COUCHMAN JONATHAN
Form 4
July 22, 2008

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
COUCHMAN JONATHAN

(Last) (First) (Middle)

C/O FOOTSTAR, INC., 933 MACARTHUR BOULEVARD

(Street)

MAHWAH, NJ 07430

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FOOTSTAR INC [FTAR.OB]

3. Date of Earliest Transaction (Month/Day/Year)
07/18/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	07/18/2008		A		12,370 (1)	A	$ 0	946,831	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
COUCHMAN JONATHAN C/O FOOTSTAR, INC. 933 MACARTHUR BOULEVARD MAHWAH, NJ 07430	X			

Signatures

/s/ Jonathan M. Couchman	07/21/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Restricted stock granted on 07/18/2008 pursuant to the 2006 Non-Employee Director Stock Plan, as amended. Shares will vest 50% on the first anniversary of the grant date and 25% on each of the second and third anniversaries of the grant date. Upon the director's retirement or a change in control, all unvested shares will fully vest.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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As of July 31, 2014 October 31, 2013

In millions

U.S. Dollar Global Notes[1]

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

$500 $499

$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%, paid March 2014

1,999

$1,500 issued at discount to par at a price of 99.993% in February 2009 at 4.75%, paid June 2014

1,500

2009 Shelf Registration Statement:

$1,100 issued at discount to par at a price of 99.887% in September 2010 at 2.125%, due September 2015

1,100 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

1,349 1,349

$500 issued at par in May 2011 at three-month USD LIBOR plus 0.4%, paid May 2014

500

$500 issued at discount to par at a price of 99.971% in May 2011 at 1.55%, paid May 2014

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

$350 issued at par in September 2011 at three-month USD LIBOR plus 1.55%, due September 2014

350 350

$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

999 999

$1,200 issued at discount to par at a price of 99.863% in September 2011 at 6.0%, due September 2041

1,199 1,198

$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

1,496 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

2012 Shelf Registration Statement:

$750 issued at par in January 2014 at three-month USD LIBOR plus 0.94%, due January 2019

750

$1,250 issued at discount to par at a price of 99.954% in January 2014 at 2.75%, due January 2019

1,249

18,186 20,684

EDS Senior Notes[1]

$300 issued October 1999 at 7.45%, due October 2029

313 314

Other, including capital lease obligations, at 0.00%-8.50%, due in calendar years 2014-2024[2]

454 689

Fair value adjustment related to hedged debt

63 147

Less: current portion	(1,888)	(5,226)
Total long-term debt	$17,128	$16,608

(1) HP may redeem some or all of the fixed-rate U.S. Dollar Global Notes and EDS Senior Notes at any time in accordance with the terms thereof. The U.S. Dollar Global Notes are senior unsecured debt.

(2) Other, including capital lease obligations includes $149 million and $244 million at July 31, 2014 and October 31, 2013, respectively, of borrowing- and funding-related activity associated with HPFS and its subsidiaries that are collateralized by receivables and underlying assets associated with the related capital and operating leases. For both the periods presented, the carrying amount of the assets approximated the carrying amount of the borrowings.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

As disclosed in Note 8, HP uses interest rate swaps to mitigate the exposure of its debt portfolio to changes in fair value resulting from changes in interest rates by achieving a primarily U.S. dollar LIBOR-based floating interest expense. Interest rates shown in the table of long-term debt have not been adjusted to reflect the impact of any interest rate swaps.

In May 2012, HP filed a shelf registration statement (the "2012 Shelf Registration Statement") with the Securities Exchange Commission ("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.

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 five-year credit facility that expires in April 2019. The $4.5 billion credit facility expiring in April 2019 was executed in the second quarter of fiscal 2014 and replaced a previous $4.5 billion credit facility that was to expire in February 2015. Both facilities support the U.S. commercial paper program and the euro commercial paper program. 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 an outstanding U.S. commercial paper 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. In addition, the $3.0 billion five-year credit facility was amended in September 2012 to permit borrowings in euros and British pounds, with the amounts available in euros and British pounds being limited to the U.S. dollar equivalent of $2.2 billion and $300 million, respectively.

As of July 31, 2014, 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 $17.5 billion of available borrowing resources, including $16.2 billion in available capacity under its commercial paper programs and $1.3 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.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 11: Borrowings (Continued)

Interest expense on borrowings recognized in the Consolidated Condensed Statements of Earnings was as follows:

Expense	Location	Three months ended July 31 2014	Three months ended July 31 2013	Nine months ended July 31 2014	Nine months ended July 31 2013
		In millions			
Financing interest	Financing interest	$ 70	$ 77	$ 211	$ 238
Interest expense	Interest and other, net	80	107	270	332
Total interest expense		$ 150	$ 184	$ 481	$ 570

Note 12: Income Taxes

Provision for Taxes

HP's effective tax rate was 25.0% and 18.7% for the three months ended July 31, 2014 and 2013, respectively, and 23.2% and 21.1% for the nine months ended July 31, 2014 and 2013, 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 U.S.

In the three and nine months ended July 31, 2014, HP recorded discrete items resulting in net tax benefits of $88 million and $53 million, respectively. These amounts include tax benefits of $100 million and $145 million related to restructuring charges, respectively.

In the three and nine months ended July 31, 2013, HP recorded discrete items resulting in net tax charges of $63 million and net tax benefits of $40 million, respectively. These amounts included tax benefits of $13 million and $76 million, respectively, related to restructuring charges. The nine month period ended July 31, 2013 also included a tax benefit of $50 million from the retroactive research and development credit provided by the American Taxpayer Relief Act of 2012 and a tax charge of $150 million related to a past uncertain tax position.

Uncertain Tax Positions

HP is subject to income tax in the U.S. and approximately 80 other countries and is subject to routine corporate income tax audits in many of these jurisdictions. In addition, HP is subject to numerous ongoing audits by federal, state and foreign tax authorities. HP believes it has provided adequate reserves for all tax deficiencies or reductions in tax benefits that could result from federal, state and foreign tax audits. HP regularly assesses the likely outcomes of these audits in order to determine the appropriateness of HP's tax provision. HP adjusts its uncertain tax positions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular audit. However, income tax audits are inherently unpredictable and there can be no assurance that HP will accurately predict the outcome of these audits. The amounts ultimately paid on resolution of an audit could be materially different from the amounts previously included in the Provision for taxes and therefore the resolution of one or more of these uncertainties in any particular period could have a material impact on net income or cash flows.

