

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(Unaudited)
(In millions except per share amounts)

	Three months ended		
	January 31, 2007	October 31, 2006	January 31, 2006
Net revenue	\$ 25,082	\$ 24,555	\$ 22,659
Costs and expenses ^(a) :			
Cost of sales	19,136	18,593	17,392
Research and development	877	870	871
Selling, general and administrative	2,908	2,886	2,692
Amortization of purchased intangible assets	201	153	147
In-process research and development charges	167	-	50
Restructuring	(41)	152	15
Pension curtailment	(9)	-	-
Total costs and expenses	<u>23,239</u>	<u>22,654</u>	<u>21,167</u>
Earnings from operations	1,843	1,901	1,492
Interest and other, net	111	190	38
Gains (losses) on investments	<u>10</u>	<u>14</u>	<u>(2)</u>
Earnings before taxes	1,964	2,105	1,528
Provision for taxes ^(b)	<u>417</u>	<u>408</u>	<u>301</u>
Net earnings	<u>\$ 1,547</u>	<u>\$ 1,697</u>	<u>\$ 1,227</u>
Net earnings per share:			
Basic	\$ 0.57	\$ 0.62	\$ 0.43
Diluted	\$ 0.55	\$ 0.60	\$ 0.42
Cash dividends declared per share	\$ 0.16	\$ -	\$ 0.16
Weighted-average shares used to compute net earnings per share:			
Basic	2,705	2,730	2,822
Diluted	2,801	2,816	2,893
(a) Stock-based compensation expense included under SFAS 123(R) was as follows:			
Cost of sales	\$ 45	\$ 37	\$ 39
Research and development	19	20	18
Selling, general and administrative	<u>99</u>	<u>84</u>	<u>87</u>
Total costs and expenses	\$ 163	\$ 141	\$ 144
(b) Tax benefit from stock-based compensation	\$ (44)	\$ (40)	\$ (43)

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
ADJUSTMENTS TO GAAP NET EARNINGS, EARNINGS FROM OPERATIONS,
OPERATING MARGIN AND EARNINGS PER SHARE
(Unaudited)
(In millions except per share amounts)

	Three Months Ended January 31, 2007	Diluted Earnings Per Share	Three Months Ended October 31, 2006	Diluted Earnings Per Share	Three Months Ended January 31, 2006	Diluted Earnings Per Share
GAAP net earnings	\$ 1,547	\$ 0.55	\$ 1,697	\$ 0.60	\$ 1,227	\$ 0.42
Non-GAAP adjustments:						
Amortization of purchased intangible assets	201	0.07	153	0.05	147	0.05
In-process research and development charges	167	0.06	-	-	50	0.02
Restructuring	(41)	(0.02)	152	0.05	15	0.01
Pension curtailment	(9)	-	-	-	-	-
(Gains) losses on investments ^(a)	-	-	(14)	-	2	-
Adjustments for taxes	<u>(39)</u>	<u>(0.01)</u>	<u>(83)</u>	<u>(0.02)</u>	<u>(48)</u>	<u>(0.02)</u>
Non-GAAP net earnings	<u>\$ 1,826</u>	<u>\$ 0.65</u>	<u>\$ 1,905</u>	<u>\$ 0.68</u>	<u>\$ 1,393</u>	<u>\$ 0.48</u>
GAAP earnings from operations	\$ 1,843		\$ 1,901		\$ 1,492	
Non-GAAP adjustments:						
Amortization of purchased intangible assets	201		153		147	
In-process research and development charges	167		-		50	
Restructuring	(41)		152		15	
Pension curtailment	<u>(9)</u>		<u>-</u>		<u>-</u>	
Non-GAAP earnings from operations	<u>\$ 2,161</u>		<u>\$ 2,206</u>		<u>\$ 1,704</u>	
GAAP operating margin	7%		8%		7%	
Non-GAAP adjustments	<u>2%</u>		<u>1%</u>		<u>1%</u>	
Non-GAAP operating margin	<u>9%</u>		<u>9%</u>		<u>8%</u>	

