

HP INC  
Form 10-Q  
March 03, 2016

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended: January 31, 2016**

Or

**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**

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**HP INC.**

(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.)

**1501 Page Mill Road, Palo Alto, California**

(Address of principal executive offices)

**94304**

(Zip code)

**(650) 857-1501**

(Registrant's telephone number, including area code)

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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  No

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  No

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

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

The number of shares of HP Inc. common stock outstanding as of January 31, 2016 was 1,736,936,115 shares.

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**HP INC. AND SUBSIDIARIES**  
**Form 10-Q**  
**For the Quarterly Period ended January 31, 2016**

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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 revenue, margins, expenses, effective tax rates, net earnings, net earnings per share, cash flows, benefit plan funding, deferred tax assets, 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, 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 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 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, 2015, and that are otherwise described or updated from time to time in HP's Securities and Exchange Commission reports. 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 (Unaudited).**

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Table of Contents**HP INC. AND SUBSIDIARIES****Consolidated Condensed Statements of Earnings****(Unaudited)**

	<b>Three months ended January 31</b>	
	<b>2016</b>	<b>2015</b>
	<b>In millions, except per share amounts</b>	
<b>Net revenue:</b>		
Products	\$ 11,732	\$ 13,356
Services	514	502
<b>Total net revenue</b>	<b>12,246</b>	<b>13,858</b>
<b>Costs and expenses:</b>		
Cost of products	9,626	10,851
Cost of services	335	322
Research and development	292	304
Selling, general and administrative	1,037	1,222
Amortization of intangible assets	8	27
Restructuring charges	20	14
<b>Total operating expenses</b>	<b>11,318</b>	<b>12,740</b>
<b>Earnings from continuing operations before interest and taxes</b>	<b>928</b>	<b>1,118</b>
Interest and other, net	(94)	(121)
<b>Earnings from continuing operations before taxes</b>	<b>834</b>	<b>997</b>
Provision for taxes	(184)	(227)
<b>Earnings from continuing operations</b>	<b>650</b>	<b>770</b>
(Loss) earnings from discontinued operations, net of taxes	(58)	596
<b>Net earnings</b>	<b>\$ 592</b>	<b>\$ 1,366</b>
<b>Net earnings (loss) per share:</b>		
<b>Basic</b>		
Continuing operations	\$ 0.37	\$ 0.42
Discontinued operations	(0.04)	0.33
<b>Total basic net earnings per share</b>	<b>\$ 0.33</b>	<b>\$ 0.75</b>
<b>Diluted</b>		
Continuing operations	\$ 0.36	\$ 0.41
Discontinued operations	(0.03)	0.32

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Total diluted net earnings per share	\$	0.33	\$	0.73
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Cash dividends declared per share	\$	0.25	\$	0.32
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Weighted-average shares used to compute net earnings per share:

Basic	1,776	1,833
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Diluted	1,785	1,861
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The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

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

	<b>Three months ended January 31</b>	
	<b>2016</b>	<b>2015</b>
	<b>In millions</b>	
Net earnings	\$ 592	\$ 1,366
Other comprehensive income before taxes:		
Change in unrealized gains on available-for-sale securities:		
Unrealized gains arising during the period		46
		46
Change in unrealized gains on cash flow hedges:		
Unrealized gains arising during the period	105	631
Gains reclassified into earnings	(34)	(334)
	71	297
Change in unrealized components of defined benefit plans:		
Amortization of actuarial loss and prior service benefit	12	112
Curtailments, settlements and other		(2)
	12	110
Change in cumulative translation adjustment		(68)
Other comprehensive income before taxes	83	385
Benefit from (provision for) taxes	16	(179)
Other comprehensive income, net of taxes	99	206
Comprehensive income	\$ 691	\$ 1,572

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



Table of Contents**HP INC. AND SUBSIDIARIES****Consolidated Condensed Balance Sheets****(Unaudited)**

	As of	
	January 31, 2016	October 31, 2015
	In millions, except par value	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,688	\$ 7,584
Accounts receivable	4,114	4,825
Inventory	4,052	4,288
Other current assets	3,301	4,498
Current assets of discontinued operations		30,592
Total current assets	15,155	51,787
Property, plant and equipment	1,529	1,492
Goodwill	5,680	5,680
Other non-current assets	3,153	1,592
Non-current assets of discontinued operations		46,331
Total assets	\$ 25,517	\$ 106,882
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable and short-term borrowings	\$ 49	\$ 2,194
Accounts payable	9,041	10,194
Employee compensation and benefits	553	747
Taxes on earnings	182	243
Deferred revenue	863	1,051
Other accrued liabilities	6,073	6,241
Current liabilities of discontinued operations		21,521
Total current liabilities	16,761	42,191
Long-term debt	6,683	6,677
Other non-current liabilities	6,982	7,414
Non-current liabilities of discontinued operations		22,449
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' (deficit) equity		
Preferred stock, \$0.01 par value (300 shares authorized; none issued)		
Common stock, \$0.01 par value (9,600 shares authorized; 1,737 and 1,804 shares issued and outstanding at January 31, 2016 and October 31, 2015, respectively)	17	18
Additional paid in capital	1,222	1,963
Retained earnings (deficit)	(5,026)	32,089
Accumulated other comprehensive loss	(1,122)	(6,302)