Explanation of Responses:

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 12: Income Taxes (Continued)

As of July 31, 2014, the amount of unrecognized tax benefits was $4.0 billion, of which up to $1.9 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 in Provision for taxes in the Consolidated Condensed Statements of Earnings. As of July 31, 2014, HP had accrued $228 million for interest and penalties.

HP engages in continuous discussions and negotiations with taxing authorities regarding tax matters in various jurisdictions. HP does not expect complete resolution of any U.S. 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 reduced by up to $1.3 billion within the next 12 months.

Deferred Tax Assets and Liabilities

Current and long-term deferred tax assets and liabilities are presented in the Consolidated Condensed Balance Sheets as follows:

	As of July 31, 2014	As of October 31, 2013
	In millions	
Current deferred tax assets	$ 2,712	$ 3,893
Current deferred tax liabilities	(418)	(375)
Long-term deferred tax assets	1,086	1,346
Long-term deferred tax liabilities	(1,228)	(2,668)
Net deferred tax position	$ 2,152	$ 2,196

HP periodically engages in intercompany licensing arrangements that may result in advance payments between subsidiaries in different tax jurisdictions. When the local tax treatment of the intercompany licensing arrangements differs from their U.S. GAAP treatment, deferred taxes are recognized. For U.S. GAAP purposes, revenue from intercompany licensing arrangements is deferred and recognized ratably over the term of the arrangement. The decline in current deferred tax assets as of July 31, 2014 reflects the reversal of certain of these timing differences. Further, during the second quarter of fiscal 2014, HP executed a multi-year intercompany licensing arrangement on which advanced royalty payments were received, the result of which was the recognition of net long-term deferred tax assets of $1.3 billion. This increase in long-term deferred tax assets is presented as a component of HP's long-term deferred tax liabilities due to the effects of jurisdictional netting.

Note 13: Stockholders' Equity

Share Repurchase Program

HP's share repurchase program authorizes both open market and private repurchase transactions. In the three and nine months ended July 31, 2014, HP executed share repurchases of 16 million shares and 64 million shares, respectively. Such repurchased shares were settled for $582 million and $2.0 billion, respectively. In the three and nine months ended July 31, 2013, HP paid $3 million and $1.1 billion in connection with repurchases of 0.2 million shares and 56 million shares, respectively. The

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 13: Stockholders' Equity (Continued)

shares repurchased and settled during the nine months ended July 31, 2014 and 2013 were all open market transactions. As of July 31, 2014, HP had remaining authorization of $5.7 billion for future share repurchases.

Taxes related to Other Comprehensive Income (Loss)

	Three months ended July 31		Nine months ended July 31	
	2014	2013	2014	2013
	In millions			
Tax benefit (provision) on change in unrealized gains on available-for-sale securities:				
Tax benefit (provision) on unrealized gains arising during the period	$ 1	$ 27	$	$ (11)
Tax provision on gains reclassified into earnings				
	1	27		(11)
Tax (provision) benefit on change in unrealized gains (losses) on cash flow hedges:				
Tax (provision) benefit on unrealized gains (losses) arising during the period	(52)	(14)	(17)	46
Tax benefit on losses (gains) reclassified into earnings	(21)	(4)	(84)	(11)
	(73)	(18)	(101)	35
Tax (provision) benefit on change in unrealized components of defined benefit plans:				
Tax (provision) benefit on (losses) gains arising during the period	(13)	(8)	8	(8)
Tax (benefit) provision on amortization of actuarial loss and prior service benefit	(2)	10	(16)	(11)
Tax provision on curtailments, settlements and other		(3)	(7)	(4)
	(15)	(1)	(15)	(23)
Tax benefit (provision) on change in cumulative translation adjustment	1		(7)	22
Tax (provision) benefit on other comprehensive income (loss)	$ (86)	$ 8	$ (123)	$ 23

40

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 13: Stockholders' Equity (Continued)

Changes and reclassifications related to Other Comprehensive Income, net of taxes

	Three months ended July 31		Nine months ended July 31	
	2014	2013	2014	2013
	In millions			
Other comprehensive income (loss):				
Change in unrealized gains on available-for-sale securities:				
Unrealized gains arising during the period	$ 8	$ 38	$ 6	$ 22
Gains reclassified into earnings		(49)	(1)	(49)
	$ 8	(11)	5	(27)
Change in unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses) arising during the period	82	102	(122)	2
Losses (gains) reclassified into earnings[1]	104	(25)	251	8
	186	77	129	10
Change in unrealized components of defined benefit plans:				
(Losses) gains arising during the period	(21)	22	(111)	23
Amortization of actuarial loss and prior service benefit[2]	65	88	180	231
Curtailments, settlements and other	2	12	35	24
	46	122	104	278
Change in cumulative translation adjustment	(21)	(99)	(70)	(135)
Other comprehensive income, net of taxes	$ 219	$ 89	$ 168	$ 126

(1) Reclassification of pre-tax losses (gains) on cash flow hedges into the Consolidated Condensed Statements of Earnings was as follows:

	Three months ended July 31		Nine months ended July 31	
	2014	2013	2014	2013
	In millions			
Net revenue	$ 103	$ (88)	$ 229	$ (77)
Cost of products	12	77	56	107
Other operating expenses		(1)	7	(6)
Interest and other, net	10	(9)	43	(5)
	$ 125	$ (21)	$ 335	$ 19

(2) These components are included in the computation of net pension and post-retirement benefit (credit) cost in Note 14.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 13: Stockholders' Equity (Continued)

The components of accumulated other comprehensive loss, net of taxes as of July 31, 2014, and changes during the nine months ended July 31, 2014 were as follows:

