HEWLETT PACKARD CO
Form 10-Q
June 06, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: April 30, 2013

Or

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

For the transition period from to

Commission file number 1-4423

HEWLETT-PACKARD COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-1081436** (I.R.S. employer identification no.)
3000 Hanover Street, Palo Alto, California (Address of principal executive offices)	**94304** (Zip code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The number of shares of HP common stock outstanding as of May 31, 2013 was 1,928,551,688 shares.

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Forward-Looking Statements

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

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services to meet customer needs and respond to emerging technological trends; the execution and performance of contracts by HP and its suppliers, customers and partners; the hiring and retention of key employees; integration and other risks associated with business combination and investment transactions; the execution, timing and results of restructuring plans, including estimates and assumptions related to the cost and the anticipated benefits of implementing those plans; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including but not limited to the items discussed in "Factors that Could Affect Future Results" set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report, and that are otherwise described from time to time in HP's Securities and Exchange Commission ("SEC") reports, including HP's Annual Report on Form 10-K for the fiscal year ended October 31, 2012. HP assumes no obligation and does not intend to update these forward-looking statements.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Statements of Earnings

(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
	In millions, except per share amounts			
Net revenue:				
Products	$ 17,458	$ 19,962	$ 35,728	$ 39,473
Services	10,010	10,614	19,981	21,023
Financing income	114	117	232	233
Total net revenue	27,582	30,693	55,941	60,729
Costs and expenses:				
Cost of products	13,241	15,181	27,272	30,230
Cost of services	7,733	8,280	15,651	16,466
Financing interest	81	80	161	158
Research and development	815	850	1,609	1,636
Selling, general and administrative	3,342	3,540	6,642	6,907
Amortization of purchased intangible assets	350	470	700	936
Restructuring charges	408	53	538	93
Acquisition-related charges	11	17	15	39
Total operating expenses	25,981	28,471	52,588	56,465
Earnings from operations	1,601	2,222	3,353	4,264
Interest and other, net	(193)	(243)	(372)	(464)
Earnings before taxes	1,408	1,979	2,981	3,800
Provision for taxes	(331)	(386)	(672)	(739)
Net earnings	$ 1,077	$ 1,593	$ 2,309	$ 3,061
Net earnings per share:				
Basic	$ 0.56	$ 0.80	$ 1.19	$ 1.55
Diluted	$ 0.55	$ 0.80	$ 1.18	$ 1.53
Cash dividends declared per share	$	$	$ 0.26	$ 0.24
Weighted-average shares used to compute net earnings per share:				
Basic	1,935	1,979	1,944	1,980

Diluted	1,947	1,987	1,952	1,995

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Statements of Comprehensive Income

(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
	In millions			
Net earnings	$ 1,077	$ 1,593	$ 2,309	$ 3,061
Other comprehensive income before tax:				
Change in unrealized gains (losses) on available-for-sale securities	19	43	22	(19)
Change in unrealized gains / losses on cash flow hedges:				
Unrealized gains (losses) arising during the period	154	(191)	(160)	216
(Gains) losses reclassified into earnings	(24)	11	40	(87)
	130	(180)	(120)	129
Change in unrealized components of defined benefit plans:				
Gains (losses) arising during the period	1		1	(59)
Amortization of actuarial loss and prior service (benefit)	81	41	164	84
Curtailments, settlements and other		(8)	13	165
	82	33	178	190
Change in cumulative translation adjustment	(32)	523	(58)	276
Other comprehensive income before taxes	199	419	22	576
(Provision) benefit for taxes	(49)	22	15	(144)
Other comprehensive income, net of tax	150	441	37	432
Comprehensive income	$ 1,227	$ 2,034	$ 2,346	$ 3,493

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

	April 30, 2013	October 31, 2012
	In millions, except par value	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,240	$ 11,301
Accounts receivable, net	14,606	16,407
Financing receivables, net	3,212	3,252
Inventory	5,999	6,317
Other current assets	12,514	13,360
Total current assets	49,571	50,637
Property, plant and equipment, net	11,476	11,954
Long-term financing receivables and other assets	10,205	10,593
Goodwill	31,133	31,069
Purchased intangible assets	3,869	4,515
Total assets	$ 106,254	$ 108,768
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 6,928	$ 6,647
Accounts payable	12,313	13,350
Employee compensation and benefits	3,836	4,058
Taxes on earnings	1,015	846
Deferred revenue	6,757	7,494
Accrued restructuring	1,063	771
Other accrued liabilities	12,746	13,500
Total current liabilities	44,658	46,666
Long-term debt	19,863	21,789
Other liabilities	17,801	17,480
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' equity		
Preferred stock, $0.01 par value (300 shares authorized; none issued)		
Common stock, $0.01 par value (9,600 shares authorized; 1,925 and 1,963 shares issued and outstanding, respectively)	19	20
Additional paid-in capital	5,717	6,454
Retained earnings	23,319	21,521
Accumulated other comprehensive loss	(5,522)	(5,559)
Total HP stockholders' equity	23,533	22,436
Non-controlling interests	399	397
Total stockholders' equity	23,932	22,833
Total liabilities and stockholders' equity	$ 106,254	$ 108,768

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

(Unaudited)

	Six months ended April 30 2013	Six months ended April 30 2012
	In millions	
Cash flows from operating activities:		
Net earnings	$ 2,309	$ 3,061
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,333	2,588
Stock-based compensation expense	291	344
Provision for doubtful accounts accounts and financing receivables	39	57
Provision for inventory	178	90
Restructuring charges	538	93
Deferred taxes on earnings	472	(155)
Excess tax benefit from stock-based compensation		(12)
Other, net	226	240
Changes in operating assets and liabilities:		
Accounts and financing receivables	2,148	1,479
Inventory	140	89
Accounts payable	(1,050)	(1,851)
Taxes on earnings	(426)	(54)
Restructuring	(402)	(274)
Other assets and liabilities	(678)	(2,029)
Net cash provided by operating activities	6,118	3,666
Cash flows from investing activities:		
Investment in property, plant and equipment	(1,400)	(1,963)
Proceeds from sale of property, plant and equipment	274	224
Purchases of available-for-sale securities and other investments	(497)	(565)
Maturities and sales of available-for-sale securities and other investments	592	346
Payments in connection with business acquisitions, net of cash acquired	(167)	(141)
Proceeds from business divestiture, net		81
Net cash used in investing activities	(1,198)	(2,018)
Cash flows from financing activities:		
Repayment of commercial paper and notes payable, net	(133)	(2,792)
Issuance of long-term debt	199	5,052
Repayment of long-term debt	(1,668)	(2,661)
Issuance of common stock under employee stock plans	212	634
Repurchase of common stock	(1,050)	(1,130)
Excess tax benefit from stock-based compensation		12
Cash dividends paid	(541)	(495)
Net cash used in financing activities	(2,981)	(1,380)
Increase in cash and cash equivalents	1,939	268
Cash and cash equivalents at beginning of period	11,301	8,043

Cash and cash equivalents at end of period	$ 13,240	$ 8,311

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 April 30, 2013, its results of operations for the three and six months ended April 30, 2013 and 2012 and its cash flows for the six months ended April 30, 2013 and 2012.

The results of operations for the three and six months ended April 30, 2013 are not necessarily indicative of the results to be expected for the full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk" and the Consolidated Financial Statements and notes thereto included in Items 1A, 3, 7, 7A and 8, respectively, of the Hewlett Packard Company Annual Report on Form 10-K for the fiscal year ended October 31, 2012.

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

HP consolidates the financial results of its subsidiaries for all periods presented. Non-controlling interests in these subsidiaries are presented as a separate component from HP's equity in the Consolidated Condensed Balance Sheets. Net earnings attributable to the non-controlling interests are included in the Consolidated Condensed Statements of Earnings within Interest and other, net and are not presented separately as they were not material for any of the periods presented.

Segment Reorganization and Reclassifications

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 permit the issuance of restricted stock awards, stock options and performance-based restricted units ("PRUs").

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

Stock-based compensation expense and the resulting tax benefits were as follows:

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Stock-based compensation expense	$ 107	$ 169	$ 291	$ 344
Income tax benefit	(32)	(54)	(89)	(111)
Stock-based compensation expense, net of tax	$ 75	$ 115	$ 202	$ 233

Restricted Stock Awards

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

Non-vested restricted stock awards outstanding as of April 30, 2013 and changes during the six months ended April 30, 2013 were as follows:

	Shares	Weighted-Average Grant Date Fair Value Per Share
	In thousands	
Outstanding at October 31, 2012	25,532	$ 31
Granted	18,550	$ 14
Vested	(9,730)	$ 33
Forfeited	(1,723)	$ 27
Outstanding at April 30, 2013	32,629	$ 21

At April 30, 2013, there was $448 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards, which HP expects to recognize over the remaining weighted-average vesting period of 1.4 years.

Stock Options

HP utilizes 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 a Monte Carlo simulation model and a lattice model, as these awards contain market conditions.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

The weighted-average fair value and the assumptions used to measure fair value were as follows:

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Weighted-average fair value of grants per share[1]	$ 4.89	$ 5.82	$ 4.03	$ 9.46
Implied volatility	35%	32%	42%	43%
Risk-free interest rate	0.78%	0.91%	0.98%	1.20%
Expected dividend yield	2.90%	2.14%	3.75%	1.73%
Expected term in months	62	61	70	67

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

Option awards outstanding as of April 30, 2013 and changes during the six months ended April 30, 2013 were as follows:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	In thousands		In years	In millions
Outstanding at October 31, 2012	87,296	$ 29		
Granted	23,470	$ 14		
Exercised	(8,015)	$ 20		
Forfeited/cancelled/expired	(15,696)	$ 24		
Outstanding at April 30, 2013	87,055	$ 27	4.3	$ 203
Vested and expected to vest at April 30, 2013	82,313	$ 27	4.1	$ 182
Exercisable at April 30, 2013	50,002	$ 33	2.1	$ 40

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 April 30, 2013. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of the second quarter of fiscal 2013 and the exercise price, multiplied by the number of in-the-money options. Total intrinsic value of options exercised for the three and six months ended April 30, 2013 was $15 million and $17 million, respectively.

