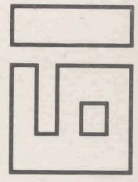
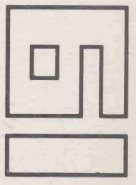
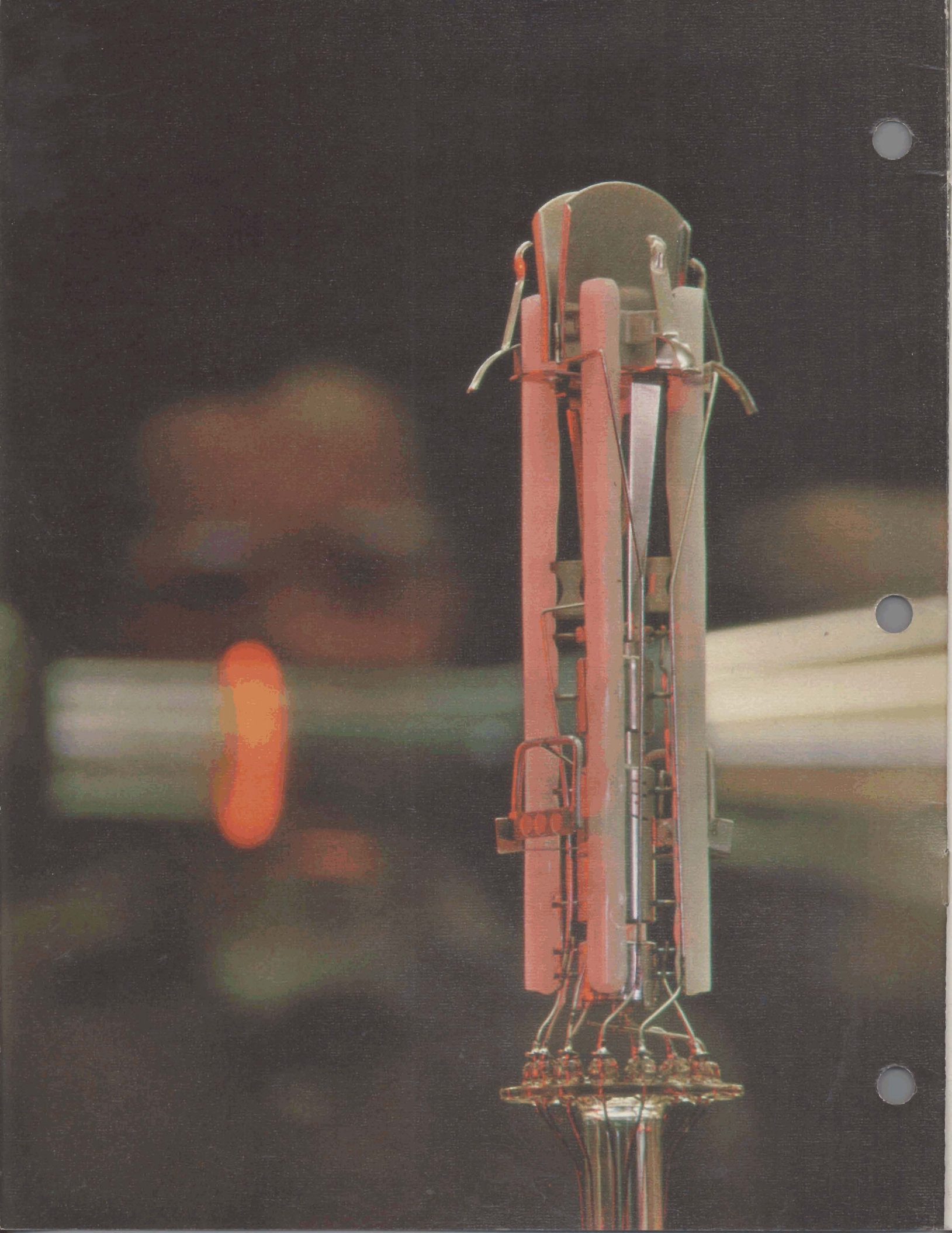
HEWLETT-PACKARD COMPANY ANNUAL REPORT







HEWLETT PACKARD COMPANY ANNUAL REPORT

1961

One of the most useful instruments in electronics is the oscilloscope, a device which displays electrical waveforms on a cathode ray tube. To assure that its broad line of oscilloscopes represents the utmost in quality and reliability, Hewlett-Packard designs and manufactures its own cathode ray tubes. Pictured here is the delicate heart of those tubes, the electron gun.

DAVID PACKARD
President

WILLIAM R. HEWLETT
Executive Vice President

TO OUR SHAREHOLDERS

We are pleased to report very satisfactory progress during the fiscal year which ended October 31, 1961. Perhaps the most important event was the addition of the Sanborn Company to the corporate family. In this report the figures for Sanborn are consolidated for 1961 and for previous years as well. We believe this provides the most satisfactory basis for comparing results. If, however, you compare sales as reported last year at $60,206,918 (without Sanborn) with this year's sales of $85,590,239 (with Sanborn), an increase of over 40%, you will have a better measure of the expansion in breadth of activity undertaken during the year.

We are particularly pleased with the gain in profits, 17.7%, as compared to sales, 11.4%. This gain resulted from improved profit margins for the parent company and nearly all subsidiaries.

The Sanborn acquisition led to the issuance of 448,746 shares of convertible preferred stock. After payment of dividends amounting to $100,970 on this preferred and $269,247 on the old Sanborn stock, earnings allocated to common stock increased from $4,633,879 in 1960 to $5,503,655 in 1961, or 18.8%. This is reflected as 52.3¢ per share on 10,530,698 shares outstanding in 1961 as compared to 44.2¢ per share on 10,473,257 shares outstanding in 1960, a gain of 18.3%. Both these figures are with Sanborn included.

Last year we reported earnings of 42.9¢ per share on 9,845,012 shares outstanding without Sanborn. The gain to you as a shareholder, then, was from 42.9¢ in 1960 without Sanborn to 52.3¢ in 1961 with Sanborn, or 21.9%.

The improvement in earnings was accomplished with a 25.6% increase in expenditures for research and development—from $4,697,078 in 1960 to $5,901,246 in 1961—and also with a 32.2% increase in depreciation charges—from $1,450,076 in 1960 to $1,916,920 in 1961.

With the addition of cash flow from depreciation charges, funds from employee stock purchases and profits, we had $8.3 million to apply to our capital requirements. Of this amount, $2.5 million was spent during the year for buildings and equipment, while the remainder was applied to the reduction of bank loans and to an increase in working capital. As a result, we ended the year with the strongest financial position in the history of the company.

We are planning considerable expansion of plant and facilities in 1962. We also anticipate a substantial increase in sales, with a corresponding need for additional working capital. For these reasons no dividends were declared on common stock during 1961 and it is not likely that dividends will be paid on common stock during 1962.

Our European market continued to expand in 1961.

YEAR IN BRIEF

	1961	1960
Net sales	$85,590,239	$76,809,369
Other income	613,179	556,587
Total income	$86,203,418	$77,365,956
Cost of goods sold and operating expense	53,418,892	48,511,731
Selling, administrative and general expense	20,989,580	18,605,766
Provision for federal and foreign income taxes	5,730,459	4,980,571
Net income	5,873,872	4,991,739
Net income per share of common stock	$ .523	$ .442

Sales efforts were strengthened by the establishment of a new affiliate, the Electronic Marketing Company SA/NV, to cover the Benelux countries. A new 30,000 square-foot plant was started in Böblingen to increase our productive capacity in Germany, and Hewlett-Packard Ltd. was established in Bedford to manufacture Hewlett-Packard instruments in England. We believe we are now firmly established to take advantage of the Common Market in Europe.

It is our aim that every instrument we produce shall be a genuine contribution to the art and science of measurement. To meet this goal in a world of rapidly advancing technology requires that our own technology advance equally fast. We have made progress toward this end in many ways during the past year. A most significant step is the establishment of HP Associates. This organization, dedicated to advanced research in the broad field of solid state electronics, will enable us to keep abreast of, and contribute to, progress in this important area of future opportunity.

To maintain the high quality and reliability associated with Hewlett-Packard products, we have been developing and manufacturing many of our own precision components, including some solid state devices of the type which emanate from HP Associates research. These delicate devices, some of which are illustrated in this report, contribute a degree of accuracy and sophistication to our instruments which is unmatched by our competitors. We are particularly proud of the work we have done in this area during the past year and are confident that our future efforts will enhance our capability to produce instruments of the most advanced design and finest craftsmanship.

