011, the postal service of Brazil, Empresa Brasileira de Correios e Telégrafos ("ECT"), notified HP that it had initiated administrative proceedings against an HP subsidiary in Brazil ("HP Brazil") to consider whether to suspend HP Brazil's right to bid and contract with ECT related to alleged improprieties in the bidding and contracting processes whereby employees of HP Brazil and employees of several other companies coordinated their bids for three ECT contracts in 2007 and 2008. In late July 2011, ECT notified HP it had decided to apply the penalties against HP Brazil, suspending HP Brazil's right to bid and contract with ECT for five years, based upon the evidence before it. In August 2011, HP filed petitions with ECT requesting that the decision be revoked and seeking injunctive relief to have the application of the penalties suspended until a final, non-appealable decision is made on the merits of the case. HP is currently awaiting a response from ECT on both petitions. Because ECT did not rule on the substance of HP's petitions in a timely manner, HP filed a lawsuit seeking similar relief from the court. The court of first instance has not decided the merits of HP's lawsuit, but has denied HP's request for injunctive relief suspending application of the penalties pending a final, non-appealable decision on the merits of the case. HP has appealed the denial of its request for injunctive relief, and that appeal is pending before the intermediate appellate court. The reporting judge assigned by the intermediate appellate court has issued a preliminary ruling denying the request for injunctive relief and reducing the length of the sanctions from five to two years. A decision by the intermediate appellate court is expected in early 2012.

Table of Contents

Note 18: Litigation and Contingencies (Continued)

Stockholder Litigation. As described below, HP is involved in stockholder litigation commenced against certain current and former HP executive officers and certain current and former members of the HP Board of Directors in which the plaintiffs are seeking to recover certain compensation paid by HP to the defendants and other damages:

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

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

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

- *Richard Gammel v. Hewlett-Packard Company, et al.*, is a putative securities class action filed on September 13, 2011 in the United States Court for the Central District of California alleging, among other things, that from November 22, 2010 to August 18, 2011, the defendants violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934 by concealing material information and making false statements about HP's business model and the future of webOS, the TouchPad and HP's PC business.

- *Ernesto Espinoza v. Léo Apotheker, et al.*, is a lawsuit filed on September 21, 2011 in the United States Court for the Central District of California alleging, among other things, that the defendants violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934 by concealing material information and making false statements about HP's business model and the future of webOS, the TouchPad and HP's PC business. The lawsuit also alleges that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched when they authorized the Company's repurchase of its own stock on August 29, 2010 and July 21, 2011.

- *Larry Salat v. Léo Apotheker, et al.*, is a lawsuit filed on September 21, 2011 in the United States Court for the Central District of California alleging, among other things, that the defendants violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934 by concealing material information and making false statements about HP's business model and the future of webOS, the TouchPad and HP's PC business. The lawsuit also alleges that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched when they authorized the Company's repurchase of its own stock on August 29, 2010 and July 21, 2011.

- *Luis Gonzalez v. Léo Apotheker, et al.*, is a lawsuit filed on September 29, 2011 in California Superior Court alleging, among other things, that the defendants breached their fiduciary duties,

Note 18: Litigation and Contingencies (Continued)

wasted corporate assets and were unjustly enriched by concealing material information and making false statements about HP's business model and the future of webOS, the TouchPad and HP's PC business and by authorizing the Company's repurchase of its own stock on August 29, 2010 and July 21, 2011.

- *Richard Tyner v. Léo Apotheker, et al.,* is a lawsuit filed on October 5, 2011 in California Superior Court alleging, among other things, that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched by concealing material information and making false statements about HP's business model and the future of webOS, the TouchPad and HP's PC business and by authorizing the Company's repurchase of its own stock on August 29, 2010 and July 21, 2011.

Environmental

Our operations and our products are subject to various federal, state, local and foreign laws and regulations concerning environmental protection, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, the content of its products and the recycling, treatment and disposal of its products. In particular, HP faces increasing complexity in its product design and procurement operations as it adjusts to new and future requirements relating to the chemical and materials composition of its products, their safe use, and the energy consumption associated with those products, including requirements relating to climate change. We also are subject to legislation in an increasing number of jurisdictions that makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products (sometimes referred to as "product take-back legislation"). HP could incur substantial costs, its products could be restricted from entering certain jurisdictions, and it could face other sanctions, if it were to violate or become liable under environmental laws or if its products become non-compliant with environmental laws. HP's potential exposure includes fines and civil or criminal sanctions, third-party property damage or personal injury claims and clean up costs. The amount and timing of costs under environmental laws are difficult to predict.

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

Note 19: Segment Information

Description of Segments

HP is a leading global provider of products, technologies, software, solutions and services to individual consumers, small- and medium-sized businesses ("SMB"), and large enterprises, including customers in the government, health and education sectors. Our offerings span personal computing and other access devices; multi-vendor customer services, including infrastructure technology and business process outsourcing, technology support and maintenance, application development and support services and consulting and integration services; imaging and printing-related products and services; and enterprise information technology infrastructure, including enterprise storage and server technology,

Note 19: Segment Information (Continued)

networking products and solutions, IT management software, information management solutions and security intelligence/risk management solutions.

HP and its operations are organized into seven business segments for financial reporting purposes: the Personal Systems Group ("PSG"), Services, the Imaging and Printing Group ("IPG"), Enterprise Servers, Storage and Networking ("ESSN"), HP Software, HP Financial Services ("HPFS") and Corporate Investments. HP's organizational structure is based on a number of factors that management uses to evaluate, view and run its business operations, which include, but are not limited to, customer base, homogeneity of products and technology. The business segments are based on this organizational structure and information reviewed by HP's management to evaluate the business segment results.

HP has reclassified segment operating results for fiscal 2010 and fiscal 2009 to conform to certain fiscal 2011 organizational realignments. None of the changes impacts HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share. Future changes to this organizational structure may result in changes to the business segments disclosed.

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

- *Personal Systems Group* provides commercial PCs, consumer PCs, workstations, calculators and other related accessories, software and services for the commercial and consumer markets. Commercial PCs are optimized for commercial uses, including enterprise and SMB customers, and for connectivity and manageability in networked environments. Commercial PCs include the HP ProBook and HP EliteBook lines of notebooks and the Compaq Pro, Compaq Elite, HP Pro and HP Elite lines of business desktops, as well as the All-in-One Touchsmart and Omni PCs, HP Mini-Note PCs, retail POS systems, HP Thin Clients, and HP Slate Tablet PCs. Consumer PCs include the HP and Compaq series of multi-media consumer notebooks, desktops and mini notebooks, including the TouchSmart line of touch-enabled all-in-one notebooks and desktops. HP's workstations are designed for users demanding enhanced performance, such as computer animation, engineering design and other programs requiring high-resolution graphics, and run on both Windows and Linux-based operating systems.

- *Services* provides consulting, outsourcing and technology services across infrastructure, applications and business process domains. Services is divided into four main business units: Infrastructure Technology Outsourcing, Technology Services, Applications Services and Business Process Outsourcing. Infrastructure Technology Outsourcing delivers comprehensive services that encompass the data center and the workplace (desktop); network and communications; security, compliance and business continuity; and enterprise managed services. Technology Services provides consulting and support services, including mission critical services, converged infrastructure services, networking services, data center transformation services and infrastructure services for storage, server and unified communication environments, as well as warranty support across HP's product lines. Applications Services helps clients revitalize and manage their applications assets through flexible, project-based consulting services and longer-term outsourcing contracts. These full life cycle services encompass application development, testing, modernization, system integration, maintenance and management. Business Process Outsourcing provides a broad array of enterprise shared services, customer relationship management services, financial process management services and administrative services.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 19: Segment Information (Continued)

- *Imaging and Printing Group* provides consumer and commercial printer hardware, supplies, media and scanning devices. IPG is also focused on imaging solutions in the commercial markets. These solutions range from managed print services and capturing high-value pages in areas such as industrial applications, outdoor signage, and the graphic arts business. Inkjet and Web Solutions delivers HP's consumer and SMB inkjet solutions (hardware, supplies, media, web-connected hardware and services) and develops HP's retail publishing and web businesses. It includes single function and all-in-one inkjet printers targeted toward consumers and SMBs, as well as retail publishing solutions, Snapfish and ePrintCenter. LaserJet and Enterprise Solutions delivers products, services and solutions to the medium-sized business and enterprise segments, including LaserJet printers and supplies, multi-function devices, scanners, web-connected hardware and services and enterprise software solutions, such as Exstream Software and Web Jetadmin. Managed Enterprise Solutions include managed print service products and solutions delivered to enterprise customers partnering with third-party software providers to offer workflow solutions in the enterprise environment. Graphics solutions include large format printing (Designjet and Scitex), large format supplies, WebPress supplies, Indigo printing, specialty printing systems and inkjet high-speed production solutions. HP's printer supplies offerings include LaserJet toner and inkjet printer cartridges, graphic solutions ink products and other printing-related media.

- *Enterprise Servers, Storage and Networking* provides server, storage, networking and, when combined with HP Software's Cloud Service Automation software suite, HP's CloudSystem. The CloudSystem enables infrastructure, platform and software-as-a-service in private, public or hybrid environments. Industry Standard Servers offers primarily entry-level and mid-range ProLiant servers, which run primarily Windows, Linux and Novell operating systems and leverage Intel and AMD processors. The business spans a range of product lines, including pedestal-tower servers, density-optimized rack servers and HP's BladeSystem family of server blades. Business Critical Systems offers HP Integrity servers based on the Intel Itanium-based processor as well as HP Integrity NonStop solutions. Business Critical Systems also offers scale-up x86 ProLiant Servers for scalability of systems with more than four industry standard processors. HP's Storage business offers a broad range of products including storage area networks, network attached storage, storage management software and virtualization technologies, StoreOnce data deduplication solutions, tape drives and tape libraries. HP's networking offerings include switch, router, wireless LAN and TippingPoint network security products.