	Net unrealized gain on available-for-sale securities	Net unrealized loss on cash flow hedges	Unrealized components of defined benefit plans	Cumulative translation adjustment	Accumulated other comprehensive loss
			In millions		
Balance at beginning of period	$ 76	$ (188)	$ (3,084)	$ (582)	$ (3,778)
Other comprehensive income (loss) before reclassifications	6	(122)	(76)	(70)	(262)
Reclassifications of (gains) losses into earnings	(1)	251	180		430
Balance at end of period	$ 81	$ (59)	$ (2,980)	$ (652)	$ (3,610)

Note 14: Retirement and Post-Retirement Benefit Plans

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

	Three months ended July 31					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2014	2013	2014	2013	2014	2013
			In millions			
Service cost	$	$ 1	$ 78	$ 83	$ 1	$ 2
Interest cost	142	140	187	166	8	8
Expected return on plan assets	(203)	(211)	(290)	(247)	(9)	(8)
Amortization and deferrals:						
Actuarial loss (gain)	4	19	81	82	(2)	
Prior service benefit			(6)	(7)	(10)	(16)
Net periodic benefit (credit) cost	(57)	(51)	50	77	(12)	(14)
Settlement loss	1	1	2	11		
Special termination benefits			5	7		
Net benefit (credit) cost	$ (56)	$ (50)	$ 57	$ 95	$ (12)	$ (14)

42

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 14: Retirement and Post-Retirement Benefit Plans (Continued)

	Nine months ended July 31					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	2014	2013	2014	2013	2014	2013
	In millions					
Service cost	$	$ 1	$ 233	$ 253	$ 3	$ 5
Interest cost	426	420	555	507	24	23
Expected return on plan assets	(608)	(634)	(858)	(754)	(26)	(25)
Amortization and deferrals:						
Actuarial loss (gain)	12	58	239	254	(7)	
Prior service benefit			(18)	(20)	(30)	(50)
Net periodic benefit (credit) cost	(170)	(155)	151	240	(36)	(47)
Curtailment gain			(5)			(7)
Settlement loss	1	9	4	11		
Special termination benefits			33	12	(11)	
Net benefit (credit) cost	$ (169)	$ (146)	$ 183	$ 263	$ (47)	$ (54)

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.

HP previously disclosed in its Consolidated Financial Statements for the fiscal year ended October 31, 2013 that it expected to contribute approximately $617 million in fiscal 2014 to its non-U.S. pension plans and expected to pay approximately $33 million to cover benefit payments to U.S. non-qualified plan participants. HP expected to pay approximately $109 million to cover benefit claims for HP's post-retirement benefit plans.

During the nine months ended July 31, 2014, HP contributed $450 million to its non-U.S. pension plans, paid $20 million to cover benefit payments to U.S. non-qualified plan participants, and paid $73 million to cover benefit claims under HP's post-retirement benefit plans. During the remainder of fiscal 2014, HP anticipates making additional contributions of approximately $158 million to its non-U.S. pension plans and approximately $13 million to its U.S. non-qualified plan participants and expects to pay approximately $36 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 are amortized over the remaining service life for active plans or the life expectancy of plan participants for frozen plans.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

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 recorded adequate provisions for any such matters and, as of July 31, 2014, it was not reasonably possible that a material loss had been incurred in excess of the amounts recognized in HP's financial statements. HP reviews these matters at least quarterly and adjusts its accruals 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 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 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 multi-function 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 have phased out levies or are expected to limit the scope of levy schemes and applicability in the digital hardware environment, particularly with respect to sales to business users. HP, other companies and various industry associations have opposed the extension of levies to the digital environment and have advocated alternative models of compensation to rights holders.

VerwertungsGesellschaft Wort ("VG Wort"), a collection agency representing certain copyright holders, instituted legal proceedings against HP in the Stuttgart Civil Court seeking to impose 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 existing law. 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. On June 27, 2013, the CJEU

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

issued its decision responding to those questions. The German Federal Supreme Court subsequently scheduled a joint hearing on this matter with other cases relating to reprographic levies on printers and PCs that was held on October 31, 2013. The German Federal Supreme Court issued a decision on July 3, 2014 partially granting the claim of VG Wort. The German Federal Supreme Court decision provides that levies are due where the printer is used with a PC to make permitted reprographic copies in a single process under the control of the same person, but no levies are due on a printer for reprographic copies made with a "scanner-PC-printer" product chain. The case must be remitted to lower courts to assess the amount to be paid per printer unit.

In September 2003, VG Wort filed a lawsuit against Fujitsu Technology Solutions GmbH ("Fujitsu") in the Munich Civil Court in Munich, Germany seeking to impose 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 Fujitsu. On December 23, 2004, the Munich Civil Court held that PCs are subject to a levy and that Fujitsu must pay €12 plus compound interest for each PC sold in Germany since March 2001. Fujitsu 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. Fujitsu 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, were 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 also 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. On June 27, 2013, the CJEU issued its decision responding to those questions. The German Federal Supreme Court subsequently scheduled a joint hearing on that matter with other cases relating to reprographic levies on printers that was held on October 31, 2013. The German Federal Supreme Court issued a decision on July 3, 2014 partially granting the claim of VG Wort. The German Federal Supreme Court decision provides that levies are due for audio-visual copying of standing text and pictures using a PC as the last device in a single reproduction process under the control of the same person, but no levies are due on a PC for reprographic copies made using a "PC-printer" or a "scanner-PC-printer" chain. The case must be remitted to lower courts to assess the amount to be paid per PC unit.

Reprobel, a cooperative society with the authority to collect and distribute the remuneration for reprography to Belgian copyright holders, requested by extra-judicial means that HP 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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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. On October 23, 2013, the Court of Appeal in Brussels stayed the proceedings and referred several questions to the CJEU relating to whether the Belgian reprographic copyright levies system is in conformity with EU law.

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 and the amount of levies imposed, remains uncertain.

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 Electronic Data Systems Corporation ("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 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. The plaintiffs had alleged separate "opt-out" classes based on the overtime laws of the states of California, Washington, Massachusetts and New York, but the 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 the plaintiffs' complaint and filed 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 stayed by the court.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Karlbom, et al. v. Electronic Data Systems Corporation is a class action filed on March 16, 2009 in California Superior Court alleging facts similar to the *Cunningham* and *Steavens* matters. In March 2010, the court stayed the matter; that stay was lifted in October 2012. On December 13, 2013, HP removed the case to federal court. The plaintiffs moved to remand the case; the case was subsequently remanded to state court.