(a) Beginning in fiscal 2007, HP no longer excludes gains or losses on investments when calculating financial measures presented on a non-GAAP basis.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(In millions)

	January 31, 2007 (unaudited)	October 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,057	\$ 16,400
Short-term investments	306	22
Accounts receivable	10,403	10,873
Financing receivable	2,511	2,440
Inventory	8,380	7,750
Other current assets	<u>10,862</u>	<u>10,779</u>
Total current assets	<u>42,519</u>	<u>48,264</u>
Property, plant and equipment	7,045	6,863
Long-term financing receivables and other assets	7,392	6,649
Goodwill and purchased intangible assets	<u>24,358</u>	<u>20,205</u>
Total assets	<u><u>\$ 81,314</u></u>	<u><u>\$ 81,981</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	\$ 3,337	\$ 2,705
Accounts payable	11,360	12,102
Employee compensation and benefits	2,120	3,148
Taxes on earnings	1,673	1,905
Deferred revenue	4,750	4,309
Accrued restructuring	324	547
Other accrued liabilities	<u>11,480</u>	<u>11,134</u>
Total current liabilities	<u>35,044</u>	<u>35,850</u>
Long-term debt	2,438	2,490
Other liabilities	5,789	5,497
Stockholders' equity	<u>38,043</u>	<u>38,144</u>
Total liabilities and stockholders' equity	<u><u>\$ 81,314</u></u>	<u><u>\$ 81,981</u></u>

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

	Three Months Ended January 31, 2007	Three Months Ended January 31, 2006
Cash flows from operating activities:		
Net earnings	\$ 1,547	\$ 1,227
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	643	563
Stock-based compensation expense	163	144
Provision for bad debt and inventory	77	102
(Gains) losses on investments	(10)	2
In-process research and development charges	167	50
Restructuring	(41)	15
Pension curtailment	(9)	-
Deferred taxes on earnings	91	55
Excess tax benefit from stock-based compensation	(100)	(65)
Other, net	(3)	77
Changes in assets and liabilities:		
Accounts and financing receivables	548	1,193
Inventory	(698)	89
Accounts payable	(759)	(1,291)
Taxes on earnings	131	(72)
Restructuring	(281)	(162)
Other assets and liabilities	(1,488)	(81)
Net cash (used in) provided by operating activities	(22)	1,846
Cash flows from investing activities:		
Investment in property, plant and equipment	(718)	(427)
Proceeds from sale of property, plant and equipment	139	105
Purchases of available-for-sale securities and other investments	(13)	(13)
Maturities and sales of available-for-sale securities and other investments	92	21
Payments made in connection with business acquisitions, net	(4,464)	(653)
Net cash used in investing activities	(4,964)	(967)
Cash flows from financing activities:		
Issuance (repayment) of commercial paper and notes payable, net	1,263	(68)
Issuance of debt	69	81
Payment of debt	(1,056)	(231)
Issuance of common stock under employee stock plans	797	647
Repurchase of common stock	(2,312)	(1,401)
Prepayment of common stock repurchases	-	(1,722)
Excess tax benefit from stock-based compensation	100	65
Dividends	(218)	(227)
Net cash used in financing activities	(1,357)	(2,856)
Decrease in cash and cash equivalents	(6,343)	(1,977)
Cash and cash equivalents at beginning of period	16,400	13,911
Cash and cash equivalents at end of period	\$ 10,057	\$ 11,934

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
SEGMENT INFORMATION
(Unaudited)
(In millions)

