HEWLETT PACKARD CO
Form 10-Q
March 12, 2012

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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, 2012

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 29, 2012 was 1,977,342,839 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, the impact of acquisitions or other financial items; any statements of the plans, strategies and objectives of management for future operations, including execution of cost reduction programs and restructuring and integration plans; any statements concerning the expected development, performance or market share relating to products or services; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on HP and its financial performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include the impact of macroeconomic and geopolitical trends and events; the competitive pressures faced by HP's businesses; the development and transition of new products and services (and the enhancement of existing products and services) to meet customer needs and respond to emerging technological trends; the execution and performance of contracts by HP and its suppliers, customers and partners; the protection of HP's intellectual property assets, including intellectual property licensed from third parties; integration and other risks associated with business combination and investment transactions; the hiring and retention of key employees; assumptions related to pension and other post-retirement costs; expectations and assumptions relating to the execution and timing of cost reduction programs and restructuring and integration plans; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including

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but not limited to the items discussed in "Factors that Could Affect Future Results" set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report, and that are otherwise described from time to time in HP's Securities and Exchange Commission reports, including HP's Annual Report on Form 10-K for the fiscal year ended October 31, 2011. 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	
	2012	2011
	In millions, except per share amounts	
Net revenue:		
Products	$ 19,511	$ 22,194
Services	10,409	10,002
Financing income	116	106
Total net revenue	30,036	32,302
Costs and expenses:		
Cost of products	15,049	16,798
Cost of services	8,186	7,508
Financing interest	78	75
Research and development	786	798
Selling, general and administrative	3,367	3,117
Amortization of purchased intangible assets	466	425
Restructuring charges	40	158
Acquisition-related charges	22	29
Total operating expenses	27,994	28,908
Earnings from operations	2,042	3,394
Interest and other, net	(221)	(97)
Earnings before taxes	1,821	3,297
Provision for taxes	353	692
Net earnings	$ 1,468	$ 2,605
Net earnings per share:		
Basic	$ 0.74	$ 1.19
Diluted	$ 0.73	$ 1.17
Cash dividends declared per share	$ 0.24	$ 0.16
Weighted-average shares used to compute net earnings per share:		
Basic	1,981	2,182
Diluted	1,998	2,226

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, 2012	October 31, 2011
	In millions, except par value	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,113	$ 8,043
Accounts receivable	15,892	18,224
Financing receivables	3,123	3,162
Inventory	7,271	7,490
Other current assets	14,350	14,102
Total current assets	48,749	51,021
Property, plant and equipment	12,122	12,292
Long-term financing receivables and other assets	11,057	10,755
Goodwill	44,639	44,551
Purchased intangible assets	10,029	10,898
Total assets	$ 126,596	$ 129,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 5,438	$ 8,083
Accounts payable	12,375	14,750
Employee compensation and benefits	3,136	3,999
Taxes on earnings	929	1,048
Deferred revenue	7,530	7,449
Accrued restructuring	362	654
Other accrued liabilities	14,523	14,459
Total current liabilities	44,293	50,442
Long-term debt	25,462	22,551
Other liabilities	17,269	17,520
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' equity		
Preferred stock, $0.01 par value (300 shares authorized; none issued)		
Common stock, $0.01 par value (9,600 shares authorized; 1,978 and 1,991 shares issued and outstanding, respectively)	20	20
Additional paid-in capital	6,466	6,837
Retained earnings	36,183	35,266
Accumulated other comprehensive loss	(3,507)	(3,498)
Total HP stockholders' equity	39,162	38,625
Non-controlling interests	410	379
Total stockholders' equity	39,572	39,004
Total liabilities and stockholders' equity	$ 126,596	$ 129,517

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	
	2012	**2011**
	In millions	
Cash flows from operating activities:		
Net earnings	$ 1,468	$ 2,605
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,303	1,255
Stock-based compensation expense	175	180
Provision for doubtful accounts accounts and financing receivables	18	34
Provision for inventory	34	52
Restructuring charges	40	158
Deferred taxes on earnings	(110)	632
Excess tax benefit from stock-based compensation	(11)	(64)
Other, net	44	(104)
Changes in operating assets and liabilities:		
Accounts and financing receivables	2,311	1,752
Inventory	180	(333)
Accounts payable	(2,376)	(912)
Taxes on earnings	(12)	(242)
Restructuring	(174)	(272)
Other assets and liabilities	(1,697)	(1,671)
Net cash provided by operating activities	1,193	3,070
Cash flows from investing activities:		
Investment in property, plant and equipment	(883)	(926)
Proceeds from sale of property, plant and equipment	96	543
Purchases of available-for-sale securities and other investments		(19)
Maturities and sales of available-for-sale securities and other investments	96	53
Payments in connection with business acquisitions, net of cash acquired	(141)	(14)
Proceeds from business divestiture, net	81	
Net cash used in investing activities	(751)	(363)
Cash flows from financing activities:		
Repayment of commercial paper and notes payable, net	(2,607)	(3,710)
Issuance of debt	3,035	2,117
Payment of debt	(100)	(138)
Issuance of common stock under employee stock plans	313	430
Repurchase of common stock	(780)	(2,290)
Excess tax benefit from stock-based compensation	11	64
Cash dividends paid	(244)	(175)
Net cash used in financing activities	(372)	(3,702)
Increase (decrease) in cash and cash equivalents	70	(995)
Cash and cash equivalents at beginning of period	8,043	10,929
Cash and cash equivalents at end of period	$ 8,113	$ 9,934

Supplemental schedule of non-cash investing and financing activities:				
Purchase of assets under capital lease	$	12	$	5

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, 2012, its results of operations and cash flows for the three months ended January 31, 2012 and January 31, 2011. The Consolidated Condensed Balance Sheet as of October 31, 2011 is derived from the October 31, 2011 audited consolidated financial statements.

The results of operations for the three months ended January 31, 2012 are not necessarily indicative of the results to be expected for the full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk" and the Consolidated Financial Statements and notes thereto included in Items 1A, 3, 7, 7A and 8, respectively, of the Hewlett-Packard Company Annual Report on Form 10-K for the fiscal year ended October 31, 2011.

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

Reclassifications and Segment Reorganization

In connection with organizational realignments implemented in the first quarter of fiscal 2012, certain costs previously reported as cost of sales have been reclassified as selling, general and administrative expenses to better align those costs with the functional areas that benefit from those expenditures. HP has made certain segment and business unit realignments in order to optimize its operating structure. Reclassifications of prior year financial information have been made to conform to the current year presentation. None of the changes impacts HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share. See Note 16 for a further discussion of HP's segment reorganization.

Note 2: Stock-Based Compensation

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

Total stock-based compensation expense before income taxes for the three months ended January 31, 2012 and 2011 was $175 million and $180 million, respectively. The resulting income tax benefit for the three months ended January 31, 2012 and 2011 was $57 million and $43 million, respectively.

Restricted Stock Awards

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

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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, 2012 and changes during the three months ended January 31, 2012 were as follows:

	Shares	Weighted-Average Grant Date Fair Value Per Share
	In thousands	
Outstanding at October 31, 2011	16,813	$ 39
Granted	17,336	$ 28
Vested	(2,550)	$ 43
Forfeited	(601)	$ 37
Outstanding at January 31, 2012	30,998	$ 33

At January 31, 2012, there was $891 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 1.6 years.

Stock Options

HP utilized the Black-Scholes option pricing model to value the service-based stock options granted under its principal equity plans. HP estimates the fair value of the performance-contingent stock options using a combination of the Monte Carlo simulation model and lattice model, as these awards contain market conditions.

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

	Three months ended January 31	
	2012	2011
Weighted-average fair value of grants per share[1]	$ 9.49	$ 11.42
Implied volatility	43%	29%
Risk-free interest rate	1.20%	1.75%
Dividend yield	1.73%	0.74%
Expected life in months	67	60

(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, 2012 and changes during the three months ended January 31, 2012 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, 2011	120,243	$ 28		
Granted	6,705	$ 28		
Exercised	(14,585)	$ 20		
Forfeited/cancelled/expired	(2,504)	$ 38		
Outstanding at January 31, 2012	109,859	$ 28	3.4	$ 434
Vested and expected to vest at January 31, 2012	106,040	$ 29	3.2	$ 414
Exercisable at January 31, 2012	83,081	$ 30	2.1	$ 296

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, 2012. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of the first quarter of fiscal 2012 and the exercise price, multiplied by the number of in-the-money options. Total intrinsic value of options exercised for the three months ended January 31, 2012 was $109 million.

At January 31, 2012, there was $280 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 in previous years are based on HP's annual cash flow from operations as a percentage of revenue and on a market condition based on total shareholder return ("TSR") relative to the S&P 500 over the three-year performance period.

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

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

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

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

(1) Reflects the weighted-average fair value for the third year of the three-year performance period applicable to PRUs granted in fiscal 2010 and for the second year of the three-year performance period applicable to PRUs granted in fiscal 2011. The estimated fair value of the Target Shares for the third year for PRUs granted in fiscal 2011 will be determined on the measurement date applicable to those PRUs, which will occur during the period that the annual performance goals are approved for those PRUs, and the expense will be amortized over the remainder of the applicable three-year performance period.

(2) Reflects the weighted-average fair value for the third year of the three-year performance period applicable to PRUs granted in fiscal 2009, for the second year of the three-year performance period applicable to PRUs granted in fiscal 2010 and for the first year of the three-year performance period applicable to PRUs granted in the three months ended January 31, 2011.

(3) HP uses historic volatility for PRU awards as implied volatility cannot be used when simulating multivariate prices for companies in the S&P 500.

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, 2012 and changes during the three months ended January 31, 2012 were as follows:

	Shares In thousands
Outstanding Target Shares at October 31, 2011	11,382
Granted	1,157
Vested	
Change in units due to performance and market conditions achievement for PRUs vested in the period	
Forfeited	(442)
Outstanding Target Shares at January 31, 2012	12,097
Outstanding Target Shares assigned a fair value at January 31, 2012	9,672(1)

(1) Excludes Target Shares for the third year for PRUs granted in fiscal 2011 and for the second and third years for PRUs granted in the three months ended January 31, 2012 as the measurement date has not yet been established. The measurement date and related fair value for the excluded PRUs will be established when the annual performance goals are approved.

At January 31, 2012, there was $80 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 1.4 years.

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	
	2012	2011
	In millions, except per share amounts	
Numerator:		
Net earnings[(1)]	$ 1,468	$ 2,605
Denominator:		
Weighted-average shares used to compute basic EPS	1,981	2,182
Dilutive effect of employee stock plans	17	44
Weighted-average shares used to compute diluted EPS	1,998	2,226
Net earnings per share:		
Basic	$ 0.74	$ 1.19
Diluted	$ 0.73	$ 1.17

(1) Net earnings available to participating securities were not significant for the first quarter of fiscal 2012 and 2011. 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 their effect would be anti-dilutive. In the first quarter of fiscal 2012 and 2011, HP excluded from the calculation of diluted EPS options to purchase 51 million shares and 7 million shares, respectively. In addition, HP also excluded from the calculation of diluted EPS options to purchase an additional 10 million shares and 1 million shares in the first quarter of fiscal 2012 and 2011, respectively, whose combined exercise price, unamortized fair value and excess tax benefits were greater in each of those periods than the average market price for HP's common stock because their effect would be anti-dilutive.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 4: Balance Sheet Details

Balance sheet details were as follows:

Accounts and Financing Receivables

	January 31, 2012	October 31, 2011
	In millions	
Accounts receivable	$ 16,348	$ 18,694
Allowance for doubtful accounts	(456)	(470)
	$ 15,892	$ 18,224
Financing receivables	$ 3,185	$ 3,220
Allowance for doubtful accounts	(62)	(58)
	$ 3,123	$ 3,162

HP has revolving trade receivables-based facilities permitting it to sell certain trade receivables to third parties. In accordance with the accounting requirements under the Accounting Standards Codification relating to "Transfers and Servicing," trade receivables are derecognized from the Consolidated Condensed Balance Sheets when sold to third parties. The total aggregate capacity of the facilities was $1.4 billion as of January 31, 2012, including a $0.9 billion partial recourse facility entered into in May 2011 and an aggregate capacity of $0.5 billion in non-recourse facilities. The recourse obligation is measured using market data from similar transactions and reported as a current liability in the Consolidated Condensed Balance Sheets. The recourse obligation as of January 31, 2012 was not material. The total aggregate capacity of the facilities was $1.5 billion as of October 31, 2011.

For the first three months of fiscal 2012 and 2011, trade receivables sold under these facilities were $1.1 billion and $463 million, respectively, which approximates the amount of cash received. The resulting loss on the sales of trade accounts receivable for the three months ended January 31, 2012, was not material. HP had $646 million as of January 31, 2012 and $701 million as of October 31, 2011 of available capacity under these programs.

Inventory

	January 31, 2012	October 31, 2011
	In millions	
Finished goods	$ 4,626	$ 4,869
Purchased parts and fabricated assemblies	2,645	2,621
	$ 7,271	$ 7,490

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 4: Balance Sheet Details (Continued)

Property, Plant and Equipment

	January 31, 2012	October 31, 2011
	In millions	
Land	$ 652	$ 687
Buildings and leasehold improvements	8,683	8,620
Machinery and equipment	16,581	16,155
	25,916	25,462
Accumulated depreciation	(13,794)	(13,170)
	$ 12,122	$ 12,292

Note 5: Goodwill and Purchased Intangible Assets

Goodwill

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

	Personal Systems Group	Services	Imaging and Printing Group	Enterprise Servers, Storage and Networking	Software	HP Financial Services	Corporate Investments	Total
	In millions							
Balance at October 31, 2011	$ 2,498	$ 17,280	$ 2,471	$ 8,070	$ 14,063	$ 144	$ 25	$ 44,551
Goodwill acquired during the period			12					12
Goodwill adjustments/reclassifications				(307)	398		(15)	76
Balance at January 31, 2012	$ 2,498	$ 17,280	$ 2,483	$ 7,763	$ 14,461	$ 144	$ 10	$ 44,639

In connection with certain fiscal 2012 organizational realignments, HP reclassified $280 million of goodwill related to the TippingPoint network security solutions business from the Enterprise Servers, Storage and Networking segment to the Software segment. Additionally, during the three months ended January 31, 2012, HP recorded additional goodwill of $224 million in the Software segment due to a change in the estimated fair values of purchased intangible assets and net tangible assets associated with the acquisition of Autonomy Corporation plc ("Autonomy"). This increase to goodwill was partially offset by a currency translation adjustment of $106 million on goodwill related to Autonomy subsidiaries whose functional currency is not the U.S. dollar.

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, 2012			October 31, 2011		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	In millions					
Customer contracts, customer lists and distribution agreements	$ 6,175	$ (2,471)	$ 3,704	$ 6,346	$ (2,376)	$ 3,970
Developed and core technology and patents	6,895	(2,197)	4,698	7,226	(1,944)	5,282
Product trademarks	333	(135)	198	336	(121)	215
Total amortizable purchased intangible assets	13,403	(4,803)	8,600	13,908	(4,441)	9,467
In-process research and development ("IPR&D")	7		7	9		9
Compaq trade name	1,422		1,422	1,422		1,422
Total purchased intangible assets	$ 14,832	$ (4,803)	$ 10,029	$ 15,339	$ (4,441)	$ 10,898

For the first three months of fiscal 2012, the majority of the decrease in gross intangibles was related to a $293 million change in the estimated fair value of Autonomy's purchased intangible assets acquired, $104 million of fully amortized intangible assets which have been eliminated from both the gross and accumulated amortization amounts, and a $92 million reduction in intangibles due to currency translation on intangibles related to Autonomy subsidiaries whose functional currency is not the U.S. dollar.

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

Fiscal year:	In millions
2012 (remaining 9 months)	$ 1,379
2013	1,702
2014	1,359
2015	1,170
2016	1,012
2017	586
Thereafter	1,392
Total	$ 8,600

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 2010 Acquisitions

In connection with the acquisitions of Palm, Inc. ("Palm") and 3Com Corporation ("3Com") in fiscal 2010, HP's management approved and initiated plans to restructure the operations of the acquired companies, including severance for employees, contract cancellation costs, costs to vacate duplicative facilities and other items. The total expected combined cost of the plans is $121 million, which includes $33 million of additional restructuring costs recorded in the fourth quarter of fiscal 2011 in connection with HP's decision to wind down the webOS device business. As of October 31, 2011, HP had recorded the majority of the costs of the plans based upon the anticipated timing of planned terminations and facility closure costs. With respect to the Palm plan, no further restructuring charges are anticipated, and the majority of the remaining costs are expected to be paid out through fiscal 2012. The remaining costs pertaining to the 3Com plan are expected to be paid out through fiscal 2016 as fixed lease payments are made.

Fiscal 2010 ES Restructuring Plan

On June 1, 2010, HP's management announced a plan to restructure its enterprise services business, which includes its Infrastructure Technology Outsourcing and Application and Business Services business units. The multi-year restructuring program includes plans to consolidate commercial data centers, tools and applications. The total expected cost of the plan that will be recorded as restructuring charges is approximately $1.0 billion, and includes severance costs to eliminate approximately 8,000 positions and infrastructure charges. As the execution of the restructuring activities has evolved, certain components and their related cost estimates have been revised. While the total cost of the plan remains consistent, during the three months ended January 31, 2012, HP reduced the severance accrual by $100 million and recognized additional infrastructure related charges of $104 million. HP expects to record the majority of the infrastructure charges through fiscal 2012. The timing of the charges is based upon planned termination dates and site closure and consolidation plans. The majority of the associated cash payments are expected to be paid out through the first quarter of fiscal 2013. As of January 31, 2012, approximately 6,000 positions had been eliminated.

Fiscal 2009 Restructuring Plan

In May 2009, HP's management approved and initiated a restructuring plan to structurally change and improve the effectiveness of the Imaging and Printing Group ("IPG"), the Personal Systems Group ("PSG"), and Enterprise Servers, Storage and Networking ("ESSN") businesses. The total expected

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Restructuring Charges (Continued)

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

Fiscal 2008 HP/EDS Restructuring Plan

In connection with the acquisition of Electronic Data Systems Corporation ("EDS") on August 26, 2008, HP's management approved and initiated a restructuring plan to combine and align HP's services businesses, eliminate duplicative overhead functions and consolidate and vacate duplicative facilities. The restructuring plan is expected to be implemented over four years from the acquisition date at a total expected cost of $3.4 billion. Approximately $1.5 billion of the expected costs were associated with pre-acquisition EDS and were reflected in the fair value of purchase consideration of EDS. These costs are subject to change based on the actual costs incurred. The remaining costs are primarily associated with HP and will be recorded as a restructuring charge.

