HEWLETT PACKARD CO
Form 10-Q
March 11, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: January 31, 2013

Or

o **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 ý No o

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 ý No o

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

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

The number of shares of HP common stock outstanding as of February 28, 2013 was 1,944,019,483 shares.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Hewlett-Packard Company and its consolidated subsidiaries ("HP") may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of revenue, margins, expenses, earnings, earnings per share, tax provisions, cash flows, benefit obligations, share repurchases, currency exchange rates or other financial items; any projections of the amount, timing or impact of cost savings or restructuring 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 need to address the many challenges facing HP's businesses; the competitive pressures faced by HP's businesses; risks associated with executing HP's strategy; the impact of macroeconomic and geopolitical trends and events; the need to manage third-party suppliers and the distribution of HP's products and services effectively; the protection of HP's intellectual property assets, including intellectual property licensed from third parties; risks associated with HP's international operations;

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 hiring and retention of key employees; integration and other risks associated with business combination and investment transactions; 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, 2012. HP assumes no obligation and does not intend to update these forward-looking statements.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Statements of Earnings

(Unaudited)

	Three months ended January 31	
	2013	2012
	In millions, except per share amounts	
Net revenue:		
Products	$ 18,270	$ 19,511
Services	9,971	10,409
Financing income	118	116
Total net revenue	28,359	30,036
Costs and expenses:		
Cost of products	14,031	15,049
Cost of services	7,918	8,186
Financing interest	80	78
Research and development	794	786
Selling, general and administrative	3,300	3,367
Amortization of purchased intangible assets	350	466
Restructuring charges	130	40
Acquisition-related charges	4	22
Total operating expenses	26,607	27,994
Earnings from operations	1,752	2,042
Interest and other, net	(179)	(221)
Earnings before taxes	1,573	1,821
Provision for taxes	(341)	(353)
Net earnings	$ 1,232	$ 1,468
Net earnings per share:		
Basic	$ 0.63	$ 0.74
Diluted	$ 0.63	$ 0.73
Cash dividends declared per share	$ 0.26	$ 0.24
Weighted-average shares used to compute net earnings per share:		
Basic	1,953	1,981

Diluted	1,956	1,998

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Statements of Comprehensive Income

(Unaudited)

	Three months ended January 31	
	2013	**2012**
	In millions	
Net earnings	$ 1,232	$ 1,468
Other comprehensive (loss) income before tax:		
Change in unrealized gains (losses) on available-for-sale securities	3	(62)
Change in unrealized gains / losses on cash flow hedges:		
Unrealized (losses) gains arising during the period	(314)	407
Losses (gains) reclassified into earnings	64	(98)
	(250)	309
Change in unrealized components of defined benefit plans:		
Losses arising during the period		(59)
Amortization of actuarial loss and prior service benefit	83	43
Curtailments, settlements and other	13	173
	96	157
Change in cumulative translation adjustment	(26)	(247)
Other comprehensive (loss) income before taxes	(177)	157
Benefit (Provision) for taxes	64	(166)
Other comprehensive loss, net of tax	(113)	(9)
Comprehensive income	$ 1,119	$ 1,459

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

	January 31, 2013	October 31, 2012
	In millions, except par value	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,589	$ 11,301
Accounts receivable	14,236	16,407
Financing receivables	3,316	3,252
Inventory	6,374	6,317
Other current assets	13,037	13,360
Total current assets	49,552	50,637
Property, plant and equipment	11,686	11,954
Long-term financing receivables and other assets	10,249	10,593
Goodwill	31,031	31,069
Purchased intangible assets	4,183	4,515
Total assets	$ 106,701	$ 108,768
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 6,475	$ 6,647
Accounts payable	11,660	13,350
Employee compensation and benefits	3,520	4,058
Taxes on earnings	851	846
Deferred revenue	7,603	7,494
Accrued restructuring	833	771
Other accrued liabilities	13,444	13,500
Total current liabilities	44,386	46,666
Long-term debt	21,752	21,789
Other liabilities	17,273	17,480
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; 1,953 and 1,963 shares issued and outstanding, respectively)	20	20
Additional paid-in capital	6,308	6,454
Retained earnings	22,239	21,521
Accumulated other comprehensive loss	(5,672)	(5,559)
Total HP stockholders' equity	22,895	22,436
Non-controlling interests	395	397
Total stockholders' equity	23,290	22,833
Total liabilities and stockholders' equity	$ 106,701	$ 108,768

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

(Unaudited)

	Three months ended January 31	
	2013	**2012**
	In millions	
Cash flows from operating activities:		
Net earnings	$ 1,232	$ 1,468
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,163	1,303
Stock-based compensation expense	184	175
Provision for doubtful accounts accounts and financing receivables	32	18
Provision for inventory	92	34
Restructuring charges	130	40
Deferred taxes on earnings	500	(110)
Excess tax benefit from stock-based compensation		(11)
Other, net	167	44
Changes in operating assets and liabilities:		
Accounts and financing receivables	2,246	2,311
Inventory	(149)	180
Accounts payable	(1,690)	(2,376)
Taxes on earnings	(423)	(12)
Restructuring	(237)	(174)
Other assets and liabilities	(685)	(1,697)
Net cash provided by operating activities	2,562	1,193
Cash flows from investing activities:		
Investment in property, plant and equipment	(633)	(883)
Proceeds from sale of property, plant and equipment	127	96
Purchases of available-for-sale securities and other investments	(299)	
Maturities and sales of available-for-sale securities and other investments	161	96
Payments in connection with business acquisitions, net of cash acquired		(141)
Proceeds from business divestiture, net		81
Net cash used in investing activities	(644)	(751)
Cash flows from financing activities:		
Repayment of commercial paper and notes payable, net	(105)	(2,607)
Issuance of debt	45	3,035
Payment of debt	(114)	(100)
Issuance of common stock under employee stock plans	55	313
Repurchase of common stock	(253)	(780)
Excess tax benefit from stock-based compensation		11
Cash dividends paid	(258)	(244)
Net cash used in financing activities	(630)	(372)
Increase in cash and cash equivalents	1,288	70
Cash and cash equivalents at beginning of period	11,301	8,043

Cash and cash equivalents at end of period	$ 12,589	$ 8,113
Supplemental schedule of non-cash investing and financing activities:		
Purchase of assets under capital lease	$ 2	$ 12

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

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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 January 31, 2013, its results of operations and cash flows for the three months ended January 31, 2013 and January 31, 2012. The Consolidated Condensed Balance Sheet as of October 31, 2012 is derived from the October 31, 2012 audited consolidated financial statements.

The results of operations for the three months ended January 31, 2013 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, 2012.

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.

Segment Reorganization

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 months ended January 31, 2013 and 2012 was $184 million and $175 million, respectively. The resulting income tax benefit was $57 million for each of the three months ended January 31, 2013 and January 31, 2012.

Restricted Stock Awards

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

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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 January 31, 2013 and changes during the three months ended January 31, 2013 were as follows:

	Shares	Weighted-Average Grant Date Fair Value Per Share
	In thousands	
Outstanding at October 31, 2012	25,532	$ 31
Granted	17,701	$ 14
Vested	(7,428)	$ 32
Forfeited	(1,030)	$ 28
Outstanding at January 31, 2013	34,775	$ 22

At January 31, 2013, there was $577 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 a 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 January 31	
	2013	2012
Weighted-average fair value of grants per share[1]	$ 4.01	$ 9.49
Implied volatility	42%	43%
Risk-free interest rate	0.98%	1.20%
Dividend yield	3.77%	1.73%
Expected life in months	70	67

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

Option activity as of January 31, 2013 and changes during the three months ended January 31, 2013 were as follows:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	In thousands		In years	In millions
Outstanding at October 31, 2012	87,296	$ 29		
Granted	23,096	$ 14		
Exercised	(506)	$ 11		
Forfeited/cancelled/expired	(3,531)	$ 27		
Outstanding at January 31, 2013	106,355	$ 26	3.8	$ 85
Vested and expected to vest at January 31, 2013	103,137	$ 26	3.7	$ 79
Exercisable at January 31, 2013	67,570	$ 31	1.8	$ 21

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 January 31, 2013. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of the first quarter of fiscal 2013 and the exercise price, multiplied by the number of in-the-money options. The total intrinsic value of options exercised for the three months ended January 31, 2013 was $2 million.

At January 31, 2013, there was $208 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 2.3 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 prior to fiscal year 2012 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.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

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 for these PRUs was as follows:

	Three months ended January 31	
	2013	**2012**
Weighted-average fair value of grants per share	$ 13.14(1)	$ 27.00(2)

(1) Reflects the weighted-average fair value for the second year of the three-year performance period applicable to PRUs granted in fiscal 2012. The estimated fair value of the Target Shares for the third year for PRUs granted in fiscal year 2012 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 first year of the three-year performance period applicable to PRUs granted in fiscal 2012.

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:

	Three months ended January 31	
	2013	**2012**
Weighted-average fair value of grants per share	$ 0.00(1)	$ 3.35(2)
Expected volatility(3)	33%	41%
Risk-free interest rate	0.18%	0.14%
Dividend yield	3.94%	1.78%
Expected life in months	12	15

(1) Reflects the weighted-average fair value for the third year of the three-year performance period applicable to PRUs granted in fiscal 2011.

(2) 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.

(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.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

Non-vested PRUs as of January 31, 2013 and changes during the three months ended January 31, 2013 were as follows:

	Shares In thousands
Outstanding Target Shares at October 31, 2012	5,688
Granted	
Vested	
Change in units due to performance and market conditions achievement for PRUs vested in the period	
Forfeited	(160)
Outstanding Target Shares at January 31, 2013	5,528
Outstanding Target Shares assigned a fair value at January 31, 2013	5,172(1)

(1) Excludes Target Shares for the third year for PRUs granted in fiscal 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 January 31, 2013, there was $14 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 year.

Note 3: Net Earnings Per Share

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

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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 EPS calculations was as follows::

	Three months ended January 31	
	2013	2012
	In millions, except per share amounts	
Numerator:		
Net earnings[1]	$ 1,232	$ 1,468
Denominator:		
Weighted-average shares used to compute basic EPS	1,953	1,981
Dilutive effect of employee stock plans	3	17
Weighted-average shares used to compute diluted EPS	1,956	1,998
Net earnings per share:		
Basic	$ 0.63	$ 0.74
Diluted	$ 0.63	$ 0.73

(1) Net earnings available to participating securities were not significant for the first quarter of fiscal 2013 and 2012. HP considers restricted stock that provides the holder with a non-forfeitable right to receive dividends to be a participating security.

HP excludes options with exercise prices that are greater than the average market price from the calculation of diluted EPS because the effect of their inclusion would be anti-dilutive. As such, in the first quarter of fiscal 2013 and 2012, HP excluded from the calculation of diluted EPS options to purchase 74 million shares and 51 million shares, respectively. Further, during the same time periods, HP also excluded from the calculation of diluted EPS options to purchase an additional 12 million shares and 10 million shares, respectively, as their 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.

Note 4: Balance Sheet Details

Balance sheet details were as follows:

Accounts Receivables

	January 31, 2013	October 31, 2012
	In millions	
Accounts receivable	$ 14,676	$ 16,871
Allowance for doubtful accounts	(440)	(464)
	$ 14,236	$ 16,407

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 4: Balance Sheet Details (Continued)

HP has third-party financing arrangements consisting of revolving short-term financing intended to facilitate the working capital requirements of certain partners. These financing arrangements, which in certain circumstances may provide for partial recourse, result in a transfer of HP's receivables and risk to the third party. As these transfers qualify as true sales, the receivables are derecognized from the Consolidated Condensed Balance Sheets upon transfer, and HP receives a payment for the receivables from the third party within a mutually agreed upon time period. For arrangements involving an element of recourse, 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 obligations as of January 31, 2013 and October 31, 2012 were not material. The maximum program capacity under the partial recourse facility was $928 million, of which $456 million was available as of January 31, 2013. The aggregate maximum program capacity under arrangements not involving recourse was $765 million, of which $385 million was available as of January 31, 2013. HP had an aggregate available capacity of $847 million under these programs as of October 31, 2012.

For the first three months of fiscal 2013 and 2012, trade receivables sold under these facilities were $1.5 billion and $1.1 billion, respectively, which approximates the amount of cash received. The resulting costs associated with the sales of trade accounts receivable for both periods were not material.

Inventory

	January 31, 2013	October 31, 2012
	In millions	
Finished goods	$ 4,058	$ 4,094
Purchased parts and fabricated assemblies	2,316	2,223
	$ 6,374	$ 6,317

Property, Plant and Equipment

	January 31, 2013	October 31, 2012
	In millions	
Land	$ 636	$ 636
Buildings and leasehold improvements	8,752	8,744
Machinery and equipment	16,467	16,503
	25,855	25,883
Accumulated depreciation	(14,169)	(13,929)
	$ 11,686	$ 11,954

For the three months ended January 31, 2013, additions to the gross property, plant and equipment of $635 million were offset by sales and retirements totaling $669 million. Accumulated depreciation associated with the assets sold and retired was $542 million.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 5: Goodwill and Purchased Intangible Assets

Goodwill

Goodwill allocated to HP's reportable segments as of January 31, 2013 and changes in the carrying amount of goodwill for the three months ended January 31, 2013 are as follows:

	Personal Systems	Printing	Enterprise Group	Enterprise Services	Software	HP Financial Services	Corporate Investments	Total
	In millions							
Net balance at October 31, 2012	$ 2,498	$ 2,487	$ 17,041	$	$ 8,899	$ 144	$	$ 31,069
Goodwill adjustments/reclassifications			7		(45)			(38)
Net balance at January 31, 2013	$ 2,498	$ 2,487	$ 17,048	$	$ 8,854	$ 144	$	$ 31,031

HP has implemented certain organizational realignments. As a result of these realignments, HP has re-evaluated its segment financial reporting structure and, effective in the first quarter of fiscal 2013, created two new financial reporting segments, the Enterprise Group segment ("EG") and the Enterprise Services segment ("ES"), and eliminated two other financial reporting segments, the Enterprise Servers, Storage and Networking ("ESSN") segment and the Services segment. The EG segment consists of the business units within the former ESSN segment and most of the services offerings of the Technology Services ("TS") business unit, which was previously a part of the former Services segment. The ES segment consists primarily of the Applications and Business Services ("ABS") and Infrastructure Technology Outsourcing ("ITO") business units from the former Services segment. As a result of the reporting segment changes described above, the net goodwill balance at October 31, 2012 includes the reclassification of $9.3 billion of goodwill related to the realignment of the TS business unit from the former Services segment to the EG segment. See Note 16 for a full description of the segment realignments.

Goodwill at October 31, 2012 and January 31, 2013 is net of accumulated impairment losses of $14,518 million. Of that amount, $7,961 million relates to ES, $5,744 million relates to Software, and the remaining $813 million relates to Corporate Investments.