The vastly enlarged range of activity we have undertaken during the past year or two, combined with the accelerating technical progress throughout the Western world, offer unusual challenges and opportunities for our company in the years ahead. We believe we have strengthened our facilities, our manpower and our financial resources during 1961 to be able to take advantage of these unfolding opportunities.

David Packard

PRESIDENT

Contributing to the extreme accuracy and reliability of many Hewlett-Packard instruments are special-purpose semiconductor diodes designed and manufactured in the company's own semiconductor laboratory. Here, in the initial step of silicon diode fabrication, a crystal of silicon is being "grown" from a molten pool of the element in an induction furnace.

REVIEW OF OPERATIONS

1961 was a year of substantial growth and progress for Hewlett-Packard. In addition to posting record sales and earnings, the company accelerated its research and development activity, increased its productive capacity, broadened its markets and expanded its product line. Among the more significant developments of the year were the following:

1961

On August 31 the company acquired, as a wholly-owned subsidiary, the Sanborn Company of Waltham, Massachusetts. Sanborn, described in detail in another section of this report, is a major manufacturer of medical diagnostic apparatus and industrial recording instruments. Its industrial instruments complement the Hewlett-Packard product line, and its strong position in the field of medical instrumentation opens an important new market for the parent company.

1961

The addition of Sanborn, coupled with the continuing growth of the parent company and its other subsidiaries, resulted in a total sales increase of over 40% during the year. This rapid overall expansion required that considerable attention be given to the company's organizational structure and to employee training, education and development at all levels. Divisional responsibility was extended along product lines, with new divisions being formed for microwave instruments under Bruce Wholey, oscilloscopes under Cortland Van Rensselaer, and frequency and time measuring instruments under Alan S. Bagley. The company also expanded its development and manufacture of precision components unique to the needs of measurement work, and accorded this activity limited divisional status for better direction and control.

1961

To develop close coordination of all corporate activity, a strong executive council was formed. This council includes the principal officers of subsidiary companies together with key executives of the parent firm. The company also appointed Noel E. Porter to a newly created post, vice president of operations, to provide centralized control of the rapidly expanding operating units. Ralph E. Lee was named vice president of manufacturing with responsibility for all technical aspects of manufacture on a corporate-wide basis.

As a major step in expanding its production facilities, the company started construction last summer of a new plant in Loveland, Colorado. The first unit, a 140,000 square-foot building, is scheduled for completion in July, 1962. It will be operated by the company's Loveland Division, presently housed in an interim plant. Another significant development at Loveland has been the establishment of an engineering group to develop new products in the audio-video field.

1961

The company's position in foreign markets was strengthened considerably during 1961. Sales to customers outside the United States were up 25% over 1960. At the end of the fiscal year, Hewlett-Packard instruments were being sold in 70 foreign countries. Western Europe, enjoying a period of unprecedented industrial growth, accounted for the bulk of foreign sales. To meet an increasing European demand for its products, the company established a manufacturing plant in Bedford, England. This facility is operated by a newly created subsidiary, Hewlett-Packard Ltd. Overseas productive capacity was also increased with the construction of a new and larger plant in Böblingen, West Germany.

1961

On the marketing side of its foreign operations, the company achieved greater efficiency in the world-wide sale and distribution of the Hewlett-Packard family of products. Steps were taken to consolidate European sales activities under the central direction of Hewlett-Packard S.A., the company's European marketing subsidiary. The creation of a new affiliated firm with offices in Brussels and Amsterdam strengthened sales efforts in the Benelux countries. In Canada, another fast-growing market for Hewlett-Packard instruments, the company established a sales subsidiary in November, 1961, known as Hewlett-Packard (Canada) Ltd.

1961

U. S. marketing activities, conducted through a network of independent sales representatives, were accelerated during the past year to meet increasingly competitive market conditions. Of particular significance was a major expansion of the company's customer service program. The core of this program is a staff of 125 technicians and specialists headquartered in Palo Alto. This staff, together with the highly trained engineers and technicians employed by the field sales organizations, provides the necessary skills and technical competence to assure Hewlett-Packard customers of prompt, efficient service in meeting their instrumentation requirements. The company intends to further strengthen its customer service program during the coming year.

1961

Hewlett-Packard's expanding operations, both at home and abroad, create a continuing need for qualified personnel, particularly graduate engineers and scientists. To meet this need, the company stepped up its personnel recruitment activities during 1961. At the end of the fiscal year, Hewlett-Packard and its subsidiary organizations had a total employment of more than 5,000.

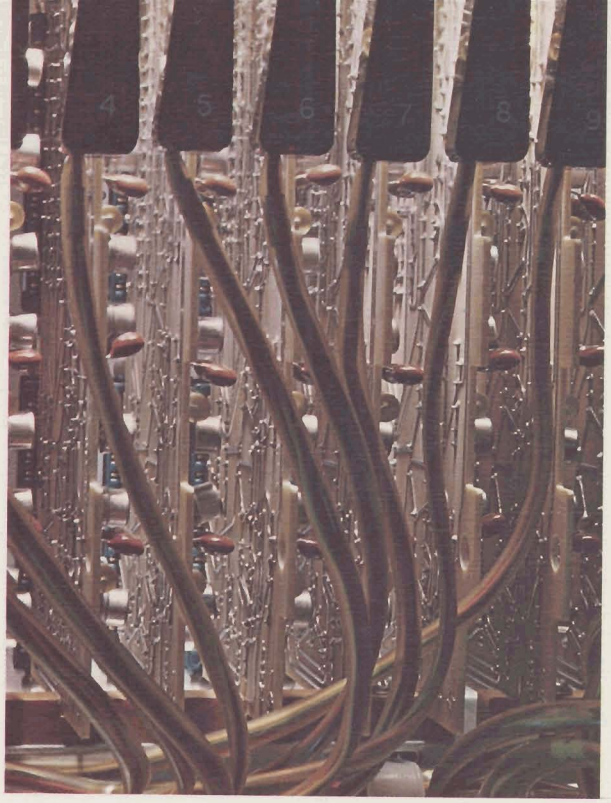
1961

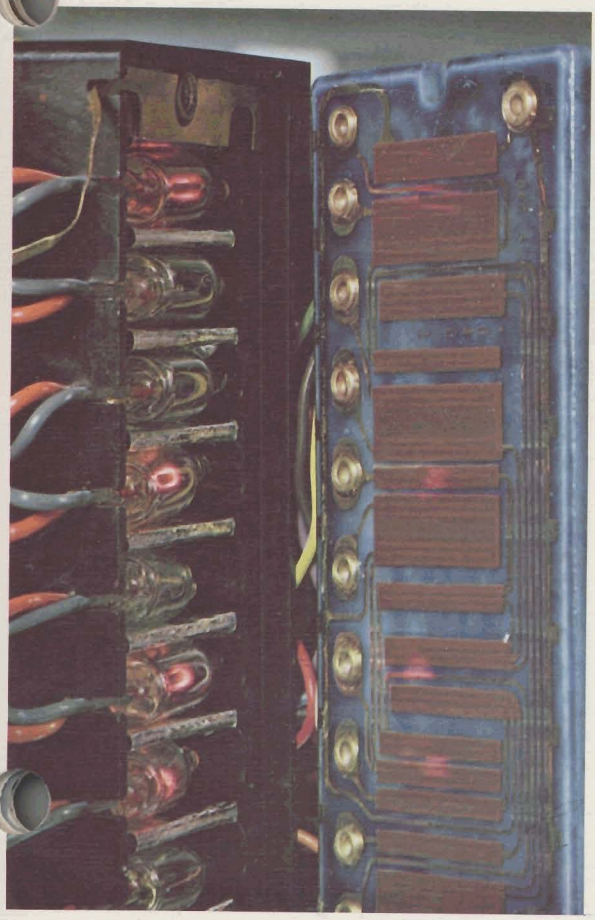
Of special interest to shareholders was the listing of Hewlett-Packard common stock on the New York and Pacific Coast Stock Exchanges. The listing occurred March 17, 1961.