The restructuring plan includes severance costs related to eliminating approximately 25,000 positions. As of October 31, 2011, all planned eliminations had occurred and the vast majority of the associated severance costs had been paid out. The infrastructure charges in the restructuring plan include facility closure and consolidation costs and the costs associated with early termination of certain contractual obligations. HP has recorded the majority of these costs based upon the execution of site closure and consolidation plans. The associated cash payments are expected to be paid out through fiscal 2016.

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, 2012 were as follows:

	Balance, October 31, 2011	Three months ended January 31, 2012 charges	Cash payments	Non-cash settlements and other adjustments	Balance, January 31, 2012	As of January 31, 2012 Total costs and adjustments to date	As of January 31, 2012 Total expected costs and adjustments
			In millions				
Fiscal 2010 acquisitions	$ 59	$	$ (15)	$ (1)	$ 43	$ 114	$ 121
Fiscal 2010 ES Plan:							
Severance	$ 493	$ (100)	$ (42)	$ (18)	$ 333	$ 623	$ 623
Infrastructure	3	104	(68)	(38)	1	297	369
Total ES Plan	$ 496	$ 4	$ (110)	$ (56)	$ 334	$ 920	$ 992
Fiscal 2009 Plan	$	$ 7	$ (7)	$	$	$ 301	$ 301
Fiscal 2008 HP/EDS Plan:							
Severance	$	$ 5	$ (5)	$	$	$ 2,195	$ 2,195
Infrastructure	258	24	(37)	(2)	243	998	1,167
Total HP/EDS Plan	$ 258	$ 29	$ (42)	$ (2)	$ 243	$ 3,193	$ 3,362
Total restructuring plans	$ 813	$ 40	$ (174)	$ (59)	$ 620	$ 4,528	$ 4,776

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Restructuring Charges (Continued)

At January 31, 2012 and October 31, 2011, HP included the long-term portion of the restructuring liability of $258 million and $159 million, respectively, in Other liabilities, and the short-term portion of $362 million and $654 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 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, 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.

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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, 2012				As of October 31, 2011			
	Fair Value Measured Using			Total Balance	Fair Value Measured Using			Total Balance
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
	In millions							
Assets								
Time deposits	$	$ 3,181	$	$ 3,181	$	$ 5,120	$	$ 5,120
Money market funds	2,063			2,063	236			236
Marketable equity securities	55	2		57	120	2		122
Foreign bonds	7	363		370	7	376		383
Corporate bonds and other debt securities	3	2	48	53	3	2	48	53
Derivatives:								
Interest rate contracts		589		589		593		593
Foreign exchange contracts		566	16	582		269	35	304
Other derivatives		12	8	20		25	6	31
Total Assets	$ 2,128	$ 4,715	$ 72	$ 6,915	$ 366	$ 6,387	$ 89	$ 6,842
Liabilities								
Derivatives:								
Interest rate contracts	$	$ 55	$	$ 55	$	$ 71	$	$ 71
Foreign exchange contracts		563	8	571		823	9	832
Other derivatives						1		1
Total Liabilities	$	$ 618	$ 8	$ 626	$	$ 895	$ 9	$ 904

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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, 2012 and October 31, 2011 were as follows:

	January 31, 2012				October 31, 2011			
	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	$ 3,173	$	$	$ 3,173	$ 5,112	$	$	$ 5,112
Money market funds	2,063			2,063	236			236
Total cash equivalents	5,236			5,236	5,348			5,348
Available-for-Sale Investments								
Debt securities:								
Time deposits	8			8	8			8
Foreign bonds	305	65		370	317	66		383
Corporate bonds and other debt securities	72		(19)	53	74		(21)	53
Total debt securities	385	65	(19)	431	399	66	(21)	444
Equity securities in public companies	113	1	(60)	54	114	4		118
Total cash equivalents and available-for-sale investments	$ 5,734	$ 66	$ (79)	$ 5,721	$ 5,861	$ 70	$ (21)	$ 5,910

Cash equivalents consist of investments in time deposits and money market funds with original maturities of three months or less. Time deposits were primarily issued by institutions outside the U.S. as of January 31, 2012 and October 31, 2011. Available-for-sale securities consist of short-term investments which mature within twelve months or less and long-term investments with maturities greater than twelve months. Investments primarily include institutional bonds, equity securities in public companies, fixed-interest securities and time deposits. HP estimates the fair values of its investments based on quoted market prices or pricing models using current market rates. These estimated fair values may not be representative of actual values that will be realized in the future. As of January 31, 2012, the majority of available-for-sale securities had contractual maturities greater than five years.

As of January 31, 2012, $19 million of the total gross unrealized losses were related to certain debt securities that had been in a continuous loss position for more than twelve months. The gross unrealized loss as of October 31, 2011 was due primarily to declines in certain debt securities of $21 million that had been in a continuous loss position for more than twelve months. HP does not intend to sell these debt securities, and it is not likely that HP will be required to sell these debt securities prior to the recovery of the amortized cost.

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.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

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

Equity securities in privately held companies include cost basis and equity method investments. These amounted to $49 million and $48 million for the periods ended January 31, 2012 and October 31, 2011, respectively, and are included in long-term financing receivables and other assets.

Derivative Financial Instruments

HP is a global company that is exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of its business. As part of its risk management strategy, HP uses derivative instruments, primarily forward contracts, option contracts, interest rate swaps, and total return swaps, to hedge certain foreign currency, interest rate and, to a lesser extent, equity exposures. HP's objective is to offset gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting fair values of assets and liabilities. HP does not have any leveraged derivatives and does not use derivative contracts for speculative purposes. HP designates its derivatives as fair value hedges, cash flow hedges or hedges of the foreign currency exposure of a net investment in a foreign operation ("net investment hedges"). Additionally, for derivatives not designated as hedging instruments, HP categorizes those economic hedges as other derivatives. HP recognizes all derivatives, on a gross basis, in the Consolidated Condensed Balance Sheets at fair value and reports them in Other current assets, Long-term financing receivables and other assets, Other accrued liabilities, or Other liabilities. HP classifies cash flows from the derivative programs as operating activities in the Consolidated Condensed Statements of Cash Flows.

As a result of the use of derivative instruments, HP is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, HP has a policy of only entering into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and HP maintains dollar risk limits that correspond to each institution's credit rating and other factors. HP's established policies and procedures for mitigating credit risk on principal transactions and short-term cash include reviewing and establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. Master agreements with counterparties include master netting arrangements as further mitigation of credit exposure to counterparties. These arrangements permit HP to net amounts due from HP to a counterparty with amounts due to HP from the same counterparty.

To further mitigate credit exposure to counterparties, HP may enter into collateral security arrangements with its counterparties. These arrangements require HP to post collateral or to hold collateral from counterparties when the derivative fair values exceed contractually established thresholds which are generally based on the credit ratings of HP and its counterparties. Such funds are generally transferred within two business days. As of January 31, 2012, HP held $240 million of collateral and posted $23 million through re-hypothecation in association with the counterparties under these collateralized arrangements. Collateral amounts posted as of January 31, 2011 were not material. As of January 31, 2012 and 2011, HP did not have any derivative instruments under these collateralized arrangements that were in a significant net liability position.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

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 returns into variable interest returns and would classify these swaps as fair value hedges. For derivative instruments that are designated and qualify as fair value hedges, HP recognizes the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item, in Interest and other, net in the Consolidated Condensed Statements of Earnings in the current period.

Cash Flow Hedges

HP uses a combination of forward contracts and options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted net revenue and, to a lesser extent, cost of sales, operating expense, and intercompany lease loan denominated in currencies other 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, 2012 and 2011, HP did not discontinue any cash flow hedge for which it was probable that a forecasted transaction would not occur.

Net Investment Hedges

HP uses forward contracts designated as net investment hedges to hedge net investments in certain foreign subsidiaries whose functional currency is the local currency. These derivative instruments are designated as net investment hedges and, as such, HP records the effective portion of the gain or loss on the derivative instrument together with changes in the hedged items in cumulative translation adjustment as a separate component of stockholders' equity.

Other Derivatives

Other derivatives not designated as hedging instruments consist primarily of forward contracts HP uses to hedge foreign currency balance sheet exposures. HP also uses total return swaps and, to a lesser extent, interest rate swaps, based on the equity and fixed income indices, to hedge its executive deferred compensation plan liability. For derivative instruments not designated as hedging instruments, HP recognizes changes in the fair values in earnings in the period of change. HP recognizes the gain or

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

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, 2012 and 2011, the portion of hedging instruments' gain or loss excluded from the assessment of effectiveness was not material for fair value, cash flow or net investment hedges. Hedge ineffectiveness for fair value, cash flow and net investment hedges was not material in the three months ended January 31, 2012 and 2011.

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

gross notional and fair value of derivative financial instruments in the Consolidated Condensed Balance Sheets was recorded as follows:

	As of January 31, 2012					As of October 31, 2011				
	Gross Notional[(1)]	Other Current Assets	Long-term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities	Gross Notional[(1)]	Other Current Assets	Long-term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities
	In millions									
Derivatives designated as hedging instruments										
Fair value hedges:										
Interest rate contracts	$ 10,075	$ 11	$ 530	$	$	$ 10,075	$ 30	$ 508	$	$
Cash flow hedges:										
Foreign exchange contracts	20,706	435	56	210	88	21,666	192	30	324	126
Net investment hedges:										
Foreign exchange contracts	1,642	11	11	49	36	1,556	7	4	44	56
Total derivatives designated as hedging instruments	32,423	457	597	259	124	33,297	229	542	368	182
Derivatives not designated as hedging instruments										
Foreign exchange contracts	16,572	64	5	165	23	13,994	66	5	244	38
Interest rate contracts[(2)]	2,200		48		55	2,200		55		71
Other derivatives	384	12	8			410	25	6		1
Total derivatives not designated as hedging instruments	19,156	76	61	165	78	16,604	91	66	244	110
Total derivatives	$ 51,579	$ 533	$ 658	$ 424	$ 202	$ 49,901	$ 320	$ 608	$ 612	$ 292

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

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

Effect of Derivative Instruments on the Consolidated Condensed Statements of Earnings

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

	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item				
Derivative Instrument	Location	Three months ended	Hedged Item	Location	Three months ended

		January 31, 2012 In millions			January 31, 2012 In millions
Interest rate contracts	Interest and other, net	$ 4	Fixed-rate debt	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 Income on Derivative and Related Hedged Item				
Derivative Instrument	**Location**	**Three months ended January 31, 2011 In millions**	**Hedged Item**	**Location**	**Three months ended January 31, 2011 In millions**
Interest rate contracts	Interest and other, net	$ (178)	Fixed-rate debt	Interest and other, net	$ 174

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three months ended January 31, 2012 and 2011 was 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, 2012 In millions	**Location**	**Three months ended January 31, 2012 In millions**	**Location**	**Three months ended January 31, 2012 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	$

	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, 2011	Location	Three months ended January 31, 2011	Location	Three months ended January 31, 2011
	In millions		In millions		In millions
Cash flow hedges:					
Foreign exchange contracts	$ 100	Net revenue	$ (24)	Net revenue	$
Foreign exchange contracts	(9)	Cost of products	26	Cost of products	
Foreign exchange contracts	(2)	Other operating expenses	1	Other operating expenses	
Foreign exchange contracts	16	Interest and other, net	7	Interest and other, net	
Foreign exchange contracts	(13)	Net revenue	4	Interest and other, net	2
Total cash flow hedges	$ 92		$ 14		$ 2
Net investment hedges:					
Foreign exchange contracts	$ (6)	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)

As of January 31, 2012, HP expects to reclassify an estimated net accumulated other comprehensive gain of approximately $149 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, 2012 and 2011 was as follows:

	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)

	Gain (Loss) Recognized in Income on Derivative	
	Location	Three months ended January 31, 2011
		In millions
Foreign exchange contracts	Interest and other, net	$ (77)
Other derivatives	Interest and other, net	(2)
Interest rate contracts	Interest and other, net	2
Total		$ (77)

Other Financial Instruments

For the balance of HP's financial instruments, accounts receivable, financing receivables, notes payable and short-term borrowings, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities. The estimated fair value of HP's short- and long-term debt was approximately $31.9 billion at January 31, 2012, compared to a carrying value of $30.9 billion at that date. The estimated fair value of HP's short- and long-term debt was approximately $31.1 billion at October 31, 2011, compared to a carrying value of $30.6 billion at that date. The estimated fair value of the debt is based primarily on quoted market prices, as well as borrowing rates currently available to HP for bank loans with similar terms and maturities.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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, 2012	October 31, 2011
	In millions	
Minimum lease payments receivable	$ 7,748	$ 7,721
Unguaranteed residual value	231	233
Unearned income	(655)	(647)
Financing receivables, gross	7,324	7,307
Allowance for doubtful accounts	(140)	(130)
Financing receivables, net	7,184	7,177
Less current portion	(3,123)	(3,162)
Amounts due after one year, net	$ 4,061	$ 4,015

Equipment leased to customers under operating leases was $3.9 billion and $4.0 billion at January 31, 2012 and October 31, 2011, respectively, and is included in machinery and equipment. Accumulated depreciation on equipment under lease was $1.4 billion at January 31, 2012 and $1.3 billion at October 31, 2011.

Due to the homogenous nature of the leasing transactions, HP manages its financing receivables on an aggregate basis when assessing and monitoring credit risk. Credit risk is generally diversified due 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.

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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)

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

	January 31, 2012	October 31, 2011
	In millions	
Risk Rating		
Low	$ 4,303	$ 4,261
Moderate	2,954	2,989
High	67	57
Total	$ 7,324	$ 7,307

Accounts rated low risk typically have the equivalent of a Standard & Poor's rating of BBB- or higher, while accounts rated moderate risk would generally be the equivalent of BB+ or lower. HP closely monitors accounts rated high risk and, based upon an impairment analysis, may establish specific reserves against a portion of these leases.

The allowance for doubtful accounts balance is comprised of a general reserve, which is determined based on a percentage of the financing receivables balance, and a specific reserve, which is established for certain leases with identified exposures, such as customer default, bankruptcy or other events, that make it unlikely that HP will recover its investment in the lease. The general reserve percentages are maintained on a regional basis and are based on several factors, which include consideration of historical credit losses and portfolio delinquencies, trends in the overall weighted-average risk rating of the portfolio, and information derived from competitive benchmarking.

The allowance for doubtful accounts and the related financing receivables were as follows:

	Three months ended January 31, 2012
	In millions
Allowance for doubtful accounts	
Balance, beginning of period	$ 130
Additions to allowance	12
Deductions, net of recoveries	(2)
Balance, end of period	$ 140

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 9: Financing Receivables and Operating Leases (Continued)

	January 31, 2012	October 31, 2011
	In millions	
Allowance for financing receivables individually evaluated for loss	$ 44	$ 35
Allowance for financing receivables collectively evaluated for loss	96	95
Total	$ 140	$ 130
Gross financing receivables individually evaluated for loss	$ 278	$ 228
Gross financing receivables collectively evaluated for loss	7,046	7,079
Total	$ 7,324	$ 7,307

Accounts are generally put on non-accrual status (cessation of interest accrual) when they reach 90 days past due. The non-accrual status may not impact a customer's risk rating. In certain circumstances, such as when the delinquency is deemed to be of an administrative nature, accounts may still accrue interest when they reach 90 days past due. A write-off or specific reserve is generally recorded when an account reaches 180 days past due. Total financing receivables on non-accrual status were $177 million and $157 million at January 31, 2012 and October 31, 2011, respectively. Total financing receivables greater than 90 days past due and still accruing interest were $101 million and $71 million at January 31, 2012 and October 31, 2011, respectively.

Note 10: Guarantees

Guarantees and Indemnifications

In the ordinary course of business, HP may provide certain clients with subsidiary performance guarantees and/or financial performance guarantees, which may be backed by standby letters of credit or surety bonds. In general, HP would be liable for the amounts of these guarantees in the event HP or HP's subsidiaries' nonperformance permits termination of the related contract by the client, the likelihood of which HP believes is remote. HP believes that the company is in compliance with the performance obligations under all material service contracts for which there is a performance guarantee.

HP has certain service contracts supported by client financing or securitization arrangements. Under specific circumstances involving nonperformance resulting in service contract termination or failure to comply with terms under the financing arrangement, HP would be required to acquire certain assets. HP considers the possibility of its failure to comply to be remote and the asset amounts involved to be immaterial.

In the ordinary course of business, HP enters into contractual arrangements under which HP may agree to indemnify the third party to such 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; however, product warranty terms offered to customers, ongoing product failure rates, material usage and service delivery costs incurred in correcting a product failure, as well as specific product class failures outside of HP's baseline experience, affect the estimated warranty obligation. If actual product failure rates, repair rates or any other post sales support costs differ from these estimates, revisions to the estimated warranty liability would be required.

