HP INC
Form 10-Q
June 01, 2017
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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, 2017
Or

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

For the transition period from to
Commission file number 1-4423

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

Delaware	94-1081436
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
1501 Page Mill Road, Palo Alto, California	94304
(Address of principal executive offices)	(Zip code)

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

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

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

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

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

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

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

The number of shares of HP common stock outstanding as of April 30, 2017 was 1,683,334,989 shares.

HP INC. AND SUBSIDIARIES
Form 10-Q
For the Quarterly Period ended April 30, 2017
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In this report on Form 10-Q, for all periods presented, “we”, “us”, “our”, “company”, “HP” and “HP Inc.” refer to HP Inc. (formerly Hewlett-Packard Company) and its consolidated subsidiaries.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of HP Inc. and its consolidated subsidiaries (“HP”) may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including, but not limited to, any projections of net revenue, margins, expenses, effective tax rates, net earnings, net earnings per share, cash flows, benefit plan funding, deferred taxes, share repurchases, foreign currency exchange rates or other financial items; any projections of the amount, timing or impact of cost savings or restructuring and other charges; any statements of the plans, strategies and objectives of management for future operations, including the execution of restructuring plans and any resulting cost savings, net revenue or profitability improvements; any statements concerning the expected development, performance, market share or competitive performance relating to products or services; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on HP and its financial performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief, including with respect to the timing and expected benefits of acquisitions and other business combination and investment transactions; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include the need to address the many challenges facing HP’s businesses; the competitive pressures faced by HP’s businesses; risks associated with executing HP’s strategy; the impact of macroeconomic and geopolitical trends and events; the need to manage third-party suppliers and the distribution of HP’s products and the delivery of HP’s services effectively; the protection of HP’s intellectual property assets, including intellectual property licensed from third parties; risks associated with HP’s international operations; the development and transition of new products and services and the enhancement of existing products and services to meet customer needs and respond to emerging technological trends; the execution and performance of contracts by HP and its suppliers, customers, clients and partners; the hiring and retention of key employees; integration and other risks associated with business combination and investment transactions; the results of the restructuring plans, including estimates and assumptions related to the cost (including any possible disruption of HP’s business) and the anticipated benefits of the restructuring plans; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including, but not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, the risks discussed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016, and that are otherwise described or updated from time to time in HP’s other filings with the Securities and Exchange Commission (the “SEC”). HP assumes no obligation and does not intend to update these forward-looking statements.

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Part I. Financial Information

ITEM 1. Financial Statements and Supplementary Data.
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HP INC. AND SUBSIDIARIES
Consolidated Condensed Statements of Earnings
(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2017	2016	2017	2016
	In millions, except per share amounts			
Net revenue	$12,385	$11,588	$25,069	$23,834
Costs and expenses:				
Cost of revenue	10,002	9,338	20,438	19,299
Research and development	314	301	610	593
Selling, general and administrative	1,087	1,002	2,104	2,039
Restructuring and other charges	140	100	203	120
Acquisition-related charges	20	—	36	—
Amortization of intangible assets	1	6	1	14
Defined benefit plan settlement charges	3	—	3	—
Total costs and expenses	11,567	10,747	23,395	22,065
Earnings from continuing operations	818	841	1,674	1,769
Interest and other, net	(64)	(5)	(145)	(99)
Earnings from continuing operations before taxes	754	836	1,529	1,670
Provision for taxes	(195)	(176)	(359)	(360)
Net earnings from continuing operations	559	660	1,170	1,310
Net loss from discontinued operations, net of taxes	—	(31)	—	(89)
Net earnings	$559	$629	$1,170	$1,221
Net earnings (loss) per share:				
Basic				
Continuing operations	$0.33	$0.38	$0.69	$0.75
Discontinued operations	—	(0.01)	—	(0.05)
Total basic net earnings per share	$0.33	$0.37	$0.69	$0.70
Diluted				
Continuing operations	$0.33	$0.38	$0.68	$0.75
Discontinued operations	—	(0.02)	—	(0.06)
Total diluted net earnings per share	$0.33	$0.36	$0.68	$0.69
Cash dividends declared per share	$—	$—	$0.27	$0.25
Weighted-average shares used to compute net earnings (loss) per share:				
Basic	1,688	1,720	1,696	1,748
Diluted	1,709	1,731	1,716	1,758

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

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

	Three months ended April 30		Six months ended April 30	
	2017	2016	2017	2016
	In millions			
Net earnings	$559	$629	$1,170	$1,221
Other comprehensive loss before taxes:				
Change in unrealized gains on available-for-sale securities:				
Gains arising during the period	1	1	4	1
Change in unrealized components of cash flow hedges:				
Losses arising during the period	(70)	(145)	(239)	(40)
Gains reclassified into earnings	(16)	(62)	(87)	(96)
	(86)	(207)	(326)	(136)
Change in unrealized components of defined benefit plans:				
Gains (losses) arising during the period	13	(4)	13	(4)
Amortization of actuarial loss and prior service benefit	17	12	37	24
Settlements and other	3	1	3	1
	33	9	53	21
Other comprehensive loss before taxes	(52)	(197)	(269)	(114)
Benefit from (provision for) taxes	7	53	(7)	69
Other comprehensive loss, net of taxes	(45)	(144)	(276)	(45)
Comprehensive income	$514	$485	$894	$1,176