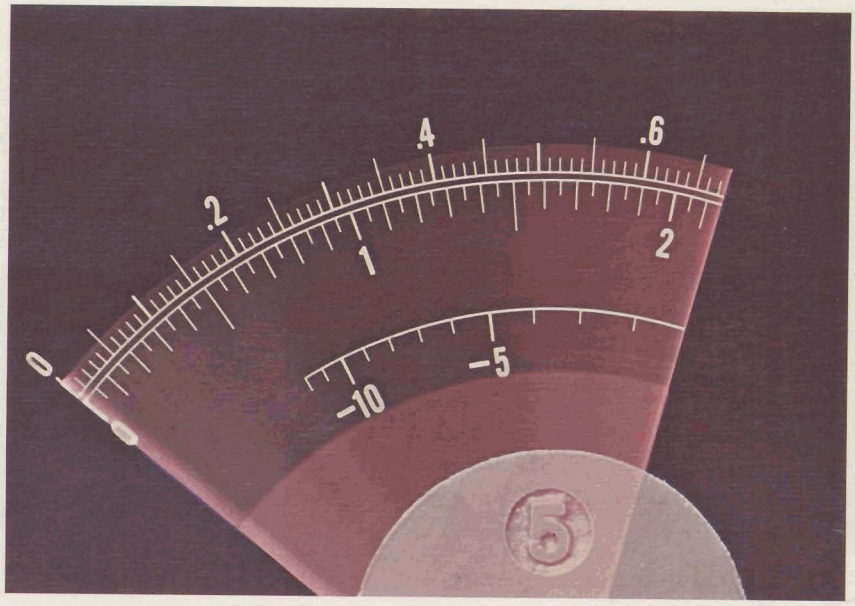
Top: *Many of Hewlett-Packard's new instruments employ etched circuit boards. This modern method of circuit wiring and parts mounting provides greater uniformity among instruments, saves space, and simplifies instrument maintenance through rapid board substitution. Shown here is a row of etched circuit boards in a transistorized printer, a digital recording device which prints five lines of data per second.*

Center: *To provide the indicating meters on Hewlett-Packard instruments with accuracy equivalent to that of hand-calibrated laboratory standards, the company recently developed an automatic meter calibrator. This unique device photographically "paints" a meter scale, point by point, to match exactly the mechanical and electrical characteristics peculiar to each meter movement.*

Bottom: *The company has pioneered the development and use of photoconductors in electronic test instruments. These tiny, light-operated switches have no moving parts. They are fast, reliable and economical. This particular bank of photoconductors, actuated by the neon lights at the left, converts binary to decade information in a frequency counter.*



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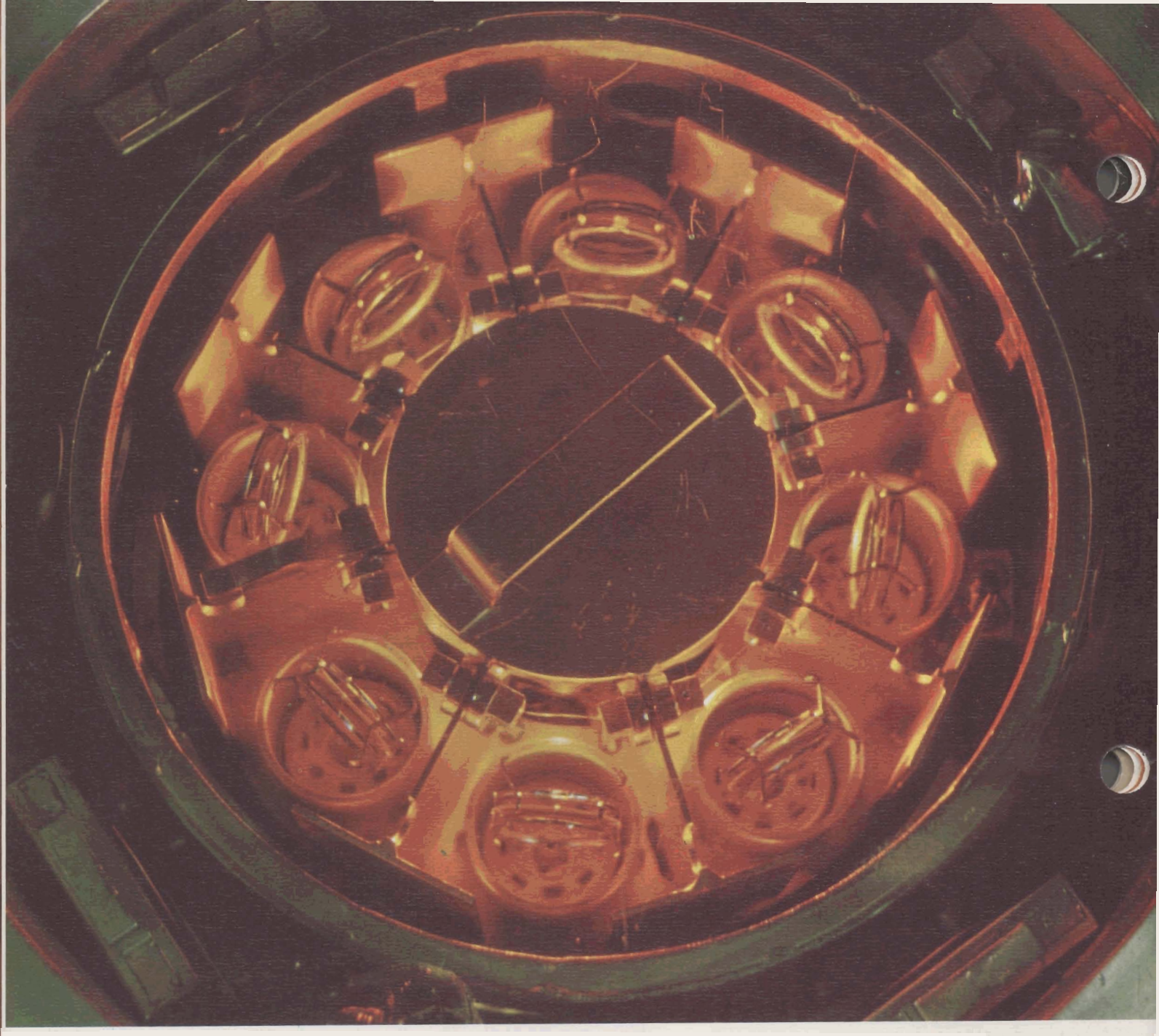


Hewlett-Packard frequency/time standards have an accuracy equivalent to 8/10 of an inch in 25,000 miles. Controlling this accuracy is a tiny quartz crystal, eight of which are shown here being gold surfaced by vacuum deposition. Production of these delicate crystals in the company's laboratories requires 96 precise operations, some involving tolerances to 7 billionths of an inch.

The Sanborn Company plant in Waltham, Massachusetts, is a modern structure providing nearly three acres of floor space. Situated in an attractive rural setting, the plant includes extensive laboratory, production and office facilities.

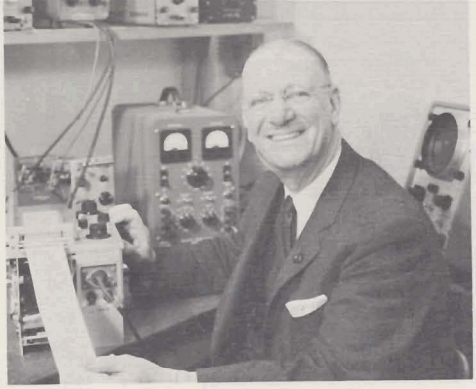
A MEMO FROM THE PRESIDENT

Each year we devote a section of our Annual Report to the operations of our principal divisions and subsidiaries. These affiliated organizations, whose products and activities are directly related to the company's central field of interest, are making a notable contribution to Hewlett-Packard's overall growth and progress.

This year we welcome a new and most important addition to the Hewlett-Packard family—the Sanborn Company of Waltham, Massachusetts.