- *HP Software* provides enterprise IT management software, information management solutions, and security intelligence/risk management solutions. Solutions are delivered in the form of traditional software licenses or as software-as-a-service. Augmented by support and professional services, HP Software solutions allow large IT organizations to manage infrastructure, operations, application life cycles, application quality and security, IT services, business processes, and structured and unstructured data. In addition, these solutions help businesses proactively safeguard digital assets, comply with corporate and regulatory policies, and control internal and external security risks.

- *HP Financial Services* supports and enhances HP's global product and services solutions, providing a broad range of value-added financial life cycle management services. HPFS enables HP's worldwide customers to acquire complete IT solutions, including hardware, software and services. HPFS offers leasing, financing, utility programs, and asset recovery services, as well as

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 19: Segment Information (Continued)

financial asset management services, for large global and enterprise customers. HPFS also provides an array of specialized financial services to SMBs and educational and governmental entities. HPFS offers innovative, customized and flexible alternatives to balance unique customer cash flow, technology obsolescence and capacity needs.

- *Corporate Investments* includes business intelligence solutions, HP Labs, webOS software, and certain business incubation projects. Business intelligence solutions enable businesses to standardize on consistent data management schemes, connect and share data across the enterprise and apply analytics. This segment also derives revenue from licensing specific HP technology to third parties.

Segment Data

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

Table of Contents

Note 19: Segment Information (Continued)

Selected operating results information for each business segment was as follows for the following fiscal years ended October 31:

	Total Net Revenue			Earnings (Loss) from Operations		
	2011	2010[(1)]	2009[(1)]	2011	2010[(1)]	2009[(1)]
	In millions					
Personal Systems Group	$ 39,574	$ 40,741	$ 35,305	$ 2,350	$ 2,032	$ 1,661
Services	35,954	35,529	35,380	5,149	5,661	5,102
Imaging and Printing Group	25,783	25,764	24,011	3,973	4,412	4,310
Enterprise Servers, Storage and Networking[(2)]	22,241	20,356	16,121	3,026	2,825	1,657
HP Software[(3)]	3,217	2,729	2,655	698	782	731
HP Financial Services	3,596	3,047	2,673	348	281	206
Corporate Investments[(4)]	322	346	191	(1,616)	(366)	(300)
Segment total	$130,687	$128,512	$116,336	$ 13,928	$ 15,627	$ 13,367

(1) Certain fiscal 2011 organizational reclassifications have been reflected retroactively to provide improved visibility and comparability. In fiscal 2010 and fiscal 2009, the reclassifications resulted in the transfer of revenue and operating profit among ESSN, HP Software, Services and Corporate Investments. Reclassifications between segments included the transfer of the networking business from Corporate Investments to ESSN, the transfer of the communications and media solutions business from HP Software to Services, and the transfer of the business intelligence business from HP Software to Corporate Investments. There was no impact on the previously reported financial results for PSG, HPFS or IPG.

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

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

(4) Includes the results of Palm from the date of acquisition in July 2010 and the impact of the decision to wind down the webOS device business during the quarter ended October 31, 2011.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 19: Segment Information (Continued)

The reconciliation of segment operating results information to HP consolidated totals was as follows for the following fiscal years ended October 31:

	2011	2010	2009
		In millions	
Net revenue:			
Segment total	$ 130,687	$ 128,512	$ 116,336
Elimination of intersegment net revenue and other	(3,442)	(2,479)	(1,784)
Total HP consolidated net revenue	$ 127,245	$ 126,033	$ 114,552
Earnings before taxes:			
Total segment earnings from operations	$ 13,928	$ 15,627	$ 13,367
Corporate and unallocated costs and eliminations	(314)	(614)	(219)
Unallocated costs related to certain stock-based compensation expense	(618)	(613)	(552)
Amortization of purchased intangible assets	(1,607)	(1,484)	(1,578)
Impairment of goodwill and purchased intangible assets	(885)	—	—
Acquisition-related charges	(182)	(293)	(242)
Restructuring charges	(645)	(1,144)	(640)
Interest and other, net	(695)	(505)	(721)
Total HP consolidated earnings before taxes	$ 8,982	$ 10,974	$ 9,415

HP allocates its assets to its business segments based on the primary segments benefiting from the assets. Total assets by segment and the reconciliation of segment assets to HP consolidated total assets were as follows at October 31:

	2011	2010	2009
		In millions	
Personal Systems Group	$ 15,781	$ 16,548	$ 15,767
Services	40,614	41,989	41,189
Imaging and Printing Group	11,939	12,514	12,173
Enterprise Servers, Storage and Networking	17,539	18,262	12,185
HP Software	21,028	9,979	8,546
HP Financial Services	13,543	12,123	10,842
Corporate Investments	517	1,619	391
Corporate and unallocated assets	8,556	11,469	13,706
Total HP consolidated assets	$ 129,517	$ 124,503	$ 114,799

The total assets allocated to the Corporate Investments segment decreased 68% in fiscal 2011 mostly due to an impairment charge to goodwill and certain purchased intangible assets associated with the Palm acquisition following the decision to wind down the webOS device business. Assets allocated to HP software increased by 111% in fiscal 2011 due to the acquisition of Autonomy. In addition, in connection with certain fiscal 2011 organizational realignments, HP reclassified total assets of its networking business from Corporate Investments to ESSN and total assets of the communications and

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 19: Segment Information (Continued)

media solutions business from HP Software to Services. There have been no other material changes to the total assets of HP's segments since October 31, 2010.

Major Customers

No single customer represented 10% or more of HP's total net revenue in any fiscal year presented.

Geographic Information

Net revenue, classified by the major geographic areas in which HP operates, was as follows for the following fiscal years ended October 31:

	2011	2010	2009
		In millions	
Net revenue:			
U.S.	$ 44,111	$ 44,542	$ 41,314
Non-U.S.	83,134	81,491	73,238
Total HP consolidated net revenue	$ 127,245	$ 126,033	$ 114,552

Net revenue by geographic area is based upon the sales location that predominately represents the customer location. For each of the years ended October 31, 2011, 2010 and 2009, other than the United States, no country represented more than 10% of HP's total consolidated net revenue. HP reports revenue net of sales taxes, use taxes and value-added taxes directly imposed by governmental authorities on HP's revenue producing transactions with its customers.

At October 31, 2011, the United States and the Netherlands had 10% or more of HP's total consolidated net assets. At October 31, 2010, no single country other than the United States had 10% or more of HP's total consolidated net assets. At October 31, 2009, Belgium and the United States held 10% or more of HP's total consolidated net assets.

No single country other than the United States had more than 10% of HP's total consolidated net property, plant and equipment in any period presented. HP's long-lived assets other than goodwill and purchased intangible assets are composed principally of net property, plant and equipment.

Net property, plant and equipment, classified by major geographic areas in which HP operates, was as follows for the following fiscal years ended October 31:

	2011	2010
	In millions	
Net property, plant and equipment:		
U.S.	$ 6,126	$ 6,479
Non-U.S.	6,166	5,284
Total HP consolidated net property, plant and equipment	$ 12,292	$ 11,763

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 19: Segment Information (Continued)

Net revenue by segment and business unit

The following table provides net revenue by segment and business unit for the following fiscal years ended October 31:

	2011	2010[1]	2009[1]
		In millions	
Net revenue:			
Notebooks	$ 21,319	$ 22,602	$ 20,223
Desktops	15,260	15,519	12,892
Workstations	2,216	1,786	1,261
Other[2]	779	834	929
Personal Systems Group	39,574	40,741	35,305
Infrastructure Technology Outsourcing	15,189	14,942	14,563
Technology Services	10,879	10,627	10,665
Application Services	6,852	6,792	6,926
Business Process Outsourcing	2,672	2,872	2,977
Other	362	296	249
Services	35,954	35,529	35,380
Supplies	17,154	17,249	16,532
Commercial Hardware	5,790	5,569	4,778
Consumer Hardware	2,839	2,946	2,701
Imaging and Printing Group	25,783	25,764	24,011
Industry Standard Servers	13,521	12,574	9,296
Storage[3]	4,056	3,785	3,473
Business Critical Systems	2,095	2,292	2,590
HP Networking[4]	2,569	1,705	762
Enterprise Servers, Storage and Networking	22,241	20,356	16,121
HP Software[5]	3,217	2,729	2,655
HP Financial Services	3,596	3,047	2,673
Corporate Investments[6]	322	346	191
Total segments	130,687	128,512	116,336
Eliminations of inter-segment net revenue and other	(3,442)	(2,479)	(1,784)
Total HP consolidated net revenue	$ 127,245	$ 126,033	$ 114,552

(1) Certain fiscal 2011 organizational reclassifications have been reflected retroactively to provide improved visibility and comparability. In fiscal 2010 and fiscal 2009, the reclassifications resulted in the transfer of revenue and operating profit among ESSN, HP Software, Services and Corporate Investments. Reclassifications between segments included the transfer of the networking business from Corporate Investments to ESSN, the transfer of the communications and media solutions business from HP Software to Services, and the transfer of the business intelligence business from HP Software to Corporate Investments. Revenue was also transferred among the business units

Note 19: Segment Information (Continued)

within Services and within PSG. In addition, net revenue reported for the Infrastructure Technology Outsourcing business unit and eliminations of inter-segment net revenue have both been reduced to reflect a change in inter-segment reporting model. There was no impact on the previously reported financial results for HPFS and IPG or for the business units within IPG.