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Total HP stockholders' (deficit) equity	(4,909)	27,768
Non-controlling interests of discontinued operations		383
Total stockholders' (deficit) equity	(4,909)	28,151
Total liabilities and stockholders' equity	\$ 25,517	\$ 106,882

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

[Table of Contents](#)**HP INC. AND SUBSIDIARIES****Consolidated Condensed Statements of Cash Flows****(Unaudited)**

	<b>For the three month ended January 31</b>	
	<b>2016</b>	<b>2015</b>
	<b>In millions</b>	
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 592	\$ 1,366
<b>Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:</b>		
Depreciation and amortization	79	1,028
Stock-based compensation expense	61	187
Provision for doubtful accounts	11	(2)
Provision for inventory	34	64
Restructuring charges	20	146
Deferred taxes on earnings	526	(173)
Excess tax benefit from stock-based compensation	(1)	(109)
Other, net	(18)	138
<b>Changes in operating assets and liabilities (net of acquisitions):</b>		
Accounts receivable	704	1,540
Financing receivable		222
Inventory	202	(224)
Accounts payable	(1,104)	(852)
Taxes on earnings	(534)	293
Restructuring	(31)	(483)
Other assets and liabilities	(649)	(2,397)
<b>Net cash (used in) provided by operating activities</b>	<b>(108)</b>	<b>744</b>
<b>Cash flows from investing activities:</b>		
Investment in property, plant and equipment	(120)	(947)
Proceeds from sale of property, plant and equipment		130
Purchases of available-for-sale securities and other investments		(50)
Maturities and sales of available-for-sale securities and other investments	9	30
Payment made in connection with business acquisitions		(1)
<b>Net cash used in investing activities</b>	<b>(111)</b>	<b>(838)</b>
<b>Cash flows from financing activities:</b>		
Short-term borrowings with original maturities less than 90 days, net	26	77
Proceeds from debt, net of issuance costs	4	299
Payment of debt	(2,155)	(911)
Settlement of cash flow hedges	(11)	
Net transfer of cash and cash equivalents to Hewlett Packard Enterprise Company	(10,375)	
Issuance of common stock under employee stock plans	2	181
Repurchase of common stock	(797)	(1,571)
Excess tax benefit from stock-based compensation	1	109
Cash dividends paid	(221)	(304)
<b>Net cash used in financing activities</b>	<b>(13,526)</b>	<b>(2,120)</b>

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Decrease in cash and cash equivalents	(13,745)	(2,214)
Cash and cash equivalents at beginning of period	17,433	15,133
Cash and cash equivalents at end of period	\$ 3,688	\$ 12,919

**Supplemental schedule of non-cash investing and financing activities:**

Net assets transferred to Hewlett Packard Enterprise Company	\$ 22,197	\$
Purchase of assets under capital leases	\$ 40	\$

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: Overview and Basis of Presentation**

*Overview*

On November 1, 2015 (the "Distribution Date"), 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").

On the Distribution Date, each of HP's stockholders of record as of the close of business on October 21, 2015 (the "Record Date") received one share of Hewlett Packard Enterprise common stock for every one share of HP common stock held as of the Record Date. Hewlett Packard Enterprise is now an independent public company trading on the New York Stock Exchange ("NYSE") under the symbol "HPE". HP distributed a total of approximately 1.8 billion shares of Hewlett Packard Enterprise common stock to HP's stockholders. After the Separation, HP does not beneficially own any shares of Hewlett Packard Enterprise common stock.

In connection with the Separation, HP and Hewlett Packard Enterprise have entered into a separation and distribution agreement as well as various other agreements that provide a framework for the relationships between the parties going forward, 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 5, "Retirement and Post-Retirement Benefit Plans", Note 6, "Stock-Based Compensation", Note 7 "Taxes on Earnings", Note 14, "Litigation and Contingencies" and Note 15, "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"). HP has eliminated all intercompany accounts and transactions. 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 in the Annual Report on Form 10-K for the fiscal year ended October 31, 2015. The historical results of operations and financial position of Hewlett Packard Enterprise are included in the Consolidated Condensed Financial Statements and reported as discontinued operations in all periods presented within this Form 10-Q. Fiscal 2015 information in the accompanying Notes to the Consolidated Condensed Financial Statements have been revised to reflect the effect of the Separation, except balances related to stockholders' (deficit) equity. The historical statements of comprehensive income and cash flows have not been revised to reflect the effect of the Separation. For further information on discontinued operations, see Note 2, "Discontinued Operations".

*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. HP accounts

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**HP INC. AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements (Continued)**

**(Unaudited)**

**Note 1: Overview and Basis of Presentation (Continued)**

for investments in companies over which HP has the ability to exercise significant influence but does not hold a controlling interest under the equity method, and HP records its proportionate share of income or losses in Interest and other, net in the Consolidated Condensed Statements of Earnings. HP presents non-controlling interests as a separate component within Total stockholders' (deficit) equity in the Consolidated Condensed Balance Sheets.

*Reclassifications*

HP has made certain segment and business unit realignments in order to optimize its operating structure. Reclassifications of certain prior-year segment and business unit 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.