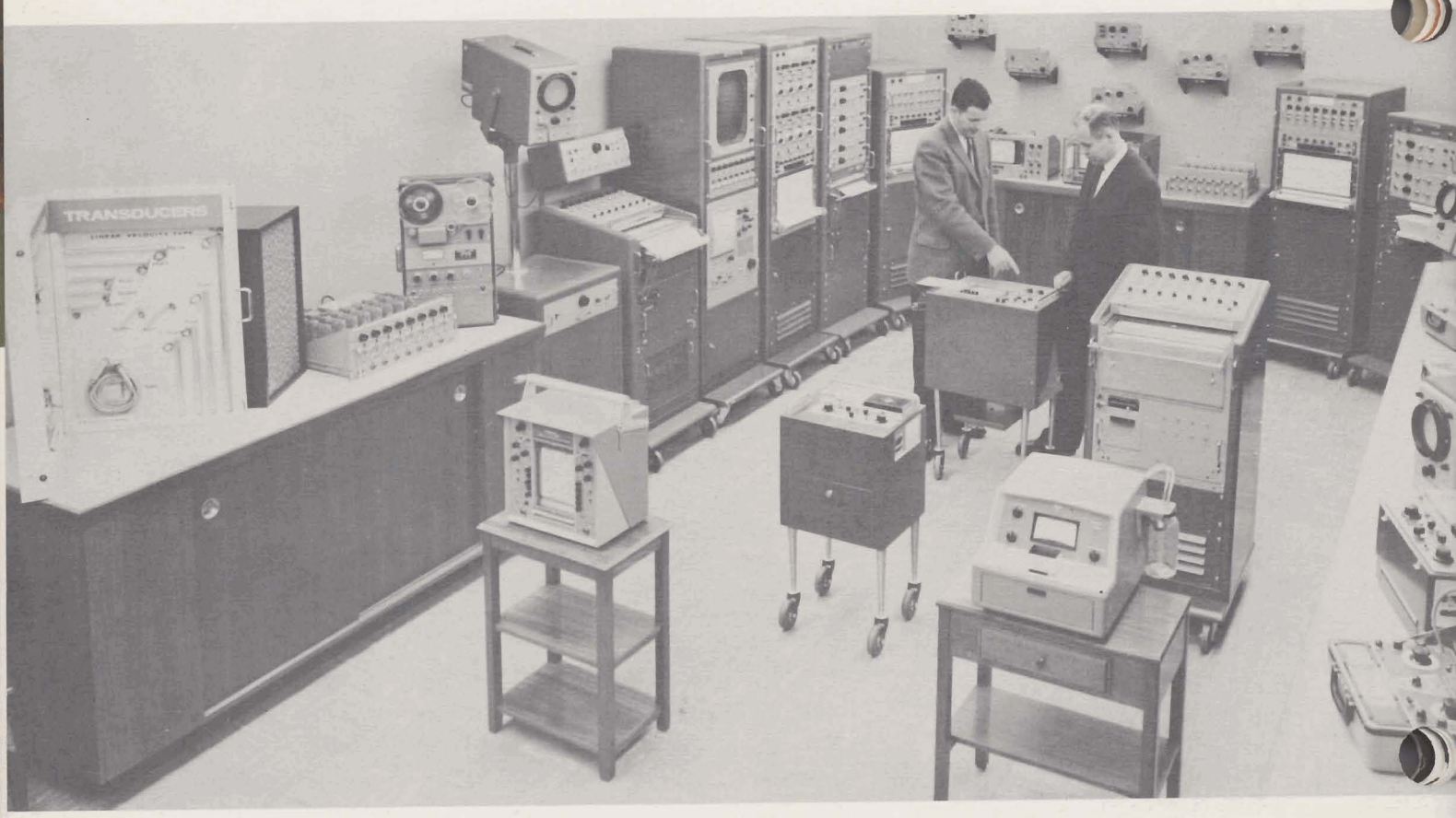
We are proud to be associated with this well-established, highly respected firm, and look forward to a long and mutually beneficial relationship. By combining our resources, both human and material, we expect to strengthen our position of leadership in the broad field of instrumentation.

David Packard



James L. Jenks, Jr. (left), chairman of the board, and George A. Sanderson, vice chairman of the board.

Alfred E. Lonnberg (left), president, and Matthew J. Murtha, Jr., executive vice president and treasurer.



Sanborn's principal medical and industrial instruments are displayed in the company's demonstration room.

SANBORN

The Sanborn Company, like Hewlett-Packard, is a firm of modest beginnings. It was founded in 1917 by a retired engineering professor, Dr. Frank B. Sanborn, with a capitalization of $3,000 and a staff of three, including the founder.

Today, nearly a half-century later, it is a well-established, flourishing business enterprise with annual sales of over $17 million and approximately 1,000 employees. Over the years Sanborn has built a world-wide reputation for producing the finest in medical diagnostic apparatus, and also designs and manufactures many precision instruments with broad industrial applications.

Sanborn is headquartered in Waltham, Massachusetts, the heart of one of America's important electronic research and manufacturing centers. The company's Waltham plant is a modern facility providing nearly three acres of floor space. Within this plant the company produces a wide range of instruments which are distributed throughout the U. S. and in many foreign countries. Foreign sales account for more than 10% of the company's total volume.

Shortly after its founding the firm developed a new device for testing blood pressure and another for testing metabolism. These instruments were the first in a steady flow of precision equipment which has made the name Sanborn synonymous with top-quality medical instrumentation. Perhaps the company's best known single product is an electrocardiograph introduced in 1924. By applying electronic techniques to the measuring and recording principles of the electrocardiograph, Sanborn has since developed many sophisticated instruments and systems for the simultaneous measurement and recording of various biophysical events, such as heart sounds, blood pressure, pulse phenomena, respiration and temperature variations.

Customers of the company's Medical Division number more than 32,500 and include individual doctors, hospitals, universities, clinics, research laboratories and industrial medical departments.

In 1949 Sanborn entered the field of industrial instrumentation. Today its Industrial Division produces a wide variety of precision electronic equipment for measuring and recording such physical phenomena as stress, strain, pressure, light intensity, speed, sound, vibration and temperature. The division's customers include the research, production and testing departments of large industrial companies, as well as many government agencies.

Sales of industrial instruments and accessories have increased steadily and now account for more than half of the company's total volume. Contributing to Sanborn's overall growth has been a consistently strong research and development program. Over the years the company has continually increased its R&D expenditures and broadened the technical capabilities of its Engineering Division. The division is headquartered in a modern and fully equipped laboratory in the Waltham plant.

Throughout its history, the Sanborn Company has experienced excellent relations with its employees. This relationship is based on the company's firm belief that real progress can best be achieved by capable people working together in an atmosphere of opportunity and participation.

Shortly after he founded the firm, Dr. Sanborn established what was then a unique innovation in employee relations — a profit-sharing program. This program, in effect since 1918, has enabled Sanborn employees to benefit directly from the company's success.

Sanborn's present management, headed by James L. Jenks, Jr., chairman of the board, and Alfred E. Lonnberg, president, not only has strengthened the profit-sharing plan but also has indicated its sincere concern for each employee's welfare in many other ways. A notable example is the chapel, located in the center of the plant, which Mr. Jenks presented to "my friends of all faiths in Sanborn Company." Mr. Jenks also personally sponsors scholarships for the children of Sanborn employees.

The company, with its roots firmly implanted in the Boston area, has developed a deep sense of community responsibility. Since 1920 it has maintained a cooperative employee educational program with nearby Northeastern University. It also sponsors a Junior Achievement company and provides assistance to various universities and technical schools in the Boston area through the Sanborn Foundation.

Sanborn's affiliation with Hewlett-Packard brings together two business organizations with complementary products, common philosophies, a record of past accomplishment and an opportunity for unprecedented mutual growth.

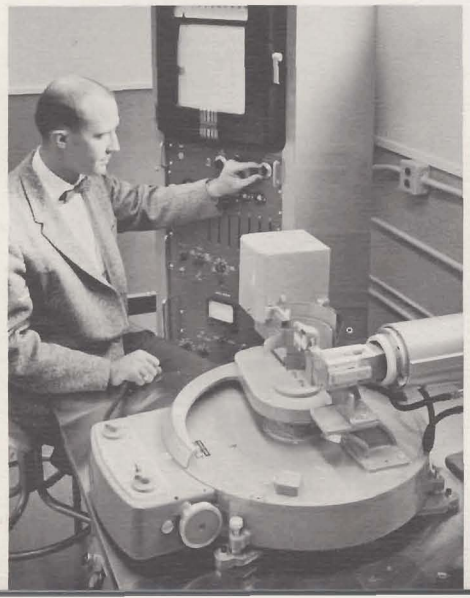
JACK L. MELCHOR, *President*

HP ASSOCIATES

One of Hewlett-Packard's newest affiliates is HP Associates, headquartered in Palo Alto. Founded by the parent company in mid-1961, HP Associates is engaged in a most important and challenging activity—solid state research and development. Its prime objective is to apply the highest level of technical competence to solid state R&D problems and to transform the results of its scientific endeavor into new and improved devices for electronic instrumentation.

HP Associates not only does basic R&D for Hewlett-Packard, but will also provide research services to other companies and government agencies. The firm's principal areas of interest include semiconductor devices, electroluminescence and photoconductivity.

An HP Associates engineer adjusts equipment for precise X-ray diffraction measurements.