Blake, et al. v. Hewlett-Packard Company was filed as a purported nationwide collective action 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 had been misclassified as exempt employees under the Fair Labor Standards Act. On February 10, 2012, the plaintiffs filed a motion requesting that the court conditionally certify the case as a collective action. On July 11, 2013, the court denied the plaintiffs' motion for conditional certification in its entirety. Following the denial of class certification, the case has continued as an individual action on behalf of the named plaintiff and one other employee. The parties have reached an agreement to resolve this matter with the two plaintiffs agreeing to settle their individual claims and release any other claims they may have against HP. The parties have submitted their confidential settlement agreement and release of claims to the court for approval.

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 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. On September 20, 2013, the plaintiffs filed a motion for conditional class certification. On February 13, 2014, the court granted the plaintiff's motion for conditional class certification.

State of South Carolina Department of Social Services Contract Dispute. In October 2012, the State of South Carolina Department of Social Services and related government agencies ("SCDSS") filed a proceeding before South Carolina's Chief Procurement Officer ("CPO") against Hewlett-Packard State & Local Enterprise Services, Inc., a subsidiary of HP ("HPSLES"). The dispute arises from a contract between SCDSS and HPSLES for the design, implementation and maintenance of a Child Support Enforcement and a Family Court Case Management System (the "CFS System"). SCDSS seeks aggregate damages of approximately $275 million, a declaration that HPSLES is in material breach of the contract and, therefore, that termination of the contract for cause by SCDSS would be appropriate, and a declaration that HPSLES is required to perform certain additional disputed work that expands the scope of the original contract. In November 2012, HPSLES filed responsive pleadings asserting defenses and seeking payment of past-due invoices totaling more than $12 million. On July 10, 2013, SCDSS terminated the contract with HPSLES for cause, and, in its termination notice, SCDSS asserted that HPSLES is responsible for all future federal penalties until the CFS System achieves federal certification, sought an immediate order requiring HPSLES to transfer to SCDSS all work completed and in progress, and indicated that it intends to seek suspension and debarment of HPSLES from contracting with the State of South Carolina. HPSLES is disputing the termination as improper and defective. In addition, on August 9, 2013, HPSLES filed its own affirmative claim within the proceeding alleging that SCDSS materially breached the contract by its improper termination and that SCDSS was

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

a primary and material cause of the project delays. On September 4, 2013, the CPO denied SCDSS's motion for injunctive relief seeking immediate transfer of the system assets to SCDSS and indicated that the CPO would address that request following a hearing on the merits. The hearing on the merits before the CPO concluded on February 25, 2014 and closing briefs were submitted on July 18, 2014. On August 4, 2014, in light of the ongoing mediation of this matter, the parties jointly requested that the CPO not issue an order unless and until the parties, with the guidance of the mediator, report to the CPO that their ongoing mediation has reached a final impasse.

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 then-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-related 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-related show cause notice.

On April 20, 2012, the Commissioner issued an order on the parts-related 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-related 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 HPI deposited in March 2013. The Customs Tribunal did not order any additional deposit to be made under the parts order. In December 2013, HPI filed applications before the Customs Tribunal seeking early hearing of the appeals as well as an extension of the stay of deposit as to HP and the individuals already granted until final disposition of the appeals. On February 7, 2014, the application for extension of the stay of deposit was granted by the Customs Tribunal until disposal of the appeals. A hearing has been scheduled with the Customs Tribunal for October 27, 2014.

Russia GPO and Other FCPA 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

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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 requested that HP be made an associated party to the case, and, if that 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 Polish Central Anti-Corruption Bureau is also conducting an investigation into potential corruption violations by an employee of Hewlett-Packard Polska Sp. z o.o., an indirect subsidiary of HP, in connection with certain public-sector transactions in Poland. HP is cooperating with these investigating agencies.

The U.S. Department of Justice ("DOJ") and the Securities and Exchange Commission ("SEC") also conducted an investigation into the Russia GPO deal and potential violations of the Foreign Corrupt Practices Act ("FCPA"). In addition, the same U.S. enforcement agencies conducted investigations into certain other public-sector transactions in Russia, Poland, the Commonwealth of Independent States and Mexico, among other countries. On April 9, 2014, HP announced a resolution of the DOJ and SEC FCPA investigations. Pursuant to the terms of the resolution, HP has paid the SEC approximately $31 million and has agreed to pay approximately $77 million to the DOJ. HP also has agreed to undertake certain compliance, reporting and cooperation obligations. A court appearance regarding the DOJ resolution is scheduled with the United States District Court for the Northern District of California to be held on September 11, 2014.

ECT Proceedings. In January 2011, the postal service of Brazil, Empresa Brasileira de Correios e Telégrafos ("ECT"), notified an HP subsidiary in Brazil ("HP Brazil") that it had initiated administrative proceedings 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 allegedly coordinated their bids and fixed results for three ECT contracts in 2007 and 2008. In late July 2011, ECT notified HP Brazil it had decided to apply the penalties against HP Brazil and suspend HP Brazil's right to bid and contract with ECT for five years, based upon the evidence before it. In August 2011, HP Brazil appealed ECT's decision. In April 2013, ECT rejected HP Brazil's appeal, and the administrative proceedings were closed with the penalties against HP Brazil remaining in place. In parallel, in September 2011, HP Brazil filed a civil action against ECT seeking to have ECT's decision revoked. HP Brazil also requested an injunction suspending the application of the penalties until a final ruling on the merits of the case. The court of first instance has not issued a decision on the merits of the case, but it has denied HP Brazil's request for injunctive relief. HP Brazil 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 Brazil appealed that decision and, in December 2011, obtained a ruling staying enforcement of ECT's sanctions until a final ruling on the merits of the case. HP expects this decision to be issued in 2015 and any subsequent appeal on the merits to last several years.