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

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

	As of April 30, 2017	October 31, 2016
	In millions, except par value	
ASSETS		
Current assets:		
Cash and cash equivalents	$6,223	$6,288
Accounts receivable	3,771	4,114
Inventory	4,756	4,484
Other current assets	3,552	3,582
Total current assets	18,302	18,468
Property, plant and equipment	1,661	1,736
Goodwill	5,622	5,622
Other non-current assets	3,101	3,161
Total assets	$28,686	$28,987
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable and short-term borrowings	$110	$78
Accounts payable	11,079	11,103
Employee compensation and benefits	665	759
Taxes on earnings	221	231
Deferred revenue	980	919
Other accrued liabilities	5,549	5,718
Total current liabilities	18,604	18,808
Long-term debt	6,710	6,735
Other non-current liabilities	7,327	7,333
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, $0.01 par value (300 shares authorized; none issued)	—	—
Common stock, $0.01 par value (9,600 shares authorized; 1,683 and 1,712 shares issued and outstanding at April 30, 2017 and October 31, 2016, respectively)	17	17
Additional paid in capital	521	1,030
Retained deficit	(2,779)	(3,498)
Accumulated other comprehensive loss	(1,714)	(1,438)
Total stockholders' deficit	(3,955)	(3,889)
Total liabilities and stockholders' deficit	$28,686	$28,987

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

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

	Six months ended April 30	
	2017	2016
	In millions	
Cash flows from operating activities:		
Net earnings	$1,170	$1,221
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	173	164
Stock-based compensation expense	123	101
Restructuring and other charges	203	120
Deferred taxes on earnings	205	600
Other, net	21	(46)
Changes in operating assets and liabilities:		
Accounts receivable	289	894
Inventory	(272)	722
Accounts payable	26	(1,063)
Taxes on earnings	(177)	(505)
Restructuring and other	(97)	(68)
Other assets and liabilities	(442)	(663)
Net cash provided by operating activities	1,222	1,477
Cash flows from investing activities:		
Investment in property, plant and equipment	(176)	(206)
Proceeds from sale of property, plant and equipment	69	—
Purchases of available-for-sale securities and other investments	(136)	(122)
Maturities and sales of available-for-sale securities and other investments	2	12
Proceeds from business divestitures	—	61
Net cash used in investing activities	(241)	(255)
Cash flows from financing activities:		
Short-term borrowings with original maturities less than 90 days, net	74	39
Proceeds from debt, net of issuance costs	5	4
Payment of debt	(44)	(2,158)
Settlement of cash flow hedges	(9)	6
Net transfer of cash and cash equivalents to Hewlett Packard Enterprise Company	—	(10,375)
Net (payments) proceeds related to stock-based award activities	(12)	1
Repurchase of common stock	(609)	(1,102)
Cash dividends paid	(451)	(434)
Net cash used in financing activities	(1,046)	(14,019)
Decrease in cash and cash equivalents	(65)	(12,797)
Cash and cash equivalents at beginning of period	6,288	17,433
Cash and cash equivalents at end of period	$6,223	$4,636
Supplemental schedule of non-cash activities:		
Net assets transferred to Hewlett Packard Enterprise Company	$—	$22,197
Purchase of assets under capital leases	$84	$73

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

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
(Unaudited)
Note 1: Basis of Presentation
Separation Transaction
On November 1, 2015, Hewlett-Packard Company completed the separation of Hewlett Packard Enterprise Company ("Hewlett Packard Enterprise"), Hewlett-Packard Company's former enterprise technology infrastructure, software, services and financing businesses (the "Separation"). In connection with the Separation, Hewlett-Packard Company changed its name to HP Inc. ("HP") and entered into a separation and distribution agreement as well as various other agreements with Hewlett Packard Enterprise that provide a framework for the relationships between the parties, including among others a tax matters agreement, an employee matters agreement, a transition service agreement, a real estate matters agreement, a master commercial agreement and an information technology service agreement. For more information on the impacts of these agreements, see Note 6, "Taxes on Earnings", Note 13, "Litigation and Contingencies" and Note 14, "Guarantees, Indemnifications and Warranties".
Basis of Presentation
The accompanying Consolidated Condensed Financial Statements of HP and its wholly-owned subsidiaries are prepared in conformity with United States ("U.S.") generally accepted accounting principles ("GAAP"). The interim financial information is unaudited, but reflects all normal adjustments that are necessary to provide a fair statement of results for the interim periods presented. This interim information should be read in conjunction with the Consolidated Financial Statements for the fiscal year ended October 31, 2016 in the Annual Report on Form 10-K filed on December 15, 2016. The Consolidated Condensed Balance Sheet for October 31, 2016 was derived from audited financial statements.
Principles of Consolidation
The Consolidated Condensed Financial Statements include the accounts of HP and its subsidiaries and affiliates in which HP has a controlling financial interest or is the primary beneficiary. All intercompany balances and transactions have been eliminated.
Reclassifications
HP has made changes to the alignment of its business units in order to align its business unit financial reporting more closely with its current business structure. HP made this change to its business unit information in prior reporting periods on an as-is basis. The reporting change had no impact to previously reported segment net revenue, consolidated net revenue, earnings from continuing operations, net earnings or net earnings per share ("EPS"). See Note 2, "Segment Information", for a further discussion of HP's business unit realignments.
HP has reclassified certain prior-year amounts to conform to the current-year presentation as a result of the adoption of Accounting Standards Update ("ASU") 2015-03, "Simplifying the Presentation of Debt Issuance Costs" and ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting".
Use of Estimates
The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in HP's Consolidated Condensed Financial Statements and accompanying notes. Actual results could differ materially from those estimates.
Recently Adopted Accounting Pronouncements
In March 2016, the Financial Accounting Standard Board ("FASB") issued guidance, which amends the existing accounting standards for share-based payments, including the accounting for income taxes and forfeitures, as well as the classifications on the statements of cash flows. HP early adopted the amendments in the first quarter of fiscal year 2017. Beginning November 1, 2016, stock-based compensation excess tax benefits or tax deficiencies are reflected in the Consolidated Condensed Statements of Earnings as a component of the provision for taxes, whereas they previously were recognized as additional paid in capital in the stockholders' deficit in the Consolidated Condensed Balance Sheets. HP has elected to continue to estimate forfeitures expected to occur to determine the stock-based compensation expense. Additionally, the Consolidated Condensed Statements of Cash Flows now present excess tax benefits as an operating activity rather than as a financing activity, while the payment of withholding taxes on the