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 an asset may not be recoverable. Based on our last annual goodwill impairment test, the excess of fair value over carrying value for each of HP's reporting units as of August 1, 2012, the annual testing date, ranged from approximately 9% to approximately 330% of carrying value. Based on that same test, the Autonomy and legacy HP software reporting units, both of which were included in the Software segment, had the lowest excess of fair value over carrying value at 10% and 9%, respectively. HP will continue to evaluate goodwill on an annual basis as of the beginning of its fourth fiscal quarter and whenever events or changes in circumstances, such as significant adverse changes in business climate or operating results, changes in management's business strategy or significant declines in HP's stock price, indicate that there may be a potential indicator of impairment.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 5: Goodwill and Purchased Intangible Assets (Continued)

Purchased Intangible Assets

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

	January 31, 2013				October 31, 2012			
	Gross	Accumulated Amortization	Accumulated Impairment Loss	Net	Gross	Accumulated Amortization	Accumulated Impairment Loss	Net
	In millions							
Customer contracts, customer lists and distribution agreements	$ 5,764	$ (2,703)	$ (856)	$ 2,205	$ 5,807	$ (2,625)	$ (856)	$ 2,326
Developed and core technology and patents	6,570	(2,685)	(2,138)	1,747	6,580	(2,501)	(2,138)	1,941
"Compaq" trade name	1,422	(28)	(1,227)	167	1,422	(18)	(1,227)	177
Other product trademarks	310	(142)	(109)	59	310	(137)	(109)	64
In-process research and development ("IPR&D")	5			5	7			7
Total purchased intangible assets	$ 14,071	$ (5,558)	$ (4,330)	$ 4,183	$ 14,126	$ (5,281)	$ (4,330)	$ 4,515

For the first three months of fiscal 2013, the majority of the decrease in gross intangibles was related to $44 million of fully amortized intangible assets which have been eliminated from both the gross and accumulated amortization amounts.

Estimated future amortization expense related to finite-lived purchased intangible assets at January 31, 2013 is as follows:

Fiscal year:	**In millions**
2013 (remaining 9 months)	$ 1,014
2014	1,029
2015	840
2016	684
2017	257
2018	145
Thereafter	209
Total	$ 4,178

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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 voluntary enhanced early retirement ("EER") programs in the United States and in certain other countries. The majority of the U.S. EER program will be funded through HP's U.S. pension plan. 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 $3.1 billion to relate to the workforce reductions and the EER programs and approximately $0.6 billion to relate to other items, including data center and real estate consolidation. Due to uncertainties associated with attrition and the acceptance rates of future international EER programs, the total expected headcount reductions could vary as much as 15% from our estimates. We could also experience similar variations in the total expense of the 2012 Plan.

HP recorded a charge of approximately $290 million in the first quarter of fiscal 2013 relating to the 2012 Plan, of which $34 million related to data center and real estate consolidation. As of January 31, 2013, HP had eliminated approximately 15,200 positions as part of the 2012 Plan. The cash payments associated with the 2012 Plan are expected to be paid out through 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 $101 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. The Palm and 3Com plans are now closed with no further restructuring charges anticipated. The remaining severance costs associated with the webOS plan are expected to be paid out in fiscal year 2013.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Restructuring Charges (Continued)

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 included plans to consolidate commercial data centers, tools and applications. The total expected cost of the plan was approximately $835 million, which included severance costs to eliminate approximately 8,200 positions and infrastructure charges. As of October 31, 2012 all 8,200 positions under the plan had been eliminated. As the execution of the restructuring activities has evolved, certain components and their related cost estimates have been revised. During the first quarter of fiscal 2013, HP reversed $157 million of the severance accrual to reflect the remaining reserve balance and expected cash payouts. The majority of the infrastructure charges were paid out during fiscal 2012 with the remaining charges expected to be paid out through the first half of fiscal 2015. This plan is now closed with no further restructuring charges anticipated. HP expects the majority of the remaining severance for the plan to be paid out through fiscal year 2013.

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 included severance costs related to eliminating approximately 25,000 positions. As of October 31, 2011, all actions had occurred and the associated severance costs had been paid out. The infrastructure charges in the restructuring plan included 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.

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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 three months ended January 31, 2013 were as follows:

	Balance, October 31, 2012	Three months ended January 31, 2013 charges	Cash payments	Other adjustments and non-cash settlements	Balance, January 31, 2013	As of January 31, 2013 Total costs and adjustments to date	Total expected costs and adjustments
Fiscal 2012 Plan							
Severance and EER	$ 597	$ 256	$ (172)	$ 14	$ 695	$ 2,241	$ 3,143
Infrastructure and other	11	34	(22)		23	139	575
Total 2012 Plan	608	290	(194)	14	718	2,380	3,718
Fiscal 2010 acquisitions	10				10	101	101
Fiscal 2010 ES Plan:							
Severance	227	(157)	(30)	4	44	466	466
Infrastructure	1				1	369	369
Total ES Plan	228	(157)	(30)	4	45	835	835
Fiscal 2008 HP/EDS Plan:							
Severance						2,195	2,195
Infrastructure	181	(3)	(13)		165	1,072	1,083
Total HP/EDS Plan	181	(3)	(13)		165	3,267	3,278
Total restructuring plans	$ 1,027	$ 130	$ (237)	$ 18	$ 938	$ 6,583	$ 7,932

At January 31, 2013 and October 31, 2012, HP included the long-term portion of the restructuring liability of $105 million and $256 million, respectively, in Other liabilities, and the short-term portion of $833 million and $771 million, respectively, in Accrued restructuring in the accompanying Consolidated Condensed Balance Sheets.

Note 7: Fair Value

HP determines fair value based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

Valuation techniques used by HP are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect HP's assumptions about market participant assumptions based on the best information available. 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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 7: Fair Value (Continued)

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 HP'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 approximated its carrying value of $28.2 billion at January 31, 2013, and $28.4 billion at October 31, 2012. 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.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 7: Fair Value (Continued)

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

	As of January 31, 2013				As of October 31, 2012			
	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	$	$ 2,839	$	$ 2,839	$	$ 3,641	$	$ 3,641
Money market funds	6,859			6,859	4,630			4,630
Mutual funds		517		517		469		469
Marketable equity securities	48	4		52	60	3		63
Foreign bonds	8	400		408	8	377		385
Corporate bonds and other debt securities	1	2	39	42	1		44	45
Derivatives:								
Interest rate contracts		237		237		344		344
Foreign exchange contracts		279	17	296		291		291
Other derivatives		5		5		1		1
Total Assets	$ 6,916	$ 4,283	$ 56	$ 11,255	$ 4,699	$ 5,126	$ 44	$ 9,869
Liabilities								
Derivatives:								
Interest rate contracts	$	$ 19	$	$ 19	$	$ 29	$	$ 29
Foreign exchange contracts		800		800		485	1	486
Other derivatives						3		3
Total Liabilities	$	$ 819	$	$ 819	$	$ 517	$ 1	$ 518

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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 January 31, 2013 and October 31, 2012 were as follows:

	January 31, 2013				October 31, 2012			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	In millions							
Cash Equivalents								
Time deposits	$ 2,826	$	$	$ 2,826	$ 3,633	$	$	$ 3,633
Money market funds	6,859			6,859	4,630			4,630
Mutual funds	92			92	69			69
Total cash equivalents	9,777			9,777	8,332			8,332
Available-for-Sale Investments								
Debt securities:								
Time deposits	13			13	8			8
Foreign bonds	309	99		408	303	82		385
Mutual funds	425			425	400			400
Corporate bonds and other debt securities	62		(20)	42	62		(17)	45
Total debt securities	809	99	(20)	888	773	82	(17)	838
Equity securities in public companies	51	2	(4)	49	50	9		59
Total cash equivalents and available-for-sale investments	$ 10,637	$ 101	$ (24)	$ 10,714	$ 9,155	$ 91	$ (17)	$ 9,229

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 January 31, 2013 and October 31, 2012. 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 mutual funds, institutional bonds, equity securities in public companies, fixed-interest securities and time deposits. HP estimates the fair values of its investments based on quoted market prices or pricing models using current market rates. These estimated fair values may not be representative of actual values that will be realized in the future.

The gross unrealized loss as of January 31, 2013 and October 31, 2012 was due primarily to declines in the fair value of certain debt securities of $20 million and $17 million, respectively, that have been in a continuous loss position for more than twelve months. HP does not intend to sell these debt securities, and it is not likely that HP will be required to sell these debt securities prior to the

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

recovery of the amortized cost. HP has evaluated the near-term prospects of its 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.

Contractual maturities of short-term and long-term investments in available-for-sale debt securities at January 31, 2013 were as follows:

	January 31, 2013	
	Cost	Estimated Fair Value
	In millions	
Due in less than one year	$ 423	$ 423
Due in one to five years	18	18
Due in more than five years	368	447
	$ 809	$ 888

Equity securities in privately held companies include cost basis and equity method investments. These amounted to $51 million for the periods ended January 31, 2013 and October 31, 2012 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, 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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

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 has collateral security arrangements with substantially all of 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 January 31, 2013, HP held $109 million of collateral and posted $253 million under these collateralized arrangements, of which $109 million was through re-use of counterparty cash collateral and $144 million in cash. As of January 31, 2012, HP held $240 million of collateral and posted $23 million through re-use of counterparty cash collateral under these collateralized arrangements.

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 expenses, and intercompany lease loans denominated in currencies other 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 months ended January 31, 2013 there was no significant impact to results of operations as a result of discontinued cash flow hedges. During the three months ended

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

January 31, 2012, 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 January 31, 2013 and 2012, 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 months ended January 31, 2013 and 2012.

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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 were as follows:

	As of January 31, 2013					As of October 31, 2012				
	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	$ 7,650	$ 23	$ 197	$	$	$ 7,900	$ 43	$ 276	$	$
Cash flow hedges:										
Foreign exchange contracts	18,612	129	29	529	96	19,409	160	24	277	79
Net investment hedges:										
Foreign exchange contracts	1,714	12	18	34	23	1,683	14	15	36	24
Total derivatives designated as hedging instruments	27,976	164	244	563	119	28,992	217	315	313	103
Derivatives not designated as hedging instruments										
Foreign exchange contracts	16,010	95	13	101	17	18,687	61	17	51	19
Interest rate contracts[2]	2,200	17		19		2,200	25		29	
Other derivatives	329	5				383	1		3	
Total derivatives not designated as hedging instruments	18,539	117	13	120	17	21,270	87	17	83	19
Total derivatives	$ 46,515	$ 281	$ 257	$ 683	$ 136	$ 50,262	$ 304	$ 332	$ 396	$ 122

(1) Represents the face amounts of contracts that were outstanding as of January 31, 2013 and October 31, 2012, 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 derivative instruments and related hedged items in a fair value hedging relationship for the three months ended January 31, 2013 and 2012 were as follows:

	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item				
Derivative Instrument	**Location**	**Three months ended January 31, 2013 In millions**	**Hedged Item**	**Location**	**Three months ended January 31, 2013 In millions**
Interest rate contracts	Interest and other, net	$ (99)	Fixed-rate debt	Interest and other, net	$ 98

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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 months ended January 31, 2012 In millions**		**Hedged Item**	**Location**	**Three months ended January 31, 2012 In millions**	
Interest rate contracts	Interest and other, net	$	4	Fixed-rate debt	Interest and other, net	$	

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three months ended January 31, 2013 and 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 January 31, 2013 In millions		**Location**	**Three months ended January 31, 2013 In millions**		**Location**	**Three months ended January 31, 2013 In millions**	
Cash flow hedges:								
Foreign exchange contracts	$	(213)	Net revenue	$	(61)	Net revenue	$	
Foreign exchange contracts		(125)	Cost of products		(3)	Cost of products		
Foreign exchange contracts		8	Other operating expenses		1	Other operating expenses		
Foreign exchange contracts		2	Interest and other, net		(5)	Interest and other, net		
Foreign exchange contracts		14	Net revenue		4	Interest and other, net		
Total cash flow hedges	$	(314)		$	(64)		$	
Net investment hedges:								
Foreign exchange contracts	$	(15)	Interest and other, net	$		Interest and other, net	$	

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)		Gain Recognized in Income on Derivative (Ineffective portion and Amount Excluded from Effectiveness Testing)	
	Three months ended January 31, 2012	Location	Three months ended January 31, 2012	Location	Three months ended January 31, 2012
	In millions		In millions		In millions
Cash flow hedges:					
Foreign exchange contracts	$ 427	Net revenue	$ 88	Net revenue	$
Foreign exchange contracts	(8)	Cost of products	16	Cost of products	
Foreign exchange contracts	(3)	Other operating expenses	(1)	Other operating expenses	
Foreign exchange contracts	(9)	Net revenue	(5)	Interest and other, net	
Total cash flow hedges	$ 407		$ 98		$
Net investment hedges:					
Foreign exchange contracts	$ 25	Interest and other, net	$	Interest and other, net	$

As of January 31, 2013, HP expects to reclassify an estimated net accumulated other comprehensive loss of approximately $254 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 months ended January 31, 2013 and 2012 were as follows:

	Gain (Loss) Recognized in Income on Derivative	
	Location	Three months ended January 31, 2013
		In millions
Foreign exchange contracts	Interest and other, net	$ (40)
Other derivatives	Interest and other, net	7
Interest rate contracts	Interest and other, net	2
Total		$ (31)

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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	
	Location	Three months ended January 31, 2012
		In millions
Foreign exchange contracts	Interest and other, net	$ 82
Other derivatives	Interest and other, net	(10)
Interest rate contracts	Interest and other, net	10
Total		$ 82

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:

	January 31, 2013	October 31, 2012
	In millions	
Minimum lease payments receivable	$ 8,016	$ 8,133
Unguaranteed residual value	254	248
Unearned income	(679)	(688)
Financing receivables, gross	7,591	7,693
Allowance for doubtful accounts	(154)	(149)
Financing receivables, net	7,437	7,544
Less current portion	(3,316)	(3,252)
Amounts due after one year, net	$ 4,121	$ 4,292

Equipment leased to customers under operating leases was $3.8 billion and $3.9 billion at January 31, 2013 and October 31, 2012, respectively, and is included in machinery and equipment. Accumulated depreciation on equipment under lease was $1.5 billion at both January 31, 2013 and October 31, 2012.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financing Receivables and Operating Leases (Continued)

Due to the homogenous nature of its leasing transactions, HP manages its financing receivables on an aggregate basis when assessing and monitoring credit risk. Credit risk is generally diversified due to the large number of entities comprising HP's customer base and their dispersion across many different industries and geographical regions. The credit quality of an obligor is evaluated at lease inception and monitored over the term of a transaction. Risk ratings are assigned to each lease based on the creditworthiness of the obligor and other variables that augment or diminish the inherent credit risk of a particular transaction. Such variables include the underlying value and liquidity of the collateral, the essential use of the equipment, the term of the lease, and the inclusion of guarantees, letters of credit, security deposits or other credit enhancements.

