HP INC
Form 10-Q
August 28, 2018
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Part I. Financial Information

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: July 31, 2018
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

HP INC.
(Exact name of registrant as specified in its charter)

Delaware	94-1081436
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
1501 Page Mill Road, Palo Alto, California	94304
(Address of principal executive offices)	(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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth 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	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 July 31, 2018 was 1,582,408,508 shares.

HP INC. AND SUBSIDIARIES
Form 10-Q
For the Quarterly Period ended July 31, 2018
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In this report on Form 10-Q, for all periods presented, “we”, “us”, “our”, “company”, “HP” and “HP Inc.” refer to HP Inc. (formerly Hewlett-Packard Company) and its consolidated subsidiaries.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I, 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 HP Inc. 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 net revenue, margins, expenses, effective tax rates, net earnings, net earnings per share, cash flows, benefit plan funding, deferred taxes, share repurchases, foreign currency exchange rates or other financial items; any projections of the amount, timing or impact of cost savings or restructuring and other charges; any statements of the plans, strategies and objectives of management for future operations, including, but not limited to, our sustainability goals, the execution of restructuring plans and any resulting cost savings, net 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, including with respect to the timing and expected benefits of acquisitions and other business combination and investment transactions; 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 the delivery of HP’s 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, clients and partners; the hiring and retention of key employees; integration and other risks associated with business combination and investment transactions; the results of the restructuring plans, including estimates and assumptions related to the cost (including any possible disruption of HP’s business) and the anticipated benefits of the restructuring plans; the impact of changes in tax laws, including uncertainties related to the interpretation and application of the Tax Cuts and Jobs Act of 2017 on HP’s tax obligations and effective tax rate; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including, but not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, the risks discussed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017, and that are otherwise described or updated from time to time in HP’s other filings with the Securities and Exchange Commission (the “SEC”). 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 and Supplementary Data.
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HP INC. AND SUBSIDIARIES
Consolidated Condensed Statements of Earnings
(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2018	2017	2018	2017
	In millions, except per share amounts			
Net revenue	$14,586	$13,060	$43,106	$38,129
Costs and expenses:				
Cost of revenue	11,898	10,633	35,134	31,071
Research and development	347	289	1,050	899
Selling, general and administrative	1,227	1,097	3,656	3,204
Restructuring and other charges	4	46	92	249
Acquisition-related charges	10	40	97	76
Amortization of intangible assets	20	—	60	1
Total costs and expenses	13,506	12,105	40,089	35,500
Earnings from operations	1,080	955	3,017	2,629
Interest and other, net	(62)	(56)	(1,011)	(201)
Earnings before taxes	1,018	899	2,006	2,428
(Provision for) benefit from taxes	(138)	(203)	1,870	(562)
Net earnings	$880	$696	$3,876	$1,866
Net earnings per share:				
Basic	0.55	$0.41	2.38	$1.10
Diluted	0.54	$0.41	2.36	$1.09
Cash dividends declared per share	$0.28	$0.26	$0.56	$0.53
Weighted-average shares used to compute net earnings per share:				
Basic	1,601	1,681	1,627	1,694
Diluted	1,618	1,695	1,645	1,705

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

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HP INC. AND SUBSIDIARIES
Consolidated Condensed Statements of Comprehensive Income
(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2018	2017	2018	2017
	In millions			
Net earnings	$880	$696	$3,876	$1,866
Other comprehensive income (loss) before taxes:				
Change in unrealized components of available-for-sale securities:				
Unrealized gains (losses) arising during the period	2	1	(3)	5
Gains reclassified into earnings	—	—	(5)	—
	2	1	(8)	5
Change in unrealized components of cash flow hedges:				
Unrealized gains (losses) arising during the period	273	(519)	19	(758)
Losses (gains) reclassified into earnings	17	38	363	(49)
	290	(481)	382	(807)
Change in unrealized components of defined benefit plans:				
Gains arising during the period	2	—	2	13
Amortization of actuarial loss and prior service benefit	11	19	36	56
Curtailments, settlements and other	1	—	2	3
	14	19	40	72
Other comprehensive income (loss) before taxes	306	(461)	414	(730)
(Provision for) benefit from taxes	(31)	57	(35)	50
Other comprehensive income (loss), net of taxes	275	(404)	379	(680)
Comprehensive income	$1,155	$292	$4,255	$1,186

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

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HP INC. AND SUBSIDIARIES
Consolidated Condensed Balance Sheets
(Unaudited)

	As of July 31, 2018	October 31, 2017
	In millions, except par value	
ASSETS		
Current assets:		
Cash and cash equivalents	$6,195	$6,997
Accounts receivable	4,615	4,414
Inventory	6,091	5,786
Other current assets	4,875	5,121
Total current assets	21,776	22,318
Property, plant and equipment	2,112	1,878
Goodwill	5,930	5,622
Other non-current assets	4,436	3,095
Total assets	$34,254	$32,913
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable and short-term borrowings	$2,681	$1,072
Accounts payable	14,245	13,279
Employee compensation and benefits	1,008	894
Taxes on earnings	265	214
Deferred revenue	1,099	1,012
Other accrued liabilities	6,208	5,941
Total current liabilities	25,506	22,412
Long-term debt	4,503	6,747
Other non-current liabilities	6,012	7,162
Stockholders' deficit:		
Preferred stock, $0.01 par value (300 shares authorized; none issued)	—	—
Common stock, $0.01 par value (9,600 shares authorized; 1,582 and 1,650 shares issued and outstanding at July 31, 2018 and October 31, 2017, respectively)	16	16
Additional paid in capital	586	380
Retained deficit	(1,039)	(2,386)
Accumulated other comprehensive loss	(1,330)	(1,418)
Total stockholders' deficit	(1,767)	(3,408)
Total liabilities and stockholders' deficit	$34,254	$32,913

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

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HP INC. AND SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows
(Unaudited)