settlement of stock-based compensation awards is presented as a financing activity rather than as an operating activity, with prior periods adjusted accordingly. The implementation of this guidance did not have a material impact on the Consolidated Condensed Statements of Cash Flows for the six months ended April 30, 2016. See Note 6, "Taxes on Earnings", for additional impact on the Consolidated Condensed Financial Statements.

In May 2015, the FASB issued guidance, which amends the existing disclosures for investments measured at net asset value ("NAV") per share (or its equivalent), as a practical expedient for fair value. This amendment removes the requirement to categorize these investments within the fair value hierarchy. The amendment also removes the requirement to make certain

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disclosures for all investments that are eligible to be measured at fair value using the NAV practical expedient. HP adopted the guidance in the first quarter of fiscal year 2017. Other than the change in presentation of certain pension-related assets that use NAV as a practical expedient, which requires retrospective application, the adoption of this new guidance did not have an impact on the Consolidated Condensed Financial Statements.

In April 2015, the FASB amended the existing accounting standards for intangible assets. The amendments provide explicit guidance to customers in determining the accounting for fees paid in a cloud computing arrangement. HP adopted the guidance prospectively in the first quarter of fiscal year 2017. The implementation of this guidance did not have an impact on the Consolidated Condensed Financial Statements.

In April 2015, the FASB amended the existing accounting standards for the presentation of debt issuance costs. The amendments require that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by these amendments. HP adopted the guidance in the first quarter of fiscal year 2017. The adoption resulted in the reclassification of unamortized debt issuance costs related to HP's U.S. Dollar Global Notes from "Other non-current assets" to "Long-term debt" within the Consolidated Condensed Balance Sheets of $23 million for the year ended October 31, 2016.

Recently Issued Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued guidance which simplifies the accounting for goodwill impairment. The updated guidance eliminates Step 2 of the impairment test, which requires entities to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value, determined in Step 1. HP is required to adopt the guidance in the first quarter of fiscal year 2021 using a prospective approach. Earlier adoption is permitted. HP currently expects to early adopt this guidance in the fourth quarter of fiscal year 2017. HP expects that the implementation of this guidance will not have an effect on its Consolidated Condensed Financial Statements.

In January 2017, the FASB amended the existing accounting standards for business combinations. The amendments clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. HP is required to adopt the guidance in the first quarter of fiscal year 2019. Earlier adoption is permitted. HP is currently evaluating the timing and the impact of this guidance on the Consolidated Condensed Financial Statements.

In November 2016, the FASB issued guidance, which addresses the presentation of restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. HP is required to adopt the guidance retrospectively in the first quarter of fiscal year 2019. Earlier adoption is permitted. HP is currently evaluating the timing and the impact of this guidance on the Consolidated Condensed Financial Statements.

In October 2016, the FASB issued guidance, which amends the existing accounting for Intra-Entity Transfers of Assets Other Than Inventory. The guidance requires an entity to recognize the income tax consequences of intra-entity transfers, other than inventory, when the transfer occurs. It also requires modified retrospective transition with a cumulative catch-up adjustment to opening retained earnings in the period of adoption. Earlier adoption is permitted. HP is required to adopt the guidance in the first quarter of fiscal year 2019. HP is currently evaluating the timing and the impact of this guidance on the Consolidated Condensed Financial Statements.

In August 2016, the FASB issued guidance, which amends the existing accounting standards for the classification of certain cash receipts and cash payments on the statement of cash flows. HP is required to adopt the guidance in the first quarter of fiscal year 2019. Earlier adoption is permitted. HP is currently evaluating the timing and the impact of this guidance on the Consolidated Condensed Financial Statements.