At April 30, 2013, there was $148 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 2.4 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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

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 adjusted annual cash flow from operations as a percentage of revenue and on HP's adjusted annual revenue growth. The performance goals for PRUs granted prior to fiscal year 2012 are based on HP's adjusted 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 these PRUs was as follows:

	Six months ended April 30	
	2013	**2012**
Weighted-average fair value of grants per unit	$ 13.14(1)	$ 27.00(2)

(1) Reflects the weighted-average fair value for the second year of the three-year performance period applicable to PRUs granted in fiscal 2012. The estimated fair value of the Target Shares for the third year for PRUs granted in fiscal year 2012 will be determined on the measurement date applicable to those PRUs, which will occur during the period that the annual performance goals are approved for those PRUs, and the expense will be amortized over the remainder of the applicable three-year performance period.

(2) Reflects the weighted-average fair value for the first year of the three-year performance period applicable to PRUs granted in fiscal 2012.

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

	Six months ended April 30	
	2013	**2012**
Weighted-average fair value of grants per unit	$ 0.00(1)	$ 3.35(2)
Expected volatility[3]	33%	41%
Risk-free interest rate	0.18%	0.14%
Expected dividend yield	3.94%	1.78%
Expected term in months	12	15

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 2: Stock-Based Compensation (Continued)

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

(3) HP uses historic volatility for PRU awards when simulating multivariate prices for companies in the S&P 500.

Non-vested PRUs outstanding as of April 30, 2013 and changes during the six months ended April 30, 2013 were as follows:

	Shares In thousands
Outstanding Target Shares at October 31, 2012	5,688
Forfeited	(236)
Outstanding Target Shares at April 30, 2013	5,452
Outstanding Target Shares assigned a fair value at April 30, 2013	5,100[1]

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

At April 30, 2013, there was $9 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 0.7 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, 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 April 30		Six months ended April 30	
	2013	2012	2013	2012
	In millions, except per share amounts			
Numerator:				
Net earnings[(1)]	$ 1,077	$ 1,593	$ 2,309	$ 3,061
Denominator:				
Weighted-average shares used to compute basic EPS	1,935	1,979	1,944	1,980
Dilutive effect of employee stock plans	12	8	8	15
Weighted-average shares used to compute diluted EPS	1,947	1,987	1,952	1,995
Net earnings per share:				
Basic	$ 0.56	$ 0.80	$ 1.19	$ 1.55
Diluted	$ 0.55	$ 0.80	$ 1.18	$ 1.53

(1) Net earnings available to participating securities were not significant for the three and six months ended April 30, 2013 and 2012. HP considers restricted stock that provides the holder with a non-forfeitable right to receive dividends to be a participating security.

HP excludes options with exercise prices that are greater than the average market price from the calculation of diluted EPS because their effect would be anti-dilutive. As such, for both the three and six months ended April 30, 2013, HP excluded from the calculation of diluted EPS options to purchase 53 million shares compared to 50 million shares for both the three and six months ended April 30, 2012. Further, during the same time periods, HP also excluded from the calculation of diluted EPS options to purchase an additional 2 million shares and 6 million shares, respectively, for the three and six months ended April 30, 2013, compared to an additional 10 million shares for both the three and six months ended April 30, 2012, as their combined exercise price, unamortized fair value and excess tax benefits were greater in each of those periods than the average market price for HP's common stock.

Note 4: Balance Sheet Details

Balance sheet details were as follows:

Accounts Receivable, Net

	April 30, 2013	October 31, 2012
	In millions	
Accounts receivable	$ 15,013	$ 16,871
Allowance for doubtful accounts	(407)	(464)
	$ 14,606	$ 16,407

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 4: Balance Sheet Details (Continued)

HP has third-party financing arrangements consisting of revolving short-term financing intended to facilitate the working capital requirements of certain customers. These financing arrangements, which in certain circumstances may provide for partial recourse, result in a transfer of HP's receivables and risk to the third party. As these transfers qualify as true sales, the receivables are derecognized from the Consolidated Condensed Balance Sheets upon transfer, and HP receives a payment for the receivables from the third party within a mutually agreed upon time period. For arrangements involving an element of recourse, the recourse obligation is measured using market data from similar transactions and reported as a current liability in the Consolidated Condensed Balance Sheets. The recourse obligations as of April 30, 2013 and October 31, 2012 were not material. The maximum program capacity and available program capacity under these arrangements were as follows:

	As of April 30, 2013	As of October 31, 2012
	In millions	
Non-recourse arrangements		
Aggregate maximum program capacity	$ 743	$ 636
Aggregate available capacity	$ 376	$ 434
Partial-recourse arrangement		
Maximum program capacity	$ 899	$ 876
Available capacity	$ 507	$ 413

For the three and six months ended April 30, 2013, trade receivables sold under these facilities were $1.2 billion and $2.7 billion, respectively. For the comparable periods of fiscal 2012, trade receivables sold under these facilities were $1.0 billion and $2.1 billion, respectively. The amount of trade receivables sold approximates the amount of cash received. The resulting costs associated with the sales of trade accounts receivable for three and six months ended April 30, 2013 and April 30, 2012 were not material.

Inventory

	April 30, 2013	October 31, 2012
	In millions	
Finished goods	$ 3,778	$ 4,094
Purchased parts and fabricated assemblies	2,221	2,223
	$ 5,999	$ 6,317

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 4: Balance Sheet Details (Continued)

Property, Plant and Equipment, Net

	April 30, 2013	October 31, 2012
	In millions	
Land	$ 634	$ 636
Buildings and leasehold improvements	8,768	8,744
Machinery and equipment	16,516	16,503
	25,918	25,883
Accumulated depreciation	(14,442)	(13,929)
	$ 11,476	$ 11,954

For the six months ended April 30, 2013, the increase in gross property, plant and equipment was due primarily to investments of $1.4 billion, the effect of which was partially offset by sales and retirements totaling $1.1 billion. Accumulated depreciation associated with the assets sold and retired was $0.9 billion.

Note 5: Goodwill and Purchased Intangible Assets

Goodwill

Goodwill allocated to HP's reportable segments as of April 30, 2013 and changes in the carrying amount of goodwill for the six months ended April 30, 2013 are as follows:

	Personal Systems	Printing	Enterprise Group	Enterprise Services	Software	HP Financial Services	Corporate Investments	Total
	In millions							
Net balance at October 31, 2012[1]	$ 2,498	$ 2,487	$ 17,041	$	$ 8,899	$ 144	$	$ 31,069
Goodwill acquired during the period				107				107
Goodwill adjustments/reclassifications			17		(60)			(43)
Net balance at April 30, 2013[1]	$ 2,498	$ 2,487	$ 17,058	$ 107	$ 8,839	$ 144	$	$ 31,133

(1) Goodwill at October 31, 2012 and April 30, 2013 is net of accumulated impairment losses of $14,518 million. Of that amount, $7,961 million relates to ES, $5,744 million relates to Software, and the remaining $813 million relates to Corporate Investments.

In the first quarter of fiscal 2013, HP implemented certain organizational realignments. As a result of these realignments, HP has re-evaluated its segment financial reporting structure and, effective in the first quarter of fiscal 2013, created two new financial reporting segments, the Enterprise Group segment ("EG") and the Enterprise Services segment ("ES"), and eliminated two other financial reporting segments, the Enterprise Servers, Storage and Networking ("ESSN") segment and the

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 5: Goodwill and Purchased Intangible Assets (Continued)

Services segment. The EG segment consists of the business units within the former ESSN segment and most of the services offerings of the Technology Services ("TS") business unit, which was previously a part of the former Services segment. The ES segment consists of the Applications and Business Services ("ABS") and Infrastructure Technology Outsourcing ("ITO") business units primarily from the former Services segment. As a result of the reporting segment changes described above, the net goodwill balance at October 31, 2012 includes the reclassification of $9.3 billion of goodwill related to the realignment of the TS business unit from the former Services segment to the EG segment. See Note 16 for a full description of the segment realignments.

In the second quarter of fiscal 2013, MphasiS Limited, a majority-owned subsidiary of HP, acquired Digital Risk LLC for $174 million. HP recorded $107 million of goodwill related to this acquisition.

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 5: Goodwill and Purchased Intangible Assets (Continued)

Purchased Intangible Assets

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

	April 30, 2013				October 31, 2012			
	Gross	Accumulated Amortization	Accumulated Impairment Loss	Net	Gross	Accumulated Amortization	Accumulated Impairment Loss	Net
	In millions							
Customer contracts, customer lists and distribution agreements	$ 5,800	$ (2,859)	$ (856)	$ 2,085	$ 5,807	$ (2,625)	$ (856)	$ 2,326
Developed and core technology and patents	6,497	(2,795)	(2,138)	1,564	6,580	(2,501)	(2,138)	1,941
"Compaq" trade name	1,422	(37)	(1,227)	158	1,422	(18)	(1,227)	177
Other product trademarks	312	(144)	(109)	59	310	(137)	(109)	64
In-process research and development ("IPR&D")	3			3	7			7
Total purchased intangible assets	$ 14,034	$ (5,835)	$ (4,330)	$ 3,869	$ 14,126	$ (5,281)	$ (4,330)	$ 4,515

For the first six months of fiscal 2013, the majority of the decrease in gross intangibles was related to $118 million of fully amortized intangible assets which have been eliminated from both the gross and accumulated amortization amounts.