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

	January 31, 2013	October 31, 2012
	In millions	
Risk Rating		
Low	$ 4,346	$ 4,461
Moderate	3,148	3,151
High	97	81
Total	$ 7,591	$ 7,693

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:

	Three months ended January 31, 2013
	In millions
Allowance for doubtful accounts	
Balance, beginning of period	$ 149
Additions to allowance	9
Deductions, net of recoveries	(4)
Balance, end of period	$ 154

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financing Receivables and Operating Leases (Continued)

	January 31, 2013	October 31, 2012
	In millions	
Allowance for financing receivables individually evaluated for loss	$ 52	$ 45
Allowance for financing receivables collectively evaluated for loss	102	104
Total	$ 154	$ 149
Gross financing receivables individually evaluated for loss	$ 496	$ 338
Gross financing receivables collectively evaluated for loss	7,095	7,355
Total	$ 7,591	$ 7,693

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 $253 million and $225 million at January 31, 2013 and October 31, 2012, respectively. Total financing receivables greater than 90 days past due and still accruing interest were $243 million and $113 million at January 31, 2013 and October 31, 2012, 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 arrangement from any losses incurred relating to the services they perform on behalf of HP or for losses arising from certain events as defined within the particular contract, which may include, for example, litigation or claims relating to past performance. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments made related to these indemnifications have been immaterial.

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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. 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 three months ended January 31, 2013 were as follows:

	In millions
Product warranty liability at October 31, 2012	$ 2,170
Accruals for warranties issued	523
Adjustments related to pre-existing warranties (including changes in estimates)	(7)
Settlements made (in cash or in kind)	(566)
Product warranty liability at January 31, 2013	$ 2,120

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:

	January 31, 2013		October 31, 2012	
	Amount Outstanding	Weighted-Average Interest Rate	Amount Outstanding	Weighted-Average Interest Rate
	In millions		In millions	
Current portion of long-term debt	$ 5,656	1.4%	$ 5,744	1.6%
Commercial paper	353	0.7%	365	0.9%
Notes payable to banks, lines of credit and other	466	2.1%	538	2.8%
	$ 6,475		$ 6,647	

Notes payable to banks, lines of credit and other includes deposits associated with HP's banking-related activities of approximately $350 million and $369 million at January 31, 2013 and October 31, 2012, respectively.

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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:

	January 31, 2013	October 31, 2012
	In millions	
U.S. Dollar Global Notes		
2006 Shelf Registration Statement:		
$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%, paid 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	1,998	1,998
$1,500 issued at discount to par at a price of 99.993% in February 2009 at 4.75%, due June 2014	1,500	1,500
2009 Shelf Registration Statement:		
$1,100 issued at discount to par at a price of 99.921% in September 2010 at 1.25%, due September 2013	1,100	1,100
$1,100 issued at discount to par at a price of 99.887% in September 2010 at 2.125%, due September 2015	1,100	1,100
$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	1,298

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

	January 31, 2013	October 31, 2012
	In millions	
$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	650
$850 issued at discount to par at a price of 99.790% in December 2011 at 3.3%, due December 2016	849	849
$1,500 issued at discount to par at a price of 99.707% in December 2011 at 4.65%, due December 2021	1,496	1,496
$1,500 issued at discount to par at a price of 99.985% in March 2012 at 2.6%, due September 2017	1,500	1,500
$500 issued at discount to par at a price of 99.771% in March 2012 at 4.05%, due September 2022	499	499
	25,031	25,031
EDS Senior Notes		
$1,100 issued June 2003 at 6.0%, due August 2013	1,106	1,109
$300 issued October 1999 at 7.45%, due October 2029	314	314
	1,420	1,423
Other, including capital lease obligations, at 0.60%-8.63%, due in calendar years 2013-2024	614	680
Fair value adjustment related to hedged debt	343	399
Less: current portion	(5,656)	(5,744)
Total long-term debt	$ 21,752	$ 21,789

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 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.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

HP's Board of Directors has authorized 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. HP maintains two commercial paper programs, and a wholly-owned subsidiary maintains a third program. HP's U.S. program provides for the issuance of U.S. dollar denominated commercial paper up to a maximum aggregate principal amount of $16.0 billion. HP's euro commercial paper program, which was established in September 2012, provides for the issuance of commercial paper outside of the United States denominated in U.S. dollars, euros or British pounds up to a maximum aggregate principal amount of $3.0 billion or the equivalent in those alternative currencies. The combined aggregate principal amount of commercial paper issued under those programs at any one time cannot exceed the $16.0 billion Board authorization. The HP subsidiary's Euro Commercial Paper/Certificate of Deposit Programme provides for the issuance of commercial paper in various currencies of up to a maximum aggregate principal amount of $500 million.

HP maintains senior unsecured committed credit facilities primarily to support the issuance of commercial paper. 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. Both facilities support the U.S. commercial paper program, and the five-year credit facility was amended in September 2012 to also support the euro commercial paper program. The amounts available under the five-year credit facility in euros and British pounds are limited to the U.S. Dollar equivalent of $2.2 billion and $300 million, respectively. Commitment fees, interest rates and other terms of borrowing under the credit facilities vary based on HP's external credit ratings. 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 January 31, 2013, the carrying value of the assets approximated the carrying value of the borrowings of $221 million.

As of January 31, 2013, 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 $17.5 billion of available borrowing resources, including $16.1 billion in authorized capacity under its commercial paper programs and approximately $1.4 billion relating to uncommitted lines of credit. The extent to which HP is able to utilize the 2012 Shelf Registration Statement and the commercial paper programs as sources of liquidity at any given time is subject to a number of factors, including market demand for HP securities and commercial paper, HP's financial performance, HP's credit ratings and market conditions generally.

Note 12: Income Taxes

Provision for Taxes

HP's effective tax rate was 21.7% and 19.4% for the three months ended January 31, 2013 and January 31, 2012, respectively. HP's effective tax rate increased due to discrete items in the three months ended January 31, 2013, as described below. HP's effective tax rate generally differs from the

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 12: Income Taxes (Continued)

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 months ended January 31, 2013, HP recorded discrete items resulting in a net tax charge of $5 million, increasing the effective tax rate. These amounts consisted primarily of a tax charge of $150 million related to a past uncertain tax position offset by approximately $50 million of various adjustments to estimated tax provisions of foreign jurisdictions as well as $45 million of benefits associated with restructuring charges, various uncertain tax positions and valuation allowance adjustments. In addition, in January 2013, the American Taxpayer Relief Act of 2012 was signed into law. HP recorded a tax benefit of $50 million arising from the retroactive research and development credit provided by that legislation in the first quarter of fiscal 2013.

In the three months ended January 31, 2012, HP recorded discrete items with a net tax benefit of $49 million, decreasing the effective tax rate. These amounts included net tax benefits of $28 million from restructuring and acquisition charges, and $23 million from reversals of accrued interest expense and penalties on uncertain tax positions, net of tax.

As of January 31, 2013, the amount of gross unrecognized tax benefits was $2.8 billion, of which up to $1.6 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 January 31, 2013, HP had accrued a net $209 million payable for interest and penalties. In the three months ended January 31, 2013, HP recognized $1 million of net interest income on tax overpayments, net of tax.

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 decreased by an amount up to $175 million within the next 12 months.

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

	January 31, 2013	October 31, 2012
	In millions	
Current deferred tax assets	$ 3,743	$ 3,783
Current deferred tax liabilities	(263)	(230)
Long-term deferred tax assets	1,580	1,581
Long-term deferred tax liabilities	(3,400)	(2,948)
Total deferred tax assets net of deferred tax liabilities	$ 1,660	$ 2,186

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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 first quarter of fiscal 2013, HP executed share repurchases of 19 million shares which were settled for $253 million in the first quarter of fiscal 2013. HP paid approximately $780 million in connection with repurchases of approximately 29 million shares during the three months ended January 31, 2012. As of January 31, 2013, HP had remaining authorization of $8.9 billion for future share repurchases.

Taxes related to Items of Other Comprehensive Loss/ Income

	Three months ended January 31	
	2013	**2012**
	In millions	
Tax (expense) benefit on change in unrealized gains/ losses on available-for-sale securities	$ (33)	$ 5
Tax (expense) benefit on change in unrealized gains/ losses on cash flow hedges:		
Tax benefit (expense) on unrealized gains/losses arising during the period	102	(152)
Tax (benefit) expense on gains/losses reclassified into earnings	(17)	37
	85	(115)
Tax (expense) benefit on change in unrealized components of defined benefit plans:		
Tax benefit on net losses arising during the period		24
Tax benefit on amortization of actuarial loss and prior service benefit	(5)	(10)
Tax expense on curtailments, settlements and other	(1)	(84)
	(6)	(70)
Tax benefit on change in cumulative translation adjustment	18	14
Tax benefit (expense) on other comprehensive loss/ income	$ 64	$ (166)

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

	January 31, 2013	October 31, 2012
	In millions	
Net unrealized gain on available-for-sale securities	$ 57	$ 87
Net unrealized loss on cash flow hedges	(264)	(99)
Unrealized components of defined benefit plans	(5,000)	(5,090)
Cumulative translation adjustment	(465)	(457)
Accumulated other comprehensive loss	$ (5,672)	$ (5,559)

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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 (credit) were as follows:

	Three months ended January 31					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2013	2012	2013	2012	2013	2012
	In millions					
Service cost	$	$	$ 86	$ 74	$ 2	$ 2
Interest cost	140	141	172	176	8	8
Expected return on plan assets	(211)	(198)	(257)	(208)	(8)	(9)
Amortization and deferrals:						
Actuarial loss (gain)	20	11	87	60		(1)
Prior service benefit			(7)	(6)	(17)	(21)
Net periodic benefit (credit) cost	$ (51)	$ (46)	$ 81	$ 96	$ (15)	$ (21)
Curtailment gain					(3)	
Special termination benefits			3	1		
Settlement loss (gain)	5			(28)		
Net benefit (credit) cost	$ (46)	$ (46)	$ 84	$ 69	$ (18)	$ (21)

Employer Contributions and Funding Policy

HP previously disclosed in its Consolidated Financial Statements for the fiscal year ended October 31, 2012 that it expected to contribute in fiscal 2013, approximately $674 million to its non-US pension plans and approximately $33 million to cover benefit payments to U.S. non-qualified plan participants. HP expects to pay approximately $124 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 three months ended January 31, 2013, HP made $181 million of contributions to its non-US pension plans, paid $14 million to cover benefit payments to U.S. non-qualified plan participants, and paid $25 million to cover benefit claims under HP's post-retirement benefit plans. During the remainder of fiscal 2013, HP anticipates making additional contributions of approximately $493 million to its non-US pension plans and approximately $19 million to its U.S. non-qualified plan participants and expects to pay approximately $99 million to cover benefit claims under HP's 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, 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, 2013.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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 January 31, 2013, it was not reasonably possible that an additional material loss had been incurred in an amount in excess of the amounts already recognized on HP's financial statements. HP reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Based on its experience, HP believes that any damage amounts claimed in the specific matters discussed below are not a meaningful indicator of HP's potential liability. Litigation is inherently unpredictable. However, HP believes that it has valid defenses with respect to legal matters pending against it. Nevertheless, cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Litigation, Proceedings and Investigations

Copyright Levies. As described below, proceedings are ongoing or have been concluded involving HP in certain European Union ("EU") member countries, including litigation in Germany, Belgium and Austria, seeking to impose or modify levies upon equipment (such as multifunction devices ("MFDs"), personal computers ("PCs") and printers) and alleging that these devices enable producing private copies of copyrighted materials. Descriptions of some of the ongoing proceedings are included below. The levies are generally based upon the number of products sold and the per-product amounts of the levies, which vary. Some EU member countries that do not yet have levies on digital devices are expected to implement similar legislation to enable them to extend existing levy schemes, while some other EU member countries are expected to limit the scope of levy schemes and applicability in the digital hardware environment. HP, other companies and various industry associations have opposed the extension of levies to the digital environment and have advocated alternative models of compensation to rights holders.

VerwertungsGesellschaft Wort ("VG Wort"), a collection agency representing certain copyright holders, instituted legal proceedings against HP in the Stuttgart Civil Court seeking levies on printers. On December 22, 2004, the court held that HP is liable for payments regarding all printers using ASCII code sold in Germany but did not determine the amount payable per unit. HP appealed this decision in January 2005 to the Stuttgart Court of Appeals. On May 11, 2005, the Stuttgart Court of Appeals issued a decision confirming that levies are due. On June 6, 2005, HP filed an appeal to the German Federal Supreme Court in Karlsruhe. On December 6, 2007, the German Federal Supreme Court issued a judgment that printers are not subject to levies under the existing law. The court issued a written decision on January 25, 2008, and VG Wort subsequently filed an application with the German Federal Supreme Court under Section 321a of the German Code of Civil Procedure contending that the court did not consider their arguments. On May 9, 2008, the German Federal Supreme Court denied VG Wort's application. VG Wort appealed the decision by filing a claim with the German Federal Constitutional Court challenging the ruling that printers are not subject to levies. On September 21, 2010, the Constitutional Court published a decision holding that the German Federal Supreme Court erred by not referring questions on interpretation of German copyright law to the Court of Justice of the European Union ("CJEU") and therefore revoked the German Federal

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Supreme Court decision and remitted the matter to it. On July 21, 2011, the German Federal Supreme Court stayed the proceedings and referred several questions to the CJEU with regard to the interpretation of the European Copyright Directive. The CJEU conducted an oral hearing in October 2012 and is expected to issue a decision approximately seven 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 conducted an oral hearing in October 2012 and is expected to issue a decision approximately seven 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 device. On November 16, 2012, the court issued a decision holding that Belgium law is not in conformity with EU law in a number of respects and ordered that, by November 2013, Reprobel substantiate that the amounts claimed by Reprobel are commensurate with the harm resulting from legitimate copying under the reprographic exception. HP subsequently appealed that court decision to the Courts of Appeal in Brussels seeking to confirm that the Belgian law is not in conformity with EU law and that, if Belgian law is interpreted in a manner consistent with EU law, no payments by HP are required or, alternatively, the payments already made by HP are sufficient to comply with its obligations under Belgian law. Hearings on the appeal are scheduled to be held in September 2013.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Based on industry opposition to the extension of levies to digital products, HP's assessments of the merits of various proceedings and HP's estimates of the number of units impacted and the amounts of the 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 others 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 April 19, 2012, the court issued an order granting in part and denying in part the plaintiffs' motion to certify a nationwide class asserting claims under the California Unfair Competition Law. 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 who purchased their computers "from HP" for "personal, family or household use." As required by the same order, the plaintiffs 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* was filed in the United States District Court for the Northern District of California seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees.

- A lawsuit captioned *Blennis v. HP* was filed on January 17, 2007 in the United States District Court for the Northern District of California seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees.

- 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 alleging 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 and seeking to certify a nationwide injunctive class and a California-only damages class.

- 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.

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Note 15: Litigation and Contingencies (Continued)

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. Under the terms of the settlement, the lawsuits were consolidated, and eligible class members 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 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, the settlement provides for class counsel and the class representatives to 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 in the United States Court of Appeals for the Ninth Circuit of the court's order granting final approval of the settlement.