Stockholder Litigation. As described below, HP is involved in various stockholder litigation matters commenced against certain current and former HP executive officers and/or certain current and former members of HP's Board of Directors in which the plaintiffs are seeking to recover damages

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

related to HP's allegedly inflated stock price, 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. The appeal has been fully briefed and the United States Court of Appeals for the Ninth Circuit has scheduled oral argument for September 9, 2014.

A.J. Copeland v. Raymond J. Lane, et al. ("Copeland I") 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 Mark Hurd (a former Chairman of HP's Board of Directors and HP's Chief Executive Officer), and HP's acquisition of 3PAR Inc. The lawsuit also alleges violations of Section 14(a) of the Securities Exchange Act of 1934 (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, the 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 December 28, 2012, the plaintiff moved for leave to file a third amended complaint. On May 6, 2013, the court denied the motion for leave to amend, granted the motions to dismiss with prejudice and entered judgment in the defendants' favor. On May 31, 2013, the plaintiff filed an appeal with the United States Court of Appeals for the Ninth Circuit. The appeal has been fully briefed, but a date has not yet been set for oral argument.

A.J. Copeland v. Léo Apotheker, et al. ("Copeland II") is a lawsuit filed on February 10, 2014 in the United States District Court for the Northern District of California alleging, among other things, that the defendants used their control over HP and its corporate suffrage process in effectuating, directly participating in and/or aiding and abetting violations of Section 14(a) of the Exchange Act and Rule 14a-9 promulgated thereunder, violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. The complaint asserts claims for breach of fiduciary duty, waste of corporate assets, unjust enrichment, and breach of the duty of candor. The claims arise out of the circumstances at HP relating to its 2013 and 2014 proxy statements, the departure of Mr. Hurd as Chairman of HP's Board of Directors and HP's Chief Executive Officer, alleged violations of the FCPA, and HP's acquisition of 3PAR Inc. and Autonomy Corporation plc ("Autonomy"). On February 25, 2014, the court issued an order granting HP's administrative motion to relate *Copeland II* to *Copeland I*. On April 8, 2014, the

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

court granted the parties' stipulation to stay the action pending resolution of *Copeland I* by the United States Court of Appeals for the Ninth Circuit.

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 the plaintiff 30 days to file an amended complaint. On October 19, 2012, the plaintiff filed an amended complaint asserting the same causes of action but dropping one of the defendants and shortening 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. The parties commenced mediation before a private mediator on December 3, 2013. On March 31, 2014, the parties executed a settlement stipulation and the plaintiff filed a motion seeking preliminary approval of the settlement with the court. On May 2, 2014, the court preliminarily approved the settlement, directed notice be sent to class members, and set the final approval hearing for September 15, 2014. On August 11, 2014, the lead plaintiff filed a motion for approval of the settlement. As part of the proposed settlement, HP and certain of its insurers paid approximately $57 million into a settlement fund.

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. These lawsuits were previously stayed pending developments in the *Gammel* matter, but those stays have been lifted. The plaintiffs filed an amended consolidated complaint on August 21, 2013, and, on October 28, 2013, the defendants filed a motion to stay these matters. In an order dated February 13, 2014, the court granted the motion to stay. At the August 11, 2014 status conference, the stay was lifted. The plaintiffs have until September 24, 2014 to either file an amended complaint or designate the current complaint as the operative complaint. By October 1, 2014, the parties must submit a proposed schedule for responsive pleadings. The court has scheduled a jury trial to begin on July 14, 2015.

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

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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, 2011. The lawsuits are currently stayed pending resolution of the *Espinoza/Salat* consolidated action in federal court. The court has scheduled a status conference for November 17, 2014.

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. On August 9, 2013, the court granted the defendants' motion to dismiss with leave to amend the complaint by September 9, 2013. The plaintiff filed an amended complaint on September 9, 2013, and the defendants moved to dismiss that complaint on October 24, 2013. A hearing on the defendants' motion to dismiss the amended complaint was held on May 29, 2014. On June 25, 2014, the court issued an order granting defendants' motions to dismiss. On July 25, 2014, plaintiff filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit.

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 HP's Board of Directors, and certain advisors to HP. The plaintiffs in these litigation matters are seeking to recover certain

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

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 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. On July 2, 2013, HP filed a motion to dismiss the lawsuit. On November 26, 2013, the court granted in part and denied in part HP's motion to dismiss, allowing claims to proceed against HP and Margaret C. Whitman based on alleged statements and/or omissions made on or after May 23, 2012. The court dismissed all of the plaintiff's claims that were based on alleged statements and/or omissions made between August 19, 2011 and May 22, 2012.

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 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. The lawsuits also allege that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched in connection with HP's acquisition of Autonomy and by causing HP to repurchase its own stock at allegedly inflated prices between August 2011 and October 2012. One lawsuit further alleges that certain individual defendants engaged in or assisted insider trading and thereby breached their fiduciary duties, were unjustly enriched and violated Sections 25402 and 25403 of the California Corporations Code. On May 3, 2013, the lead plaintiff filed a consolidated complaint alleging, among other things, that the defendants concealed material information and made false statements related to HP's acquisition of Autonomy and Autonomy's Intelligent Data Operating Layer technology and thereby violated Sections 10(b) and 20(a) of the Exchange Act, breached their fiduciary duties, engaged in "abuse of control" over HP and corporate waste and were unjustly enriched. The litigation was stayed by agreement until July 31, 2013. On July 30, 2013, HP filed a motion to further stay the litigation until HP's Board of Directors decides whether to pursue any of the claims asserted in the litigation or the court rules on HP's motion to dismiss the consolidated complaint in the *In re HP Securities Litigation* matter. The court extended the stay of the litigation until June 16, 2014. Lead plaintiff filed a stipulation of proposed settlement on June 30, 2014. The court held a hearing on preliminary approval of the proposed settlement on August 25, 2014, but did not issue a decision at that time. The court has scheduled a hearing on September 26, 2014 to further address the motion for preliminary approval of the proposed settlement. At the hearing on September 26, 2014, the court is also expected to address the motion to sever filed in an additional derivative action captioned *Steinberg and Vogel v. Apotheker, et al.* that contains

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

substantially similar allegations and seeking substantially similar relief; the motion to intervene filed by the California state court plaintiff Vincent Ho for the limited purpose of applying for attorneys' fees; the motion to intervene filed by Sushovan Hussain for the purposes of objecting to the proposed settlement and obtaining discovery; and the motion to intervene filed by purported HP shareholder Rodney Cook for the purposes of removing the lead plaintiff and having himself appointed lead plaintiff.