Estimated future amortization expense related to finite-lived purchased intangible assets at April 30, 2013 is as follows:

Fiscal year:	**In millions**
2013 (remaining 6 months)	$ 667
2014	1,035
2015	845
2016	688
2017	262
2018	150
Thereafter	219
Total	$ 3,866

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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 reorganize one or more of HP's business segments, to remove duplicative headcount and infrastructure associated with one or more business acquisitions or to simplify business processes and accelerate innovation. Restructuring charges can include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, and contract cancellation costs. Restructuring charges are recorded based upon planned employee termination dates and site closure and consolidation plans. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over a multi-year period. HP records the short-term portion of the restructuring liability in Accrued restructuring and the long-term portion in Other liabilities in the Consolidated Condensed Balance Sheets.

Fiscal 2012 Restructuring Plan

On May 23, 2012, HP adopted a multi-year restructuring plan (the "2012 Plan") designed to simplify business processes, accelerate innovation and deliver better results for customers, employees and stockholders. HP estimates that it will eliminate approximately 29,000 positions in connection with the 2012 Plan through fiscal year 2014, with a portion of those employees exiting the company as part of voluntary enhanced early retirement ("EER") programs in the United States and in certain other countries. The majority of the U.S. EER program will be funded through HP's U.S. pension plan. In connection with the 2012 Plan, HP expects to record aggregate charges of approximately $3.6 billion through the end of HP's 2014 fiscal year as accounting recognition criteria are met. Of that amount, HP expects approximately $3.0 billion to relate to the workforce reductions and the EER programs and approximately $0.6 billion to relate to infrastructure, including data center and real estate consolidation and other items. Due to uncertainties associated with attrition and the acceptance rates of future international EER programs, the total expected headcount reductions could vary as much as 15% from HP's original estimates. HP could also experience similar variations in the total expense of the 2012 Plan.

HP recorded a charge of approximately $723 million for the six months ended April 30, 2013 relating to the 2012 Plan, of which $58 million related to data center and real estate consolidations. As of April 30, 2013, HP had eliminated approximately 18,800 positions as part of the 2012 Plan. The cash payments associated with the 2012 Plan are expected to be paid out through fiscal 2015.

Fiscal 2010 Acquisitions

In connection with the acquisitions of Palm, Inc. ("Palm") and 3Com Corporation ("3Com") in fiscal 2010, HP's management approved and initiated plans to restructure the operations of the acquired companies, including severance for employees, contract cancellation costs, costs to vacate duplicative facilities and other items. The total combined cost of the plans was $91 million. As of October 31, 2011, HP had recorded all of the costs of the plans based upon the anticipated timing of planned terminations and facility closure costs. In the second quarter of fiscal 2013, $10 million was credited to restructuring expense to close the Palm and 3Com plans as no further restructuring costs or payments are anticipated.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Restructuring Charges (Continued)

Fiscal 2010 Enterprise Services Business Restructuring Plan

On June 1, 2010, HP's management announced a plan to restructure its ES business, which included the ITO and ABS business units. The multi-year restructuring program included plans to consolidate commercial data centers, tools and applications. The total expected cost of the plan is approximately $821 million, which includes severance costs to eliminate approximately 8,200 positions and infrastructure charges. As of October 31, 2012 all 8,200 positions under the plan had been eliminated. As the restructuring plan was implemented, certain components and their related cost estimates were revised. For the six months ended April 30, 2013, HP reversed $171 million of the restructuring accrual to reflect an updated estimate of expected cash payments for severance. The majority of the infrastructure charges were paid out during fiscal 2012 with the remaining charges expected to be paid out through the first half of fiscal 2015. This plan is now closed with no further restructuring charges anticipated. HP expects the majority of the remaining severance for the plan to be paid out through fiscal year 2013.

Fiscal 2008 HP/EDS Restructuring Plan

In connection with the acquisition of Electronic Data Systems Corporation ("EDS") on August 26, 2008, HP's management approved and initiated a restructuring plan to combine and align HP's services businesses, eliminate duplicative overhead functions and consolidate and vacate duplicative facilities. The restructuring plan is expected to be implemented at a total expected cost of $3.3 billion. Approximately $1.5 billion of the expected costs were associated with pre-acquisition EDS and were reflected in the purchase price of EDS. The remaining costs were primarily associated with HP and were recorded as a restructuring charge.

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 6: Restructuring Charges (Continued)

Summary of Restructuring Plans

The adjustments to the accrued restructuring expenses related to all of HP's restructuring plans described above for the six months ended April 30, 2013 were as follows:

	Balance, October 31, 2012	Three months ended April 30, 2013 charges	Six months ended April 30, 2013 charges	Cash payments	Other adjustments and non-cash settlements	Balance, April 30, 2013	As of April 30, 2013 Total costs and adjustments to date	As of April 30, 2013 Total expected costs and adjustments
Fiscal 2012 Plan								
Severance and EER	$ 597	$ 409	$ 665	$ (300)	$ 3	$ 965	$ 2,650	$ 3,027
Infrastructure and other	11	24	58	(42)		27	163	582
Total 2012 Plan	608	433	723	(342)	3	992	2,813	3,609
Fiscal 2010 acquisitions	10	(10)	(10)				91	91
Fiscal 2010 ES Plan:								
Severance	227	(14)	(171)	(31)	2	27	452	452
Infrastructure	1					1	369	369
Total ES Plan	228	(14)	(171)	(31)	2	28	821	821
Fiscal 2008 HP/EDS Plan:								
Severance							2,195	2,195
Infrastructure	181	(1)	(4)	(29)	(1)	147	1,071	1,080
Total HP/EDS Plan	181	(1)	(4)	(29)	(1)	147	3,266	3,275
Total restructuring plans	$ 1,027	$ 408	$ 538	$ (402)	$ 4	$ 1,167	$ 6,991	$ 7,796

At April 30, 2013 and October 31, 2012, HP included the short-term portion of $1,063 million and $771 million, respectively, in Accrued restructuring and the long-term portion of the restructuring liability of $104 million and $256 million, respectively, in Other liabilities, 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.

Fair Value Hierarchy

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.

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Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 7: Fair Value (Continued)

Observable inputs are the preferred basis of valuation. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices (unadjusted) for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

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

	As of April 30, 2013				As of October 31, 2012			
	Fair Value Measured Using			Total Balance	Fair Value Measured Using			Total Balance
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
	In millions							
Assets								
Time deposits	$	$ 2,886	$	$ 2,886	$	$ 3,641	$	$ 3,641
Money market funds	7,169			7,169	4,630			4,630
Mutual funds		371		371		469		469
Marketable equity securities	72	4		76	60	3		63
Foreign bonds	8	384		392	8	377		385
Other debt securities		2	38	40	1		44	45
Derivatives:								
Interest rate contracts		257		257		344		344
Foreign exchange contracts		297	13	310		291		291
Other derivatives		8		8		1		1
Total Assets	$ 7,249	$ 4,209	$ 51	$ 11,509	$ 4,699	$ 5,126	$ 44	$ 9,869
Liabilities								
Derivatives:								
Interest rate contracts	$	$ 10	$	$ 10	$	$ 29	$	$ 29
Foreign exchange contracts		556		556		485	1	486
Other derivatives						3		3
Total Liabilities	$	$ 566	$	$ 566	$	$ 517	$ 1	$ 518

Valuation Techniques

Cash Equivalents and Investments: HP holds time deposits, money market funds, mutual funds, other debt securities primarily consisting of corporate and foreign government notes and bonds, and common stock and equivalents. Where applicable, HP uses quoted prices in active markets for identical

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 7: Fair Value (Continued)

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 for which 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.

Other Fair Value Disclosures

Short- and Long-Term Debt: The estimated fair value of HP's debt is primarily calculated using an expected present value technique based upon observable market inputs. The portion of HP's fixed-rate debt obligations that is hedged is reflected in the Consolidated Condensed Balance Sheets as an amount equal to the debt's carrying value, which includes a fair value adjustment representing changes in the fair value of the hedged debt obligations arising from movements in benchmark interest rates. The estimated fair value of HP's short- and long-term debt was approximately $27.1 billion at April 30, 2013, compared to its carrying value of $26.8 billion at that date. The estimated fair value of HP's short- and long-term debt approximated its carrying value of $28.4 billion at October 31, 2012. If measured at fair value in the Consolidated Condensed Balance Sheets, short- and long-term debt would be classified as Level 2 in the fair value hierarchy.

Other Financial Instruments: For the balance of HP's financial instruments, primarily accounts receivable, accounts payable and financial liabilities in other accrued liabilities, the carrying amounts approximate fair value due to their short maturities.

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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 April 30, 2013 and October 31, 2012 were as follows:

	April 30, 2013				October 31, 2012			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	In millions							
Cash Equivalents								
Time deposits	$ 2,873	$	$	$ 2,873	$ 3,633	$	$	$ 3,633
Money market funds	7,169			7,169	4,630			4,630
Mutual funds	39			39	69			69
Total cash equivalents	10,081			10,081	8,332			8,332
Available-for-Sale Investments								
Debt securities:								
Time deposits	13			13	8			8
Foreign bonds	300	92		392	303	82		385
Other debt securities	58		(18)	40	62		(17)	45
Total debt securities	371	92	(18)	445	373	82	(17)	438
Equity securities:								
Mutual funds	332			332	400			400
Equity securities in public companies	50	24	(2)	72	50	9		59
Total equity securities	382	24	(2)	404	450	9		459
Total available-for-sale investments	753	116	(20)	849	823	91	(17)	897
Total cash equivalents and available-for-sale investments	$ 10,834	$ 116	$ (20)	$ 10,930	$ 9,155	$ 91	$ (17)	$ 9,229

All highly liquid investments with original maturities of three months or less at the date of acquisition are considered to be cash equivalents. Time deposits were primarily issued by institutions outside the United States as of April 30, 2013 and October 31, 2012. Investments in debt and marketable equity securities are generally considered available-for-sale. The estimated fair values of the available-for-sale investments may not be representative of actual values that will be realized in the future.