Fair Labor Standards Act Litigation. HP is involved in several lawsuits in which the plaintiffs are seeking unpaid overtime compensation and other damages based on allegations that various employees of EDS or HP have been misclassified as exempt employees under the Fair Labor Standards Act and/or in violation of the California Labor Code or other state laws. Those matters include the following:

Cunningham and Cunningham, et al. v. Electronic Data Systems Corporation is a purported collective action filed on May 10, 2006 in the 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 had alleged separate "opt-out" classes based on the overtime laws of the states of California, Washington, Massachusetts and New York, but plaintiffs have dismissed those claims.

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. On August 31, 2012, HP filed its answer to plaintiffs' complaint and counterclaims against two of the three named plaintiffs. Also on August 31, 2012, HP filed a motion to transfer venue to the United States District Court for the Eastern District of Texas. A hearing on HP's motion to transfer venue was scheduled for November 21, 2012, but was postponed by the court.

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

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Note 15: Litigation and Contingencies (Continued)

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. On February 26, 2013, the trial court issued a final order and opinion granting the defendant's motion to decertify the class. Another purported class action originally filed in California Superior Court, *Karlbom, et al. v. Electronic Data Systems Corporation*, which was filed on March 16, 2009, alleges similar facts and is pending in San Diego County Superior Court.

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

Benedict v. Hewlett-Packard Company is a purported collective action filed on January 10, 2013 in the United States District Court for the Northern District of California alleging that certain technical support employees allegedly involved in installing, maintaining and/or supporting computer software and/or hardware for HP were misclassified as exempt employees under the Fair Labor Standards Act. The plaintiff has also alleged that HP violated California law by, among other things, allegedly improperly classifying these employees as exempt.

India Directorate of Revenue Intelligence Proceedings. On April 30 and May 10, 2010, the India Directorate of Revenue Intelligence (the "DRI") issued show cause notices to Hewlett-Packard India Sales Private Ltd ("HPI"), a subsidiary of HP, 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. Prior to the issuance of the show cause notices, HP deposited approximately $16 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 April 11, 2012, the Bangalore Commissioner of Customs 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 already deposited $9 million. On December 11, 2012, HPI voluntarily deposited an additional $10 million in connection with the products show cause notice.

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, of which HPI had already deposited $7 million. After the order, HPI deposited an additional $3 million in connection with the parts show cause notice so as to avoid certain penalties.

HPI filed appeals of the Commissioner's orders 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 before the Customs Tribunal. A hearing on the application for waiver of the deposit was heard on January 24, 2013, and the Customs Tribunal ordered HPI to deposit an additional $24 million against the products order by March 14, 2013. The Customs Tribunal did not order any additional deposit to be made under the parts order.

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Note 15: Litigation and Contingencies (Continued)

Russia GPO and Related Investigations. The German Public Prosecutor's Office ("German PPO") has been conducting an investigation into allegations that current and former employees of HP engaged in bribery, embezzlement and tax evasion relating to a transaction between Hewlett-Packard ISE GmbH in Germany, a former subsidiary of HP, and the General Prosecutor's Office of the Russian Federation. The approximately €35 million transaction, which was referred to as the Russia GPO deal, spanned the years 2001 to 2006 and was for the delivery and installation of an IT network. The German PPO has issued an indictment of four individuals, including one current and two former HP employees, on charges including bribery, breach of trust and tax evasion. The German PPO has also asked that HP be made an associated party to the case, and, if the German PPO's request is granted, HP would participate in any portion of the court proceedings that could ultimately bear on the question of whether HP should be subject to potential disgorgement of profits based on the conduct of the indicted current and former employees.

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 information from HP relating to certain transactions in Russia and in the Commonwealth of Independent States sub-region dating back to 2000.

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 court of first instance to issue a decision on the merits of the case during 2013 and any appeal on the merits to last several years.

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Note 15: Litigation and Contingencies (Continued)

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, other damages and/or injunctive relief:

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. On October 10, 2012, the Court granted the defendants' motion to dismiss with leave to file an amended complaint. On November 1, 2012, plaintiff filed an amended complaint adding an unjust enrichment claim and claims that the defendants violated Section 14(a) of the Exchange Act and breached their fiduciary duties in connection with HP's 2012 proxy statement. On December 13, 14 and 17, 2012, the defendants moved to dismiss the amended complaint. The court has not yet ruled on the motions.

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. On October 19, 2012, plaintiff filed an amended complaint that asserts the same causes of action but drops one of the defendants and shortens the period that the alleged violations of the Exchange Act occurred to February 9, 2011 to August 18, 2011. On December 3, 2012, the defendants moved to dismiss the amended complaint. The court has not yet ruled on the motion.

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 Section 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

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Note 15: Litigation and Contingencies (Continued)

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. The lawsuits are currently stayed pending developments in the *Gammel* matter.

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. On February 7, 2013, the defendants moved to dismiss the amended complaint. The Court has not yet ruled on the motion.

Autonomy-Related Legal Matters

Investigations. As a result of the findings of an ongoing investigation, HP has provided information to the U.K. Serious Fraud Office, the U.S. Department of Justice and the SEC related to the accounting improprieties, disclosure failures and misrepresentations at Autonomy that occurred prior to and in connection with HP's acquisition of Autonomy. On November 21, 2012, representatives of the U.S. Department of Justice advised HP that they had opened an investigation relating to Autonomy. On February 6, 2013, representatives of the U.K. Serious Fraud Office advised HP that they had also opened an investigation relating to Autonomy. HP is cooperating with the three investigating agencies.

Litigation. As described below, HP is involved in various stockholder litigation relating to, among other things, its November 20, 2012 announcement that it recorded a non-cash charge for the impairment of goodwill and intangible assets within its Software segment of approximately $8.8 billion in the fourth quarter of its 2012 fiscal year and HP's statements that, based on HP's findings from an ongoing investigation, the majority of this impairment charge related to accounting improprieties, misrepresentations to the market and disclosure failures at Autonomy that occurred prior to and in connection with HP's acquisition of Autonomy and the impact of those improprieties, failures and misrepresentations on the expected future financial performance of the Autonomy business over the long term. This stockholder litigation was commenced against, among others, certain current and former HP executive officers, certain current and former members of the HP Board of Directors, and certain advisors to HP. The plaintiffs in these litigation matters are seeking to recover certain

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Notes to Consolidated Condensed Financial Statements (Continued)

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Note 15: Litigation and Contingencies (Continued)

compensation paid by HP to the defendants and/or other damages. These matters include the following:

Allan J. Nicolow v. Hewlett-Packard Co., et al. is a putative securities class action filed on November 26, 2012 in the United States District Court for the Northern District of California alleging, among other things, that from August 19, 2011 to November 20, 2012, the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") by concealing material information and making false statements related to HP's acquisition of Autonomy and the financial performance of HP's Enterprise Services business.

Davin Pokoik v. Hewlett-Packard Co., et al. is a putative securities class action filed on November 30, 2012 in the United States District Court for the Northern District of California alleging, among other things, that from August 19, 2011 to November 19, 2012, the defendants violated Sections 10(b) and 20(a) of the Exchange Act by concealing material information and making false statements related to HP's acquisition of Autonomy and the financial performance of HP's Enterprise Services business.

In re Hewlett-Packard Shareholder Derivative Litigation consists of eight consolidated lawsuits filed beginning on November 26, 2012 in the United States District Court for the Northern 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 related to HP's acquisition of Autonomy and the financial performance of HP's Enterprise Services business. The lawsuits also allege that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched in connection with HP's acquisition of Autonomy and by causing HP to repurchase its own stock at allegedly inflated prices between August 2011 and October 2012. One lawsuit further alleges that certain individual defendants engaged in or assisted insider trading and thereby breached their fiduciary duties, were unjustly enriched and violated Sections 25402 and 25403 of the California Corporations Code.

Miriam Birinkrant v. Michael R. Lynch, et al. is a lawsuit filed on December 14, 2012 in California Superior Court alleging, among other things, that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched in connection with HP's acquisition of Autonomy and by causing HP to repurchase its own stock at allegedly inflated prices between August 2011 and October 2012.

Vincent Ho v. Margaret C. Whitman, et al. is a lawsuit filed on January 22, 2013 in California Superior Court alleging, among other things, that the defendants breached their fiduciary duties and wasted corporate assets in connection with HP's acquisition of Autonomy and by causing HP to repurchase its own stock at allegedly inflated prices between August 2011 and October 2012.

Mike Laffen v. Hewlett-Packard Co., et al. is a putative class action filed on December 6, 2012 in the United States District Court for the Northern District of California alleging, among other things, that, from December 12, 2011 to November 22, 2012, HP, HP's 401(k) Plan Committee and HP's Investment Review Committee breached their fiduciary obligations to HP's 401(k) Plan and its participants and thereby violated Sections 404(a)(1) and 405(a) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

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Karyn Lustig v. Margaret C. Whitman, et al. is a putative class action filed on December 18, 2012 in the United States District Court for the Northern District of California alleging, among other things, that from August 19, 2011 to November 20, 2012, the defendants breached their fiduciary obligations to HP's 401(k) Plan and its participants and thereby violated Sections 404(a)(1) and 405(a) of ERISA by concealing negative information regarding the financial performance of Autonomy and HP's enterprise services business and failing to restrict participants from investing in HP stock.

Kenneth A. Kotyuk v. Hewlett-Packard Co., et al. is a putative class action filed on January 22, 2013 in the United States District Court for the Northern District of California alleging, among other things, that from August 18, 2011 to November 22, 2012, HP, HP's 401(k) Plan Committee and HP's Investment Review Committee breached their fiduciary obligations to HP's 401(k) Plan and its participants and thereby violated Sections 404(a)(1) and 405(a) of ERISA.

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 and may become a party to, or otherwise involved in, proceedings brought by private parties for contribution towards clean-up costs. 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.

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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; imaging and printing-related products and services; multi-vendor customer services, including infrastructure technology and business process outsourcing, application development and support services and consulting and integration services; enterprise information technology ("IT") infrastructure, including enterprise storage and server technology, networking products and solutions, technology support and maintenance; and IT management software, information management solutions and security intelligence/risk management solutions.

HP's operations are organized into seven reportable business segments for financial reporting purposes: Personal Systems, Printing, the Enterprise Group, Enterprise Services, 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.

The Personal Systems segment and the Printing segment are structured beneath a broader Printing and Personal Systems Group ("PPS"). While PPS is not a financial reporting segment, HP sometimes provides financial data aggregating the segments within it in order to provide a supplementary view of its business.

HP has implemented certain organizational realignments. As a result of these realignments, HP has re-evaluated its segment financial reporting structure and, effective in the first quarter of fiscal 2013, created two new financial reporting segments, the EG segment and the ES segment, and eliminated two other financial reporting segments, the ESSN segment and the Services segment. The EG segment consists of the business units within the former ESSN segment and most of the services offerings of the TS business unit, which was previously a part of the former Services segment. The ES segment consists of the ABS and ITO business units from the former Services segment, along with the end-user workplace support services business that was previously a part of the TS business unit.

Also as a result of these realignments, the financial results of the Personal Systems commercial products support business, which were previously reported as part of the TS business unit, will now be reported as part of the Other business unit within the Personal Systems segment, and the financial results of the portion of the business intelligence services business that had continued to be reported as part of the Corporate Investments segment following the implementation of prior realignment actions will now be reported as part of the ABS business unit. In addition, the end-user workplace support business, which, as noted above, was previously a part of the TS business unit and will now become a part of the ES segment, will be reported as part of the ITO business unit within that segment.

A description of the types of products and services provided by each business segment follows.

The *Printing and Personal Systems Group's* mission is to leverage the respective strengths of the Personal Systems business and the Printing business in creating a single, unified business that is

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Note 16: Segment Information (Continued)

customer-focused and poised to capitalize on rapidly shifting industry trends. Each of the business segments within PPS is described in detail below.

Personal Systems provides commercial PCs, consumer PCs, workstations, calculators and other related accessories, software, support and services for the commercial and consumer markets. We group commercial notebooks, commercial desktops and workstations into commercial PC's and consumer notebooks and consumer desktops into consumer PC's when describing our performance in these markets. Described below are our global business capabilities within Personal Systems.

- *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 ElitePad Tablet PCs.

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

- W*orkstations* are designed and optimized to reliably operate in high performance and demanding application environments, such as computer animation, graphic design, video and audio production, software development, financial trading, engineering design and analysis, architectural engineering, image analysis and energy exploration.

Printing provides consumer and commercial printer hardware, supplies, media, software and services, as well as scanning devices. Printing is also focused on imaging solutions in the commercial markets. We group laserjet, large format and Indigo printers into commercial hardware and inkjet printers into consumer hardware when describing our performance in these markets. Described below are our global business capabilities within Printing.

- *Inkjet and Printing 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 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. HP Managed Solutions include managed 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) and supplies, Indigo digital presses and supplies, inkjet high-speed production solutions and supplies, specialty printing systems and graphics services. Graphic Solutions targets print service providers, architects, engineers, designers, photofinishers and industrial solution providers.

Software and Web Services delivers a robust platform and a suite of offerings that includes: photo-storage and printing offerings such as Snapfish; document storage; entertainment services; web-connected printing; and PC back-up and related services.

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Note 16: Segment Information (Continued)

The *Enterprise Group* provides servers, storage, networking, technology services and, when combined with HP's Cloud Service Automation software suite, the HP CloudSystem. The CloudSystem enables infrastructure, platform and software-as-a-service in private, public or hybrid environments. Described below are our business units and capabilities within EG.

Industry Standard Servers offers ProLiant servers, running primarily Windows, Linux and virtualization platforms from Microsoft Corporation, VMware, Inc. and other major vendors and leveraging Intel Corporation and Advanced Micro Devices, Inc. x86 processors. The business spans a range of server product lines, including pedestal-tower, traditional rack, density-optimized rack, blades and solutions for large distributed computing companies (Hyperscale class) who buy and deploy compute nodes at a massive scale.

Business Critical Systems offers HP Integrity servers based on the Intel Itanium-based processor, HP Integrity NonStop solutions and scale-up x86 ProLiant Servers.

Storage offerings include traditional storage and converged storage solutions. Traditional storage includes tape, storage networking and legacy external disk products such as EVA and XP. Converged storage solutions include 3PAR, StoreOnce, StoreVirtual and StoreAll products.

Networking portfolio includes switches and routers that span the data center, campus and branch environments and deliver network management and unified communications. HP's wireless networking offerings include wireless LAN access points and controllers/switches.

Technology Services differentiates the HP product experience for customers with consulting and support services focused on the data center. Support services includes Datacenter Care, Foundation Care, Proactive Care and Lifecycle Event services that help align support service levels to business needs, as well as warranty support across EG's product lines. Consulting services, which are tightly aligned and optimized for HP's enterprise product portfolio, include data center, network and storage consulting, and education services, as well as converged cloud, mobility and big data consulting services.

Enterprise Services provides technology consulting, outsourcing and support services across infrastructure, applications and business process domains. ES is divided into two main areas: Infrastructure Technology Outsourcing and Application and Business Services.

Infrastructure Technology Outsourcing delivers comprehensive services that encompass the data center, IT security, cloud-based computing, workplace technology, network, unified communications, and enterprise service management.