	Three months ended		
	January 31, 2007	October 31, 2006 ^(a)	January 31, 2006 ^(a)
Net revenue:			
Enterprise Storage and Servers	\$ 4,453	\$ 4,670	\$ 4,240
HP Services	3,948	4,080	3,757
HP Software	<u>550</u>	<u>349</u>	<u>304</u>
Technology Solutions Group	<u>8,951</u>	<u>9,099</u>	<u>8,301</u>
Personal Systems Group	8,719	7,823	7,449
Imaging and Printing Group	6,999	7,283	6,545
HP Financial Services	547	545	496
Corporate Investments	<u>157</u>	<u>160</u>	<u>129</u>
Total Segments	25,373	24,910	22,920
Eliminations of intersegment net revenue and other	<u>(291)</u>	<u>(355)</u>	<u>(261)</u>
Total HP Consolidated	<u>\$ 25,082</u>	<u>\$ 24,555</u>	<u>\$ 22,659</u>
Earnings from operations:			
Enterprise Storage and Servers	\$ 416	\$ 502	\$ 326
HP Services	414	505	293
HP Software	<u>47</u>	<u>60</u>	<u>9</u>
Technology Solutions Group	<u>877</u>	<u>1,067</u>	<u>628</u>
Personal Systems Group	414	336	293
Imaging and Printing Group	1,073	1,080	973
HP Financial Services	32	35	38
Corporate Investments	<u>(29)</u>	<u>(36)</u>	<u>(33)</u>
Total Segments	2,367	2,482	1,899
Corporate and unallocated costs and eliminations	(66)	(156)	(72)
Unallocated costs related to stock-based compensation expense	(140)	(120)	(123)
Amortization of purchased intangible assets	(201)	(153)	(147)
In-process research and development charges	(167)	-	(50)
Restructuring	41	(152)	(15)
Pension curtailment	9	-	-
Interest and other, net	111	190	38
Gains (losses) on investments	<u>10</u>	<u>14</u>	<u>(2)</u>
Total HP Consolidated Earnings Before Taxes	<u>\$ 1,964</u>	<u>\$ 2,105</u>	<u>\$ 1,528</u>

(a) Certain fiscal 2007 organizational realignments have been reflected retroactively to provide improved visibility and comparability. For each of the quarters in fiscal year 2006, the realignments primarily resulted in revenue movement within business units within the ESS and HPS segments. There was no impact to total segment revenue.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
SEGMENT / BUSINESS UNIT INFORMATION
(Unaudited)
(In millions)

	Three months ended		
	January 31, 2007	October 31, 2006 ^(a)	January 31, 2006 ^(a)
Net revenue:			
Industry Standard Servers	\$ 2,689	\$ 2,694	\$ 2,448
Business Critical Systems	848	997	906
Storage	<u>916</u>	<u>979</u>	<u>886</u>
Enterprise Storage and Servers	<u>4,453</u>	<u>4,670</u>	<u>4,240</u>
Technology Services	2,093	2,117	2,081
Outsourcing Services ^(b)	1,125	1,185	1,011
Consulting and Integration	<u>730</u>	<u>778</u>	<u>665</u>
HP Services	<u>3,948</u>	<u>4,080</u>	<u>3,757</u>
OpenView	457	251	205
OpenCall and Other	<u>93</u>	<u>98</u>	<u>99</u>
HP Software	<u>550</u>	<u>349</u>	<u>304</u>
Technology Solutions Group	<u>8,951</u>	<u>9,099</u>	<u>8,301</u>
Desktops	3,812	3,675	3,854
Notebooks	4,144	3,463	2,954
Workstations	405	362	329
Handhelds	183	139	216
Other	<u>175</u>	<u>184</u>	<u>96</u>
Personal Systems Group	<u>8,719</u>	<u>7,823</u>	<u>7,449</u>
Commercial Hardware	1,689	1,873	1,655
Consumer Hardware	1,227	1,296	1,223
Supplies	4,069	4,100	3,652
Other	<u>14</u>	<u>14</u>	<u>15</u>
Imaging and Printing Group	<u>6,999</u>	<u>7,283</u>	<u>6,545</u>
HP Financial Services	547	545	496
Corporate Investments	<u>157</u>	<u>160</u>	<u>129</u>
Total Segments	<u>25,373</u>	<u>24,910</u>	<u>22,920</u>
Eliminations of intersegment net revenue and other	<u>(291)</u>	<u>(355)</u>	<u>(261)</u>
Total HP Consolidated	<u>\$ 25,082</u>	<u>\$ 24,555</u>	<u>\$ 22,659</u>