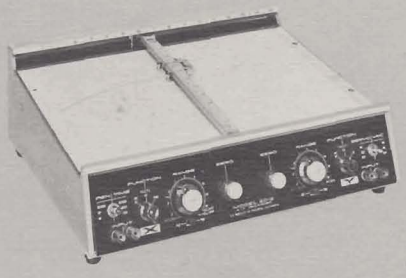
F. L. MOSELEY, *President*

MOSELEY

The F. L. Moseley Co., a leading manufacturer of precision X-Y recorders and related instruments, was founded in 1951. It became a member of the Hewlett-Packard corporate family in 1958, when Hewlett-Packard acquired 80% of the Moseley Co. stock. The firm, located in Pasadena, California, distributes its products throughout the U. S. and in many foreign countries.

During the past year the Moseley Co. fully actuated its new 30,000 square-foot manufacturing facility in Pasadena, strengthened its product development program and experienced a highly satisfactory growth in sales and production. The company's top-quality line of Autograf recorders and accessory devices was expanded with new and improved models

Typical of the Moseley Co.'s modern instrumentation is this compact X-Y recorder.



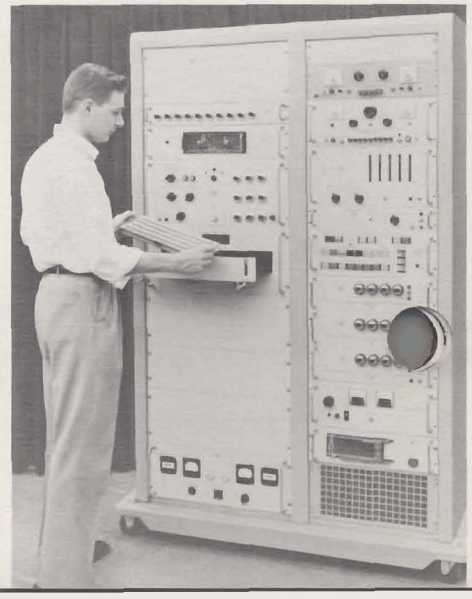
ROBERT A. GRIMM, *General Manager*

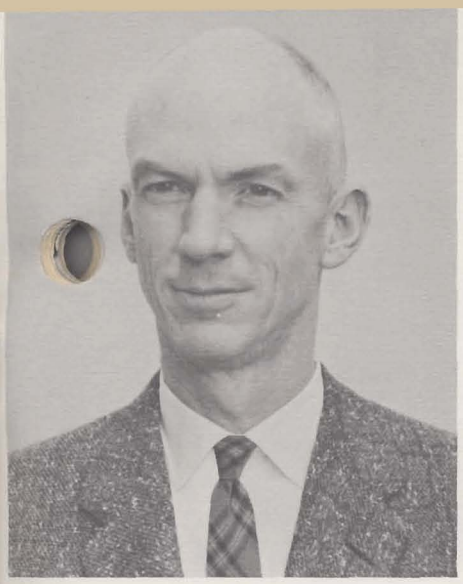
DYMEC

Founded as a separate company in 1956, Dymec became a division of Hewlett-Packard in 1959. Located in Palo Alto, the division designs and manufactures instruments and systems in two broad categories of electronic instrumentation—digital data and radio frequency. Utilization of a "building block" design philosophy enables Dymec digital and RF instruments to be combined with other Hewlett-Packard devices to form relatively inexpensive yet highly specialized systems to meet specific customer requirements.

During the past year Dymec has enjoyed a substantial expansion in sales and has placed its systems business on a sound, profitable basis. The division operates in an area of almost unlimited opportunity.

A recent Dymec development is this automatic diode measuring and recording system.





JOHN C. BECKETT, *President*

PAECO

The principal activity of Palo Alto Engineering Company, a wholly-owned subsidiary of Hewlett-Packard, is the design and manufacture of magnetic components requiring exacting tolerances and high reliability. About 65% of these devices are sold to the parent company. Products include transformers (power, pulse, audio, miniature, toroidal), inductors, delay lines, magnetic amplifiers, filters and potentiometers.

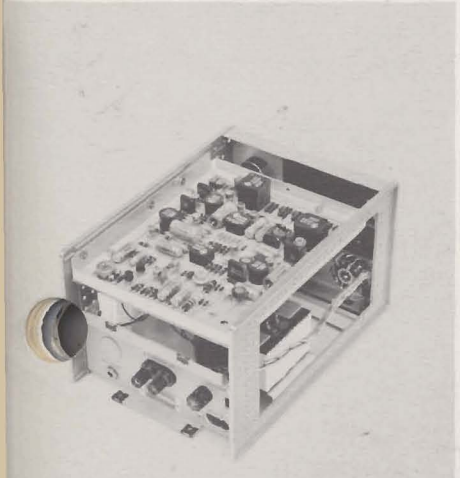
PAECO enjoyed continued growth in 1961. As part of its expansion program, the company formed a new department to develop converters, regulators and static inverters. These devices, while they have applications complementary to the measurement field, are expected to find their way into other markets as well.

G. A. DOWNSBROUGH, *President*

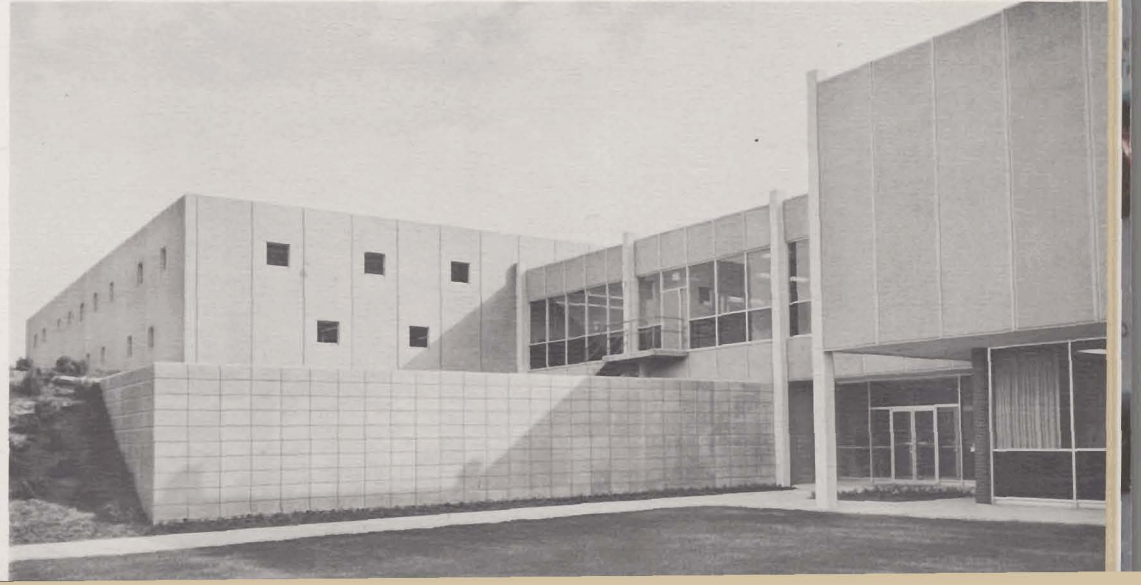
BOONTON

Boonton Radio Corporation, founded in 1935, became a wholly-owned subsidiary of Hewlett-Packard in 1959. Located in Boonton, New Jersey, this well-established firm is a pioneer designer and manufacturer of instruments for measuring electrical circuit quality and testing aircraft guidance systems. The company has gained wide recognition for its top-quality impedance measuring equipment, particularly its Q meters.

Last summer Boonton Radio moved into a new 60,000 square-foot plant on a 70-acre site in Rockaway Township, New Jersey. Although this move diverted a great deal of management time and effort from day to day operations, the company was able to increase its orders during the year and to achieve good profit margins.



This highly accurate Hewlett-Packard power meter includes eight PAECO components.



Boonton's new plant provides 60,000 square feet of engineering and production space.