The gross unrealized loss as of April 30, 2013 and October 31, 2012 was due primarily to decline in the fair value of a debt security of $18 million and $17 million, respectively, that has been in a continuous loss position for more than twelve months. HP does not intend to sell this debt security, and it is not likely that HP will be required to sell this debt security prior to the recovery of the amortized cost. HP has evaluated the near-term prospects of its debt and equity investments in a gross unrealized loss positions in relation to the severity and duration of the impairment and considers the decline in market value of these investments to be temporary in nature.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

Contractual maturities of short-term and long-term investments in available-for-sale debt securities were as follows:

	April 30, 2013	
	Cost	Estimated Fair Value
	In millions	
Due in one to five years	$ 14	$ 14
Due in more than five years	357	431
	$ 371	$ 445

Equity securities in privately held companies include cost basis and equity method investments. These amounted to $52 million and $51 million for the periods ended April 30, 2013 and October 31, 2012 and are included in long-term financing receivables and other assets.

Derivative Financial Instruments

HP is a global company that is exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of its business. As part of its risk management strategy, HP uses derivative instruments, primarily forward contracts, option contracts, interest rate swaps, and total return swaps, to hedge certain foreign currency, interest rate and, to a lesser extent, equity exposures. HP's objective is to offset gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting fair values of assets and liabilities. HP does not have any leveraged derivatives and does not use derivative contracts for speculative purposes. HP designates its derivatives as fair value hedges, cash flow hedges or hedges of the foreign currency exposure of a net investment in a foreign operation ("net investment hedges"). Additionally, for derivatives not designated as hedging instruments, HP categorizes those economic hedges as other derivatives. HP recognizes all derivatives, on a gross basis, in the Consolidated Condensed Balance Sheets at fair value. 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 its counterparties will fail to meet their contractual obligations. To mitigate 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 include reviewing and establishing limits for credit exposure and periodically re-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 has collateral security arrangements with substantially all of its counterparties. These arrangements require HP to post collateral or to hold collateral from counterparties when the derivative fair values exceed contractually established thresholds which are generally based on the credit ratings of HP and its counterparties. Such funds are

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

generally transferred within two business days of the due date. As of April 30, 2013, HP held $266 million of collateral and posted $137 million through re-use of counterparty cash collateral under these collateralized arrangements. As of October 31, 2012, HP held $198 million of collateral and posted $72 million under these collateralized arrangements, of which $49 million was through re-use of counterparty cash collateral and $23 million in cash.

Fair Value Hedges

HP enters into derivatives 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 a primarily U.S. dollar LIBOR-based floating interest expense. The swap transactions generally involve principal and interest obligations for U.S. dollar-denominated amounts. Alternatively, HP may choose not to swap fixed for floating interest payments or may terminate a previously executed swap if it believes a larger proportion of fixed-rate debt would be beneficial.

When investing in fixed-rate instruments, HP may enter into interest rate swaps that convert the fixed interest payments into variable interest payments and would classify these swaps as fair value hedges.

For derivative instruments that are designated and qualify as fair value hedges, HP recognizes the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item, in Interest and other, net in the Consolidated Condensed Statements of Earnings in the period of change.

Cash Flow Hedges

HP uses a combination of forward contracts and options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted net revenue and, to a lesser extent, cost of sales, operating expenses, and intercompany loans denominated in currencies other than the U.S. dollar. HP's foreign currency cash flow hedges mature generally within twelve months. However, certain leasing revenue-related forward contracts and intercompany loan forward contracts extend for the duration of the lease term, which can be up to five years.

For derivative instruments that are designated and qualify as cash flow hedges, HP initially records the effective portion of the gain or loss on the derivative instrument in accumulated other comprehensive income or loss as a separate component of stockholders' equity and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized in earnings. HP reports the effective portion of cash flow hedges in the same financial statement line item as the changes in value of the hedged item. During the three and six months ended April 30, 2013 there was no significant impact to results of operations as a result of discontinued cash flow hedges. During the three and six months ended April 30, 2012, HP did not discontinue any cash flow hedge for which it was probable that a forecasted transaction would not occur.

Net Investment Hedges

HP uses forward contracts designated as net investment hedges to hedge net investments in certain foreign subsidiaries whose functional currency is the local currency. These derivative instruments are

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Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

designated as net investment hedges and, as such, HP records the effective portion of the gain or loss on the derivative instrument together with changes in the hedged items in cumulative translation adjustment as a separate component of stockholders' equity.

Other Derivatives

Other derivatives not designated as hedging instruments consist primarily of forward contracts HP uses to hedge foreign currency balance sheet exposures. HP also uses total return swaps and, to a lesser extent, interest rate swaps, based on the equity and fixed income indices, to hedge its executive deferred compensation plan liability.

For derivative instruments not designated as hedging instruments, HP recognizes changes in the fair values in earnings in the period of change. HP recognizes the gain or loss on foreign currency forward contracts used to hedge balance sheet exposures in Interest and other, net in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities. HP recognizes the gain or loss on the total return swaps and interest rate swaps in Interest and other, net in the same period as the gain or loss from the change in market value of the executive deferred compensation plan liability.

Hedge Effectiveness

For interest rate swaps designated as fair value hedges, HP measures effectiveness by offsetting the change in fair value of the hedged debt with the change in fair value of the derivative. For foreign currency options and forward contracts designated as cash flow or net investment hedges, HP measures effectiveness by comparing the cumulative change in the hedge contract with the cumulative change in the hedged item, both of which are based on forward rates. HP recognizes any ineffective portion of the hedge, as well as amounts not included in the assessment of effectiveness, in the Consolidated Condensed Statements of Earnings.

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 were as follows:

	As of April 30, 2013					As of October 31, 2012				
	Gross Notional[1]	Other Current Assets	Long-term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities	Gross Notional[1]	Other Current Assets	Long-term Financing Receivables and Other Assets	Other Accrued Liabilities	Other Liabilities
	In millions									
Derivatives designated as hedging instruments										
Fair value hedges:										
Interest rate contracts	$ 8,900	$ 38	$ 210	$	$	$ 7,900	$ 43	$ 276	$	$
Cash flow hedges:										
Foreign exchange contracts	17,230	123	49	332	70	19,409	160	24	277	79
Net investment hedges:										
Foreign exchange contracts	1,901	12	22	29	25	1,683	14	15	36	24
Total derivatives designated as hedging instruments	28,031	173	281	361	95	28,992	217	315	313	103
Derivatives not designated as hedging instruments										
Foreign exchange contracts	16,246	90	14	85	15	18,687	61	17	51	19
Interest rate contracts[2]	2,200	9		10		2,200	25		29	
Other derivatives	350	7	1			383	1		3	
Total derivatives not designated as hedging instruments	18,796	106	15	95	15	21,270	87	17	83	19
Total derivatives	$ 46,827	$ 279	$ 296	$ 456	$ 110	$ 50,262	$ 304	$ 332	$ 396	$ 122

(1) Represents the face amounts of contracts that were outstanding as of April 30, 2013 and October 31, 2012, respectively.

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

Effect of Derivative Instruments on the Consolidated Condensed Statements of Earnings

The before-tax effect of derivative instruments and related hedged items in fair value hedging relationships for the three and six months ended April 30, 2013 and 2012 were as follows:

	Gain (Loss) Recognized in Earnings on Derivative and Related Hedged Item						
Derivative Instrument	Location	Three months ended April 30,	Six months ended April 30,	Hedged Item	Location	Three months ended April 30,	Six months ended April 30,

		2013	2013			2013	2013
		In millions				In millions	
Interest rate contracts	Interest and other, net	$ 28	$ (71)	Fixed-rate debt	Interest and other, net	$ (28)	$ 70

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Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

	Gain (Loss) Recognized in Earnings on Derivative and Related Hedged Item						
Derivative Instrument	Location	Three months ended April 30, 2012	Six months ended April 30, 2012	Hedged Item	Location	Three months ended April 30, 2012	Six months ended April 30, 2012
		In millions				In millions	
Interest rate contracts	Interest and other, net	$ (80)	$ (76)	Fixed-rate debt	Interest and other, net	$ 80	$ 80

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three and six months ended April 30, 2013 was as follows:

	Gain (Loss) Recognized in Other Comprehensive Income ("OCI") on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI Into Earnings (Effective Portion)		
	Three months ended April 30, 2013	Six months ended April 30, 2013	Location	Three months ended April 30, 2013	Six months ended April 30, 2013
	In millions			In millions	
Cash flow hedges:					
Foreign exchange contracts	$ 206	$ 7	Net revenue	$46	$(11)
Foreign exchange contracts	(44)	(169)	Cost of products	(27)	(30)
Foreign exchange contracts	3	11	Other operating expenses	4	5
Foreign exchange contracts	(11)	(9)	Interest and other, net	1	(4)
Total cash flow hedges	$ 154	$ (160)		$24	$(40)
Net investment hedges:					
Foreign exchange contracts	$ (2)	$ (17)	Interest and other, net	$	$

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Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three and six months ended April 30, 2012 was as follows:

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI Into Earnings (Effective Portion)		
	Three months ended April 30, 2012	Six months ended April 30, 2012	Location	Three months ended April 30, 2012	Six months ended April 30, 2012
	In millions			In millions	
Cash flow hedges:					
Foreign exchange contracts	$ (120)	$ 298	Net revenue	$ 3	$ 86
Foreign exchange contracts	(53)	(61)	Cost of products	2	18
Foreign exchange contracts	(1)	(4)	Other operating expenses	(1)	(2)
Foreign exchange contracts	(17)	(17)	Interest and other, net	(15)	(15)
Total cash flow hedges	$ (191)	$ 216		$ (11)	$ 87
Net investment hedges:					
Foreign exchange contracts	$ 13	$ 38	Interest and other, net	$	$

As of April 30, 2013 and 2012, the portion of hedging instruments gain or loss excluded from the assessment of effectiveness was not material for fair value, cash flow or net investment hedges. Hedge ineffectiveness for fair value, cash flow and net investment hedges was not material in the three and six months ended April 30, 2013 and 2012.