Application and Business Services helps clients develop, revitalize and manage their applications and information assets. This full application life cycle approach encompasses application development, testing, modernization, system integration, maintenance and management for both packaged and custom-built applications. The ABS portfolio also includes intellectual property-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.

Software provides IT management, information management, and security solutions for businesses and enterprises of all sizes. HP's IT management solutions help customers around the world deliver

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

applications and services that perform to defined standards and automate and assure the underlying infrastructure, be it traditional, cloud or hybrid. Our information management solutions include our Autonomy and Vertica platforms, which are designed to help customers get faster answers from all of their structured and unstructured information. Our security solutions provide customers with security at all levels of their enterprise from the infrastructure through applications and information. HP's Software offerings have complementary support and professional services to provide an end-to-end solution.

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

Corporate Investments includes HP Labs, the webOS business and certain business incubation projects.

Segment Data

HP derives the results of the business segments directly from its internal management reporting system. The accounting policies HP uses to derive business segment results are substantially the same as those the consolidated company uses. Management measures the performance of each business segment based on several metrics, including earnings from operations. Management uses these results, in part, to evaluate the performance of, and to assign resources to, each of the business segments. HP does not allocate to its business segments certain operating expenses, which it manages separately at the corporate level. These unallocated costs include primarily restructuring charges and any associated adjustments related to restructuring actions, amortization of purchased intangible assets, stock-based compensation expense related to HP-granted employee stock options, PRUs, restricted stock awards and the employee stock purchase plan, certain acquisition-related charges and charges for purchased IPR&D, as well as certain corporate governance costs.

Segment revenue includes revenues from sales to external customers and intersegment revenues that reflect transactions between the segments that are carried out at an arm's-length transfer price. Intersegment revenues primarily consist of sales of hardware and software that are sourced internally and, in the majority of the cases, are structured through HPFS as operating leases. HP's Consolidated Net Revenue is derived and reported after elimination of intersegment revenues for such arrangements in accordance with U.S. GAAP.

To provide improved visibility and comparability, HP has reflected the 2013 changes to its reporting structure in prior financial reporting periods on an as-if basis, which has resulted in the transfer of revenue and operating profit among the Personal Systems, the EG, ES and Corporate Investments segments. These changes had no impact on the previously reported financial results for the Printing, Software or HPFS segments. In addition, none of these changes impacted HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

Selected operating results information for each business segment was as follows for the three months ended January 31:

	Printing and Personal Systems							
	Personal Systems	Printing	Enterprise Group	Enterprise Services	Software	HP Financial Services	Corporate Investments	Total
2013								
Net revenue	$ 8,040	$ 5,884	$ 6,821	$ 5,792	$ 872	$ 946	$ 4	$ 28,359
Intersegment net revenue and other	164	42	163	127	54	11		561
Total segment net revenue	$ 8,204	$ 5,926	$ 6,984	$ 5,919	$ 926	$ 957	$ 4	$ 28,920
Earnings (loss) from operations	$ 223	$ 953	$ 1,084	$ 76	$ 157	$ 101	$ (65)	$ 2,529
2012								
Net revenue	$ 8,652	$ 6,226	$ 7,030	$ 6,272	$ 887	$ 940	$ 29	$ 30,036
Intersegment net revenue and other	240	32	252	99	59	10	1	693
Total segment net revenue	$ 8,892	$ 6,258	$ 7,282	$ 6,371	$ 946	$ 950	$ 30	$ 30,729
Earnings (loss) from operations	$ 459	$ 761	$ 1,329	$ 145	$ 162	$ 91	$ (50)	$ 2,897

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

	Three months ended January 31	
	2013	2012
	In millions	
Net revenue:		
Segment total	$ 28,920	$ 30,729
Eliminations of intersegment net revenue and other	(561)	(693)
Total HP consolidated net revenue	$ 28,359	$ 30,036
Earnings before taxes:		
Total segment earnings from operations	$ 2,529	$ 2,897
Corporate and unallocated costs and eliminations	(109)	(153)
Unallocated costs related to stock-based compensation expense	(184)	(174)
Amortization of purchased intangible assets	(350)	(466)
Restructuring charges	(130)	(40)
Acquisition-related charges	(4)	(22)

Interest and other, net		(179)		(221)
Total HP consolidated earnings before taxes	$	1,573	$	1,821

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

In connection with certain fiscal 2013 organizational realignments, HP reclassified total assets between its EG and ES financial reporting segments. There have been no material changes to the total assets of HP's individual segments since October 31, 2012.

Net revenue by segment and business unit

	Three months ended January 31	
	2013	2012
	In millions	
Net revenue:		
Notebooks	$ 4,128	$ 4,942
Desktops	3,321	3,206
Workstations	535	535
Other	220	209
Personal Systems	8,204	8,892
Supplies	3,893	4,079
Commercial Hardware	1,354	1,489
Consumer Hardware	679	690
Printing	5,926	6,258
Printing and Personal Systems Group	14,130	15,150
Industry Standard Servers	2,994	3,072
Technology Services	2,243	2,264
Storage	833	955
Networking	608	586
Business Critical Systems	306	405
Enterprise Group	6,984	7,282
Infrastructure Technology Outsourcing	3,736	3,980
Application and Business Services	2,183	2,391
Enterprise Services	5,919	6,371
Software	926	946
HP Financial Services	957	950
Corporate Investments	4	30
Total segments	28,920	30,729
Eliminations of intersegment net revenue and other	(561)	(693)

Total HP consolidated net revenue	$ 28,359	$ 30,036

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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 ("SMBs"), and large enterprises, including customers in the government, health and education sectors. Our offerings span:

- personal computing and other access devices;
- imaging and printing-related products and services;
- multi-vendor customer services, including infrastructure technology and business process outsourcing, application development and support services and consulting and integration services;
- enterprise information technology infrastructure, including enterprise server and storage technology, networking products and solutions, technology support and maintenance; and
- IT management software, information management solutions and security intelligence/risk management solutions.

HP's operations are organized into seven reportable business segments for financial reporting purposes: Personal Systems, Printing, the Enterprise Group ("EG"), Enterprise Services ("ES"), 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 and infrastructure 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.

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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 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.

Addressing the Challenges Facing Our Business

Our business has experienced a multi-quarter decline in revenue and operating margins. This decline in financial performance reflects a series of challenges facing our business. Many of those challenges relate to structural and execution issues, including the following: we need to align our costs with our revenue trajectory; we need to address our underinvestment in R&D and in our internal IT systems in recent years, which has made us less competitive, effective and efficient; we need to implement the data gathering and reporting tools and systems needed to track and report on all key business performance metrics so as to most effectively manage a company of our size, scale and diversity; and we need to rebuild our business relationships with our channel partners. We are also facing dynamic market trends, such as the growth of mobility, the increasing demand for hyperscale computing infrastructure, the shift to software-as-a-service and the transition towards cloud computing, and we need to develop products and services that position us to win in a very competitive marketplace. Furthermore, we face a series of significant macroeconomic challenges, including broad-based weakness in consumer spending, weak demand in the SMB and enterprise sectors in Europe, and declining growth in some emerging markets.

We are addressing these challenges through consistency of leadership, focus, execution and, most importantly, superior products, services and solutions. During fiscal 2012, we implemented some leadership and organizational changes, including consolidating our personal computer and printing businesses under the same senior executive leadership, merging our global accounts sales organization into EG, and centralizing all of our marketing and communications activities. We also began implementing cost-reduction initiatives, including a company-wide restructuring plan we expect to be implemented through the end of fiscal 2014. In addition, we began making significant changes to our sales force to improve our go-to-market selling activities and reduce cost, and we renewed our focus on developing new products, services and solutions. We also began working to optimize our supply chain, reduce the number of stock keeping units (SKUs) and platforms, refine our real estate strategy, improve our business processes and implement consistent pricing and promotions. During fiscal 2013, we are focused on working through the anticipated disruptions expected to accompany the changes made in fiscal 2012 and continuing to implement our cost-reduction and operational initiatives.

Investing in our Business

The cost-reduction and operational efficiency initiatives discussed above are also intended to facilitate increased investment in our business. We expect to invest 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. Over time, 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. However, the rate at which we are able to invest in our business and the returns that we are able to achieve from

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these investments will be affected by many factors, including the efforts to address the execution, industry and macroeconomic challenges facing our business as discussed above.

The following provides an overview of our key first quarter fiscal 2013 financial metrics:

	HP[1] Consolidated	Printing and Personal Systems Group: Personal Systems	Printing	Total	Enterprise Group	Enterprise Services	Software	HPFS
	In millions, except per share amounts							
Net revenue	$ 28,359	$ 8,204	$ 5,926	$ 14,130	$ 6,984	$ 5,919	$ 926	$ 957
Year-over-year net revenue % (decrease) increase	(5.6)%	(7.7)%	(5.3)%	(6.7)%	(4.1)%	(7.1)%	(2.1)%	0.7%
Earnings from operations	$ 1,752	$ 223	$ 953	$ 1,176	$ 1,084	$ 76	$ 157	$ 101
Earnings from operations as a % of net revenue	6.2%	2.7%	16.1%	8.3%	15.5%	1.3%	17.0%	10.6%
Net earnings	$ 1,232							
Net earnings per share								
Basic	$ 0.63							
Diluted	$ 0.63							

(1) HP consolidated net revenue includes a reduction of approximately $0.6 billion primarily related to the elimination of intersegment net revenue and revenue from our Corporate Investments segment. HP consolidated earnings from operations includes amounts related to the amortization of purchased intangible assets, unallocated costs related to certain stock-based compensation expenses, restructuring charges, corporate and unallocated costs and eliminations, a loss from the Corporate Investments segment, and acquisition-related charges.

Cash and cash equivalents at January 31, 2013 totaled $12.6 billion, an increase of $1.3 billion from the October 31, 2012 balance of $11.3 billion. The increase for the first three months of fiscal 2013 was due primarily to $2.6 billion of cash provided from operations, the effect of which was partially offset by $0.5 billion of cash used to repurchase common stock and pay dividends, and $0.5 billion net investment in property, plant and equipment

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 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 three months ended January 31, 2013 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, 2012.

ACCOUNTING PRONOUNCEMENTS

The following is a summary of certain accounting pronouncements with application to our consolidated financial statements in future periods.

In February 2013, the Financial Accounting Standards Board ("FASB") issued amendments to the FASB Accounting Standards Codification relating to the reporting of reclassifications out of accumulated other comprehensive income. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. We are required to adopt these amendments in the first quarter of fiscal 2014 prospectively, although early adoption is permitted.

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.

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RESULTS OF OPERATIONS

Set forth below is an analysis of our financial results comparing the three months ended January 31, 2013 to the three months ended January 31, 2012. Unless otherwise noted, all comparative performance data included below reflect year-over-year comparisons.

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

	Three months ended January 31			
	2013		2012	
	Dollars	% of Revenue	Dollars	% of Revenue
	In millions			
Net revenue	$ 28,359	100%	$ 30,036	100%
Cost of sales[(1)]	22,029	77.7%	23,313	77.6%
Gross profit	6,330	22.3%	6,723	22.4%
Research and development	794	2.8%	786	2.6%
Selling, general and administrative	3,300	11.6%	3,367	11.2%
Amortization of purchased intangible assets	350	1.2%	466	1.6%
Restructuring charges	130	0.5%	40	0.1%
Acquisition-related charges	4		22	0.1%
Earnings from operations	1,752	6.2%	2,042	6.8%
Interest and other, net	(179)	(0.6)%	(221)	(0.8)%
Earnings before taxes	1,573	5.6%	1,821	6.0%
Provision for taxes	(341)	(1.3)%	(353)	(1.1)%
Net earnings	$ 1,232	4.3%	$ 1,468	4.9%

(1) 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 January 31, 2013
	Percentage Points
Personal Systems	(2.3)
Enterprise Services	(1.5)
Printing	(1.1)
Enterprise Group	(1.0)
Software	(0.1)
HP Financial Services	
Corporate Investments/Other	0.4
Total HP	(5.6)

For the three months ended January 31, 2013, total HP net revenue decreased 5.6% (decreased 4.3% on a constant currency basis). U.S. net revenue decreased 0.9% to $10.1 billion for the first quarter of fiscal 2013, while net revenue from outside of the United States decreased 8.0% to $18.3 billion.

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The decline in HP revenue for the first quarter of fiscal 2013 was primarily the result of the following factors: we continue to experience weak global macroeconomic demand, particularly in Europe, the Middle East, and Africa ("EMEA"), a large customer market for us, with several key countries experiencing double-digit revenue declines; and a continued deterioration in our Personal Systems business, particularly in notebooks, due to the broad market contraction taking place. In Personal Systems we are seeing areas of progress on a regional basis, with growth in Asia Pacific driven by China and India.

From a segment perspective, as mentioned above, in Personal Systems, we are experiencing the impact of a broad market decline, particularly with respect to notebook products. The net revenue decrease in ES was driven primarily by net service revenue runoff, softness in contract signings and contractual price declines in ongoing contracts. Net revenue in Printing declined as we continued to target strong returns for our unit placements consistent with our shift in focus from low-end to high-end printers. The net revenue decline in EG was due to several factors: continued global macroeconomic demand challenges, particularly in EMEA; new product and technology transitions in Storage and Industry Standard Servers ("ISS"); a continued decline in our Business Critical Systems ("BCS") business; and a competitive pricing environment. 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 0.1 percentage points for the three months ended January 31, 2013. From a segment perspective, the small decrease in gross margin was due to gross margin declines in Personal Systems, ES and EG being partially offset by gross margin expansion in Printing. The primary factors impacting gross margin performance in each of our segments are summarized as follows:

- Personal Systems experienced a gross margin decline primarily due to unfavorable currency impacts and competitive pricing partially offset by lower component costs;

- ES gross margin decreased due primarily to net service revenue runoff and contractual price declines partially offset by improved resource management;

- EG experienced a gross margin decline primarily resulting from declines in the support component of Technology Services ("TS") as a result of eroding hardware sales in our BCS business unit and less profitable vendor support contracts;

- Software gross margin decreased due primarily to a decline in higher margin license revenue;

- Printing gross margin increased due to rate improvements in high-end inkjet printers combined with a favorable mix shift to ink supplies; and

- HPFS gross margin increased due primarily to a lower mix of operating leases and lower bad debt expense.

A more detailed discussion of segment gross margins is included under "Segment Information" below.

Operating Expenses

Research and Development

Total research and development ("R&D") expense increased in the three months ended January 31, 2013 due primarily to innovation-focused spending for storage and HP converged cloud, the effect of which was partially offset by a VAT subsidy credit and the elimination of R&D expense associated with the former webOS device business. R&D expense increased for EG, ES and Personal Systems, and decreased for Corporate Investments, Printing and Software.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense decreased for the three months ended January 31, 2013 due primarily to lower field selling costs. We are starting to see cost savings from the restructuring program announced in May 2012. SG&A expense as a percentage of net revenue increased for each of our segments except for Software and ES, each of which experienced a decrease.

Amortization of Purchased Intangible Assets

The decrease in amortization expense for the three months ended January 31, 2013 was due primarily to lower levels of amortization expense as a result of the purchased intangible asset impairment taken in the second half of fiscal 2012 related to the Autonomy acquisition.