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

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

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

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

(6) Includes the results of Palm from the date of acquisition in July 2010 and the impact of the decision to wind down the webOS device business during the quarter ended October 31, 2011.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
Quarterly Summary
(Unaudited)
(In millions, except per share amounts)

	Three-month periods ended in fiscal 2011			
	January 31	April 30	July 31	October 31
Net revenue	$ 32,302	$ 31,632	$ 31,189	$ 32,122
Cost of sales[(1)]	24,408	23,860	23,929	25,332
Research and development	798	815	812	829
Selling, general and administrative	3,090	3,397	3,402	3,577
Amortization of purchased intangible assets	425	413	358	411
Impairment of goodwill and purchased intangible assets	—	—	—	885
Restructuring charges	158	158	150	179
Acquisition-related charges	29	21	18	114
Total costs and expenses	28,908	28,664	28,669	31,327
Earnings from operations	3,394	2,968	2,520	795
Interest and other, net	(97)	(76)	(121)	(401)
Earnings before taxes	3,297	2,892	2,399	394
Provision for taxes	692	588	473	155
Net earnings	$ 2,605	$ 2,304	$ 1,926	$ 239
Net earnings per share:[(2)]				
Basic	$ 1.19	$ 1.07	$ 0.94	$ 0.12
Diluted	$ 1.17	$ 1.05	$ 0.93	$ 0.12
Cash dividends paid per share	$ 0.08	$ 0.08	$ 0.12	$ 0.12
Range of per share stock prices on the New York Stock Exchange				
Low	$ 40.77	$ 37.60	$ 33.95	$ 21.50
High	$ 47.83	$ 49.39	$ 41.74	$ 35.50

	Three-month periods ended in fiscal 2010			
	January 31	April 30	July 31	October 31
Net revenue	$ 31,177	$ 30,849	$ 30,729	$ 33,278
Cost of sales[(1)]	24,027	23,569	23,365	24,995
Research and development	681	722	742	814
Selling, general and administrative	2,967	3,096	3,191	3,464
Amortization of purchased intangible assets	330	347	383	424
Restructuring charges	131	180	598	235
Acquisition-related charges	38	77	127	51
Total costs and expenses	28,174	27,991	28,406	29,983
Earnings from operations	3,003	2,858	2,323	3,295
Interest and other, net	(199)	(91)	(134)	(81)
Earnings before taxes	2,804	2,767	2,189	3,214
Provision for taxes	554	567	416	676
Net earnings	$ 2,250	$ 2,200	$ 1,773	$ 2,538
Net earnings per share:[(2)]				
Basic	$ 0.95	$ 0.94	$ 0.76	$ 1.13
Diluted	$ 0.93	$ 0.91	$ 0.75	$ 1.10
Cash dividends paid per share	$ 0.08	$ 0.08	$ 0.08	$ 0.08
Range of per share stock prices on the New York Stock Exchange				
Low	$ 46.80	$ 46.46	$ 41.94	$ 37.32
High	$ 52.95	$ 54.75	$ 52.95	$ 47.80

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

(2) EPS for each quarter is computed using the weighted-average number of shares outstanding during that quarter, while EPS for the fiscal year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the EPS for each of the four quarters may not equal the EPS for the fiscal year.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

ITEM 9A. Controls and Procedures.

Controls and Procedures

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

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

See Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm on our internal control over financial reporting in Item 8, which are incorporated herein by reference.

ITEM 9B. Other Information.

The disclosure below is included in this report in lieu of filing a Current Report on Form 8-K to report events that have occurred within four business days prior to the filing of this report.

On December 11, 2011, the HR and Compensation Committee (the "Committee") of the HP Board of Directors amended and restated the Hewlett-Packard Company Severance Plan for Executive Officers (the "Severance Plan"). The amendments, which are effective for terminations occurring after November 1, 2011, (i) clarify that only annual bonuses, and not one-time bonuses, are included in the calculation of cash severance benefits, (ii) provide for severance payments to be made in periodic installments subject to continued compliance with post-employment protective covenants, rather than in a lump sum, (iii) provide for pro-rata vesting on unvested equity awards if the executive officer has worked at least 25% of the applicable vesting or performance period and any applicable performance conditions have been satisfied, (iv) provide for a pro-rated annual bonus, in the discretion of the Committee, for the fiscal year in which the termination occurs, and (v) provide for payment or reimbursement of premiums for continued medical coverage for a period of up to 18 months for an executive officer and his or her eligible dependents. The Severance Plan is attached as hereto as Exhibit 10(f)(f)(f) and is incorporated herein by reference.

Table of Contents

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

The names of the executive officers of HP and their ages, titles and biographies as of the date hereof are incorporated by reference from Part I, Item 1, above.

The following information is included in HP's Proxy Statement related to its 2012 Annual Meeting of Stockholders to be filed within 120 days after HP's fiscal year end of October 31, 2011 (the "Proxy Statement") and is incorporated herein by reference:

- Information regarding directors of HP who are standing for reelection and any persons nominated to become directors of HP is set forth under "Election of Directors."
- Information regarding HP's Audit Committee and designated "audit committee financial experts" is set forth under "Board Structure and Committee Composition—Audit Committee."
- Information on HP's code of business conduct and ethics for directors, officers and employees, also known as the "Standards of Business Conduct," and on HP's Corporate Governance Guidelines is set forth under "Corporate Governance Principles and Board Matters."
- Information regarding Section 16(a) beneficial ownership reporting compliance is set forth under "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. Executive Compensation.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding HP's compensation of its named executive officers is set forth under "Executive Compensation."
- Information regarding HP's compensation of its directors is set forth under "Director Compensation and Stock Ownership Guidelines."
- The report of HP's HR and Compensation Committee is set forth under "HR and Compensation Committee Report on Executive Compensation."

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding security ownership of certain beneficial owners, directors and executive officers is set forth under "Common Stock Ownership of Certain Beneficial Owners and Management."
- Information regarding HP's equity compensation plans, including both stockholder approved plans and non-stockholder approved plans, is set forth in the section entitled "Equity Compensation Plan Information."

Table of Contents

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding transactions with related persons is set forth under "Transactions with Related Persons."
- Information regarding director independence is set forth under "Corporate Governance Principles and Board Matters—Director Independence."

ITEM 14. Principal Accountant Fees and Services.

Information regarding principal auditor fees and services is set forth under "Principal Accountant Fees and Services" in the Proxy Statement, which information is incorporated herein by reference.

[Table of Contents](#)

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1. All Financial Statements:

The following financial statements are filed as part of this report under Item 8—"Financial Statements and Supplementary Data."

2. Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts for the three fiscal years ended October 31, 2011.

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements and notes thereto in Item 8 above.

3. Exhibits:

A list of exhibits filed or furnished with this report on Form 10-K (or incorporated by reference to exhibits previously filed or furnished by HP) is provided in the accompanying Exhibit Index. HP will furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request. Stockholders may request exhibits copies by contacting:

Hewlett-Packard Company
Attn: Investor Relations
3000 Hanover Street
Palo Alto, CA 94304
(866) GET-HPQ1 or (866) 438-4771

Schedule II

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
Valuation and Qualifying Accounts

	For the fiscal years ended October 31		
	2011	2010	2009
		In millions	
Allowance for doubtful accounts—accounts receivable:			
Balance, beginning of period	$ 525	$ 629	$ 553
Increase in allowance from acquisitions	27	7	—
Addition of bad debt provision	23	80	282
Deductions, net of recoveries	(105)	(191)	(206)
Balance, end of period	$ 470	$ 525	$ 629
Allowance for doubtful accounts—financing receivables:			
Balance, beginning of period	$ 140	$ 108	$ 90
Additions to allowance	58	76	63
Deductions, net of recoveries	(68)	(44)	(45)
Balance, end of period	$ 130	$ 140	$ 108

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: December 14, 2011	HEWLETT-PACKARD COMPANY
	By: /s/ CATHERINE A. LESJAK
	Catherine A. Lesjak *Executive Vice President and* *Chief Financial Officer*

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Catherine A. Lesjak, Michael J. Holston and Paul T. Porrini, or any of them, his or her attorneys-in-fact, for such person in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ MARGARET C. WHITMAN Margaret C. Whitman	President, Chief Executive Officer and Director (Principal Executive Officer)	December 14, 2011
/s/ CATHERINE A. LESJAK Catherine A. Lesjak	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	December 14, 2011
/s/ JAMES T. MURRIN James T. Murrin	Senior Vice President and Controller (Principal Accounting Officer)	December 14, 2011
/s/ MARC L. ANDREESSEN Marc L. Andreessen	Director	December 14, 2011
/s/ LAWRENCE T. BABBIO, JR. Lawrence T. Babbio, Jr.	Director	December 14, 2011
/s/ SARI M. BALDAUF Sari M. Baldauf	Director	December 14, 2011
/s/ SHUMEET BANERJI Shumeet Banerji	Director	December 14, 2011

Signature	Title(s)	Date
/s/ RAJIV L. GUPTA Rajiv L. Gupta	Director	December 14, 2011
/s/ JOHN H. HAMMERGREN John H. Hammergren	Director	December 14, 2011
/s/ RAYMOND J. LANE Raymond J. Lane	Executive Chairman	December 14, 2011
/s/ ANN M. LIVERMORE Ann M. Livermore	Director	December 14, 2011
/s/ GARY M. REINER Gary M. Reiner	Director	December 14, 2011
/s/ PATRICIA F. RUSSO Patricia F. Russo	Director	December 14, 2011
Dominique Senequier	Director	
/s/ G. KENNEDY THOMPSON G. Kennedy Thompson	Director	December 14, 2011
/s/ RALPH W. WHITWORTH Ralph W. Whitworth	Director	December 14, 2011

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
EXHIBIT INDEX

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

Table of Contents

Exhibit Number	Exh bit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
4(i)	Form of Registrant's Floating Rate Global Note due February 24, 2011, 4.250% Global Note due February 24, 2012 and 4.750% Global Note due June 2, 2014 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	February 27, 2009
4(j)	Form of Registrant's Floating Rate Global Note due May 27, 2011, 2.25% Global Note due May 27, 2011 and 2.95% Global Note due August 15, 2012 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	May 28, 2009
4(k)	Form of Registrant's Floating Rate Global Note due September 13, 2012, 1.250% Global Note due September 13, 2013 and 2.125% Global Note due September 13, 2015 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	September 13, 2010
4(l)	Form of Registrant's 2.200% Global Note due December 1, 2015 and 3.750% Global Note due December 1, 2020 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2 and 4.3	December 2, 2010
4(m)	Form of Registrant's Floating Rate Global Note due May 24, 2013, Floating Rate Global Note due May 30, 2014, 1.550% Global Note due May 30, 2014, 2.650% Global Note due June 1, 2016 and 4.300% Global Note due June 1, 2021 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3, 4.4, 4.5 and 4.6	June 1, 2011
4(n)	Form of Registrant's Floating Rate Global Note due September 19, 2014, 2.350% Global Notes due March 15, 2015, 3.000% Global Notes due September 15, 2016, 4.375% Global Notes due September 15, 2021 and 6.000% Global Notes due September 15, 2041 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3, 4.4, 4.5 and 4.6	September 19, 2011
4(o)	Specimen certificate for the Registrant's common stock.	8-A/A	001-04423	4.1	June 23, 2006
9	None.				