As of April 30, 2013, HP expects to reclassify an estimated net accumulated other comprehensive loss of approximately $158 million, net of taxes, to earnings in the next twelve months along with the earnings effects of the related forecasted transactions in association with cash flow hedges.

The before-tax effect of derivative instruments not designated as hedging instruments on the Consolidated Condensed Statements of Earnings for the three and six months ended April 30, 2013 and 2012 was as follows:

	Gain (Loss) Recognized in Earnings on Derivative		
	Location	Three months ended April 30, 2013	Six months ended April 30, 2013
		In millions	
Foreign exchange contracts	Interest and other, net	$ (15)	$ (55)
Other derivatives	Interest and other, net	3	10
Interest rate contracts	Interest and other, net	1	3

Total	$ (11)	$ (42)

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

	Location	Gain (Loss) Recognized in Earnings on Derivative: Three months ended April 30, 2012	Six months ended April 30, 2012
		In millions	
Foreign exchange contracts	Interest and other, net	$ 74	$ 156
Other derivatives	Interest and other, net	(6)	(16)
Interest rate contracts	Interest and other, net	1	11
Total		$ 69	$ 151

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, net and Long-term financing receivables and other assets in the accompanying Consolidated Condensed Balance Sheets, were as follows:

	April 30, 2013	October 31, 2012
	In millions	
Minimum lease payments receivable	$7,725	$8,133
Unguaranteed residual value	255	248
Unearned income	(651)	(688)
Financing receivables, gross	7,329	7,693
Allowance for doubtful accounts	(149)	(149)
Financing receivables, net	7,180	7,544
Less current portion	(3,212)	(3,252)
Amounts due after one year, net	$3,968	$4,292

Equipment leased to customers under operating leases was $3.7 billion and $3.9 billion at April 30, 2013 and October 31, 2012, respectively, and is included in machinery and equipment. Accumulated depreciation on equipment under lease was $1.4 billion and $1.5 billion at April 30, 2013 and at October 31, 2012, respectively.

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

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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)

essential use of the equipment, the term of the lease, and the inclusion of guarantees, letters of credit, security deposits or other credit enhancements.

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

	April 30, 2013	October 31, 2012
	In millions	
Risk Rating		
Low	$ 4,128	$ 4,461
Moderate	3,100	3,151
High	101	81
Total	$ 7,329	$ 7,693

Accounts rated low risk typically have the equivalent of a Standard & Poor's rating of BBB- or higher, while accounts rated moderate risk would generally be the equivalent of BB+ or lower. Based upon impairment analyses performed periodically, HP identifies and monitors accounts rated high risk and may establish a specific reserve against a portion of these receivables.

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, current economic conditions and information derived from competitive benchmarking.

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

	Six months ended April 30, 2013
	In millions
Allowance for doubtful accounts	
Balance, beginning of period	$ 149
Change in estimates	14
Deductions, net of recoveries	(14)
Balance, end of period	$ 149

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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)

	April 30, 2013	October 31, 2012
	In millions	
Allowance for financing receivables collectively evaluated for loss	$ 100	$ 104
Allowance for financing receivables individually evaluated for loss	49	45
Total	$ 149	$ 149
Gross financing receivables collectively evaluated for loss	$ 6,956	$ 7,355
Gross financing receivables individually evaluated for loss	373	338
Total	$ 7,329	$ 7,693
Gross financing receivables on non-accrual status	$ 208	$ 225
Gross financing receivables 90 days past due and still accruing interest	165	113
Total	$ 373	$ 338

Accounts are generally put on non-accrual status (cessation of interest accrual) when they reach 90 days past due. 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. The non-accrual status may not impact a customer's risk rating. A write-off or specific reserve is generally recorded when an account reaches 180 days past due.

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 it 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 six months ended April 30, 2013 were as follows:

	In millions
Product warranty liability at October 31, 2012	$2,170
Accruals for warranties issued	1,013
Adjustments related to pre-existing warranties (including changes in estimates)	(3)
Settlements made (in cash or in kind)	(1,110)
Product warranty liability at April 30, 2013	$2,070

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:

	April 30, 2013		October 31, 2012	
	Amount Outstanding	Weighted-Average Interest Rate	Amount Outstanding	Weighted-Average Interest Rate
	In millions		In millions	
Current portion of long-term debt	$ 6,162	2.3%	$ 5,744	1.6%
Commercial paper	310	0.3%	365	0.9%
Notes payable to banks, lines of credit and other	456	2.1%	538	2.8%
	$ 6,928		$ 6,647	

Notes payable to banks, lines of credit and other includes deposits associated with HP's banking-related activities of $340 million and $369 million at April 30, 2013 and October 31, 2012, respectively.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

Long-Term Debt

Long-term debt was as follows:

	April 30, 2013	October 31, 2012
	In millions	
U.S. Dollar Global Notes		
2006 Shelf Registration Statement:		
$500 issued at discount to par at a price of 99.694% in February 2007 at 5.4%, due March 2017	$ 499	$ 499
$1,500 issued at discount to par at a price of 99.921% in March 2008 at 4.5%, paid March 2013		1,500
$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	1,999	1,998
$1,500 issued at discount to par at a price of 99.993% in February 2009 at 4.75%, due June 2014	1,500	1,500
2009 Shelf Registration Statement:		
$1,100 issued at discount to par at a price of 99.921% in September 2010 at 1.25%, due September 2013	1,100	1,100
$1,100 issued at discount to par at a price of 99.887% in September 2010 at 2.125%, due September 2015	1,099	1,100
$650 issued at discount to par at a price of 99.911% in December 2010 at 2.2%, due December 2015	650	650
$1,350 issued at discount to par at a price of 99.827% in December 2010 at 3.75%, due December 2020	1,348	1,348
$1,750 issued at par in May 2011 at three month USD LIBOR plus 0.28%, paid May 2013	1,750	1,750
$500 issued at par in May 2011 at three month USD LIBOR plus 0.4%, due May 2014	500	500
$500 issued at discount to par at a price of 99.971% in May 2011 at 1.55%, due May 2014	500	500
$1,000 issued at discount to par at a price of 99.958% in May 2011 at 2.65%, due June 2016	1,000	1,000
$1,250 issued at discount to par at a price of 99.799% in May 2011 at 4.3%, due June 2021	1,248	1,248
$750 issued at discount to par at a price of 99.977% in September 2011 at 2.35%, due March 2015	750	750
$1,300 issued at discount to par at a price of 99.784% in September 2011 at 3.0%, due September 2016	1,298	1,298
$1,000 issued at discount to par at a price of 99.816% in September 2011 at 4.375%, due September 2021	998	998

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

	April 30, 2013	October 31, 2012
	In millions	
$1,200 issued at discount to par at a price of 99.863% in September 2011 at 6.0%, due September 2041	1,198	1,198
$350 issued at par in September 2011 at three-month USD LIBOR plus 1.55%, due September 2014	350	350
$650 issued at discount to par at a price of 99.946% in December 2011 at 2.625%, due December 2014	650	650
$850 issued at discount to par at a price of 99.790% in December 2011 at 3.3%, due December 2016	849	849
$1,500 issued at discount to par at a price of 99.707% in December 2011 at 4.65%, due December 2021	1,497	1,496
$1,500 issued at discount to par at a price of 99.985% in March 2012 at 2.6%, due September 2017	1,500	1,500
$500 issued at discount to par at a price of 99.771% in March 2012 at 4.05%, due September 2022	499	499
	23,532	25,031
EDS Senior Notes		
$1,100 issued June 2003 at 6.0%, due August 2013	1,103	1,109
$300 issued October 1999 at 7.45%, due October 2029	314	314
	1,417	1,423
Other, including capital lease obligations, at 0.00%-8.39%, due in calendar years 2014-2024	713	680
Fair value adjustment related to hedged debt	363	399
Less: current portion	(6,162)	(5,744)
Total long-term debt	$ 19,863	$ 21,789

As disclosed in Note 8, HP uses interest rate swaps to mitigate the interest rate risk exposures in connection with certain fixed-rate global notes to achieve primarily U.S. dollar LIBOR-based floating interest expense. The interest rates in the table above have not been adjusted to reflect the impact of any interest rate swaps.

HP may redeem some or all of the Global Notes set forth in the above table at any time at the redemption prices described in the prospectus supplements relating thereto. The Global Notes are senior unsecured debt.