In re HP ERISA Litigation consists of three consolidated putative class actions filed beginning on December 6, 2012 in the United States District Court for the Northern District of California alleging, among other things, that from August 18, 2011 to November 22, 2012, the defendants breached their fiduciary obligations to HP's 401(k) Plan and its participants and thereby violated Sections 404(a)(1) and 405(a) of the Employee Retirement Income Security Act of 1974, as amended, by concealing negative information regarding the financial performance of Autonomy and HP's enterprise services business and by failing to restrict participants from investing in HP stock. On August 16, 2013, HP filed a motion to dismiss the lawsuit. On March 31, 2014, the court granted HP's motion to dismiss this action with leave to amend. On July 16, 2014, the plaintiffs filed a second amended complaint containing substantially similar allegations and seeking substantially similar relief as the first amended complaint.

Vincent Ho v. Margaret C. Whitman, et al. is a lawsuit filed on January 22, 2013 in California Superior Court alleging, among other things, that the defendants breached their fiduciary duties and wasted corporate assets in connection with HP's acquisition of Autonomy and by causing HP to repurchase its own stock at allegedly inflated prices between August 2011 and October 2012. On April 22, 2013, the court stayed the lawsuit pending resolution of the *In re Hewlett-Packard Shareholder Derivative Litigation* matter in federal court. Two additional derivative actions, *James Gould v. Margaret C. Whitman, et al.* and *Leroy Noel v. Margaret C. Whitman, et al.*, were filed in California Superior Court on July 26, 2013 and August 16, 2013, respectively, containing substantially similar allegations and seeking substantially similar relief. Those actions also have been stayed pending resolution of the *In re Hewlett-Packard Shareholder Derivative Litigation* matter.

Cook v. Whitman, et al. is a lawsuit filed on March 18, 2014 in the Delaware Chancery Court, alleging, among other things, that the defendants breached their fiduciary duties and wasted corporate assets in connection with HP's acquisition of Autonomy. On May 15, 2014, HP moved to dismiss or stay the *Cook* matter. On July 22, 2014, the Delaware Chancery Court stayed the motion pending the District Court's hearing on preliminary approval of the proposed settlement in the *In re Hewlett-Packard Shareholder Derivative Litigation* matter.

Environmental

HP's operations and products are subject to various federal, state, local and foreign laws and regulations concerning environmental protection, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, the content of HP's products and the recycling, treatment and disposal of those products. In particular, HP faces increasing complexity in its product design and procurement operations as it adjusts to new and future requirements relating to the chemical and materials

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

composition of its products, their safe use, and the energy consumption associated with those products, including requirements relating to climate change. HP is also subject to legislation in an increasing number of jurisdictions that makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products (sometimes referred to as "product take-back legislation"). HP could incur substantial costs, its products could be restricted from entering certain jurisdictions, and it could face other sanctions, if it were to violate or become liable under environmental laws or if its products become non-compliant with environmental laws. HP's potential exposure includes fines and civil or criminal sanctions, third-party property damage or personal injury claims and clean-up costs. The amount and timing of costs to comply with environmental laws are difficult to predict.

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

Note 16: Segment Information

Description of Segments

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

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

The Personal Systems segment and the Printing segment are structured beneath a broader Printing and Personal Systems Group ("PPS"). While PPS is not a reportable segment, HP sometimes provides financial data aggregating the Personal Systems and the Printing segments within it in order to provide a supplementary view of its business.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

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

The *Printing and Personal Systems Group's* mission is to leverage the respective strengths of the Personal Systems business and the Printing business by creating a unified organization that is customer-focused and poised to capitalize on rapidly shifting industry trends. Each of the segments within PPS is described below.

Personal Systems provides commercial PCs, consumer PCs, workstations, thin clients, tablets, retail point-of-sale ("POS") systems, calculators and other related accessories, software, support and services for the commercial and consumer markets. HP groups commercial notebooks, commercial desktops, commercial tablets and workstations into commercial clients and consumer notebooks, consumer desktops and consumer tablets into consumer clients when describing its performance in these markets. Described below are HP's global business capabilities within Personal Systems.

Commercial PCs are optimized for use by commercial customers, including enterprise and SMB customers, and for connectivity, reliability and manageability in networked environments. Commercial PCs include the HP ProBook and HP EliteBook lines of notebooks, the HP Pro and HP Elite lines of business desktops and all-in-ones, retail POS systems, HP Thin Clients and HP ElitePad and HP Pro Tablet PCs. Commercial PCs also include workstations that are designed and optimized to reliably operate in high performance and demanding application environments including Z desktop workstations, Z all-in-ones and Z mobile workstations.

Consumer PCs include the HP Spectre, HP ENVY, HP Pavilion, HP Chromebooks, HP Split and HP Slate series of multi-media consumer notebooks, consumer tablets, hybrids (detachable tablets), and desktops, including the TouchSmart line of touch-enabled notebooks and all-in-one desktops. Consumer PCs also use the Compaq sub-brands for certain product offerings.

Printing provides consumer and commercial printer hardware, supplies, media, software and services, as well as scanning devices. Printing is also focused on imaging solutions in the commercial markets. HP groups LaserJet, large format printers and commercial inkjet printers into commercial hardware and consumer inkjet printers into consumer hardware when describing HP's performance in these markets. Described below are HP's global business capabilities within Printing.

Inkjet and Printing Solutions delivers HP's consumer and SMB inkjet solutions (hardware, supplies, media, and web-connected hardware and services). It includes single-function and all-in-one inkjet printers. Ongoing initiatives and programs such as Ink in the Office and Ink Advantage and newer initiatives such as Instant Ink are meant to provide innovative printing solutions to consumers and SMBs and include HP's Officejet Premium and Officejet Pro inkjet product portfolios.