CONSOLIDATED BALANCE SHEET

October 31, 1961 and 1960

ASSETS

	October 31 1961	October 31 1960
Current assets:		
Cash	$ 3,225,915	$ 1,958,417
United States Government securities	.....	668,563
Notes and accounts receivable less provision for losses in collection: 1961—$81,809, 1960—$64,363 (Note 2)	12,178,021	10,538,360
Inventories:		
Finished goods and work in process, at approximate cost	12,340,230	11,170,462
Raw materials, at lower of cost or market	5,844,429	5,337,703
Deposits and prepaid expenses	394,838	318,293
Total current assets	$33,983,433	$29,991,798
Property, plant and equipment, at cost (Note 3):		
Land	$ 684,062	$ 665,949
Buildings and equipment, less accumulated depreciation and amortization: 1961—$6,625,030, 1960—$4,963,455	12,800,201	11,672,365
	$13,484,263	$12,338,314
Other assets:		
Securities, at cost (Note 2)	$ 93,930	$ 10,000
Cash surrender value of life insurance	36,474	56,788
Deferred patent expense and other assets	.....	69,596
	$ 130,404	$ 136,384
TOTAL	$47,598,100	$42,466,496

LIABILITIES

	October 31 1961	October 31 1960
Current liabilities:		
Short-term notes payable	$ 1,351,520	$ 5,182,285
Long-term debt maturing within one year	78,754	69,804
Accounts payable and accruals	7,158,778	5,658,877
Provision for federal and foreign taxes on income	3,963,531	2,742,302
Total current liabilities	$12,552,583	$13,653,268
Long-term debt:		
Mortgages payable:		
4½% due 1963	$ 230,194	$ 280,779
5¼% due 1964	-------	219,872
Note payable, 4½% due 1965	13,954	-------
	$ 244,148	$ 500,651
Minority interests	$ 175,163	$ 107,318
Capital stock and surplus (Notes 4, 5 and 6):		
Cumulative convertible preferred stock, par value $1.00 a share; authorized 450,000 shares; issued and outstanding 448,746 shares	$ 448,746	$ 448,746
Common stock, par value $1.00 a share:		

	1961	1960 (Stated in shares)		
Authorized	15,000,000	15,000,000		
Reserved for:				
Conversion of preferred stock	179,498	179,498		
Stock options	100,167	121,359		
Employee stock purchase plan	91,224	26,251		
Issued and outstanding	10,530,698	10,473,257	10,530,698	10,473,257
Paid-in surplus			4,539,111	3,679,260
Earned surplus			19,107,651	13,603,996
			$34,626,206	$28,205,259
TOTAL			$47,598,100	$42,466,496

The accompanying Notes to Financial Statements (page 17) are an integral part hereof.

CONSOLIDATED STATEMENT OF INCOME

for the Years Ended October 31, 1961 and 1960

	1961	1960
Sales, net	$85,590,239	$76,809,369
Cost of goods sold	53,418,892	48,511,731
Gross profit on sales	$32,171,347	$28,297,638
Selling, administrative and general expense	20,989,580	18,605,766
Net profit from operations	$11,181,767	$ 9,691,872
Other income	613,179	556,587
	$11,794,946	$10,248,459
Other deductions	155,271	249,347
Net income before provision for federal and foreign taxes on income	$11,639,675	$ 9,999,112
Provision for federal and foreign taxes on income	5,730,459	4,980,571
Net income before provision for minority interests	$ 5,909,216	$ 5,018,541
Income to minority interests	35,344	26,802
Net income	$ 5,873,872	$ 4,991,739

The accompanying Notes to Financial Statements are an integral part hereof.

CONSOLIDATED STATEMENT OF SURPLUS

for the Years Ended October 31, 1961 and 1960

	1961	1960
Paid-in surplus		
Balance, beginning of year	$ 3,679,260	$ 2,771,844
Excess of market value or proceeds received over par value of capital stock issued under stock purchase and stock option plans less expenses in connection with the issuance of capital stock	859,851	907,416
Balance, end of year	$ 4,539,111	$ 3,679,260
Earned surplus		
Balance, beginning of year	$13,603,996	$15,526,043
Net income	5,873,872	4,991,739
	$19,477,868	$20,517,782
Less:		
Dividends paid:		
Preferred stock	$ 100,970	------
Common stock (paid by subsidiary company prior to acquisition)	269,247	$ 357,860
Transfer to common stock regarding 200% stock distribution which effected a 3 for 1 stock split	------	6,555,926
	$ 370,217	$ 6,913,786
Balance, end of year	$19,107,651	$13,603,996

The accompanying Notes to Financial Statements are an integral part hereof.

NOTES TO FINANCIAL STATEMENTS

October 31, 1961

1. During the year ended October 31, 1961, Hewlett-Packard Company acquired all of the outstanding capital stock of Sanborn Company in exchange for its capital stock and acquired 60% of the outstanding capital stock of a newly created corporation, HP Associates. Hewlett-Packard S. A. acquired all the outstanding capital stock of Société Immobilière Alcham S. A. and 60% of the outstanding capital stock of a newly created corporation, Electronic Marketing Company S. A.

   The accounts of Sanborn Company have been consolidated under the accounting principle which recognizes such business combinations as a pooling of interests. Accordingly, the financial statements for 1961 and 1960 include stockholders' equities and operating results of the Sanborn Company for periods prior to the combination.

   The accounts of Société Immobilière Alcham S. A. and Electronic Marketing Company S. A. have not been consolidated in the financial statements as the amounts are immaterial. The aggregate investment in these two companies amounted to $83,930 at October 31, 1961.

2. Accounts receivable of $400,000 and securities of $35,930 have been pledged by Hewlett-Packard S. A. as security for its short-term note payable of $216,520 and its long-term note payable of $17,442.

3. The property, plant and equipment accounts include $353,075 representing emergency facilities acquired under certificates of necessity. These facilities were amortized over a five year period from date of acquisition and have been fully amortized and continue to be used in the operations.

   At October 31, 1961, land and buildings with a net book value of $218,497 and $723,098, respectively, were pledged by deeds of trust as security for the mortgages payable.

4. During 1960 and 1961, the stockholders approved amendments to the Company's articles of incorporation increasing the authorized capital stock of the corporation by creating 450,000 shares of cumulative convertible preferred stock and increasing the authorized number of shares of common stock from 5,000,000 to 15,000,000 shares. During 1960, the stockholders also approved a 200% stock distribution which effected a 3 for 1 stock split. In connection with the 200% stock distribution, the common stock account was increased by a transfer from earned surplus of $6,555,926.

5. Hewlett-Packard Company granted, in prior years, certain of its officers and employees and certain officers and employees of one of its subsidiaries, restricted stock options to acquire its own common stock at prices which were the market value and 95% of market value at the dates of grant. These options are exercisable after one year and within five years from the dates of grant.

   The number of shares reserved for these options changed during the year ended October 31, 1961, as follows:

Reserved at beginning of year	121,359
Options exercised	21,192
Reserved at end of year	100,167

   At October 31, 1961, the shares reserved for options were as follows: 86,067 shares at $5⅛ a share and 14,100 shares at $18-5/24 a share.

6. Hewlett-Packard Company adopted, in a prior year, a plan for employees to purchase the Company's common stock. The plan requires the Company and participating subsidiaries to contribute 25% of the purchase price (approximate market price) of such stock at dates of purchase. The shares of common stock reserved for this plan changed during the year ended October 31, 1961, as follows:

Reserved at beginning of year	26,251
Additional shares reserved	100,000
	126,251
Shares sold	35,027
Reserved at end of year	91,224

7. Sales recorded during the years ended October 31, 1961 and 1960, subject to the U. S. Renegotiation Act of 1951, as amended, remain subject to review. The management believes that when such sales are examined there will be no refund payable.

8. The companies provide for their liabilities under profit-sharing and other pension and retirement plans by deposits with trustees of such plans.

9. Sanborn Company's plant and executive offices are under a lease expiring in the year 1981 that requires payment of annual rental of $115,950 plus real estate taxes. This company is also liable for sales contracts sold with recourse in the amount of $164,853.

10. During November 1961, Hewlett-Packard Company entered into agreements for the exchange of 12,500 shares and 130,000 shares of its common stock for the outstanding capital stock of Earl Lipscomb Associates, Inc. and Harrison Laboratories, Inc.

19
61

ACCOUNTANTS' REPORT

F. W. LAFRENTZ & Co.
CERTIFIED PUBLIC ACCOUNTANTS
233 SANSOME STREET • SAN FRANCISCO 4

December 24, 1961

To the Board of Directors
HEWLETT-PACKARD COMPANY:

We have examined the consolidated balance sheet of Hewlett-Packard Company and subsidiaries as of October 31, 1961, and the related statements of income and surplus for the year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. With respect to the subsidiaries, F. L. Moseley Co., Hewlett-Packard S.A. and Sanborn Company, we have relied on reports submitted by other independent public accountants, which indicate their examinations were similar in scope.