In May 2012, HP filed a shelf registration statement (the "2012 Shelf Registration Statement") with the SEC to enable the company to offer for sale, from time to time, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants. The 2012 Shelf Registration Statement replaced the registration statement filed in May 2009.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

HP's Board of Directors has authorized the issuance of up to $16.0 billion in aggregate principal amount of commercial paper by HP. HP's subsidiaries are authorized to issue up to an additional $1.0 billion in aggregate principal amount of commercial paper. HP maintains two commercial paper programs, and a wholly-owned subsidiary maintains a third program. HP's U.S. program provides for the issuance of U.S. dollar-denominated commercial paper up to a maximum aggregate principal amount of $16.0 billion. HP's euro commercial paper program, which was established in September 2012, provides for the issuance of commercial paper outside of the United States denominated in U.S. dollars, euros or British pounds up to a maximum aggregate principal amount of $3.0 billion or the equivalent in those alternative currencies. The combined aggregate principal amount of commercial paper outstanding under those programs at any one time cannot exceed the $16.0 billion authorized by HP's Board of Directors. The HP subsidiary's Euro Commercial Paper/Certificate of Deposit Programme provides for the issuance of commercial paper in various currencies of up to a maximum aggregate principal amount of $500 million.

HP maintains senior unsecured committed credit facilities primarily to support the issuance of commercial paper. HP has a $3.0 billion five-year credit facility that expires in March 2017 and a $4.5 billion four-year credit facility that expires in February 2015. Both facilities support the U.S. commercial paper program and the euro commercial paper program. In addition, to better support the euro commercial paper program, the five-year credit facility was amended in September 2012 to permit borrowings in euros and British pounds, with the amounts available in euros and pounds being limited to the U.S. dollar equivalent of $2.2 billion and $300 million, respectively. Commitment fees, interest rates and other terms of borrowing under the credit facilities vary based on HP's external credit ratings. HP's ability to have a U.S. commercial paper outstanding balance that exceeds the $7.5 billion supported by these credit facilities is subject to a number of factors, including liquidity conditions and business performance.

Within Other, including capital lease obligations, are borrowings that are collateralized by certain financing receivable assets. As of April 30, 2013, the carrying value of the assets approximated the carrying value of the borrowings of $219 million.

As of April 30, 2013, HP had the capacity to issue an unspecified amount of additional debt securities, common stock, preferred stock, depositary shares and warrants under the 2012 Shelf Registration Statement. As of that date, HP also had up to $17.7 billion of available borrowing resources, including $16.2 billion in available capacity under its commercial paper programs and $1.5 billion relating to uncommitted lines of credit. The extent to which HP is able to utilize the 2012 Shelf Registration Statement and the commercial paper programs as sources of liquidity at any given time is subject to a number of factors, including market demand for HP securities and commercial paper, HP's financial performance, HP's credit ratings and market conditions generally.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

Interest expense on borrowings was as follows:

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
	In millions			
Financing interest	$ 81	$ 80	$ 161	$ 158
Interest expense	103	116	225	238
Total Interest	$ 184	$ 196	$ 386	$ 396

Note 12: Income Taxes

Provision for taxes

HP's effective tax rate was 23.5% and 19.5% for the three months ended April 30, 2013 and 2012, respectively, and 22.5% and 19.5% for the six months ended April 30, 2013 and 2012, respectively. HP's effective tax rate increased in the three and six months ended April 30, 2013, in part due to the lower tax rates of the discrete items described below. HP's effective tax rate generally differs from the U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from HP's operations in lower-tax jurisdictions throughout the world. HP has not provided U.S. taxes for all of such earnings because HP plans to reinvest some of those earnings indefinitely outside the United States.

In the three and six months ended April 30, 2013, HP recorded discrete items resulting in a net tax benefit of $108 million and $103 million, respectively. These amounts included tax benefits of $47 million and $63 million on restructuring and acquisition-related charges for the three and six months ended April 30, 2013, respectively. Other discrete items for the three and six months ended April 30, 2013 included tax benefits of $81 million and $131 million, respectively, for various adjustments to estimated tax provisions of foreign jurisdictions and miscellaneous tax charges of $20 million and tax benefits of $9 million, respectively. In addition, in January 2013, the American Taxpayer Relief Act of 2012 was signed into law. In the first quarter of fiscal 2013, HP recorded a tax benefit of $50 million arising from the retroactive research and development credit provided by that legislation. HP also recorded a tax charge of $150 million related to a past uncertain tax position in the first quarter of fiscal 2013, increasing the effective tax rate.

In the three and six months ended April 30, 2012, HP recorded discrete items with a net tax benefit of $25 million and $74 million, respectively, decreasing the effective tax rate. These amounts included net tax benefits of $22 million and $50 million, respectively, from restructuring and acquisition charges.

As of April 30, 2013, the amount of gross unrecognized tax benefits was $2.8 billion, of which up to $1.5 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 April 30, 2013, HP had accrued a net payable of $207 million for interest and penalties.

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 12: Income Taxes (Continued)

HP engages in continuous discussions and negotiations with taxing authorities regarding tax matters in various jurisdictions. HP does not expect complete resolution of any Internal Revenue Service audit cycle within the next 12 months. However, it is reasonably possible that certain federal, foreign and state tax issues may be concluded in the next 12 months, including issues involving transfer pricing and other matters. Accordingly, HP believes it is reasonably possible that its existing unrecognized tax benefits may be decreased by an amount up to $205 million within the next 12 months.

In the Consolidated Condensed Financial Statements, current and long-term deferred tax assets and deferred tax liabilities are presented as follows:

	April 30, 2013	October 31, 2012
	In millions	
Current deferred tax assets	$ 4,107	$ 3,783
Current deferred tax liabilities	(300)	(230)
Long-term deferred tax assets	1,567	1,581
Long-term deferred tax liabilities	(3,790)	(2,948)
Net deferred tax position	$ 1,584	$ 2,186

Note 13: Stockholders' Equity

Share Repurchase Program

HP's share repurchase program authorizes both open market and private repurchase transactions. In the three and six months ended April 30, 2013, HP executed share repurchases of 36 million shares and 56 million shares, respectively. Such repurchased shares were settled for $797 million and $1.1 billion, respectively. HP paid approximately $350 million in connection with repurchases of 13 million shares during the three months ended April 30, 2012 and paid $1.1 billion in connection with repurchases of approximately 43 million shares in the first six months of fiscal 2012. As of April 30, 2013, HP had remaining authorization of $8.1 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)

Taxes related to Items of Other Comprehensive Loss/Income

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
	In millions		In millions	
Tax (expense) benefit on change in unrealized gains/losses on available-for-sale securities	$ (5)	$	$ (38)	$ 5
Tax (expense) benefit on change in unrealized gains/losses on cash flow hedges:				
Tax (expense) benefit on unrealized gains/losses arising during the period	(42)	60	60	(92)
Tax expense (benefit) on gains/losses reclassified into earnings	10		(7)	37
	(32)	60	53	(55)
Tax (expense) benefit on change in unrealized components of defined benefit plans:				
Tax benefit (expense) on net losses arising during the period				24
Tax (benefit) expense on amortization of actuarial loss and prior service benefit	(16)	(6)	(21)	(16)
Tax benefit (expense) on curtailments, settlements and other		20	(1)	(64)
	(16)	14	(22)	(56)
Tax benefit (expense) on change in cumulative translation adjustment	4	(52)	22	(38)
Tax (expense) benefit on other comprehensive income	$ (49)	$ 22	$ 15	$ (144)

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

	April 30, 2013	October 31, 2012
	In millions	
Net unrealized gain on available-for-sale securities	$ 71	$ 87
Net unrealized loss on cash flow hedges	(166)	(99)
Unrealized components of defined benefit plans	(4,934)	(5,090)
Cumulative translation adjustment	(493)	(457)
Accumulated other comprehensive loss	$ (5,522)	$ (5,559)

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 14: Retirement and Post-Retirement Benefit Plans

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

	Three months ended April 30					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2013	2012	2013	2012	2013	2012
	In millions					
Service cost	$	$	$ 84	$ 74	$ 2	$ 2
Interest cost	140	141	168	174	8	8
Expected return on plan assets	(211)	(198)	(250)	(206)	(8)	(9)
Amortization and deferrals:						
Actuarial loss (gain)	19	11	85	59		(1)
Prior service benefit			(6)	(6)	(17)	(22)
Net periodic benefit (credit) cost	(52)	(46)	81	95	(15)	(22)
Curtailment gain					(4)	
Settlement loss	3			8		
Special termination benefits			2	1		
Net benefit (credit) cost	$ (49)	$ (46)	$ 83	$ 104	$ (19)	$ (22)

	Six months ended April 30					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2013	2012	2013	2012	2013	2012
	In millions					
Service cost	$	$	$ 170	$ 148	$ 3	$ 4
Interest cost	280	283	341	349	15	17
Expected return on plan assets	(423)	(396)	(507)	(413)	(17)	(18)
Amortization and deferrals:						
Actuarial loss (gain)	39	22	172	119		(2)
Prior service benefit			(13)	(12)	(34)	(43)
Net periodic benefit (credit) cost	(104)	(91)	163	191	(33)	(42)
Curtailment gain					(7)	
Settlement loss (gain)	8			(20)		
Special termination benefits			5	2		
Net benefit (credit) cost	$ (96)	$ (91)	$ 168	$ 173	$ (40)	$ (42)

Employer Contributions and Funding Policy

HP previously disclosed in its Consolidated Financial Statements for the fiscal year ended October 31, 2012 that it expected to contribute in fiscal 2013 approximately $674 million to its non-US pension plans and approximately $33 million to cover benefit payments to U.S. non-qualified plan participants. HP expected to pay approximately $124 million to cover benefit claims for HP's post-retirement benefit plans. HP's funding policy is to contribute cash to its pension plans so that it makes at least the minimum contribution required by local government, funding and taxing authorities.

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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)

During the six months ended April 30, 2013, HP made $363 million of contributions to its non-US pension plans, paid $35 million to cover benefit payments to U.S. non-qualified plan participants, and paid $47 million to cover benefit claims under HP's post-retirement benefit plans. During the remainder of fiscal 2013, HP anticipates making additional contributions of approximately $293 million to its non-U.S. pension plans and approximately $16 million to its U.S. non-qualified plan participants and expects to pay approximately $77 million to cover benefit claims under HP's post-retirement benefit plans.