In June 2016, the FASB issued guidance, which requires credit losses on financial assets measured at amortized cost basis to be presented at the net amount expected to be collected, not based on incurred losses. Further, credit losses on available-for-sale debt securities should be recorded through an allowance for credit losses limited to the amount by which fair value is below amortized cost. HP is required to adopt the guidance in the first quarter of fiscal year 2021. Earlier adoption is permitted. HP is currently evaluating the timing and the impact of this guidance on the Consolidated Condensed Financial Statements.

In February 2016, the FASB issued guidance, which amends the existing accounting standards for leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification. Under the new guidance, a lessee will be required to recognize assets and liabilities for all leases with lease terms of more than twelve months. HP is required to adopt the guidance in the first quarter of fiscal year 2020 using a modified retrospective approach. Earlier adoption is permitted. HP is currently evaluating the timing and the impact of this guidance on the Consolidated Condensed Financial Statements.

In January 2016, the FASB issued guidance, which amends the existing accounting standards for the recognition and measurement of financial assets and financial liabilities. The updated guidance primarily addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. HP is required to adopt the guidance in the first quarter of fiscal year 2019. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, with other amendments related specifically to equity securities without readily determinable fair values applied prospectively. HP is currently evaluating the timing and the impact of this guidance on the Consolidated Condensed Financial Statements.

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments (Topic 606) are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments may be applied retrospectively to each prior period presented (“full retrospective method”) or retrospectively with the cumulative effect recognized as of the date of initial application (“modified retrospective method”).

HP will adopt the new revenue standard in the first quarter of fiscal 2019 and intends to apply the modified retrospective method. HP is continuing to evaluate the impact of this guidance on the Consolidated Condensed Financial Statements and disclosures.

Note 2. Segment Information

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

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

A summary description of each segment is as follows:

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

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

Printing provides Consumer and Commercial printer hardware, supplies, media, solutions and services, as well as scanning devices. Printing is also focused on imaging solutions in the commercial markets. HP groups Office, Graphics and 3D printers into Commercial Hardware and Home printers into Consumer Hardware when describing performance in these markets. Described below are HP’s global business capabilities within Printing:

- Office Printing Solutions delivers HP’s office printers, supplies, services, and solutions to SMBs and large enterprises. HP goes to market through its extensive channel network and directly with HP sales. Ongoing key initiatives include design and deployment of A3 products and solutions for the copier and multifunction printer market, printer security solutions, PageWide solutions and award-winning JetIntelligence LaserJet products.
- Home Printing Solutions delivers a compelling set of innovative printing products and solutions for the home and home business or small office customers utilizing both HP’s Ink and Laser technologies. Initiatives such as Instant Ink and Continuous Ink Supply System provide business model innovation to benefit and expand HP’s existing customer base, while new innovations like Sprocket drive print relevance for a mobile generation.
- Graphics Solutions is reinventing the graphics industry by offering large-format, commercial and industrial solutions to print service providers and packaging converters through the largest portfolio of printers and presses (HP DesignJet, HP Latex Printers, HP Scitex, HP Indigo and HP PageWide Presses).
- 3D Printing delivers HP’s Multi-Jet Fusion 3D Printing Solution designed for prototyping and production of functional parts and functioning on an open platform facilitating the development of new 3D printing materials.

Corporate Investments include HP Labs and certain business incubation projects.

The accounting policies HP uses to derive segment results are substantially the same as those used by HP in preparing these financial statements. HP derives the results of the business segments directly from its internal management reporting system. Segment net revenue includes revenues from sales to external customers and certain revenues related to managed print services arrangements, which are eliminated for the purposes of reporting HP's consolidated net revenue.

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

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

Business Unit Realignment
Effective at the beginning of its first quarter of fiscal year 2017, HP implemented an organizational change to align its business unit financial reporting more closely with its current business structure. The organizational change resulted in the transfer of a portion of LaserJet printers from Commercial to Consumer within the Printing segment. HP reflected this change to its business unit information in prior reporting periods on an as-is basis that resulted in the reclassification of revenues between the Commercial and Consumer business units of Printing. The reporting change had no impact to previously reported segment net revenue, consolidated net revenue, earnings from continuing operations, net earnings or net earnings per share.
Segment Operating Results from Continuing Operations

	Personal Systems	Printing	Corporate Investments	Total Segments	Eliminations and Other	Total
	In millions					
Three months ended April 30, 2017						
Net revenue	$7,662	$4,743	$3	$12,408	$(23)	$12,385
Earnings (loss) from operations	$244	$825	$(26)	$1,043		
Three months ended April 30, 2016						
Net revenue	$6,990	$4,637	$3	$11,630	$(42)	$11,588
Earnings (loss) from operations	$242	$801	$(8)	$1,035		
Six months ended April 30, 2017						
Net revenue	$15,886	$9,226	$5	$25,117	$(48)	$25,069
Earnings (loss) from operations	$557	$1,541	$(49)	$2,049		
Six months ended April 30, 2016						
Net revenue	$14,457	$9,279	$6	$23,742	$92 [(1)]	$23,834
Earnings (loss) from operations	$471	$1,588	$(31)	$2,028		

(1) For the six months ended April 30, 2016, the amount includes the recognition of revenue previously deferred in relation to sales to the pre-Separation finance entity.