Restructuring

Restructuring charges for the three months ended January 31, 2013 were $130 million. These charges included $290 million of costs related to our fiscal 2012 Plan, partially offset by a $160 million reversal of restructuring accruals related to our fiscal 2010 ES plan and fiscal 2008 HP/EDS plan. Restructuring charges for the three months ended January 31, 2012 were $40 million. These charges included $29 million of severance and facility costs related to our fiscal 2008 restructuring plan, $7 million of severance costs related to our fiscal 2009 restructuring plan and $4 million of severance and facility costs related to our fiscal 2010 ES restructuring plan.

As part of our ongoing business operations, we incurred workforce rebalancing charges for severance and related costs within certain business segments during the first three months of fiscal 2013. Workforce rebalancing activities are considered part of normal operations as we continue to optimize our cost structure. Workforce rebalancing costs are included in our business segment results, and we expect to incur additional workforce rebalancing costs in the future.

Acquisition-Related Charges

The decrease in acquisition-related charges for the three months ended January 31, 2013 was due primarily to lower retention bonuses associated with acquisitions completed in fiscal 2010 and 2011. For the three months ended January 31, 2013 and January 31, 2012, we recorded acquisition-related charges of $4 million and $22 million, respectively.

Interest and Other, Net

Interest and other, net expense decreased by $42 million for the three months ended January 31, 2013. The decrease was driven primarily by lower currency transaction losses.

Provision for Taxes

Our effective tax rate was 21.7% and 19.4% for the three months ended January 31, 2013 and January 31, 2012, respectively. Our effective tax rate increased due to discrete items in the three months ended January 31, 2013, which are described below. 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 months ended January 31, 2013, we recorded discrete items resulting in a net tax charge of $5 million, increasing the effective tax rate. These amounts consisted primarily of a tax charge of $150 million related to a past uncertain tax position offset by approximately $50 million of various adjustments to estimated tax provisions of foreign jurisdictions as well as $45 million of benefits

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associated with restructuring charges, various uncertain tax positions and valuation allowance adjustments. In addition, in January 2013, the American Taxpayer Relief Act of 2012 was signed into law. We recorded a tax benefit of $50 million arising from the retroactive research and development credit provided by that legislation in the first quarter of fiscal 2013.

In the three months ended January 31, 2012, we recorded discrete items with a net tax benefit of $49 million, decreasing the effective tax rate. These amounts included net tax benefits of $28 million from restructuring and acquisition charges, and $23 million from reversals of accrued interest expense and penalties on uncertain tax positions, net of tax.

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.

HP has implemented certain organizational realignments. As a result of these realignments, HP has re-evaluated its segment financial reporting structure and, effective in the first quarter of fiscal 2013:

- HP has created a new EG segment consisting of its TS business unit, which was previously a part of its former Services segment, and its former Enterprise Servers, Storage and Networking ("ESSN") segment;

- HP has created a new ES segment consisting of its Application and Business Services ("ABS") business unit and its Infrastructure Technology Outsourcing ("ITO") business unit, both of which were previously a part of its former Services segment;

- HP has transferred its Personal Systems commercial products support business from its TS business unit to the Other business unit within its Personal Systems segment;

- HP has transferred its end-user workplace support business from its TS business unit to its ITO business unit within its new ES segment; and

- HP has transferred the portion of its business intelligence services business that was a part of its Corporate Investments segment to its ABS business unit within its new ES segment.

As noted above, as a result of these changes, HP has created two new financial reporting segments, the EG segment and the ES segment. Also as noted above, HP has eliminated two existing financial reporting segments, the ESSN segment and the Services segment. Taking into account these changes, effective at the beginning of HP's first quarter of fiscal 2013, HP's seven financial reporting segments are Personal Systems, Printing, the Enterprise Group, Enterprise Services, Software, HP Financial Services and Corporate Investments.

Printing and Personal Systems Group

The Personal Systems segment and the Printing segment are structured beneath a broader Printing and Personal Systems Group. We describe the results of the business segments within the Printing and Personal Systems Group below.

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Personal Systems

	Three months ended January 31		
	2013	2012	% Decrease
	In millions		
Net revenue	$ 8,204	$ 8,892	(7.7)%
Earnings from operations	$ 223	$ 459	(51.4)%
Earnings from operations as a % of net revenue	2.7%	5.2%	

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

	Three months ended January 31, 2013
	Percentage Points
Notebook PCs	(9.1)
Desktop PCs	1.3
Workstations	
Other	0.1
Total Personal Systems	(7.7)

Personal Systems net revenue decreased 7.7% (decreased 5.8% on a constant currency basis) for the three months ended January 31, 2013. Our Personal Systems business continues to experience significant challenges due to the market shift toward tablet products coupled with particularly weak demand in the EMEA region. While Personal Systems also experienced revenue declines in the Americas region, the business did experience areas of growth both in the Asia Pacific region and with desktop products. The decline in Personal Systems revenue was driven by a 5% decline in unit volume along with a 3% decline in average selling prices ("ASPs"). The unit volume decrease was led by declines in notebook demand as a result of the market shift towards tablet products. Partially offsetting the volume decline was unit growth in desktops. The decline in ASPs was due primarily to unfavorable currency impacts and a competitive price environment. For the three months ended January 31, 2013, net revenue for consumer clients and commercial clients decreased by 13% and 4%, respectively. Net revenue for Notebook PCs decreased 16%, while net revenue for Desktop PCs increased 4%. Net revenue remained flat in workstations while net revenue increased 5% in the Other business unit. The net revenue increase in Other was related primarily to increased sales of extended warranties, the effect of which was partially offset by a decrease in third-party branded options.

Personal Systems earnings from operations as a percentage of net revenue decreased 2.5 percentage points for the three months ended January 31, 2013. The decrease was driven by a decline in gross margin combined with an increase in operating expenses as a percentage of net revenue. The decline in gross margin was due to unfavorable currency impacts and competitive pricing pressure. Partially offsetting these unfavorable impacts to gross margin were lower component, logistics and warranty costs. Operating expenses as a percentage of net revenue increased due primarily to the revenue decline and increased marketing and R&D costs, the effect of which was partially offset by cost savings associated with our ongoing restructuring efforts.

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Printing

	Three months ended January 31		
	2013	2012	% (Decrease) Increase
	In millions		
Net revenue	$ 5,926	$ 6,258	(5.3)%
Earnings from operations	$ 953	$ 761	25.2%
Earnings from operations as a % of net revenue	16.1%	12.2%	

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

	Three months ended January 31, 2013
	Percentage Points
Supplies	(3.0)
Commercial Hardware	(2.1)
Consumer Hardware	(0.2)
Total Printing	(5.3)

Printing net revenue decreased 5.3% (decreased 4.6% on a constant currency basis) for the three months ended January 31, 2013, as we continued to shift our focus to higher usage printers from low-end printers. As a result of this shift, printer unit volumes declined by 11% while average revenue per unit increased by 3%. Net revenue for Supplies decreased 5% for the three months ended January 31, 2013, due to weak demand in all regions. These effects were partially offset by growth in large format printing supplies. Net revenue for Commercial Hardware decreased 9% due primarily to volume reductions of 6% along with lower average revenue per unit of 6%. These effects were partially offset by double-digit net revenue growth in the graphics services and managed print services businesses. Net revenue for Consumer Hardware decreased 2% while average revenue per unit increased by 14%. While low-end printer volumes declined, unit volume and average revenue per unit increased within high-end printers as a result of our continued focus on more profitable high-end printers. Additionally, the introduction of our new inkjet SMB printers has favorably impacted revenues and average selling prices.

Printing earnings from operations as a percentage of net revenue increased by 3.9 percentage points for the three months ended January 31, 2013, due primarily to an increase in gross margin, the effect of which was partially offset by higher operating expenses as a percentage of net revenue. Gross margin increased due to our focus on higher-end inkjet printers combined with a higher mix of ink supplies, coupled with toner rate improvements due to lower discounting. These effects were partially offset by an unfavorable currency impact primarily driven by weakness in the Euro currency. Operating expenses as a percentage of net revenue increased due to the decline in net revenue and higher marketing expenses, the effects of which were partially offset by lower administrative expenses and cost savings associated with our ongoing restructuring efforts.

Enterprise Group

	Three months ended January 31		
	2013	2012	% Decrease
	In millions		
Net revenue	$ 6,984	$ 7,282	(4.1)%
Earnings from operations	$ 1,084	$ 1,329	(18.4)%
Earnings from operations as a % of net revenue	15.5%	18.3%	

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

	Three months ended January 31, 2013
	Percentage Points
Storage	(1.7)
Business Critical Systems	(1.3)
Industry Standard Servers	(1.1)
Technology Services	(0.3)
Networking	0.3
Total EG	(4.1)

EG net revenue decreased 4.1% (decreased 2.7% on a constant currency basis) for the three months ended January 31, 2013 due primarily to the following factors: continued macroeconomic demand challenges, particularly in EMEA; new product and technology transitions in Storage and ISS; and a competitive pricing environment. Each of the business units within EG experienced year-over-year revenue declines except Networking. For the three months ended January 31, 2013, Storage net revenue decreased by 13%. This Storage decline was due primarily to revenue declines in traditional storage products, which include our tape, storage networking, and legacy external disk products. The decline was partially offset by strong growth in converged storage solutions, which include our 3PAR, StoreOnce, StoreVirtual and StoreAll products. BCS net revenue decreased by 24% for the three months ended January 31, 2013 mainly as a result of ongoing pressure from a declining UNIX market and lower demand for our Itanium-based servers. ISS net revenue decreased by 3%, driven primarily by unit volume declines, the effects of which were partially offset by favorable average unit pricing impacts from our Generation 8 products. TS net revenue decreased by 1% for the three months ended January 31, 2013, driven primarily by revenue declines in the consulting business, as a result of our decision to focus on more profitable services offerings. Partially offsetting the decline in consulting was slight growth in the support business. TS experienced weak demand in EMEA due to declines in certain key countries in the region. Networking net revenue increased by 4% for the three months ended January 31, 2013 due to higher market demand for our core data center products, the effect of which was partially offset by the impact of the divestiture of our video surveillance business in the first quarter of fiscal 2012.

EG earnings from operations as a percentage of net revenue decreased by 2.8 percentage points for the three months ended January 31, 2013 driven by a decrease in gross margin coupled with an increase in operating expenses as a percentage of net revenue. The gross margin decrease was due primarily to a gross margin decline in the support business of TS and, to a lesser extent, in BCS. The decline in TS gross margin was due to the impact of eroding hardware sales in BCS, an increase in delivery costs and less profitable vendor support contracts. The increase in operating expenses as a percentage of net revenue was driven by an increase in administrative expense and R&D costs due to planned investments in the business, the effect of which was partially offset by cost savings associated with our ongoing restructuring efforts and a VAT subsidy credit related to R&D.

Enterprise Services

	Three months ended January 31		
	2013	2012	% Decrease
	In millions		
Net revenue	$ 5,919	$ 6,371	(7.1)%
Earnings from operations	$ 76	$ 145	(47.6)%
Earnings from operations as a % of net revenue	1.3%	2.3%	

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

	Three months ended January 31, 2013
	Percentage Points
Infrastructure Technology Outsourcing	(3.8)
Application and Business Services	(3.3)
Total ES	(7.1)

ES net revenue decreased 7.1% (decreased 6.6% on a constant currency basis) for the three months ended January 31, 2013. The net revenue decrease in ES was driven primarily by net service revenue runoff, softness in contract signings and contractual price declines in ongoing contracts. Net revenue declined in both of the business units within this segment and across all regions. ITO net revenue decreased by 6% due to softness in contract signings, net service revenue runoff and contractual price declines in ongoing contracts. Partially offsetting these declines was revenue growth in security and cloud offerings. ABS net revenue declined 9% due primarily to net service revenue runoff and softness in contract signings, the effect of which was partially offset by revenue growth in cloud and information and analytics offerings.

ES earnings from operations as a percentage of net revenue decreased by 1.0 percentage points for the three months ended January 31, 2013 due to a decrease in gross margin, the effect of which was partially offset by a decrease in operating expenses as a percentage of net revenue. Gross margin declined due primarily to net service revenue runoff and contractual price declines, the effect of which was partially offset by our continued focus on improving resource management and profit improvements on selected low performing accounts. Operating expenses as a percentage of net revenue decreased due primarily to reduced field selling costs related to lower headcount.

Software

	Three months ended January 31		
	2013	2012	% Decrease
	In millions		
Net revenue	$ 926	$ 946	(2.1)%
Earnings from operations	$ 157	$ 162	(3.1)%
Earnings from operations as a % of net revenue	17.0%	17.1%	

Software net revenue decreased 2.1% (decreased 0.7% on a constant currency basis) for the three months ended January 31, 2013 due primarily to a decline in license revenue from information management products and IT/cloud management products and a decline in services revenue from information management products, the effects of which were partially offset by revenue growth from our big data analytics and security products. Net revenue from licenses and services decreased by 16% and 8%, respectively, while at the same time net revenue from support increased by 11%. The increase in support revenue was due in part, to growth in big data analytics and security products.

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Software earnings from operations as a percentage of net revenue decreased by 0.1 percentage points for the three months ended January 31, 2013. The decline was due primarily to a decrease in gross margin, the effect of which was partially offset by a decrease in operating expense as a percentage of net revenue. The decrease in gross margin was due primarily to the decline in higher-margin license revenue. The decrease in operating expense as a percentage of revenue was driven by cost controls and lower integration costs associated with the Autonomy acquisition.

HP Financial Services

	Three months ended January 31		
	2013	**2012**	**% Increase**
	In millions		
Net revenue	$ 957	$ 950	0.7%
Earnings from operations	$ 101	$ 91	11.0%
Earnings from operations as a % of net revenue	10.6%	9.6%	

HPFS net revenue increased by 0.7% for the three months ended January 31, 2013. The net revenue increase was due primarily to higher revenue from several large early customer buyouts and higher finance income from an increase in finance lease assets. These effects were partially offset by lower rental revenue from a decrease in operating lease assets and unfavorable currency impacts.

HPFS earnings from operations as a percentage of net revenue increased by 1.0 percentage points for the three months ended January 31, 2013 due primarily to an increase in gross margin, the effect of which was partially offset by an increase in operating expenses as a percentage of net revenue resulting from lower capitalization of initial direct costs. The increase in gross margin was the result of higher portfolio margins from a lower mix of operating leases, lower bad debt expense, coupled with lower transaction taxes. These effects were partially offset by lower margins on end-of-term activities, including early customer buyouts and unfavorable currency impacts.

Financing Originations

	Three months ended January 31	
	2013	**2012**
	In millions	
Total financing originations	$ 1,162	$ 1,543

New financing originations, which represent the amounts of financing provided to customers for equipment and related software and services, including intercompany activity, decreased 24.7% for the three months ended January 31, 2013. The decrease was driven by lower financing associated with HP product sales and services offerings, the increase in costs of providing customer financing, our focus on achieving higher returns, along with unfavorable currency impacts.

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.