	Nine months ended July 31	
	2018	2017
	In millions	
Cash flows from operating activities:		
Net earnings	$3,876	$1,866
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	388	263
Stock-based compensation expense	203	169
Restructuring and other charges	92	249
Deferred taxes on earnings	(3,167)	412
Other, net	234	69
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	23	(215)
Inventory	(121)	(731)
Accounts payable	910	1,738
Taxes on earnings	801	(245)
Restructuring and other	(207)	(155)
Other assets and liabilities	528	(423)
Net cash provided by operating activities	3,560	2,997
Cash flows from investing activities:		
Investment in property, plant and equipment	(359)	(237)
Proceeds from sale of property, plant and equipment	110	69
Purchases of available-for-sale securities and other investments	(320)	(1,038)
Maturities and sales of available-for-sale securities and other investments	588	2
Collateral posted for derivative instruments	(1,141)	(798)
Collateral returned for derivative instruments	1,355	279
Payment made in connection with business acquisition, net of cash acquired	(1,036)	—
Net cash used in investing activities	(803)	(1,723)
Cash flows from financing activities:		
Proceeds from short-term borrowings with original maturities less than 90 days, net	1,577	1,046
Proceeds from short-term borrowings with original maturities greater than 90 days	712	—
Proceeds from debt, net of issuance costs	—	5
Payment of short-term borrowings with original maturities greater than 90 days	(1,184)	(3)
Payment of debt	(2,059)	(62)
Settlement of cash flow hedges	—	(9)
Net proceeds related to stock-based award activities	34	12
Repurchase of common stock	(1,959)	(911)
Cash dividends paid	(680)	(673)
Net cash used in financing activities	(3,559)	(595)
(Decrease) Increase in cash and cash equivalents	(802)	679
Cash and cash equivalents at beginning of period	6,997	6,288
Cash and cash equivalents at end of period	$6,195	$6,967
Supplemental schedule of non-cash activities:		
Purchase of assets under capital leases	$183	$147

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

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
(Unaudited)

Note 1: Basis of Presentation

Separation Transaction

On November 1, 2015, Hewlett-Packard Company completed the separation of Hewlett Packard Enterprise Company (“Hewlett Packard Enterprise”), Hewlett-Packard Company’s former enterprise technology infrastructure, software, services and financing businesses (the “Separation”). In connection with the Separation, Hewlett-Packard Company changed its name to HP Inc. (“HP”) and entered into a separation and distribution agreement as well as various other agreements with Hewlett Packard Enterprise that provide a framework for the relationships between the parties, including among others a tax matters agreement, an employee matters agreement, a transition service agreement, a real estate matters agreement, a master commercial agreement and an information technology service agreement. For more information on the impacts of these agreements, see Note 7, “Supplementary Financial Information”, Note 13, “Litigation and Contingencies” and Note 14, “Guarantees, Indemnifications and Warranties”.

Basis of Presentation

The accompanying Consolidated Condensed Financial Statements of HP and its wholly-owned subsidiaries are prepared in conformity with United States (“U.S.”) generally accepted accounting principles (“GAAP”). The interim financial information is unaudited but reflects all normal adjustments that are necessary to provide a fair statement of results for the interim periods presented. This interim information should be read in conjunction with the Consolidated Condensed Financial Statements for the fiscal year ended October 31, 2017 in the Annual Report on Form 10-K, filed on December 14, 2017. The Consolidated Condensed Balance Sheet for October 31, 2017 was derived from audited financial statements.

Principles of Consolidation

The Consolidated Condensed Financial Statements include the accounts of HP and its subsidiaries and affiliates in which HP has a controlling financial interest or is the primary beneficiary. All intercompany balances and transactions have been eliminated.

Reclassifications

HP implemented an organizational change to align its segment and business unit financial reporting more closely with its current business structure. HP reflected this change to its segment and business unit information in prior reporting periods on an as-if basis. The reporting changes had no impact on previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share (“EPS”). See Note 2, “Segment Information”, for a further discussion of HP’s segment and business unit realignments.

Use of Estimates

The preparation of financial statements in accordance with U.S. 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.

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2018, the Financial Accounting Standards Board (“FASB”) issued guidance, which eliminates the stranded tax effects in other comprehensive income resulting from the Tax Cuts and Jobs Act (the “TCJA”). Because the amendments only relate to the reclassification of the income tax effects of the TCJA, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. HP is required to adopt the guidance in the first quarter of fiscal year 2020. Earlier adoption is permitted. HP is currently evaluating the timing and the impact of this guidance on the Consolidated Condensed Financial Statements.

In August 2017, the FASB issued guidance, which amends the existing accounting standards for derivatives and hedging. The amendment improves the financial reporting of hedging relationships to better represent the economic results of an entity’s risk management activities in its financial statements and made certain targeted improvements to simplify the application of the hedge accounting guidance in current U.S. GAAP. HP is required to adopt the guidance in the first quarter of fiscal year 2020. Earlier adoption is permitted. HP is currently evaluating the timing and impact

of this guidance on the Consolidated Condensed Financial Statements.
In January 2017, the FASB issued guidance, which amends the existing accounting standards for business combinations. The amendments clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. HP is required to adopt the guidance in the first quarter of fiscal year 2019. Earlier adoption is permitted. HP currently expects to early adopt this guidance in the fourth quarter of fiscal year 2018. HP expects that the implementation of this guidance will not have a material impact on its Consolidated Condensed Financial Statements.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)
(Unaudited)
Note 1: Basis of Presentation (Continued)

