

HEWLETT PACKARD CO
Form 10-Q
September 10, 2012

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

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: July 31, 2012

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)

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

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

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

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 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.

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

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 August 31, 2012 was 1,966,161,234 shares.

Table of Contents

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
INDEX**

		Page No.
<u>Part I.</u>	<u>Financial Information</u>	
	<u>Item 1.</u> <u>Financial Statements</u>	<u>4</u>
	<u>Consolidated Condensed Statements of Earnings for the three and nine months ended July 31, 2012 and 2011 (Unaudited)</u>	<u>4</u>
	<u>Consolidated Condensed Balance Sheets as of July 31, 2012 (Unaudited) and as of October 31, 2011 (Audited)</u>	<u>5</u>
	<u>Consolidated Condensed Statements of Cash Flows for the nine months ended July 31, 2012 and 2011 (Unaudited)</u>	<u>6</u>
	<u>Notes to Consolidated Condensed Financial Statements (Unaudited)</u>	<u>7</u>
	<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>59</u>
	<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>95</u>
	<u>Item 4.</u> <u>Controls and Procedures</u>	<u>95</u>
<u>Part II.</u>	<u>Other Information</u>	
	<u>Item 1.</u> <u>Legal Proceedings</u>	<u>96</u>
	<u>Item 1A.</u> <u>Risk Factors</u>	<u>96</u>
	<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>96</u>
	<u>Item 6.</u> <u>Exhibits</u>	<u>96</u>
	<u>Signature</u>	<u>97</u>
	<u>Exhibit Index</u>	<u>98</u>
	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, earnings, earnings per share, tax provisions, cash flows, benefit obligations, share repurchases, currency exchange rates, the impact of acquisitions or other financial items; any projections of the amount, timing or impact of cost savings, restructuring charges, early retirement programs, workforce reductions or impairment charges; any statements of the plans, strategies and objectives of management for future operations, including the execution of restructuring plans and any resulting cost savings or revenue or profitability improvements; any statements concerning the expected development, performance, market share or competitive performance 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 and

Table of Contents

retirement programs; the execution, timing and results of restructuring plans, including estimates and assumptions related to the cost and the anticipated benefits of implementing those 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 "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 ("SEC") reports, including HP's Annual Report on Form 10-K for the fiscal year ended October 31, 2011. HP assumes no obligation and does not intend to update these forward-looking statements.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Consolidated Condensed Statements of Earnings****(Unaudited)**

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
In millions, except per share amounts				
Net revenue:				
Products	\$ 19,053	\$ 20,412	\$ 58,526	\$ 63,661
Services	10,503	10,662	31,526	31,130
Financing income	113	115	346	332
Total net revenue	29,669	31,189	90,398	95,123
Costs and expenses:				
Cost of products	14,524	15,669	44,754	48,286
Cost of services	8,216	8,152	24,682	23,599
Financing interest	80	80	238	229
Research and development	854	812	2,490	2,425
Selling, general and administrative	3,366	3,430	10,273	9,972
Impairment of goodwill and purchased intangible assets	9,188		9,188	
Restructuring charges	1,795	150	1,888	466
Amortization of purchased intangible assets	476	358	1,412	1,196
Acquisition-related charges	3	18	42	68
Total operating expenses	38,502	28,669	94,967	86,241
(Loss) earnings from operations	(8,833)	2,520	(4,569)	8,882
Interest and other, net	(224)	(121)	(688)	(294)
(Loss) earnings before taxes	(9,057)	2,399	(5,257)	8,588
(Benefit) provision for taxes	(200)	473	539	1,753
Net (loss) earnings	\$ (8,857)	\$ 1,926	\$ (5,796)	\$ 6,835
Net (loss) earnings per share:				
Basic	\$ (4.49)	\$ 0.94	\$ (2.93)	\$ 3.21
Diluted	\$ (4.49)	\$ 0.93	\$ (2.93)	\$ 3.16
Cash dividends declared per share	\$ 0.26	\$ 0.24	\$ 0.50	\$ 0.40
Weighted-average shares used to compute net earnings per share:				
Basic	1,971	2,054	1,977	2,129

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Diluted	1,971	2,080	1,977	2,161
---------	-------	-------	-------	-------

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

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Consolidated Condensed Balance Sheets**

	July 31, 2012	October 31, 2011
	In millions, except par value (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,509	\$ 8,043
Accounts receivable	15,686	18,224
Financing receivables	3,116	3,162
Inventory	7,292	7,490
Other current assets	14,634	14,102
Total current assets	50,237	51,021
Property, plant and equipment	12,069	12,292
Long-term financing receivables and other assets	10,479	10,755
Goodwill	36,805	44,551
Purchased intangible assets	7,966	10,898
Total assets	\$ 117,556	\$ 129,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	\$ 5,681	\$ 8,083
Accounts payable	12,554	14,750
Employee compensation and benefits	3,701	3,999
Taxes on earnings	712	1,048
Deferred revenue	7,598	7,449
Accrued restructuring	742	654
Other accrued liabilities	13,931	14,459
Total current liabilities	44,919	50,442
Long-term debt	24,063	22,551
Other liabilities	16,564	17,520
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; 1,967 and 1,991 shares issued and outstanding, respectively)	20	20
Additional paid-in capital	6,478	6,837
Retained earnings	28,379	35,266
Accumulated other comprehensive loss	(3,276)	(3,498)
Total HP stockholders' equity	31,601	38,625
Non-controlling interests	409	379
Total stockholders' equity	32,010	39,004
Total liabilities and stockholders' equity	\$ 117,556	\$ 129,517

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

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Consolidated Condensed Statements of Cash Flows****(Unaudited)**

	Nine months ended July 31	
	2012	2011
	In millions	
Cash flows from operating activities:		
Net (loss) earnings	\$ (5,796)	\$ 6,835
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation and amortization	3,894	3,722
Impairment of goodwill and purchased intangible assets	9,188	
Stock-based compensation expense	494	475
Provision for doubtful accounts accounts and financing receivables	60	41
Provision for inventory	194	167
Restructuring charges	1,888	466
Deferred taxes on earnings	(690)	804
Excess tax benefit from stock-based compensation	(12)	(160)
Other, net	330	(202)
Changes in operating assets and liabilities:		
Accounts and financing receivables	2,435	(220)
Inventory	(2)	(1,139)
Accounts payable	(2,196)	122
Taxes on earnings	(40)	251
Restructuring	(472)	(750)
Other assets and liabilities	(2,763)	(173)
Net cash provided by operating activities	6,512	10,239
Cash flows from investing activities:		
Investment in property, plant and equipment	(2,833)	(3,154)
Proceeds from sale of property, plant and equipment	321	782
Purchases of available-for-sale securities and other investments	(793)	
Maturities and sales of available-for-sale securities and other investments	516	59
Payments made in connection with business acquisitions, net of cash acquired	(141)	(269)
Proceeds from business divestiture, net	87	89
Net cash used in investing activities	(2,843)	(2,493)
Cash flows from financing activities:		
Repayment of commercial paper and notes payable, net	(2,553)	(1,532)
Issuance of debt	5,100	7,298
Payment of debt	(3,222)	(2,271)
Issuance of common stock under employee stock plans	710	845
Repurchase of common stock	(1,495)	(9,617)
Excess tax benefit from stock-based compensation	12	160
Cash dividends paid	(755)	(605)
Net cash used in financing activities	(2,203)	(5,722)
Increase in cash and cash equivalents	1,466	2,024
Cash and cash equivalents at beginning of period	8,043	10,929

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Cash and cash equivalents at end of period \$ 9,509 \$ 12,953

Supplemental schedule of non-cash investing and financing activities:

Issuance of common stock and stock awards assumed in business acquisitions	\$	2		
Purchase of assets under capital lease	\$	12	\$	9

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

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

Note 1: Basis of Presentation

In the opinion of management, the accompanying Consolidated Condensed Financial Statements of Hewlett-Packard Company and its consolidated subsidiaries ("HP") contain all adjustments, including normal recurring adjustments, necessary to present fairly HP's financial position as of July 31, 2012, its results of operations for the three and nine months ended July 31, 2012 and 2011 and its cash flows for the nine months ended July 31, 2012 and 2011. The Consolidated Condensed Balance Sheet as of October 31, 2011 is derived from the October 31, 2011 audited consolidated financial statements.

The results of operations for the three and nine months ended July 31, 2012 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 "Risk Factors," "Legal Proceedings," "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 1A, 3, 7, 7A and 8, respectively, of the Hewlett-Packard Company Annual Report on Form 10-K for the fiscal year ended October 31, 2011.

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 Condensed Financial Statements and accompanying notes. Actual results could differ materially from those estimates.

Reclassifications and Segment Reorganization

In connection with organizational realignments implemented in the first quarter of fiscal 2012, 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 16 for a further discussion of HP's segment reorganization.

Note 2: Stock-Based Compensation

HP's stock-based compensation plans include HP's principal equity plans as well as various equity plans assumed through acquisitions. HP's principal equity plans include restricted stock awards, stock options and performance-based restricted units ("PRUs").

Total stock-based compensation expense before income taxes for the three and nine months ended July 31, 2012 was \$150 million and \$494 million, respectively. The resulting income tax benefit for the three and nine months ended July 31, 2012 was \$43 million and \$154 million, respectively. Total stock-based compensation expense before income taxes for the three and nine months ended July 31, 2011 was \$148 million and \$475 million, respectively. The resulting income tax benefit for the three and nine months ended July 31, 2011 was \$46 million and \$150 million, respectively.

Restricted Stock Awards

Restricted stock awards are non-vested stock awards that include grants of restricted stock and grants of restricted stock units.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 2: Stock-Based Compensation (Continued)**

Non-vested restricted stock awards as of July 31, 2012 and changes during the nine months ended July 31, 2012 were as follows:

	Shares	Weighted- Average Grant Date Fair Value Per Share
	In thousands	
Outstanding at October 31, 2011	16,813	\$ 39
Granted	19,119	\$ 28
Vested	(3,678)	\$ 42
Forfeited	(2,266)	\$ 35
Outstanding at July 31, 2012	29,988	\$ 32

At July 31, 2012, there was \$611 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 1.4 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 estimates the fair value of the performance-contingent stock options using a combination of the Monte Carlo simulation model and lattice model, as these awards contain market conditions.

HP estimated the weighted-average fair value of stock options using the following weighted-average assumptions:

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Weighted-average fair value of grants per share ⁽¹⁾	\$ 6.70	\$ 8.44	\$ 9.30	\$ 10.24
Implied volatility	36%	28%	42%	28%
Risk-free interest rate	1.20%	1.64%	1.20%	1.87%
Dividend yield	2.40%	1.34%	1.77%	0.94%
Expected life in months	77	61	67	60

⁽¹⁾

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

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 2: Stock-Based Compensation (Continued)**

Option activity as of July 31, 2012 and changes during the nine months ended July 31, 2012 were as follows:

	Shares In thousands	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term In years	Aggregate Intrinsic Value In millions
Outstanding at October 31, 2011	120,243	\$ 28		
Granted	7,173	\$ 27		
Exercised	(29,290)	\$ 20		
Forfeited/cancelled/expired	(8,357)	\$ 37		
Outstanding at July 31, 2012	89,769	\$ 29	3.3	\$ 51
Vested and expected to vest at July 31, 2012	88,062	\$ 29	3.2	\$ 49
Exercisable at July 31, 2012	66,114	\$ 31	2.0	\$ 31

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 July 31, 2012. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of the third quarter of fiscal 2012 and the exercise price, multiplied by the number of in-the-money options. Total intrinsic value of options exercised for the three and nine months ended July 31, 2012 was \$10 million and \$174 million, respectively.

At July 31, 2012, there was \$189 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 2.0 years.

Performance-based Restricted Units

HP's PRU program provides for the issuance of PRUs representing hypothetical shares of HP common stock. 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 and may range from 0% to 200% of the Target Shares granted. The performance goals for PRUs granted in fiscal year 2012 are based on HP's annual cash flow from operations as a percentage of revenue and on HP's annual revenue growth. The performance goals for PRUs granted in previous years are based on HP's annual cash flow from operations as a percentage of revenue and on a market condition based on total shareholder return ("TSR") relative to the S&P 500 over the three-year performance period.

For PRU awards granted in fiscal year 2012, HP estimates the fair value of the Target Shares using HP's closing stock price on the measurement date. The weighted-average fair value per share for the first year of the three-year performance period applicable to PRUs granted in the nine months ended July 31, 2012 was \$27.00. The estimated fair value of the Target Shares for the second and third years for PRUs granted in the nine months ended July 31, 2012 will be determined on the measurement date.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 2: Stock-Based Compensation (Continued)**

applicable to those PRUs, which will occur during the period that the annual performance goals are approved for those PRUs, and the expense will be amortized over the remainder of the applicable three-year performance period.

For PRU awards granted prior to fiscal year 2012, HP estimates the fair value of the Target Shares subject to those awards using the Monte Carlo simulation model, as the TSR modifier represents a market condition. The following weighted-average assumptions, in addition to projections of market conditions, were used to determine the weighted-average fair values of these PRU awards:

	Nine months ended July 31	
	2012	2011
Weighted-average fair value of grants per share	\$ 3.35 ⁽¹⁾	\$ 27.59 ⁽²⁾
Expected volatility ⁽³⁾	41%	30%
Risk-free interest rate	0.14%	0.38%
Dividend yield	1.78%	0.75%
Expected life in months	15	19

(1) Reflects the weighted-average fair value for the third year of the three-year performance period applicable to PRUs granted in fiscal 2010 and for the second year of the three-year performance period applicable to PRUs granted in fiscal 2011. The estimated fair value of the Target Shares for the third year for PRUs granted in fiscal 2011 will be determined on the measurement date applicable to those PRUs, which will occur during the period that the annual performance 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 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 the nine months ended July 31, 2011.

(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.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 2: Stock-Based Compensation (Continued)**

Non-vested PRUs as of July 31, 2012 and changes during the nine months ended July 31, 2012 were as follows:

	Shares
	In thousands
Outstanding Target Shares at October 31, 2011	11,382
Granted	1,252
Vested	
Change in units due to performance and market conditions achievement for PRUs vested in the period	
Forfeited	(1,062)
Outstanding Target Shares at July 31, 2012	11,572
Outstanding Target Shares assigned a fair value at July 31, 2012	9,259 ⁽¹⁾

⁽¹⁾ Excludes Target Shares for the third year for PRUs granted in fiscal 2011 and for the second and third years for PRUs granted in the nine months ended July 31, 2012 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 performance goals are approved.

At July 31, 2012, there was \$29 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 1.0 years.

Note 3: Net Earnings Per Share

HP calculates basic earnings and loss per share and diluted loss per share using net earnings or loss and the weighted-average number of shares outstanding during the reporting period. Diluted earnings per share includes any dilutive effect of outstanding stock options, PRUs, restricted stock units and restricted stock.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 3: Net Earnings Per Share (Continued)**

The reconciliation of the numerators and denominators of the basic and diluted earnings and loss per share calculations was as follows:

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
In millions, except per share amounts				
Numerator:				
Net (loss) earnings ⁽¹⁾	\$ (8,857)	\$ 1,926	\$ (5,796)	\$ 6,835
Denominator:				
Weighted-average shares used to compute basic EPS	1,971	2,054	1,977	2,129
Dilutive effect of employee stock plans ⁽²⁾		26		32
Weighted-average shares used to compute diluted EPS ⁽²⁾	1,971	2,080	1,977	2,161
Net (loss) earnings per share:				
Basic	\$ (4.49)	\$ 0.94	\$ (2.93)	\$ 3.21
Diluted ⁽²⁾	\$ (4.49)	\$ 0.93	\$ (2.93)	\$ 3.16

(1) Net (loss) earnings available to participating securities were not significant for the three and nine months ended July 31, 2012 and 2011. HP considers restricted stock that provides the holder with a non-forfeitable right to receive dividends to be a participating security.

(2) For the three and nine months ended July 31, 2012, HP excluded from the calculation of basic loss per share 4 million shares and 15 million shares, respectively, potentially issuable under employee stock plans as their effect would be anti-dilutive.