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

	January 31, 2013	October 31, 2012
	In millions	
Portfolio assets[(1)]	$ 12,811	$ 13,054
Allowance for doubtful accounts[(2)]	154	149
Operating lease equipment reserve	82	81
Total reserves	236	230
Net portfolio assets	$ 12,575	$ 12,824
Reserve coverage	1.8%	1.8%
Debt to equity ratio[(3)]	7.0x	7.0x

(1) Portfolio assets include gross financing receivables of approximately $7.6 billion and $7.7 billion at January 31, 2013 and October 31, 2012, respectively, and net equipment under operating leases of $2.3 billion and $2.4 billion at January 31, 2013 and October 31, 2012, 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 $0.8 billion and $0.9 billion at January 31, 2013 and October 31, 2012, respectively, and intercompany leases of approximately $2.1 billion for both January 31, 2013 and October 31, 2012, 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 $1.0 billion of debt issued directly by HPFS. At January 31, 2013 and October 31, 2012, debt allocated to HPFS totaled $11.2 billion and $11.3 billion, respectively. The allocated intercompany debt to equity ratio above is comparable to that of other similar financing companies.

At January 31, 2013 and October 31, 2012, HPFS cash balances were approximately $1.0 billion and $0.7 billion, respectively.

Net portfolio assets at January 31, 2013 decreased 1.9% from October 31, 2012. The decrease resulted from lower levels of new financing originations and early buyouts of customer lease contracts, the effect of which was partially offset by favorable currency impacts. The overall percentage of portfolio asset reserves remained flat as a percentage of the portfolio assets.

For the three months ended January 31, 2013 and 2012, HPFS recorded net bad debt expenses of $15 million and $18 million, respectively.

Corporate Investments

	Three months ended January 31		
	2013	2012	% (Decrease) Increase
	In millions		
Net revenue	$ 4	$ 30	(86.7)%
Loss from operations	$ (65)	$ (50)	30.0%
Loss from operations as a % of net revenue	*	(166.7)%	

* Not meaningful.

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Net revenue in Corporate Investments decreased primarily as a result of a decline in residual activity from the webOS device business. In August 2011, we announced the wind down of the webOS device business.

Corporate Investments reported a larger loss from operations for the three months ended January 31, 2013, due primarily to the decline in residual activity related to the webOS device business. The loss from operations in Corporate Investments 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. Amounts held outside of the United States are generally utilized to support non-U.S. liquidity needs, although a portion of those amounts may from time to time be subject to short-term intercompany loans into the United States. Most of the amounts held outside of the United States could be repatriated to the United States but, under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. Except for foreign earnings that are considered indefinitely reinvested outside of the United States, we have provided for the U.S. federal tax liability on these earnings for financial statement purposes. Repatriation could result in additional 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 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)

	Three months ended January 31	
	2013	2012
	In millions	
Net cash provided by operating activities	$ 2,562	$ 1,193
Net cash used in investing activities	(644)	(751)
Net cash used in financing activities	(630)	(372)
Net increase in cash and cash equivalents	$ 1,288	$ 70

Operating Activities

Compared to the corresponding period in 2012, net cash provided by operating activities increased by approximately $1.4 billion for the three months ended January 31, 2013. The increase was due primarily to efficient utilization of cash resources for payment of accounts payable and a reduction in payments associated with webOS contract cancellations.

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Our key working capital metrics are as follows:

	Three months ended January 31	
	2013	**2012**
Days of sales outstanding in accounts receivable	45	48
Days of supply in inventory	26	28
Days of purchases outstanding in accounts payable.	(48)	(48)
Cash conversion cycle	23	28

Days of sales outstanding in accounts receivable ("DSO") measures the average number of days our receivables are outstanding. DSO is calculated by dividing ending accounts receivable, net of allowance for doubtful accounts, by a 90-day average net revenue. Our accounts receivable balance was $14.2 billion as of January 31, 2013.

Days of supply in inventory ("DOS") measures the average number of days from procurement to sale of our product. DOS is calculated by dividing ending inventory by a 90-day average cost of goods sold. Our inventory balance was $6.4 billion as of January 31, 2013.

Days of purchases outstanding in accounts payable ("DPO") measures the average number of days our accounts payable balances are outstanding. DPO is calculated by dividing ending accounts payable by a 90-day average cost of goods sold. Our accounts payable balance was $11.7 billion as of January 31, 2013.

Our working capital requirements depend upon our effective management of the cash conversion cycle, which represents effectively the number of days that elapse from the day we pay for the purchase of raw materials to the collection of cash from our customers. The cash conversion cycle is the sum of DSO and DOS less DPO.

The cash conversion cycle for the first quarter of fiscal 2013 decreased by five days compared to the corresponding period in fiscal 2012. The decrease in DSO was due primarily to an increase in cash discounts, favorable revenue linearity and improved collections. The decrease in DOS was due to lower inventory balances in most segments as of January 31, 2013. DPO remained flat due primarily to unfavorable purchasing linearity, the effects of which were offset by favorable payment term changes.

Investing Activities

Compared to the corresponding period in fiscal 2012, net cash used in investing activities decreased by approximately $0.1 billion for the three months ended January 31, 2013 due primarily to lower investment in property, plant and equipment, the absence in the current period of investments made in connection with business acquisitions and divestitures, the effects of which were partially offset by higher purchases of available-for-sale securities.

Financing Activities

Compared to the corresponding period in fiscal 2012, net cash used in financing activities increased by approximately $0.3 billion for the three months ended January 31, 2013. The increase was due primarily to lower net proceeds from the issuance of U.S. Dollar Global Notes, the effect of which was partially offset by lower net repayments of commercial paper and a decrease in cash paid for the repurchase of common stock.

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.

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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 $28.2 billion as of January 31, 2013, as compared to $28.4 billion at October 31, 2012, bearing weighted-average interest rates of 2.90% and 2.95%, respectively. During the first three months of fiscal 2013, we issued $0.5 billion and repaid $0.6 billion of commercial paper.

During the next four fiscal quarters, $5.5 billion of Global Notes will mature. We expect to have sufficient cash, cash from operations and access to capital markets 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 January 31, 2013, we had the following resources available to obtain short-term or long-term financings if we need additional liquidity:

	At January 31, 2013	
	In millions	
2012 Shelf Registration Statement[1]		Unspecified
Commercial paper programs[1]	$	16,147
Uncommitted lines of credit[1]	$	1,374

(1) For more information on our available borrowings resources, see Note 11 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 based upon publicly available information as well as information obtained in our ongoing discussions with them. Moody's Investors Service downgraded our long-term debt from A3 to Baa1 in November 2012. Accordingly, our ratings as of January 31, 2013 were:

	Standard & Poor's Ratings Services	**Moody's Investors Service**	**Fitch Ratings Services**
Short-term debt ratings	A-2	Prime-2	F2
Long-term debt ratings	BBB+	Baa1	A-

Our credit ratings remain under negative outlook by Moody's Investors Service. 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

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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 January 31, 2013 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 $352 million of deferred tax assets and interest receivable. These liabilities and related interest and penalties include $111 million expected to be paid within one year. For the remaining amount, we are unable to make a reasonable estimate as to when cash settlement with the tax authorities might occur due to the uncertainties related to these tax matters. See Note 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 our approved restructuring plans, we expect future cash expenditures of approximately $2.3 billion. We expect to make cash payments of approximately $1.3 billion during the remainder of fiscal 2013 with remaining cash payments through fiscal 2016. We expect to have sufficient cash, cash from operations and access to capital markets 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 purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of January 31, 2013, we are not involved in any material unconsolidated SPEs.

HP has third-party financing arrangements consisting of revolving short-term financing intended to facilitate the working capital requirements of certain partners. The total aggregate capacity of the facilities was $1.7 billion as of January 31, 2013, including a $0.9 billion partial recourse facility entered into in May 2011 and an aggregate capacity of $0.8 billion in non-recourse facilities. For more information on our revolving trade receivables-based facilities, see Note 4 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

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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 addressing our business challenges, our business and results of operations may be adversely affected and our ability to invest in and grow our business could be limited.

There are many challenges facing our business. Many of those challenges relate to structural and execution issues, including the following: we need to align our costs with our revenue trajectory; we need to address our underinvestment in R&D and in our internal IT systems in recent years, which has made us less competitive, effective and efficient; we need to implement the data gathering and reporting tools and systems needed to track and report on all key business performance metrics so as to most effectively manage a company of our size, scale and diversity; and we need to rebuild our business relationships with our channel partners. We are also facing dynamic market trends, such as the growth of mobility, the increasing demand for hyperscale computing infrastructure, the shift to software-as-a-service and the transition towards cloud computing, and we need to develop products and services that position us to win in a very competitive marketplace. Furthermore, we face a series of significant macroeconomic challenges, including broad-based weakness in consumer spending, weak demand in the SMB and enterprise sectors in Europe, and declining growth in some emerging markets.

We are working to address these challenges. During fiscal 2012, we implemented some leadership and organizational changes, including consolidating our personal computer and printing businesses under the same senior executive leadership, combining our global accounts sales organization with the Enterprise Group, and centralizing all of our marketing and communications activities. We also began implementing cost reduction initiatives, including the company-wide restructuring plan discussed below. In addition, we began making significant changes to our sales force to improve our go-to-market selling activities and reduce cost, and we renewed our focus on developing new products, services and solutions. We also began working to optimize our supply chain, reduce the number of stock keeping units (SKUs) and platforms, refine our real estate strategy, improve our business processes and implement consistent pricing and promotions. Our focus during fiscal 2013 will be focused on working through the anticipated disruptions expected to accompany the changes made in fiscal 2012 and continuing to implement our cost reduction and operational initiatives. 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 plan expected to be implemented through the end of fiscal 2014. The restructuring plan includes both voluntary early retirement programs and non-voluntary workforce reductions and is expected to result in 29,000 employees exiting the company by the end of that period. 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 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.

We have a large portfolio of businesses and must allocate resources across all of those businesses while competing with companies that have much smaller portfolios or 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. 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 are highly competitive, and we encounter aggressive price competition for all of our products and services from numerous companies globally. In addition, competitors in some of the markets in which we compete who have a greater presence in lower-cost jurisdictions may be able to offer lower prices than we are able to offer. Our results of operations and financial condition may be adversely affected by these and other industry-wide pricing pressures.

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

Even if we are able to maintain or increase market share for a particular product, revenue could decline because the product is in a maturing industry. Revenue and margins also could decline due to increased competition from other types of products. For example, growing demand for an increasing array of mobile computing devices and the development of cloud-based solutions may reduce demand for some of our existing hardware products. In addition, refill and remanufactured alternatives for some of HP's LaserJet toner and inkjet cartridges compete with HP's supplies business. Other companies

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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 further evolve the focus of our organization towards the delivery of integrated IT solutions for our customers and to invest and expand into cloud computing, security, and information management and analytics. Any failure to successfully execute this strategy could adversely affect our operating results.

The process of developing new high technology products, software services and solutions and enhancing existing hardware and software 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, and protect 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, 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 new or existing customers and adversely affect our brand and reputation, which could, in turn, adversely affect our operating results.

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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, the impact of the continuing uncertainties associated with the debt crisis in certain countries in the European Union and austerity measures being implemented or contemplated by various countries in the EMEA region. The U.S. federal government spending cuts that went into effect on March 1, 2013 might reduce demand for our products, services and solutions from organizations that receive funding from the U.S. government and could negatively affect macroeconomic conditions in the United States, which could further reduce demand for our products, services and solutions. 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 combined with lower interest rates and the adverse effects of fluctuating currency exchange rates could lead to higher pension and post-retirement benefit expenses. Other income and expense could vary materially from expectations depending on changes in interest rates, borrowing costs, currency exchange rates, hedging expenses and the fair value of derivative instruments. Economic downturns also may lead to restructuring actions and associated expenses.

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

Our operations depend on our ability to anticipate our needs for components, products and services, as well as 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 located around the world, and the long lead times required to manufacture, assemble and deliver certain components and products, problems could arise in production, planning, and inventory management 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.

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 certain 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 services 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 then-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, more favorable contractual terms and conditions, 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 create collectibility risks. 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. Our ability to manage the size of, and costs associated with, the contingent workforce may be subject to additional constraints imposed by local laws.

Single source suppliers. Our use of single source suppliers for certain components could exacerbate any 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 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 either may not exist or may be unable to produce the quantities of those components necessary to satisfy our production requirements. In addition, we sometimes purchase components from single source suppliers under short-term agreements that contain favorable pricing and other terms but that may be unilaterally modified or terminated by the supplier with limited notice and with little or no penalty. The performance of such single source suppliers under those agreements (and the renewal or extension of those agreements upon similar terms) may affect the quality, quantity and price of components to HP. The loss of a single source supplier, the deterioration of our relationship with a single source supplier, or any unilateral modification to the contractual terms under which we are supplied components by a single source supplier could adversely affect our revenue and gross margins.

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

Our worldwide operations could be 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, profitability 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, 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 locations more vulnerable to the occurrence of the aforementioned business disruptions, such as near major earthquake faults, and being consolidated in certain geographical areas is unknown and remains uncertain.

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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, our clients or customers, 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 of 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 respond to customer requests and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions have adversely affected, and in the future could adversely affect, our financial results, stock price and reputation.

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

Our revenue, gross margin and profit vary among our products and services, customer groups and geographic markets and therefore will likely be different in future periods than our current results. Our revenue depends on the overall demand for our products and services. Delays or reductions in IT spending could materially adversely affect demand for our products and services, which could result in a significant decline in revenues. Overall gross margins and profitability in any given period are dependent partially on the product, service, customer and geographic mix reflected in that period's net revenue. Competition, lawsuits, investigations and other risks affecting those businesses therefore may have a significant impact on our overall gross margin and profitability. Certain segments have a higher fixed cost structure and more variation in gross margins across their business units and product portfolios than others and may therefore experience significant operating profit volatility on a quarterly basis. In addition, newer geographic markets may be relatively less profitable due to investments associated with entering those markets and local pricing pressures, and we may have difficulty establishing and maintaining the operating infrastructure necessary to support the high growth rate associated with some of those markets. Market trends, 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 execution of our efforts to address the challenges facing our business could increase the level of variability in our financial results, as the rate at which we are able to realize the benefits from those efforts may 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, planned or contemplated 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;
- investor sentiment with respect to our company, competitors, business partners or industry in general;
- media coverage of our business and financial performance;
- any developments relating to pending investigations, claims and disputes; 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, as discussed in Note 15 to the Consolidated Condensed Financial Statements, we are involved in several securities class action litigation matters. Additional volatility in the price of our securities could result in the filing of additional securities class action litigation matters, which 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 to otherwise provide competitive advantages, either of which could result in costly product redesign efforts, discontinuance of certain product offerings or other harm to our competitive position. 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 against 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.

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

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

- ongoing instability or changes in a country's or region's economic or political conditions, including inflation, recession, interest rate fluctuations and actual or anticipated military or political conflicts;
- longer 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 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 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 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

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have to reduce our prices and write down inventory. Moreover, our use of indirect distribution channels may limit our willingness or ability to adjust prices quickly and otherwise to respond to pricing changes by competitors. We also may have limited ability to estimate future product rebate redemptions in order to price our products effectively.