HP's pension and other post-retirement benefit costs and obligations are dependent on various assumptions. Differences between expected and actual returns on investments will be reflected as unrecognized gains or losses, and such gains or losses will be amortized and recorded in future periods. Poor financial performance of invested assets in any year could lead to increased contributions in certain countries and increased future pension plan expense. Asset gains or losses are determined at the measurement date and amortized over the remaining service life or life expectancy of plan participants.

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 accrues a liability when management believes that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. HP believes it has adequate provisions for any such matters, and, as of April 30, 2013, it was not reasonably possible that an additional material loss had been incurred in an amount in excess of the amounts already recognized in 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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

extension of levies to the digital environment and have advocated alternative models of compensation to rights holders.

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

On July 21, 2011, the German Federal Supreme Court stayed the proceedings and referred several questions to the CJEU with regard to the interpretation of the European Copyright Directive. The CJEU conducted an oral hearing in October 2012 and is expected to issue a decision in June 2013, after which the matter will be remitted back to the German Federal Supreme Court.

In September 2003, VG Wort filed a lawsuit against Fujitsu Siemens Computer GmbH ("FSC") in the Munich Civil Court in Munich, Germany seeking levies on PCs. This is an industry test case in Germany, and HP has agreed not to object to the delay if VG Wort sues HP for such levies on PCs following a final decision against FSC. On December 23, 2004, the Munich Civil Court held that PCs are subject to a levy and that FSC must pay €12 plus compound interest for each PC sold in Germany since March 2001. FSC appealed this decision in January 2005 to the Munich Court of Appeals. On December 15, 2005, the Munich Court of Appeals affirmed the Munich Civil Court decision. FSC filed an appeal with the German Federal Supreme Court in February 2006. On October 2, 2008, the German Federal Supreme Court issued a judgment that PCs were not photocopiers within the meaning of the German copyright law that was in effect until December 31, 2007 and, therefore, not subject to the levies on photocopiers established by that law. VG Wort subsequently filed a claim with the German Federal Constitutional Court challenging that ruling. In January 2011, the Constitutional Court published a decision holding that the German Federal Supreme Court decision was inconsistent with the German Constitution and revoking the German Federal Supreme Court decision. The Constitutional Court remitted the matter to the German Federal Supreme Court for further action. On July 21, 2011, the German Federal Supreme Court stayed the proceedings and referred several questions to the CJEU with regard to the interpretation of the European Copyright Directive. The CJEU conducted an oral hearing in October 2012 and is expected to issue a decision in June 2013, after which the matter will be remitted back to the German Federal Supreme Court.

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Note 15: Litigation and Contingencies (Continued)

Reprobel, a cooperative society with the authority to collect and distribute the remuneration for reprography to Belgian copyright holders, requested HP by extra-judicial means to amend certain copyright levy declarations submitted for inkjet MFDs sold in Belgium from January 2005 to December 2009 to enable it to collect copyright levies calculated based on the generally higher copying speed when the MFDs are operated in draft print mode rather than when operated in normal print mode. In March 2010, HP filed a lawsuit against Reprobel in the French-speaking chambers of the Court of First Instance of Brussels seeking a declaratory judgment that no copyright levies are payable on sales of MFDs in Belgium or, alternatively, that copyright levies payable on such MFDs must be assessed based on the copying speed when operated in the normal print mode set by default in the device. On November 16, 2012, the court issued a decision holding that Belgium law is not in conformity with EU law in a number of respects and ordered that, by November 2013, Reprobel substantiate that the amounts claimed by Reprobel are commensurate with the harm resulting from legitimate copying under the reprographic exception. HP subsequently appealed that court decision to the Courts of Appeal in Brussels seeking to confirm that the Belgian law is not in conformity with EU law and that, if Belgian law is interpreted in a manner consistent with EU law, no payments by HP are required or, alternatively, the payments already made by HP are sufficient to comply with its obligations under Belgian law. Hearings on the appeal are scheduled to be held in September 2013.

Based on industry opposition to the extension of levies to digital products, HP's assessments of the merits of various proceedings and HP's estimates of the number of units impacted and the amounts of the levies, HP has accrued amounts that it believes are adequate to address the matters described above. However, the ultimate resolution of these matters and the associated financial impact on HP, including the number of units impacted, the amount of levies imposed and the ability of HP to recover such amounts through increased prices, remains uncertain.

Skold, et al. v. Intel Corporation and Hewlett-Packard Company is a lawsuit filed against HP on June 14, 2004 that is pending in state court in Santa Clara County, California. The lawsuit alleges that Intel Corporation ("Intel") concealed performance problems related to the Intel Pentium 4 processor by, among others things, the manipulation of performance benchmarks. The lawsuit alleges that HP aided and abetted Intel's allegedly unlawful conduct. The plaintiffs seek unspecified damages, restitution, attorneys' fees and costs. On April 19, 2012, the court issued an order granting in part and denying in part the plaintiffs' motion to certify a nationwide class asserting claims under the California Unfair Competition Law. As to Intel, the court certified a nationwide class excluding residents of Illinois. As to HP, the court certified a class limited to California residents who purchased their computers "from HP" for "personal, family or household use." As required by the same order, the plaintiffs filed an amended complaint that limits their claims against HP to a California class while reserving the right to seek additional state-specific subclasses as to HP.

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

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warnings and that the smart chip limits the ability of consumers to use the cartridge to its full capacity or to choose competitive products.

> A consolidated lawsuit captioned *In re HP Inkjet Printer Litigation* was filed in the United States District Court for the Northern District of California seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees.

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

> A lawsuit captioned *Rich v. HP* was filed against HP on May 22, 2006 in the United States District Court for the Northern District of California alleging that HP designed its color inkjet printers to unnecessarily use color ink in addition to black ink when printing black and white images and text and seeking to certify a nationwide injunctive class and a California-only damages class.

> Two class actions against HP and its subsidiary, Hewlett-Packard (Canada) Co., are pending in Canada, one commenced in British Columbia in February 2006 and one commenced in Ontario in June 2006, where the plaintiffs are seeking class certification, restitution, declaratory relief, injunctive relief and unspecified statutory, compensatory and punitive damages.

On August 25, 2010, HP and the plaintiffs in *In re HP Inkjet Printer Litigation*, *Blennis v. HP* and *Rich v. HP* entered into an agreement to settle those lawsuits on behalf of the proposed classes. Under the terms of the settlement, the lawsuits were consolidated, and eligible class members each have the right to obtain e-credits not to exceed $5 million in the aggregate for use in purchasing printers or printer supplies through HP's website. As part of the settlement, HP also agreed to provide class members with additional information regarding HP inkjet printer functionality and to change the content of certain software and user guide messaging provided to users regarding the life of inkjet printer cartridges. In addition, the settlement provides for class counsel and the class representatives to be paid attorneys' fees and expenses and stipends. On March 29, 2011, the court granted final approval of the settlement. On April 27, 2011, certain class members who objected to the settlement filed an appeal in the United States Court of Appeals for the Ninth Circuit of the court's order granting final approval of the settlement. On May 15, 2013, the United States Court of Appeals for the Ninth Circuit reversed the District Court's grant of final approval of the settlement on the grounds that the District Court did not properly calculate attorneys' fees.

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

> *Cunningham and Cunningham, et al. v. Electronic Data Systems Corporation* is a purported collective action filed on May 10, 2006 in the United States District Court for the Southern District of New York claiming that current and former EDS employees allegedly involved in installing and/or maintaining computer software and hardware were misclassified as exempt employees. Another purported collective action, *Steavens, et al. v. Electronic Data Systems*

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Note 15: Litigation and Contingencies (Continued)

Corporation, which was filed on October 23, 2007, is also now pending in the same court alleging similar facts. The *Steavens* case has been consolidated for pretrial purposes with the *Cunningham* case. On December 14, 2010, the court granted conditional certification of a class consisting of employees in 20 legacy EDS job codes in the consolidated *Cunningham* and *Steavens* matter. Approximately 2,600 current and former EDS employees have filed consents to opt in to the litigation. Plaintiffs had alleged separate "opt-out" classes based on the overtime laws of the states of California, Washington, Massachusetts and New York, but plaintiffs have dismissed those claims.

Salva v. Hewlett-Packard Company is a purported collective action filed on June 15, 2012 in the United States District Court for the Western District of New York alleging that certain information technology employees allegedly involved in installing and/or maintaining computer software and hardware were misclassified as exempt employees under the Fair Labor Standards Act. On August 31, 2012, HP filed its answer to plaintiffs' complaint and counterclaims against two of the three named plaintiffs. Also on August 31, 2012, HP filed a motion to transfer venue to the United States District Court for the Eastern District of Texas. A hearing on HP's motion to transfer venue was scheduled for November 21, 2012, but was postponed by the court.

Heffelfinger, et al. v. Electronic Data Systems Corporation is a class action filed in November 2006 in California Superior Court claiming that certain EDS information technology workers in California were misclassified as exempt employees. The case was subsequently transferred to the United States District Court for the Central District of California, which, on January 7, 2008, certified a class of information technology workers in California. On June 6, 2008, the court granted the defendant's motion for summary judgment. The plaintiffs subsequently filed an appeal with the United States Court of Appeals for the Ninth Circuit. On June 7, 2012, the Court of Appeals affirmed summary judgment for two of the named plaintiffs, but reversed summary judgment on the third named plaintiff, remanding the case back to the trial court and inviting the trial court to revisit its prior certification order. On February 26, 2013, the trial court issued a final order and opinion granting the defendant's motion to decertify the class. Another purported class action originally filed in California Superior Court, *Karlbom, et al. v. Electronic Data Systems Corporation*, which was filed on March 16, 2009, alleges similar facts and is pending in San Diego County Superior Court.