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
10(a)	Registrant's 2004 Stock Incentive Plan.*	S-8	333-114253	4.1	April 7, 2004
10(b)	Registrant's 2000 Stock Plan, amended and restated effective September 17, 2008.*	10-K	001-04423	10(b)	December 18, 2008
10(c)	Registrant's 1997 Director Stock Plan, amended and restated effective November 1, 2005.*	8-K	001-04423	99.4	November 23, 2005
10(d)	Registrant's 1995 Incentive Stock Plan, amended and restated effective May 1, 2007.*	10-Q	001-04423	10(d)	June 8, 2007
10(e)	Registrant's 1990 Incentive Stock Plan, amended and restated effective May 1, 2007.*	10-Q	001-04423	10(e)	June 8, 2007
10(f)	Registrant's Excess Benefit Retirement Plan, amended and restated as of January 1, 2006.*	8-K	001-04423	10.2	September 21, 2006
10(g)	Hewlett-Packard Company Cash Account Restoration Plan, amended and restated as of January 1, 2005.*	8-K	001-04423	99.3	November 23, 2005
10(h)	Registrant's 2005 Pay-for-Results Plan, as amended.*				
10(i)	Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	8-K	001-04423	10.1	September 21, 2006
10(j)	First Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(q)	June 8, 2007
10(k)	Employment Agreement, dated June 9, 2005, between Registrant and R. Todd Bradley.*	10-Q	001-04423	10(x)	September 8, 2005
10(l)	Registrant's Amended and Restated Severance Plan for Executive Officers.*	8-K	001-04423	99.1	July 27, 2005
10(m)	Registrant's Executive Severance Agreement.*	10-Q	001-04423	10(u)(u)	June 13, 2002
10(n)	Registrant's Executive Officers Severance Agreement.*	10-Q	001-04423	10(v)(v)	June 13, 2002

[Table of Contents](#)

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
10(o)	Form letter regarding severance offset for restricted stock and restricted units.*	8-K	001-04423	10.2	March 22, 2005
10(p)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan, Registrant's 2000 Stock Plan, as amended, and Registrant's 1995 Incentive Stock Plan, as amended.*	10-Q	001-04423	10(b)(b)	June 8, 2007
10(q)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(c)(c)	June 8, 2007
10(r)	Form of Stock Option Agreement for Registrant's 1990 Incentive Stock Plan, as amended.*	10-K	001-04423	10(e)	January 27, 2000
10(s)	Form of Common Stock Payment Agreement and Option Agreement for Registrant's 1997 Director Stock Plan, as amended.*	10-Q	001-04423	10(j)(j)	March 11, 2005
10(t)	Form of Long-Term Performance Cash Award Agreement for Registrant's 2004 Stock Incentive Plan and Registrant's 2000 Stock Plan, as amended.*	10-K	001-04423	10(t)(t)	January 14, 2005
10(u)	Amendment One to the Long-Term Performance Cash Award Agreement for the 2004 Program.*	10-Q	001-04423	10(q)(q)	September 8, 2005
10(v)	Form of Long-Term Performance Cash Award Agreement for the 2005 Program.*	10-Q	001-04423	10(r)(r)	September 8, 2005
10(w)	Form of Long-Term Performance Cash Award Agreement.*	10-Q	001-04423	10(o)(o)	March 10, 2006
10(x)	Second Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(l)(l)	December 18, 2007
10(y)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	8-K	001-04423	10.1	January 24, 2008
10(z)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California).*	8-K	001-04423	10.2	January 24, 2008

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
10(a)(a)	Form of Agreement Regarding Confidential Information and Proprietary Developments (Texas).*	10-Q	001-04423	10(o)(o)	March 10, 2008
10(b)(b)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(p)(p)	March 10, 2008
10(c)(c)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(q)(q)	March 10, 2008
10(d)(d)	Form of Stock Option Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(r)(r)	March 10, 2008
10(e)(e)	Form of Special Performance-Based Cash Incentive Notification Letter.*	8-K	001-04423	10.1	May 20, 2008
10(f)(f)	Form of Option Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(t)(t)	June 6, 2008
10(g)(g)	Form of Common Stock Payment Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(u)(u)	June 6, 2008
10(h)(h)	Third Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(v)(v)	December 18, 2008
10(i)(i)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-K	001-04423	10(w)(w)	December 18, 2008
10(j)(j)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	10-K	001-04423	10(x)(x)	December 18, 2008
10(k)(k)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-K	001-04423	10(y)(y)	December 18, 2008
10(l)(l)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-K	001-04423	10(z)(z)	December 18, 2008
10(m)(m)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(a)(a)(a)	March 10, 2009
10(n)(n)	First Amendment to the Hewlett-Packard Company Excess Benefit Retirement Plan.*	10-Q	001-04423	10(b)(b)(b)	March 10, 2009

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
10(o)(o)	Fourth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(c)(c)(c)	June 5, 2009
10(p)(p)	Fifth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(d)(d)(d)	September 4, 2009
10(q)(q)	Amended and Restated Hewlett-Packard Company 2004 Stock Incentive Plan.*	8-K	001-04423	10.2	March 23, 2010
10(r)(r)	Employment Agreement, dated September 29, 2010, between the Registrant and Léo Apotheker.*	8-K	001-04423	10.1	October 1, 2010
10(s)(s)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-K	001-04423	10(f)(f)(f)	December 15, 2010
10(t)(t)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	10-K	001-04423	10(g)(g)(g)	December 15, 2010
10(u)(u)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-K	001-04423	10(h)(h)(h)	December 15, 2010
10(v)(v)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-K	001-04423	10(i)(i)(i)	December 15, 2010
10(w)(w)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California—new hires).*	10-K	001-04423	10(j)(j)(j)	December 15, 2010
10(x)(x)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California—current employees).*	10-K	001-04423	10(k)(k)(k)	December 15, 2010
10(y)(y)	Letter Agreement, dated December 15, 2010, between the Registrant and Catherine A. Lesjak.*	10-K	001-04423	10(l)(l)(l)	December 15, 2010
10(z)(z)	Letter Agreement, dated September 29, 2010, between the Registrant and Michael J. Holston.*	10-Q	001-04423	10(m)(m)(m)	June 8, 2011

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
10(a)(a)(a)	First Amendment to the Registrant's Executive Deferred Compensation Plan, as amended and restated effective October 1, 2004.*	10-Q	001-04423	10(o)(o)(o)	September 9, 2011
10(b)(b)(b)	Sixth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(p)(p)(p)	September 9, 2011
10(c)(c)(c)	Separation and General Release Agreement, dated September 28, 2011, between the Registrant and Léo Apotheker.*	8-K	001-04423	10.1	September 29, 2011
10(d)(d)(d)	Employment offer letter, dated September 27, 2011, between the Registrant and Margaret C. Whitman.*	8-K	001-04423	10.2	September 29, 2011
10(e)(e)(e)	Seventh Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*				
10(f)(f)(f)	Registrant's Severance Plan for Executive Officers, as amended and restated.*				
11	None.				
12	Statement of Computation of Ratio of Earnings to Fixed Charges.				
13-14	None.				
16	None.				
18	None.				
21	Subsidiaries of the Registrant as of October 31, 2011.				
22	None.				
23	Consent of Independent Registered Public Accounting Firm.				
24	Power of Attorney (included on the signature page).				

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
33-35	None.				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Extension Schema Document.				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				

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

Filed herewith.

† Furnished herewith.

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

Exhibit 10(h)

HEWLETT-PACKARD COMPANY 2005 PAY-FOR-RESULTS PLAN

1. **Purpose.** The purpose of this Plan is to provide certain employees of HP and its subsidiaries with incentive compensation based upon the level of achievement of financial, business and other performance criteria. This Plan is intended to permit the payment of bonuses that may qualify as performance-based compensation under Code Section 162(m).

2. **Definitions.**

   (a) **"Affiliate"** means (i) any entity that, directly or indirectly, is controlled by HP and (ii) any entity in which HP has a significant equity interest.

   (b) **"Board"** means the Board of Directors of HP.

   (c) **"Bonus"** means a cash payment made pursuant to this Plan with respect to a particular Performance Period, determined pursuant to Section 7 below.

   (d) **"Bonus Formula"** means as to any Performance Period, the formula established by the Committee pursuant to Section 5 in order to determine the Bonus amounts, if any, to be paid to Participants based upon the level of achievement of targeted goals for the selected Performance Measures. The formula may differ from Participant to Participant or business group to business group. The Bonus Formula shall be of such a nature that an objective third party having knowledge of all the relevant facts could determine whether targeted goals for the Performance Measures have been achieved.

   (e) **"Code"** means the Internal Revenue Code of 1986, as amended.

   (f) **"Committee"** means the HR and Compensation Committee of the Board who shall qualify as "outside directors" within the meaning of Code Section 162(m).

   (g) **"Fiscal Year"** means the twelve-month period from November 1 through October 31.

   (h) **"HP"** means Hewlett-Packard Company, a Delaware corporation.

   (i) **"Participant"** means a Section 16 Officer.

   (j) **"Performance-Based Compensation"** means compensation that qualifies as "performance-based compensation" within the meaning of Code Section 162(m).