HP excludes options with exercise prices that are greater than the average market price from the calculation of diluted earnings per share because their effect would be anti-dilutive. For the three and nine months ended July 31, 2012, HP excluded from the calculation of diluted earnings per share options to purchase 74 million shares and 48 million shares, respectively, compared to 26 million shares and 23 million shares for the three and nine months ended July 31, 2011, respectively. In addition, HP also excluded from the calculation of diluted earnings per share options to purchase an additional 1 million shares and 9 million shares for the three and nine months ended July 31, 2012, respectively, compared to an additional 1 million shares for both the three and nine months ended July 31, 2011, 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**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

	July 31, 2012	October 31, 2011
In millions		
Accounts receivable	\$ 16,136	\$ 18,694
Allowance for doubtful accounts	(450)	(470)
	\$ 15,686	\$ 18,224

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 Condensed Balance Sheets when sold to third parties. As of July 31, 2012, the capacity of the partial recourse facility was \$831 million and the total aggregate capacity of the non-recourse facilities was \$748 million. The recourse obligation is measured using market data from similar transactions and reported as a current liability in the Consolidated Condensed Balance Sheets. The recourse obligation as of July 31, 2012 was not material.

For the first nine months of fiscal 2012 and 2011, trade receivables sold under these facilities were \$3.1 billion and \$1.8 billion, respectively, which approximates the amount of cash received. The resulting loss on the sales of trade accounts receivable for the three months and nine months ended July 31, 2012 was not material. HP had \$1.0 billion as of July 31, 2012 and \$0.7 billion as of October 31, 2011 of available capacity under these programs.

Inventory

	July 31, 2012	October 31, 2011
In millions		
Finished goods	\$ 4,418	\$ 4,869
Purchased parts and fabricated assemblies	2,874	2,621
	\$ 7,292	\$ 7,490

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 4: Balance Sheet Details (Continued)***Property, Plant and Equipment*

	July 31, 2012	October 31, 2011
	In millions	
Land	\$ 652	\$ 687
Buildings and leasehold improvements	8,835	8,620
Machinery and equipment	16,802	16,155
	26,289	25,462
Accumulated depreciation	(14,220)	(13,170)
	\$ 12,069	\$ 12,292

For the nine months ended July 31, 2012, additions to gross property, plant and equipment of \$2.8 billion were partially offset by sales and retirements totaling \$1.6 billion. Accumulated depreciation associated with the assets sold and retired was \$1.3 billion.

Note 5: Goodwill and Purchased Intangible Assets*Goodwill*

Goodwill allocated to HP's reportable segments as of July 31, 2012 and changes in the carrying amount of goodwill for the nine months ended July 31, 2012 are as follows:

	Personal Systems Group	Services	Imaging and Printing Group	Enterprise Servers, Storage and Networking	Software	HP Financial Services	Corporate Investments	Total
	In millions							
Net balance at October 31, 2011	\$ 2,498	\$ 17,280	\$ 2,471	\$ 8,070	\$ 14,063	\$ 144	\$ 25	\$ 44,551
Goodwill acquired during the period			14					14
Goodwill adjustments/reclassifications		(40)		(311)	567		(15)	201
Impairment loss		(7,961)						(7,961)
Net balance at July 31, 2012	\$ 2,498	\$ 9,279	\$ 2,485	\$ 7,759	\$ 14,630	\$ 144	\$ 10	\$ 36,805

For the first nine months of fiscal 2012, the decrease in goodwill is related to the impairment loss within the Services segment as discussed further below. In connection with certain fiscal 2012 organizational realignments, HP reclassified \$280 million of goodwill related to the TippingPoint network security solutions business from the Enterprise Servers, Storage and Networking ("ESSN") segment to the Software segment. Additionally, HP recorded an increase to goodwill of \$249 million in the Software segment due to a change in the estimated fair values of purchased intangible assets and net tangible assets associated with the acquisition of Autonomy Corporation plc ("Autonomy").

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 5: Goodwill and Purchased Intangible Assets (Continued)

Goodwill at October 31, 2011 is net of accumulated impairment losses of \$813 million, related to the Corporate Investments segment. Goodwill at July 31, 2012 is net of accumulated impairment losses of \$8,774 million, of which \$813 million and \$7,961 million relates to the Corporate Investments and Services segments, respectively.

HP reviews goodwill for impairment annually at the beginning of its fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. The goodwill impairment test involves a two-step process. In the first step, HP compares the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, HP must perform the second step of the impairment test to measure the amount of impairment loss. In the second step, the reporting unit's fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss.

Except for Services, Software and Corporate Investments, HP's reporting units are consistent with the reportable segments identified in Note 16. The enterprise services ("ES") and technology services ("TS") businesses are the reporting units within the Services segment. ES includes the Infrastructure Technology Outsourcing ("ITO") and Application and Business Services ("ABS") business units. The Software segment includes two reporting units, which are Autonomy and the legacy HP software business. The webOS business is also a separate reporting unit within the Corporate Investments segment.

During the third quarter of fiscal 2012, HP determined that sufficient indicators of potential impairment existed to require an interim goodwill impairment analysis for the ES reporting unit. These indicators included the recent trading values of HP's stock, coupled with market conditions and business trends within ES.

HP estimated the fair value of the ES reporting unit using a weighting of fair values derived from the income approach and the market approach. Under the income approach, HP calculates the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on a weighted average cost of capital adjusted for the relevant risk associated with the characteristics of the business and the projected cash flows. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable publicly traded companies with similar operating and investment characteristics as the reporting unit.

Due to the complexity and the effort required to estimate the fair value of the ES reporting unit in step one of the impairment test and to estimate the fair value of all assets and liabilities of the ES reporting unit in the second step of the test, the fair value estimates were derived based on preliminary assumptions and analyses that are subject to change. Based on HP's preliminary analyses, the implied fair value of goodwill was substantially lower than the carrying value of goodwill for the ES reporting unit. As a result, HP recorded its best estimate of \$8.0 billion for the goodwill impairment charge in

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 5: Goodwill and Purchased Intangible Assets (Continued)**

the third quarter of fiscal 2012. The impairment charge is included in Impairment of goodwill and purchased intangible assets in the Consolidated Condensed Statements of Earnings. Any adjustments to the estimated impairment loss following the completion of the measurement of the impairment will be recorded in the fourth quarter of fiscal 2012.

During its fourth quarter of fiscal 2012, HP will perform its annual goodwill impairment review for all of its reporting units as of August 1, 2012. If there are changes in HP's stock price, or significant changes in the business climate or operating results of its reporting units, HP may incur additional goodwill impairment charges. The Software segment includes \$14.6 billion of goodwill, of which \$7.7 billion relates to the legacy HP software business and \$6.9 billion relates to the Autonomy acquisition. Based on HP's last annual goodwill impairment review completed as of August 1, 2011, the excess of fair value over carrying value of the legacy HP software business was 38% of the carrying value, which is lower than that of HP's other reporting units. At the time of the Autonomy acquisition in October 2011, the fair value of Autonomy approximated the carrying value.

Purchased Intangible Assets

HP's purchased intangible assets associated with completed acquisitions are composed of:

	July 31, 2012				October 31, 2011			
	Gross	Accumulated Impairment		Net	Gross	Accumulated Impairment		Net
		Amortization	Loss			Amortization	Loss	
	In millions							
Customer contracts, customer lists and distribution agreements	\$ 5,942	\$ (2,603)		\$ 3,339	\$ 6,409	\$ (2,390)	(49)	\$ 3,970
Developed and core technology and patents	6,824	(2,569)		4,255	7,226	(1,944)		5,282
Compaq trade name	1,422	(8)	(1,227)	187	1,422			1,422
Other product trademarks	314	(136)		178	367	(129)	(23)	215
In-process research and development ("IPR&D")	7			7	9			9
Total purchased intangible assets	\$ 14,509	\$ (5,316)	\$ (1,227)	\$ 7,966	\$ 15,433	\$ (4,463)	(72)	\$ 10,898

For the first nine months of fiscal 2012, the majority of the decrease in gross intangibles was related to \$537 million of fully amortized intangible assets which have been eliminated from both the gross and accumulated amortization amounts and a \$293 million change in the estimated fair value of Autonomy's purchased intangible assets acquired.

On May 23, 2012, HP approved a change to its branding strategy for personal computers, which will result in a more limited and focused use of the "Compaq" trade name acquired in 2002. In conjunction with the change in branding strategy, HP revised its assumption as to the useful life of that intangible asset, which resulted in a reclassification of the asset from an indefinite-lived intangible to a

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 5: Goodwill and Purchased Intangible Assets (Continued)**

finite-lived intangible with a remaining useful life of approximately five years. These changes triggered an impairment review of the Compaq trade name intangible asset. In conducting an impairment review of a purchased intangible asset, HP compares the fair value of the asset to its carrying value. If the fair value of the asset is less than the carrying value, the difference is recorded as an impairment loss. HP estimated the fair value of the Compaq trade name by calculating the present value of the royalties saved that would have been paid to a third party had HP not owned the trade name. Following the completion of that analysis, HP determined that the fair value of the trade name asset was less than the carrying value due primarily to the change in the useful life assumption and a decrease in expected future revenues related to Compaq-branded products resulting from the more focused branding strategy. As a result, HP recorded an impairment charge of \$1.2 billion in the third quarter of fiscal 2012, which is included in Impairment of goodwill and purchased intangible assets in the Consolidated Condensed Statements of Earnings.

Estimated future amortization expense related to finite-lived purchased intangible assets at July 31, 2012 was as follows:

Fiscal year:	In millions
2012 (remaining three months)	\$ 467
2013	1,747
2014	1,410
2015	1,221
2016	1,063
2017	621
Thereafter	1,430
Total	\$ 7,959

Note 6: 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 costs. 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 Condensed Balance Sheets.

Fiscal 2012 Restructuring Plan

On May 23, 2012, HP adopted a multi-year restructuring plan (the "2012 Plan") designed to simplify business processes, accelerate innovation and deliver better results for customers, employees and stockholders. HP estimates that it will eliminate approximately 29,000 positions in connection with the 2012 Plan through fiscal year 2014, with a portion of those employees exiting the company as part of a voluntary enhanced early retirement ("EER") program for U.S. employees. As discussed in

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Restructuring Charges (Continued)

Note 14, a majority of the EER program will be funded through HP's U.S. pension plans. In connection with the 2012 Plan, HP expects to record aggregate charges of approximately \$3.7 billion through the end of HP's 2014 fiscal year as accounting recognition criteria are met. Of that amount, HP expects approximately \$3.3 billion to relate to the workforce reductions and the EER program and approximately \$0.4 billion to relate to other items, including data center and real estate consolidation.

HP recorded an initial charge of approximately \$1.7 billion in the third fiscal quarter of 2012 relating to the 2012 Plan. This amount included \$41 million of stock-based compensation expense for accelerated vesting of stock-based awards held by participating EER employees and a special termination benefit ("STB") expense of \$53 million for certain EER participants whose retirement incentive benefit will be paid in cash outside of HP's U.S. pension plans. As of July 31, 2012, HP had eliminated approximately 3,800 positions as part of the 2012 Plan. The \$1.7 billion charge also includes \$52 million for data center and real estate consolidation, of which \$45 million related to asset impairments. The cash payments associated with the 2012 Plan are expected to be paid out through the first half of fiscal 2015.

Fiscal 2010 Acquisitions

In connection with the acquisitions of Palm, Inc. ("Palm") and 3Com Corporation ("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 Enterprise Services Business Restructuring Plan

On June 1, 2010, HP's management announced a plan to restructure its ES business, which includes the ITO and ABS 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 8,000 positions and infrastructure charges. As the execution of the restructuring activities has evolved, certain components and their related cost estimates have been revised. While the total cost of the plan remains consistent, during the first quarter of fiscal 2012, HP reduced the severance accrual by \$100 million and recognized additional infrastructure related charges of \$104 million. 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 first quarter of fiscal 2013. As of July 31, 2012, approximately 7,300 positions had been eliminated.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Restructuring Charges (Continued)

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 ESSN businesses. The total expected cost of the plan was \$301 million in severance-related costs associated with the planned elimination of approximately 4,400 positions. All planned eliminations had occurred and the vast majority of the restructuring costs had been paid out as of October 31, 2011.

Fiscal 2008 HP/EDS Restructuring Plan

In connection with the acquisition of Electronic Data Systems Corporation ("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 at a total expected cost of \$3.3 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 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.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: 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 nine months ended July 31, 2012 were as follows:

	Balance, October 31, 2011	Three months ended July 31, 2012 charges	Nine months ended July 31, 2012 charges	Cash payments	Other adjustments and non-cash settlements	Balance, July 31, 2012	As of July 31, 2012 Total costs and adjustments to date	Total expected costs and adjustments
In millions								
<i>Fiscal 2012 Plan</i>								
Severance and EER	\$	\$ 1,680	\$ 1,680	\$ (81)	\$ (1,106) ⁽¹⁾	\$ 493	\$ 1,680	\$ 3,279
Infrastructure and other		52	52	(1)	(46)	5	52	404
Total 2012 Plan		1,732	1,732	(82)	(1,152)	498	1,732	3,683
<i>Fiscal 2010 acquisitions</i>								
	59			(19)	(1)	39	114	121
<i>Fiscal 2010 ES Plan:</i>								
Severance	493		(100)	(111)	(27)	255	623	623
Infrastructure	3	33	172	(137)	(37)	1	365	369
Total ES Plan	496	33	72	(248)	(64)	256	988	992
<i>Fiscal 2009 Plan</i>								
			7	(9)	2		301	301
<i>Fiscal 2008 HP/EDS Plan:</i>								
Severance			5	(7)	2		2,195	2,195
Infrastructure	258	30	72	(107)	(11)	212	1,046	1,085
Total HP/EDS Plan	258	30	77	(114)	(9)	212	3,241	3,280
Total restructuring plans	\$ 813	\$ 1,795	\$ 1,888	\$ (472)	\$ (1,224)	\$ 1,005	\$ 6,376	\$ 8,377

(1) Includes adjustments related to the EER plan of \$833 million for additional pension benefits and \$227 million for certain healthcare and medical savings account benefits as described further in Note 14.

At July 31, 2012 and October 31, 2011, HP included the long-term portion of the restructuring liability of \$263 million and \$159 million, respectively, in Other liabilities, and the short-term portion of \$742 million and \$654 million, respectively, in Accrued restructuring in the accompanying Consolidated Condensed Balance Sheets.

Note 7: Fair Value

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

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.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 7: 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, mutual funds, 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 8, 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.

Short- and Long-Term Debt: The estimated fair value of publicly-traded debt is based on quoted market prices for the identical liability when traded as an asset in an active market. For other debt for which a quoted market price is not available, an expected present value method that uses rates currently available to HP for debt with similar terms and remaining maturities is used to estimate fair value. The portion of the company's fixed-rate debt obligations that is hedged is reflected in the Consolidated Condensed Balance Sheets as an amount equal to the debt's carrying value, including a fair value adjustment representing changes in the fair value of the hedged debt obligations arising from movements in benchmark interest rates. The estimated fair value of HP's short- and long-term debt was approximately \$30.3 billion at July 31, 2012, compared to a carrying value of \$29.7 billion at that date. 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. If measured at fair value in the Consolidated Condensed Balance Sheets, short- and long-term debt would be classified as Level 2 in the fair value hierarchy.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 7: Fair Value (Continued)**

HP's non-marketable equity investments and non-financial assets, such as intangible assets, goodwill and property, plant and equipment, are recorded at fair value only if an impairment charge is recognized. During the quarter ended July 31, 2012, HP recognized a goodwill impairment charge of \$8.0 billion and an intangible asset impairment charge of \$1.2 billion. HP classified each of these measurements as Level 3 fair value assessments, as HP used unobservable inputs to the valuation methodologies that were significant to the fair value measurements, and the valuation required management judgment due to the absence of quoted market prices. For more information on these nonrecurring fair value adjustments, see Note 5.