The changes in HP's aggregate product warranty liabilities for the three months ended January 31, 2012 were as follows:

	In millions
Product warranty liability at October 31, 2011	$ 2,451
Accruals for warranties issued	585
Adjustments related to pre-existing warranties (including changes in estimates)	(53)
Settlements made (in cash or in kind)	(618)
Product warranty liability at January 31, 2012	$ 2,365

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, 2012		October 31, 2011	
	Amount Outstanding	Weighted-Average Interest Rate	Amount Outstanding	Weighted-Average Interest Rate
	In millions		In millions	
Commercial paper	$ 520	1.4%	$ 3,215	0.4%
Current portion of long-term debt	4,341	2.0%	4,345	2.4%
Notes payable to banks, lines of credit and other	577	2.9%	523	2.9%
	$ 5,438		$ 8,083	

Notes payable to banks, lines of credit and other includes deposits associated with HP's banking-related activities of approximately $366 million and $355 million at January 31, 2012 and October 31, 2011, 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, 2012	October 31, 2011
	In millions	
U.S. Dollar Global Notes		
2002 Shelf Registration Statement:		
$500 issued at discount to par at a price of 99.505% in June 2002 at 6.5%, due July 2012	$ 500	$ 500
2006 Shelf Registration Statement:		
$600 issued at par in February 2007 at three-month USD LIBOR plus 0.11%, paid March 2012	600	600
$900 issued at discount to par at a price of 99.938% in February 2007 at 5.25%, paid March 2012	900	900
$500 issued at discount to par at a price of 99.694% in February 2007 at 5.4%, due March 2017	499	499
$1,500 issued at discount to par at a price of 99.921% in March 2008 at 4.5%, due March 2013	1,500	1,500
$750 issued at discount to par at a price of 99.932% in March 2008 at 5.5%, due March 2018	750	750
$2,000 issued at discount to par at a price of 99.561% in December 2008 at 6.125%, due March 2014	1,997	1,996
$1,000 issued at discount to par at a price of 99.956% in February 2009 at 4.25%, paid February 2012	1,000	1,000
$1,500 issued at discount to par at a price of 99.993% in February 2009 at 4.75%, due June 2014	1,500	1,500

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

	January 31, 2012	October 31, 2011
	In millions	
2009 Shelf Registration Statement:		
$250 issued at discount to par at a price of 99.984% in May 2009 at 2.95%, due August 2012	250	250
$800 issued at par in September 2010 at three-month USD LIBOR plus 0.125%, due September 2012	800	800
$1,100 issued at discount to par at a price of 99.921% in September 2010 at 1.25%, due September 2013	1,100	1,099
$1,100 issued at discount to par at a price of 99.887% in September 2010 at 2.125%, due September 2015	1,099	1,099
$650 issued at discount to par at a price of 99.911% in December 2010 at 2.2%, due December 2015	650	650
$1,350 issued at discount to par at a price of 99.827% in December 2010 at 3.75%, due December 2020	1,348	1,348
$1,750 issued at par in May 2011 at three month USD LIBOR plus 0.28%, due May 2013	1,750	1,750
$500 issued at par in May 2011 at three month USD LIBOR plus 0.4%, due May 2014	500	500
$500 issued at discount to par at a price of 99.971% in May 2011 at 1.55%, due May 2014	500	500
$1,000 issued at discount to par at a price of 99.958% in May 2011 at 2.65%, due June 2016	1,000	1,000
$1,250 issued at discount to par at a price of 99.799% in May 2011 at 4.3%, due June 2021	1,248	1,248
$750 issued at discount to par at a price of 99.977% in September 2011 at 2.35%, due March 2015	750	750
$1,300 issued at discount to par at a price of 99.784% in September 2011 at 3.0%, due September 2016	1,297	1,297
$1,000 issued at discount to par at a price of 99.816% in September 2011 at 4.375%, due September 2021	998	998
$1,200 issued at discount to par at a price of 99.863% in September 2011 at 6.0%, due September 2041	1,198	1,198
$350 issued at par in September 2011 at three-month USD LIBOR plus 1.55%, due September 2014	350	350
$650 issued at discount to par at a price of 99.946% in December 2011 at 2.625%, due December 2014	650	
$850 issued at discount to par at a price of 99.790% in December 2011 at 3.3%, due December 2016	848	
$1,500 issued at discount to par at a price of 99.707% in December 2011 at 4.65%, due December 2021	1,496	
	27,078	24,082

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

	January 31, 2012	October 31, 2011
	In millions	
EDS Senior Notes		
$1,100 issued June 2003 at 6.0%, due August 2013	1,117	1,120
$300 issued October 1999 at 7.45%, due October 2029	315	315
	1,432	1,435
Other, including capital lease obligations, at 0.60%-8.63%, due in calendar years 2012-2024	749	836
Fair value adjustment related to hedged debt	544	543
Less: current portion	(4,341)	(4,345)
Total long-term debt	$ 25,462	$ 22,551

As disclosed in Note 8 to the Consolidated Condensed Financial Statements, 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 table above does not reflect the interest rate swap impact on the interest rate.

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 2009, HP filed a shelf registration statement (the "2009 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 2009 Shelf Registration Statement replaced other registration statements filed in March 2002 and May 2006.

HP's Board of Directors has approved a $16.0 billion U.S. commercial paper program. HP's subsidiaries are authorized to issue up to an additional $1.0 billion of commercial paper, of which $500 million of capacity is currently available to be used by Hewlett-Packard International Bank PLC, a wholly-owned subsidiary of HP, for its Euro Commercial Paper/Certificate of Deposit Programme.

HP has a $3.0 billion five-year credit facility that expires in May 2012 and a $4.5 billion four-year credit facility that expires in February 2015. Commitment fees, interest rates and other terms of borrowing under the credit facilities vary based on HP's external credit ratings. The credit facilities are senior unsecured committed borrowing arrangements primarily to support the issuance of U.S. commercial paper. HP's ability to have a U.S. commercial paper outstanding balance that exceeds the $7.5 billion supported by these credit facilities is subject to a number of factors, including liquidity conditions and business performance.

Within Other, including capital lease obligations, are borrowings that are collateralized by certain financing receivable assets. As of January 31, 2012, the carrying value of the assets approximated the carrying value of the borrowings of $258 million.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

As of January 31, 2012, HP had the capacity to issue an unspecified amount of additional debt securities, common stock, preferred stock, depositary shares and warrants under the 2009 Shelf Registration Statement. As of that date, HP also had up to approximately $17.3 billion of available borrowing resources, including $16.0 billion under its commercial paper programs and approximately $1.3 billion relating to uncommitted lines of credit.

Subsequent Event

On March 12, 2012, HP issued $2.0 billion of U.S. Dollar Global Notes under the 2009 Shelf Registration Statement. The Global Notes consisted of fixed-rate notes at market rates with maturities of five and ten years from the date of issuance.

Note 12: Income Taxes

Provision for Taxes

HP's effective tax rate was 19.4% and 21.0% for the three months ended January 31, 2012 and January 31, 2011, respectively. HP's effective tax rate decreased due to an increase in the percentage of total earnings earned in lower-tax jurisdictions. HP's effective tax rate generally differs from the U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from HP's operations in lower-tax jurisdictions throughout the world. HP has not provided U.S. taxes for all of such earnings because HP plans to reinvest some of those earnings indefinitely outside the United States.

In the three 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.

In the three months ended January 31, 2011, HP recorded discrete items with a net tax benefit of $101 million, decreasing the effective tax rate. These amounts included net tax benefits of $58 million from restructuring and acquisition charges. In addition, in December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law. HP recorded a tax benefit of $43 million arising from the retroactive research and development credit provided by that legislation in the first quarter of fiscal 2011.

As of January 31, 2012, the amount of gross unrecognized tax benefits was $2.3 billion, of which up to $1.1 billion would affect HP's effective tax rate if realized. HP recognizes interest income from favorable settlements and income tax receivables and interest expense and penalties accrued on unrecognized tax benefits within income tax expense. As of January 31, 2012, HP had accrued a net $182 million payable for interest and penalties.

HP engages in continuous discussion and negotiation with taxing authorities regarding tax matters in various jurisdictions. HP does not expect complete resolution of any Internal Revenue Service ("IRS") audit cycle within the next 12 months. However, it is reasonably possible that certain federal, foreign and state tax issues may be concluded in the next 12 months, including issues involving transfer pricing and other matters. Accordingly, HP believes it is reasonably possible that its existing unrecognized tax benefits may be reduced by an amount up to $238 million within the next 12 months.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 12: Income Taxes (Continued)

HP is subject to income tax in the United States and approximately 80 foreign countries and is subject to routine corporate income tax audits in many of these jurisdictions. In addition, HP is subject to numerous ongoing audits by state and foreign tax authorities. The IRS began an audit of HP's 2008 income tax returns in 2010 and began its audit of HP's 2009 income tax returns during 2011. HP has received from the IRS Notices of Deficiency for its fiscal 1999, 2000, 2003, 2004 and 2005 tax years, and Revenue Agent's Reports ("RAR") for its fiscal 2001, 2002, 2006 and 2007 tax years. The proposed IRS adjustments for these tax years would, if sustained, reduce the benefits of tax refund claims HP has filed for net operating loss carrybacks to earlier fiscal years and tax credit carryforwards to subsequent years by approximately $558 million. HP has filed petitions with the United States Tax Court regarding certain proposed IRS adjustments regarding tax years 1999 through 2003 and is continuing to contest additional adjustments proposed by the IRS for other tax years. HP believes that it has provided adequate reserves for any tax deficiencies or reductions in tax benefits that could result from the IRS actions. With respect to major foreign and state tax jurisdictions, HP is no longer subject to tax authority examinations for years prior to 1999. HP believes that adequate accruals have been provided for all open tax years.

Tax years of EDS through 2002 have been audited by the IRS, and all proposed adjustments have been resolved. EDS has received RAR's for exam years 2003, 2004, 2005, 2006, 2007 and the short period ended August 26, 2008, proposing total tax deficiencies of $320 million. HP is contesting certain issues and believes it has provided adequate reserves for any tax deficiencies or reductions in tax benefits that could result from the IRS actions.

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

	January 31, 2012	October 31, 2011
	In millions	
Current deferred tax assets	$ 4,857	$ 5,374
Current deferred tax liabilities	(29)	(41)
Long-term deferred tax assets	1,439	1,283
Long-term deferred tax liabilities	(4,992)	(5,163)
Total deferred tax assets net of deferred tax liabilities	$ 1,275	$ 1,453

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 2012, HP executed share repurchases of 30 million shares. Repurchases of 29 million shares were settled for $780 million in the first quarter of fiscal 2012. HP had approximately 1 million shares repurchased in the first quarter of fiscal 2012 that will be settled in the second quarter of fiscal 2012. HP paid approximately $2.3 billion in connection with repurchases of approximately 54 million shares during the three months ended January 31, 2011. As of January 31, 2012, HP had remaining authorization of $10.0 billion for future share repurchases.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 13: Stockholders' Equity (Continued)

Comprehensive Income

The changes in the components of OCI, net of taxes, were as follows:

	Three months ended January 31	
	2012	2011
	In millions	
Net earnings	$ 1,468	$ 2,605
Net change in unrealized (losses) gains on available-for-sale securities, net of tax benefit of $5 million in 2012 and net of tax of $5 million in 2011	(57)	10
Net change in unrealized gains on cash flow hedges:		
Unrealized gains recognized in OCI, net of tax of $152 million in 2012 and $32 million in 2011	255	60
Gains reclassified into income, net of tax of $37 million in 2012 and $1 million in 2011	(61)	(13)
	194	47
Net change in cumulative translation adjustment, net of tax benefit of $14 million in 2012 and net of tax of $17 million in 2011	(233)	51
Net change in unrealized components of defined benefit plans, net of tax of $70 million in 2012 and $10 million in 2011	87	31
Comprehensive income	$ 1,459	$ 2,744

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

	January 31, 2012	October 31, 2011
	In millions	
Net unrealized (loss) gain on available-for-sale securities	$ (20)	$ 37
Net unrealized gain (loss) on cash flow hedges	153	(41)
Cumulative translation adjustment	(618)	(385)
Unrealized components of defined benefit plans	(3,022)	(3,109)
Accumulated other comprehensive loss	$ (3,507)	$ (3,498)

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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 were as follows:

	Three months ended January 31					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2012	2011	2012	2011	2012	2011
	In millions					
Service cost	$	$	$ 74	$ 85	$ 2	$ 2
Interest cost	141	148	176	169	8	8
Expected return on plan assets	(198)	(186)	(208)	(213)	(9)	(9)
Amortization and deferrals:						
Actuarial loss	11	9	60	62	(1)	1
Prior service benefit			(6)	(3)	(21)	(21)
Net periodic benefit (gain) cost	$ (46)	$ (29)	$ 96	$ 100	$ (21)	$ (19)
Special termination benefits			1	2		
Settlements			(28)			
Net benefit (gain) cost	$ (46)	$ (29)	$ 69	$ 102	$ (21)	$ (19)

During the first quarter of fiscal 2012, HP completed the transfer of the substitutional portion of its Japan pension liability and obligation to the Japanese government. This resulted in recognizing a net gain of $28 million, which is comprised of a net settlement loss of $150 million and a gain on government subsidy of $178 million. The government subsidy consisted of the elimination of $344 million of pension obligations and the transfer of $166 million of pension assets to the Japanese government.

Employer Contributions and Funding Policy

HP previously disclosed in its Consolidated Financial Statements for the fiscal year ended October 31, 2011 that it expected to contribute approximately $597 million to its pension plans and approximately $31 million to cover benefit payments to U.S. non-qualified plan participants. HP expects to pay approximately $30 million to cover benefit claims for HP's post-retirement benefit plans. HP's funding policy is to contribute cash to its pension plans so that it makes at least the minimum contribution required by local government, funding and taxing authorities.

During the three months ended January 31, 2012, HP made $88 million of contributions to its pension plans, paid $9 million to cover benefit payments to U.S. non-qualified plan participants, and paid $7 million to cover benefit claims under post-retirement benefit plans. During the remainder of fiscal 2012, HP anticipates making additional contributions of approximately $509 million to its pension plans and approximately $22 million to its U.S. non-qualified plan participants and expects to pay up to $23 million to cover benefit claims under post-retirement benefit plans. HP's pension and other post-retirement benefit costs and obligations are dependent on various assumptions. Differences between expected and actual returns on investments will be reflected as unrecognized gains or losses, 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

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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 (Continued)

amortized over the remaining service life or life expectancy of plan participants. HP's next measurement date is October 31, 2012.

Note 15: Litigation and Contingencies

HP is involved in lawsuits, claims, investigations and proceedings, including those identified below, consisting of intellectual property, commercial, securities, employment, employee benefits and environmental matters that arise in the ordinary course of business. HP records a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. HP believes it has adequate provisions for any such matters, and, as of January 31, 2012, it was not reasonably possible that an additional material loss had been incurred in an amount in excess of the amounts already recognized on HP's financial statements. HP reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Based on its experience, HP believes that any damage amounts claimed in the specific matters discussed below are not a meaningful indicator of HP's potential liability. Litigation is inherently unpredictable. However, HP believes that it has valid defenses with respect to legal matters pending against it. Nevertheless, cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Litigation, Proceedings and Investigations

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

VerwertungsGesellschaft Wort ("VG Wort"), a collection agency representing certain copyright holders, instituted legal proceedings against HP in the Stuttgart Civil Court seeking levies on printers. On December 22, 2004, the court held that HP is liable for payments regarding all printers using ASCII code sold in Germany but did not determine the amount payable per unit. HP appealed this decision in January 2005 to the Stuttgart Court of Appeals. On May 11, 2005, the Stuttgart Court of Appeals issued a decision confirming that levies are due. On June 6, 2005, HP filed an appeal to the German Federal Supreme Court in Karlsruhe. On December 6, 2007, the German Federal Supreme Court issued a judgment that printers are not subject to levies under the existing law. The court issued 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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Supreme Court denied VG Wort's application. VG Wort appealed the decision by filing a claim with the German Federal Constitutional Court challenging the ruling that printers are not subject to levies. On September 21, 2010, the Constitutional Court published a decision holding that the German Federal Supreme Court erred by not referring questions on interpretation of German copyright law to the Court of Justice of the European Union ("CJEU") and therefore revoked the German Federal Supreme Court decision and remitted the matter to it. On July 21, 2011, the German Federal Supreme Court stayed the proceedings and referred several questions to the CJEU with regard to the interpretation of the European Copyright Directive.

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.

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. The schedule for the court proceedings has been determined, and no decision from the court is expected before September 2012.

Based on industry opposition to the extension of levies to digital products, HP's assessments of the merits of various proceedings and HP's estimates of the units impacted and 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.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Skold, et al. v. Intel Corporation and Hewlett-Packard Company is a lawsuit in which HP was joined on June 14, 2004 that is pending in state court in Santa Clara County, California. The lawsuit alleges that Intel Corporation ("Intel") misled the public by suppressing and concealing the alleged material fact that systems that use the Intel Pentium 4 processor are less powerful and slower than systems using the Intel Pentium III processor and processors made by a competitor of Intel. The lawsuit alleges that HP aided and abetted Intel's allegedly unlawful conduct. The plaintiffs seek unspecified damages, restitution, attorneys' fees and costs, and certification of a nationwide class. On February 27, 2009, the court denied with prejudice plaintiffs' motion for nationwide class certification for a third time. On August 31, 2011, the California Court of Appeal reversed the trial court's denial of class certification and remanded the case back to the trial court for further proceedings. On November 23, 2011, plaintiffs filed a motion seeking to certify a nationwide class asserting claims under the California Consumers Legal Remedies Act and the California Unfair Competition Law. A hearing on plaintiffs' motion is currently scheduled for April 13, 2012.

Inkjet Printer Litigation. As described below, HP is involved in several lawsuits claiming breach of express and implied warranty, unjust enrichment, deceptive advertising and unfair business practices where the plaintiffs have alleged, among other things, that HP employed a "smart chip" in certain inkjet printing products in order to register ink depletion prematurely and to render the cartridge unusable through a built-in expiration date that is hidden, not documented in marketing materials to consumers, or both. The plaintiffs have also contended that consumers received false ink depletion warnings and that the smart chip limits the ability of consumers to use the cartridge to its full capacity or to choose competitive products.

A consolidated lawsuit captioned *In re HP Inkjet Printer Litigation* is pending in the United States District Court for the Northern District of California where the plaintiffs are seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees. On January 4, 2008, the court heard plaintiffs' motions for class certification and to add a class representative and HP's motion for summary judgment. On July 25, 2008, the court denied all three motions. On March 30, 2009, the plaintiffs filed a renewed motion for class certification. A hearing on the plaintiffs' motion for class certification scheduled for April 9, 2010 was postponed.

A lawsuit captioned *Blennis v. HP* was filed on January 17, 2007 in the United States District Court for the Northern District of California where the plaintiffs are seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees. A class certification hearing was scheduled for May 21, 2010 but was taken off the calendar.

A lawsuit captioned *Rich v. HP* was filed against HP on May 22, 2006 in the United States District Court for the Northern District of California. The suit alleges that HP designed its color inkjet printers to unnecessarily use color ink in addition to black ink when printing black and white images and text. The plaintiffs are seeking to certify a nationwide injunctive class and a California-only damages class. A class certification hearing was scheduled for May 7, 2010 but was taken off the calendar.