In November 2016, the FASB issued guidance, which addresses the presentation of restricted cash in the statement of cash flows. The guidance requires entities to present the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. HP is required to adopt the guidance retrospectively in the first quarter of fiscal year 2019. Earlier adoption is permitted. HP will adopt this guidance in the first quarter of fiscal year 2019. HP expects that the implementation of this guidance will not have a material impact on its Consolidated Condensed Financial Statements.
In October 2016, the FASB issued guidance, which amends the existing accounting for Intra-Entity Transfers of Assets Other Than Inventory. The guidance requires an entity to recognize the income tax consequences of intra-entity transfers, other than inventory, when the transfer occurs. It also requires modified retrospective transition with a cumulative catch-up adjustment to opening retained earnings in the period of adoption. HP is required to adopt the guidance in the first quarter of fiscal year 2019. Earlier adoption is permitted. HP will adopt this guidance in the first quarter of fiscal year 2019. HP expects that the implementation of this guidance will not have a material impact on its Consolidated Condensed Financial Statements.
In August 2016, the FASB issued guidance, which amends the existing accounting standards for the classification of certain cash receipts and cash payments on the statement of cash flows. HP is required to adopt the guidance in the first quarter of fiscal year 2019. Earlier adoption is permitted. HP will adopt this guidance in the first quarter of fiscal year 2019. HP expects that the implementation of this guidance will not have a material impact on its Consolidated Condensed Financial Statements.
In June 2016, the FASB issued guidance, which requires credit losses on financial assets measured at amortized cost basis to be presented at the net amount expected to be collected, not based on incurred losses. Further, credit losses on available-for-sale debt securities should be recorded through an allowance for credit losses limited to the amount by which fair value is below amortized cost. HP is required to adopt the guidance in the first quarter of fiscal year 2021. Earlier adoption is permitted. HP is currently evaluating the timing and the impact of this guidance on the Consolidated Condensed Financial Statements.
In February 2016, the FASB issued guidance, which amends the existing accounting standards for leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification. Under the new guidance, a lessee will be required to recognize assets and liabilities for all leases with lease terms of more than twelve months. HP will adopt the new lease standard in the first quarter of fiscal year 2020 using a modified retrospective approach. HP is currently evaluating the impact of this guidance on the Consolidated Condensed Financial Statements.
In January 2016, the FASB issued guidance, which amends the existing accounting standards for the recognition and measurement of financial assets and financial liabilities. The guidance primarily addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. HP is required to adopt the guidance in the first quarter of fiscal year 2019. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, with other amendments related specifically to equity securities without readily determinable fair values applied prospectively. Earlier adoption is permitted. HP will adopt this guidance in the first quarter of fiscal year 2019. HP expects that the implementation of this guidance will not have a material impact on its Consolidated Condensed Financial Statements.
In May 2014, the FASB issued guidance, which amends the existing accounting standards for revenue recognition. The amendments (Topic 606) are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments may be applied retrospectively to each prior period presented (“full retrospective method”) or retrospectively with the cumulative effect recognized as of the date of initial application (“modified retrospective method”). HP will adopt the new revenue standard in the first quarter of fiscal year

2019 and intends to apply the modified retrospective method. Based on the assessment, it is not anticipated that the adoption will have a material impact on the amount or timing of revenue recognized in the Consolidated Condensed Financial Statements. We continue to make progress on assessing the overall impact of adoption of the standard on our business processes, systems and controls.

Note 2. Segment Information

HP is a leading global provider of personal computing and other access devices, imaging and printing products, and related technologies, solutions and services. HP sells to individual consumers, small and medium-sized businesses (“SMBs”) and large enterprises, including customers in the government, health and education sectors.

HP’s operations are organized into three segments for financial reporting purposes: Personal Systems, Printing and Corporate Investments. HP’s organizational structure is based on a number of factors that the chief operating decision maker uses to evaluate, view and run its business operations, which include, but are not limited to, customer base and homogeneity of products and technology. The segments are based on this organizational structure and information reviewed by HP’s chief operating decision maker to evaluate segment results. The chief operating decision maker uses several metrics to evaluate the performance of the overall business, including earnings from operations, and uses these results to allocate resources to each of the segments.

A summary description of each segment is as follows:

Personal Systems provides Commercial and Consumer desktop and notebook personal computers (“PCs”), workstations, thin clients, Commercial mobility devices, retail point-of-sale systems, displays and other related accessories, software, support and services for the commercial and consumer markets. HP groups Commercial notebooks, Commercial desktops, Commercial services, Commercial mobility devices, Commercial detachables and convertibles, Workstations, retail point-of-sale systems and thin clients into Commercial PCs and Consumer notebooks, Consumer desktops, Consumer services and Consumer detachables into Consumer PCs when describing performance in these markets. Described below are HP’s global business capabilities within Personal Systems:

- Commercial PCs are optimized for use by customers, including enterprise and SMBs, with a focus on robust designs, security, serviceability, connectivity, reliability and manageability in networked environments. Additionally, HP offers a range of services and solutions to enterprise and SMBs to help them manage the lifecycle of their PC and mobility installed base.
- Consumer PCs are optimized for consumer usage, focusing on multi-media consumption, online browsing, gaming and light productivity.

Personal Systems groups its global business capabilities into Notebooks, Desktops, Workstations and Other when reporting business performance.

- Notebooks consists of Consumer notebooks, Commercial notebooks, Mobile workstations and Commercial mobility devices;
- Desktops includes Consumer desktops, Commercial desktops, thin clients, and retail point-of-sale systems;
- Workstations consists of Desktop Workstations and accessories; and
- Other consists of Consumer and Commercial services as well as other Personal Systems capabilities.

Printing provides Consumer and Commercial printer hardware, Supplies, solutions and services, as well as scanning devices. Printing is also focused on imaging solutions in the commercial and industrial markets. Described below are HP’s global business capabilities within Printing:

- Office Printing Solutions delivers HP’s office printers, supplies, services, and solutions to SMBs and large enterprises. It also includes Samsung Electronics Co., Ltd (“Samsung”)-branded and Original Equipment Manufacturer (“OEM”) hardware, supplies and solutions. HP goes to market through its extensive channel network and directly with HP sales. Ongoing key initiatives include design and deployment of A3 products and solutions for the copier and multifunction printer market, printer security solutions, PageWide solutions and award-winning JetIntelligence LaserJet products.
- Home Printing Solutions delivers innovative printing products and solutions for the home and home business or small and micro business customers utilizing both HP’s Ink and Laser technologies. Initiatives such as Instant Ink and Continuous Ink Supply System provide business model innovation to benefit and expand HP’s existing customer base, while new technologies like Photo Lifestyle products drive print relevance for a mobile generation.
-

Graphics Solutions delivers large-format, commercial and industrial solutions to print service providers and packaging converters through the largest portfolio of printers and presses (HP DesignJet, HP Latex, HP Scitex, HP Indigo and HP PageWide Web Presses).

- 3D Printing delivers HP’s Multi-Jet Fusion 3D Printing Solution designed for prototyping and production of functional parts and functioning on an open platform facilitating the development of new 3D printing materials.

Printing groups its global business capabilities into the following business units when reporting business performance:

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)
(Unaudited)
Note 2: Segment Information (Continued)

- Commercial Hardware consists of Office Printing Solutions, Graphics Solutions and 3D Printing, excluding supplies;
- Consumer Hardware includes Home Printing Solutions, excluding supplies; and
- Supplies comprises a set of highly innovative consumable products, ranging from Ink and Laser cartridges to media, graphics supplies, 3D Printing supplies and Samsung-branded A4 and A3 supplies and OEM supplies, for recurring use in Consumer and Commercial Hardware.

Corporate Investments includes HP Labs and certain business incubation projects.

The accounting policies HP uses to derive segment results are substantially the same as those used in preparing these financial statements. HP derives the results of the business segments directly from its internal management reporting system.