The following table presents HP's assets and liabilities that are measured at fair value on a recurring basis:

	As of July 31, 2012				As of October 31, 2011			
	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	\$	\$ 2,993	\$	\$ 2,993	\$	\$ 5,120	\$	\$ 5,120
Money market funds	3,632			3,632	236			236
Mutual funds		396		396				
Marketable equity securities	35	3		38	120	2		122
Foreign bonds	7	352		359	7	376		383
Corporate bonds and other debt securities	3	2	46	51	3	2	48	53
Derivatives:								
Interest rate contracts		395		395		593		593
Foreign exchange contracts		706		706		269	35	304
Other derivatives		2	22	24		25	6	31
Total Assets	\$ 3,677	\$ 4,849	\$ 68	\$ 8,594	\$ 366	\$ 6,387	\$ 89	\$ 6,842
Liabilities								
Derivatives:								
Interest rate contracts	\$	\$ 37	\$	\$ 37	\$	\$ 71	\$	\$ 71
Foreign exchange contracts		440	13	453		823	9	832
Other derivatives		1		1		1		1
Total Liabilities	\$	\$ 478	\$ 13	\$ 491	\$	\$ 895	\$ 9	\$ 904

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 8: Financial Instruments***Cash Equivalents and Available-for-Sale Investments*

Cash equivalents and available-for-sale investments at fair value as of July 31, 2012 and October 31, 2011 were as follows:

	July 31, 2012			Estimated Fair Value	Cost	October 31, 2011		
	Cost	Gross Unrealized Gain	Gross Unrealized Loss			Cost	Gross Unrealized Gain	Gross Unrealized Loss
In millions								
Cash Equivalents								
Time deposits	\$ 2,985	\$	\$	\$ 2,985	\$ 5,112	\$	\$	\$ 5,112
Money market funds	3,632			3,632	236			236
Mutual funds	41			41				
Total cash equivalents	6,658			6,658	5,348			5,348
Available-for-Sale Investments								
Debt securities:								
Time deposits	8			8	8			8
Foreign bonds	287	72		359	317	66		383
Mutual funds	355			355				
Corporate bonds and other debt securities	69		(18)	51	74		(21)	53
Total debt securities	719	72	(18)	773	399	66	(21)	444
Equity securities in public companies	50	2	(18)	34	114	4		118
Total cash equivalents and available-for-sale investments	\$ 7,427	\$ 74	\$ (36)	\$ 7,465	\$ 5,861	\$ 70	\$ (21)	\$ 5,910

Cash equivalents consist of investments in time deposits, money market funds and mutual funds with original maturities of three months or less. Time deposits were primarily issued by institutions outside the United States as of July 31, 2012 and October 31, 2011. 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, mutual funds, 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.

As of July 31, 2012, \$18 million of the total gross unrealized losses were related to certain debt securities that had been in a continuous loss position for more than twelve months. The gross unrealized loss as of October 31, 2011 was due primarily to declines in certain debt securities of \$21 million that had been in a continuous loss position for more than twelve months. HP does not

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 8: Financial Instruments (Continued)**

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.

Contractual maturities of short-term and long-term investments in available-for-sale debt securities at July 31, 2012 were as follows:

	July 31, 2012	
	Cost	Estimated Fair Value
	In millions	
Due in less than one year	\$ 355	\$ 355
Due in one to five years	13	13
Due in more than five years	351	405
	\$ 719	\$ 773

For the three and nine months ended July 31, 2012, HP recognized an insignificant impairment charge associated with debt securities. For the three and nine months ended July 31, 2011, HP did not recognize any impairment charge associated with debt securities.

During the quarter ended July 31, 2012, HP recognized approximately \$10 million impairment charge related to a public equity investment as HP determined that such impairment was other than temporary. The total impairment related to this public equity investment for the nine months ended July 31, 2012 was \$60 million. HP made its determination based on the closing prices for the nine months ended July 31, 2012. HP has evaluated the near-term prospects of its remaining equity investments in a gross unrealized loss position in relation to the severity and duration of the impairment and considers the decline in market value of the equity investments to be temporary in nature.

Equity securities in privately held companies include cost basis and equity method investments. These amounted to \$50 million and \$48 million for the periods ended July 31, 2012 and October 31, 2011, respectively, and are included in long-term financing receivables and other assets.

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 Condensed Balance Sheets at fair value and reports them in Other current assets,

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

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 Condensed 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 of the due date. As of July 31, 2012, HP held \$613 million of collateral and posted \$21 million through re-hypothecation in association with the counterparties under these collateralized arrangements. As of July 31, 2011 HP held \$40 million of treasury securities under those collateralized arrangements. As of July 31, 2012 and 2011, HP did not have any derivative instruments under these collateralized arrangements 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 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 payments into variable interest payments 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 Condensed 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

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: 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 the three and nine months ended July 31, 2012 and 2011, 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 Condensed Statements of Earnings. As of July 31, 2012 and 2011, 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 the three and nine months ended July 31, 2012 and 2011.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 8: Financial Instruments (Continued)***Fair Value of Derivative Instruments in the Consolidated Condensed Balance Sheets*

As discussed in Note 7, 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 Condensed Balance Sheets was recorded as follows:

	As of July 31, 2012					As of October 31, 2011				
	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	\$ 7,900	\$ 23	\$ 340	\$	\$	\$ 10,075	\$ 30	\$ 508	\$	\$
Cash flow hedges:										
Foreign exchange contracts	19,620	496	84	220	53	21,666	192	30	324	126
Net investment hedges:										
Foreign exchange contracts	1,665	22	26	29	22	1,556	7	4	44	56
Total derivatives designated as hedging instruments	29,185	541	450	249	75	33,297	229	542	368	182
Derivatives not designated as hedging instruments										
Foreign exchange contracts	12,487	42	36	106	23	13,994	66	5	244	38
Interest rate contracts ⁽²⁾	2,200		32		37	2,200		55		71
Other derivatives	401	2	22	1		410	25	6		1
Total derivatives not designated as hedging instruments	15,088	44	90	107	60	16,604	91	66	244	110
Total derivatives	\$ 44,273	\$ 585	\$ 540	\$ 356	\$ 135	\$ 49,901	\$ 320	\$ 608	\$ 612	\$ 292

(1) Represents the face amounts of contracts that were outstanding as of July 31, 2012 and October 31, 2011, respectively.

(2) Represents offsetting swaps acquired through previous business combinations that were not designated as hedging instruments.

Effect of Derivative Instruments on the Consolidated Condensed Statements of Earnings

The before-tax effect of a derivative instrument and related hedged item in a fair value hedging relationship for the three and nine months ended July 31, 2012 and 2011 were as follows:

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Gain (Loss) Recognized in Income on Derivative and Related Hedged Item							
Derivative Instrument	Location	Three months ended	Nine months ended	Hedged Item	Location	Three months ended	Nine months ended
		July 31, 2012	July 31, 2012			July 31, 2012	July 31, 2012
In millions				In millions			
Interest rate contracts	Interest and other, net	\$ (10)	\$ (86)	Fixed-rate debt	Interest and other, net	\$ 13	\$ 93

27

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

		Gain (Loss) Recognized in Income on Derivative and Related Hedged Item						
Derivative Instrument	Location	Three	Nine	Hedged	Location	Three	Nine	
		months	months			months	months	
		ended	ended	Item			ended	
		July 31,	July 31,				July 31,	
		2011	2011				2011	
		In millions						2011
								2011
Interest rate contracts	Interest and other, net	\$ 68	\$ (135)	Fixed-rate debt	Interest and other, net	\$ (63)	\$ 138	

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three and nine months ended July 31, 2012 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)	
	Three months ended July 31, 2012	Nine months ended July 31, 2012	Three months ended July 31, 2012	Nine months ended July 31, 2012	Three months ended July 31, 2012	Nine months ended July 31, 2012
	In millions		In millions		In millions	
Cash flow hedges:						
Foreign exchange contracts	\$ 412	\$ 729	Net revenue	\$ 274	\$ 360	Net revenue
Foreign exchange contracts	22	(39)	Cost of products	(23)	(5)	Cost of products
Foreign exchange contracts	(5)	(9)	Other operating expenses	(2)	(4)	Other operating expenses
Foreign exchange contracts	17		Interest and other, net	21	6	Interest and other, net
Foreign exchange contracts	6	(13)	Net revenue	9	9	Interest and other, net
Total cash flow hedges	\$ 452	\$ 668		\$ 279	\$ 366	\$
Net investment hedges:						
Foreign exchange contracts	\$ 33	\$ 71	Interest and other, net	\$	\$	Interest and other, net

[Table of Contents](#)

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three and nine months ended July 31, 2011 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)	
	Three months ended July 31, 2011	Nine months ended July 31, 2011		Three months ended July 31, 2011	Nine months ended July 31, 2011
	In millions			In millions	
Cash flow hedges:					
Foreign exchange contracts	\$ 115	\$ (565)	Net revenue	\$ (333) \$ (653)	Net revenue \$ \$
Foreign exchange contracts	10	28	Cost of products	9 31	Cost of products
Foreign exchange contracts		5	Other operating expenses	2 4	Other operating expenses
Foreign exchange contracts	(37)	(57)	Interest and other, net	(20) (52)	Interest and other, net
Foreign exchange contracts	7	5	Net revenue	3 9	Interest and other, net 1 4
Total cash flow hedges	\$ 95	\$ (584)		\$ (339) \$ (661)	\$ 1 \$ 4
Net investment hedges:					
Foreign exchange contracts	\$ (21)	\$ (118)	Interest and other, net	\$ \$	Interest and other, net \$ \$

As of July 31, 2012, HP expects to reclassify an estimated net accumulated other comprehensive gain of approximately \$146 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 Condensed Statements of Earnings for the three and nine months ended July 31, 2012 and 2011 were as follows:

	Location	Gain (Loss) Recognized in Income on Derivative	
		Three months ended July 31, 2012	Nine months ended July 31, 2012
		In millions	
Foreign exchange contracts	Interest and other, net	\$ 172	\$ 328
Other derivatives	Interest and other, net	9	(7)

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Interest rate contracts	Interest and other, net	11
Total	\$ 181	\$ 332

29

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 8: Financial Instruments (Continued)**

		Gain (Loss) Recognized in Income on Derivative	
		Three months	Nine months
		ended	ended
		July 31,	July 31,
		2011	2011
Location			
In millions			
Foreign exchange contracts	Interest and other, net	\$ (49)	\$ (747)
Other derivatives	Interest and other, net	(22)	(12)
Interest rate contracts	Interest and other, net		3
Total		\$ (71)	\$ (756)

Other Financial Instruments

For the balance of HP's financial instruments, accounts receivable, financing receivables, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities.

Note 9: 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 financing receivables, which are included in Financing receivables and Long-term financing receivables and other assets in the accompanying Consolidated Condensed Balance Sheets, were as follows:

	July 31,	October 31,
	2012	2011
In millions		
Minimum lease payments receivable	\$ 7,774	\$ 7,721
Unguaranteed residual value	235	233
Unearned income	(661)	(647)
Financing receivables, gross	7,348	7,307
Allowance for doubtful accounts	(145)	(130)
Financing receivables, net	7,203	7,177
Less current portion	(3,116)	(3,162)
Amounts due after one year, net	\$ 4,087	\$ 4,015

Equipment leased to customers under operating leases was \$3.9 billion and \$4.0 billion at July 31, 2012 and October 31, 2011, respectively, and is included in machinery and equipment. Accumulated depreciation on equipment under lease was \$1.5 billion and \$1.3 billion at July 31, 2012 and October 31, 2011, respectively.

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

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

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 9: Financing Receivables and Operating Leases (Continued)**

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.

The credit risk profile of the gross financing receivables, based on internally assigned ratings, was as follows:

	July 31, 2012	October 31, 2011
	In millions	
<u>Risk Rating</u>		
Low	\$ 4,280	\$ 4,261
Moderate	2,985	2,989
High	83	57
Total	\$ 7,348	\$ 7,307

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 an impairment analysis, may establish specific reserves 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:

	Nine months ended July 31, 2012	
	In millions	
<u>Allowance for doubtful accounts</u>		
Balance, beginning of period	\$	130
Additions to allowance		33
Deductions, net of recoveries		(18)
Balance, end of period	\$	145

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 9: Financing Receivables and Operating Leases (Continued)**

	July 31, 2012	October 31, 2011
	In millions	
Allowance for financing receivables individually evaluated for loss	\$ 47	\$ 35
Allowance for financing receivables collectively evaluated for loss	98	95
Total	\$ 145	\$ 130
Gross financing receivables individually evaluated for loss	\$ 349	\$ 228
Gross financing receivables collectively evaluated for loss	6,999	7,079
Total	\$ 7,348	\$ 7,307

Accounts are generally put on non-accrual status (cessation of interest accrual) when they reach 90 days past due. The non-accrual status may not impact a customer's risk rating. 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 \$211 million and \$157 million at July 31, 2012 and October 31, 2011, respectively. Total financing receivables greater than 90 days past due and still accruing interest were \$138 million and \$71 million at July 31, 2012 and October 31, 2011, respectively.

Note 10: 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.

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 arrangements 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.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 10: Guarantees (Continued)***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 for the nine months ended July 31, 2012 were as follows:

	In millions
Product warranty liability at October 31, 2011	\$ 2,451
Accruals for warranties issued	1,700
Adjustments related to pre-existing warranties (including changes in estimates)	(81)
Settlements made (in cash or in kind)	(1,854)
Product warranty liability at July 31, 2012	\$ 2,216

Note 11: Borrowings*Notes Payable and Short-Term Borrowings*

Notes payable and short-term borrowings, including the current portion of long-term debt, were as follows:

	July 31, 2012		October 31, 2011	
	Amount Outstanding	Weighted- Average Interest Rate	Amount Outstanding	Weighted- Average Interest Rate
	In millions		In millions	
Current portion of long-term debt	\$ 4,576	1.3%	\$ 4,345	2.4%
Commercial paper	574	0.9%	3,215	0.4%
Notes payable to banks, lines of credit and other	531	2.8%	523	2.9%
	\$ 5,681		\$ 8,083	

Notes payable to banks, lines of credit and other includes deposits associated with HP's banking-related activities of approximately \$357 million and \$355 million at July 31, 2012 and October 31, 2011, respectively.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 11: Borrowings (Continued)***Long-Term Debt*

Long-term debt was as follows:

	July 31, 2012	October 31, 2011
	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%, paid July 2012	\$	\$ 500
2006 Shelf Registration Statement:		
\$600 issued at par in February 2007 at three-month USD LIBOR plus 0.11%, paid March 2012		600
\$900 issued at discount to par at a price of 99.938% in February 2007 at 5.25%, paid March 2012		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	1,500
\$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	1,997	1,996
\$1,000 issued at discount to par at a price of 99.956% in February 2009 at 4.25%, paid February 2012		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

34

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 11: Borrowings (Continued)**

	July 31, 2012	October 31, 2011
	In millions	
2009 Shelf Registration Statement:		
\$250 issued at discount to par at a price of 99.984% in May 2009 at 2.95%, paid 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	1,100	1,099
\$1,100 issued at discount to par at a price of 99.887% in September 2010 at 2.125%, due September 2015	1,100	1,099
\$650 issued at discount to par at a price of 99.911% in December 2010 at 2.2%, due December 2015	650	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	1,348
\$1,750 issued at par in May 2011 at three month USD LIBOR plus 0.28%, due May 2013	1,750	1,750
\$500 issued at par in May 2011 at three month USD LIBOR plus 0.4%, due May 2014	500	500
\$500 issued at discount to par at a price of 99.971% in May 2011 at 1.55%, due May 2014	500	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	1,000
\$1,250 issued at discount to par at a price of 99.799% in May 2011 at 4.3%, due June 2021	1,248	1,248
\$750 issued at discount to par at a price of 99.977% in September 2011 at 2.35%, due March 2015	750	750
\$1,300 issued at discount to par at a price of 99.784% in September 2011 at 3.0%, due September 2016	1,298	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	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	1,198
\$350 issued at par in September 2011 at three-month USD LIBOR plus 1.55%, due September 2014	350	350
\$650 issued at discount to par at a price of 99.946% in December 2011 at 2.625%, due December 2014	650	
\$850 issued at discount to par at a price of 99.790% in December 2011 at 3.3%, due December 2016	848	
\$1,500 issued at discount to par at a price of 99.707% in December 2011 at 4.65%, due December 2021	1,496	
\$1,500 issued at discount to par at a price of 99.985% in March 2012 at 2.6%, due September 2017	1,500	
\$500 issued at discount to par at a price of 99.771% in March 2012 at 4.05%, due September 2022	499	
	26,079	24,082

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 11: Borrowings (Continued)**

	July 31, 2012	October 31, 2011
	In millions	
EDS Senior Notes		
\$1,100 issued June 2003 at 6.0%, due August 2013	1,111	1,120
\$300 issued October 1999 at 7.45%, due October 2029	314	315
	1,425	1,435
Other, including capital lease obligations, at 0.60%-8.63%, due in calendar years 2012-2024	689	836
Fair value adjustment related to hedged debt	446	543
Less: current portion	(4,576)	(4,345)
Total long-term debt	\$ 24,063	\$ 22,551

As disclosed in Note 8, 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 interest rates in the table above have not been adjusted to reflect the impact of any interest rate swaps.