Two class actions against HP and its subsidiary, Hewlett-Packard (Canada) Co., are pending in Canada, one commenced in British Columbia in February 2006 and one commenced in Ontario

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

in June 2006, where the plaintiffs are seeking class certification, restitution, declaratory relief, injunctive relief and unspecified statutory, compensatory and punitive damages.

On August 25, 2010, HP and the plaintiffs in *In re HP Inkjet Printer Litigation*, *Blennis v. HP* and *Rich v. HP* entered into an agreement to settle those lawsuits on behalf of the proposed classes, which agreement is subject to approval of the court before it becomes final. Under the terms of the proposed settlement, the lawsuits will be consolidated, and eligible class members will each have the right to obtain e-credits not to exceed $5 million in the aggregate for use in purchasing printers or printer supplies through HP's website. As part of the proposed settlement, HP also agreed to provide class members with additional information regarding HP inkjet printer functionality and to change the content of certain software and user guide messaging provided to users regarding the life of inkjet printer cartridges. In addition, class counsel and the class representatives will be paid attorneys' fees and expenses and stipends. On March 29, 2011, the court granted final approval of the settlement. On April 27, 2011, certain class members who objected to the settlement filed an appeal of the court's order granting final approval of the settlement.

Sinacori v. HP is a consumer class action originally filed against HP on December 1, 2011 in the United States District Court for the Northern District of California alleging that HP printers have a design defect in the software installed on the printers which could allow hackers and unauthorized users to gain access to the printers, steal personal and confidential information from consumers and otherwise control and cause physical damage to the printers. The original complaint also alleged that HP was aware of this security vulnerability and failed to disclose it to consumers. The original complaint sought certification of a nationwide class of purchasers of all HP printers and unspecified damages, restitution, punitive damages, injunctive relief, attorneys' fees and costs. On February 3, 2012, an amended complaint was filed substituting a new plaintiff from the state of New York in place of the original plaintiff. The amended complaint asserts only a single claim under the New York consumer protection statute, and the amended complaint now seeks to certify a class of consumers in the state of New York who purchased an HP printer that lacks a "digital signature" or "code signing" security feature. Like the original complaint, the amended complaint seeks unspecified damages, restitution, punitive damages, injunctive relief, attorneys' fees and costs.

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 U.S. 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. Plaintiffs also allege various state law class claims for misclassification, but plaintiffs have not yet sought class certification for those.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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 U.S. District Court for the Central District of California, which, on January 7, 2008, certified a class of information technology workers in California. On June 6, 2008, the court granted the defendant's motion for summary judgment. The plaintiffs subsequently filed an appeal with the U.S. Court of Appeals for the Ninth Circuit. A hearing on the appeal was held in August 2011, and the decision is pending. Two other purported class actions originally filed in California Superior Court, *Karlbom, et al. v. Electronic Data Systems Corporation*, which was filed on March 16, 2009, and *George, et al. v. Electronic Data Systems Corporation*, which was filed on April 2, 2009, allege similar facts. The *Karlbom* case is pending in San Diego County Superior Court but has been temporarily stayed based on the pending *Steavens* consolidated matter. The *George* case was pending in the U.S. District Court for the Southern District of New York and had been consolidated for pretrial purposes with the *Cunningham* and *Steavens* cases. On September 9, 2011, the court granted a request by the plaintiffs' counsel in the *George* matter to amend the plaintiffs' complaint and sever the case from the *Steavens* consolidated matter. The plaintiff thereafter filed his first amended complaint on October 21, 2011. On November 23, 2011, the court transferred the *George* matter back to the U.S. District Court for the Central District of California.

Blake, et al. v. Hewlett-Packard Company is a purported nationwide collective action filed on February 17, 2011 in the U.S. 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. Only one opt-in plaintiff had joined the named plaintiff in the lawsuit at the time that the motion was filed.

Fenn, et al. v. Hewlett-Packard Company is a purported collective action filed on May 24, 2011 in the United States District Court for the District of Idaho. The suit alleges that customer service representatives working in HP's U.S. call centers are not paid for time spent on start-up and shut-down tasks (such as booting up and shutting down their computers) in violation of the Fair Labor Standards Act. On December 12, 2011, the court denied plaintiffs' motion for conditional class certification but allowed plaintiffs to re-file that motion following limited discovery on the issue of conditional certification.

India Directorate of Revenue Intelligence Proceedings. As described below, Hewlett-Packard India Sales Private Ltd ("HPI"), a subsidiary of HP, and certain current and former HP employees have received show cause notices from the India Directorate of Revenue Intelligence (the "DRI") alleging underpayment of certain customs duties:

On April 30 and May 10, 2010, the DRI issued show cause notices to HPI, seven current HP employees and one former HP employee alleging that HP underpaid customs duties while importing products and spare parts into India and seeking to recover an aggregate of approximately $370 million, plus penalties. On June 2, 2010, the DRI issued an additional show cause notice to HPI and three current HPI employees alleging that HP failed to pay customs

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

duties on the appropriate value of recovery CDs containing Microsoft operating systems and seeking to recover approximately $5.3 million, plus penalties. HP has deposited a total of approximately $16.7 million with the DRI and agreed to post a provisional bond in exchange for the DRI's agreement not to seize HP products and spare parts and not to interrupt the transaction of business by HP in India.

On June 17, 2010, the DRI issued show cause notices to HPI and two current HPI employees regarding non-inclusion of the value of software contained in the products imported from third party original design manufacturers. The total amount of the alleged unpaid customs duties relating to such software, including the interest proposed to be demanded under these notices, is approximately $130,000, which amount HPI has deposited with the DRI. The DRI is also seeking to impose penalties.

On October 1, 2010, in connection with an existing DRI investigation commenced against SAP AG, the DRI issued a show cause notice to HPI alleging underpayment of customs duties related to the importation of certain SAP software. The amount of the alleged duty differential is approximately $38,000, which amount has been deposited with the DRI. The DRI is also seeking to impose interest and penalties.

HPI has responded to the show cause notices, and the Commissioner of Customs has been conducting hearings into the products show cause notice since late October 2011. HP expects the Commissioner to issue his decision in spring 2012. The spare parts show cause notice hearings will be heard by the Commissioner of Customs after the conclusion of the products show cause hearings. If HPI is unsuccessful in the proceedings before the Commissioner of Customs, it can appeal to the Customs Tribunal and, eventually, to the India courts, but such appeals could require HP or HPI to deposit additional monies with the Commissioner of Customs.

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 U.S. Department of Justice and the SEC have also been conducting an investigation into the Russia GPO deal and potential violations of the Foreign Corrupt Practices Act ("FCPA"). Under the FCPA, a person or an entity could be subject to fines, civil penalties of up to $500,000 per violation and equitable remedies, including disgorgement and other injunctive relief. In addition, criminal penalties could range from the greater of $2 million per violation or twice the gross pecuniary gain or loss from the violation.

In addition to information about the Russia GPO deal, the U.S. enforcement authorities have requested (i) information related to certain other transactions, including transactions in Russia, Serbia and in the Commonwealth of Independent States (CIS) subregion dating back to 2000, and (ii) information related to two former HP executives seconded to Russia and to whether HP personnel in Russia, Germany, Austria, Serbia, the Netherlands or CIS were involved in kickbacks or other improper payments to channel partners or state-owned or private entities.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

HP is cooperating with these investigating agencies.

ECT Proceedings. In January 2011, the postal service of Brazil, Empresa Brasileira de Correios e Telégrafos ("ECT"), notified HP that it had initiated administrative proceedings against an HP subsidiary in Brazil ("HP Brazil") to consider whether to suspend HP Brazil's right to bid and contract with ECT related to alleged improprieties in the bidding and contracting processes whereby employees of HP Brazil and employees of several other companies coordinated their bids for three ECT contracts in 2007 and 2008. In late July 2011, ECT notified HP it had decided to apply the penalties against HP Brazil, suspending HP Brazil's right to bid and contract with ECT for five years, based upon the evidence before it. In August 2011, HP filed petitions with ECT requesting that the decision be revoked and seeking injunctive relief to have the application of the penalties suspended until a final, non-appealable decision is made on the merits of the case. HP is currently awaiting a response from ECT on both petitions. Because ECT did not rule on the substance of HP's petitions in a timely manner, HP filed a lawsuit seeking similar relief from the court. The court of first instance has not decided the merits of HP's lawsuit, but has denied HP's request for injunctive relief suspending application of the penalties pending a final, non-appealable decision on the merits of the case. HP appealed the denial of its request for injunctive relief to the intermediate appellate court, which issued a preliminary ruling denying the request for injunctive relief but reducing the length of the sanctions from five to two years. HP appealed that decision and, in December 2011, obtained a ruling staying enforcement of ECT's sanctions until HP can be heard on the full merits of the case. HP expects the appeal on the merits to last several years.

Stockholder Litigation. As described below, HP is involved in stockholder litigation commenced against certain current and former HP executive officers and certain current and former members of the HP Board of Directors in which the plaintiffs are seeking to recover certain compensation paid by HP to the defendants and other damages:

- *Heather M. Bendit, et al. v. Mark V. Hurd, et al*. (formerly *Henrietta Klein v. Mark V. Hurd, et al*.), is a lawsuit filed on September 24, 2010 in California Superior Court alleging the individual defendants wasted corporate assets and breached their fiduciary duties by failing to implement and oversee HP's compliance with the FCPA.

- *Saginaw Police & Fire Pension Fund v. Marc L. Andreessen, et al*. is a lawsuit filed on October 19, 2010 in 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. The court has not yet ruled on that motion.

- *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, severance payments made to former Chairman and Chief Executive Officer Mark Hurd, and HP's acquisition of 3PAR Inc. The lawsuit also alleges violations of Section 14(a) of the Exchange Act in connection with HP's 2010 and 2011 proxy statements. On February 8, 2012, the defendants filed a motion to dismiss the lawsuit. The court has not yet ruled on that motion.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Richard Gammel v. Hewlett-Packard Company, et al. is a putative securities class action filed on September 13, 2011 in the United States Court for the Central District of California alleging, among other things, that from November 22, 2010 to August 18, 2011, 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, the future of the webOS operating system, and HP's commitment to developing and integrating webOS products, including the TouchPad tablet PC.

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 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 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.

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 the 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.

Environmental

Our operations and our 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 its products and the recycling, treatment and disposal of its 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. We also are 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.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

HP is party to, or otherwise involved in, proceedings brought by U.S. or state environmental agencies under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), known as "Superfund," or state laws similar to CERCLA. HP is also conducting environmental investigations or remediations at several current or former operating sites pursuant to administrative orders or consent agreements with state environmental agencies.

Note 16: Segment Information

Description of Segments

HP is a leading global provider of products, technologies, software, solutions and services to individual consumers, small- and medium-sized businesses ("SMBs"), and large enterprises, including customers in the government, health and education sectors. HP's offerings span personal computing and other access devices; multi-vendor customer services, including infrastructure technology and business process outsourcing, technology support and maintenance, application development and support services and consulting and integration services; imaging and printing-related products and services; and enterprise information technology ("IT") infrastructure, including enterprise storage and server technology, networking products and solutions, IT management software, information management solutions and security intelligence/risk management solutions.

HP and its operations are organized into seven business segments for financial reporting purposes: PSG, Services, IPG, ESSN, Software, HP Financial Services ("HPFS") and Corporate Investments. HP's organizational structure is based on a number of factors that management uses to evaluate, view and run its business operations, which include, but are not limited to, customer base, homogeneity of products and technology. The business segments are based on this organizational structure and information reviewed by HP's management to evaluate the business segment results.

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

Personal Systems Group provides commercial PCs, consumer PCs, workstations, calculators and other related accessories, software and services for the commercial and consumer markets. Commercial PCs are optimized for commercial uses, including enterprise and SMB customers, and for connectivity and manageability in networked environments. Commercial PCs include the HP ProBook and HP EliteBook lines of notebooks and the Compaq Pro, Compaq Elite, HP Pro and HP Elite lines of business desktops, as well as the All-in-One Touchsmart and Omni PCs, HP Mini-Note PCs, retail POS systems, HP Thin Clients, and HP Slate Tablet PCs. Consumer PCs include the HP Pavilion, HP Elite, Envy and Compaq Presario series of multi-media consumer notebooks, desktops and mini notebooks, including the TouchSmart line of touch-enabled all-in-one notebooks and desktops. HP's workstations are designed for users demanding enhanced performance, such as computer animation, engineering design and other programs requiring high-resolution graphics, and run on both Windows and Linux-based operating systems.

Services provides consulting, outsourcing and technology services across infrastructure, applications and business process domains. Services is divided into three main business units: Infrastructure Technology Outsourcing, Technology Services and Application and Business Services. Infrastructure Technology Outsourcing delivers comprehensive services that encompass the data center and the workplace (desktop); network and communications; security, compliance

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

and business continuity; and enterprise managed services. Technology Services provides consulting and support services, including mission critical services, converged infrastructure services, networking services, data center transformation services and infrastructure services for storage, server and unified communication environments, as well as warranty support across HP's product lines. Application and Business Services helps clients revitalize and manage their applications assets through flexible, project-based consulting services encompassing application development, testing, modernization, system integration, maintenance and management for both package and custom-built applications. In addition, the business unit provides clients with industry-based intellectual property, assets and process models through a broad array of enterprise shared services, customer relationship management services, financial process management services and administrative processing and outsourcing services.

Imaging and Printing Group provides consumer and commercial printer hardware, supplies, media and scanning devices. IPG is also focused on imaging solutions in the commercial markets. These solutions range from managed print services to capturing high-value pages in areas such as industrial applications, outdoor signage, and the graphic arts business. Inkjet and Web Solutions delivers HP's consumer and SMB inkjet solutions (hardware, supplies, media, web-connected hardware and services) and develops HP's retail publishing and web businesses. It includes single function and all-in-one inkjet printers targeted toward consumers and SMBs, as well as retail publishing solutions, Snapfish and ePrintCenter. LaserJet and Enterprise Solutions delivers products, services and solutions to the medium-sized business and enterprise segments, including LaserJet printers and supplies, multi-function devices, scanners, web-connected hardware and services and enterprise software solutions, such as Exstream Software and Web Jetadmin. Managed Enterprise Solutions include managed print service products, support and solutions delivered to enterprise customers partnering with third-party software providers to offer workflow solutions in the enterprise environment. Graphics Solutions include large format printing (Designjet and Scitex), large format supplies, WebPress supplies, Indigo printing, specialty printing systems and inkjet high-speed production solutions. HP's printer supplies offerings include LaserJet toner and inkjet printer cartridges, graphic solutions ink products and other printing-related media.

Enterprise Servers, Storage and Networking provides server, storage, networking and, when combined with HP Software's Cloud Service Automation software suite, HP's CloudSystem. The CloudSystem enables infrastructure, platform and software as a service in private, public or hybrid environments. Industry Standard Servers offers primarily entry-level and mid-range ProLiant servers, which run primarily Windows, Linux and Novell operating systems and leverage Intel and AMD processors. The business spans a range of product lines, including pedestal-tower servers, density-optimized rack servers and HP's BladeSystem family of server blades. Business Critical Systems offers HP Integrity servers based on the Intel Itanium-based processor as well as HP Integrity NonStop solutions. Business Critical Systems also offers scale-up x86 ProLiant Servers for scalability of systems with more than four industry standard processors. HP's Storage business offers a broad range of products including storage area networks, network attached storage, storage management software and virtualization technologies, StoreOnce data deduplication solutions, tape drives and tape libraries. HP's Networking offerings include switches, router, and wireless LAN.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

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

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

Corporate Investments includes business intelligence solutions, HP Labs and certain business incubation projects. Business intelligence solutions enable business to standardize on consistent data management schemes, connect and share data across the enterprise and apply analytics. This segment also derives revenue from licensing specific HP technology to third parties.

Segment Data

HP derives the results of the business segments directly from its internal management reporting system. The accounting policies HP uses to derive business segment results are substantially the same as those the consolidated company uses. Management measures the performance of each business segment based on several metrics, including earnings from operations. Management uses these results, in part, to evaluate the performance of, and to assign resources to, each of the business segments. HP does not allocate to its business segments certain operating expenses, which it manages separately at the corporate level. These unallocated costs include primarily restructuring charges and any associated adjustments related to restructuring actions, 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.

To provide improved visibility and comparability HP has reclassified segment operating results for fiscal 2011 to conform to certain fiscal 2012 organizational realignments. The realignment resulted in transfer of revenue and operating profit among Services, IPG, ESSN, Software and Corporate Investments. In addition, revenue was transferred among the business units within Services. These realignments include:

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

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

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

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

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

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

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

	Three months ended January 31			
	Net Revenue		Earnings (Loss) from Operations	
	2012	2011	2012	2011
	In millions			
Personal Systems Group	$ 8,873	$ 10,449	$ 464	$ 672
Services	8,626	8,529	905	1,381
Imaging and Printing Group	6,258	6,731	761	1,119
Enterprise Servers, Storage and Networking	5,018	5,599	562	830
Software[1]	946	725	162	120
HP Financial Services	950	827	91	79
Corporate Investments	58	62	(48)	(178)
Total segments	$ 30,729	$ 32,922	$ 2,897	$ 4,023

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

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

	Three months ended January 31 2012	Three months ended January 31 2011
	In millions	
Net revenue:		
Segment total	$ 30,729	$ 32,922
Eliminations of intersegment net revenue and other	(693)	(620)
Total HP consolidated net revenue	$ 30,036	$ 32,302
Earnings before taxes:		
Total segment earnings from operations	$ 2,897	$ 4,023
Corporate and unallocated costs, gains and eliminations	(153)	149
Unallocated costs related to stock-based compensation expense	(174)	(166)
Amortization of purchased intangible assets	(466)	(425)
Restructuring charges	(40)	(158)
Acquisition-related charges	(22)	(29)
Interest and other, net	(221)	(97)
Total HP consolidated earnings before taxes	$ 1,821	$ 3,297

In connection with certain fiscal 2012 organizational realignments, HP reclassified total assets between its Services, Imaging and Printing Group, Enterprise Servers, Storage and Networking, Software and Corporate Investments financial reporting segments. There have been no material changes to the total assets of HP's individual segments.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

Net revenue by segment and business unit

	Three months ended January 31	
	2012	2011
	In millions	
Net revenue:		
Notebooks	$ 4,942	$ 5,808
Desktops	3,206	3,896
Workstations	535	535
Other	190	210
Personal Systems Group	8,873	10,449
Infrastructure Technology Outsourcing	3,701	3,644
Technology Services	2,562	2,514
Application and Business Services	2,363	2,371
Services	8,626	8,529
Supplies	4,079	4,358
Commercial Hardware	1,489	1,565
Consumer Hardware	690	808
Imaging and Printing Group	6,258	6,731
Industry Standard Servers	3,072	3,448
Storage	955	1,012
Business Critical Systems	405	555
Networking	586	584
Enterprise Servers, Storage and Networking	5,018	5,599
Software[(1)]	946	725
HP Financial Services	950	827
Corporate Investments	58	62
Total segments	30,729	32,922
Eliminations of intersegment net revenue and other	(693)	(620)
Total HP consolidated net revenue	$ 30,036	$ 32,302

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Condensed Financial Statements and the related notes that appear elsewhere in this document.