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

Benedict v. Hewlett-Packard Company is a purported collective action filed on January 10, 2013 in the United States District Court for the Northern District of California alleging that certain technical support employees allegedly involved in installing, maintaining and/or supporting computer software and/or hardware for HP were misclassified as exempt employees under the

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Note 15: Litigation and Contingencies (Continued)

Fair Labor Standards Act. The plaintiff has also alleged that HP violated California law by, among other things, allegedly improperly classifying these employees as exempt.

India Directorate of Revenue Intelligence Proceedings. On April 30 and May 10, 2010, the India Directorate of Revenue Intelligence (the "DRI") issued show cause notices to Hewlett-Packard India Sales Private Ltd ("HPI"), a subsidiary of HP, seven current HP employees and one former HP employee alleging that HP underpaid customs duties while importing products and spare parts into India and seeking to recover an aggregate of approximately $370 million, plus penalties. Prior to the issuance of the show cause notices, HP deposited approximately $16 million with the DRI and agreed to post a provisional bond in exchange for the DRI's agreement to not seize HP products and spare parts and to not interrupt the transaction of business by HP in India.

On April 11, 2012, the Bangalore Commissioner of Customs issued an order on the products show cause notice affirming certain duties and penalties against HPI and the named individuals of approximately $386 million, of which HPI had already deposited $9 million. On December 11, 2012, HPI voluntarily deposited an additional $10 million in connection with the products show cause notice.

On April 20, 2012, the Commissioner issued an order on the parts show cause notice affirming certain duties and penalties against HPI and certain of the named individuals of approximately $17 million, of which HPI had already deposited $7 million. After the order, HPI deposited an additional $3 million in connection with the parts show cause notice so as to avoid certain penalties.

HPI filed appeals of the Commissioner's orders before the Customs Tribunal along with applications for waiver of the pre-deposit of remaining demand amounts as a condition for hearing the appeals. The customs department has also filed cross-appeals before the Customs Tribunal. On January 24, 2013, the Customs Tribunal ordered HPI to deposit an additional $24 million against the products order, which HP deposited in March 2013. The Customs Tribunal did not order any additional deposit to be made under the parts order.

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

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

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penalties could range from the greater of $2 million per violation or twice the gross pecuniary gain or loss from the violation.

In addition to information about the Russia GPO deal, the U.S. enforcement authorities have requested information from HP relating to certain transactions in Russia, the Commonwealth of Independent States, Poland and Mexico dating back to 2000.

HP is cooperating with these investigating agencies.

ECT Proceedings. In January 2011, the postal service of Brazil, Empresa Brasileira de Correios e Telégrafos ("ECT"), notified HP that it had initiated administrative proceedings against an HP subsidiary in Brazil ("HP Brazil") to consider whether to suspend HP Brazil's right to bid and contract with ECT related to alleged improprieties in the bidding and contracting processes whereby employees of HP Brazil and employees of several other companies coordinated their bids for three ECT contracts in 2007 and 2008. In late July 2011, ECT notified HP it had decided to apply the penalties against HP Brazil, suspending HP Brazil's right to bid and contract with ECT for five years, based upon the evidence before it. In August 2011, HP filed petitions with ECT requesting that the decision be revoked and seeking injunctive relief to have the application of the penalties suspended until a final, non-appealable decision is made on the merits of the case. In April 2013, ECT rejected HP's position that the penalties be revoked. HP is currently awaiting a decision from ECT on the injunctive relief petition. Because ECT did not rule on the substance of HP's petitions in a timely manner, HP filed a lawsuit seeking similar relief from the court. The court of first instance has not decided the merits of HP's lawsuit, but has denied HP's request for injunctive relief suspending application of the penalties pending a final, non-appealable decision on the merits of the case. HP appealed the denial of its request for injunctive relief to the intermediate appellate court, which issued a preliminary ruling denying the request for injunctive relief but reducing the length of the sanctions from five to two years. HP appealed that decision and, in December 2011, obtained a ruling staying enforcement of ECT's sanctions until HP can be heard on the full merits of the case. HP expects the court of first instance to issue a decision on the merits of the case during 2013 and any appeal on the merits to last several years.

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

> *Saginaw Police & Fire Pension Fund v. Marc L. Andreessen, et al*. is a lawsuit filed on October 19, 2010 in the United States District Court for the Northern District of California alleging, among other things, that the defendants breached their fiduciary duties and were unjustly enriched by consciously disregarding HP's alleged violations of the FCPA. On August 15, 2011, the defendants filed a motion to dismiss the lawsuit. On March 21, 2012, the court granted the defendants' motion to dismiss, and the court entered judgment in the defendants' favor and closed the case on May 29, 2012. On June 28, 2012, the plaintiff filed an appeal with the United States Court of Appeals for the Ninth Circuit.

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A.J. Copeland v. Raymond J. Lane, et al. is a lawsuit filed on March 7, 2011 in the United States District Court for the Northern District of California alleging, among other things, that the defendants breached their fiduciary duties and wasted corporate assets in connection with HP's alleged violations of the FCPA, HP's severance payments made to Mr. Hurd, and HP's acquisition of 3PAR Inc. The lawsuit also alleges violations of Section 14(a) of the Exchange Act in connection with HP's 2010 and 2011 proxy statements. On February 8, 2012, the defendants filed a motion to dismiss the lawsuit. On October 10, 2012, the Court granted the defendants' motion to dismiss with leave to file an amended complaint. On November 1, 2012, plaintiff filed an amended complaint adding an unjust enrichment claim and claims that the defendants violated Section 14(a) of the Exchange Act and breached their fiduciary duties in connection with HP's 2012 proxy statement. On December 13, 14 and 17, 2012, the defendants moved to dismiss the amended complaint. On May 6, 2013, the court granted the motions to dismiss with prejudice and entered judgment in the defendants' favor.

Richard Gammel v. Hewlett-Packard Company, et al. is a putative securities class action filed on September 13, 2011 in the United States District Court for the Central District of California alleging, among other things, that from November 22, 2010 to August 18, 2011, the defendants violated Sections 10(b) and 20(a) of the Exchange Act by concealing material information and making false statements about HP's business model, the future of the webOS operating system, and HP's commitment to developing and integrating webOS products, including the TouchPad tablet PC. On April 11, 2012, the defendants filed a motion to dismiss the lawsuit. On September 4, 2012, the court granted the defendants' motion to dismiss and gave plaintiff 30 days to file an amended complaint. On October 19, 2012, plaintiff filed an amended complaint that asserts the same causes of action but drops one of the defendants and shortens the period that the alleged violations of the Exchange Act occurred to February 9, 2011 to August 18, 2011. On December 3, 2012, the defendants moved to dismiss the amended complaint. On May 8, 2013, the court granted the defendants' motion to dismiss in part and denied it in part. As a result of the court's ruling, the alleged class period in the action runs from June 1, 2011 to August 18, 2011.

Ernesto Espinoza v. Léo Apotheker, et al. and *Larry Salat v. Léo Apotheker, et al*. are consolidated lawsuits filed on September 21, 2011 in the United States District Court for the Central District of California alleging, among other things, that the defendants violated Section 10(b) and 20(a) of the Exchange Act by concealing material information and making false statements about HP's business model and the future of webOS, the TouchPad and HP's PC business. The lawsuits also allege that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched when they authorized HP's repurchase of its own stock on August 29, 2010 and July 21, 2011. The lawsuits are currently stayed pending developments in the *Gammel* matter.

Luis Gonzalez v. Léo Apotheker, et al. and *Richard Tyner v. Léo Apotheker, et al*. are consolidated lawsuits filed on September 29, 2011 and October 5, 2011, respectively, in California Superior Court alleging, among other things, that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched by concealing material information and making false statements about HP's business model and the future of webOS, the TouchPad and HP's PC business and by authorizing HP's repurchase of its own stock on August 29, 2010 and July 21,

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2011. The lawsuits are currently stayed pending resolution of the *Espinoza/Salat* consolidated action in federal court.

Cement & Concrete Workers District Council Pension Fund v. Hewlett-Packard Company, et al. is a putative securities class action filed on August 3, 2012 in the United States District Court for the Northern District of California alleging, among other things, that from November 13, 2007 to August 6, 2010 the defendants violated Sections 10(b) and 20(a) of the Exchange Act by making statements regarding HP's Standards of Business Conduct ("SBC") that were false and misleading because Mr. Hurd, who was serving as HP's Chairman and Chief Executive Officer during that period, had been violating the SBC and concealing his misbehavior in a manner that jeopardized his continued employment with HP. On February 7, 2013, the defendants moved to dismiss the amended complaint. The Court has not yet ruled on the motion.

Autonomy-Related Legal Matters

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

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

In re HP Securities Litigation consists of two consolidated putative class actions filed on November 26 and 30, 2012 in the United States District Court for the Northern District of California alleging, among other things, that from August 19, 2011 to November 20, 2012, the defendants violated Sections 10(b) and 20(a) of the Exchange Act by concealing material information and making false statements related to HP's acquisition of Autonomy and the financial performance of HP's Enterprise Services business. On May 3, 2013, the lead plaintiff filed a consolidated complaint alleging that, during that same period, all of the defendants violated Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5(b) by concealing

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Note 15: Litigation and Contingencies (Continued)

material information and making false statements related to HP's acquisition of Autonomy and that certain defendants violated SEC Rule 10b-5(a) and (c) by engaging in a "scheme" to defraud investors.

In re Hewlett-Packard Shareholder Derivative Litigation consists of seven consolidated lawsuits filed beginning on November 26, 2012 in the United States District Court for the Northern District of California alleging, among other things, that the defenda