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 respective prospectus supplements relating thereto. The Global Notes are senior unsecured debt.

In May 2012, HP filed a shelf registration statement (the "2012 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 2012 Shelf Registration Statement replaced the registration statement filed in May 2009.

HP's Board of Directors has approved the issuance of up to \$16.0 billion in aggregate principal amount of commercial paper by HP. HP's subsidiaries are authorized to issue up to an additional \$1.0 billion in aggregate principal amount of commercial paper, of which \$500 million of capacity was available as of July 31, 2012 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 March 2017 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.

Within Other, including capital lease obligations, are borrowings that are collateralized by certain financing receivable assets. As of July 31, 2012, the carrying value of the assets approximated the carrying value of the borrowings of \$219 million.

As of July 31, 2012, HP had the capacity to issue an unspecified amount of additional debt securities, common stock, preferred stock, depositary shares and warrants under the 2012 Shelf Registration Statement. As of that date, HP also had up to approximately \$17.4 billion of available

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

borrowing resources, including \$15.9 billion under its commercial paper programs and approximately \$1.5 billion relating to uncommitted lines of credit.

Note 12: Income Taxes

Provision for Taxes

HP's effective tax rate was 2.2% and 19.7% for the three months ended July 31, 2012 and July 31, 2011, respectively, and (10.3)% and 20.4% for the nine months ended July 31, 2012 and July 31, 2011, respectively. HP's effective tax rate decreased in the three and nine month periods ended July 31, 2012 primarily due to the net tax effects of charges recorded for the impairment of goodwill and purchased intangible assets and restructuring charges. Excluding these charges, 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 such earnings because HP plans to reinvest some of those earnings indefinitely outside the United States.

In the three and nine months ended July 31, 2012, HP recorded discrete items with a net tax benefit of \$670 million and \$744 million, respectively, decreasing the effective tax rate. These amounts included net tax benefits of \$564 million and \$614 million from restructuring and acquisition charges recorded for the three and nine months ended July 31, 2012, respectively. Also included in the three and nine months ended July 31, 2012 was an \$823 million discrete income tax charge to record U.S. valuation allowances on certain deferred tax assets related to the Services segment. The ES business within the Services segment files a U.S. tax return separate from HP. As a result of the 2012 restructuring plan costs accompanied by market conditions and business trends, HP recognized a valuation allowance for the net deferred tax assets of the ES U.S. business. In addition, HP recorded \$827 million of income tax benefits that were recognized from reversals of deferred income tax liabilities attributed to temporary basis differences related to certain foreign subsidiaries that were reduced by the impairment charges for goodwill and purchased intangible assets. There were also other miscellaneous discrete tax benefits in the three and nine months ended July 31, 2012 of \$102 million and \$126 million, respectively.

In the three and nine months ended July 31, 2011, HP recorded discrete items with a net tax benefit of \$145 million and \$302 million, respectively. These amounts included net tax benefits of \$62 million and \$174 million, respectively, from restructuring and acquisition charges, and net tax benefits of \$83 million and \$85 million, respectively, for settlement of tax audit matters and other miscellaneous discrete items. In addition, in December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law. HP recorded a tax benefit of \$43 million arising from the retroactive research and development credit provided by that legislation in the first quarter of fiscal 2011.

As of July 31, 2012, the amount of gross unrecognized tax benefits was \$2.7 billion, of which up to \$1.1 billion 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 July 31, 2012, HP had accrued a net payable of \$196 million for interest and penalties. In the three and nine months ended July 31, 2012, HP recognized \$9 million of net interest expense on net tax underpayments, net of tax, and \$10 million of net interest income on tax overpayments, net of tax, respectively.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 12: Income Taxes (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 Internal Revenue Service ("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 \$235 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. 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, 2007 and 2008 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 \$626 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. The United States Tax Court has recently ruled against HP regarding one of the IRS adjustments. HP currently intends to appeal the decision. 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. EDS has received RAR's for exam years 2003, 2004, 2005, 2006, 2007 and the short period ended August 26, 2008, proposing total tax deficiencies of \$320 million. HP is contesting certain issues and believes it has provided adequate reserves for any tax deficiencies or reductions in tax benefits that could result from the IRS actions.

The IRS began an audit of HP's U.S. group of subsidiaries providing enterprise services for its 2009 income tax return in 2011. That group of subsidiaries has received an RAR for the short period ended October 31, 2008 proposing a total tax deficiency of \$17 million. HP is contesting certain issues and believes it has provided adequate reserves for any tax deficiencies or reductions in tax benefits that could result from the IRS actions.

The breakdown between current and long-term deferred tax assets and deferred tax liabilities was as follows:

	July 31, 2012	October 31, 2011
	In millions	
Current deferred tax assets	\$ 4,614	\$ 5,374
Current deferred tax liabilities	(86)	(41)
Long-term deferred tax assets	1,176	1,283
Long-term deferred tax liabilities	(3,920)	(5,163)
Total deferred tax assets net of deferred tax liabilities	\$ 1,784	\$ 1,453

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 13: Stockholders' Equity***Share Repurchase Program*

HP's share repurchase program authorizes both open market and private repurchase transactions. In the three and nine months ended July 31, 2012, HP executed share repurchases of 16 million shares and 59 million shares, respectively. Such repurchased shares were settled for \$365 million and \$1.5 billion, respectively. HP paid \$4.6 billion in connection with repurchases of 128 million shares during the three months ended July 31, 2011 and paid \$9.6 billion in connection with repurchases of 245 million shares in the first nine months of fiscal 2011. As of July 31, 2012, HP had remaining authorization of \$9.3 billion for future share repurchases.

Comprehensive Income

The changes in the components of other comprehensive income ("OCI"), net of taxes, were as follows:

	Three months ended July 31	
	2012	2011
	In millions	
Net (loss) earnings	\$ (8,857)	\$ 1,926
Net change in unrealized gains on available-for-sale securities, net of tax of \$2 million in 2012 and \$3 million in 2011	6	5
Net change in unrealized gains/losses on cash flow hedges:		
Unrealized gains recognized in OCI, net of tax of \$157 million in 2012 and \$46 million in 2011	295	49
(Gains) losses reclassified into income, net of tax of \$91 million in 2012 and net of tax benefit of \$117 million in 2011	(188)	222
	107	271
Net change in cumulative translation adjustment, net of tax benefit of \$43 million in 2012 and net of tax \$6 million in 2011	(344)	3
Net change in unrealized components of defined benefit plans, net of tax benefit of \$1 million in 2012 and net of tax of \$6 million in 2011	21	39
Comprehensive (loss) income	\$ (9,067)	\$ 2,244

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 13: Stockholders' Equity (Continued)**

	Nine months ended July 31	
	2012	2011
	In millions	
Net (loss) earnings	\$ (5,796)	\$ 6,835
Net change in unrealized (losses) gains on available-for-sale securities, net of tax benefit of \$3 million in 2012 and net of tax of \$1 million in 2011	(8)	15
Net change in unrealized gains/losses on cash flow hedges:		
Unrealized gains (losses) recognized in OCI, net of tax of \$249 million in 2012 and net of tax benefit of \$195 million in 2011	419	(389)
(Gains) losses reclassified into income, net of tax of \$128 million in 2012 and net of tax benefit of \$226 million in 2011	(238)	435
	181	46
Net change in cumulative translation adjustment, net of tax benefit of \$5 million in 2012 and net of tax of \$24 million in 2011	(106)	135
Net change in unrealized components of defined benefit plans, net of tax of \$55 million in 2012 and \$126 million in 2011	155	367
Comprehensive (loss) income	\$ (5,574)	\$ 7,398

The components of accumulated other comprehensive loss, net of taxes, were as follows:

	July 31, 2012	October 31, 2011
	In millions	
Net unrealized gain on available-for-sale securities	\$ 29	\$ 37
Net unrealized gain (loss) on cash flow hedges	140	(41)
Cumulative translation adjustment	(491)	(385)
Unrealized components of defined benefit plans	(2,954)	(3,109)
Accumulated other comprehensive loss	\$ (3,276)	\$ (3,498)

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 14: Retirement and Post-Retirement Benefit Plans**

HP's net pension and post-retirement benefit costs were as follows:

	Three months ended July 31					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post- Retirement Benefit Plans	
	2012	2011	2012	2011	2012	2011
	In millions					
Service cost	\$	\$	\$ 72	\$ 90	\$ 2	\$ 2
Interest cost	141	148	170	178	9	9
Expected return on plan assets	(198)	(186)	(201)	(227)	(9)	(9)
Amortization and deferrals:						
Actuarial loss (benefit)	11	9	57	57	(1)	
Prior service benefit			(6)	(3)	(20)	(20)
Net periodic benefit (gain) cost	(46)	(29)	92	95	(19)	(18)
Settlement loss	5					
Curtailment gain					(4)	
Special termination benefits	833			4	227	
Net benefit cost (gain)	\$ 792	\$ (29)	\$ 92	\$ 99	\$ 204	\$ (18)

	Nine months ended July 31					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post- Retirement Benefit Plans	
	2012	2011	2012	2011	2012	2011
	In millions					
Service cost	\$ 1	\$ 1	\$ 219	\$ 264	\$ 6	\$ 7
Interest cost	424	445	519	524	26	26
Expected return on plan assets	(594)	(558)	(614)	(665)	(28)	(27)
Amortization and deferrals:						
Actuarial loss (benefit)	32	25	177	180	(3)	1
Prior service benefit			(18)	(10)	(63)	(62)
Net periodic benefit (gain) cost	(137)	(87)	283	293	(62)	(55)
Settlement loss (gain)	5		(20)	2		
Curtailment gain					(4)	
Special termination benefits	833		2	12	227	
Net benefit cost (gain)	\$ 701	\$ (87)	\$ 265	\$ 307	\$ 161	\$ (55)

Settlements

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

During the first quarter of fiscal 2012, HP completed the transfer of the substitutional portion of its Japan pension liability and obligation to the Japanese government. This transfer resulted in recognizing a net gain of \$28 million, which is comprised of a net settlement loss of \$150 million and a gain on government subsidy of \$178 million. The government subsidy consisted of the elimination of

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 14: Retirement and Post-Retirement Benefit Plans (Continued)

\$344 million of pension obligations and the transfer of \$166 million of pension assets to the Japanese government.

Retirement Incentive Program

As part of the 2012 restructuring plan, the company announced a voluntary enhanced early retirement program for its U.S. employees. Participation in the EER program was limited to those employees whose combined age and years of service equaled 65 or more. Approximately 8,500 employees elected to participate in the EER program and will leave the company on dates designated by the company with the majority of the EER participants leaving the company on August 31, 2012 and others exiting through August 31, 2013. The U.S. defined benefit pension plan was amended to provide that the EER benefit will be paid from the plan for electing EER participants who are current participants in the pension plan. The retirement incentive benefit is calculated as a lump sum and ranges between five and fourteen months of pay depending on years of service at the time of retirement under the program. As a result of this retirement incentive, HP recognized a STB expense of \$833 million, which reflected the present value of all additional benefits that HP will distribute from the pension plan assets. HP recorded these expenses as a restructuring charge. In addition, a U.S. defined benefit plan re-measurement was also required, which resulted in no material change to the 2012 net periodic pension expense.

HP extended to all employees participating in the EER program the opportunity to continue health care coverage at active employee contribution rates for up to 24 months following retirement. In addition, for employees not grandfathered into certain employer-subsidized retiree medical plans, HP is providing up to \$12,000 in employer credits under the HP Retirement Medical Savings Account (RMSA) program. These items resulted in an additional STB expense of \$227 million, which was offset by net curtailment gains in those programs of \$37 million, due primarily to the resulting accelerated recognition of existing prior service cost/credits. The entire STB and approximately \$4 million in curtailment gains were recognized in the third quarter of fiscal 2012. HP reported this net expense as a restructuring charge.

Employer Contributions and Funding Policy

HP previously disclosed in its Consolidated Financial Statements for the fiscal year ended October 31, 2011 that it expected 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 makes at least the minimum contribution required by local government, funding and taxing authorities.

During the nine months ended July 31, 2012, HP made \$475 million of contributions to its pension plans, paid \$29 million to cover benefit payments to U.S. non-qualified plan participants, and paid \$19 million to cover benefit claims under post-retirement benefit plans. During the remainder of fiscal 2012, HP anticipates making additional contributions of approximately \$130 million to its pension plans and approximately \$8 million to its U.S. non-qualified plan participants and expects to pay up to \$20 million to cover benefit claims under post-retirement benefit plans. HP's pension and other post-retirement benefit costs and obligations are dependent on various assumptions. Differences between expected and actual returns on investments will be reflected as unrecognized gains or losses.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 14: Retirement and Post-Retirement Benefit Plans (Continued)

and such gains or losses will be amortized and recorded in future periods. Poor financial performance of invested assets in any year could lead to increased contributions in certain countries and increased future pension plan expense. Asset gains or losses are determined at the measurement date and amortized over the remaining service life or life expectancy of plan participants. HP's next measurement date is October 31, 2012.

Note 15: 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 July 31, 2012, 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

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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 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. The CJEU is expected to conduct an oral hearing in October 2012 and issue a decision approximately six to eight months thereafter, after which the matter will be remitted back to the German Federal Supreme Court.

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. The CJEU is expected to conduct an oral hearing in October 2012 and issue a decision approximately six to eight months thereafter, after which the matter will be remitted back to the German Federal Supreme Court.

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

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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 number of units impacted and amounts of 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 filed against HP on June 14, 2004 that is pending in state court in Santa Clara County, California. The lawsuit alleges that Intel Corporation ("Intel") concealed performance problems related to the Intel Pentium 4 processor by, among other things, the manipulation of performance benchmarks. The lawsuit alleges that HP aided and abetted Intel's allegedly unlawful conduct. The plaintiffs seek unspecified damages, restitution, attorneys' fees and costs. On November 23, 2011, plaintiffs filed a motion seeking to certify a nationwide class asserting claims under the California Unfair Competition Law. On April 19, 2012, the court issued an order granting in part and denying in part the plaintiffs' motion. As to Intel, the court certified a nationwide class excluding residents of Illinois. As to HP, the court certified a class limited to California residents. As required by the same order, the plaintiffs have filed an amended complaint that limits their claims against HP to a California class while reserving the right to seek additional state-specific subclasses as to HP.

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.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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 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.

Sinacori v. HP is a consumer class action originally 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 original complaint also alleged that HP was aware of this security vulnerability and failed to disclose it to consumers. The original complaint sought certification of a nationwide class of purchasers of all HP printers and unspecified damages, restitution, punitive damages, injunctive relief, attorneys' fees and costs. On February 3, 2012, an amended complaint was filed substituting a new plaintiff from the state of New York in place of the original plaintiff. The amended complaint asserts only a single claim under the New York consumer protection statute, and the amended complaint now seeks to certify a class of consumers in the state of New York who purchased an HP printer that lacks a "digital signature" or "code signing" security feature. Like the original complaint, the amended complaint seeks unspecified damages, restitution, punitive damages, injunctive relief, attorneys' fees and costs. HP has filed a motion to dismiss the amended complaint, and a hearing on HP's motion was scheduled to be held on September 6, 2012. Prior to the hearing on HP's motion to dismiss, the plaintiff voluntarily dismissed his complaint against HP. The dismissal was entered by the court on July 12, 2012.

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

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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 United States 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. Approximately 2,600 current and former EDS employees have filed consents to opt-in to the litigation. Plaintiffs have also alleged separate "opt out" classes based on the overtime laws of the states of California, Washington, Massachusetts, and New York, but plaintiffs have not yet sought class certification for those classes.

Salva v. Hewlett-Packard Company is a purported collective action filed on June 15, 2012 in the United States District Court for the Western District of New York alleging that certain information technology employees allegedly involved in installing and/or maintaining computer software and hardware were misclassified as exempt employees under the Fair Labor Standards Act.

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 United States 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 United States Court of Appeals for the Ninth Circuit. On June 7, 2012, the Court of Appeals affirmed summary judgment for two of the named plaintiffs, but reversed summary judgment on the third named plaintiff, remanding the case back to the trial court and inviting the trial court to revisit its prior certification order. 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 Steavens consolidated matter. The George case is pending in the United States District Court for the Central District of California.