OVERVIEW

We are a leading global provider of products, technologies, software, solutions and services to individual consumers, small- and medium-sized businesses, and large enterprises, including customers in the government, health and education sectors. Our offerings span:

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

We have seven business segments for financial reporting purposes: the Personal Systems Group ("PSG"), Services, the Imaging and Printing Group ("IPG"), Enterprise Servers, Storage and Networking ("ESSN"), Software, HP Financial Services ("HPFS") and Corporate Investments.

Our strategy and operations are currently focused on the following initiatives:

Strategic Focus

The core of our business is our hardware products, which include our PC, server, storage, networking, and imaging and printing products. Our software business provides enterprise IT management software, information management solutions and security intelligence/risk management solutions delivered in the form of traditional software licenses or as software-as-a-service that allow us to differentiate our hardware products and deploy them in a manner that helps our customers solve problems and meets our customers' needs to manage their infrastructure, operations, application life cycles, application quality and security, business processes, and structured and unstructured data. Our Converged Infrastructure portfolio of servers, storage and networking combined with our Cloud Service Automation software suite enables enterprise and service provider clients to deliver infrastructure, platform and software-as-a-service in a private, public or hybrid cloud environment. Layered on top of our hardware and software businesses is our services business, which provides opportunities to drive usage of HP products and solutions, enables us to implement and manage all the technologies upon which our customers rely, and gives us a platform to be more solution-oriented, particularly in our focus areas of cloud, security and analytics, and a better strategic partner with our customers.

Leveraging our Portfolio and Scale

We offer one of the IT industry's broadest portfolios of products and services, and we leverage 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

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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.

Investing in our Business

We are working to improve our execution and financial performance and align our cost structure to facilitate increased investment in our business to respond to industry shifts, strengthen our position in our core markets and accelerate growth in adjacent markets in anticipation of market trends, such as cloud computing, unstructured data, data center consolidation and automation, digitization, analytics and IT security. As part of these efforts, we are evaluating all of our businesses and looking for specific areas to improve our performance and effectiveness and rationalize costs. We are also creating innovative new products and developing new channels to connect with our customers. In addition, we have been making focused investments to strengthen our portfolio of products and services that we can offer to our customers, both through organic investments as well as through acquisitions. These investments will 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.

Aligning our Cost Structure

We are working to align our cost structure to our current revenue and margin profile and continuing to work to optimize operational effectiveness across the company. As part of those efforts, we are streamlining operations, optimizing and reducing complexity in our supply chain, removing unnecessary complexity from the way we design, manufacture, and deliver products, upgrading, standardizing and automating our sales tools and other key systems and processes, and taking other actions. In addition, we are continuing to implement the multi-year restructuring plan announced in June 2010 relating to our enterprise services business. See Note 6 to the Consolidated Condensed Financial Statements in Item 1 for further discussion of this restructuring plan and the associated restructuring charges.

The following provides an overview of our key first quarter fiscal 2012 financial metrics:

	HP[1] Consolidated	**PSG**	**Services**	**IPG**	**ESSN**	**Software**	**HPFS**
	In millions, except per share amounts						
Net revenue	$ 30,036	$ 8,873	$ 8,626	$ 6,258	$ 5,018	$ 946	$ 950
Year-over-year net revenue % (decrease) increase	(7.0)%	(15.1)%	1.1%	(7.0)%	(10.4)%	30.5%	14.9%
Earnings from operations	$ 2,042	$ 464	$ 905	$ 761	$ 562	$ 162	$ 91
Earnings from operations as a % of net revenue	6.8%	5.2%	10.5%	12.2%	11.2%	17.1%	9.6%
Net earnings	$ 1,468						
Net earnings per share							
Basic	$ 0.74						
Diluted	$ 0.73						

(1) Includes Corporate Investments and eliminations.

Cash and cash equivalents at January 31, 2012 totaled $8.1 billion, an increase of $0.1 billion from the October 31, 2011 balance of $8.0 billion. The increase for the first three months of fiscal 2012 was due primarily to $1.2 billion of cash provided from operations, the effect of which was partially offset by $1.0 billion of cash used to repurchase common stock and payment of dividends.

We intend the discussion of our financial condition and results of operations that follows to provide information that will assist in understanding our Consolidated Condensed Financial Statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our Consolidated Condensed Financial Statements.

The discussion of results of operations at the consolidated level is followed by a more detailed discussion of results of operations by segment.

For a further discussion of trends, uncertainties and other factors that could impact our operating results, see the section entitled "Factors That Could Affect Future Results."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Consolidated Condensed Financial Statements, which we have prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts 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, 2012 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011.

CONSTANT CURRENCY PRESENTATION

Revenue from our international operations has historically represented, and we expect will continue to represent, a majority of our overall net revenue. As a result, our revenue growth has been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. In order to provide a framework for assessing how each of our business segments performed excluding the impact of foreign currency fluctuations, we present the year-over-year percentage change in revenue performance on a constant currency basis, which assumes no change in the exchange rate from the prior-year period. This constant currency disclosure is provided in addition to, and not as a substitute for, the year-over-year percentage change in revenue on an as-reported basis.

RESULTS OF OPERATIONS

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

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

	Three months ended January 31			
	2012		2011[1]	
	Dollars	% of Revenue	Dollars	% of Revenue
	In millions			
Net revenue	$ 30,036	100%	$ 32,302	100%
Cost of sales[2]	23,313	77.6%	24,381	75.5%
Gross profit	6,723	22.4%	7,921	24.5%
Research and development	786	2.6%	798	2.5%
Selling, general and administrative	3,367	11.2%	3,117	9.6%
Amortization of purchased intangible assets	466	1.6%	425	1.3%
Restructuring charges	40	0.1%	158	0.5%
Acquisition-related charges	22	0.1%	29	0.1%
Earnings from operations	2,042	6.8%	3,394	10.5%
Interest and other, net	(221)	(0.7)%	(97)	(0.3)%
Earnings before taxes	1,821	6.1%	3,297	10.2%
Provision for taxes	353	1.2%	692	2.1%
Net earnings	$ 1,468	4.9%	$ 2,605	8.1%

(1) In connection with organizational realignments implemented in the first quarter of fiscal 2012, certain costs previously reported as Cost of sales have been reclassified as Selling, general and administrative expenses to better align those costs with the functional areas that benefit from those expenditures.

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

Net Revenue

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

	Three months ended January 31, 2012
	Percentage Points
Software	0.7
HP Financial Services	0.4
Services	0.3
Corporate Investments/Other	(0.2)
Imaging and Printing Group	(1.5)
Enterprise Servers, Storage and Networking	(1.8)
Personal Systems Group	(4.9)
Total HP	(7.0)

For the three months ended January 31, 2012, total HP net revenue decreased 7.0% (7.9% on a constant currency basis). U.S. net revenue decreased 10.1% to $10.2 billion for the first quarter of fiscal 2012, while net revenue from outside of the United States decreased 5.3% to $19.8 billion. Thailand has recently experienced severe flooding which impacted the manufacturing of hard disk drive ("HDD") components used in PCs, servers and storage devices, resulting in short-term supply constraints. HP's revenue decreased primarily due to volume declines in the PSG and ESSN segments, with more than half of those declines being a result of HDD supply constraints. In addition,

macroeconomic uncertainty adversely impacted revenue from our hardware businesses. The Software segment contributed favorably to the total HP net revenue change primarily as a result of the acquisition of Autonomy Corporation plc ("Autonomy"). An analysis of the change in net revenue for each business segment is included under "Segment Information" below.

Gross Margin

Total HP gross margin decreased by 2.1 percentage points for the three months ended January 31, 2012. Gross margins were impacted by an unfavorable currency impact driven primarily by the strength of the yen, a lower mix of ink supplies volume, competitive pricing in our hardware businesses and continued margin pressure in Services.

PSG gross margin decreased primarily as a result of a volume decline driven by HDD supply constraints and higher logistics costs, the effect of which was partially offset by a favorable commodity pricing environment, combined with a favorable currency impact and lower warranty costs.

Services gross margin decreased due primarily to rate concessions arising from contract renewals, investments in service delivery headcount and additional costs associated with contract deliverable delays.

IPG gross margin declined due primarily to an unfavorable currency impact driven by the strength of the yen and from lower ink supplies volume as a result of actions taken to reduce channel inventory coupled with soft demand in all regions.

ESSN gross margin decreased due primarily to lower selling prices as a result of competitive pressures and an unfavorable product mix and a volume decline driven in part by HDD supply constraints, the effect of which was partially offset by lower component costs.

Software gross margin decreased due primarily to a lower mix of license revenue and higher acquisition-related deferred revenue write-downs, the effect of which was partially offset by rate increases in services.

HPFS gross margin decreased due primarily to lower portfolio margins from a higher mix of revenue from operating leases.

Corporate Investments gross margin increased primarily as a result of a lower impact from the mobile device business associated with the Palm acquisition.

Operating Expenses

Research and Development

Total research and development ("R&D") expense decreased in the three months ended January 31, 2012 due primarily to elimination of R&D expense associated with the webOS device business, the effect of which was partially offset by additional expense from the acquisition of Autonomy. R&D expense increased for Software, Services and IPG and decreased for Corporate Investments, ESSN and PSG.

Selling, General and Administrative

Excluding the net gains on sale of real estate reported in the first quarter of fiscal 2011, selling, general and administrative ("SG&A") expense was flat for the three months ended January 31, 2012. SG&A expense as a percentage of net revenue increased for PSG, Services and ESSN and decreased for Corporate Investments, Software, IPG and HPFS.

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Amortization of Purchased Intangible Assets

The increase in amortization expense for the three months ended January 31, 2012 was due primarily to amortization expenses related to the intangible assets purchased as part of the Autonomy acquisition. This increase was partially offset by decreased amortization expenses related to certain intangible assets associated with prior acquisitions reaching the end of their amortization periods.

Restructuring

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 enterprise services restructuring plan.

Restructuring charges for the three months ended January 31, 2011 were $158 million. These charges included $97 million of severance and facility costs related to our fiscal 2010 enterprise services restructuring plan and $61 million of severance and facility costs related to our fiscal 2008 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 2012. Workforce rebalancing activities are considered part of normal operations as we continue to optimize our cost structure. Workforce rebalancing costs are included in our business segment results, and we expect to incur additional workforce rebalancing costs in the future.

Acquisition-related Charges

For the three months ended January 31, 2012, we recorded acquisition-related charges of $22 million primarily for retention bonuses associated with acquisitions completed in fiscal 2010 and 2011.

For the three months ended January 31, 2011, we recorded acquisition-related charges of $29 million primarily for consulting and integration costs, acquisition costs and retention bonuses associated with the acquisition of Electronic Data Systems Corporation and acquisitions completed in fiscal 2010.

Interest and Other, Net

Interest and other, net expense increased by $124 million for the three months ended January 31, 2012. The increase was driven primarily by higher average debt balances and higher currency transaction losses.

Provision for Taxes

Our effective tax rate was 19.4% and 21.0% for the three months ended January 31, 2012 and January 31, 2011, respectively. Our effective tax rate decreased due to an increase in the percentage of total earnings earned in lower-tax jurisdictions. 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, 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.

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In the three months ended January 31, 2011, we recorded discrete items with a net tax benefit of $101 million, decreasing the effective tax rate. These amounts included net tax benefits of $58 million from restructuring and acquisition charges. In addition, in December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law. We recorded a tax benefit of $43 million arising from the retroactive research and development credit provided by that legislation in the first quarter of fiscal 2011.

Segment Information

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

Personal Systems Group

	Three months ended January 31		
	2012	**2011**	**% Decrease**
	In millions		
Net revenue	$ 8,873	$ 10,449	(15.1)%
Earnings from operations	$ 464	$ 672	(31.0)%
Earnings from operations as a % of net revenue	5.2%	6.4%	

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

	Three months ended January 31, 2012
	Percentage Points
Notebook PCs	(8.3)
Desktop PCs	(6.6)
Workstations	
Other	(0.2)
Total PSG	(15.1)

PSG net revenue decreased 15.1% (16.2% when adjusted for currency) for the three months ended January 31, 2012. The industry-wide HDD supply constraints had an unfavorable impact on unit volumes and related revenue for the quarter. In addition, softness in both the consumer and commercial markets led to unit declines of 18%. In the first quarter of fiscal 2012, net revenue for consumer clients decreased 25% and commercial client net revenue decreased 7%. Net revenue for Notebook PCs decreased 15%, while net revenue for Desktop PCs decreased 18%. Workstations revenue remained flat. Net revenue in Other decreased 10% due primarily to the impact of the wind down of the Windows-based handheld business and a decrease in sales of consumer warranty extensions. The unfavorable impact of HDD supply constraints and market softness on PSG net revenue was partially offset by a 4% increase in average selling prices ("ASPs").

PSG earnings from operations as a percentage of net revenue decreased 1.2 percentage points for the three months ended January 31, 2012. The decrease was driven by a decline in gross margin due primarily to a volume decline driven by HDD supply constraints and higher logistics costs, the effect of which was partially offset by a favorable commodity pricing environment combined with a favorable currency impact and lower warranty costs. In addition to the decline in gross margin, operating expenses as a percentage of net revenue increased due primarily to the revenue decline and increased selling costs.

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Services

	Three months ended January 31		
	2012	2011	% Increase (Decrease)
	In millions		
Net revenue	$ 8,626	$ 8,529	1.1%
Earnings from operations	$ 905	$ 1,381	(34.5)%
Earnings from operations as a % of net revenue	10.5%	16.2%	

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

	Three months ended January 31, 2012
	Percentage Points
Infrastructure Technology Outsourcing	0.7
Technology Services	0.5
Application and Business Services	(0.1)
Total Services	1.1

Services net revenue increased 1.1% (0.3% when adjusted for currency) for the three months ended January 31, 2012 due to revenue increases in Infrastructure Technology Outsourcing and Technology Services. Infrastructure Technology Outsourcing net revenue increased by 2% due to an increase in product-related revenue and a favorable currency impact, the effect of which was partially offset by a decline in short-term project contracts with existing clients. Net revenue in Technology Services increased by 2% due primarily to growth in our consulting and support businesses, the effect of which was partially offset by reduced sales of third-party hardware. Application and Business Services net revenue was flat due primarily to a decline in short-term project work, the effect of which was offset by a favorable currency impact.

Services earnings from operations as a percentage of net revenue decreased by 5.7 percentage points in the three months ended January 31, 2012. Operating margin decreased due primarily to rate concessions arising from contract renewals, investments in service delivery and sales headcount and additional costs associated with contract deliverable delays.

Imaging and Printing Group

	Three months ended January 31		
	2012	2011	% Decrease
	In millions		
Net revenue	$ 6,258	$ 6,731	(7.0)%
Earnings from operations	$ 761	$ 1,119	(32.0)%
Earnings from operations as a % of net revenue	12.2%	16.6%	

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The components of the weighted net revenue change as compared to the prior-year period by business unit were as follows:

	Three months ended January 31, 2012
	Percentage Points
Supplies	(4.1)
Consumer Hardware	(1.8)
Commercial Hardware	(1.1)
Total IPG	(7.0)

IPG net revenue decreased 7.0% (7.2% when adjusted for currency) for the three months ended January 31, 2012, due primarily to revenue decreases in Supplies, Consumer Hardware and Commercial Hardware. Net revenue for Supplies decreased 6% in the first quarter of fiscal 2012, driven by actions taken to reduce channel inventory coupled with soft demand in all regions. These effects were partially offset by growth in large format printing supplies. Net revenue for Consumer Hardware decreased 15% in the first quarter of fiscal 2012, driven primarily by softness in consumer spending. Net revenue for Commercial Hardware decreased 5% in the first quarter of fiscal 2012, due primarily to volume reductions in high-end printers and a continued mix shift from high-end to low-end printers. In addition, the LaserJet business was impacted by supply constraints of printer components as a result of flooding in Thailand. These effects were partially offset by double-digit net revenue growth in the graphics business and managed print services business.

IPG earnings from operations as a percentage of net revenue decreased by 4.4 percentage points in the first quarter of fiscal 2012, due primarily to a decline in gross margin, the effect of which was partially offset by lower operating expenses as a percentage of net revenue. The gross margin declined due to an unfavorable currency impact driven by the strength of the yen and from lower ink supplies volume as a result of actions taken to reduce channel inventory, coupled with soft demand in all regions. The decrease in operating expenses as a percentage of net revenue in the first quarter of fiscal 2012 was due primarily to reduced marketing expenses, the effect of which was partially offset by higher research and development investments.

Enterprise Servers, Storage and Networking

	Three months ended January 31		
	2012	2011	% Decrease
	In millions		
Net revenue	$ 5,018	$ 5,599	(10.4)%
Earnings from operations	$ 562	$ 830	(32.3)%
Earnings from operations as a % of net revenue	11.2%	14.8%	

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

	Three months ended January 31, 2012
	Percentage Points
Industry Standard Servers ("ISS")	(6.7)
Business Critical Systems ("BCS")	(2.7)
Storage	(1.0)
Networking	
Total ESSN	(10.4)

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ESSN net revenue decreased 10.4% (11.9% when adjusted for currency) for the three months ended January 31, 2012 due to revenue decreases in ISS, Storage and BCS. ISS net revenue decreased by 11%, driven primarily by HDD supply constraints as a result of flooding in Thailand and weaker market conditions. These effects were partially offset by strong demand from public and private cloud customers. BCS net revenue decreased by 27% for the three months ended January 31, 2012, mainly as a result of declining demand following an announcement by an alliance partner that it intends to cease software support for our Itanium-based servers. The impact from reduced sales of Itanium-based servers was partially offset by higher demand for the latest generation of BCS scale-up x86 products and growth in NonStop servers. Storage net revenue decreased by 6% due to a decline in storage networking and tape products, the effect of which was partially offset by strong performance in 3PAR products and StoreOnce data deduplication solutions. Networking net revenue was flat for the three months ended January 31, 2012, with higher market demand for our core data center products offset by competitive pressures.