HP does not allocate certain operating expenses, which it manages at the corporate level, to its segments. These unallocated amounts include certain corporate governance costs and market-related retirement credits, stock-based compensation expense, restructuring and other charges, acquisition-related charges, amortization of intangible assets, defined benefit plan settlement charges.

Realignment

Effective at the beginning of its first quarter of fiscal year 2018, HP implemented an organizational change to align its segment and business unit financial reporting more closely with its current business structure. The organizational change resulted in the transfer of long life consumables from Commercial to Supplies within the Printing segment. Certain revenues related to service arrangements, which are being eliminated for the purposes of reporting HP's consolidated net revenue, have now been reclassified from Other to segments. HP has reflected this change to its segment and business unit information in prior reporting periods on an as-if basis. The reporting change had no impact on previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share.

Segment Operating Results from Operations

	Personal Systems	Printing	Corporate Investments	Total Segments	Other	Total
	In millions					
Three months ended July 31, 2018						
Net revenue	$9,395	$5,188	$ 1	$ 14,584	$ 2	$14,586
Earnings (loss) from operations	$365	$832	$ (22)	$ 1,175		
Three months ended July 31, 2017						
Net revenue	$8,385	$4,677	$ 2	$ 13,064	$ (4)	$13,060
Earnings (loss) from operations	$313	$807	$ (20)	$ 1,100		
Nine months ended July 31, 2018						
Net revenue	$27,597	$15,505	$ 3	$ 43,105	$ 1	$43,106
Earnings (loss) from operations	$1,033	$2,472	$ (62)	$ 3,443		
Nine months ended July 31, 2017						
Net revenue	$24,254	$13,869	$ 7	$ 38,130	$ (1)	$38,129
Earnings (loss) from operations	$869	$2,341	$ (69)	$ 3,141		

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

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)
(Unaudited)
Note 2: Segment Information (Continued)

	Three months ended July 31		Nine months ended July 31	
	2018	2017	2018	2017
	In millions			
Net Revenue:				
Total segments	$14,584	$13,064	$43,105	$38,130
Other	2	(4)	1	(1)
Total net revenue	$14,586	$13,060	$43,106	$38,129
Earnings before taxes:				
Total segment earnings from operations	$1,175	$1,100	$3,443	$3,141
Corporate and unallocated costs and other	(6)	(13)	26	(17)
Stock-based compensation expense	(55)	(46)	(203)	(169)
Restructuring and other charges	(4)	(46)	(92)	(249)
Acquisition-related charges	(10)	(40)	(97)	(76)
Amortization of intangible assets	(20)	—	(60)	(1)
Interest and other, net	(62)	(56)	(1,011)	(201)
Total earnings before taxes	$1,018	$899	$2,006	$2,428

Net revenue by segment and business unit was as follows:

	Three months ended July 31		Nine months ended July 31	
	2018	2017	2018	2017
	In millions			
Notebooks	$5,634	$5,008	$16,382	$14,391
Desktops	2,869	2,566	8,576	7,477
Workstations	588	530	1,669	1,516
Other	304	281	970	870
Personal Systems	9,395	8,385	27,597	24,254
Supplies	3,405	3,145	10,190	9,368
Commercial Hardware	1,170	940	3,426	2,715
Consumer Hardware	613	592	1,889	1,786
Printing	5,188	4,677	15,505	13,869
Corporate Investments	1	2	3	7
Total segment net revenue	14,584	13,064	43,105	38,130
Other	2	(4)	1	(1)
Total net revenue	$14,586	$13,060	$43,106	$38,129

Note 3: Restructuring and Other Charges
Summary of Restructuring Plans
HP's restructuring activities for the nine months ended July 31, 2018 and 2017 summarized by the plans outlined below were as follows:

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)
(Unaudited)
Note 3: Restructuring and Other Charges (Continued)

	Fiscal 2017 Plan		Fiscal 2015 Plan		Fiscal 2012 Plan		
	Severance	Infrastructure and other[1]	Severance and PRP[2]	Infrastructure and other	Severance and EER[3]	Infrastructure and other	Total
	In millions						
Accrued balance as of October 31, 2017	$76	$ 19	$6	$ 2	$3	$ 2	$108
Charges (reversals)	72	(16)	—	—	—	—	56
Cash payments	(110)	(32)	(2)	(2)	—	—	(146)
Non-cash and other adjustments	(2)	29	1	—	—	—	28
Accrued balance as of July 31, 2018	$36	$ —	$5	$ —	$3	$ 2	$46
Total costs incurred to date as of July 31, 2018	$213	$ 78	$171	$ 27	$1,075	$ 44	$1,608
Reflected in Consolidated Condensed Balance Sheets							
Other accrued liabilities	$36	$ —	$5	$ —	$3	$ 1	$45
Other non-current liabilities	—	—	—	—	—	1	1
Accrued balance as of October 31, 2016	$24	$ —	$21	$ 4	$7	$ 2	$58
Charges	95	60	15	—	1	—	171
Cash payments	(46)	(6)	(35)	(2)	(4)	—	(93)
Non-cash and other adjustments	4	(52)	6	—	—	—	(42)
Accrued balance as of July 31, 2017	$77	$ 2	$7	$ 2	$4	$ 2	$94

HP's restructuring charges for the three months ended July 31, 2018 summarized by the plans outlined below were as follows:

	Fiscal 2017 Plan		Fiscal 2015 Plan		Fiscal 2012 Plan		
	Severance	Infrastructure and other	Severance and PRP[2]	Infrastructure and other	Severance and EER[3]	Infrastructure and other	Total
	In millions						
For the three months ended July 31, 2018	$20	$ (28)	$ —	$ —	$ —	$ —	$ (8)

(1) Infrastructure and other includes adjustment of carrying amount of held for sale assets of $52 million for the nine months ended July 31, 2017 and reversal of adjustments of $29 million for the three and nine months ended July 31, 2018 associated with the consolidation of manufacturing into global hubs.
(2) PRP represents Phased Retirement Program.
(3) EER represents Enhanced Early Retirement.

Fiscal 2017 Plan

On October 10, 2016, HP's Board of Directors approved a restructuring plan (the "Fiscal 2017 Plan"), which HP expected would be implemented through fiscal year 2019.

