

HEWLETT PACKARD CO  
Form 10-Q  
March 09, 2007

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

(Mark One)

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

For the quarterly period ended: **January 31, 2007**

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**

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## HEWLETT-PACKARD COMPANY

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**3000 Hanover Street, Palo Alto, California**  
(Address of principal executive offices)

**94-1081436**  
(I.R.S. employer  
identification no.)  
**94304**  
(Zip code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act ) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares of HP common stock outstanding as of February 28, 2007 was 2,676,446,604 shares.



**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES  
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**Forward-Looking Statements**

*This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this report, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Hewlett-Packard Company and its consolidated subsidiaries (HP) may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of revenue, margins, expenses, tax provisions, earnings, cash flows, benefit obligations, share repurchases or other financial items; any statements of the plans, strategies and objectives of management for future operations, including the execution of any cost reduction programs and restructuring plans; any statements concerning expected development, performance or market share relating to products or services; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include macroeconomic and geopolitical trends and events; the execution and performance of contracts by customers, suppliers and partners; the challenge of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; assumptions related to pension and other post-retirement costs; expectations and assumptions relating to the execution and timing of any cost reduction programs and restructuring plans; the outcome of pending legislation and accounting pronouncements; and other risks that are described herein, including but not limited to the items discussed in Factors that Could Affect Future Results set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this report, and that are otherwise described from time to time in HP's Securities and Exchange Commission reports, including HP's Annual Report on Form 10-K for the fiscal year ended October 31, 2006. HP assumes no obligation and does not intend to update these forward-looking statements.*



## PART I

## Item 1. Financial Statements.

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Consolidated Condensed Statements of Earnings

(Unaudited)

	Three months ended January 31	
	2007	2006
	In millions, except per share amounts	
Net revenue:		
Products	\$ 20,363	\$ 18,337
Services	4,628	4,236
Financing income	91	86
Total net revenue	25,082	22,659
Costs and expenses:		
Cost of products	15,466	13,938
Cost of services	3,602	3,395
Financing interest	68	59
Research and development	877	871
Selling, general and administrative	2,908	2,692
Amortization of purchased intangible assets	201	147
In-process research and development charges	167	50
Restructuring	(41)	15
Pension curtailment	(9)	
Total operating expenses	23,239	21,167
Earnings from operations	1,843	1,492
Interest and other, net	111	38
Gains (losses) on investments	10	(2)
Earnings before taxes	1,964	1,528
Provision for taxes	417	301
Net earnings	\$ 1,547	\$ 1,227
Net earnings per share:		
Basic	\$ 0.57	\$ 0.43
Diluted	\$ 0.55	\$ 0.42
Cash dividends declared per share	\$ 0.16	\$ 0.16
Weighted-average shares used to compute net earnings per share:		
Basic	2,705	2,822
Diluted	2,801	2,893

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



## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets

	January 31, 2007	October 31, 2006
	In millions, except par value (Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,057	\$ 16,400
Short-term investments	306	22
Accounts receivable	10,403	10,873
Financing receivables	2,511	2,440
Inventory	8,380	7,750
Other current assets	10,862	10,779
Total current assets	42,519	48,264
Property, plant and equipment	7,045	6,863
Long-term financing receivables and other assets	7,392	6,649
Goodwill	20,074	16,853
Purchased intangible assets	4,284	3,352
Total assets	\$ 81,314	\$ 81,981
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
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	11,480	11,134
Total current liabilities	35,044	35,850
Long-term debt	2,438	2,490
Other liabilities	5,789	5,497
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value (300 shares authorized; none issued)		
Common stock, \$0.01 par value (9,600 shares authorized; 2,692 and 2,732 shares issued and outstanding, respectively)	27	27
Additional paid-in capital	17,569	17,966
Prepaid stock repurchase	(165 )	(596 )
Retained earnings	20,604	20,729
Accumulated other comprehensive income	8	18
Total stockholders' equity	38,043	38,144
Total liabilities and stockholders' equity	\$ 81,314	\$ 81,981

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

## HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

## Consolidated Condensed Statements of Cash Flows

(Unaudited)