   (k) **"Performance Measure"** means any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either HP as a whole or to a business unit, Affiliate or business segment, either individually, alternatively or in any combination, and measured either on an absolute basis or relative to a pre-established target, to a previous period's results or to a designated comparison group, in each case as specified by the Committee: cash flow (including operating cash flow or free cash flow), revenue (on an absolute basis or adjusted for currency effects), gross margin, operating expenses or operating expenses as a percentage of revenue, earnings (which may include earnings before interest and taxes, earnings before taxes, and net earnings, and may be determined in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") or adjusted to exclude any or all non-GAAP items), earnings per share (on a GAAP or non-GAAP basis), growth in any of the foregoing measures, stock price, return on equity or average stockholders' equity, total stockholder return, growth in stockholder value relative to the moving average of the S&P 500 Index or another index, return on capital, return on assets or net assets, return on investment, economic value added, operating profit, controllable operating profit, or net operating profit, operating margin, cash conversion cycle, market share, contract awards or backlog, overhead or other expense reduction, credit rating, strategic plan development and implementation, succession plan development and implementation, improvement in workforce diversity, customer indicators, new product invention or innovation, attainment of research and development milestones, improvements in productivity, attainment of objective operating goals and employee metrics.

(l) **"Performance Period"** means any Fiscal Year or such other period as determined by the Committee.

(m) **"Plan"** means this Hewlett-Packard Company 2005 Pay-for-Results Plan.

(n) **"Plan Committee"** means the committee to which the Committee delegates certain authority to act on various HP compensation and benefit matters.

(o) **"Predetermination Date"** means, for a Performance Period, (i) the earlier of 90 days after commencement of the Performance Period or the expiration of 25% of the Performance Period, provided that the achievement of targeted goals under the selected Performance Measures for the Performance Period is substantially uncertain at such time; or (ii) such other date on which a performance goal is considered to be pre-established pursuant to Code Section 162(m).

(p) **"Section 16 Officer**" means an employee of HP or its Affiliates who is considered an officer of HP within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

3. Eligibility. The individuals eligible to participate in this Plan for a given Performance Period shall be Section 16 Officers.

4. Plan Administration.

(a) The Committee shall be responsible for the requirements for qualifying compensation as Performance-Based Compensation. Subject to the limitations on Committee discretion imposed under Code Section 162(m), the Committee shall have such powers as may be necessary to discharge its duties hereunder. The Plan Committee shall be responsible for the general administration and interpretation of this Plan and for carrying out its provisions, including the authority to construe and interpret the terms of this Plan, determine the manner and time of payment of any Bonuses, prescribe forms and procedures for purposes of Plan participation and distribution of Bonuses and adopt rules, regulations and to take such actions as it deems necessary or desirable for the proper administration of this Plan. The Plan Committee may delegate its administrative tasks to HP employees or others as appropriate for proper administration of this Plan.

(b) Any rule or decision by the Committee, Plan Committee or its delegate(s) that is not inconsistent with the provisions of this Plan shall be conclusive and binding on all persons, and shall be given the maximum deference permitted by law.

5. **Bonuses.** Prior to the Predetermination Date for a Performance Period, the Committee shall designate or approve in writing, the following:

(a) Performance Period;

(b) Positions or names of employees who will be Participants for the Performance Period;

(c) Targeted goals for selected Performance Measures during the Performance Period; and

(d) Applicable Bonus Formula for each Participant, which may be for an individual Participant or a group of Participants.

6. **Determination of Amount of Bonus.**

(a) **Calculation.** After the end of each Performance Period, the Committee shall certify in writing (to the extent required under Code Section 162(m)) the extent to which the targeted goals for the Performance Measures applicable to each Participant for the Performance Period were achieved or exceeded. The Bonus for each Participant shall be determined by applying the Bonus Formula to the level of actual performance that has been certified by the Committee. Notwithstanding any contrary provision of this Plan, the Committee, in its sole discretion, may eliminate or reduce the Bonus payable to any Participant below that which otherwise would be payable under the Bonus Formula. The aggregate Bonus(es) payable to any Participant during any Fiscal Year shall not exceed U.S.$10 million.

The Committee may appropriately adjust any evaluation of performance under a Performance Measure to exclude any of the following events that occurs during a Performance Period: (A) the effects of currency fluctuations, (B) any or all items that are excluded from the calculation of non-GAAP earnings as reflected in any HP press release and Form 8-K filing relating to an earnings announcement, (C) asset write-downs, (D) litigation or claim judgments or settlements, (E) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (F) accruals for reorganization and restructuring programs, and (G) any other extraordinary or non-operational items.

(b) **Right to Receive Payment.** Each Bonus under this Plan shall be paid solely from general assets of HP and its Affiliates. This Plan is unfunded and unsecured; nothing in this Plan shall be construed to create a trust or to establish or evidence any Participant's claim of any right to payment of a Bonus other than as an unsecured general creditor with respect to any payment to which he or she may be entitled.

7. **Payment of Bonuses.**

(a) **Timing of Distributions.** HP and its Affiliates shall distribute amounts payable to Participants as soon as is administratively practicable following the determination and written certification of the Committee for a Performance Period, but in no event later than two and one-half months after the end of the calendar year in which the Performance Period ends, except to the extent a Participant has made a timely election to defer the payment of all or any portion of such Bonus under the Hewlett-Packard Company 2005 Executive Deferred Compensation Plan or any other HP approved deferred compensation plan or arrangement.

(b) **Payment.** The payment of a Bonus, if any (as determined by the Committee at the end of the Performance Period), with respect to a specific Performance Period requires that the employee be an active employee on HP's or its Affiliate's payroll on the last day of each applicable Performance Period, subject to the following:

(i) **Leave of Absence or Non-Pay Status.** A Participant may receive a Bonus while on an approved leave of absence or non-pay status. Such Bonus shall be prorated in a manner that HP determines in it sole discretion.

(ii) **Disability, Workforce Restructuring, Voluntary Severance Incentive Program, Divestiture or Retirement.** A Participant who terminates due to disability, participation in a workforce restructuring or voluntary severance incentive program, divestiture or retirement under HP's retirement policies may receive a prorated Bonus; the method in which a Bonus is prorated shall be determined by HP in its sole discretion.

(iii) **Death.** The estate of a Participant who dies prior to the end of a Performance Period or after the end of a Performance Period but prior to payment may receive a Bonus or prorated Bonus; the method in which a Bonus is prorated shall be determined by HP in its sole discretion.

(c) **Change in Status.** A Participant who has a change in status that results in being ineligible to participate in this Plan or eligible in more than one variable pay plan, including this Plan, in a Performance Period may receive a prorated Bonus, if any (as determined by the Committee at the end of the Performance Period), under this Plan; the method in which a Bonus is prorated shall be determined by HP in its sole discretion.

(d) **Code Section 409A.** To the extent that any Bonus under the Plan is subject to Code Section 409A, the terms and administration of such Bonus shall comply with the provisions of such Section, applicable IRS guidance and good faith reasonable interpretations thereof, and, to the extent necessary to achieve compliance, shall be modified, replaced, or terminated at the discretion of the Committee or Plan Committee.

8. Amendment and Termination.

(a) The Committee may amend, modify, suspend or terminate this Plan, in whole or in part, at any time, including the adoption of amendments deemed necessary or desirable to correct any defect or to supply omitted data or to reconcile any inconsistency in this Plan or in any Bonus granted hereunder; provided, however, that no amendment, alteration, suspension or discontinuation shall be made which would (i) increase the amount of compensation payable pursuant to such Bonus, or (ii) cause compensation that is, or may become, payable hereunder to fail to qualify as Performance-Based Compensation. Notwithstanding the foregoing, the Plan Committee may any amend, modify, suspend or terminate this Plan if any such action is required by law. To the extent required under applicable law, including Code Section 162(m), Plan amendments shall be subject to stockholder approval. At no time before the actual distribution of funds to Participants under this Plan shall any Participant accrue any vested interest or right whatsoever under this Plan except as otherwise stated in this Plan.

(b) In the case of Participants employed outside the United States, HP or its Affiliate may vary the provisions of this Plan as deemed appropriate to conform with, as required by, or made desirable by, local laws, practices and procedures.

9. **Withholding.** Distributions pursuant to this Plan shall be subject to all applicable taxes and contributions required by law to be withheld in accordance with procedures established by HP.

10. **No Additional Participant Rights.** The selection of an individual for participation in this Plan shall not give such Participant any right to be retained in the employ of HP or any of its Affiliates, and the right of HP and any such Affiliate to dismiss such Participant or to terminate any arrangement pursuant to which any such Participant provides services to HP, with or without cause, is specifically reserved. No person shall have claim to a Bonus under this Plan, except as otherwise provided for herein, or to continued participation under this Plan. There is no obligation for uniformity of treatment of Participants under this Plan. The benefits provided for Participants under this Plan shall be in addition to and shall in no way preclude other forms of compensation to or in respect of such Participants. It is expressly agreed and understood that the employment of a Participant is terminable at the will of either party and, if such Participant is a party to an employment contract with HP or one of its Affiliates, in accordance with the terms and conditions of the Participant's employment agreement.

11. **Successors.** All obligations of HP or its Affiliates under this Plan, with respect to awards granted hereunder, shall be binding on any successor to HP, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of HP.

12. **Nonassignment.** The rights of a Participant under this Plan shall not be assignable or transferable by the Participant except by will or the laws of descent and distribution.

13. **Severability.** If any portion of this Plan is deemed to be in conflict with local law, that portion of the Plan, and that portion only, will be deemed void under local law. All other provisions of the Plan will remain in effect. Furthermore, if any provision of this Plan would cause Bonuses not to constitute Performance-Based Compensation, that provision shall be severed from, and shall be deemed not to be a part of, the Plan, but the other provisions hereof shall remain in full force and effect.

14. **Governing Law.** This Plan shall be governed by the laws of the State of Delaware.