On May 26, 2018, HP's Board of Directors approved amending the Fiscal 2017 Plan. HP now expects approximately 4,500 to 5,000 employees to exit by the end of fiscal year 2019, subject to certain jurisdictional labor law requirements. HP estimates that it will now incur aggregate pre-tax charges of approximately $700 million relating to labor and non-labor actions. HP estimates that approximately half of the expected cumulative pre-tax costs will relate to severance and the remaining costs will relate to infrastructure, non-labor actions and other charges.

Fiscal 2015 Plan

In connection with the Separation, on September 14, 2015, HP's Board of Directors approved a cost savings plan (the "Fiscal 2015 Plan"), which includes labor and non-labor actions. The Fiscal 2015 Plan was considered substantially complete as of October 31, 2016 and HP does not expect any further activity associated with this plan.

Fiscal 2012 Plan

HP INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 3: Restructuring and Other Charges (Continued)

HP initiated a restructuring plan in fiscal year 2012 (the “Fiscal 2012 Plan”), which includes severance and infrastructure costs. The Fiscal 2012 Plan was considered substantially complete as of October 31, 2016 and HP does not expect any further activity associated with this plan.

Other Charges

Other charges include non-recurring costs, including those as a result of Separation, and are distinct from ongoing operational costs. These costs primarily relate to information technology costs such as advisory, consulting and non-recurring labor costs. For the three and nine months ended July 31, 2018, HP incurred $12 million and $36 million of other charges, respectively. For the three and nine months ended July 31, 2017, HP incurred $25 million and $78 million of other charges, respectively.

Note 4: Retirement and Post-Retirement Benefit Plans

The components of HP’s pension and post-retirement (credit) benefit cost recognized in the Consolidated Condensed Statements of Earnings were as follows:

	Three months ended July 31					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2018	2017	2018	2017	2018	2017
	In millions					
Service cost	$—	$—	$14	$12	$ —	$ 1
Interest cost	113	117	6	4	4	4
Expected return on plan assets	(180)	(168)	(10)	(8)	(6)	(7)
Amortization and deferrals:						
Actuarial loss (gain)	14	19	7	10	(4)	(5)
Prior service benefit	—	—	(1)	(1)	(5)	(4)
Net periodic (credit) benefit cost	(53)	(32)	16	17	(11)	(11)
Settlement loss	1	—	—	1	—	—
Total periodic (credit) benefit cost	$(52)	$(32)	$16	$18	$ (11)	$ (11)

	Nine months ended July 31					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2018	2017	2018	2017	2018	2017
	In millions					
Service cost	$—	$—	$42	$36	$—	$1
Interest cost	339	351	18	12	12	13
Expected return on plan assets	(540)	(507)	(30)	(24)	(18)	(19)
Amortization and deferrals:						
Actuarial loss (gain)	45	55	21	30	(12)	(12)
Prior service benefit	—	—	(3)	(3)	(15)	(14)
Net periodic (credit) benefit cost	(156)	(101)	48	51	(33)	(31)
Settlement loss	2	3	—	1	—	—
Total periodic (credit) benefit cost	$(154)	$(98)	$48	$52	$(33)	$(31)

Employer Contributions and Funding Policy

HP’s policy is to fund its pension plans so that it makes at least the minimum contribution required by local government, funding and taxing authorities.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)
(Unaudited)
Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

During fiscal year 2018, HP anticipates making contributions of approximately $33 million to its non-U.S. pension plans, approximately $33 million to its U.S. non-qualified plan participants and approximately $7 million to cover benefit claims under HP's post-retirement benefit plans. During the nine months ended July 31, 2018, HP contributed $21 million to its non-U.S. pension plans, paid $25 million to cover benefit payments to U.S. non-qualified plan participants and paid $3 million to cover benefit claims under HP's post-retirement benefit plans.
HP's pension and other post-retirement benefit costs and obligations depend on various assumptions. Differences between expected and actual returns on investments and changes in discount rates and other actuarial assumptions are reflected as unrecognized gains or losses, and such gains or losses are amortized to earnings in future periods. A deterioration in the funded status of a plan could result in a need for additional company contributions or an increase in net pension and post-retirement benefit costs in future periods. Actuarial gains or losses are determined at the measurement date and amortized over the remaining service life for active plans or the life expectancy of plan participants for frozen plans.

Note 5: Stock-Based Compensation
HP's stock-based compensation plans permit the issuance of restricted stock awards, stock options and performance-based awards.
Stock-based compensation expense and the resulting tax benefits were as follows:

	Three months ended July 31		Nine months ended July 31	
	2018	2017	2018	2017
	In millions			
Stock-based compensation expense	$55	$46	$203	$169
Income tax benefit	(12)	(15)	(45)	(54)
Stock-based compensation expense, net of tax	$43	$31	$158	$115

Restricted Stock Awards
Restricted stock awards are non-vested stock awards that may include grants of restricted stock or restricted stock units. For the three and nine months ended July 31, 2018 and 2017, HP granted only restricted stock units. HP uses the closing stock price on the grant date to estimate the fair value of service-based restricted stock units. HP did not grant any restricted stock units subject to performance-adjusted vesting conditions for the three months ended July 31, 2017. HP estimates the fair value of restricted stock units subject to performance-adjusted vesting conditions using a combination of the closing stock price on the grant date and a Monte Carlo simulation model. The weighted-average fair value and the assumptions used to measure the fair value of restricted stock units subject to performance-adjusted vesting conditions in the Monte Carlo simulation model were as follows:

	Three months ended July 31		Nine months ended July 31	
	2018	2017	2018	2017
Weighted-average grant date fair value[(1)]	$28	$ —	$24	$20
Expected volatility[(2)]	24.8%	—%	29.5%	30.5%
Risk-free interest rate[(3)]	2.5 %	—%	1.9 %	1.4 %
Expected performance period in years[(4)]	2.3	0.0	2.9	2.9

(1)

The weighted-average grant date fair value was based on performance-adjusted restricted stock units granted during the period.

(2) The expected volatility was estimated using the historical volatility derived from HP's common stock.

(3) The risk-free interest rate was estimated based on the yield on U.S. Treasury zero-coupon issues.

(4) The expected performance period was estimated based on the length of the remaining performance period from the grant date.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)
(Unaudited)
Note 5: Stock-Based Compensation (Continued)

A summary of restricted stock unit activity was as follows:

	Nine months ended July 31, 2018	
	Shares	Weighted-Average Grant Date Fair Value Per Share
	In thousands	
Outstanding at beginning of period	31,822	$ 14
Granted	15,014	$ 21
Vested	(14,080)	$ 14
Forfeited	(1,436)	$ 17
Outstanding at end of period	31,320	$ 17

As of July 31, 2018, there was $258 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock units, which HP expects to recognize over the remaining weighted-average vesting period of 1.4 years.