	Three months ended January 31	
	2007	2006
	In millions	
Cash flows from operating activities:		
Net earnings	\$ 1,547	\$ 1,227
Adjustments to reconcile net earnings to net cash (used in) 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
Supplemental schedule of noncash financing activities:		
Net issuances of restricted stock	\$ 26	\$ 17
Issuance of options assumed in business acquisitions	\$ 132	\$ 7

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





**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements**  
**(Unaudited)**

**Note 1: Basis of Presentation and Significant Accounting Policies**

In the opinion of management, the accompanying Consolidated Condensed Financial Statements of Hewlett-Packard Company and its consolidated subsidiaries ( HP ) contain all adjustments, including normal recurring adjustments, necessary to present fairly HP 's financial position as of January 31, 2007, and its results of operations and cash flows for the three months ended January 31, 2007 and 2006. The Consolidated Condensed Balance Sheet as of October 31, 2006 is derived from the October 31, 2006 audited financial statements. Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation.

The results of operations for the three months ended January 31, 2007 are not necessarily indicative of the results to be expected for the full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with Management 's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures About Market Risk and the Consolidated Financial Statements and notes thereto included in Items 7, 7A and 8, respectively, of the Hewlett-Packard Company Annual Report on Form 10-K for the fiscal year ended October 31, 2006.

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

*Recent Pronouncements*

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

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB No. 87, 88, 106 and 132(R) ( SFAS 158 ). SFAS 158 requires that the funded status of defined benefit postretirement plans be recognized on the company 's balance sheet, and changes in the funded status be reflected in comprehensive income, effective for fiscal years ending after December 15, 2006, which HP expects to adopt effective October 31, 2007. SFAS 158 also requires companies to measure the funded status of the plan as of the date of its fiscal year end, effective for fiscal years ending after December 15, 2008. HP expects to adopt the measurement provisions of SFAS 158 effective October 31, 2009. Based upon the most recent actuarial measurement for the fiscal year ended October 31, 2006, the adoption of SFAS 158 is expected to result in a decrease in assets of \$821 million, a decrease in liabilities of \$138 million and a pretax increase in the accumulated other comprehensive loss of \$683 million. The actual impact of the adoption of SFAS 158 may differ from these estimates due to changes to actual plan assets and liabilities in fiscal 2007.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 ( SFAS 159 ). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 1: Basis of Presentation and Significant Accounting Policies (Continued)**

for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by HP in the first quarter of fiscal 2009. HP currently is determining whether fair value accounting is appropriate for any of its eligible items and cannot estimate the impact, if any, which SFAS 159 will have on its consolidated results of operations and financial condition.

During the first quarter of 2007, HP adopted the following accounting standards, none of which had a material effect on HP's consolidated results of operations or financial condition:

- SFAS No. 154, Accounting for Changes and Error Corrections ;
- Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ; and
- Emerging Issues Task Force ( EITF ) 05-5, Accounting for Early Retirement or Postemployment Programs with Specific Features (Such as Terms Specified in Altersteilzeit Early Retirement Arrangements)

**Note 2: Stock-Based Compensation**

Effective November 1, 2005, HP adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), Share-Based Payment ( SFAS 123R ), using the modified prospective transition method. The total stock-based compensation expense before taxes associated with HP stock-based employee compensation plans was \$163 million, excluding a \$14 million credit adjustment in restructuring charges as disclosed below, and \$144 million for the three months ended January 31, 2007 and 2006, respectively. HP allocated stock-based compensation expense under SFAS 123R as follows:

	Three months ended January 31, 2007			Three months ended January 31, 2006		
	In millions					
Cost of sales	\$	45		\$	39	
Research and development		19			18	
Selling, general and administrative		99			87	
Stock-based compensation expense before income taxes		163			144	
Income tax benefit		(48)			(43)	
Total stock-based compensation expense after income taxes	\$	115		\$	101	

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements (Continued)**  
**(Unaudited)**

**Note 2: Stock-Based Compensation (Continued)**

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

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

	Stock Options(1)			
	Three months ended January 31			
	2007		2006	
Weighted-average fair value of grants	\$ 12.87		\$ 9.28	
Risk-free interest rate	4.69	%	4.31	%
Dividend yield	0.76	%	1.02	%
Expected volatility	28	%	29	%
Expected life in months	59		57	