LaserJet and Enterprise Solutions delivers HP's LaserJet and enterprise products, services and solutions to SMB and enterprise segments, including LaserJet printers and supplies (toner), Officejet Pro X inkjet enterprise products and supplies, multi-function devices, scanners, web-connected hardware and managed services, and enterprise software solutions, such as Web Jetadmin. Our Managed Print Services business provides printing equipment, supplies, support, workflow optimization and security services for SMB and enterprise customers around the world, utilizing proprietary HP tools and fleet management solutions as well as third-party software.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

Graphics Solutions delivers large format printers (Designjet, Large Format Production, and Scitex Industrial), specialty printing, and digital press solutions (Indigo and Inkjet Webpress), supplies and services to Print Service Providers and Design & Rendering customers. The solutions cover a wide range of printing applications, such as: Technical Design, Photos, Sign & Display, Direct Mail, Marketing Collateral, Labels & Packaging, and Publishing.

Software and Web Services delivers a suite of offerings, including photo-storage and printing offerings (such as Snapfish), document storage, entertainment services, web-connected printing, and PC back-up and related services.

The *Enterprise Group* provides servers, storage, networking and technology services that, when combined with HP's Cloud solutions, enable the customers to manage applications across public cloud, virtual private cloud, private cloud and traditional IT environments. Described below are HP's business units and capabilities within EG.

Industry Standard Servers offers ProLiant servers, running primarily Windows, Linux and virtualization platforms from software providers such as Microsoft Corporation and VMware, Inc. and open sourced software from other major vendors while leveraging x86 processors from Intel Corporation and Advanced Micro Devices, Inc. The business spans a range of server product lines, including microservers, towers, traditional rack, density-optimized rack and blades, as well as hyperscale solutions for large, distributed computing companies who buy and deploy nodes at a massive scale. Industry Standard Servers also offers HP Moonshot servers, operating on ARM-based, AMD-based and Intel® Atom -based processors, which offer reduced cost, space, energy and complexity compared to traditional servers.

Business Critical Systems offers HP Integrity servers based on the Intel® Itanium®-based processor, HP Integrity NonStop solutions and mission critical x86 ProLiant Servers.

Storage offers traditional storage and Converged Storage solutions. Traditional storage includes tape, storage networking and legacy external disk products such as EVA and XP. Converged Storage solutions include 3PAR StoreServ, StoreOnce, StoreVirtual, and StoreAll products.

Networking offers switches, routers, wireless local area network ("WLAN") and network management products that span the data center, campus and branch environments and deliver software-defined networking and unified communications capabilities. HP's unified wired and wireless networking offerings include both WLAN access points and controllers/switches.

Technology Services provides technology consulting and support services focused on cloud, mobility and big data and provides IT organizations with advice, design, implementation, migration and optimization of HP's Enterprise Group platforms: servers, storage, networking and converged infrastructure. Support services include Datacenter Care, Foundation Care, Proactive Care, Flexible Capacity services and Lifecycle Event services. These services are available in the form of service contracts, pre-packaged offerings or on a customized basis.

Enterprise Services provides technology consulting, outsourcing and support services across infrastructure, applications and business process domains. ES is divided into Infrastructure Technology Outsourcing and Application and Business Services.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

Infrastructure Technology Outsourcing delivers comprehensive services that encompass the management of data centers, IT security, cloud computing, workplace technology, network, unified communications, and enterprise service management.

Application and Business Services helps clients develop, revitalize and manage their applications and information assets. The portfolio also includes intellectual property-based industry solutions along with technologies and related services, all of which help clients better manage their critical business processes for customer relationship management, finance and administration, human resources, payroll and document processing.

Software provides IT management, application testing and delivery, information management, big data analytics and security solutions for businesses and enterprises of all sizes to help them navigate the new style of IT. HP's IT management solutions help customers deliver applications and services that perform to defined standards and automate and assure the underlying infrastructure, be it traditional, cloud or hybrid. HP's big data solutions include the HP HAVEn Big Data platform, which, together with the Autonomy, Vertica, and security products, is designed to help customers manage their structured and unstructured information securely. HP's security solutions provide security from the infrastructure through applications and information.

HP's software offerings include licenses, support, professional services and Software-as-a-Service ("SaaS"). Described below are HP's global business capabilities within Software.

IT Operations Management, which is part of HP's IT management offerings, provides software required to automate routine IT tasks and to pinpoint IT problems when they occur, helping enterprises to reduce operational costs and improve the reliability of applications running in a traditional, cloud or hybrid environment.

Application Delivery Management, provides software that enables organizations to deliver high performance applications by automating the processes required to ensure the quality and scalability of desktop, web, mobile and cloud-based applications.

Enterprise Security software is designed to disrupt fraud, hackers and cyber criminals by scanning software and websites for security vulnerabilities, improving network defenses and providing real-time warning of threats as they emerge.

HP Autonomy offers a wide array of software that enable enterprises to monetize and protect their information such as video, audio and text documents through solutions for marketing optimization, information governance and e-discovery.

Vertica is HP's next-generation big data analytics software, designed to capture and analyze information at massive scale and speed while reducing costs by using open-system infrastructure.

HP Financial Services acts as a strategic enabler for HP by providing financing for customers to purchase complete IT solutions, including hardware, software and services from HP. HPFS offers financial solutions to customers to manage to the lowest total cost of ownership from planning and acquiring technology all the way to replacing or retiring it. HPFS offers leasing, financing, utility programs and asset management services for large enterprise customers. HPFS also helps customers

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

manage the risks of older or surplus IT equipment, which helps provide full life cycle coverage to HPFS customers.

Corporate Investments includes HP Labs and certain business incubation projects.

Segment Data

HP derives the results of the business segments directly from its internal management reporting system. The accounting policies HP uses to derive segment results are substantially the same as those the consolidated company uses. Management measures the performance of each segment based on several metrics, including earnings from operations. Management uses these results, in part, to evaluate the performance of, and to allocate resources to, each of the segments.