Stock Options

HP utilizes the Black-Scholes-Merton option pricing model to estimate the fair value of stock options subject to service-based vesting conditions. HP estimates the fair value of stock options subject to performance-contingent vesting conditions using a combination of a Monte Carlo simulation model and a lattice model, as these awards contain market conditions. HP did not grant any stock options for the three months ended July 31, 2018. The weighted-average fair value and the assumptions used to measure the fair value of stock options for the three and nine months ended July 31, 2018 and 2017 were as follows:

	Three months ended July 31		Nine months ended July 31	
	2018	2017	2018	2017
Weighted-average grant date fair value [1]	$—	$4	$5	$4
Expected volatility [2]	—%	28.0%	29.4%	28.0%
Risk-free interest rate [3]	—%	1.9%	2.5%	1.9%
Expected dividend yield [4]	—%	2.8%	2.6%	2.8%
Expected term in years [5]	0.0	5.5	5.0	5.5

(1) The weighted-average grant date fair value was based on stock options granted during the period.

(2) The expected volatility was estimated based on a blended volatility (50% historical volatility and 50% implied volatility from traded options on HP's common stock).

(3) The risk-free interest rate was estimated based on the yield on U.S. Treasury zero-coupon issues.

(4) The expected dividend yield represents a constant dividend yield applied for the duration of the expected term of the award.

(5) Due to the lack of historical exercise and post-vesting termination patterns of the post-Separation employee base, the expected term was estimated using the simplified method; and for the performance-contingent awards, the expected term represents an output from the lattice model.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)
(Unaudited)
Note 5: Stock-Based Compensation (Continued)

A summary of stock option activity was as follows:

	Nine months ended July 31, 2018			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	In thousands		In years	In millions
Outstanding at beginning of period	18,067	$ 13		
Granted	54	$ 21		
Exercised	(8,593)	$ 12		
Forfeited and expired	(278)	$ 16		
Outstanding at end of period	9,250	$ 14	4.2	$ 86
Vested and expected to vest	9,204	$ 14	4.2	$ 85
Exercisable	6,555	$ 14	3.7	$ 61

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that option holders would have realized had all option holders exercised their options on the last trading day of the third quarter of fiscal year 2018. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of the third quarter of fiscal year 2018 and the exercise price, multiplied by the number of in-the-money options. The total intrinsic value of options exercised for the three and nine months ended July 31, 2018 was $16 million and $86 million, respectively.

As of July 31, 2018, there was $1 million of unrecognized pre-tax, stock-based compensation expense related to unvested stock options, which HP expects to recognize over the remaining weighted-average vesting period of 0.3 years.

In January 2018, the Board approved an amendment and restatement of HP's 2004 Stock Incentive Plan, which included retiring 80 million shares from the plan's share reserves.

Note 6: Taxes on Earnings
Provision for Taxes

On December 22, 2017, the TCJA was signed by the President of the United States and enacted into law. The law includes significant changes to the U.S. corporate income tax system, including a federal corporate rate reduction from 35% to 21%, limitations on the deductibility of interest expense and executive compensation, and the transition of U.S. international taxation from a worldwide tax system to a territorial tax system. ASC 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions is for tax years beginning after December 31, 2017 (the "Effective Date"), or in the case of certain other provisions, January 1, 2018.

When a U.S. federal tax rate change occurs during a fiscal year, taxpayers are required to compute a weighted daily average rate for the fiscal year of enactment. As a result of the TCJA, HP has calculated a blended U.S. federal statutory corporate income tax rate of 23% for the fiscal year ending October 31, 2018 and applied this rate in computing the first, second and third quarters' income tax provision for fiscal year 2018. The blended U.S. federal statutory corporate income tax rate of 23% is the weighted daily average rate between the pre-enactment U.S. federal statutory tax rate of 35% applicable to HP's 2018 fiscal year prior to the Effective Date and the post-enactment U.S. federal statutory tax rate of 21% applicable to the 2018 fiscal year thereafter. HP expects the U.S. federal statutory rate to be 21% for fiscal years beginning after October 31, 2018.

Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year “measurement period”. During the measurement period, impacts of the TCJA are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed.

SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with law prior to the enactment of the TCJA.

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As of July 31, 2018, HP has not completed its accounting for the tax effects of the TCJA, however, in certain cases HP has made a reasonable estimate of the effects for remeasurement on its existing deferred tax balances and the one-time transition tax. With respect to the Global Intangible Low Taxed Income (“Global Minimum Tax”) provisions, further discussed below, HP has not been able to make a reasonable estimate and continues to account for this item based on its existing accounting under ASC 740, Income Taxes, and the provisions of the tax laws that were in effect immediately prior to enactment. The impact of the TCJA may differ materially from this estimate due to changes in interpretations and assumptions HP has made, additional guidance that may be issued and actions HP may take as a result of the TCJA. The impacts of HP's estimates are described further below.

While HP has not yet completed its analysis to the impact on its deferred tax balances, in the first quarter of fiscal year 2018 HP recorded provisional income tax expense of $1.2 billion related to the remeasurement of its deferred tax assets and liabilities at the new statutory rate. In addition, in the second quarter of fiscal year 2018, due to additional information and a subsequent refinement of its analysis HP recorded provisional tax expense of $379 million related to remeasurement of its U.S. deferred tax assets that are expected to be realized at a lower rate by recording a valuation allowance. HP is still analyzing certain aspects of the TCJA and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

The TCJA also includes a one-time mandatory deemed repatriation transition tax on the net accumulated post-1986 earnings and profits (“E&P”) of a U.S. taxpayer’s foreign subsidiaries. HP has computed a provisional deemed repatriation tax of approximately $3.1 billion, of which more than half is expected to be offset with existing and future tax attributes, reducing HP’s cash outlay. The U.S. Treasury Department recently issued proposed regulations related to this one-time mandatory deemed repatriation. While HP has not yet completed its analysis of these proposed regulations, it believes there will be no material changes to its provisional amount reported earlier in the year. Once the regulations are in effect or HP completes its evaluation of the potential impact of the proposed regulations, HP may update its provisional amount accordingly within the measurement period. Companies may elect to pay this tax over 8 years, and HP intends to make this election. HP has not yet completed its calculation of the total post-1986 E&P for its foreign subsidiaries. Further, the transition tax is based, in part, on the amount of those earnings held in cash and other specified assets. This amount may change when HP finalizes the calculation of post-1986 E&P previously deferred from U.S. federal taxation and finalizes the amounts held in cash or other specified assets. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be indefinitely reinvested in foreign operations.