Blake, et al. v. Hewlett-Packard Company is a purported nationwide collective action filed on February 17, 2011 in the United States District Court for the Southern District of Texas claiming that a class of information technology support personnel were misclassified as exempt employees under the Fair Labor Standards Act. On February 10, 2012, plaintiffs filed a motion requesting that the court conditionally certify the case as a collective action. HP has opposed plaintiffs' motion for conditional certification, and the court has taken the motion under advisement. Only

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

one opt-in plaintiff had joined the named plaintiff in the lawsuit at the time that the motion was filed.

Fenn, et al. v. Hewlett-Packard Company is a purported collective action filed on May 24, 2011 in the United States District Court for the District of Idaho alleging 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 the plaintiff's motion for conditional class certification but allowed the plaintiff to re-file that motion following limited discovery on the issue of conditional certification. On March 12, 2012, the plaintiff filed an amended motion for conditional certification seeking to certify a class of all HP customer service representatives located in Boise, Idaho. On May 17, 2012, the court granted in part and denied in part plaintiff's motion. The court authorized plaintiff to notify certain HP employees of the collective action, but narrowed the scope of the proposed class and shortened the length of the proposed class period.

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 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 million, plus penalties. HP has deposited a total of approximately \$17 million with the DRI and agreed to post a provisional bond in exchange for the DRI's agreement to not seize HP products and spare parts and to not 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 HPI has deposited with the DRI. The DRI is also seeking to impose interest and penalties.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

As described below, HPI has responded to the show cause notices, and the Bangalore Commissioner of Customs has concluded hearings into, and issued orders under, the products and the parts show cause notices:

On April 11, 2012, the Commissioner issued an order on the products show cause notice affirming certain duties and penalties against HPI and the named individuals of approximately \$386 million, of which HPI had deposited \$9 million during the investigation.

On April 20, 2012, the Commissioner issued an order on the parts show cause notice affirming certain duties and penalties against HPI and certain of the named individuals of approximately \$17 million. HPI had deposited \$7 million during investigation and after the order deposited an additional \$3 million against the parts show cause notice to avoid certain penalties.

HPI filed appeals before the Customs Tribunal along with applications for waiver of the pre-deposit of remaining demand amounts as a condition for hearing the appeals. The customs department has also filed cross-appeals against the products and parts orders before the Customs Tribunal. The hearing on the deposit waiver is expected to be held in December 2012. After that hearing, the Customs Tribunal is expected to set the actual amount of the deposit that will be required for HPI to proceed with the appeal. The amount of the additional deposit for the products appeal is expected to be between zero and \$377 million, plus interest. The amount of the additional deposit for the spare parts appeal is expected to be between zero and \$3 million.

On March 12, 2012 the Chennai Additional Commissioner of Customs issued an order affirming duties, interest and penalties of approximately \$254,000 on one of the two June 17, 2010 software show cause notices. HPI had deposited \$108,000 during the investigation and after the order deposited an additional \$21,500 against this software order to avoid certain penalties. HPI has filed an appeal before the Commissioner (Appeals) along with application for waiver of pre-deposit of the remaining demand amount as a condition for hearing the appeal. The amount of the additional deposit for the Chennai software appeal is expected to be between zero and \$80,000.

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 information technology 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

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

(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 appealed the denial of its request for injunctive relief to the intermediate appellate court, which issued a preliminary ruling denying the request for injunctive relief but reducing the length of the sanctions from five to two years. HP appealed that decision and, in December 2011, obtained a ruling staying enforcement of ECT's sanctions until HP can be heard on the full merits of the case. HP expects the appeal on the merits to last several years.

Stockholder Litigation. As described below, HP is involved in various stockholder litigation commenced against certain current and former HP executive officers and/or 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. On August 20, 2012, the defendants filed demurrers seeking dismissal of the lawsuit. The court has not yet ruled on the demurrers.

In re HP Derivative Litigation involves four consolidated lawsuits filed beginning on August 16, 2010 in the United States District Court for the Northern District of California alleging, among other things, that the individual defendants wasted corporate assets and breached their fiduciary duties when approving the severance payments made to former Chairman and Chief Executive Officer, Mark Hurd. The plaintiffs also allege that the defendants breached their fiduciary duties and violated Section 14(a) of the Exchange Act by filing false and misleading statements in HP's 2010 proxy statement regarding Mr. Hurd's employment agreement. On January 20, 2012, the defendants filed a motion to dismiss the consolidated lawsuits. The court has not yet ruled on that motion.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

In re Hewlett-Packard Company, a Derivative Litigation, involves three consolidated lawsuits filed beginning on August 10, 2010 in California Superior Court alleging, among other things, that the individual defendants breached their fiduciary duties, engaged in mismanagement and wasted corporate assets when approving severance payments made to Mr. Hurd. The plaintiffs also allege that certain individual defendants engaged in insider trading and thereby wasted corporate assets, were unjustly enriched, breached their fiduciary duties and violated Sections 25402 and 25502 of the California Corporations Code. The three consolidated lawsuits are currently stayed pending resolution of the four consolidated federal court derivative lawsuits.

Saginaw Police & Fire Pension Fund v. Marc L. Andreessen, et al. is a lawsuit filed on October 19, 2010 in the 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. On August 15, 2011, the defendants filed a motion to dismiss the lawsuit. On March 21, 2012, the court granted the defendants' motion to dismiss, and the court entered judgment in the defendants' favor and closed the case on May 29, 2012. On June 28, 2012, the plaintiff filed an appeal with the United States Court of Appeals for the Ninth Circuit.

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, HP's severance payments made to Mr. 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. On February 8, 2012, the defendants filed a motion to dismiss the lawsuit. The court has not yet ruled on that motion.

Richard Gammel v. Hewlett-Packard Company, et al. is a putative securities class action filed on September 13, 2011 in the United States District Court for the Central District of California alleging, among other things, that from November 22, 2010 to August 18, 2011, the defendants violated Sections 10(b) and 20(a) of the Exchange Act by concealing material information and making false statements about HP's business model, the future of the webOS operating system, and HP's commitment to developing and integrating webOS products, including the TouchPad tablet PC. On April 11, 2012, the defendants filed a motion to dismiss the lawsuit. On September 4, 2012, the court granted the defendants' motion to dismiss and gave plaintiff 30 days to file an amended complaint.

Ernesto Espinoza v. Léo Apotheker, et al. and *Larry Salat v. Léo Apotheker, et al.* are consolidated lawsuits filed on September 21, 2011 in the United States District Court for the Central District of California alleging, among other things, that the defendants violated Sections 10(b) and 20(a) of the Exchange Act 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 lawsuits also allege that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched when they authorized HP's repurchase of its own stock on August 29, 2010 and July 21, 2011.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Luis Gonzalez v. Léo Apotheker, et al. and Richard Tyner v. Léo Apotheker, et al. are consolidated lawsuits filed on September 29, 2011 and October 5, 2011, respectively, 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 HP's repurchase of its own stock on August 29, 2010 and July 21, 2011. The lawsuits are currently stayed pending resolution of the Espinoza/Salat consolidated action in federal court.

Cement & Concrete Workers District Council Pension Fund v. Hewlett-Packard Company, et al. is a putative securities class action filed on August 3, 2012 in the United States District Court for the Northern District of California alleging, among other things, that from November 13, 2007 to August 6, 2010 the defendants violated Sections 10(b) and 20(a) of the Exchange Act by making statements regarding HP's Standards of Business Conduct ("SBC") that were false and misleading because Mr. Hurd, who was serving as HP's Chairman and Chief Executive Officer during that period, had been violating the SBC and concealing his misbehavior in a manner that jeopardized his continued employment with HP.

Environmental

HP's operations and 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 HP's products and the recycling, treatment and disposal of those 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. 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"). 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.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: 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; 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 ("IT") infrastructure, including enterprise storage and server technology, networking products and solutions, IT management software, information management solutions and security intelligence/risk management solutions.

HP and its operations are organized into seven reportable business segments for financial reporting purposes: PSG, Services, IPG, ESSN, 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 reportable business segments are based on this organizational structure and information reviewed by HP's management to evaluate the business segment results.

In March 2012, HP announced that it will realign the organizational structure of its business. As part of that realignment, HP has consolidated PSG and IPG into a newly formed Printing and Personal Systems Group. HP continues to report the results of IPG and PSG separately.

A description of the types of products and services provided by each reportable 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 Pavilion, HP Elite, Envy and Compaq Presario 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 technology consulting, outsourcing and support services across infrastructure, applications and business process domains. Services is divided into three main areas: ITO, TS and ABS. ITO delivers comprehensive services that encompass the data center, IT security, Cloud-based computing, workplace technology, network, unified communications, and enterprise service management. TS provides technology consulting and support services for transforming IT, and converging and supporting IT infrastructure. The technology consulting portfolio includes strategic IT advisory services, cloud consulting services, unified communications solutions, data

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 16: Segment Information (Continued)**

center transformation services and education consulting services. In addition to warranty support across HP's product lines, support services includes HP Foundation Care, the portfolio of reactive hardware and software support services; HP Proactive Care, which includes advanced remote system-monitoring tools, continuous onsite rapid response and direct access to HP's technical experts and resources; HP Datacenter Care for flexible customer support for HP and multivendor systems; and Lifecycle Event services, which are event-based services offering HP's technology expertise and consulting for each phase of the technology lifecycle. ABS helps clients develop, revitalize and manage their applications and information assets. The full applications lifecycle approach encompasses application development, testing, modernization, system integration, maintenance and management for both packaged and custom built applications. The ABS portfolio also offers IP-based industry solutions, services and technologies to help clients better manage critical business processes. HP also offers services for customer relationship management, finance and administration, human resources, payroll and document processing.

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 to 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). It includes single function and all-in-one inkjet printers targeted toward consumers and SMBs, as well as 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, support 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 ProLiant servers, running primarily Windows, Linux and virtualization platforms from Microsoft, VMware and other major vendors and leveraging Intel and Advanced Micro Devices, Inc. x86 processors. The business spans a range of server product lines, including pedestal tower, traditional rack, density optimized rack and HP's BladeSystem family of server blades. Business Critical Systems offers HP Integrity servers based on the Intel Itanium-based processor, HP Integrity NonStop solutions and scale-up x86 ProLiant Servers for scalability of systems with more than four industry standard processors. HP's storage offerings include storage area networks, network attached storage, storage management software and virtualization technologies, StoreOnce data deduplication solutions, tape drives and tape libraries. HP's networking portfolio includes switches and routers that span

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

the data center, campus & branch environments delivering network management and unified communications. HP's wireless networking offerings include WLAN access points and controllers/switches.

Software provides enterprise information management solutions for both structured and unstructured data, IT management software and security intelligence/risk management solutions. Solutions are delivered in the form of traditional software licenses, software-as-a-service, hybrid or appliance deployment models. Augmented by support and professional services, HP's software solutions allow IT organizations to gain customer insight and optimize infrastructure, operations, application life cycles, application quality, security, IT services and business processes. In addition, these solutions help businesses proactively safeguard digital assets, comply with corporate and regulatory policies, and control internal and external security risks. For segment reporting purposes, our Software reportable segment aggregates two operating segments, Autonomy and the legacy HP software business.

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 business intelligence solutions, HP Labs, the webOS business and certain business incubation projects. Business intelligence solutions enable business 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, impairment and amortization of purchased intangible assets, impairment of goodwill, 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.

To provide improved visibility and comparability, HP has reclassified segment operating results for fiscal 2011 to conform to certain fiscal 2012 organizational realignments. The realignment resulted in

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 16: Segment Information (Continued)**

transfer of revenue and operating profit among Services, IPG, ESSN, Software and Corporate Investments. In addition, revenue was transferred among the business units within Services. These realignments include:

The transfer of Indigo and Scitex support and the LaserJet and enterprise solutions trade support business from the TS business unit within Services to the Commercial Hardware business unit within IPG;

The transfer of the TippingPoint business from the Networking business unit within ESSN to Software;

The transfer of the business intelligence services business from Corporate Investments to a newly formed ABS business unit within Services;

The consolidation of the Application Services, Business Process Outsourcing and Other Services business units within Services into the new ABS business unit; and

The transfer of the information management services business from Software to the new ABS business unit within Services.

These changes had no impact on the previously reported financial results for PSG or HPFS. In addition, none of these changes impacted HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share.

Selected operating results information for each business segment was as follows:

	Three months ended July 31			
	Net Revenue		Earnings (Loss) from Operations	
	2012	2011	2012	2011
	In millions			
Personal Systems Group	\$ 8,620	\$ 9,592	\$ 409	\$ 567
Services	8,754	9,030	959	1,240
Imaging and Printing Group	6,017	6,183	949	879
Enterprise Servers, Storage and Networking	5,143	5,348	562	690
Software ⁽¹⁾	973	822	175	160
HP Financial Services	935	932	97	88
Corporate Investments	19	235	(58)	(334)
Total segments	\$ 30,461	\$ 32,142	\$ 3,093	\$ 3,290

(1) Includes results of Autonomy from the date of acquisition in October 2011.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 16: Segment Information (Continued)**

	Nine months ended July 31			
	Net Revenue		Earnings (Loss) from Operations	
	2012	2011	2012	2011
	In millions			
Personal Systems Group	\$ 26,945	\$ 29,456	\$ 1,397	\$ 1,772
Services	26,211	26,475	2,861	3,993
Imaging and Printing Group	18,407	19,757	2,518	3,134
Enterprise Servers, Storage and Networking	15,372	16,463	1,709	2,280
Software ⁽¹⁾	2,889	2,344	509	438
HP Financial Services	2,853	2,644	284	250
Corporate Investments	95	339	(155)	(711)
Total segments	\$ 92,772	\$ 97,478	\$ 9,123	\$ 11,156

(1) Includes results of Autonomy from the date of acquisition in October 2011.

The reconciliation of segment operating results information to HP consolidated totals was as follows:

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
	In millions			
Net revenue:				
Segment total	\$ 30,461	\$ 32,142	\$ 92,772	\$ 97,478
Elimination of intersegment net revenue and other	(792)	(953)	(2,374)	(2,355)
Total HP consolidated net revenue	\$ 29,669	\$ 31,189	\$ 90,398	\$ 95,123
Earnings before taxes:				
Total segment earnings from operations	\$ 3,093	\$ 3,290	\$ 9,123	\$ 11,156
Corporate and unallocated costs and eliminations	(314)	(114)	(670)	(118)
Unallocated costs related to stock-based compensation expense	(150)	(130)	(492)	(426)
Amortization of purchased intangible assets	(476)	(358)	(1,412)	(1,196)
Restructuring charges	(1,795)	(150)	(1,888)	(466)
Acquisition-related charges	(3)	(18)	(42)	(68)
Impairment of goodwill and purchased intangible assets	(9,188)		(9,188)	
Interest and other, net	(224)	(121)	(688)	(294)
Total HP consolidated (loss) earnings before taxes	\$ (9,057)	\$ 2,399	\$ (5,257)	\$ 8,588

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

In connection with certain fiscal 2012 organizational realignments, HP reclassified total assets between its Services, IPG, ESSN, Software and Corporate Investments financial reporting segments. Other than the impact of the impairment of goodwill and purchased intangible assets within the Services and PSG segments, respectively, in the third quarter of fiscal 2012, there have been no material changes to the total assets of HP's individual segments since October 31, 2011.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 16: Segment Information (Continued)***Net revenue by segment and business unit*

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
	In millions			
Net revenue:				
Notebooks	\$ 4,416	\$ 5,082	\$ 14,258	\$ 15,929
Desktops	3,486	3,777	10,519	11,314
Workstations	526	547	1,598	1,623
Other	192	186	570	590
Personal Systems Group	8,620	9,592	26,945	29,456
Infrastructure Technology Outsourcing	3,665	3,899	11,035	11,329
Technology Services	2,634	2,671	7,834	7,814
Application and Business Services	2,455	2,460	7,342	7,332
Services	8,754	9,030	26,211	26,475
Supplies	4,005	4,143	12,144	13,113
Commercial Hardware	1,445	1,388	4,413	4,489
Consumer Hardware	567	652	1,850	2,155
Imaging and Printing Group	6,017	6,183	18,407	19,757
Industry Standard Servers	3,187	3,302	9,445	10,137
Storage	924	976	2,869	2,968
Business Critical Systems	385	459	1,211	1,560
Networking	647	611	1,847	1,798
Enterprise Servers, Storage and Networking	5,143	5,348	15,372	16,463
Software ⁽¹⁾	973	822	2,889	2,344
HP Financial Services	935	932	2,853	2,644
Corporate Investments	19	235	95	339
Total segments	30,461	32,142	92,772	97,478
Eliminations of intersegment net revenue and other	(792)	(953)	(2,374)	(2,355)
Total HP consolidated net revenue	\$ 29,669	\$ 31,189	\$ 90,398	\$ 95,123

(1)

Includes results of Autonomy from the date of acquisition in October 2011.