ESSN earnings from operations as a percentage of net revenue decreased by 3.6 percentage points for the three months ended January 31, 2012 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 driven by lower selling prices as a result of competitive pressures and an unfavorable product mix and a volume decline driven in part by HDD supply constraints, the effect of which was partially offset by lower component costs. The increase in operating expenses as a percentage of net revenue was driven by a decline in revenues, the effect of which was partially offset by benefits from certain government incentive programs in Asia.

Software

	Three months ended January 31		
	2012	2011	% Increase
	In millions		
Net revenue	$ 946	$ 725	30.5%
Earnings from operations	$ 162	$ 120	35.0%
Earnings from operations as a % of net revenue	17.1%	16.6%	

Software net revenue increased 30.5% (29.1% when adjusted for currency) for the three months ended January 31, 2012 due to revenues from acquired companies, primarily Autonomy, as well as growth in the organic business. Net revenue from services, support and licenses increased by 108%, 22% and 12%, respectively.

Software earnings from operations as a percentage of net revenue increased by 0.5 percentage points for the three months ended January 31, 2012. The operating margin improvement was due primarily to rate increases in services and lower integration costs associated with fiscal 2010 acquisitions, the effect of which was partially offset by a lower mix of license revenue, higher deferred revenue write-downs, and integration costs associated with the Autonomy acquisition.

HP Financial Services

	Three months ended January 31		
	2012	2011	% Increase
	In millions		
Net revenue	$ 950	$ 827	14.9%
Earnings from operations	$ 91	$ 79	15.2%
Earnings from operations as a % of net revenue	9.6%	9.6%	

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HPFS net revenue increased by 14.9% for the three months ended January 31, 2012. The net revenue increase was due primarily to portfolio growth, a higher operating lease mix due to higher services-led financing volume, along with higher buyout and end-of-lease revenue from residual expirations in line with portfolio growth.

HPFS earnings from operations as a percentage of net revenue was flat for the three months ended January 31, 2012 due primarily to a decrease in gross margin, the effect of which was offset by a decrease in operating expenses as a percentage of net revenue. The decrease in gross margin was the result of lower portfolio margins from a higher mix of revenue from operating leases. The decrease in operating expenses as a percentage of net revenue was due primarily to continued improvement in cost efficiencies.

Financing Originations

	Three months ended January 31	
	2012	2011
	In millions	
Total financing originations	$ 1,543	$ 1,543

New financing originations, which represent the amounts of financing provided to customers for equipment and related software and services, including intercompany activity, was flat for the three months ended January 31, 2012.

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.

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

	January 31, 2012	October 31, 2011
	In millions	
Portfolio assets[(1)]	$ 12,622	$ 12,699
Allowance for doubtful accounts[(2)]	140	130
Operating lease equipment reserve	87	84
Total reserves	227	214
Net portfolio assets	$ 12,395	$ 12,485
Reserve coverage	1.8%	1.7%
Debt to equity ratio[(3)]	7.0x	7.0x

(1) Portfolio assets include gross financing receivables of approximately $7.3 billion at both January 31, 2012 and October 31, 2011 and net equipment under operating leases of $2.5 billion and $2.7 billion at January 31, 2012 and October 31, 2011, respectively, as disclosed in Note 9 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference. Portfolio assets also include capitalized profit on intercompany equipment transactions of approximately $1.0 billion at both January 31, 2012 and October 31, 2011 and intercompany

leases of approximately $1.8 billion and $1.7 billion at January 31, 2012 and October 31, 2011, respectively, both of which are eliminated in consolidation.

(2) Allowance for doubtful accounts includes both the short-term and the long-term portions of the allowance on financing receivables.

(3) HPFS debt consists of intercompany equity that is treated as debt for segment reporting purposes, intercompany debt and debt issued directly by HPFS.

Net portfolio assets at January 31, 2012 decreased 0.7% from October 31, 2011. The decrease resulted from an unfavorable currency impact, the effect of which was partially offset by new financing originations during the first three months of fiscal 2012. The overall percentage of portfolio asset reserves increased as a percentage of the portfolio assets.

For the three months ended January 31, 2012 and 2011, HPFS recorded net bad debt expenses of $18 million against specific reserves.

Corporate Investments

	Three months ended January 31		
	2012	2011	% Increase (Decrease)
	In millions		
Net revenue	$ 58	$ 62	(6.5)%
Loss from operations	$ (48)	$ (178)	73.0%
Loss from operations as a % of net revenue	(82.8)%	(287.1)%	

Net revenue in Corporate Investments relates primarily to business intelligence solutions, mobile devices associated with the Palm acquisition and licensing of HP technology to third parties. The revenue decrease in Corporate Investments was due primarily to the divestiture of HP's Halo video collaboration products business in July 2011, the effect of which was partially offset by higher revenue from business intelligence solutions.

Corporate Investments reported a lower loss from operations for the three months ended January 31, 2012, due primarily to a lower impact from the former mobile device business associated with the Palm acquisition. The loss from operations in Corporate Investments was also due to expenses carried in the segment associated with corporate development, global alliances and HP Labs, which expenses decreased for the three months ended January 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Our cash balances are held in numerous locations throughout the world, with substantially all of those amounts held outside of the United States. A majority of the amounts held outside of the United States are generally utilized to support non-U.S. liquidity needs. Most of the amounts held outside of the United States could be repatriated to the United States but, under current law, would be subject to United States federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. We have provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered indefinitely reinvested outside of the United States. Repatriation could result in additional U.S. federal income tax payments in future years. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is that cash balances would remain outside of the United States and we would meet U.S. liquidity needs through ongoing cash flows, external borrowings, or both. We utilize a variety of tax planning and financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed. We do not expect restrictions or potential taxes on repatriation of amounts held outside of the United States to have a material effect on HP's overall liquidity, financial condition or results of operations.

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FINANCIAL CONDITION (Sources and Uses of Cash)

	Three months ended January 31	
	2012	**2011**
	In millions	
Net cash provided by operating activities	$ 1,193	$ 3,070
Net cash used in investing activities	(751)	(363)
Net cash used in financing activities	(372)	(3,702)
Net increase (decrease) in cash and cash equivalents	$ 70	$ (995)

Operating Activities

Compared to the corresponding period in 2011, net cash provided by operating activities decreased by approximately $1.9 billion for the three months ended January 31, 2012. The decrease was due primarily to lower net earnings and higher utilization of cash resources for payment of accounts payable, the impact of which was partially offset by a decrease in accounts and financing receivables and inventory.

Our key working capital metrics are as follows:

	Three months ended January 31	
	2012	**2011**
Days of sales outstanding in accounts receivable	48	46
Days of supply in inventory	28	25
Days of purchases outstanding in accounts payable.	(48)	(50)
Cash conversion cycle	28	21

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

Days of supply in inventory ("DOS") measures the average number of days from procurement to sale of our product. DOS is calculated by dividing ending inventory by a 90-day average cost of goods sold.

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

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

The increase in DSO was due primarily to unfavorable revenue linearity, extended payment terms, an increase in unbilled and aged accounts receivables and longer payment terms related to receivables acquired with the Autonomy acquisition. These effects were offset by a favorable U.S. dollar currency impact and a higher customer usage of cash discounts. The increase in DOS was a result of higher inventory levels at January 31, 2012 due primarily to strategic purchases of certain components and macroeconomic softness impacting our consumer businesses and commercial hardware businesses. The decrease in DPO was due primarily to purchasing linearity during the quarter. These changes contributed to the increase in the cash conversion cycle for the three months ended January 31, 2012.

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Investing Activities

Compared to the corresponding period in fiscal 2011, net cash used in investing activities increased by approximately $0.4 billion for the three months ended January 31, 2012, due primarily to lower proceeds from the sale of property, plant and equipment.

Financing Activities

Compared to the corresponding period in fiscal 2011, net cash used in financing activities decreased by approximately $3.3 billion for the three months ended January 31, 2012. The decrease was due primarily to lower net repayments of commercial paper, a decrease in cash paid for the repurchase of common stock and higher net proceeds from the issuance of debt, the impact of which was partially offset by lower cash received from the issuance of common stock under employee stock plans.

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.

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 increased to $30.9 billion as of January 31, 2012, as compared to $30.6 billion at October 31, 2011, bearing weighted-average interest rates of 2.7% and 2.4%, respectively. During the first three months of fiscal 2012, we issued $4.8 billion and repaid $7.4 billion of commercial paper and also issued $3.0 billion in U.S. Dollar Global Notes under the 2009 Shelf Registration Statement.

Since January 31, 2012, we have repaid $2.5 billion in U.S. Dollar Global Notes. In addition, on March 12, 2012, we issued $2.0 billion of U.S. Dollar Global Notes under the 2009 Shelf Registration Statement. The newly issued Global Notes consist of fixed-rate notes at market rates with maturities of five and ten years from the date of issuance.

We have $1.6 billion in U.S. Dollar Global Notes that will mature during the remainder of fiscal 2012. We expect to use a combination of cash from operations and our available borrowing resources to repay those maturing Global Notes.

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.

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

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Available Borrowing Resources

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

	At January 31, 2012	
	In millions	
2009 Shelf Registration Statement[1]		Unspecified
Commercial paper programs[1]	$	15,980
Uncommitted lines of credit[1]	$	1,300
Revolving trade receivables-based facilities[2]	$	646

(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.

(2) For more information on our revolving trade receivables-based facilities, see Note 4 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Credit Ratings

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

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

Our credit ratings remain under negative outlook by Fitch Ratings Services. While we do not have any rating downgrade triggers that would accelerate the maturity of a material amount of our debt, these downgrades have increased the cost of borrowing under our credit facilities, have reduced market capacity for our commercial paper, and may require the posting of additional collateral under some of our derivative contracts. In addition, any further downgrade in our credit ratings by any of the three rating agencies may further impact us in a similar manner, and, depending on the extent of the downgrade, could have a negative impact on our liquidity and capital position. We will rely on alternative sources of funding, including drawdowns under our credit facilities or the issuance of debt or other securities under our existing shelf registration statement, if necessary to offset reductions in the market capacity for our commercial paper.

CONTRACTUAL AND OTHER OBLIGATIONS

Income Tax Obligations

At January 31, 2012 we had approximately $2.2 billion of recorded liabilities and related interest and penalties pertaining to uncertainty in income tax positions, which will be partially offset by $283 million of deferred tax assets and interest receivable. These liabilities and related interest and penalties include $72 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

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Financial Statements in Item 1, which is incorporated herein by reference, for additional information on taxes.

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, 2012, we are not involved in any material unconsolidated SPEs.

We have revolving trade receivables-based facilities permitting us to sell certain trade receivables to third parties on both a non-recourse and partial recourse basis. The total aggregate capacity of the facilities was $1.4 billion as of January 31, 2012. For more information on our revolving trade receivables-based facilities, see Note 4 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

FACTORS THAT COULD AFFECT FUTURE RESULTS

Because of the following factors, as well as other variables affecting our operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

If we are unsuccessful at improving our execution and financial performance and aligning our cost structure, our results of operations may be adversely affected.

We are working to improve our execution and financial performance and align our cost structure with our revenue and margin profile. These efforts are designed to enable us to invest in our business to respond to industry shifts and capitalize on emerging opportunities in areas like cloud computing, security, and information management, and to better serve our customers and partners in both the short- and long-term. As part of these efforts, we are evaluating all of our businesses and looking for specific areas to improve our performance and effectiveness and rationalize costs. For example, we have undertaken a multi-year initiative to turn around our services business, including expanding into higher-margin enterprise services and improving resource utilization. We are also optimizing and reducing complexity in our supply chain that supports our product businesses. In addition, we are working to improve sales productivity and execution in our businesses. If we do not succeed in these efforts, or if these efforts are more costly or time consuming than expected, our results of operations may be adversely affected.

Competitive pressures could harm our revenue, gross margin and prospects.

We encounter aggressive competition from numerous and varied competitors in all areas of our business, and our competitors may target our key market segments. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, reputation, distribution, range of products and services, ease of use of our products, account relationships, customer training, service and support, security, availability of application software, and Internet infrastructure offerings. If our products, services, support and cost structure do not enable us to compete successfully based on any of those criteria, our operations, results and prospects could be harmed.

Unlike many of our competitors, we have a portfolio of businesses and must allocate resources across these businesses while competing with companies that specialize in one or more of these product lines. As a result, we may invest less in certain areas of our businesses than our competitors do, and these competitors may have greater financial, technical and marketing resources available to them than our businesses that compete against them. Industry consolidation also may affect competition by creating larger, more homogeneous and potentially stronger competitors in the markets in which we compete, and our competitors also may affect our business by entering into exclusive arrangements with existing or potential customers or suppliers.

Companies with whom we have alliances in some areas may be competitors in other areas. For example, in the second quarter of fiscal 2011, an alliance partner that also markets a line of competing servers announced that it intends to cease software development for our Itanium-based servers, which has resulted in orders for our servers being canceled or delayed. If that decision is not reversed or if another solution is not successfully implemented, there would be reduced demand for our Itanium-based servers over the longer term. 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 to lower the prices of many of our products and services to stay competitive, while at the same time trying to maintain or improve revenue and gross margin. The markets in which we do business, particularly the personal computer and printing markets, are highly competitive, and we encounter aggressive price competition for all of our products and services from numerous companies globally. Over the past several years, price competition in the market for personal computers, printers and related products has been particularly intense as competitors have aggressively cut prices and lowered their product margins for these products. In addition, competitors in some of the markets in which we compete with a greater presence in lower-cost jurisdictions may be able to offer lower prices than we are able to offer. Our results of operations and financial condition may be adversely affected by these and other industry-wide pricing pressures.

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

Even if we are able to maintain or increase market share for a particular product, revenue could decline because the product is in a maturing industry. Revenue and margins also could decline due to increased competition from other types of products. For example, growing demand for an increasing array of mobile computing devices and the development of cloud-based solutions may reduce demand for some of our existing hardware products. In addition, refill and remanufactured alternatives for some of HP's LaserJet toner and inkjet cartridges compete with HP's supplies business. Other companies have also developed and marketed new compatible cartridges for HP's LaserJet and inkjet products, particularly in jurisdictions outside of the United States where adequate intellectual property protection may not exist.

If we cannot successfully execute on our strategy and continue to develop, manufacture and market products, services and solutions that meet customer requirements for innovation and quality, our revenue and gross margin may suffer.

Our long-term strategy is focused on leveraging our portfolio of hardware, software and services as we adapt to a changing/hybrid model of IT delivery and consumption driven by the growing adoption of cloud computing and increased demand for integrated IT solutions. To successfully execute on this strategy, we need to continue to evolve our historically hardware-centric business model towards a model that includes more software and higher value services offerings. In addition, we need to continue to further evolve the focus of our organization towards the delivery of integrated IT solutions for our customers. Any failure to successfully execute this strategy could adversely affect our operating results.

The process of developing new high technology products, services and solutions and enhancing existing products, services and solutions is complex, costly and uncertain, and any failure by us to anticipate customers' changing needs and emerging technological trends accurately could significantly harm our market share and results of operations. For example, as we transition to an environment characterized by cloud-based computing and software being delivered as a service, we must continue to successfully develop and deploy cloud-based solutions for our customers. We must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products, services and solutions. In addition, after we develop a product, we must be able to manufacture appropriate volumes quickly and at low costs. To accomplish this, we must accurately forecast volumes, mixes of products and configurations that meet customer requirements, and we may not succeed at doing so within a given product's life cycle or at all. Any delay in the development, production or marketing of a new product, service or solution could result in us not being among the first to market, which could further harm our competitive position.

In the course of conducting our business, we must adequately address quality issues associated with our products and services, including defects in our engineering, design and manufacturing processes and unsatisfactory performance under service contracts, as well as defects in third-party components included in our products and unsatisfactory performance by third-party contractors. In order to address quality issues, we work extensively with our customers and suppliers and engage in product testing to determine the causes of problems and to determine appropriate solutions. However, the products and services 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. Finding solutions to 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, 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 adversely affect our operating results.

Economic weakness and uncertainty could adversely affect our revenue, gross margin and expenses.

Our revenue and gross margin depend significantly on worldwide economic conditions and the demand for technology hardware, software and services in the markets in which we compete. Economic weakness and uncertainty, including the ongoing macroeconomic challenges in the United States and the debt crisis in certain countries in the European Union, have resulted, and may result in the future, in decreased revenue, gross margin, earnings or growth rates and difficulty managing inventory levels. In addition, sustained uncertainty about current global economic conditions may adversely affect demand for our products and services. Economic weakness and uncertainty also make it more difficult for us to make accurate forecasts of revenue, gross margin and expenses.

We also have experienced, and may experience in the future, gross margin declines in certain businesses, reflecting the effect of items such as competitive pricing pressures, inventory write-downs and increases in component and manufacturing costs resulting from higher labor and material costs borne by our manufacturers and suppliers that, as a result of competitive pricing pressures or other factors, we are unable to pass on to our customers. In addition, our business may be disrupted if we are unable to obtain equipment, parts or components from our suppliers and our suppliers from their suppliers due to the insolvency of key suppliers or the inability of key suppliers to obtain credit.

Economic weakness and uncertainty could cause our expenses to vary materially from our expectations. Any financial turmoil affecting the banking system and financial markets or any significant financial services institution failures could negatively impact our treasury operations, as the financial condition of such parties may deteriorate rapidly and without notice in times of market volatility and disruption. Poor financial performance of asset markets could lead to increased pension and post-retirement benefit expenses. 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.

Any failure by us to successfully align our cost structure to our current revenue and margin profile could result in total costs and expenses that are greater than expected, which could adversely affect our operating profit and net earnings and limit our ability to invest in and grow our business.