Exhibit 10(e)(e)(e)

SEVENTH AMENDMENT TO THE HEWLETT-PACKARD COMPANY
2005 EXECUTIVE DEFERRED COMPENSATION PLAN
(Amended and restated effective October 1, 2006)

The Hewlett-Packard Company 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006, is hereby amended, effective as of the dates specified below, to provide as follows:

1. Effective for deferrals occuring after January 1, 2012, the definition of "Bonus Eligible Employee" in Article I shall be amended to read as follows:

" Bonus Eligible Employee' means an individual who is an Employee on November 1 preceding the Plan Year within which deferrals are to be made (1) who satisfies both of the following conditions: (i) whose job position has a title of Director (or whose job function is, in the sole and absolute discretion of HP, equivalent to a Director' position) and (ii) whose Annual Rate of Pay is equal to or greater than the dollar limit for highly compensated employees as defined in Section 414(q)(1)(B)(i) of the Code plus $30,000, or (2) whose job position has a title of Executive Vice President or above, irrespective of such Employee's Annual Rate of Pay."

2. Effective January 1, 2012, Section 3.2 shall be amended in its entirety to read as follows:

"3.2 Outside Director Deferral Elections. In order to elect to defer a portion of his Annual Retainer earned during a Plan Year, an Outside Director shall submit an irrevocable Deferral Form with HP before the beginning of such Plan Year, but no earlier than the first day of November preceding the Plan Year within which the deferral is to be made. The portion of his Annual Retainer than an Outside Director elects to defer for a Plan Year shall be stated as a whole dollar amount. Any failure to make an election shall be deemed to be an election for the same deferral amount and the same distribution date and form of payment for the following Plan Year as were in effect for such Outside Director for the current Plan Year."

This Seventh Amendment to the Hewlett-Packard Company 2005 Executive Deferred Compensation Plan is hereby adopted this 16th day of November, 2011.

HEWLETT-PACKARD COMPANY

By: /s/ Tracy S. Keogh
Tracy S. Keogh
Executive Vice President, Human Resources

Exhibit 10(f)(f)(f)

Hewlett-Packard Company
Severance Plan for Executive Officers

As amended and restated November 1, 2011

1. **Eligibility**. This plan is applicable to individuals who are Executive Officers (within the meaning of Section 16 of the Securities and Exchange Act of 1934, as amended) of Hewlett-Packard Company ("HP"), or who were Executive Officers of HP within 90 days before their termination of HP employment. The restated plan is effective for terminations occurring after November 1, 2011.

2. **Severance Benefits**. In the event of a Qualifying Termination (as defined below), and subject to his or her execution of a full release of claims in a form satisfactory to HP ("Release of Claims") within 45 days following termination of employment, an Executive Officer will be eligible for severance benefits consisting of (a) a cash severance payment, (b) a pro-rata annual bonus payment, (c) pro-rata vesting on any outstanding long-term incentive awards, and (d) continuation of health benefits for up to 18 months, as more fully described below:

(a) **Cash Severance**: The cash severance payment shall be calculated as a multiple of the sum of the Executive Officer's (i) annual base salary as in effect immediately before termination of employment, and (ii) the average of the actual annual cash bonuses paid under the applicable annual bonus plan for the three fiscal years most recently completed (or actual completed fiscal years, if less) prior to termination of employment.

- For an Executive Officer who holds the title of Chief Executive Officer within 90 days before termination, the multiple shall be two; and

- For an Executive Officer who holds the title of Executive Vice President within 90 days before termination, the multiple shall be 1.5; and

- For an Executive Officer who holds the title of Senior Vice President within 90 days before termination, the multiple shall be one.

(b) **Pro-Rata Annual Bonus**: The pro-rata annual bonus payment shall be calculated as a pro-rata portion of the current fiscal year annual (short-term) bonus based on the number of full months worked in the fiscal year in which termination occurs through the date of termination, and subject to actual performance on the applicable metrics, and to discretionary adjustments permitted under the applicable plan, as certified by the HR & Compensation Committee of the Board (the "Committee") following the end of the fiscal year.

(c) **Long-Term Incentive Awards**:

- Time-vested long-term incentive awards held by an Executive Officer at the time of his or her Qualifying Termination will receive pro-rata vesting based on the number of full months worked during the applicable vesting period, but only if the Executive Officer was actively employed for at least 25% of the applicable period.

- Performance-vested long-term incentive awards will be deemed earned as of the end of the applicable performance period based on actual results as certified by the

Committee, and will receive pro-rata vesting as described in the preceding sentence, including the requirement of active employment for at least 25% of the longer of the performance period or the time-vesting period.

- In the case of stock options, the Executive Officer will have one year from termination of employment or if later, the determination date of the vested amounts of performance-based options (but in either case no later than the applicable expiration date) to exercise vested stock options.

- Any accelerated vesting or release of restrictions on time-based long-term incentive awards will be effective following expiration of the revocation period applicable to the Release of Claims, provided there has been no revocation or attempted revocation thereof ("Release Effective Date"); and in the case of performance-based awards, any accelerated vesting or release of restrictions will be effective after the Release Effective Date and following the end of the applicable performance period and certification of results by the Committee.

- Vesting for awards not specifically addressed above may be illustrated in Appendix A, as amended from time to time.

(d) **Health Benefits:** The health benefits shall consist of the payment or reimbursement of premiums to the extent such premiums exceed the amount payable by active employees in the same plan for continued medical coverage for a period of up to 18 months ("COBRA") for an Executive Officer and his or her eligible dependents who timely enrolls for such coverage and who remains otherwise eligible for such coverage under the medical plan(s) then-offered by HP.

3. Qualifying Termination. An Executive Officer will be deemed to have incurred a Qualifying Termination for purposes of this plan if he or she is involuntarily terminated other than for Cause while holding Executive Officer status or within 90 days of having held Executive Officer status. For purposes of this plan, the term "Cause" shall mean an Executive Officer's:

- Material neglect (other than as a result of illness or disability) of his or her duties or responsibilities to HP; or

- Conduct (including action or failure to act) that is not in the best interest of, or is injurious to, HP.

An Executive Officer shall not be deemed to have engaged in conduct constituting Cause under this plan except by a majority vote of the members of HP's Board of Directors or an independent committee thereof.

4. Form and Time of Payment. Subject to execution of the required Release of Claims, the cash severance shall be paid in installments as follows: 25% within 30 days following the Release Effective Date and then 25% after each of six, 12 and 18 months following termination. The short-term bonus shall be paid at the time such bonuses are otherwise paid to participants in the applicable bonus plan, but only if the Release Effective Date has occurred; if the Release Effective Date is after the date that the bonus would otherwise have been paid, such payment shall be made as soon as administratively practicable after such date, but in no event later than March 15 of the year following the year in which the termination occurred.

All payments under this plan shall be subject to, and made net of, applicable deductions and withholdings. Any payments under this plan shall be reduced by any severance benefit payable to the Executive Officer under any other HP plan, program or agreement.

All payments are subject to the Executive Officer's continuing compliance with the HP Agreement Regarding Confidential Information and Proprietary Developments (as reflected in the Release of Claims), and to HP's policies on recoupment, as in effect from time to time.

5. 409A Provisions. Any amounts payable solely on account of an involuntary separation from service within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") shall be, to the maximum extent possible, excludible from the requirements of Section 409A, either as involuntary separation pay or as short-term deferral amounts. For purposes of Section 409A, each payment of compensation under the plan shall be treated as a separate payment of compensation.

Any reimbursements or in-kind benefits provided under the plan shall be made or provided in accordance with the requirements of Section 409A, including, where applicable, the requirement that (a) any reimbursement is for expenses incurred during the period of time specified in the agreement, (b) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year, (c) the reimbursement of an eligible expense will be made no later than the last day of the calendar year following the year in which the expense is incurred, and (d) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

If payment of any amount of nonqualified deferred compensation is triggered by a separation from service that occurs while the Executive Officer is a specified employee (as such terms are defined in Section 409A), and if such amount is scheduled to be paid within six months after such separation from service, the amount shall accrue without interest and shall be paid the first business day after the end of such six-month period, or, if earlier, within 15 days after the appointment of the personal representative or executor of the Executive Officer's estate following the Executive Officer's death.

If the maximum period within which the Executive Officer must sign and not revoke the Release of Claims would begin in one calendar year and expire in the following calendar year, then any payments contingent on such Release of Claims shall be made in such following calendar year (regardless of the year of execution of such release) if payment in such following calendar year is required in order to comply with Section 409A.

Notwithstanding the foregoing, HP does not make any guarantees or other assurances of any kind with respect to the tax consequences or treatment of any amounts paid or payable to him under this plan.

6. Effect on Other Benefits/At-Will Status. Payments under this plan shall not be considered compensation for purposes of any other compensation or benefit plan, program, or agreement of HP or its affiliates. All other compensation and benefit plans and programs shall be governed by the applicable HP plan or agreement. This plan does not create an employment relationship for any fixed term.

7. **Administration of Plan**. This plan was originally effective October 31, 2003, and is hereby amended and restated effective for terminations occurring after November 1, 2011. The plan may be amended or terminated at any time by the Committee or the Board, in their discretion. This plan is intended to be consistent with the Board's policy regarding severance agreements for senior executives, as adopted by resolutions dated July 18, 2003 (the "Resolutions"), and the benefits provided for hereunder, exclusive of "permitted benefits" (as defined in the Resolutions), do not exceed 2.99 times the sum of any eligible executive's base salary plus bonus as in effect immediately prior to separation from employment. The Committee may take such action as is necessary to implement and administer this plan consistent with the intent of the Board.

Exhibit 12

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
Statements of Computation of Ratio of Earnings to Fixed Charges[1]

	Fiscal years ended October 31				
	2011	2010	2009	2008	2007
	In millions, except ratios				
Earnings:					
Earnings before taxes	$ 8,982	$10,974	$ 9,415	$10,473	$ 9,177
Adjustments:					
Non-controlling interests in the income of subsidiaries with fixed charges	75	108	74	17	19
Undistributed loss of equity method investees	3	12	2	—	9
Fixed charges	1,027	868	1,098	1,147	995
	$10,087	$11,962	$10,589	$11,637	$10,200
Fixed charges:					
Total interest expense, including interest expense on borrowings, amortization of debt discount and premium on all indebtedness and other	$ 551	$ 417	$ 585	$ 467	$ 531
Interest included in rent	476	451	513	680	464
Total fixed charges	$ 1,027	$ 868	$ 1,098	$ 1,147	$ 995
Ratio of earnings to fixed charges	9.8x	13.8x	9.6x	10.1x	10.3x

(1) HP computed the ratio of earnings to fixed charges by dividing earnings (earnings before cumulative effect of change in accounting principle and taxes, adjusted for fixed charges, non-controlling interests in the income of subsidiaries with fixed charges and undistributed earnings or loss of equity method investees) by fixed charges for the periods indicated. Fixed charges include (i) interest expense on borrowings and amortization of debt discount or premium on all indebtedness and other, and (ii) a reasonable approximation of the interest factor deemed to be included in rental expense.