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

	Three months ended April 30		Six months ended April 30	
	2017	2016	2017	2016
	In millions			
Net Revenue:				
Total segments	$12,408	$11,630	$25,117	$23,742
Net revenue eliminations and other	(23)	(42)	(48)	92
Total net revenue	$12,385	$11,588	$25,069	$23,834
Earnings from continuing operations before taxes:				
Total segment earnings from operations	$1,043	$1,035	$2,049	$2,028
Corporate and unallocated costs and eliminations	(13)	(48)	(9)	(24)
Stock-based compensation expense	(48)	(40)	(123)	(101)
Restructuring and other charges	(140)	(100)	(203)	(120)
Acquisition-related charges	(20)	—	(36)	—
Amortization of intangible assets	(1)	(6)	(1)	(14)
Defined benefit plan settlement charges	(3)	—	(3)	—
Interest and other, net	(64)	(5)	(145)	(99)

Total earnings from continuing operations before taxes	$754	$836	$1,529	$1,670

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

Net revenue by segment and business unit was as follows:

	Three months ended April 30		Six months ended April 30	
	2017	2016	2017	2016
	In millions			
Notebooks	$4,493	$3,838	$9,383	$8,043
Desktops	2,377	2,402	4,911	4,929
Workstations	495	461	986	905
Other	297	289	606	580
Personal Systems	7,662	6,990	15,886	14,457
Supplies	3,157	3,099	6,164	6,200
Commercial Hardware	982	957	1,868	1,921
Consumer Hardware	604	581	1,194	1,158
Printing	4,743	4,637	9,226	9,279
Corporate Investments	3	3	5	6
Total segment net revenue	12,408	11,630	25,117	23,742
Net revenue eliminations and other	(23)	(42)	(48)	92
Total net revenue	$12,385	$11,588	$25,069	$23,834

Note 3: Restructuring and Other Charges
Summary of Restructuring Plans
HP's restructuring activities for the six months ended April 30, 2017 and 2016 summarized by plan were as follows:

	Fiscal 2017 Plan		Fiscal 2015 Plan		Fiscal 2012 Plan		
	Severance	Infrastructure and other[1]	Severance and PRP[2]	Infrastructure and other	Severance and EER[3]	Infrastructure and other	Total
	In millions						
Accrued balance as of October 31, 2016	$24	$ —	$21	$ 4	$7	$ 2	$58
Charges	81	58	10	—	1	—	150
Cash payments	(20)	(4)	(31)	(2)	(3)	—	(60)
Non-cash and other adjustments	—	(52)	1	—	—	—	(51)
Accrued balance as of April 30, 2017	$85	$ 2	$1	$ 2	$5	$ 2	$97
Total costs incurred to date as of April 30, 2017	$105	$ 58	$166	$ 27	$1,075	$ 44	$1,475
Reflected in Consolidated Balance Sheets							
Other accrued liabilities	$85	$ 2	$1	$ 2	$5	$ 1	$96
Other non-current liabilities	—	—	—	—	—	1	1
Accrued balance as of October 31, 2015	—	—	39	—	21	3	63
Charges	—	—	87	31	2	—	120
Cash payments	—	—	(42)	(1)	(25)	—	(68)
Non-cash and other adjustments	—	—	(10)	(29)	10	—	(29)
Accrued balance as of April 30, 2016	$—	$ —	$74	$ 1	$8	$ 3	$86

HP's restructuring charges for the three months ended April 30, 2017 summarized by plan were as follows:

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Note 3: Restructuring and Other Charges (Continued)

	Fiscal 2017 Plan		Fiscal 2015 Plan		Fiscal 2012 Plan		
	Severance	Infrastructure and other[1]	Severance and PRP[2]	Infrastructure and other	Severance and EER[3]	Infrastructure and other	Total
	In millions						
For the three months ended April 30, 2017	$57	$ 57	$ 4	$ —	$ —	$ —	$118

(1) Infrastructure and other includes asset impairment charges of $52 million for the three months and six months ended April 30, 2017 associated with the consolidation of manufacturing into global hubs.
(2) PRP represents Phased Retirement Program.
(3) EER represents Enhanced Early Retirement.

Fiscal 2017 Plan

On October 10, 2016, HP's Board of Directors approved a restructuring plan (the "Fiscal 2017 Plan"), which it expects will be implemented through fiscal year 2019. HP estimates that it will incur aggregate pre-tax charges between $350 million and $500 million relating to labor and non-labor actions. HP estimates that approximately half of the expected cumulative pre-tax costs will relate to severance and the remaining will relate to infrastructure, non-labor actions and other charges, as described below. HP expects between 3,000 and 4,000 employees to exit by the end of fiscal year 2019.

Fiscal 2015 Plan

In connection with the Separation, on September 14, 2015, HP's Board of Directors approved a cost savings plan (the "Fiscal 2015 Plan"), which includes labor and non-labor actions. The Fiscal 2015 Plan was considered substantially complete as of October 31, 2016. Approximately 3,000 employees exited by the end of fiscal year 2016.