We are working to align our cost structure to our current revenue and margin profile. As part of those efforts, we are streamlining operations, optimizing and reducing complexity in our supply chain, removing unnecessary complexity from the way we design, manufacture, and deliver products, upgrading, standardizing and automating our sales tools and other key systems and processes, and taking other actions. We may experience delays in the anticipated timing of activities related to these efforts and higher than expected or unanticipated costs to implement them. In addition, we are vulnerable to increased risks associated with implementing changes to our tools, systems and processes 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 are unsuccessful at aligning our cost structure, our operating profit and net earnings could be adversely affected, which could limit our ability to invest in and grow our business.

We also implemented a multi-year restructuring plan in the third quarter of fiscal 2010 relating to our enterprise services business. Our ability to achieve the targeted cost savings and other benefits from that plan 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, including potential delays in the implementation of that plan 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. 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.

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

Our operations depend on our ability to anticipate our needs for components, products and services and our suppliers' ability to deliver sufficient quantities of quality components, products and services at reasonable prices in time for us to meet critical schedules. Given the wide variety of systems,

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products and services that we offer, the large number of our suppliers and contract manufacturers that are dispersed across the globe, and the long lead times that are required to manufacture, assemble and deliver certain components and products, problems could arise in planning production and managing inventory levels that could seriously harm us. In addition, our ongoing efforts to optimize the efficiency of our supply chain could cause supply disruptions and be more expensive, time consuming and resource-intensive than expected. Other supplier problems that we could face include component shortages, excess supply, risks related to the terms of our contracts with suppliers, risks associated with contingent workers, and risks related to our relationships with single source suppliers, as described below.

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, as discussed under "Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses" below, we obtain disk drive components from suppliers with operations in Thailand that have been severely impacted by the recent floods in that region, which has caused a short-term reduction in the supply of those components. In addition, our PC business relies heavily upon Outsourced Manufacturers ("OMs") to manufacture its products and is therefore dependent upon the continuing operations of those OMs to fulfill demand for our PC products. HP represents a substantial portion of the business of some of these OMs, and any changes to the nature or volume of business transacted by HP with a particular OM could adversely affect the operations and financial condition of the OM and lead to shortages or delays in receiving products from that OM. If shortages or delays persist, the price of these components may increase, and we may be exposed to quality issues or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build products or provide services in a timely manner in the quantities or according to the specifications needed. Accordingly, our revenue and gross margin could suffer as we could lose time-sensitive sales, incur additional freight costs or be unable to pass on price increases to our customers. If we cannot adequately address supply issues, we might have to reengineer some products or service offerings, resulting in further costs and delays.

Oversupply. In order to secure components for the provision of products or services, at times we may make advance payments to suppliers or enter into non-cancelable commitments with vendors. In addition, we may purchase components strategically in advance of demand to take advantage of favorable pricing or to address concerns about the availability of future components. If we fail to anticipate customer demand properly, a temporary oversupply could result in excess or obsolete components, which could adversely affect our gross margin.

Contractual terms. As a result of binding price or purchase commitments with vendors, we may be obligated to purchase components or services at prices that are higher than those available in the current market and be limited in our ability to respond to changing market conditions. In the event that we become committed to purchase components or services for prices in excess of the current market price, we may be at a disadvantage to competitors who have access to components or services at lower prices, and our gross margin could suffer. In addition, many of our competitors obtain products or components from the same OMs and suppliers that we utilize. Our competitors may obtain better pricing and other terms and more favorable allocations of products and components during periods of limited supply, and our ability to engage in relationships with certain OMs and suppliers could be limited. The practice employed by our PC business of purchasing product components and transferring those components to its

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OMs may create large supplier receivables with the OMs that, depending on the financial condition of the OMs, may have risk of uncollectability. In addition, certain of our OMs and suppliers may decide in the future to discontinue conducting business with us. Any of these actions by our competitors, OMs or suppliers could adversely affect our future operating results and financial condition.

Contingent workers. We also rely on third-party suppliers for the provision of contingent workers, and our failure to manage our use of such workers effectively could adversely affect our results of operations. We have been exposed to various legal claims relating to the status of contingent workers in the past and could face similar claims in the future. We may be subject to shortages, oversupply or fixed contractual terms relating to contingent workers, as described above. Our ability to manage the size of, and costs associated with, the contingent workforce may be subject to additional constraints imposed by local laws.

Single source suppliers. Our use of single source suppliers for certain components could exacerbate our supplier issues. We obtain a significant number of components from single sources due to technology, availability, price, quality or other considerations. For example, we rely on Intel to provide us with a sufficient supply of processors for many of our PCs, workstations and servers, and some of those processors are customized for our products. New products that we introduce may utilize custom components obtained from only one source initially until we have evaluated whether there is a need for additional suppliers. Replacing a single source supplier could delay production of some products as replacement suppliers initially may be subject to capacity constraints or other output limitations. For some components, such as customized components and some of the processors that we obtain from Intel, alternative sources may not exist or those alternative sources may be unable to produce the quantities of those components necessary to satisfy our production requirements. In addition, we sometimes purchase components from single source suppliers under short-term agreements that contain favorable pricing and other terms but that may be unilaterally modified or terminated by the supplier with limited notice and with little or no penalty. The performance of such single source suppliers under those agreements (and the renewal or extension of those agreements upon similar terms) may affect the quality, quantity or price of components to HP. The loss of a single source supplier, the deterioration of our relationship with a single source supplier, or any unilateral modification to the contractual terms under which we are supplied components by a single source supplier could adversely affect our revenue and gross margins.

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

Our worldwide operations could be disrupted by earthquakes, telecommunications failures, power or water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics or pandemics and other natural or manmade disasters or catastrophic events, for which we are predominantly self-insured. The occurrence of any of these business disruptions could result in significant losses, seriously harm our revenue and financial condition, adversely affect our competitive position, increase our costs and expenses, and require substantial expenditures and recovery time in order to fully resume operations. Our corporate headquarters, and a portion of our research and development activities, are located in California, and other critical business operations and some of our suppliers are located in California and Asia, near major earthquake faults known for seismic activity. In addition, all six of our principal worldwide IT data centers are located in the southern United States, making our operations more vulnerable to natural disasters or other business disruptions occurring in that geographical area. The manufacture of product components, the final assembly of our products and other critical operations are concentrated in certain geographic locations, including Shanghai, Singapore and India. We also rely on major logistics hubs primarily in Asia to manufacture and distribute our products and in the southwestern United States to import products into the Americas region. Our operations could be adversely affected if manufacturing, logistics or other operations in these locations are disrupted for any reason, including natural disasters, information technology system failures, military actions or economic, business, labor, environmental, public health, regulatory or political issues. The ultimate impact on us, our significant suppliers and our general infrastructure of being located near major earthquake faults and being consolidated in certain geographical areas is unknown. However in the event of a major earthquake or other natural disaster or catastrophic event, our revenue, profitability and financial condition could suffer.

Thailand has recently experienced severe flooding that has caused widespread damage to the local manufacturing industry. HP obtains disk drive components used in its PCs, servers and storage devices from suppliers with operations in Thailand that have been severely impacted by the flooding. We have experienced short-term shortages in the supply of these disk drive components, which adversely affected our revenue, gross margins and results of operations in the first quarter of fiscal 2012, and we may continue to experience shortages during the remainder of fiscal 2012. If we are unable to support our ongoing demand for disk drive components, our revenue, gross margins and results of operations may continue to be adversely affected.

System security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt our internal operations or information technology services provided to customers, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business. In addition, our outsourcing services business routinely processes, stores and transmits large amounts of data for our clients, including sensitive and personally identifiable information. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our clients, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us, our customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. We also could lose existing or potential customers for outsourcing services or other IT solutions or incur significant expenses in connection with our customers' system failures or any actual or perceived security vulnerabilities in our products. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions have adversely affected in the past, and in the future could adversely affect, our financial results, stock price and reputation.

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

Our revenue, gross margin and profit vary among our products and services, customer groups and geographic markets and therefore will likely be different in future periods than our current results. Our revenue depends on the overall demand for our products and services. Delays or reductions in IT spending could materially adversely affect demand for our products and services, which could result in a significant decline in revenues. Overall gross margins and profitability in any given period are dependent partially on the product, service, customer and geographic mix reflected in that period's net revenue. Competition, lawsuits, investigations and other risks affecting those businesses therefore may have a significant impact on our overall gross margin and profitability. Certain segments have a higher fixed cost structure and more variation in gross margins across their business units and product portfolios than others and may therefore experience significant operating profit volatility on a quarterly 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.

HP's stock price has historically fluctuated and may continue to fluctuate, which may make future prices of HP's stock difficult to predict.

HP's stock price, like that of other technology companies, can be volatile. Some of the factors that could affect our stock price are:

- speculation in the media or investment community about, or actual changes in, our business, strategic position, market share, organizational structure, operations, financial condition, financial reporting and results, effectiveness of cost-cutting efforts, value or liquidity of our investments, exposure to market volatility, prospects, business combination or investment transactions, stock price performance or executive team;

- the announcement of new or planned products, services, technological innovations, acquisitions, divestitures or other significant transactions by HP or its competitors;

- quarterly increases or decreases in revenue, gross margin, earnings or cash flow from operations, changes in estimates by the investment community or guidance provided by HP, and variations between actual and estimated financial results;

- announcements of actual and anticipated financial results by HP's competitors and other companies in the IT industry; and

- the timing and amount of share repurchases by HP.

General or industry specific market conditions or stock market performance or domestic or international macroeconomic and geopolitical factors unrelated to HP's performance also may affect the price of HP stock. For these reasons, investors should not rely on recent or historical trends to predict future stock prices, financial condition, results of operations or cash flows. In addition, following periods of volatility in a company's securities, securities class action litigation against a company is sometimes instituted. If instituted against HP, this type of litigation could result in substantial costs and the diversion of management time and resources.

Our revenue, cost of sales, and expenses may suffer if we cannot continue to license or enforce the intellectual property rights on which our businesses depend or if third parties assert that we violate their intellectual property rights.

We rely upon patent, copyright, trademark and trade secret laws in the United States, similar laws in other countries, and agreements with our employees, customers, suppliers and other parties, to establish and maintain intellectual property rights in the products and services we sell, provide or otherwise use in our operations. However, any of our intellectual property rights could be challenged, invalidated, infringed or circumvented, or such intellectual property rights may not be sufficient to permit us to take advantage of current market trends or otherwise to provide competitive advantages, either of which could result in costly product redesign efforts, discontinuance of certain product offerings or other competitive harm. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions we may be unable to protect our proprietary technology adequately against unauthorized third-party copying or use; this, too, could adversely affect our competitive position.

Because of the rapid pace of technological change in the information technology industry, much of our business and many of our products rely on key technologies developed or licensed by third parties. We may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms, or such third parties may demand cross-licenses to our intellectual property. In addition, it is possible that as a consequence of a merger or acquisition, third parties may obtain licenses to some of our intellectual property rights or our business may be subject to certain restrictions that were not in place prior to the transaction. Consequently, we may lose a competitive advantage with respect to these intellectual property rights or we may be required to enter into costly arrangements in order to terminate or limit these rights.

Third parties also may claim that we or customers indemnified by us are infringing upon their intellectual property rights. For example, individuals and groups frequently purchase intellectual property assets for the purpose of asserting claims of infringement and attempting to extract settlements from companies such as HP and their customers. The number of these claims has increased significantly in recent periods and may continue to increase in the future. If we cannot or do not license infringed intellectual property at all or on reasonable terms, or if we are required to substitute similar technology from another source, our operations could be adversely affected. Even if we believe that intellectual property claims are without merit, they can be time consuming and costly to defend and may divert management's attention and resources away from our business. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlement or license agreements, pay costly damage awards, or face a temporary or permanent injunction prohibiting us from importing, marketing or selling certain of our products. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable or unwilling to uphold its contractual obligations to us.

Finally, our results of operations and cash flows have been and could continue to be affected in certain periods and on an ongoing basis by the imposition, accrual and payment of copyright levies or similar fees. In certain countries (primarily in Europe), proceedings are ongoing or have been concluded involving HP in which groups representing copyright owners 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

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amount of the copyright levies will depend on the types of products determined to be subject to the levy, the number of units of those products sold during the period covered by the levy, and the per unit fee for each type of product, all of which are affected by several factors, including the outcome of ongoing litigation involving HP and other industry participants and possible action by the legislative bodies in the applicable countries, and could be substantial. Consequently, the ultimate impact of these copyright levies or similar fees, and the ability of HP to recover such amounts through increased prices, remains uncertain.

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

Sales outside the United States make up approximately 66% 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.

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As approximately 66% 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, even if prohibited by our policies, could have an adverse effect on our business and reputation.

If we fail to manage the distribution of our products and services properly, our revenue, gross margin and profitability could suffer.

We use a variety of distribution methods to sell our products and services, including third-party resellers and distributors and both direct and indirect sales to both enterprise accounts and consumers. Successfully managing the interaction of our direct and indirect channel efforts to reach various potential customer segments for our products and services is a complex process. Moreover, since each distribution method has distinct risks and gross margins, our failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our revenue and gross margins and therefore our profitability. Other distribution risks are described below.

Our financial results could be materially adversely affected due to channel conflicts or if the financial conditions of our channel partners were to weaken.

Our future operating results may be adversely affected by any conflicts that might arise between our various sales channels, the loss or deterioration of any alliance or distribution arrangement or the loss of retail shelf space. Moreover, some of our wholesale and retail distributors may have insufficient financial resources and may not be able to withstand changes in business conditions, including economic weakness and industry consolidation. Many of our significant distributors operate on narrow product margins and have been negatively affected by business

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pressures. Considerable trade receivables that are not covered by collateral or credit insurance are outstanding with our distribution and retail channel partners. Revenue from indirect sales could suffer, and we could experience disruptions in distribution if our distributors' financial conditions, abilities to borrow funds in the credit markets or operations weaken.

Our inventory management is complex as we continue to sell a significant mix of products through distributors.

We must manage inventory effectively, particularly with respect to sales to distributors, which involves forecasting demand and pricing issues. Distributors may increase orders during periods of product shortages, cancel orders if their inventory is too high or delay orders in anticipation of new products. Distributors also may adjust their orders in response to the supply of our products and the products of our competitors and seasonal fluctuations in end-user demand. Our reliance upon indirect distribution methods may reduce visibility to demand and pricing issues, and therefore make forecasting more difficult. If we have excess or obsolete inventory, we may have to reduce our prices and write down inventory. Moreover, our use of indirect distribution channels may limit our willingness or ability to adjust prices quickly and otherwise to respond to pricing changes by competitors. We also may have limited ability to estimate future product rebate redemptions in order to price our products effectively.

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

Many of the markets in which we compete are characterized by rapid technological advances in hardware performance and software features and functionality; frequent introduction of new products; short product life cycles; and continual improvement in product price characteristics relative to product performance. To maintain our competitive position in these markets, we must successfully develop and introduce new products and services. Among the risks associated with the introduction of new products and services are delays in development or manufacturing, variations in costs, delays in customer purchases or reductions in price of existing products in anticipation of new introductions, difficulty in predicting customer demand for the new offerings and effectively managing inventory levels so that they are in line with anticipated demand, risks associated with customer qualification and evaluation of new products and the risk that new products may have quality or other defects or may not be supported adequately by application software. If we do not make an effective transition from existing products and services to future offerings, our revenue may decline.

Our revenue and gross margin also may suffer due to the timing of product or service introductions by our suppliers and competitors. This is especially challenging when a product has a short life cycle or a competitor introduces a new product just before our own product introduction. Furthermore, sales of our new products and services may replace sales, or result in discounting of some of our current offerings, offsetting the benefit of even a successful introduction. There also may be overlaps in the current products and services of HP and portfolios acquired through mergers and acquisitions that we must manage. In addition, it may be difficult to ensure performance of new customer contracts in accordance with our revenue, margin and cost estimates and to achieve operational efficiencies embedded in our estimates. Given the competitive nature of our industry, if any of these risks materializes, future demand for our products and services and our results of operations may suffer.

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Our revenue and profitability could suffer if we do not manage the risks associated with our IT services business properly.

The size and significance of the IT services portion of our business have increased in recent periods. The risks that accompany that business differ from those of our other businesses and include the following:

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

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

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

If we fail to comply with our customer contracts or government contracting regulations, our revenue could suffer.

Our contracts with our customers may include unique and specialized performance requirements. In particular, our contracts with federal, state, provincial and local governmental customers are subject to various procurement regulations, contract provisions and other requirements relating to their formation, administration and performance. Any failure by us to comply with the specific provisions in our customer contracts or any violation of government contracting regulations could result in the imposition of various civil and criminal penalties, which may include termination of contracts, forfeiture of profits, suspension of payments and, in the case of our government contracts, fines and suspension from future government contracting. In addition, we have in the past been, and may in the future be, subject to *qui tam* litigation brought by private individuals on behalf of the government relating to our government contracts, which could include claims for up to treble damages. Further, any negative publicity related to our customer contracts or any proceedings surrounding them, regardless of its accuracy, may damage our business by affecting our ability to compete for new contracts. If our customer contracts are terminated, if we are suspended or disbarred from government work, or if our ability to compete for new contracts is adversely affected, we could suffer a reduction in expected revenue.

Failure to maintain our credit ratings could adversely affect our liquidity, capital position, borrowing costs and access to capital markets.

Our credit risk is evaluated by three independent rating agencies. Those rating agencies, Standard & Poor's Ratings Services, Fitch Ratings Services and Moody's Investors Service, downgraded our ratings on November 30, December 2, 2011 and January 20, 2012, respectively. Our credit ratings remain under negative outlook by Fitch Ratings Services. These downgrades have increased the cost of borrowing under our credit facilities, have reduced market capacity for our commercial paper, and may require the posting of additional collateral under some of our derivative contracts. There can be no assurance that we will be able to maintain our current credit ratings, and any additional actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, may further impact us in a similar manner and may have a negative impact on our liquidity, capital position and access to capital markets.

We make estimates and assumptions in connection with the preparation of HP's Consolidated Condensed Financial Statements, and any changes to those estimates and assumptions could adversely affect our results of operations.

In connection with the preparation of HP's Consolidated Condensed Financial Statements, we use certain estimates and assumptions based on historical experience and other factors. Our most critical accounting estimates are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. In addition, as discussed in Note 15 to the Consolidated Condensed Financial Statements, we make certain estimates, including decisions related to provisions for legal proceedings and other contingencies. While we believe that these estimates and assumptions are reasonable under the circumstances, they are subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could adversely affect our results of operations.

Unanticipated changes in HP's tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our profitability.