QuickLinks

Exhibit 12

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES Statements of Computation of Ratio of Earnings to Fixed Charges[(1)]

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 21

Principal Subsidiaries of Hewlett-Packard Company

The registrant's principal subsidiaries and affiliates as of October 31, 2011 are included in the list below.

ANGOLA

—Hewlett-Packard Angola, Ltda

ARGENTINA

—Hewlett-Packard Argentina S.R.L.

AUSTRALIA

—Hewlett-Packard Australia Pty. Ltd.

—HP Enterprise Services Australia Pty Ltd

—HP Financial Services (Australia) Pty Limited

AUSTRIA

—Hewlett-Packard Gesellschaft m.b.H.

BELGIUM

—Hewlett-Packard Belgium SPRL/BVBA

—Hewlett-Packard Coordination Center CVBA/SCRL

BERMUDA

—High Tech Services Insurance, Ltd.

BOTSWANA

—HP Botswana (Proprietary) Limited

BRAZIL

—Hewlett-Packard Brasil Ltda.

—HP Financial Services Arrendamento Mercantil S.A.

BULGARIA

—Hewlett-Packard Bulgaria EOOD

CANADA

—Hewlett-Packard (Canada) Co.

—Hewlett-Packard Financial Services Canada Company

CAYMAN ISLANDS

—Compaq Cayman Holdings Company

—Hewlett-Packard G1 SPV (Cayman) Company

CHILE

—Hewlett-Packard Chile Comercial Limitada

—HP Financial Services (Chile) Limitada

CHINA

—China Hewlett-Packard Co., Ltd.

—Hangzhou H3C Technologies Co., Ltd

—Hewlett-Packard (Chongqing) Co., Ltd

—Hewlett-Packard Technology (Shanghai) Co. Ltd.

—Hewlett-Packard Trading (Shanghai) Co. Ltd.

—Shanghai Hewlett-Packard Co. Ltd.

COLOMBIA

—Hewlett-Packard Colombia Ltda.

COSTA RICA

—Hewlett-Packard Costa Rica Ltda

CROATIA

—Hewlett-Packard d.o.o.

CYPRUS

—Hewlett-Packard Cyprus Ltd

CZECH REPUBLIC

—Hewlett-Packard s r.o.

DENMARK

—Hewlett-Packard ApS

ECUADOR

—Hewlett-Packard Ecuador CIA Ltda

EGYPT

—Hewlett-Packard Egypt Ltd.

FINLAND

—Hewlett-Packard OY

FRANCE

—Hewlett-Packard France SAS

GERMANY

—Hewlett-Packard GmbH

GHANA

—Hewlett-Packard Ghana Limited

GREECE

—Hewlett-Packard Hellas EPE

GUATEMALA

—Hewlett-Packard Guatemala, Limitada

HONG KONG

—Hewlett-Packard HK SAR Ltd.

HUNGARY

—Hewlett-Packard Magyarország Kft.

INDIA

—Hewlett-Packard Globalsoft Private Limited

—Hewlett-Packard India Sales Private Limited

—MphasiS Limited

INDONESIA

—PT. Hewlett-Packard Indonesia

IRELAND

—Hewlett-Packard International Bank Public Limited Company

—Hewlett-Packard Ireland Limited

—Hewlett-Packard (Manufacturing) Ltd.

ISRAEL

—Hewlett-Packard Indigo Ltd.

ITALY

—Hewlett-Packard Italiana S r.l.

JAPAN

—Hewlett-Packard Japan Ltd.

—HP Financial Services (Japan) K.K.

KOREA (SOUTH)

—Hewlett-Packard Korea Ltd.

—HP Financial Services Company (Korea)

LATVIA

—Hewlett-Packard SIA

LITHUANIA

—UAB Hewlett-Packard

LUXEMBOURG

—Hewlett-Packard Luxembourg S.C.A.

MACAU

—Hewlett-Packard Macau Limited

MALAYSIA

—Hewlett-Packard (M) Sdn. Bhd.

MEXICO

—Hewlett-Packard Mexico S. de R.L. de C.V.

—Hewlett-Packard Operations Mexico, S. de R.L. de C.V.

MOROCCO

—Hewlett-Packard SARL

MOZAMBIQUE

—Hewlett-Packard Monzambique, Limitada

NETHERLANDS

—Compaq Trademark B.V.

—Hewlett-Packard Caribe B.V.

—Hewlett-Packard Europe B.V.

—Hewlett-Packard Indigo B.V.

—Hewlett-Packard Nederland B.V.

—Hewlett-Packard Vision B.V.

NEW ZEALAND

—Hewlett-Packard New Zealand

NIGERIA

—Hewlett-Packard (Nigeria) Limited

NORWAY

—Hewlett-Packard Norge A/S

PERU

—Hewlett-Packard Peru S.R.L.

PHILIPPINES

—Hewlett-Packard Philippines Corporation

POLAND

—Hewlett-Packard Polska Sp. z.o.o.

PORTUGAL

—Hewlett-Packard Portugal Lda.

ROMANIA

—Hewlett-Packard (Romania) SRL

RUSSIA

—ZAO Hewlett-Packard A.O.

SERBIA

—Hewlett-Packard d.o.o.

SINGAPORE

—Hewlett-Packard Asia Pacific Pte. Ltd.

—Hewlett-Packard International Pte Ltd.

—Hewlett-Packard Singapore (Private) Limited

—Hewlett-Packard Singapore (Sales) Pte. Ltd.

SLOVAKIA

—Hewlett-Packard Slovakia s r.o.

SLOVENIA

—Hewlett-Packard d.o.o., druzba za tehnoloske restive

SOUTH AFRICA

—Hewlett-Packard South Africa (Proprietary) Limited

SPAIN

—Hewlett-Packard Española S.L.

SWEDEN

—Hewlett-Packard Sverige AB

SWITZERLAND

—Hewlett-Packard International Sàrl

—Hewlett-Packard (Schweiz) GmbH

TAIWAN

—Hewlett-Packard Taiwan Ltd.

TANZANIA

—Hewlett-Packard Tanzania Limited

THAILAND

—Hewlett-Packard (Thailand) Limited

TURKEY

—Hewlett-Packard Teknoloji Cozumleri Limited Sirketi

UGANDA

—Hewlett-Packard Uganda Limited

UNITED ARAB EMIRATES

—Hewlett-Packard Middle East FZ-LLC

UNITED KINGDOM

—Hewlett-Packard Limited

—Hewlett-Packard Manufacturing Ltd

—EDS (Electronic Data Systems) Limited

UNITED STATES

—3Com International, Inc.

—3Par Inc.

—ArcSight, LLC

—Compaq Computer (Delaware), LLC

—Computer Insurance Company

—Compaq Latin America Corporation

—EDS Global Contracts, LLC

—EDS World Corporation (Far East) LLC

—EDS World Corporation (Netherlands) LLC

—EYP Mission Critical Facilities, Inc.

—Fortify International, Inc.

—Hewlett-Packard Administrative Services LLC

—Hewlett-Packard Asia Pacific Services Corporation

—Hewlett-Packard Bermuda Enterprises, LLC

—Hewlett-Packard Brazil Holdings, LLC

—Hewlett-Packard Development Company, L.P.

—Hewlett-Packard Financial Services Company

—Hewlett-Packard Luxembourg Enterprises, LLC

—Hewlett-Packard Products CV 1, LLC

—Hewlett-Packard Products CV 2, LLC

—Hewlett-Packard Software, LLC

—Hewlett-Packard State & Local Enterprise Services, Inc.

—Hewlett-Packard World Services Corporation

—Hewlett-Packard World Trade, LLC

—HP Enterprise Services, LLC

—HP Financial Services International Holdings Company

—HPFS Global Holdings I, LLC

—Indigo America, Inc.

—Mphasis Corporation

—NHIC, Corp.

—Palm, Inc.

—SafeGuard Services LLC

—Shoreline Investment Management Company

—Tall Tree Insurance Company

—TippingPoint Holdings, Inc.

—TippingPoint Technologies, Inc.

—Vertica Systems, Inc.

—Wendover Financial Services Corporation

—WTAF, LLC

VENEZUELA

—Hewlett-Packard Venezuela, S.R.L.

VIETNAM

—Hewlett-Packard Vietnam Ltd.