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

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

	Shares (in thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at October 31, 2006	445,740	\$ 31		
Granted and assumed through acquisitions	38,983	\$ 42		
Exercised	(25,526 )	\$ 25		
Forfeited/cancelled/expired	(6,109 )	\$ 42		
Outstanding at January 31, 2007	453,088	\$ 32	4.8	\$ 6,033
Vested and expected to vest at January 31, 2007	444,676	\$ 32	4.7	\$ 5,906
Exercisable at January 31, 2007	306,277	\$ 34	3.9	\$ 3,823

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between HP's closing stock price on the last trading day of the first quarter of fiscal 2007 and the exercise price, multiplied by the number of in-the-money options) that option holders would have received had all option holders exercised their options on January 31, 2007. This amount changes based on the fair market value of HP's stock. Total intrinsic value of options exercised for the three months ended January 31, 2007 and 2006 was \$416 million and \$235 million, respectively.

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements (Continued)**  
**(Unaudited)**

**Note 2: Stock-Based Compensation (Continued)**

HP expects to recognize, as of January 31, 2007, \$962 million of total unrecognized compensation cost related to stock options over a weighted-average period of 2.4 years.

Nonvested restricted stock awards as of January 31, 2007 and changes during the three months ended January 31, 2007 were as follows:

	Number of shares (in thousands)	Weighted- Average Grant Date Fair Value
Nonvested at October 31, 2006	6,365	\$ 24
Granted	702	\$ 42
Vested	(395 )	\$ 26
Forfeited	(333 )	\$ 24
Nonvested at January 31, 2007	6,339	\$ 26

As of January 31, 2007, there was \$99 million unrecognized stock-based compensation expense related to nonvested restricted stock awards. HP expects to recognize that cost over a weighted-average period of 1.5 years.

**Note 3: Net Earnings Per Share ( EPS )**

HP calculates basic EPS using net earnings and the weighted-average number of shares outstanding during the reporting period. Diluted EPS includes the effect from potential issuance of common stock, such as stock issuable pursuant to the exercise of stock options and the assumed conversion of convertible notes.

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements (Continued)**  
**(Unaudited)**

**Note 3: Net Earnings Per Share ( EPS ) (Continued)**

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

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

In the first quarter of fiscal 2007 and 2006, HP excluded options with exercise prices that were greater than the average market price for HP's common stock to purchase approximately 117 million shares and 223 million shares, respectively, from the calculation of diluted EPS because their effect was anti-dilutive. Also, as a result of adopting SFAS 123R on November 1, 2005, HP excluded an additional 4 million options and 3 million options, respectively, in the first quarter of fiscal 2007 and 2006, 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 as their effect was also anti-dilutive.

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements (Continued)**  
**(Unaudited)**

**Note 4: Balance Sheet Details**

Balance sheet details were as follows:

*Accounts and Financing Receivables*

	January 31, 2007	October 31, 2006
In millions		
Accounts receivable	\$ 10,618	\$ 11,093
Allowance for doubtful accounts	(215 )	(220 )
	\$ 10,403	\$ 10,873
Financing receivables	\$ 2,555	\$ 2,480
Allowance for doubtful accounts	(44 )	(40 )
	\$ 2,511	\$ 2,440

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 approximately \$486 million as of January 31, 2007. HP sold approximately \$658 million of trade receivables during the first quarter of fiscal 2007. Fees associated with these facilities do not generally differ materially from the cash discounts offered to these customers under the previous alternative prompt payment programs. As of January 31, 2007, there was approximately \$173 million available under these programs.

*Inventory*

	January 31, 2007	October 31, 2006
In millions		
Finished goods	\$ 5,709	\$ 5,424
Purchased parts and fabricated assemblies	2,671	2,326
	\$ 8,380	\$ 7,750

**Note 5: Acquisitions**

In the first quarter of fiscal 2007, HP acquired two companies. The largest of these transactions was the acquisition of Mercury Interactive Corporation ( Mercury ), which is described below. The second acquisition, Knightsbridge Solutions Holdings Corporation ( Knightsbridge ), is a privately held services company specializing in the information management areas of business intelligence, data warehousing, data integration and information quality. Knightsbridge is included in HP Services.