As a result of the deemed repatriation tax noted above, which is based on HP’s total post-1986 deferred foreign income, HP redetermined $5.5 billion of its U.S. deferred tax liability on those unremitted earnings with a provisional tax payable of $3.1 billion, as noted above. This resulted in a net benefit. This tax benefit is provisional as HP is still analyzing certain aspects of the legislation and refining calculations, which could potentially materially affect the measurement of these amounts.

Upon further analysis of certain aspects of the TCJA and refinement of the calculations during the three months ended July 31, 2018, HP has made certain immaterial adjustments to its provisional estimate due to additional tax charges resulting from state legislation updates. During the nine months ended July 31, 2018, HP remeasured its deferred taxes to reflect the reduced rate that will likely apply when these deferred taxes are settled or realized in future periods. HP has not yet completed the accounting for the remeasurement of deferred taxes. To calculate the remeasurement of deferred taxes, HP has estimated when the existing deferred taxes will be settled or realized. The remeasurement of deferred taxes included in the financial statements will be subject to further revisions if the current estimates are different from the actual future operating results.

In January 2018, the FASB released guidance on the accounting for tax on the Global Minimum Tax provisions of TCJA. The Global Minimum Tax provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to Global Minimum Tax inclusions or to treat any taxes on Global Minimum Tax inclusions as period cost are both acceptable methods subject to an accounting policy election. HP is still evaluating whether to make a policy election to treat the Global Minimum Tax as a period cost or to provide U.S. deferred taxes on foreign temporary differences that are expected to generate Global Minimum Tax income when they reverse in future years. There could be additional changes to HP's deferred taxes once it completes its evaluations.

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As a result of U.S. tax reform, HP revised its estimated annual effective tax rate to reflect the change in the U.S. federal statutory tax rate from 35% to 21%. Since HP has a fiscal year ending October 31, it is subject to transitional tax rate rules. Therefore, a blended rate of 23% was computed as effective for the current fiscal year. HP's effective tax rate was 13.6% and 22.5% for the three months ended July 31, 2018 and 2017, respectively, and (93.2%) and 23.1% for the nine months ended July 31, 2018 and 2017, respectively. The difference between the current fiscal year blended U.S. federal statutory tax rate of 23% and HP's effective tax rate for the three and nine months ended July 31, 2018 is primarily due to favorable tax rates associated with certain earnings from HP's operations in lower-tax jurisdictions throughout the world and, for the nine month period only, transitional impacts of U.S. tax reform and resolution of various audits and tax litigation. For the three and nine months ended July 31, 2017, HP's effective tax rate generally differs from the U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from HP's operations in lower-tax jurisdictions throughout the world. HP has not provided U.S. taxes for all foreign earnings because HP plans to reinvest some of those earnings indefinitely outside the United States.

During the three and nine months ended July 31, 2018, HP recorded $7.0 million and $2.2 billion, respectively, of net tax benefits related to discrete items in the provision for taxes. As noted above, HP has not yet completed its analysis of the full impact of TCJA. However, for the three months ended January 31, 2018, HP recorded a provisional tax benefit of $1.1 billion related to $5.5 billion net benefit for the decrease in its deferred tax liability on unremitted foreign earnings, partially offset by $3.2 billion net expense for the deemed repatriation tax payable in installments over eight years and $1.2 billion net expense for the remeasurement of its deferred assets and liabilities to the new U.S. statutory tax rate. For the three months ended April 30, 2018, HP recorded provisional tax expense of $379 million related to remeasurement of its U.S. deferred tax assets that are expected to be realized at a lower rate and a $43 million tax benefit as an adjustment to the provisional deemed repatriation tax amount due to further analysis and additional guidance. For the three months ended July 31, 2018, HP recorded net tax benefits of $12 million related to acquisition costs offset by other charges of $5 million. The nine months ended July 31, 2018 also included tax benefits related to audit settlements of $1.5 billion, loss on debt extinguishment of $33 million, acquisition costs of $13 million and other tax benefits of $10 million. These tax benefits were offset by uncertain tax position charges of $56 million.

During the three and nine months ended July 31, 2018, in addition to the discrete items mentioned above, HP recorded excess tax benefits of $2 million and $36 million, respectively, on stock options, restricted stock units and performance-adjusted restricted stock units.

During the three and nine months ended July 31, 2017, HP recorded $27 million and $31 million, respectively, of net tax benefit related to discrete items in the provision for taxes for continuing operations. These amounts included a tax benefit of $14 million and $45 million related to restructuring and other charges, and a tax benefit of $15 million and $28 million related to acquisition-related charges, offset by uncertain tax position charges of $19 million and $25 million, for the three and nine months ended July 31, 2017, respectively. The three months and nine months ended July 31, 2017 included a net tax benefit of $12 million related to provision to return adjustments due to the filing of HP's U.S. Federal tax return. The nine months ended July 31, 2017 also included a tax charge of $26 million related to state provision to return adjustments.

Uncertain Tax Positions

As of July 31, 2018, the amount of unrecognized tax benefits was $8.0 billion, of which up to $1.7 billion would affect HP's effective tax rate if realized. The amount of unrecognized tax benefits decreased by $2.8 billion for the nine months ended July 31, 2018, primarily related to the resolution of various audits. HP recognizes interest income from favorable settlements and interest expense and penalties accrued on unrecognized tax benefits in the provision for taxes in the Consolidated Condensed Statements of Earnings. As of July 31, 2018, HP had accrued $149 million for interest and penalties.

HP engages in continuous discussions and negotiations with taxing authorities regarding tax matters in various jurisdictions. HP expects to complete resolution of certain tax years with various tax authorities within the next 12 months. It is also possible that other federal, foreign and state tax issues may be concluded within the next 12 months. HP believes it is reasonably possible that its existing unrecognized tax benefits may be reduced by up to $6.4 billion within the next 12 months. These unrecognized tax benefits have associated gain contingencies which will be settled in the same period resulting in a net release of $822 million.