QuickLinks

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

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-86378) pertaining to assumption of outstanding options under various Compaq stock plans,

(2) Registration Statement (Form S-3ASR No. 333-159366) pertaining to an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants,

(3) Registration Statement (Form S-8 No. 333-124281) pertaining to the Executive Deferred Compensation Plan,

(4) Registration Statement (Form S-8 No. 333-114253) pertaining to the 2004 Stock Incentive Plan,

(5) Registration Statement (Form S-8 No. 333-124280) pertaining to the 2000 Employee Stock Purchase Plan,

(6) Registration Statement (Form S-8 No. 333-35836) pertaining to the 2000 Stock Plan and 2000 Employee Stock Purchase Plan,

(7) Registration Statement (Form S-8 No. 333-22947) pertaining to the 1997 Director Stock Plan,

(8) Registration Statement (Form S-8 No. 033-58447) pertaining to the 1995 Incentive Stock Plan,

(9) Registration Statement (Form S-8 No. 033-38579) pertaining to the 1990 Incentive Stock Plan,

(10) Registration Statement (Form S-8 No. 333-124282) pertaining to the 2005 Executive Deferred Compensation Plan,

(11) Registration Statement (Form S-8 No. 002-92331) pertaining to the Hewlett-Packard Company 401(k) Plan,

(12) Registration Statement (Form S-8 No. 033-31496) pertaining to the Employee Stock Purchase Plan and Service Anniversary Stock Plan,

(13) Registration Statement (Form S-8 No. 333-138783) pertaining to the Mercury Interactive Corporation Amended and Restated 2000 Supplemental Stock Option Plan, Mercury Interactive Corporation Amended and Restated 1999 Stock Option Plan, Appilog, Inc. 2003 Stock Option Plan, Freshwater Software, Inc. 1997 Stock Plan, Kintana, Inc. 1997 Equity Incentive Plan, Performant, Inc. 2000 Stock Option/Restricted Stock Plan, and Systinet Corporation 2001 Stock Option and Incentive Plan,

(14) Registration Statement (Form S-8 No. 333-131406) pertaining to the 2003 Equity Incentive Plan of Peregrine Systems, Inc.,

(15) Registration Statement (Form S-8 No. 333-129863) pertaining to the AppIQ, Inc. 2001 Stock Option and Incentive Plan,

(16) Registration Statement (Form S-8 No. 333-114254) pertaining to the TruLogica, Inc. 2003 Stock Plan,

(17) Registration Statement (Form S-8 No. 333-113148) pertaining to the Consera Software Corporation 2002 Stock Plan,

(18) Registration Statement (Form S-8 No. 333-45231) pertaining to the VeriFone, Inc. 1997 Non-Qualified Employee Stock Purchase Plan,

(19) Registration Statement (Form S-8 No. 333-30459) pertaining to the VeriFone, Inc. Amended and Restated 1992 Non-Employee Directors' Stock Option Plan, VeriFone, Inc. Amended and

Restated Incentive Stock Option Plan, VeriFone, Inc. Amended and Restated 1987 Supplemental Stock Option Plan and VeriFone, Inc. Amended and Restated Employee Stock Purchase Plan,

(20) Registration Statement (Form S-8 No. 033-65179) pertaining to the 1995 Convex Stock Option Conversion Plan,

(21) Registration Statement (Form S-8 No. 333-114346) pertaining to the Novadigm, Inc. 1992 Stock Option Plan, Novadigm, Inc. 1999 Nonstatutory Stock Option Plan (as amended on April 30, 2003) and Novadigm, Inc. 2000 Stock Option Plan,

(22) Registration Statement (Form S-8 No. 333-114255) pertaining to the Digital Equipment (India) Limited 1999 Stock Option Plan and Digital GlobalSoft Limited 2001 Stock Option Plan,

(23) Registration Statement (Form S-8 No. 333-87788) pertaining to the Compaq Computer Corporation 1985 Nonqualified Stock Option Plan, Compaq Computer Corporation 1985 Executive and Key Employee Stock Option Plan, Compaq Computer Corporation 1985 Stock Option Plan, Compaq Computer Corporation 1989 Equity Incentive Plan, Compaq Computer Corporation 1995 Equity Incentive Plan, Compaq Computer Corporation Nonqualified Stock Option Plan for Non-Employee Directors, Compaq Computer Corporation 1998 Stock Option Plan and Compaq Computer Corporation 2001 Stock Option Plan,

(24) Registration Statement (Form S-8 No. 333-85136) pertaining to the Indigo N.V. Flexible Stock Incentive Plan and Indigo N.V. 1996 International Flexible Stock Incentive Plan,

(25) Registration Statement (Form S-8 No. 333-70232) pertaining to the StorageApps Inc. 2000 Stock Incentive Plan,

(26) Registration Statement (Form S-8 No. 333-146630) pertaining to the Opsware Inc. Amended and Restated 2000 Incentive Stock Plan, the iConclude Co. 2005 Stock Plan and the Rendition Networks, Inc. Amended and Restated 1998 Stock Option Plan,

(27) Registration Statement (Form S-8 No. 333-145920) pertaining to the S.P.I. Dynamics Incorporated 2000 Stock Incentive Plan,

(28) Registration Statement (Form S-8 No. 333-143632) pertaining to the Arteis Inc. 2001 Stock Plan and the Arteis Inc. Amended and Restated 2005 Stock Plan,

(29) Registration Statement (Form S-8 No. 333-142175) pertaining to the Apatar, Inc. 2005 Stock Incentive Plan and the PolyServe, Inc. 2000 Stock Plan,

(30) Registration Statement (Form S-8 No. 333-140857) pertaining to the Bitfone Corporation 2001 Stock Incentive Plan,

(31) Registration Statement (Form S-8 No. 333-153302) pertaining to the Amended and Restated 2003 Incentive Plan of Electronic Data Systems Corporation; the Transition Incentive Plan of Electronic Data Systems Corporation, the 2002 Transition Inducement Plan of Electronic Data Systems Corporation, the 1997 Nonqualified Stock Option Plan of Electronic Data Systems Corporation, and the 2000 Nonqualified Stock Option Plan of Electronic Data Systems Corporation,

(32) Registration Statement (Form S-8 No. 333-149437) pertaining to the EYP Mission Critical Facilities, Inc. 2001 Stock Option and Grant Plan,

(33) Registration Statement (Form S-8 No. 333-156257) pertaining to the LeftHand Networks, Inc. Second Amended and Restated 2000 Equity Incentive Plan,

(34) Registration Statement (Form S-8 No. 333-166269) pertaining to the Amended and Restated 3Com Corporation 2003 Stock Plan, the Amended and Restated 3Com Corporation 1994 Stock Option Plan, the Amended and Restated 3Com Corporation 1983 Stock Option Plan,

the 3Com Corporation Director Stock Option Plan, the 3Com Corporation Stand Alone Stock Option Agreement with Saar Gillai, the 3Com Corporation Stand Alone Restricted Stock Agreement with Saar Gillai, the 3Com Corporation Stand Alone Stock Option Agreement with Ronald A. Sege, the 3Com Corporation Stand Alone Restricted Stock Agreement with Ronald A. Sege, the 3Com Corporation Stand Alone Stock Option Agreement with Jay Zager, and the 3Com Corporation Stand Alone Restricted Stock Agreement with Jay Zager,

(35) Registration Statement (Form S-8 No. 333-166270) pertaining to the Amended and Restated Hewlett-Packard Company 2004 Stock Incentive Plan,

(36) Registration Statement (Form S-8 No. 333-168101) pertaining to the Palm, Inc. 2009 Stock Plan, as amended, and the Amended and Restated Palm, Inc. 1999 Stock Plan,

(37) Registration Statement (Form S-8 No. 333-169853) pertaining to the Fortify Software, Inc. 2004 Stock Option/Stock Issuance Plan, as amended,

(38) Registration Statement (Form S-8 No. 333-169854) pertaining to the Amended and Restated 3PAR Inc. 2007 Equity Incentive Plan, the 3PARDATA, Inc. 2000 Management Stock Option Plan, as amended, and the 3PARDATA, Inc. 1999 Stock Plan, as amended,

(39) Registration Statement (Form S-8 No. 333-170373) pertaining to the ArcSight, Inc. 2007 Equity Incentive Plan and the Amended and Restated ArcSight, Inc. 2002 Stock Plan,

(40) Registration Statement (Form S-8 No. 333-173784) pertaining to the Hewlett-Packard Company 2011 Employee Stock Purchase Plan,

(41) Registration Statement (Form S-8 No. 333-174389) pertaining to the Stonebraker Systems, Inc. 2005 Stock Plan, and

(42) Registration Statement (Form S-8 No. 333-177263) pertaining to the Autonomy Corporation plc 1998 U.S. Share Option Plan, the Autonomy Corporation plc 2008 U.S. Share Option Plan, the iManage, Inc. 2000 Non-Officer Stock Option Plan, the iManage, Inc. Amended 1997 Stock Option Plan, the Interwoven, Inc. 1999 Equity Incentive Plan, the Interwoven, Inc. 2000 Stock Incentive Plan, the Interwoven, Inc. 2003 Acquisition Plan, the Interwoven, Inc. 2008 Equity Incentive Plan, the Optimost LLC 2006 Equity Compensation Plan, the Verity, Inc. 1996 Nonstatutory Stock Option Plan, the Virage, Inc. 1997 Stock Option Plan and the Zantaz, Inc. 1998 Stock Plan,

of Hewlett-Packard Company of our reports dated December 14, 2011, with respect to the consolidated financial statements and schedule of Hewlett-Packard Company and the effectiveness of Hewlett-Packard Company's internal control over financial reporting included in this Annual Report (Form 10-K) for the year ended October 31, 2011.

/s/ ERNST & YOUNG LLP

San Jose, California
December 14, 2011

QuickLinks

Exhibit 31.1

CERTIFICATION

I, Margaret C. Whitman, certify that:

1. I have reviewed this Annual Report on Form 10-K of Hewlett-Packard Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2011

/s/ MARGARET C. WHITMAN

Margaret C. Whitman
President and Chief Executive Officer
(Principal Executive Officer)

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 31.2

CERTIFICATION

I, Catherine A. Lesjak, certify that:

1. I have reviewed this Annual Report on Form 10-K of Hewlett-Packard Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 14, 2011

/s/ CATHERINE A. LESJAK

Catherine A. Lesjak,
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

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Exhibit 32

**CERTIFICATION
OF
CHIEF EXECUTIVE OFFICER
AND
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Margaret C. Whitman, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Hewlett-Packard Company for the fiscal year ended October 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Hewlett-Packard Company.

December 14, 2011	By:	/s/ MARGARET C. WHITMAN
		Margaret C. Whitman *President and Chief Executive Officer*

I, Catherine A. Lesjak, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Hewlett-Packard Company for the fiscal year ended October 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Hewlett-Packard Company.

December 14, 2011	By:	/s/ CATHERINE A. LESJAK
		Catherine A. Lesjak *Executive Vice President and* *Chief Financial Officer*

A signed original of this written statement required by Section 906 has been provided to Hewlett-Packard Company and will be retained by Hewlett-Packard Company and furnished to the Securities and Exchange Commission or its staff upon request.