Table of Contents

Item 2. 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 Condensed 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 server and storage 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"), 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, particularly in our focus areas of cloud, security and analytics, and to be 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 are leveraging 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

Table of Contents

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.

Realigning our Business and Cost Structure

We are addressing trends in our businesses and the market by reducing our cost structure and realigning our workforce to create investment capacity, support growth initiatives and innovation, and facilitate more effective operations. As part of those efforts, in March 2012, we announced that we were realigning the organizational structure of our business. As part of that realignment, we consolidated our personal computer and printing businesses under the same senior executive leadership. We also consolidated our global accounts sales organization into ESSN and centralized all of our marketing and communications activities. Subsequently, in May 2012, we announced a company-wide restructuring plan that includes both a voluntary early retirement program for eligible U.S. employees and non-voluntary workforce reductions. We expect the restructuring plan to be implemented through the end of fiscal 2014. We are also continuing to implement the multi-year restructuring plan announced in June 2010 relating to our enterprise services business ("ES"). See Note 6 to the Consolidated Condensed Financial Statements in Item 1 for further discussion of these restructuring plans and the associated restructuring charges.

Investing in our Business

The realignment and restructuring discussed above are two components of an ongoing initiative designed to improve our execution and financial performance and align our cost structure to facilitate increased investment in our business. These efforts will include optimizing our supply chain, reducing the number of stock keeping units (SKUs) and platforms, continuing to refine our real estate strategy, simplifying our go-to-market, improving business processes and implementing consistent pricing and promotions. We expect to invest the majority of the savings from these efforts across our businesses, including investing to respond to market trends and customer expectations, strengthen our position in our core markets, accelerate growth in adjacent markets, and drive leadership in the three strategic areas of cloud computing, security and information management. We expect these investments to allow us to expand in higher margin and higher growth industry segments and further strengthen our portfolio of hardware, software and services to solve customer problems. The rate at which we are able to invest in our business and the returns that we are able to achieve from these investments will be affected by many factors, including external factors, such as macroeconomic conditions and industry trends, and internal factors, such as financial performance and operational execution. As a result, we may experience delays in the anticipated timing of activities related to these efforts, and the anticipated benefits of these efforts may not materialize.

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

The following provides an overview of our key third quarter and first nine months of fiscal 2012 financial metrics:

	HP ⁽¹⁾ Consolidated	PSG	Services	IPG	ESSN	Software	HPFS
In millions, except per share amounts							
Three Months Ended July 31							
Net revenue	\$ 29,669	\$ 8,620	\$ 8,754	\$ 6,017	\$ 5,143	\$ 973	\$ 935
Year-over-year net revenue % (decrease) increase	(4.9)%	(10.1)%	(3.1)%	(2.7)%	(3.8)%	18.4%	0.3%
(Loss) earnings from operations	\$ (8,833)	\$ 409	\$ 959	\$ 949	\$ 562	\$ 175	\$ 97
(Loss) earnings from operations as a % of net revenue	(29.7)%	4.7%	11.0%	15.8%	10.9%	18.0%	10.4%
Net loss	\$ (8,857)						
Net loss per share							
Basic	\$ (4.49)						
Diluted	\$ (4.49)						
Nine Months Ended July 31							
Net revenue	\$ 90,398	\$ 26,945	\$ 26,211	\$ 18,407	\$ 15,372	\$ 2,889	\$ 2,853
Year-over-year net revenue % (decrease) increase	(5.0)%	(8.5)%	(1.0)%	(6.8)%	(6.6)%	23.3%	7.9%
(Loss) earnings from operations	\$ (4,569)	\$ 1,397	\$ 2,861	\$ 2,518	\$ 1,709	\$ 509	\$ 284
(Loss) earnings from operations as a % of net revenue	(5.1)%	5.2%	10.9%	13.7%	11.1%	17.6%	10.0%
Net loss	\$ (5,796)						
Net loss per share							
Basic	\$ (2.93)						
Diluted	\$ (2.93)						

(1) Net revenue includes Corporate Investments and eliminations. (Loss) earnings from operations includes impairment of goodwill, impairment and amortization of purchased intangible assets, restructuring charges and corporate unallocated costs.

Cash and cash equivalents at July 31, 2012 totaled \$9.5 billion, an increase of \$1.5 billion from the October 31, 2011 balance of \$8.0 billion. The increase for the first nine months of fiscal 2012 was due primarily to \$6.5 billion of cash provided from operations, the effect of which was partially offset by \$2.5 billion net investment in property, plant and equipment and \$2.3 billion of cash used to repurchase common stock and pay dividends.

We intend the discussion of our financial condition and results of operations that follows to provide information that will assist in understanding our Consolidated Condensed 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 Condensed 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 "Factors That Could Affect Future Results."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Consolidated Condensed Financial Statements, which we have prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts

Table of Contents

of assets, liabilities, net revenue and expenses, and 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 our 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 that there have been no significant changes during the nine months ended July 31, 2012 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011.

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

Set forth below is an analysis of our financial results comparing the three and nine months ended July 31, 2012 to the three and nine months ended July 31, 2011. Unless otherwise noted, all comparative performance data included below reflect year-over-year comparisons.

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

Results of operations in dollars and as a percentage of net revenue were as follows:

	Three months ended July 31				Nine months ended July 31			
	2012		2011 ⁽¹⁾		2012		2011 ⁽¹⁾	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
In millions								
Net revenue	\$ 29,669	100.0%	\$ 31,189	100.0%	\$ 90,398	100.0%	\$ 95,123	100.0%
Cost of sales ⁽²⁾	22,820	76.9%	23,901	76.6%	69,674	77.1%	72,114	75.8%
Gross profit	6,849	23.1%	7,288	23.4%	20,724	22.9%	23,009	24.2%
Research and development	854	2.9%	812	2.6%	2,490	2.8%	2,425	2.5%
Selling, general and administrative	3,366	11.3%	3,430	11.0%	10,273	11.3%	9,972	10.5%
Impairment of goodwill and purchased intangible assets	9,188	31.0%			9,188	10.2%		
Restructuring charges	1,795	6.1%	150	0.5%	1,888	2.1%	466	0.5%
Amortization of purchased intangible assets	476	1.5%	358	1.1%	1,412	1.6%	1,196	1.2%
Acquisition-related charges	3		18	0.1%	42		68	0.1%
(Loss) earnings from operations	(8,833)	(29.7)%	2,520	8.1%	(4,569)	(5.1)%	8,882	9.4%
Interest and other, net	(224)	(0.7)%	(121)	(0.4)%	(688)	(0.8)%	(294)	(0.4)%
(Loss) earnings before taxes	(9,057)	(30.4)%	2,399	7.7%	(5,257)	(5.9)%	8,588	9.0%
(Benefit) provision for taxes	(200)	(0.5)%	473	1.5%	539	0.5%	1,753	1.8%
Net (loss) earnings	\$ (8,857)	(29.9)%	\$ 1,926	6.2%	\$ (5,796)	(6.4)%	\$ 6,835	7.2%

(1) In connection with organizational realignments implemented in the first quarter of fiscal 2012, 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.

(2) Cost of products, cost of services and financing interest.

Net Revenue

The components of the weighted net revenue change were as follows:

	Three months ended	Nine months ended
	July 31, 2012	July 31, 2012
	Percentage Points	
Software	0.5	0.6
HP Financial Services		0.2
Corporate Investments/Other	(0.2)	(0.3)
Imaging and Printing Group	(0.5)	(1.4)
Enterprise Servers, Storage and Networking	(0.7)	(1.2)
Services	(0.9)	(0.3)
Personal Systems Group	(3.1)	(2.6)
Total HP	(4.9)	(5.0)

For the three and nine months ended July 31, 2012, total HP net revenue decreased 4.9% and 5.0%, respectively (2.5% and 4.5%, respectively, on a constant currency basis). U.S. net revenue decreased 3.4% to \$10.6 billion for the three months ended July 31, 2012, while net revenue from outside of the United States decreased 5.7% to \$19.1 billion. For the nine months ended July 31, 2012, U.S. net revenue decreased 4.4% to \$31.5 billion, while net revenue from outside of the United States decreased 5.2% to \$58.9 billion. For the three and nine months ended

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

July 31, 2012, HP's revenue decreased due primarily to a soft demand environment resulting in volume declines in our hardware businesses and IPG supplies coupled with contractual rate declines on ongoing contracts in Services. The Software segment contributed favorably to the total HP net revenue change as a result of the

Table of Contents

acquisition of Autonomy Corporation plc ("Autonomy"). An analysis of the change in net revenue for each business segment is included under "Segment Information" below.

Gross Margin

Total HP gross margin decreased by 0.3 and 1.3 percentage points for the three and nine months ended July 31, 2012. Gross margins were impacted by continued margin pressure in Services, competitive pricing in our hardware businesses along with an unfavorable mix of lower-margin revenue in ESSN, a lower mix of high-margin supplies revenue and unfavorable currency impacts.

PSG gross margin decreased for the three and nine months ended July 31, 2012 due primarily to higher component costs combined with an unfavorable currency impact, the effect of which was partially offset by favorable warranty and logistics costs.

Services gross margin decreased for the three and nine months ended July 31, 2012 due primarily to contractual rate declines on ongoing contracts, a lower resource utilization rate and additional costs associated with certain contract deliverable delays.

IPG gross margin increased for the three months and decreased for the nine months ended July 31, 2012. The margin increase for the three months ended July 31, 2012 was primarily a result of rate improvements in toner supplies, inkjet and LaserJet printers, as well as recovery from the effects of the March 2011 earthquake and tsunami in Japan. Additionally, a mix shift to higher-end inkjet printers contributed to the margin improvements. These effects were partially offset by a mix shift away from ink supplies. The decrease in margin for the nine months ended July 31, 2012 was due primarily to an unfavorable currency impact driven by the strength of the Japanese yen and from lower ink supplies volume as a result of soft demand in all regions.

ESSN gross margin decreased for the three and nine months ended July 31, 2012 due primarily to competitive pricing pressures and an unfavorable product mix.

Software gross margin decreased for the three and nine months ended July 31, 2012 due primarily to a lower mix of license revenue and higher acquisition-related deferred revenue write-downs, the effect of which was partially offset by rate increases in hosted license services associated with the Autonomy acquisition.

HPFS gross margin increased for the three and nine months ended July 31, 2012 due primarily to lower bad debt expense, the effect of which was partially offset by lower margins on end-of-term activities, including lease extensions, remarketing sales and buyouts.

Corporate Investments gross margin increased for the three and nine months ended July 31, 2012 due primarily to the discontinuation of sales of webOS devices, which had lower gross margins, as a result of the wind-down of the webOS device business beginning in the fourth quarter of fiscal 2011.

Operating Expenses

Research and Development

Total research and development ("R&D") expense increased in the three and nine months ended July 31, 2012 due primarily to additional expense from the acquisition of Autonomy and innovation-focused spending for networking and storage products. These effects were partially offset by the elimination of R&D expense associated with the former webOS device business. For the three and nine months ended July 31, 2012, R&D expense increased for Software, ESSN, PSG, IPG and Services and decreased for Corporate Investments.

Table of Contents

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense decreased for the three months ended July 31, 2012 and increased for the nine months ended July 31, 2012. The decrease for the three months ended July 2012 was due to lower marketing and field selling costs. The increase for the nine months ended July 2012 was due primarily to higher field selling costs and a lower effect of the one-time gains from the sale of real estate and the divestiture of our Halo video collaboration products business that were realized in the prior-year period. For the three months ended July 31, 2012, SG&A expense as a percentage of net revenue increased for each of our segments except for Software, ESSN and Services, each of which experienced a decrease. For the nine months ended July 31, 2012, SG&A expense as a percentage of net revenue increased for each of our segments except for Software, HPFS and ESSN, each of which experienced a decrease.

Impairment of Goodwill and Purchased Intangible Assets

During the three months ended July 31, 2012, we recorded a goodwill impairment charge of \$8.0 billion associated with the Services segment and an intangible asset impairment charge of \$1.2 billion associated with the "Compaq" trade name. See Note 5 to the Consolidated Condensed Financial Statements in Item 1 for further discussion of the impairment of goodwill and purchased intangible assets.

Restructuring Charges

The increase in restructuring costs for the three and nine months ended July 31, 2012 was due primarily to a charge of \$1.7 billion recorded in the third quarter of fiscal 2012 for the restructuring plan announced in May 2012 (the "2012 Plan"). Restructuring charges for the three months ended July 31, 2012 were \$1.8 billion. These charges included \$1.7 billion costs related to the 2012 Plan, \$33 million costs related to our fiscal 2010 ES restructuring plan and \$30 million costs related to our fiscal 2008 restructuring plan. Restructuring charges for the nine months ended July 31, 2012 were \$1.9 billion. These charges included \$1.7 billion costs related to the 2012 Plan, \$77 million costs related to our fiscal 2008 restructuring plan, \$72 million costs related to our fiscal 2010 ES restructuring plan and \$7 million costs related to our fiscal 2009 restructuring plan.

As part of our ongoing business operations, we also incurred workforce rebalancing charges for severance and related costs within certain business segments during the first nine months of fiscal 2012. 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.

Amortization of Purchased Intangible Assets

The increase in amortization expense for the three and nine months ended July 31, 2012 was due primarily to amortization expenses related to the intangible assets purchased as part of the Autonomy acquisition. 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.

Acquisition-related Charges

The decrease in acquisition-related charges for the three and nine months ended July 31, 2012 was due primarily to lower retention bonuses associated with acquisitions completed in fiscal 2010 and 2011. For the three and nine months ended July 31, 2012, we recorded acquisition-related charges of \$3 million and \$42 million, respectively.

Table of Contents

Interest and Other, Net

For the three and nine months ended July 31, 2012, interest and other, net expense increased by \$103 million and \$394 million, respectively. The increase was driven primarily by higher average debt balances and higher currency transaction losses.

Provision for Taxes

Our effective tax rate was 2.2% and 19.7% for the three months ended July 31, 2012 and July 31, 2011, respectively, and (10.3)% and 20.4% for the nine months ended July 31, 2012 and July 31, 2011, respectively. Our effective tax rate decreased in the three and nine months ended July 31, 2012 due primarily to the net tax effects of charges recorded for the impairment of goodwill and purchased intangible assets and restructuring charges. Excluding these charges, 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. We have not provided U.S. taxes for all of such earnings because we plan to reinvest some of those earnings indefinitely outside the United States.

In the three and nine months ended July 31, 2012, we recorded discrete items with a net tax benefit of \$670 million and \$744 million, respectively, decreasing the effective tax rate. These amounts included net tax benefits of \$564 million and \$614 million from restructuring and acquisition charges recorded for the three and nine months ended July 31, 2012, respectively. Also included in the three and nine months ended July 31, 2012 was an \$823 million discrete income tax charge to record U.S. valuation allowances on certain deferred tax assets related to the Services segment. The enterprise services business within the Services segment files a U.S. tax return separate from HP. As a result of the 2012 restructuring plan costs accompanied by market conditions and business trends, we recognized a valuation allowance for the net deferred tax assets of the enterprise services U.S. business. In addition, we recorded \$827 million of income tax benefits that were recognized from reversals of deferred income tax liabilities attributed to temporary basis differences related to certain foreign subsidiaries that were reduced by the impairment charges for goodwill and purchased intangible assets. There were also other miscellaneous discrete tax benefits in the three and nine months ended July 31, 2012 of \$102 million and \$126 million, respectively.