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

Many of the markets in which we compete are characterized by rapid technological advances in hardware performance and software features and functionality, frequent introduction of new products, short product life cycles, and continual improvement in product price characteristics relative to product performance. To maintain our competitive position in these markets, we must successfully develop and introduce new products and services. Among the risks associated with the introduction of new products and services are: delays in development or manufacturing, variations in costs, delays in customer purchases or reductions in the price of existing products in anticipation of new introductions, difficulty in predicting customer demand for the new offerings and challenges of 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 as a result of 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 success of our services business is to a significant degree dependent on our ability to retain our significant services clients and maintain or increase the level of revenues from these clients. We may lose clients due to their merger or acquisition, business failure, contract expiration or their conversion to a competing service provider or decision to in-source services. In addition, we may not be able to retain or renew relationships with our significant clients in the future. As a result of business downturns or for other business reasons, we are also vulnerable to reduced processing volumes from our clients, which can reduce the scope of services provided and the prices for those services. We may not be able to replace the revenue and earnings from any such lost clients or reductions in services in the short- or long-term. In addition, our contracts may allow a client to terminate the contract for convenience, and we may not be able to fully recover our investments in such circumstances.

- The pricing and other terms of some of our IT services agreements, particularly our long-term IT outsourcing services agreements, require us to make estimates and assumptions at the time we enter into these contracts that could differ from actual results. Any increased or unexpected costs or unanticipated delays in connection with the performance of these engagements, including delays caused by factors outside our control, could make these agreements less profitable or unprofitable, which would have an adverse affect on the profit margin of our IT services business.

Some of our IT services agreements require significant investment in the early stages that is expected to be recovered through billings over the life of the agreement. These agreements often involve the construction of new IT systems and communications networks and the development and deployment of new technologies. Substantial performance risk exists in each agreement with these characteristics, and some or all elements of service delivery under these agreements are dependent upon successful completion of the development, construction and deployment phases. Any failure to perform satisfactorily under these agreements may expose us to legal liability, result in the loss of customers and harm our reputation, which could decrease the revenues and profitability of our IT services business.

Some of our outsourcing services agreements contain pricing provisions that permit a client to request a benchmark study by a mutually acceptable third party. The benchmarking process typically compares the contractual price of our services against the price of similar services offered by other specified providers in a peer comparison group, subject to agreed upon adjustment and normalization factors. Generally, if the benchmarking study shows that our pricing has a difference outside a specified range, and the difference is not due to the unique requirements of the client, then the parties will negotiate in good faith any appropriate adjustments to the pricing. This may result in the reduction of our rates for the benchmarked services performed after the implementation of those pricing adjustments, which could decrease the revenues and profitability of our IT services business.

If we do not hire, train, motivate and effectively utilize employees with the right mix of skills and experience in the right geographic regions to meet the needs of our services clients, our profitably could suffer. For example, if our employee utilization rate is too low, our profitability and the level of engagement of our employees could suffer. If that utilization rate is too high, it could have an adverse effect on employee engagement and attrition and the quality of the work performed, as well as our ability to staff projects. If we are unable to hire and retain a sufficient number of employees with the skills or backgrounds to meet current demand, we might need to redeploy existing personnel, increase our reliance on subcontractors or increase employee compensation levels, all of which could also negatively affect our profitability. In addition, if we have more employees than we need with certain skill sets or in certain geographies, we may incur increased costs as we work to rebalance our supply of skills and resources with client demand in those geographies.

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. In addition, Fitch Ratings Services and Moody's Investors Service downgraded our ratings a second time on October 5, 2012 and November 27, 2012, respectively. Our credit ratings remain under negative outlook by Moody's Investors Service. 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 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

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generate future taxable income in the United States. In addition, President Obama's administration has announced proposals for other U.S. tax legislation that, if adopted, could adversely affect our tax rate. There are also other tax proposals that have been introduced, that are being considered, or that have been enacted by the United States Congress or the legislative bodies in foreign jurisdictions that could affect our tax rate, the carrying value of deferred tax assets, or our other tax liabilities. Any of these changes could affect our profitability.

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

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

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

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. In addition, the value of all of our share-based incentive awards depends on HP's stock price, which declined by nearly 50% during fiscal 2012. 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, if our total compensation package is not viewed as being competitive, or if we do

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not obtain the shareholder approval needed to continue granting share-based incentive awards in the amounts we believe are necessary, 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 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 companies or businesses, divest 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 candidates for and successfully complete business combination and investment transactions, some of which may be large or complex, and manage post-closing issues such as the integration of acquired businesses, products, services or employees. Risks associated with business combination and investment transactions include the following, any of which could adversely affect our revenue, gross margin and profitability:

- Managing business combination and investment transactions requires varying levels of management resources, which may divert our attention from other business operations.

- We may not fully realize all of the anticipated benefits of any business combination and investment transaction, and the timeframe for realizing benefits of a business combination and investment transaction may depend partially upon the actions of employees, advisors, suppliers or other third parties.

- Business combination and investment transactions 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, goodwill and 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.

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Any increased or unexpected costs, unanticipated delays or failure to meet contractual obligations could make business combination and investment transactions less profitable or unprofitable.

Our ability to conduct due diligence with respect to business combination and investment transactions, and our ability to evaluate the results of such due diligence, is dependent upon the veracity and completeness of statements and disclosures made or actions taken by third parties or their representatives.

Our due diligence process may fail to identify significant issues with the acquired company's product quality, financial disclosures, accounting practices or internal control deficiencies.

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 accurately our costs, timing and other matters.

In order to complete a business combination and investment transaction, we may issue common stock, potentially creating dilution for existing stockholders.

We may borrow to finance business combination and investment transactions, 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.

HP's effective tax rate on an ongoing basis is uncertain, and business combination and investment transactions could adversely impact our effective tax rate.

An announced business combination and investment transaction may not close timely or at all, which may cause our financial results to differ from expectations in a given quarter.

Business combination and investment transactions may lead to litigation.

If we fail to identify and successfully complete and integrate business combination and investment transactions that further our strategic objectives, we may be required to expend resources to develop products, services and technology internally, which may put us at a competitive disadvantage.

HP has incurred and will incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with business combination and investment transactions, and, to the extent that the value of goodwill or intangible assets with indefinite lives acquired in connection with a business combination and investment transaction becomes impaired, we may be required to incur additional material charges relating to the impairment of those assets. For example, 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 former 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, in our fourth fiscal quarter of 2012, we recorded an $8.8 billion impairment charge relating to the goodwill and intangible assets associated with Autonomy. If there are future 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.

Integration issues are often complex, time-consuming and expensive and, without proper planning and implementation, could significantly disrupt our business, including the business acquired as a result of any business combination and investment transaction. The challenges involved in integration include:

combining product and service offerings and entering or expanding into markets in which we are not experienced or are developing expertise;

convincing customers and distributors that the transaction will not diminish client service standards or business focus, persuading customers and distributors to not defer purchasing decisions or switch to other suppliers (which could result in our incurring additional obligations in order to address customer uncertainty), minimizing sales force attrition and expanding 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 and business processes;

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.

While we do not currently plan to divest any of our major businesses, we do regularly evaluate the potential disposition of assets and businesses that may no longer help us meet our objectives. When we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the achievement of our strategic objectives. We may also dispose of a business at a price or on terms that are less desirable than we had anticipated. In addition, we may experience greater dis-synergies than expected, and the impact of the divestiture on our revenue growth may be larger than projected. After reaching an agreement with a buyer or seller for the acquisition or disposition of a business, we are subject to satisfaction of pre-closing conditions as well as to necessary regulatory and governmental approvals on acceptable terms, which may prevent us from completing the transaction. Dispositions may also involve continued financial involvement in the divested business, such as through continuing equity ownership, guarantees, indemnities or other financial obligations. Under these arrangements, performance by the divested businesses or other conditions outside of our control could affect our future financial results.

Unforeseen environmental costs could impact our future net earnings.

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

Some anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

We have provisions in our certificate of incorporation and bylaws, each of which could have the effect of rendering more difficult or discouraging an acquisition of HP deemed undesirable by our Board of Directors. These include provisions:

- authorizing blank check preferred stock, which HP could issue with voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, HP's directors and officers;
- specifying that HP stockholders may take action only at a duly called annual or special meeting of stockholders and otherwise in accordance with our bylaws and limiting the ability of our stockholders to call special meetings;
- requiring advance notice of proposals by HP stockholders for business to be conducted at stockholder meetings and for nominations of candidates for election to our Board of Directors;
- requiring a vote by the holders of two-thirds of HP's outstanding shares to amend certain bylaws relating to HP stockholder meetings, the Board of Directors and indemnification; and
- controlling the procedures for conduct of HP'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, 2012, which is incorporated herein by reference. Our exposure to market risk has not changed materially since October 31, 2012.

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, 91

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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.

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, 2012 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 (November 2012)	16,441	$ 13.19	16,441	$ 8,959,180
Month #2 (December 2012)	2,791	$ 12.80	2,791	$ 8,923,470
Month #3 (January 2013)				$ 8,923,470
Total	19,232	$ 13.13	19,232	

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HP repurchased shares in the first quarter of fiscal 2013 under an ongoing program to return cash to stockholders when sufficient liquidity exists, the shares are trading at a discount relative to estimated intrinsic value, and there is no alternative investment opportunity expected to generate a higher risk-adjusted return on investment. 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 first quarter of fiscal 2013 were purchased in open market transactions. As of January 31, 2013, HP had remaining authorization of $8.9 billion for future share repurchases under the $10.0 billion repurchase authorization approved by HP's Board of Directors on July 21, 2011.

Item 5. Other Information.

The disclosure below is included in this report in lieu of filing a Current Report on Form 8-K.

Based on input from stockholders and their advisors gathered during 2013 regarding the design of HP's short-term incentive compensation program, on March 10, 2013, the HR and Compensation Committee (the "Committee") of the HP Board of Directors approved the addition of a total shareholder return ("TSR") metric to the performance metrics applicable to fiscal 2013 awards to HP Section 16 officers (the "Section 16 Officers") under the Hewlett-Packard Company 2005 Pay for Results Plan (the "PfR Plan"). As described in HP's definitive proxy statement on Schedule 14A filed with the SEC on January 31, 2013, under the PfR Plan, annual payouts can be zero if performance thresholds are not met and can be up to 250% of target if performance is exceptional. Also, as described in HP's definitive proxy statement, the Committee previously approved a new, additional incentive opportunity for fiscal 2013 based on year-over-year improvement in return on invested capital ("ROIC") pursuant to which each Section 16 Officer may receive an additional payout of up to 100% of his or her target annual bonus such that the maximum payout that he or she could earn for fiscal 2013 performance is 350% of target. Taking into account the addition of the TSR metric, the maximum payout that a Section 16 Officer may receive under the PfR Plan with respect to fiscal 2013 performance will now be 250% of his or her annual target bonus unless HP's fiscal 2013 TSR exceeds the median TSR of all companies in the S&P 500 Index, in which case the 250% cap would be removed and the maximum payout would return to 350% of target.

The Committee has also committed to undertake a review of its compensation programs with a view towards including relative performance metrics in 2014 and future compensation plans.

Item 6. Exhibits.

The Exhibit Index beginning on page 95 of this report sets forth a list of exhibits.

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: March 11, 2013

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
3(a)	Registrant's Certificate of Incorporation.	10-Q	001-04423	3(a)	June 12, 1998
3(b)	Registrant's Amendment to the Certificate of Incorporation.	10-Q	001-04423	3(b)	March 16, 2001
3(c)	Registrant's Amended and Restated 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)	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(c)	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(d)	Form of Registrant's Floating Rate Global Note due September 3, 2009, 4.50% Global Note due March 1, 2013 and 5.50% Global Note due March 1, 2018.	8-K	001-04423	4.1, 4.2 and 4.3	February 29, 2008
4(e)	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(f)	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

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Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
4(g)	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(h)	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(i)	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(j)	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
4(k)	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(l)	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(m)	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

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Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(c)	Registrant's Excess Benefit Retirement Plan, amended and restated as of January 1, 2006.*	8-K	001-04423	10.2	September 21, 2006
10(d)	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(e)	Registrant's 2005 Pay-for-Results Plan, as amended.*	10-K	001-04423	10(h)	December 14, 2011
10(f)	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(g)	First Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(q)	June 8, 2007
10(h)	Employment Agreement, dated June 9, 2005, between Registrant and R. Todd Bradley.*	10-Q	001-04423	10(x)	September 8, 2005
10(i)	Registrant's Executive Severance Agreement.*	10-Q	001-04423	10(u)(u)	June 13, 2002
10(j)	Registrant's Executive Officers Severance Agreement.*	10-Q	001-04423	10(v)(v)	June 13, 2002
10(k)	Form letter regarding severance offset for restricted stock and restricted units.*	8-K	001-04423	10.2	March 22, 2005
10(l)	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(m)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(c)(c)	June 8, 2007
10(n)	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(o)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California).*	8-K	001-04423	10.2	January 24, 2008
10(p)	Form of Agreement Regarding Confidential Information and Proprietary Developments (Texas).*	10-Q	001-04423	10(o)(o)	March 10, 2008

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(q)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(p)(p)	March 10, 2008
10(r)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(q)(q)	March 10, 2008
10(s)	Form of Stock Option Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(r)(r)	March 10, 2008
10(t)	Form of Option Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(t)(t)	June 6, 2008
10(u)	Form of Common Stock Payment Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(u)(u)	June 6, 2008
10(v)	Third Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(v)(v)	December 18, 2008
10(w)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-K	001-04423	10(w)(w)	December 18, 2008
10(x)	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(y)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-K	001-04423	10(z)(z)	December 18, 2008
10(z)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(a)(a)(a)	March 10, 2009
10(a)(a)	First Amendment to the Hewlett-Packard Company Excess Benefit Retirement Plan.*	10-Q	001-04423	10(b)(b)(b)	March 10, 2009
10(b)(b)	Fourth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(c)(c)(c)	June 5, 2009
10(c)(c)	Fifth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(d)(d)(d)	September 4, 2009
10(d)(d)	Amended and Restated Hewlett-Packard Company 2004 Stock Incentive Plan.*	8-K	001-04423	10.2	March 23, 2010

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Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(e)(e)	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(f)(f)	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(g)(g)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-K	001-04423	10(h)(h)(h)	December 15, 2010
10(h)(h)	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(i)(i)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California new hires).*	10-K	001-04423	10(j)(j)(j)	December 15, 2010
10(j)(j)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California current employees).*	10-K	001-04423	10(k)(k)(k)	December 15, 2010
10(k)(k)	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(l)(l)	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(m)(m)	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(n)(n)	Employment offer letter, dated September 27, 2011, between the Registrant and Margaret C. Whitman.*	8-K	001-04423	10.2	September 29, 2011
10(o)(o)	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(p)(p)	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(q)(q)	Registrant's Severance Plan for Executive Officers, as amended and restated.*	10-K	001-04423	10(f)(f)(f)	December 14, 2011

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