In our opinion, the accompanying consolidated balance sheet and the related statements of income and surplus present fairly the financial position of Hewlett-Packard Company and subsidiaries as of October 31, 1961, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

F. W. LAFRENTZ & Co.

TEN-YEAR CONSOLIDATED SUMMARY OF EARNINGS

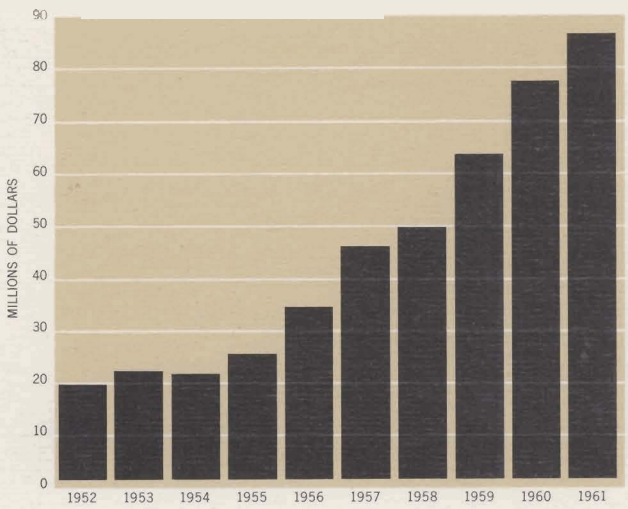
Years ended October 31

	1961	1960	1959	1958
Income				
Sales, less returns and allowances	$85,590,239	$76,809,369	$62,259,056	$48,368,721
Other income	613,179	556,587	402,757	286,067
Total	$86,203,418	$77,365,956	$62,661,813	$48,654,788
Deductions				
Cost of goods sold and operating expense	$53,418,892	$48,511,731	$38,200,867	$30,467,820
Selling, administrative and general expense	21,018,056	18,627,527	15,000,752	11,771,493
Interest	126,795	227,586	85,526	156,652
Net refunds due to renegotiation	-------	-------	-------	-------
Net refunds due to price redetermination	-------	-------	-------	-------
Total	$74,563,743	$67,366,844	$53,287,145	$42,395,965
Income before taxes on income	11,639,675	$ 9,999,112	$ 9,374,668	$ 6,258,823
Federal normal taxes on income	5,483,440	$ 4,826,036	$ 4,855,086	$ 3,229,393
Federal excess profits taxes on income	-------	-------	-------	-------
Foreign taxes on income	247,019	154,535	18,971	-------
Total	$ 5,730,459	$ 4,980,571	$ 4,874,057	$ 3,229,393
Income before provision for minority interests	$ 5,909,216	$ 5,018,541	$ 4,500,611	$ 3,029,430
Income to minority interests	35,344	26,802	24,050	9,525
Net income	$ 5,873,872	$ 4,991,739	$ 4,476,561	$ 3,019,905
Preferred dividends paid	370,217	357,860	354,450	257,448
Net income to common stock	$ 5,503,655	$ 4,633,879	$ 4,122,111	$ 2,[illegible]57
Net income per share of common stock*	$ .523	$ .442	$ .396	$ .266

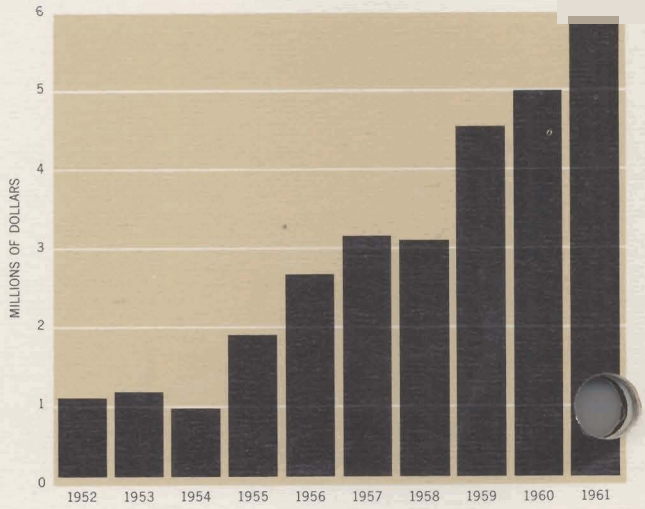
**Computed on the basis of the shares of common stock outstanding on October 31 in each year retroactively adjusted for the stock distribution in September, 1960, which effected a three for one stock split, and for shares issued upon the acquisition of subsidiaries accounted for on the pooling of interests basis.*

†After special charge, net of $425,265.

SALES



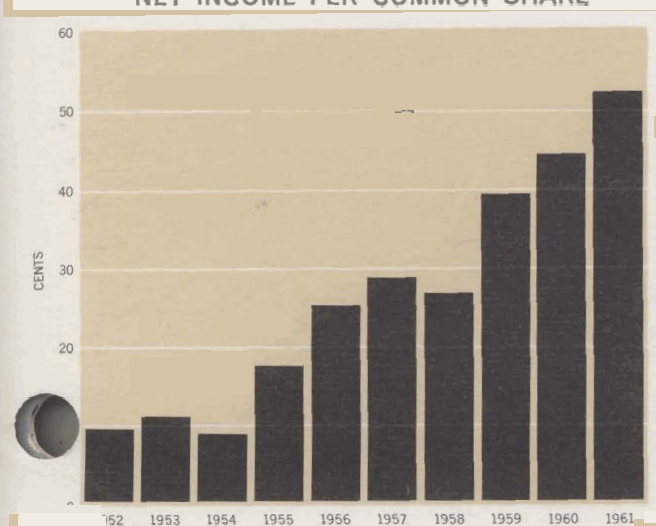
NET INCOME



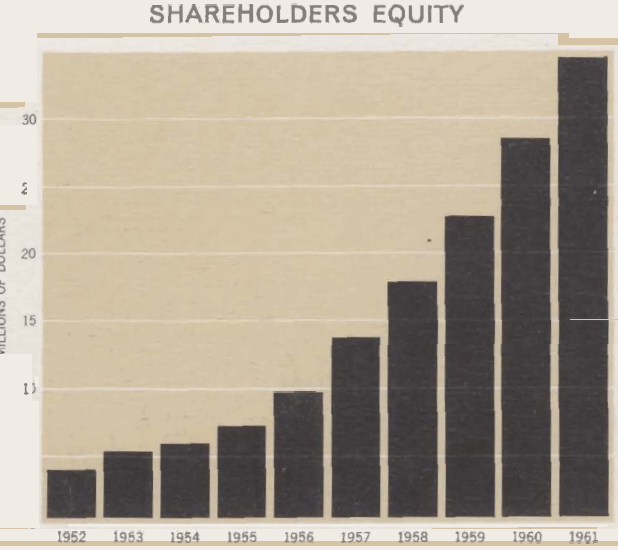
1957	1956	1955	1954	1953	1952
$45,043,517	$33,242,402	$24,774,562	$20,887,897	$21,031,744	$18,359,043
224,739	179,721	109,866	95,217	75,641	71,096
$45,268,256	$33,422,123	$24,884,428	$20,983,114	$21,107,385	$18,430,139
$27,175,576	$19,406,277	$14,788,703	$13,826,507	$13,316,929	$10,995,167
11,594,951	8,433,300	5,980,624	4,901,025	4,249,804	4,038,385
138,845	42,230	34,380	17,844	24,123	35,044
-----	-----	42,187	73,375	20,908	-----
-----	-----	6,749	19,046	-----	60,441
$38,909,372	$27,881,807	$20,852,643	$18,837,797	$17,611,764	$15,129,037
$ 6,358,884	$ 5,540,316	$ 4,031,785	$ 2,145,317	$ 3,495,621	$ 3,301,102
$ 3,284,237	$ 2,893,062	$ 2,151,743	$ 1,127,396	$ 1,855,807	$ 1,773,359
-----	-----	-----	50,204	522,135	473,160
-----	-----	-----	-----	-----	-----
$ 3,284,237	$ 2,893,062	$ 2,151,743	$ 1,177,600	$ 2,377,942	$ 2,246,519
$ 3,074,647	$ 2,647,254	$ 1,880,042	$ 967,717	$ 1,117,679	$ 1,054,583
11,667	5,559	15,902	3,002	4,208	-----
$ 3,062,980	$ 2,641,695	$ 1,864,140	$ 964,715	$ 1,113,471	$ 1,054,583
174,251	168,387	126,180	88,215	72,437	76,463
$ 2,888,729†	$ 2,473,308	$ 1,737,960	$ 876,500	$ 1,041,034	$ 978,120
$ .288	$ .251	$ .177	$ .089	$ .106	$ .099

1961

NET INCOME PER COMMON SHARE



SHAREHOLDERS EQUITY



HEWLETT-PACKARD COMPANY

1501 Page Mill Road, Palo Alto, California

SUBSIDIARY COMPANIES

Domestic

BOONTON RADIO CORPORATION
P. O. Box 390, Boonton, New Jersey

HP ASSOCIATES
2900 Park Boulevard, Palo Alto, California

F. L. MOSELEY CO.
409 North Fair Oaks Avenue, Pasadena, California

PALO ALTO ENGINEERING COMPANY
620 Page Mill Road, Palo Alto, California

SANBORN COMPANY
175 Wyman Street, Waltham 54, Mass.