In the three and nine months ended July 31, 2011, we recorded discrete items with a net tax benefit of \$145 million and \$302 million, respectively. These amounts included net tax benefits of \$62 million and \$174 million, respectively, from restructuring and acquisition charges, and net tax benefits of \$83 million and \$85 million, respectively, for settlement of tax audit matters and other miscellaneous discrete items. In addition, in December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law. We recorded a tax benefit of \$43 million arising from the retroactive research and development credit provided by that legislation in the first quarter of fiscal 2011.

Segment Information

A description of the products and services for each segment can be found in Note 16 to the Consolidated Condensed Financial Statements. Future changes to this organizational structure may result in changes to the business segments disclosed.

Table of Contents**Personal Systems Group****Three months ended July 31**

	2012	2011	% Decrease
In millions			
Net revenue	\$ 8,620	\$ 9,592	(10.1)%
Earnings from operations	\$ 409	\$ 567	(27.9)%
Earnings from operations as a % of net revenue	4.7%	5.9%	

Nine months ended July 31

	2012	2011	% Decrease
In millions			
Net revenue	\$ 26,945	\$ 29,456	(8.5)%
Earnings from operations	\$ 1,397	\$ 1,772	(21.2)%
Earnings from operations as a % of net revenue	5.2%	6.0%	

The components of the weighted net revenue change by business unit were as follows:

	Three months ended July 31, 2012	Nine months ended July 31, 2012
Percentage Points		
Notebook PCs	(6.9)	(5.7)
Desktop PCs	(3.0)	(2.7)
Workstations	(0.2)	(0.1)
Other		
Total PSG	(10.1)	(8.5)

PSG revenue decreased 10.1% (7.8% when adjusted for currency) and 8.5% (8.2% when adjusted for currency) for the three and nine months ended July 31, 2012, respectively. The revenue decrease for both the three and nine months ended July 31, 2012 was due to a decline in unit volumes and revenues in both the commercial and consumer PC markets due to soft demand. Average selling prices ("ASPs") decreased by 1% for the three months ended July 31, 2012 due to a competitive pricing environment, the effect of which was offset by a favorable mix of commercial products. For the nine months ended July 31, 2012, ASPs increased by 2% due primarily to a favorable mix of commercial products. Net revenue for consumer clients decreased 12% and 14% and commercial client revenue decreased 9% and 4% for the three and nine months ended July 31, 2012, respectively. Net revenue for Notebook PCs decreased 13% and 10% while net revenue for Desktop PCs decreased 8% and 7% for the three and nine months ended July 31, 2012, respectively. For the three and nine months ended July 31, 2012, Workstations revenue decreased 4% and 2%, respectively.

PSG earnings from operations as a percentage of net revenue decreased 1.2 and 0.8 percentage points for the three and nine months ended July 31, 2012, respectively. The decrease for both periods was driven by a decrease in gross margin due primarily to higher component costs combined with an unfavorable currency impact, the effect of which was partially offset by favorable warranty and logistics costs. In addition, operating expenses as a percentage of net revenue increased due primarily to revenue declines and increased investments in research and development and marketing.

Table of Contents*Services***Three months ended July 31**

	2012	2011	% Decrease
	In millions		
Net revenue	\$ 8,754	\$ 9,030	(3.1)%
Earnings from operations	\$ 959	\$ 1,240	(22.7)%
Earnings from operations as a % of net revenue	11.0%	13.7%	

Nine months ended July 31

	2012	2011	% Decrease
	In millions		
Net revenue	\$ 26,211	\$ 26,475	(1.0)%
Earnings from operations	\$ 2,861	\$ 3,993	(28.3)%
Earnings from operations as a % of net revenue	10.9%	15.1%	

The components of the weighted net revenue increase by business unit were as follows:

	Three months ended July 31, 2012	Nine months ended July 31, 2012
	Percentage Points	
Infrastructure Technology Outsourcing ("ITO")	(2.6)	(1.1)
Technology Services ("TS")	(0.4)	0.1
Application and Business Services ("ABS")	(0.1)	
Total Services	(3.1)	(1.0)

Services net revenue decreased 3.1% (increased 1.0% when adjusted for currency) and 1.0% (increased 0.4% when adjusted for currency) for the three and nine months ended July 31, 2012, respectively. ITO net revenue decreased by 6% and 3% for the three and nine months ended July 31, 2012, respectively. Contractual rate declines on ongoing contracts, increased deal selectivity designed to meet threshold margins and strategic fit, and an unfavorable currency impact contributed to the decrease in revenues for both the periods. TS net revenue decreased by 1% and remained flat for the three and nine months ended July 31, 2012, respectively. The decrease for the three months ended July 31, 2012 was due primarily to revenue declines in our support business driven by an unfavorable currency impact, the effect of which was partially offset by growth in our consulting business. ABS net revenue remained flat for both the three and nine months ended July 31, 2012, respectively. An increase in sales of cloud and information management and analytics offerings were offset by a reduction in contract renewals as well as unfavorable currency impacts.

Services earnings from operations as a percentage of net revenue for the three and nine months ended July 31, 2012 decreased by 2.7 percentage points and 4.2 percentage points, respectively. Operating margin decreased for both periods due primarily to contractual rate declines on ongoing contracts, a lower resource utilization rate and additional costs associated with certain contract deliverable delays. The decrease in operating margin 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.

Table of Contents**Imaging and Printing Group**

	Three months ended July 31		
	2012	2011	% Increase (Decrease)
In millions			
Net revenue	\$ 6,017	\$ 6,183	(2.7)%
Earnings from operations	\$ 949	\$ 879	8.0%
Earnings from operations as a % of net revenue	15.8%	14.2%	

	Nine months ended July 31		
	2012	2011	% Decrease
In millions			
Net revenue	\$ 18,407	\$ 19,757	(6.8)%
Earnings from operations	\$ 2,518	\$ 3,134	(19.7)%
Earnings from operations as a % of net revenue	13.7%	15.9%	

The components of the weighted net revenue change by business unit were as follows:

	Three months ended	Nine months ended
	July 31, 2012	July 31, 2012
Percentage Points		
Commercial Hardware	0.9	(0.4)
Consumer Hardware	(1.4)	(1.5)
Supplies	(2.2)	(4.9)
Total IPG	(2.7)	(6.8)

IPG net revenue decreased 2.7% (2.1% when adjusted for currency) and 6.8% (6.7% when adjusted for currency) for the three and nine months ended July 31, 2012, respectively, driven by broad-based consumer weakness in all regions. Commercial Hardware net revenue increased 4% for the three months ended July 31, 2012 due primarily to unit volume growth in All-in-One laser and large format printers. For the nine months ended July 31, 2012, net revenue for Commercial Hardware decreased 2% due primarily to soft demand resulting in volume declines in LaserJet printers. These effects were partially offset by net revenue growth in the graphics and managed print services businesses. Net revenue for Consumer Hardware decreased 13% and 14% for the three and nine months ended July 31, 2012, respectively, driven primarily by a continued softness in consumer spending. Volume reductions were partially offset by mix shift to higher value inkjet units along with higher average revenue per unit increases. Net revenue for Supplies decreased 3% and 7% for the three and nine months ended July 31, 2012, respectively, due to soft demand in all regions. These effects were partially offset by growth in LaserJet and large format printing supplies.

IPG earnings from operations as a percentage of net revenue increased 1.6 percentage points and decreased 2.2 percentage points for the three and nine months ended July 31, 2012, respectively. The operating margin increase for the three months ended July 31, 2012 was due primarily to an increase in gross margin driven by rate improvements in toner supplies and in inkjet and LaserJet printers, as well as recovery from the effects of the March 2011 earthquake and tsunami in Japan. Additionally, a mix shift to higher-end inkjet printers also contributed to the margin improvements. These effects were partially offset by a mix shift away from ink supplies. Gross margin declined for the nine months ended July 31, 2012 due to an unfavorable currency impact driven by the strength of the Japanese yen and from lower ink supplies volume as a result of soft demand in all regions. Operating expenses as a percentage of revenue increased for the three months ended July 31, 2012 due to revenue declines and increased marketing expenses, the effects of which were partially offset by reduced field selling costs. For the nine months ended July 31, 2012, operating expenses as a percentage of net revenue increased

Table of Contents

due to revenue declines and continued investments in research and development, the effects of which were partially offset by decreased field selling costs and marketing and administrative expenses.

Enterprise Servers, Storage and Networking**Three months ended July 31**

	2012	2011	% Decrease
	In millions		
Net revenue	\$ 5,143	\$ 5,348	(3.8)%
Earnings from operations	\$ 562	\$ 690	(18.6)%
Earnings from operations as a % of net revenue	10.9%	12.9%	

Nine months ended July 31

	2012	2011	% Decrease
	In millions		
Net revenue	\$ 15,372	\$ 16,463	(6.6)%
Earnings from operations	\$ 1,709	\$ 2,280	(25.0)%
Earnings from operations as a % of net revenue	11.1%	13.8%	

The components of the weighted net revenue change by business unit were as follows:

	Three months ended July 31, 2012	Nine months ended July 31, 2012
	Percentage Points	
Industry Standard Servers ("ISS")	(2.2)	(4.2)
Business Critical Systems ("BCS")	(1.4)	(2.1)
Storage	(0.9)	(0.6)
Networking	0.7	0.3
Total ESSN	(3.8)	(6.6)

ESSN net revenue decreased 3.8% (1.9% when adjusted for currency) and 6.6% (6.5% when adjusted for currency) for the three and nine months ended July 31, 2012, respectively, due primarily to revenue decreases in ISS, BCS and Storage. ISS net revenue decreased by 3% and 7% in the three and nine months ended July 31, 2012, respectively, driven primarily by competitive pricing pressures in a weak demand market environment. These effects were partially offset by strong demand for public and private cloud offerings. BCS net revenue decreased by 16% and 22% in the three and nine months ended July 31, 2012, respectively, mainly as a result of lower demand following a March 2011 announcement by an alliance partner that it planned to cease software support for our Itanium-based servers. Storage net revenue decreased by 5% and 3% in the three and nine months ended July 31, 2012, respectively, due primarily to revenue declines in storage networking and tape products, the effect of which was partially offset by strong growth in 3PAR products and StoreOnce data deduplication solutions. Networking net revenue increased by 6% and 3% for the three and nine months ended July 31, 2012, respectively, due to higher market demand for our core data center products, the effect of which was partially offset by competitive pricing pressures and the divestiture of our video surveillance business.

ESSN earnings from operations as a percentage of net revenue decreased by 2.0 percentage points and 2.7 percentage points for the three and nine months ended July 31, 2012, respectively. The decrease in earnings from operations as a percentage of net revenue for three months ended July 31, 2012 was a result of a decrease in gross margin that was partially offset by a decrease in operating expenses as a percentage of net revenue. The decrease in earnings from operations as a percentage of net revenue for the nine months ended July 31, 2012 was a result of a decrease in gross margin

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

coupled with an increase in operating expenses as a percentage of net revenue. For both the periods, gross margins decreased due primarily to competitive pricing pressures and an unfavorable product mix. The decrease in operating expenses as a percentage of net revenue for the three months ended July 31, 2012 was driven by lower field selling and marketing costs, the effect of which was partially offset by higher research and development costs. The increase in operating expenses as a percentage of net revenue for the nine months ended July 31, 2012 was driven by a increase in research and development costs and field selling costs the effect of which was partially offset by lower administrative costs.

Software

	Three months ended July 31		
	2012	2011	% Increase
	In millions		
Net revenue	\$ 973	\$ 822	18.4%
Earnings from operations	\$ 175	\$ 160	9.4%
Earnings from operations as a % of net revenue	18.0%	19.5%	

	Nine months ended July 31		
	2012	2011	% Increase
	In millions		
Net revenue	\$ 2,889	\$ 2,344	23.3%
Earnings from operations	\$ 509	\$ 438	16.2%
Earnings from operations as a % of net revenue	17.6%	18.7%	

Software net revenue increased 18.4% (21.0% when adjusted for currency) and 23.3% (23.7% when adjusted for currency) for the three and nine months ended July 31, 2012, respectively. The net revenue increase for both periods was due to revenues from acquired companies, primarily Autonomy. For the three months ended July 31, 2012, net revenue from services, support and licenses increased by 65%, 16% and 2%, respectively. For the nine months ended July 31, 2012, net revenue from services, support and licenses increased by 81%, 18% and 7%, respectively.

For the three and nine months ended July 31, 2012, Software earnings from operations as a percentage of net revenue decreased by 1.5 percentage points and 1.1 percentage points, respectively. The operating margin decrease for both periods was due primarily to a lower mix of license revenue, higher deferred revenue write-downs and integration costs associated with the Autonomy acquisition, the effects of which were partially offset by rate increases in hosted license services and lower deferred revenue write-downs associated with our fiscal 2010 acquisitions than in the prior-year periods.

HP Financial Services

	Three months ended July 31		
	2012	2011	% Increase
	In millions		
Net revenue	\$ 935	\$ 932	0.3%
Earnings from operations	\$ 97	\$ 88	10.2%
Earnings from operations as a % of net revenue	10.4%	9.4%	

	Nine months ended July 31		
	2012	2011	% Increase
	In millions		
Net revenue	\$ 2,853	\$ 2,644	7.9%
Earnings from operations	\$ 284	\$ 250	13.6%
Earnings from operations as a % of net revenue	10.0%	9.5%	

Table of Contents

For the three and nine months ended July 31, 2012, HPFS net revenue increased by 0.3% and 7.9%, respectively. The net revenue increase for both periods was due primarily to higher end-of-lease revenue from residual expirations in line with portfolio growth and higher buyout activity, the effect of which was partially offset by unfavorable currency movements. In addition, for the nine months ended July 31, 2012, portfolio growth as a result of higher customer demand contributed to the increase in net revenue.

For the three and nine months ended July 31, 2012, earnings from operations as a percentage of net revenue increased 1.0 percentage points and 0.5 percentage points, respectively. The increases were due primarily to an increase in gross margin, the effect of which was partially offset by an increase in operating expenses resulting from lower capitalization of initial direct costs. The increase in gross margin for both periods was due primarily to lower bad debt expense, the effect of which was partially offset by lower margins on end-of-term activities, including lease extensions, remarketing sales and buyouts.

Financing Originations

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
	In millions			
Total financing originations	\$ 1,639	\$ 1,672	\$ 4,903	\$ 4,862

New financing originations, which represent the amount of financing provided to customers for equipment and related software and services and include intercompany activity, decreased 2.0% and increased 0.8% for the three and nine months ended July 31, 2012, respectively. The decrease for the three months ended July 31, 2012 was driven by an unfavorable currency impact, the effect of which was partially offset by higher financing associated with HP product sales and services offerings resulting from improved integration and engagement with HP's sales efforts. The increase for the nine months ended July 31, 2012 was driven by higher financing associated with HP product sales and services offerings, the effect of which was partially offset by an 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 Condensed Financial Statements.

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

The portfolio assets and ratios derived from the segment balance sheet for HPFS were as follows:

	July 31, 2012	October 31, 2011
In millions		
Portfolio assets ⁽¹⁾	\$ 12,700	\$ 12,699
Allowance for doubtful accounts ⁽²⁾	145	130
Operating lease equipment reserve	86	84
Total reserves	231	214
Net portfolio assets	\$ 12,469	\$ 12,485
Reserve coverage	1.8%	1.7%
Debt to equity ratio ⁽³⁾	7.0x	7.0x

- (1) Portfolio assets include gross financing receivables of approximately \$7.3 billion at both July 31, 2012 and October 31, 2011 and net equipment under operating leases of \$2.4 billion and \$2.7 billion at July 31, 2012 and October 31, 2011, respectively, as disclosed in Note 9 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference. Portfolio assets also include capitalized profit on intercompany equipment transactions of approximately \$0.9 billion at July 31, 2012 and \$1.0 billion at October 31, 2011, and intercompany leases of approximately \$2.1 billion at July 31, 2012 and \$1.7 billion at October 31, 2011, 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 July 31, 2012 remained flat from October 31, 2011. The higher level of new financing originations during the first nine months of fiscal 2012 was offset by an unfavorable currency impact. The overall percentage of portfolio asset reserves increased as a percentage of the portfolio assets.

For the three and nine months ended July 31, 2012, HPFS recorded net bad debt expenses of \$14 million and \$46 million, respectively. For the comparable periods of fiscal 2011, net bad debt expenses were \$17 million and \$47 million, respectively.