Fiscal 2012 Plan

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

Other Charges

Other charges include non-recurring costs, including those as a result of Separation, and are distinct from ongoing operational costs. These costs primarily relate to information technology costs such as advisory, consulting and non-recurring labor costs. HP incurred $22 million and $53 million of other charges for the three months and six months ended April 30, 2017, respectively. There were no other charges incurred for the three months and six months ended April 30, 2016.

Note 4: Retirement and Post-Retirement Benefit Plans

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

	Three months ended April 30					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2017	2016	2017	2016	2017	2016
	In millions					
Service cost	$—	$—	$12	$12	$ —	$ —
Interest cost	117	136	4	6	5	5
Expected return on plan assets	(170)	(183)	(8)	(12)	(6)	(8)
Amortization and deferrals:						

Actuarial loss (gain)	18	14	10	6	(5)	(3)
Prior service benefit	—	—	(1)	(1)	(5)	(4)
Net periodic benefit (credit) cost	(35)	(33)	17	11	(11)	(10)
Settlement loss	3	1	—	1	—	—
Special termination benefits	—	—	—	—	—	9
Total periodic benefit (credit) cost	$(32)	$(32)	$17	$12	$ (11)	$ (1)

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Notes to Consolidated Condensed Financial Statements (Continued)
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	Six months ended April 30					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2017	2016	2017	2016	2017	2016
	In millions					
Service cost	$—	$—	$24	$23	$—	$—
Interest cost	234	272	8	12	9	10
Expected return on plan assets	(339)	(366)	(16)	(24)	(12)	(16)
Amortization and deferrals:						
Actuarial loss (gain)	36	28	20	12	(7)	(6)
Prior service benefit	—	—	(2)	(2)	(10)	(8)
Net periodic benefit (credit) cost	(69)	(66)	34	21	(20)	(20)
Settlement loss	3	1	—	1	—	—
Special termination benefits	—	—	—	—	—	9
Total periodic benefit (credit) cost	$(66)	$(65)	$34	$22	$(20)	$(11)

Employer Contributions and Funding Policy
HP's policy is to fund its pension plans so that it makes at least the minimum contribution required by local government, funding and taxing authorities.
During fiscal year 2017, HP anticipates making contributions of approximately $26 million to its non-U.S. pension plans, approximately $33 million to its U.S. non-qualified plan participants and approximately $9 million to cover benefit claims under HP's post-retirement benefit plans. During the six months ended April 30, 2017, HP contributed $16 million to its non-U.S. pension plans, paid $21 million to cover benefit payments to U.S. non-qualified plan participants, and paid $4 million to cover benefit claims under HP's post-retirement benefit plans.
HP's pension and other post-retirement benefit costs and obligations depend on various assumptions. Differences between expected and actual returns on investments and changes in discount rates and other actuarial assumptions are reflected as unrecognized gains or losses, and such gains or losses are amortized to earnings in future periods. A deterioration in the funded status of a plan could result in a need for additional company contributions or an increase in net pension and post-retirement benefit costs in future periods. Actuarial gains or losses are determined at the measurement date and amortized over the remaining service life for active plans or the life expectancy of plan participants for frozen plans.

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

	Three months ended April 30		Six months ended April 30	
	2017	2016	2017	2016
	In millions			
Stock-based compensation expense	$48	$40	$123	$101
Income tax benefit	(15)	(13)	(39)	(35)
Stock-based compensation expense, net of tax	$33	$27	$84	$66

Restricted Stock Awards

Restricted stock awards are non-vested stock awards that may include grants of restricted stock or restricted stock units. For the three and six months ended April 30, 2017 and 2016, HP granted only restricted stock units. HP uses the closing stock price on the grant date to estimate the fair value of service-based restricted stock units. HP estimates the fair value of restricted stock units subject to performance-adjusted vesting conditions using a combination of the closing stock price on the grant date and the Monte Carlo simulation model. The weighted-average fair value and the assumptions used to measure the fair value of restricted stock units subject to performance-adjusted vesting conditions in the Monte Carlo simulation model were as follows:

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Notes to Consolidated Condensed Financial Statements (Continued)
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Note 5: Stock-Based Compensation (Continued)

	Six months ended April 30	
	2017	2016
Weighted-average fair value(1)	$20	$13
Expected volatility(2)	30.5%	32.5%
Risk-free interest rate(3)	1.4 %	1.2 %
Expected performance period in years(4)	2.9	2.9

(1) The weighted-average fair value was based on performance-adjusted restricted stock units granted during the period.
(2) The expected volatility was estimated using the historical volatility derived from HP's common stock.
(3) The risk-free interest rate was estimated based on the yield on U.S. Treasury zero-coupon issues.
(4) The expected performance period was estimated based on the length of the remaining performance period from the grant date.