HP is subject to income tax in the United States and approximately 58 other countries and is subject to routine corporate income tax audits in many of these jurisdictions. In addition, HP is subject to numerous ongoing audits by federal, state and foreign tax authorities. The U.S. Internal Revenue Service is conducting an audit of HP’s 2013, 2014 and 2015 income tax returns.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
(Unaudited)

Note 7: Supplementary Financial Information

Accounts Receivable

	As of	
	July 31, 2018	October 31, 2017
	In millions	
Accounts receivable	$4,741	$4,515
Allowance for doubtful accounts	(126)	(101)
	$4,615	$4,414

The allowance for doubtful accounts related to accounts receivable and changes was as follows:

	Nine months ended July 31, 2018
	In millions
Balance at beginning of period	$ 101
Provision for doubtful accounts	39
Deductions, net of recoveries	(14)
Balance at end of period	$ 126

HP has third-party arrangements, consisting of revolving short-term financing, which provide liquidity to certain partners in order to facilitate their working capital requirements. These financing arrangements, which in certain circumstances may contain partial recourse, result in a transfer of HP's receivables and risk to the third party. As these transfers qualify as true sales under the applicable accounting guidance, 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 the similar transactions and reported as a current liability in the Consolidated Condensed Balance Sheets. The recourse obligations as of July 31, 2018 and October 31, 2017 were not material. The costs associated with the sales of trade receivables for the three and nine months ended July 31, 2018 and 2017 were not material.

The following is a summary of the activity under these arrangements:

	Three months ended July 31		Nine months ended July 31	
	2018	2017	2018	2017
	In millions			
Balance at beginning of period[1]	$171	$123	$147	$149
Trade receivables sold	2,404	2,268	7,773	6,969
Cash receipts	(2,427)	(2,269)	(7,778)	(6,997)
Foreign currency and other	(5)	8	1	9
Balance at end of period[1]	$143	$130	$143	$130

(1) Amounts outstanding from third parties reported in Accounts Receivable in the Consolidated Condensed Balance Sheets.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements (Continued)
(Unaudited)
Note 7: Supplementary Financial Information (Continued)

Inventory

	As of July 31, 2018	October 31, 2017
	In millions	
Finished goods	$4,009	$3,857
Purchased parts and fabricated assemblies	2,082	1,929
	$6,091	$5,786

Other Current Assets

	As of July 31, 2018	October 31, 2017
	In millions	
Value-added taxes receivable	$821	$857
Available-for-sale investments[1]	886	1,149
Supplier and other receivables	1,910	1,891
Prepaid and other current assets	1,258	1,224
	$4,875	$5,121

[1] See Note 8, "Fair Value" and Note 9, "Financial Instruments" for detailed information.

Property, Plant and Equipment

	As of July 31, 2018	October 31, 2017
	In millions	
Land, buildings and leasehold improvements	$1,888	$2,082
Machinery and equipment, including equipment held for lease	4,197	3,876
	6,085	5,958
Accumulated depreciation	(3,973)	(4,080)
	$2,112	$1,878

Other Non-Current Assets

	As of July 31, 2018	October 31, 2017
	In millions	
Tax indemnifications receivable[1]	$908	$1,695
Deferred tax assets[2]	1,992	342
Other[3]	1,536	1,058
	$4,436	$3,095

(1) During the nine months ended July 31, 2018, HP adjusted $676 million of indemnification receivable, pursuant to resolution of various audit settlements. See Note 14, "Guarantees, Indemnifications and Warranties" for further information.

(2) See Note 6, "Taxes on Earnings" for detailed information.

(3) Includes marketable equity securities and mutual funds classified as available-for-sale investments of $57 million and $61 million as of July 31, 2018 and October 31, 2017, respectively.

Other Accrued Liabilities

	As of July 31, 2018	As of October 31, 2017
	In millions	
Other accrued taxes	$898	$895
Warranty	655	660
Sales and marketing programs	2,613	2,441
Other	2,042	1,945
	$6,208	$5,941

Other Non-Current Liabilities

	As of July 31, 2018	As of October 31, 2017
	In millions	
Pension, post-retirement, and post-employment liabilities	$1,755	$1,999
Deferred tax liability[1]	92	1,410
Tax liability[1]	2,371	2,005
Deferred revenue	981	921
Other	813	827
	$6,012	$7,162

(1) See Note 6, "Taxes on Earnings" for detailed information.

Interest and other, net

	Three months ended July 31		Nine months ended July 31	
	2018	2017	2018	2017
	In millions			
Loss on extinguishment of debt	$—	$—	$(126)	$—
Tax indemnifications[1]	(3)	10	(676)	24
Interest expense on borrowings	(66)	(79)	(241)	(225)
Other, net	7	13	32	—
	$(62)	$(56)	$(1,011)	$(201)

(1) For the nine months ended July 31, 2018, includes an adjustment of $676 million of indemnification receivable, pursuant to resolution of various audit settlements. See Note 6, "Taxes on Earnings" and Note 14, "Guarantees, Indemnifications and Warranties" for further information.

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Note 8: Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date.

Fair Value Hierarchy

HP uses valuation techniques that are based upon observable and unobservable inputs. Observable inputs are developed using market data such as publicly available information and reflect the assumptions market participants would use, while unobservable inputs are developed using the best information available about the assumptions market participants would use. Assets and liabilities are classified in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3—Unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to observable inputs and lowest priority to unobservable inputs.

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

	As of July 31, 2018 Fair Value Measured Using				As of October 31, 2017 Fair Value Measured Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	In millions							
Assets:								
Cash Equivalents:								
Corporate debt	$—	$1,493	$ —	$1,493	$—	$1,390	$ —	$1,390
Financial institution instruments	—	—	—	—	—	6	—	6
Government debt(1)	3,397	145	—	3,542	3,902	100	—	4,002
Available-for-Sale Investments:								
Corporate debt	—	434	—	434	—	629	—	629
Financial institution instruments	—	39	—	39	—	78	—	78
Government debt(1)	—	413	—	413	—	442	—	442
Mutual funds	50	—	—	50	49	—	—	49
Marketable equity securities	7	—	—	7	6	6	—	12
Derivative Instruments:								
Foreign currency contracts	—	314	7	321	—	110	10	120
Other derivatives	—	2	—	2	—	1	—	1
Total Assets	$3,454	$2,840	$ 7	$6,301	$3,957	$2,762	$ 10	$6,729
Liabilities:								