***HARRISON LABORATORIES, INC.**
45 Industrial Road, Berkeley Heights 61, New Jersey

***EARL LIPSCOMB ASSOCIATES, INC.**
3605 Inwood Road, Dallas 9, Texas

Foreign

HEWLETT-PACKARD S.A.
Rue du Vieux Billard No. 1, Geneva, Switzerland

HEWLETT-PACKARD G.m.b.H.
Königsbergerstrasse 16, Böblingen, Württemberg, West Germany

HEWLETT-PACKARD VERTRIEBSGESELLSCHAFT m.b.H.
Sophienstrasse 8, Frankfurt am Main, West Germany

HEWLETT-PACKARD LTD.
Dallas Road, Bedford, England

***HEWLETT-PACKARD (CANADA) LTD.**
8270 Mayrand Street, Montreal, Quebec, Canada

**Acquired after October 31, the end of the 1961 fiscal year.*

DIRECTORS

DAVID PACKARD
President
Hewlett-Packard Company

WILLIAM R. HEWLETT
Executive Vice President
Hewlett-Packard Company

W. F. CAVIER
Vice President, Finance
Hewlett-Packard Company

LUIS ALVAREZ
Professor of Physics
University of California

ERNEST C. ARBUCKLE
Dean
Stanford Graduate School of Business

HAROLD H. BUTTNER
Retired Vice President
International Telephone and Telegraph Company

ROBERT L. GARNER
Retired President
International Finance Corporation

JAMES L. JENKS, JR.
Chairman of the Board
Sanborn Company

T. P. PIKE
President and Chairman of the Board
Republic Supply Company of California

FREDERICK E. TERMAN
Vice President and Provost
Stanford University

ERSKINE N. WHITE
President
New England Telephone and Telegraph Company

OFFICERS

DAVID PACKARD, *President*

WILLIAM R. HEWLETT, *Executive Vice President*

W. F. CAVIER, *Vice President, Finance*

W. NOEL ELDRED, *Vice President, Marketing*

RALPH E. LEE, *Vice President, Manufacturing*

BERNARD M. OLIVER, *Vice President, Research and Development*

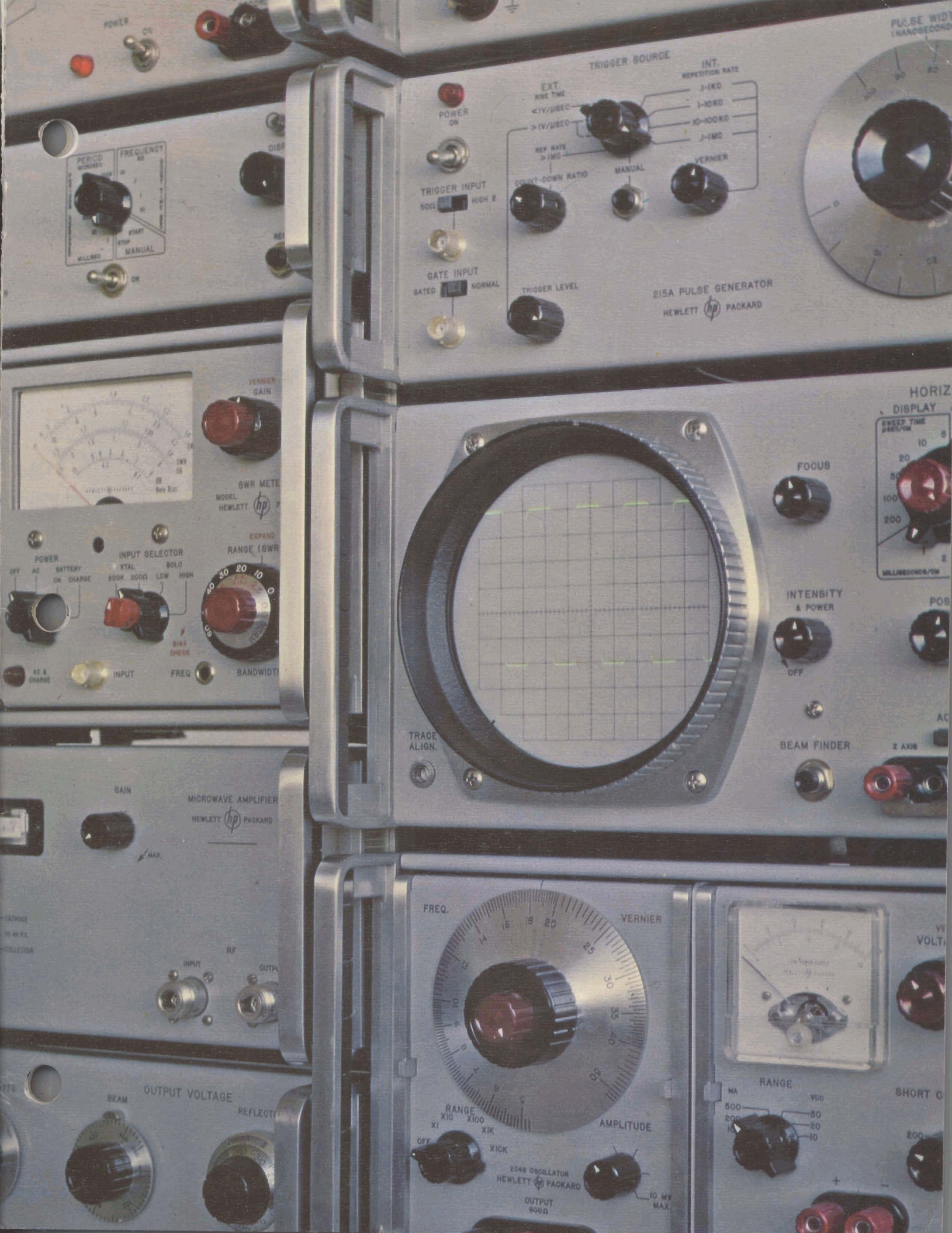
NOEL E. PORTER, *Vice President, Operations*

EDWIN E. VAN BRONKHORST, *Secretary-Treasurer*

DAVID BATES, *Assistant Secretary*

K. E. COOK, *Assistant Secretary*

Hewlett-Packard's modular concept in instrument design enhances the versatility, ease of maintenance and overall usefulness of the company's broad line of products. Each instrument is a compact unit which can be self-stacked for bench top use (as shown here), be flush mounted in vertical relay racks, or converted to use with a protective cover and handle.


POWER
ON
PERIOD
FREQUENCY
MANUAL
START
STOP
TRIGGER SOURCE
EXT
INT.
REPETITION RATE
POWER
ON
TRIGGER INPUT
50Ω
HIGH Z
GATE INPUT
GATED
NORMAL
COUNT-DOWN RATIO
MANUAL
VERNIER
TRIGGER LEVEL
215A PULSE GENERATOR
HEWLETT PACKARD
PULSE WIDTH
DISPLAY
SWEEP TIME
FOCUS
INTENSITY
& POWER
OFF
TRACE
ALIGN.
BEAM FINDER
VERNIER
GAIN
SWR METER
MODEL
HEWLETT PACKARD
POWER
OFF
AC
BATTERY
ON
CHARGE
INPUT SELECTOR
XTAL
BOLO
600K
200Ω
LOW
HIGH
BIAS
CHECK
EXPAND
RANGE (SWR)
AC &
CHARGE
INPUT
FREQ
BANDWIDTH
GAIN
MICROWAVE AMPLIFIER
HEWLETT PACKARD
MAX.
RF
INPUT
OUTPUT
OUTPUT VOLTAGE
BEAM
REFLECTOR
FREQ.
VERNIER
RANGE
X1
X10
X100
X1K
X10K
OFF
AMPLITUDE
204B OSCILLATOR
HEWLETT PACKARD
OUTPUT
600Ω
10 MW
MAX.
RANGE
SHORT
+
-