A summary of restricted stock award activity was as follows:

	Six months ended April 30, 2017	
	Shares	Weighted-Average Grant Date Fair Value Per Share
	In thousands	
Outstanding at beginning of period	28,710	$ 13
Granted	13,902	$ 16
Vested	(10,345)	$ 13
Forfeited	(427)	$ 14
Outstanding at end of period	31,840	$ 14

At April 30, 2017, there was $262 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-Merton option pricing formula to estimate the fair value of stock options subject to service-based vesting conditions. HP estimates the fair value of stock options subject to performance-contingent vesting conditions using a combination of a Monte Carlo simulation model and a lattice model, as these awards contain market conditions. HP did not grant any stock options for the three and six months ended April 30, 2017. The weighted-average fair value and the assumptions used to measure fair value for the three and six months ended April 30, 2016 were as follows:

	Three months ended April 30 2016	Six months ended April 30 2016
Weighted-average fair value(1)	$ 2	$ 4

Expected volatility[2]	31.6%	36.4%
Risk-free interest rate[3]	1.6 %	1.9 %
Expected dividend yield[4]	5.1 %	3.4 %
Expected term in years[5]	5	6

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

(2) The expected volatility was estimated using the leverage-adjusted average of the term-matching volatilities of peer companies due to the lack of volume of forward traded options, which precluded the use of implied volatility.

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

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

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

A summary of stock option activity was as follows:

	Six months ended April 30, 2017			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	In thousands		In years	In millions
Outstanding at beginning of period	28,218	$ 12		
Granted	—	$ —		
Exercised	(2,921)	$ 11		
Forfeited and expired	(762)	$ 17		
Outstanding at end of period	24,535	$ 12	4.7	$ 159
Vested and expected to vest at end of period	23,872	$ 12	4.7	$ 156
Exercisable at end of period	16,526	$ 12	3.9	$ 122

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that option holders would have realized had all option holders exercised their options on the last trading day of the second quarter of fiscal year 2017. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of the second quarter of fiscal year 2017 and the exercise price, multiplied by the number of in-the-money options. The total intrinsic value of options exercised for the three and six months ended April 30, 2017 was $14 million and $17 million, respectively.

At April 30, 2017, there was $11 million of unrecognized pre-tax, stock-based compensation expense related to unvested stock options, which HP expects to recognize over the remaining weighted-average vesting period of 1.3 years.

Note 6: Taxes on Earnings

Tax Matters Agreement and Other Income Tax Matters

In connection with the Separation, HP entered into the tax matters agreement ("TMA") with Hewlett Packard Enterprise, effective on November 1, 2015, that governs the rights and obligations of HP and Hewlett Packard Enterprise for certain pre-Separation tax liabilities. The TMA provides that HP and Hewlett Packard Enterprise will share certain pre-Separation income tax liabilities. In certain jurisdictions, HP and Hewlett Packard Enterprise have joint and several liability for past income tax liabilities and accordingly, HP could be legally liable under applicable tax law for such liabilities and required to make additional tax payments.

In addition, if the distribution of Hewlett Packard Enterprise's common shares to the HP stockholders is determined to be taxable, Hewlett Packard Enterprise and HP would share the tax liability equally, unless the taxability of the distribution is the direct result of action taken by either Hewlett Packard Enterprise or HP subsequent to the distribution, in which case the party causing the distribution to be taxable would be responsible for any taxes imposed on the distribution.

Upon completion of the Separation on November 1, 2015, HP recorded income tax indemnification receivables from Hewlett Packard Enterprise for certain income tax liabilities that HP is jointly and severally liable for, but for which it is indemnified by Hewlett Packard Enterprise under the TMA. The actual amount that Hewlett Packard Enterprise may be obligated to pay HP could vary depending on the outcome of certain unresolved tax matters, which may not be resolved for several years. The net receivable as of April 30, 2017 was $1.6 billion. In connection with the TMA, Interest and other, net for the six months ended April 30, 2017 includes income of $6 million for changes in the tax indemnifications amounts.

Provision for Taxes

HP's effective tax rate for continuing operations was 25.9% and 21.1% for the three months ended April 30, 2017 and 2016, respectively and 23.5% and 21.6% for the six months ended April 30, 2017 and 2016, respectively. HP's effective tax rate generally differs from the U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from HP's operations in lower-tax jurisdictions throughout the world. HP has not provided U.S. taxes for all foreign earnings because HP plans to reinvest some of those earnings indefinitely outside the United States.

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Note 6: Taxes on Earnings (Continued)

During the three and six months ended April 30, 2017, HP recorded $4 million and $5 million, respectively, of net tax benefits related to discrete items in the provision for taxes for continuing operations. These amounts included a tax benefit of $12 million and $31 million for the three and six months ended April 30, 2017, respectively, related to restructuring charges. The three months ended April 30, 2017 also included various other tax charges of $8 million. The six months ended April 30, 2017 also included a tax charge of $26 million related to state provision to return adjustments.

During the three and six months ended April 30, 2016, HP recorded discrete items resulting in net tax benefits of $33 million and $86 million, respectively, for continuing operations. These amounts included a tax benefit of $32 million and $38 million for the three and six months ended April 30, 2016, respectively, related to restructuring charges. The six months ended April 30, 2016 also included a tax benefit of $41 million arising from the retroactive research and development credit provided by the Consolidated Appropriations Act of 2016 signed into law in December 2015.

During the three and six months ended April 30, 2017, in addition to the discrete items mentioned above, HP recorded excess tax benefits of $5.6 million and $12.4 million, respectively, on stock options, restricted stock and performance share units, which are reflected in the Consolidated Condensed Statements of Earnings as a component of the provision for income taxes as a result of the early adoption of ASU 2016-09 -“Improvements to Employee Share-Based Payment Accounting”. See Note 1, “Basis of Presentation”, for more details regarding the guidance.