We are subject to income and other taxes in the United States and numerous foreign jurisdictions. Our tax liabilities are affected by the amounts we charge for inventory, services, licenses, funding and other items in intercompany transactions. We are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. In addition, our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of deferred tax assets, which are predominantly in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, President Obama's administration has announced proposals for other U.S. tax legislation that, if adopted, could adversely affect our tax rate. There are also other tax proposals that have been introduced, that are being considered, or that have been enacted by the United States Congress or the legislative bodies in foreign jurisdictions that could

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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. If the anticipated value of such share-based incentive awards does not materialize, if our share-based compensation otherwise ceases to be viewed as a valuable benefit, or if our total compensation package is not viewed as being competitive, our ability to attract, retain, and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. Further, changes in our management team may be disruptive to our business, and any failure to successfully transition and assimilate key new hires or promoted employees could adversely affect our business and results of operations.

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Terrorist acts, conflicts, wars and geopolitical uncertainties may seriously harm our business and revenue, costs and expenses and financial condition and stock price.

Terrorist acts, conflicts or wars (wherever located around the world) may cause damage or disruption to HP, our employees, facilities, partners, suppliers, distributors, resellers or customers or adversely affect our ability to manage logistics, operate our transportation and communication systems or conduct certain other critical business operations. The potential for future attacks, the national and international responses to attacks or perceived threats to national security, and other actual or potential conflicts or wars, including the military operations now being wound down in Iraq and the ongoing military operations in Afghanistan, have created many economic and political uncertainties. In addition, as a major multinational company with headquarters and significant operations located in the United States, actions against or by the United States may impact our business or employees. Although it is impossible to predict the occurrences or consequences of any such events, they could result in a decrease in demand for our products, make it difficult or impossible to provide services or deliver products to our customers or to receive components from our suppliers, create delays and inefficiencies in our supply chain and result in the need to impose employee travel restrictions. We are predominantly uninsured for losses and interruptions caused by terrorist acts, conflicts and wars.

Any failure by us to identify, manage, complete and integrate acquisitions, divestitures and other significant transactions successfully could harm our financial results, business and prospects, and the costs, expenses and other financial and operational effects associated with managing, completing and integrating acquisitions may result in financial results that are different than expected.

As part of our business strategy, we frequently acquire complementary companies or businesses, divest non-core businesses or assets, enter into strategic alliances and joint ventures and make investments to further our business (collectively, "business combination and investment transactions"). In order to pursue this strategy successfully, we must identify suitable candidates for and successfully complete business combination and investment transactions, some of which may be large or complex, and manage post-closing issues such as the integration of acquired businesses, products or employees. We may not fully realize all of the anticipated benefits of any business combination and investment transaction, and the timeframe for achieving benefits of a business combination and investment transaction may depend partially upon the actions of employees, suppliers or other third parties. In addition, the pricing and other terms of our contracts for business combination and investment transactions require us to make estimates and assumptions at the time we enter into these contracts, and, during the course of our due diligence, we may not identify all of the factors necessary to estimate our costs accurately. Any increased or unexpected costs, unanticipated delays or failure to meet contractual obligations could make these transactions less profitable or unprofitable. Moreover, if we fail to identify and successfully complete business combination and investment transactions that further our strategic objectives, we may be required to expend resources to develop products and technology internally, we may be at a competitive disadvantage or we may be adversely affected by negative market perceptions, any of which could adversely affect our revenue, gross margin and profitability.

Integration issues are often complex, time-consuming and expensive and, without proper planning and implementation, could significantly disrupt our business. The challenges involved in integration include:

- combining product offerings and entering into new markets in which we are not experienced;

- convincing customers and distributors that the transaction will not diminish client service standards or business focus, preventing customers and distributors from deferring purchasing decisions or switching to other suppliers (which could result in our incurring additional obligations in order to address customer uncertainty), minimizing sales force attrition and coordinating sales, marketing and distribution efforts;

- consolidating and rationalizing corporate IT infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code;

- minimizing the diversion of management attention from ongoing business concerns;

- persuading employees that business cultures are compatible, maintaining employee morale and retaining key employees, engaging with employee works councils representing an acquired company's non-U.S. employees, integrating employees into HP, correctly estimating employee benefit costs and implementing restructuring programs;

- coordinating and combining administrative, manufacturing, research and development and other operations, subsidiaries, facilities and relationships with third parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures;

- achieving savings from supply chain integration; and

- managing integration issues shortly after or pending the completion of other independent transactions.

Managing business combination and investment transactions requires varying levels of management resources, which may divert our attention from other business operations. These business combination and investment transactions also have resulted, and in the future may result, in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, asset impairment charges, charges from the elimination of duplicative facilities and contracts, in-process research and development charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans. Moreover, HP has incurred and will incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with business combination and investment transactions, and, to the extent that the value of goodwill or 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. In order to complete an acquisition, we may issue common stock, potentially creating dilution for existing stockholders. We may also borrow to finance acquisitions, and the amount and terms of any potential future acquisition-related or other borrowings, as well as other factors, could affect our liquidity and financial condition. In addition, HP's effective tax rate on an ongoing basis is uncertain, and business combination and investment transactions could adversely impact our effective tax rate. We also may experience risks relating to the challenges and costs of closing a business combination and investment transaction and the risk that an announced business combination and investment transaction may not close. As a result, any completed, pending or future transactions may contribute to financial results that differ from the investment community's expectations in a given quarter.

Unforeseen environmental costs could impact our future net earnings.

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

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

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

- authorizing blank check preferred stock, which HP could issue with voting, liquidation, dividend and other rights superior to our common stock;

- limiting the liability of, and providing indemnification to, HP's directors and officers;

- specifying that HP stockholders may take action only at a duly called annual or special meeting of stockholders and otherwise in accordance with our bylaws and limiting the ability of our stockholders to call special meetings;

- 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 Board and stockholder meetings and election, appointment and removal of HP directors.

These provisions, alone or together, could deter or delay hostile takeovers, proxy contests and changes in control or management of HP. As a Delaware corporation, HP also is subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders from engaging in certain business combinations without approval of the holders of substantially all of HP's outstanding common stock.

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control of HP could limit the opportunity for our stockholders to receive a premium for their shares of HP common stock and also could affect the price that some investors are willing to pay for HP common stock.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our principal

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executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to HP, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to HP's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our principal executive officer and principal financial officer concluded that there has not been any change in our internal control over financial reporting during that quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 2011 Annual Report on Form 10-K 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 2011)	9,566,452	$ 26.88	9,566,452	$ 10,537,878,901
Month #2 (December 2011)	11,941,032	$ 26.86	11,941,032	$ 10,217,094,695
Month #3 (January 2012)	7,592,586	$ 26.55	7,592,586	$ 10,015,540,902
Total	29,100,070	$ 26.79	29,100,070	

HP repurchased shares in the first quarter of fiscal 2012 under an ongoing program to manage the dilution created by shares issued under employee stock plans as well as to repurchase shares opportunistically. This program, which does not have a specific expiration date, authorizes repurchases in the open market or in private transactions. All shares repurchased in the first quarter of fiscal 2012 were purchased in open market transactions. As of January 31, 2012, HP had remaining authorization of $10.0 billion for future share repurchases.

Item 6. Exhibits.

The Exhibit Index beginning on page 88 of this report sets forth a list of exhibits.

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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 12, 2012

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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 November 17, 2011.	8-K	001-04423	3.1	November 17, 2011
4(a)	Form of Senior Indenture.	S-3	333-30786	4.1	March 17, 2000
4(b)	Form of Registrant's Fixed Rate Note and Floating Rate Note and related Officers' Certificate.	8-K	001-04423	4.1, 4.2 and 4.4	May 24, 2001
4(c)	Form of Registrant's 6.50% Global Note due July 1, 2012 and form of related Officers' Certificate.	8-K	001-04423	4.2 and 4.3	June 27, 2002
4(d)	Form of Registrant's Fixed Rate Note and form of Floating Rate Note.	8-K	001-04423	4.1 and 4.2	December 11, 2002
4(e)	Indenture, dated as of June 1, 2000, between the Registrant and J.P. Morgan Trust Company, National Association (formerly Chase Manhattan Bank), as Trustee.	S-3	333-134327	4.9	June 7, 2006
4(f)	Form of Registrant's Floating Rate Global Note due March 1, 2012, 5.25% Global Note due March 1, 2012 and 5.40% Global Note due March 1, 2017.	8-K	001-04423	4.1, 4.2 and 4.3	February 28, 2007
4(g)	Form of Registrant's Floating Rate Global Note due September 3, 2009, 4.50% Global Note due March 1, 2013 and 5.50% Global Note due March 1, 2018.	8-K	001-04423	4.1, 4.2 and 4.3	February 29, 2008
4(h)	Form of Registrant's 6.125% Global Note due March 1, 2014 and form of related Officers' Certificate.	8-K	001-04423	4.1 and 4.2	December 8, 2008
4(i)	Form of Registrant's Floating Rate Global Note due February 24, 2011, 4.250% Global Note due February 24, 2012 and 4.750% Global Note due June 2, 2014 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	February 27, 2009

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
4(j)	Form of Registrant's Floating Rate Global Note due May 27, 2011, 2.25% Global Note due May 27, 2011 and 2.95% Global Note due August 15, 2012 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	May 28, 2009
4(k)	Form of Registrant's Floating Rate Global Note due September 13, 2012, 1.250% Global Note due September 13, 2013 and 2.125% Global Note due September 13, 2015 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	September 13, 2010
4(l)	Form of Registrant's 2.200% Global Note due December 1, 2015 and 3.750% Global Note due December 1, 2020 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2 and 4.3	December 2, 2010
4(m)	Form of Registrant's Floating Rate Global Note due May 24, 2013, Floating Rate Global Note due May 30, 2014, 1.550% Global Note due May 30, 2014, 2.650% Global Note due June 1, 2016 and 4.300% Global Note due June 1, 2021 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3, 4.4, 4.5 and 4.6	June 1, 2011
4(n)	Form of Registrant's Floating Rate Global Note due September 19, 2014, 2.350% Global Note due March 15, 2015, 3.000% Global Note due September 15, 2016, 4.375% Global Note due September 15, 2021 and 6.000% Global Note due September 15, 2041 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3, 4.4, 4.5 and 4.6	September 19, 2011
4(o)	Form of Registrant's 2.625% Global Note due December 9, 2014, 3.300% Global Note due December 9, 2016, 4.650% Global Note due December 9, 2021 and related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	December 12, 2011
4(p)	Form of Registrant's 2.600% Global Note due September 15, 2017 and 4.050% Global Note due September 15, 2022 and related Officers' Certificate.	8-K	001-04423	4.1, 4.2 and 4.3	March 12, 2012

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Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
4(q)	Specimen certificate for the Registrant's common stock.	8-A/A	001-04423	4.1	June 23, 2006
9	None.				
10(a)	Registrant's 2004 Stock Incentive Plan.*	S-8	333-114253	4.1	April 7, 2004
10(b)	Registrant's 2000 Stock Plan, amended and restated effective September 17, 2008.*	10-K	001-04423	10(b)	December 18, 2008
10(c)	Registrant's 1997 Director Stock Plan, amended and restated effective November 1, 2005.*	8-K	001-04423	99.4	November 23, 2005
10(d)	Registrant's 1995 Incentive Stock Plan, amended and restated effective May 1, 2007.*	10-Q	001-04423	10(d)	June 8, 2007
10(e)	Registrant's 1990 Incentive Stock Plan, amended and restated effective May 1, 2007.*	10-Q	001-04423	10(e)	June 8, 2007
10(f)	Registrant's Excess Benefit Retirement Plan, amended and restated as of January 1, 2006.*	8-K	001-04423	10.2	September 21, 2006
10(g)	Hewlett-Packard Company Cash Account Restoration Plan, amended and restated as of January 1, 2005.*	8-K	001-04423	99.3	November 23, 2005
10(h)	Registrant's 2005 Pay-for-Results Plan, as amended.*	10-K	001-04423	10(h)	December 14, 2011
10(i)	Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	8-K	001-04423	10.1	September 21, 2006
10(j)	First Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(q)	June 8, 2007
10(k)	Employment Agreement, dated June 9, 2005, between Registrant and R. Todd Bradley.*	10-Q	001-04423	10(x)	September 8, 2005
10(l)	Registrant's Amended and Restated Severance Plan for Executive Officers.*	8-K	001-04423	99.1	July 27, 2005
10(m)	Registrant's Executive Severance Agreement.*	10-Q	001-04423	10(u)(u)	June 13, 2002
10(n)	Registrant's Executive Officers Severance Agreement.*	10-Q	001-04423	10(v)(v)	June 13, 2002

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Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(o)	Form letter regarding severance offset for restricted stock and restricted units.*	8-K	001-04423	10.2	March 22, 2005
10(p)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan, Registrant's 2000 Stock Plan, as amended, and Registrant's 1995 Incentive Stock Plan, as amended.*	10-Q	001-04423	10(b)(b)	June 8, 2007
10(q)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(c)(c)	June 8, 2007
10(r)	Form of Stock Option Agreement for Registrant's 1990 Incentive Stock Plan, as amended.*	10-K	001-04423	10(e)	January 27, 2000
10(s)	Form of Common Stock Payment Agreement and Option Agreement for Registrant's 1997 Director Stock Plan, as amended.*	10-Q	001-04423	10(j)(j)	March 11, 2005
10(t)	Form of Long-Term Performance Cash Award Agreement for Registrant's 2004 Stock Incentive Plan and Registrant's 2000 Stock Plan, as amended.*	10-K	001-04423	10(t)(t)	January 14, 2005
10(u)	Amendment One to the Long-Term Performance Cash Award Agreement for the 2004 Program.*	10-Q	001-04423	10(q)(q)	September 8, 2005
10(v)	Form of Long-Term Performance Cash Award Agreement for the 2005 Program.*	10-Q	001-04423	10(r)(r)	September 8, 2005
10(w)	Form of Long-Term Performance Cash Award Agreement.*	10-Q	001-04423	10(o)(o)	March 10, 2006
10(x)	Second Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(l)(l)	December 18, 2007
10(y)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	8-K	001-04423	10.1	January 24, 2008
10(z)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California).*	8-K	001-04423	10.2	January 24, 2008

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Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(a)(a)	Form of Agreement Regarding Confidential Information and Proprietary Developments (Texas).*	10-Q	001-04423	10(o)(o)	March 10, 2008
10(b)(b)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(p)(p)	March 10, 2008
10(c)(c)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(q)(q)	March 10, 2008
10(d)(d)	Form of Stock Option Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(r)(r)	March 10, 2008
10(e)(e)	Form of Special Performance-Based Cash Incentive Notification Letter.*	8-K	001-04423	10.1	May 20, 2008
10(f)(f)	Form of Option Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(t)(t)	June 6, 2008
10(g)(g)	Form of Common Stock Payment Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(u)(u)	June 6, 2008
10(h)(h)	Third Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(v)(v)	December 18, 2008
10(i)(i)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-K	001-04423	10(w)(w)	December 18, 2008
10(j)(j)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	10-K	001-04423	10(x)(x)	December 18, 2008
10(k)(k)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-K	001-04423	10(y)(y)	December 18, 2008
10(l)(l)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-K	001-04423	10(z)(z)	December 18, 2008
10(m)(m)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(a)(a)(a)	March 10, 2009
10(n)(n)	First Amendment to the Hewlett-Packard Company Excess Benefit Retirement Plan.*	10-Q	001-04423	10(b)(b)(b)	March 10, 2009

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Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(o)(o)	Fourth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(c)(c)(c)	June 5, 2009
10(p)(p)	Fifth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(d)(d)(d)	September 4, 2009
10(q)(q)	Amended and Restated Hewlett-Packard Company 2004 Stock Incentive Plan.*	8-K	001-04423	10.2	March 23, 2010
10(r)(r)	Employment Agreement, dated September 29, 2010, between the Registrant and Léo Apotheker.*	8-K	001-04423	10.1	October 1, 2010
10(s)(s)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-K	001-04423	10(f)(f)(f)	December 15, 2010
10(t)(t)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	10-K	001-04423	10(g)(g)(g)	December 15, 2010
10(u)(u)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-K	001-04423	10(h)(h)(h)	December 15, 2010
10(v)(v)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-K	001-04423	10(i)(i)(i)	December 15, 2010
10(w)(w)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California new hires).*	10-K	001-04423	10(j)(j)(j)	December 15, 2010
10(x)(x)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California current employees).*	10-K	001-04423	10(k)(k)(k)	December 15, 2010
10(y)(y)	Letter Agreement, dated December 15, 2010, between the Registrant and Catherine A. Lesjak.*	10-K	001-04423	10(l)(l)(l)	December 15, 2010
10(z)(z)	Letter Agreement, dated September 29, 2010, between the Registrant and Michael J. Holston.*	10-Q	001-04423	10(m)(m)(m)	June 8, 2011

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Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(a)(a)(a)	First Amendment to the Registrant's Executive Deferred Compensation Plan, as amended and restated effective October 1, 2004.*	10-Q	001-04423	10(o)(o)(o)	September 9, 2011
10(b)(b)(b)	Sixth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(p)(p)(p)	September 9, 2011
10(c)(c)(c)	Separation and General Release Agreement, dated September 28, 2011, between the Registrant and Léo Apotheker.*	8-K	001-04423	10.1	September 29, 2011
10(d)(d)(d)	Employment offer letter, dated September 27, 2011, between the Registrant and Margaret C. Whitman.*	8-K	001-04423	10.2	September 29, 2011
10(e)(e)(e)	Letter Agreement, dated November 17, 2011, among the Registrant, Relational Investors LLC and the other parties named therein.*	8-K	001-04423	99.1	November 17, 2011
10(f)(f)(f)	Seventh Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(e)(e)(e)	December 14, 2011
10(g)(g)(g)	Registrant's Severance Plan for Executive Officers, as amended and restated.*	10-K	001-04423	10(f)(f)(f)	December 14, 2011
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.				

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Extension Schema Document.				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				

* Indicates management contract or compensatory plan, contract or arrangement.

Filed herewith.

Furnished herewith.

The registrant agrees to furnish to the Commission supplementally upon request a copy of (1) any instrument with respect to long-term debt not filed herewith as to which the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of the registrant and its subsidiaries on a consolidated basis and (2) any omitted schedules to any material plan of acquisition, disposition or reorganization set forth above.