(a) Certain fiscal 2007 organizational realignments have been reflected retroactively to provide improved visibility and comparability. For each of the quarters in fiscal year 2006, the realignments primarily resulted in revenue movement within business units within the ESS and HPS segments. There was no impact to total segment revenue.

(b) Reflects name change from Managed Services to Outsourcing Services effective in fiscal 2007.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
CALCULATION OF NET EARNINGS PER SHARE
(Unaudited)
(In millions except per share amounts)

	Three months ended		
	January 31, 2007	October 31, 2006	January 31, 2006
Numerator:			
Net earnings	\$ 1,547	\$ 1,697	\$ 1,227
Adjustment for interest expense on zero-coupon subordinated convertible notes, net of taxes	<u>2</u>	<u>2</u>	<u>2</u>
Net earnings, adjusted	<u>\$ 1,549</u>	<u>\$ 1,699</u>	<u>\$ 1,229</u>
Denominator:			
Weighted-average shares used to compute basic EPS	2,705	2,730	2,822
Effect of dilutive securities:			
Dilution from employee stock plans	88	78	64
Zero-coupon subordinated convertible notes	<u>8</u>	<u>8</u>	<u>7</u>
Dilutive potential common shares	<u>96</u>	<u>86</u>	<u>71</u>
Weighted-average shares used to compute diluted EPS	<u>2,801</u>	<u>2,816</u>	<u>2,893</u>
Net earnings per share:			
Basic ^(a)	\$ 0.57	\$ 0.62	\$ 0.43
Diluted ^(b)	\$ 0.55	\$ 0.60	\$ 0.42

(a) HP's basic earnings per share was calculated based on net earnings and the weighted-average number of shares outstanding during the reporting period.

(b) The diluted earnings per share included additional dilution from potential issuance of common stock, such as stock issuable pursuant to exercise of stock options and conversion of debt, except when such issuances would be antidilutive.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
CALCULATION OF NON-GAAP NET EARNINGS PER SHARE
(Unaudited)
(In millions except per share amounts)

	Three months ended		
	January 31, 2007	October 31, 2006	January 31, 2006
Numerator:			
Non-GAAP net earnings	\$ 1,826	\$ 1,905	\$ 1,393
Adjustment for interest expense on zero-coupon subordinated convertible notes, net of taxes	<u>2</u>	<u>2</u>	<u>2</u>
Non-GAAP net earnings, adjusted	<u>\$ 1,828</u>	<u>\$ 1,907</u>	<u>\$ 1,395</u>
Denominator:			
Weighted-average shares used to compute basic EPS	2,705	2,730	2,822
Effect of dilutive securities:			
Dilution from employee stock plans	88	78	64
Zero-coupon subordinated convertible notes	<u>8</u>	<u>8</u>	<u>7</u>
Dilutive potential common shares	<u>96</u>	<u>86</u>	<u>71</u>
Weighted-average shares used to compute diluted EPS	<u>2,801</u>	<u>2,816</u>	<u>2,893</u>
Non-GAAP net earnings per share:			
Basic ^(a)	\$ 0.68	\$ 0.70	\$ 0.49
Diluted ^(b)	\$ 0.65	\$ 0.68	\$ 0.48

(a) HP's basic non-GAAP earnings per share was calculated based on non-GAAP net earnings and the weighted-average number of shares outstanding during the reporting period.

(b) HP's diluted non-GAAP earnings per share included additional dilution from potential issuance of common stock, such as stock issuable pursuant to exercise of stock options and conversion of debt, except when such issuances would be antidilutive.