Uncertain Tax Positions

As of April 30, 2017, the amount of unrecognized tax benefits was $10.8 billion, of which up to $3.9 billion would affect HP’s effective tax rate if realized. The amount of unrecognized tax benefits increased by $19 million for the six months ended April 30, 2017. HP continues to record its tax liabilities related to uncertain tax positions and certain liabilities for which it has joint and several liability with Hewlett Packard Enterprise. HP recognizes interest income from favorable settlements and interest expense and penalties accrued on unrecognized tax benefits in the provision for taxes in the Consolidated Condensed Statements of Earnings. As of April 30, 2017, HP had accrued $219 million for interest and penalties.

HP engages in continuous discussions and negotiations with taxing authorities regarding tax matters in various jurisdictions. HP expects to complete resolution of certain tax years with various tax authorities within the next 12 months. It is also possible that other federal, foreign and state tax issues may be concluded within the next 12 months.

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Consolidated Condensed Statements of Earnings (Continued)
(Unaudited)

Note 7: Supplementary Financial Information
Accounts Receivable

	As of April 30, 2017	October 31, 2016
	In millions	
Accounts receivable	$3,857	$4,221
Allowance for doubtful accounts	(86)	(107)
	$3,771	$4,114

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

	Six months ended April 30, 2017
	In millions
Balance at beginning of period	$ 107
Provision for doubtful accounts	13
Deductions, net of recoveries	(34)
Balance at end of period	$ 86

HP has third-party arrangements, consisting of revolving short-term financing, which provide liquidity to certain partners in order to facilitate their working capital requirements. These financing arrangements, which in certain circumstances may contain partial recourse, result in a transfer of HP's receivables and risk to the third party. As these transfers qualify as true sales under the applicable accounting guidance, the receivables are derecognized from the Consolidated Condensed Balance Sheets upon transfer, and HP receives a payment for the receivables from the third party within a mutually agreed upon time period. For arrangements involving an element of recourse, the recourse obligation is measured using market data from the similar transactions and reported as a current liability in the Consolidated Condensed Balance Sheets. The recourse obligations as of April 30, 2017 and October 31, 2016 were not material. As of April 30, 2017 and October 31, 2016, HP had $123 million and $149 million, respectively, outstanding from the third parties, which is reported in Accounts receivable in the Consolidated Condensed Balance Sheets. The costs associated with the sales of trade receivables for the three months and six months ended April 30, 2017 and 2016 were not material.

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

	Three months ended April 30		Six months ended April 30	
	2017	2016	2017	2016
	In millions			
Balance at beginning of period	$104	$ 89	$149	$ 93
Trade receivables sold	2,252	1,894	4,701	3,770
Cash receipts	(2,235)	(1,916)	(4,728)	(3,793)
Foreign currency and other	2	4	1	1
Balance at end of period	$123	$ 71	$123	$ 71

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Notes to Consolidated Condensed Financial Statements (Continued)

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Note 7: Supplementary Financial Information (Continued)

Inventory

	As of April 30, 2017	October 31, 2016
	In millions	
Finished goods	$3,101	$3,103
Purchased parts and fabricated assemblies	1,655	1,381
	$4,756	$4,484

Other Current Assets

	As of April 30, 2017	October 31, 2016
	In millions	
Value-added taxes receivable	$804	$795
Supplier and other receivables	1,722	1,700
Prepaid and other current assets	1,026	1,087
	$3,552	$3,582

Property, Plant and Equipment

	As of April 30, 2017	October 31, 2016
	In millions	
Land, buildings and leasehold improvements	$2,043	$2,421
Machinery and equipment, including equipment held for lease	3,820	3,663
	5,863	6,084
Accumulated depreciation	(4,202)	(4,348)
	$1,661	$1,736

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

Other Non-Current Assets

	As of April 30, 2017	October 31, 2016
	In millions	
Tax indemnifications receivable[1]	$1,634	$1,591
Deferred tax assets	335	254
Other	1,132	1,316
	$3,101	$3,161

(1)In connection with the TMA discussed under Note 6, “Taxes on Earnings”.

Other Accrued Liabilities

	As of April 30, 2017	October 31, 2016
	In millions	
Other accrued taxes	$701	$755
Warranty	675	729
Sales and marketing programs	2,192	2,312
Other	1,981	1,922
	$5,549	$5,718

Other Non-Current Liabilities

	As of April 30, 2017	October 31, 2016
	In millions	
Pension, post-retirement, and post-employment liabilities	$2,543	$2,705
Deferred tax liability	1,412	1,116
Tax liability	1,756	1,910
Deferred revenue	872	865
Other	744	737
	$7,327	$7,333

Note 8: Fair Value

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

Fair Value Hierarchy

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

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

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

Level 3—Unobservable inputs for the asset or liability.

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

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

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Note 8: Fair Value (Continued)

	As of April 30, 2017 Fair Value Measured Using				As of October 31, 2016 Fair Value Measured Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	In millions							
Assets:								
Cash Equivalents and Investments:							&#16	