Corporate Investments

	Three months ended July 31		
	2012	2011	% Decrease
In millions			
Net revenue	\$ 19	\$ 235	(91.9)%
Loss from operations	\$ (58)	\$ (334)	(82.6)%
Loss from operations as a % of net revenue	(305.3)%	(142.1)%	

	Nine months ended July 31		
	2012	2011	% Decrease
In millions			
Net revenue	\$ 95	\$ 339	(72.0)%
Loss from operations	\$ (155)	\$ (711)	(78.2)%
Loss from operations as a % of net revenue	(163.2)%	(209.7)%	

Table of Contents

Net revenue in Corporate Investments relates primarily to business intelligence solutions, the former webOS device business and licensing of HP technology to third parties. The revenue decrease in Corporate Investments for the three and nine months ended July 31, 2012 was a result of lower sales due to the wind-down of the webOS device business announced in August 2011.

Corporate Investments reported a lower loss from operations for the three and nine months ended July 31, 2012 due primarily to the discontinuation of sales of webOS devices, which had lower gross margins, as a result of the wind-down of the webOS devices business beginning in the fourth quarter of fiscal 2011. The loss from operations in Corporate Investments for both the periods was also due to expenses carried in the segment associated with corporate strategy, global alliances and HP Labs.

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.

FINANCIAL CONDITION (Sources and Uses of Cash)

	Nine months ended July 31	
	2012	2011
	In millions	
Net cash provided by operating activities	\$ 6,512	\$ 10,239
Net cash used in investing activities	(2,843)	(2,493)
Net cash used in financing activities	(2,203)	(5,722)
Net increase in cash and cash equivalents	\$ 1,466	\$ 2,024

Operating Activities

Compared to the corresponding period in 2011, net cash provided by operating activities decreased by approximately \$3.7 billion for the nine months ended July 31, 2012. The decrease was due primarily to lower net earnings and higher utilization of cash resources for payment of operating liabilities such as accounts payable and other current liabilities, the impact of which was partially offset by higher cash generated from collections of accounts and financing receivables and lower investment in inventory.

Table of Contents

Our key working capital metrics are as follows:

	Three months ended	
	July 31	
	2012	2011
Days of sales outstanding in accounts receivable	48	52
Days of supply in inventory	29	28
Days of purchases outstanding in accounts payable	(50)	(54)
Cash conversion cycle	27	26

Days of sales outstanding in accounts receivable ("DSO") is calculated by dividing ending accounts receivable, net of allowance for doubtful accounts, by a 90-day average net revenue.

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.

Days of purchases outstanding in accounts payable ("DPO") is calculated by dividing ending accounts payable by a 90-day average cost of goods sold.

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 decrease in DSO was due primarily to revenue linearity, improved collections including usage of factoring, and the strengthening of the U.S. dollar. The increase in DOS was due primarily to strategic purchases of certain components, the effect of which was partially offset by the timing of our shipments in our consumer hardware businesses. The decrease in DPO was due primarily to purchasing linearity during the quarter. These changes contributed to the increase in the cash conversion cycle for the three months ended July 31, 2012.

Investing Activities

Compared to the corresponding period in fiscal 2011, net cash used in investing activities increased by approximately \$0.4 billion for the nine months ended July 31, 2012 due primarily to higher net investments in available-for-sale securities.

Financing Activities

Compared to the corresponding period in fiscal 2011, net cash used in financing activities decreased by approximately \$3.5 billion for the nine months ended July 31, 2012. The decrease was due primarily to a reduction in payments made for the repurchase of common stock, the impact of which was partially offset by lower net proceeds from the issuance of U.S. Dollar Global Notes and higher net repayments of commercial paper.

For more information on our share repurchase programs, see Note 13 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Table of Contents**CAPITAL RESOURCES***Debt Levels*

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. Outstanding borrowings decreased to \$29.7 billion as of July 31, 2012 as compared to \$30.6 billion at October 31, 2011, bearing weighted-average interest rates of 2.9% and 2.4%, respectively. During the first nine months of fiscal 2012, we issued \$8.7 billion and repaid \$11.3 billion of commercial paper. We also issued \$5.0 billion in U.S. Dollar Global Notes under the 2009 Shelf Registration Statement and repaid \$3.0 billion in U.S Dollar Global Notes.

During the next four fiscal quarters, \$4.3 billion of U.S. Dollar Global Notes will mature. We expect to use a combination of cash from operations and our available borrowing resources to repay those maturing Global Notes. For more information on our borrowings, see Note 11 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Our weighted-average interest rate reflects the average effective rate on our borrowings prevailing during the period; 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 8 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Available Borrowing Resources

At July 31, 2012, we had the following resources available to obtain short-term or long-term financings if we need additional liquidity:

	At July 31, 2012	
	In millions	
		Unspecified
2012 Shelf Registration Statement ⁽¹⁾		
Commercial paper programs ⁽¹⁾	\$	15,900
Uncommitted lines of credit ⁽¹⁾	\$	1,500
Revolving trade receivables-based facilities ⁽²⁾	\$	1,015

(1) For more information on our available borrowing resources, see Note 11 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

(2) 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.

Credit Ratings

Our credit risk is evaluated by three independent rating agencies and is based upon publicly available information as well as information obtained through our ongoing discussions with them. Standard & Poor's Ratings Services downgraded our short-term and long-term ratings on November 30, 2011, Fitch Ratings Services downgraded our long-term ratings on December 2, 2011 and Moody's Investors Service downgraded our short-term and long-term ratings on January 20, 2012. Accordingly, our ratings as of July 31, 2012 were:

	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings Services
Short-term debt ratings	A-2	Prime-2	F1
Long-term debt ratings	BBB+	A3	A

Table of Contents

Our credit ratings remain under negative outlook by Fitch Ratings Services. 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

Income Tax Obligations

At July 31, 2012, we had approximately \$2.3 billion of recorded liabilities and related interest and penalties pertaining to uncertainty in income tax positions, which will be partially offset by \$462 million of deferred tax assets and interest receivables. These liabilities and related interest and penalties include \$72 million expected to be paid within the next four fiscal quarters. 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 12 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference, for additional information on taxes.

Restructuring Funding Commitments

As a result of all our approved restructuring plans, we expect future cash expenditures of approximately \$3.0 billion. We expect to make cash payments of approximately \$0.4 billion in fiscal 2012 with remaining cash payments through fiscal 2016. In addition to these cash expenditures, we expect to fund approximately \$833 million of the enhanced early retirement program ("EER") announced in May 2012 through use of our U.S. pension plan assets. In fiscal 2012, we do not expect to increase the funding of our U.S. pension plans because of the use of the plan assets to fund the EER program, and funding for future years will depend upon several factors, including our return on assets, our discount rate and the actual withdrawals from the plan assets. See Note 6 and Note 14 to the Consolidated Condensed Financial Statements in Item 1, which are incorporated herein by reference, for additional information on our restructuring plans and pension activities, respectively. We expect to use a combination of cash from operations and our available borrowing resources to meet our near-term funding commitments.

Guarantees and Indemnifications

For more information on liabilities that may arise from guarantees and indemnification, see Note 10 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Litigation and Contingencies

For more information on liabilities that may arise from litigation and contingencies, see Note 15 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

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

Table of Contents

purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of July 31, 2012, we are not involved in any material unconsolidated SPEs.

We have revolving trade receivables-based facilities permitting us to sell certain trade receivables to third parties on both a non-recourse and partial-recourse basis. The total aggregate capacity of the facilities was \$1.6 billion as of July 31, 2012. 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.

FACTORS THAT COULD AFFECT FUTURE RESULTS

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.

If we are unsuccessful at improving our business execution and financial performance, aligning our cost structure and timely and effectively implementing business realignment and restructuring plans, our business and results of operations may be adversely affected, and our total costs and expenses could be greater than expected.

We are working to improve our execution and financial performance and to align our cost structure with our revenue and margin profile. These efforts are designed to enable us to invest in our business to respond to industry shifts and capitalize on emerging opportunities in areas like cloud computing, security, and information management, and to better serve our customers and partners in both the short- and long-term. As part of these efforts, we are evaluating all of our businesses and looking for specific areas in which to improve our performance and effectiveness and to rationalize costs. For example, we are streamlining operations, optimizing and reducing complexity in our supply chain, removing unnecessary complexity from the way we design, manufacture, and deliver products, and upgrading, standardizing and automating our sales tools and other key systems and processes. We have also undertaken a multi-year initiative to turn around our services business, including expanding into higher margin enterprise services and improving resource utilization. In addition, we are realigning the organizational structure of our business, including consolidating our personal computer and printing businesses under the same senior executive leadership, consolidating our global accounts sales organization into ESSN and centralizing our marketing and communications activities. We may experience delays in the anticipated timing of activities related to these efforts and higher than expected or unanticipated costs in implementing them. In addition, we are vulnerable to increased risks associated with implementing these changes 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 we have completed in recent years. If we do not succeed in these efforts, or if these efforts are more costly or time-consuming than expected, our business and results of operations may be adversely affected, which could limit our ability to invest in and grow our business.

In May 2012, we announced a company-wide restructuring expected to be implemented through the end of fiscal 2014. The restructuring plan includes both a voluntary early retirement program for eligible U.S. employees and non-voluntary workforce reductions and is expected to result in 29,000 employees exiting the company by the end of that period. We also implemented a multi-year restructuring plan in the third quarter of fiscal 2010 relating to our enterprise services business. Significant risks associated with these actions and other workforce management issues that may impair our ability to achieve anticipated cost reductions or that may otherwise harm our business include delays in implementation of anticipated workforce reductions 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. In addition, our ability to achieve the anticipated cost savings and other benefits from these actions within the expected time frame is subject to many

Table of Contents

estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. 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.

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 intended 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. While we have obtained a court ruling finding that the alliance partner has an obligation to continue developing software for our Itanium-based servers, we may continue to experience reduced demand. 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 lowering 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.

Table of Contents

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 integrated IT 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, services and solutions. In addition, 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, services and solutions, 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 and solutions 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. Addressing 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 or solutions, 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

Table of Contents

new or existing customers and adversely affect our brand and reputation, which could, in turn, 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 have resulted, and may result in the future, in decreased revenue, gross margin, earnings or growth rates and in increased difficulty in managing inventory levels. For example, in recent periods we have experienced macroeconomic challenges across many geographic regions, particularly in the United States and Western Europe, broad-based weakness in consumer demand, decelerating growth in China and the impact of the continuing uncertainties associated with the debt crisis in certain countries in the European Union. In addition, sustained uncertainty about current global economic conditions may adversely affect demand for our products, services and solutions. 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. For example, due to weak asset performance combined with lower interest rates and the adverse effects of fluctuating currency exchange rates, we may incur much higher pension and post-retirement benefit expenses in our 2013 fiscal year compared to our 2012 fiscal year. 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 optimize 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.

Table of Contents

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, 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, 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.

Table of Contents

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.

Table of Contents

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 IT 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

Table of Contents

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, industry shifts, 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. Moreover, the implementation of the company-wide restructuring announced in May 2012 and our other efforts to improve our business execution and financial performance could increase the level of variability in our financial results, as the rate at which we are able to realize savings and the degree of progress that we are able to achieve in improving our execution will vary from period to period.

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

Table of Contents

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 have 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 64% of our net revenue. In addition, an increasing portion of our business activity is being conducted in emerging markets, including Brazil,

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

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 64% 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

Table of Contents

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 15 to the Consolidated Condensed 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 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.

Table of Contents

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 services business properly.

The risks that accompany our services 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

Table of Contents

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. Those rating agencies, Standard & Poor's Ratings Services, Fitch Ratings Services and Moody's Investors Service, downgraded our ratings on November 30, 2011, December 2, 2011 and January 20, 2012, respectively. Our credit ratings remain under negative outlook by Fitch Ratings Services. 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 Condensed 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 Condensed 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 15 to the Consolidated Condensed 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

Table of Contents

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. 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

Table of Contents

weakest and our fourth fiscal quarter is our strongest. Many of the factors that create and affect seasonal trends are beyond our control.

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, if they occur, 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

Table of Contents

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

Table of Contents

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. For example, as discussed in Note 5 to the Consolidated Condensed Financial Statements, in our third fiscal quarter of 2012, we recorded an \$8.0 billion impairment charge relating to the goodwill associated with our enterprise services reporting unit within our Services segment and a \$1.2 billion impairment charge as a result of an asset impairment analysis of the "Compaq" trade name acquired in 2002. In addition, if there are further changes in our stock price or significant changes in the business climate or operating results of our reporting units, we may incur additional goodwill impairment charges, particularly in our Software segment where the excess of fair value over carrying value for goodwill is lower than that of our other reporting units. 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;

Table of Contents

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's 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 3. Quantitative and Qualitative Disclosures About Market Risk.

For quantitative and qualitative disclosures about market risk affecting HP, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended October 31, 2011, which is incorporated herein by reference. Our exposure to market risk has not changed materially since October 31, 2011.

Item 4. 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 (the "Exchange Act"), 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 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.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

The information set forth above under Note 15 contained in the "Notes to Consolidated Condensed Financial Statements" is incorporated herein by reference.

Item 1A. Risk Factors.

A description of factors that could materially affect our business, financial condition or operating results is included under "Factors that Could Affect Future Results" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in Item 2 of Part I of this report. This description includes any material changes to the risk factor disclosure in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended October 31, 2011 and is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**Recent Sales of Unregistered Securities**

There were no unregistered sales of equity securities during the period covered by this report.

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				
(May 2012)	10,322	\$ 23.09	10,322	\$ 9,427,280
Month #2				
(June 2012)	3,520	\$ 21.85	3,520	\$ 9,350,353
Month #3				
(July 2012)	2,611	\$ 19.14	2,611	\$ 9,300,373
Total	16,453	\$ 22.20	16,453	

HP repurchased shares in the third quarter of fiscal 2012 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 third quarter of fiscal 2012 were purchased in open market transactions. As of July 31, 2012, HP had remaining authorization of \$9.3 billion for future share repurchases.

Item 6. Exhibits.

The Exhibit Index beginning on page 98 of this report sets forth a list of exhibits.

Table of Contents

SIGNATURE

Pursuant to the requirements 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.

HEWLETT-PACKARD COMPANY

/s/ CATHERINE A. LESJAK

Catherine A. Lesjak
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

Date: September 7, 2012

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Form	Incorporated by Reference 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 Bylaws effective March 21, 2012.	8-K	001-04423	3.1	March 23, 2012
4(a)	Senior Indenture between HP and The Bank of New York Mellon Trust Company, National Association, as successor in interest to J.P. Morgan Trust Company, National Association (formerly known as Chase Manhattan Bank and Trust Company, National Association), as Trustee, dated June 1, 2000.	S-3	333-134327	4.9	June 7, 2006
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

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
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, 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 Note due March 15, 2015, 3.000% Global Note due September 15, 2016, 4.375% Global Note due September 15, 2021 and 6.000% Global Note 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

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
4(o)	Form of Registrant's 2.625% Global Note due December 9, 2014, 3.300% Global Note due December 9, 2016, 4.650% Global Note due December 9, 2021 and related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	December 12, 2011
4(p)	Form of Registrant's 2.600% Global Note due September 15, 2017 and 4.050% Global Note due September 15, 2022 and related Officers' Certificate.	8-K	001-04423	4.1, 4.2 and 4.3	March 12, 2012
4(q)	Specimen certificate for the Registrant's common stock.	8-A/A	001-04423	4.1	June 23, 2006
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-K	001-04423	10(h)	December 14, 2011
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

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
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
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

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
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
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

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference		Filing Date
			File No.	Exhibit(s)	
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
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

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
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
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 Apotheke.*	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)	Letter Agreement, dated November 17, 2011, among the Registrant, Relational Investors LLC and the other parties named therein.*	8-K	001-04423	99.1	November 17, 2011
10(f)(f)(f)	Seventh Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(e)(e)(e)	December 14, 2011
10(g)(g)(g)	Registrant's Severance Plan for Executive Officers, as amended and restated.*	10-K	001-04423	10(f)(f)(f)	December 14, 2011
10(h)(h)(h)	Aircraft Time Sharing Agreement, dated March 16, 2012, between the Registrant and Margaret C. Whitman.*	10-Q	001-04423	10(h)(h)(h)	June 8, 2012

Edgar Filing: HEWLETT PACKARD CO - Form 10-Q

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
11	None.				
12	Statement of Computation of Ratio of Earnings to Fixed Charges.				
15	None.				
18-19	None.				
22-24	None.				
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.				
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.