HP has recorded these acquisitions using the purchase method of accounting and, accordingly, included the results of operations in HP s consolidated results as of 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 ), based on their estimated fair values. The excess purchase price over those fair values is recorded as goodwill. HP has not presented the pro forma results of operations because the results are not material to HP s consolidated results of operations on either an individual or an aggregate basis.





**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 5: Acquisitions (Continued)***Mercury Acquisition*

On November 2, 2006, HP completed its tender offer for Mercury, a leading IT management software and services company, and acquired approximately 96% of Mercury common shares for cash consideration of \$52 per share. On November 6, 2006, HP acquired the remaining outstanding common shares, and Mercury became a wholly owned subsidiary of HP. This acquisition combines Mercury's application management, application delivery and IT governance capabilities with HP's broad portfolio of management solutions.

The aggregate purchase price of approximately \$4.9 billion consisted of cash paid for outstanding stock, vested in-the-money stock options and direct transaction costs. In addition, the purchase price also included the estimated fair value of earned unvested stock options and out-of-the-money vested stock options assumed by HP.

The preliminary purchase price allocation as of the date of acquisition is as follows:

	<b>In millions</b>
Cash and short term investments	\$ 831
Other tangible assets	372
Notes payable	(303 )
Other liabilities assumed.	(883 )
Total net assets	17
Amortizable intangible assets	1,080
Goodwill	3,648
IPR&D	167
Total purchase price.	\$ 4,912

Note 7 contains information related to the cost of restructuring programs for Mercury employees, which was also included as part of other liabilities assumed.

The purchase price allocation was based on management's preliminary valuation and the estimates and assumptions used are subject to change. The primary areas of the purchase price allocation that are not yet finalized relate to restructuring costs, certain income tax-related balances, certain legal matters and residual goodwill.

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 5: Acquisitions (Continued)**

HP has included Mercury in the OpenView business within the HP Software segment. Goodwill, which represents the excess of the purchase price over the net tangible and intangible assets acquired, is not deductible for tax purposes. The amortizable intangible assets are being amortized over their estimated useful lives as follows:

	In millions	Weighted-average useful life
Technology	\$ 575	4.2 years
Customer relationships	237	7.0 years
Maintenance contracts	264	6.8 years
Trademarks	4	6.0 years
Total amortizable intangible assets	\$ 1,080	5.5 years

IPR&D expense of \$167 million was recorded in HP's results of operations for the quarter ended January 31, 2007. Projects that qualify for IPR&D represent those that have not yet reached technological feasibility and have no alternative use. Technological feasibility is defined as being equivalent to a beta-phase working proto-type in which there is no remaining risk relating to the development.

*Pending and Completed Acquisitions*

In February 2007, HP agreed to acquire PolyServe, Inc., a leading provider of storage software for application and file serving utilities. The transaction is subject to certain closing conditions and is expected to be completed in the second quarter of fiscal 2007. Following the close of the acquisition, the business will be included in the Storage business unit within the Enterprise Storage and Servers segment.

In February 2007, HP completed the acquisitions of Bitfone Corporation ( Bitfone ) and Bristol Technology, Inc. ( Bristol ). Bitfone is a privately held global software and services company that develops software solutions for mobile device management for the wireless industry. Bitfone will be included in the Handhelds business unit within HP's Personal Systems Group. Bristol's solutions help companies monitor complex business transactions, complimenting Mercury's software solutions. Bristol will be included in the OpenView business within the HP Software segment.

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements (Continued)**  
**(Unaudited)**

**Note 6: Goodwill and Purchased Intangible Assets**

*Goodwill*

Goodwill allocated to HP's business segments as of January 31, 2007 and changes in the carrying amount of goodwill for the three months ended January 31, 2007 were as follows:

	<b>HP Services In millions</b>	<b>Enterprise Storage and Servers</b>	<b>HP Software</b>	<b>Personal Systems Group</b>	<b>Imaging and Printing Group</b>	<b>HP Financial Services</b>	<b>Total</b>
Balance at October 31, 2006	\$ 6,339	\$ 5,091	\$ 1,098	\$ 2,322	\$ 1,853	\$ 150	\$ 16,853
Goodwill acquired during the period	96		3,648				