Segment revenue includes revenues from sales to external customers and intersegment revenues that reflect transactions between the segments that are carried out at an arm's-length transfer price. Intersegment revenues primarily consist of sales of hardware and software that are sourced internally and, in the majority of the cases, are classified as operating leases within HPFS. HP's consolidated net revenue is derived and reported after the elimination of intersegment revenues from such arrangements in accordance with U.S. GAAP.

Financing interest in the Consolidated Condensed Statements of Earnings reflects interest expense on debt attributable to HPFS. Debt attributable to HPFS consists of intercompany equity that is treated as debt for segment reporting purposes, intercompany debt and borrowing- and funding-related activity associated with HPFS and its subsidiaries.

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

Effective at the beginning of its first quarter of fiscal 2014, HP implemented certain organizational changes to align its segment financial reporting more closely with its current business structure. These organizational changes include:

- transferring the HP Exstream business from the Commercial Hardware business unit within the Printing segment to the Software segment;

- transferring the Personal Systems trade and warranty support business from the TS business unit within the EG segment to the Other business unit within the Personal Systems segment;

- transferring the spare and replacement parts business supporting the Personal Systems and Printing segments from the TS business unit within the EG segment to the Other business unit within the Personal Systems segment and the Commercial Hardware business unit within the Printing segment, respectively;

- transferring certain cloud-related incubation activities previously reported in Corporate and unallocated costs and eliminations and in the EG segment to the Corporate Investments segment.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

In addition, HP transferred certain intrasegment eliminations from the ES segment and the EG segment to corporate intersegment revenue eliminations.

HP has reflected these changes to its segment information retrospectively to the earliest period presented, which has resulted in the transfer of revenue among the Printing, Personal Systems, EG, ES and Software segments and the transfer of operating profit among the Printing, Personal Systems, EG, Software and Corporation Investments segments. These changes had no impact on the previously reported financial results for the HPFS segment. In addition, none of these changes impacted HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share. The organizational changes did not have a material effect on segment assets.

There have been no material changes to the total assets of HP's reportable segments since October 31, 2013.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

Selected segment operating results were as follows:

	Printing and Personal Systems							
	Personal Systems	Printing	Enterprise Group	Enterprise Services	Software	HP Financial Services	Corporate Investments	Total
				In millions				
Three months ended July 31, 2014								
Net revenue	$ 8,368	$ 5,514	$ 6,666	$ 5,328	$ 873	$ 833	$ 3	$ 27,585
Intersegment net revenue and other	281	76	228	262	86	22		955
Total segment net revenue	$ 8,649	$ 5,590	$ 6,894	$ 5,590	$ 959	$ 855	$ 3	$ 28,540
Earnings (loss) from operations	$ 346	$ 1,026	$ 966	$ 228	$ 203	$ 79	$ (115)	$ 2,733
Three months ended July 31, 2013								
Net revenue	$ 7,470	$ 5,758	$ 6,504	$ 5,714	$ 912	$ 863	$ 5	$ 27,226
Intersegment net revenue and other	263	51	260	258	98	16		946
Total segment net revenue	$ 7,733	$ 5,809	$ 6,764	$ 5,972	$ 1,010	$ 879	$ 5	$ 28,172
Earnings (loss) from operations	$ 238	$ 915	$ 1,023	$ 192	$ 203	$ 99	$ (82)	$ 2,588

Nine months ended July 31, 2014								
Net revenue	$ 24,638	$ 17,063	$ 19,852	$ 16,054	$ 2,610	$ 2,534	$ 297	$ 83,048
Intersegment net revenue and other	717	176	692	833	236	58		2,712
Total segment net revenue	$ 25,355	$ 17,239	$ 20,544	$ 16,887	$ 2,846	$ 2,592	$ 297	$ 85,760
Earnings (loss) from operations	$ 915	$ 3,145	$ 2,933	$ 429	$ 534	$ 279	$ (92)	$ 8,143
Nine months ended July 31, 2013								
Net revenue	$ 22,889	$ 17,708	$ 19,778	$ 17,395	$ 2,703	$ 2,675	$ 19	$ 83,167
Intersegment net revenue and other	686	141	728	748	225	42		2,570
Total segment net revenue	$ 23,575	$ 17,849	$ 20,506	$ 18,143	$ 2,928	$ 2,717	$ 19	$ 85,737
Earnings (loss) from operations	$ 715	$ 2,852	$ 3,167	$ 424	$ 538	$ 297	$ (230)	$ 7,763

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

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

	Three months ended July 31		Nine months ended July 31	
	2014	2013	2014	2013
	In millions			
Net Revenue:				
Total segments	$ 28,540	$ 28,172	$ 85,760	$ 85,737
Elimination of intersegment net revenue and other	(955)	(946)	(2,712)	(2,570)
Total HP consolidated net revenue	$ 27,585	$ 27,226	$ 83,048	$ 83,167
Earnings before taxes:				
Total segment earnings from operations	$ 2,733	$ 2,588	$ 8,143	$ 7,763
Corporate and unallocated costs and eliminations	(265)	(185)	(637)	(463)
Stock-based compensation expense	(132)	(107)	(432)	(398)
Amortization of intangible assets	(227)	(356)	(774)	(1,056)
Restructuring charges	(649)	(81)	(1,015)	(619)
Acquisition-related charges	(2)	(4)	(8)	(19)
Interest and other, net	(145)	(146)	(482)	(518)
Total HP consolidated earnings before taxes	$ 1,313	$ 1,709	$ 4,795	$ 4,690

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

Net revenue by segment and business unit was as follows:

	Three months ended July 31		Nine months ended July 31	
	2014	**2013**	**2014**	**2013**
		In millions		
Net Revenue:				
Notebooks	$ 4,359	$ 3,722	$ 12,671	$ 11,568
Desktops	3,395	3,147	10,012	9,571
Workstations	579	537	1,660	1,593
Other	316	327	1,012	843
Personal Systems	8,649	7,733	25,355	23,575
Supplies	3,660	3,839	11,321	11,854
Commercial Hardware	1,401	1,405	4,150	4,190
Consumer Hardware	529	565	1,768	1,805
Printing	5,590	5,809	17,239	17,849
Total Printing and Personal Systems Group	14,239	13,542	42,594	41,424
Industry Standard Servers	3,097	2,851	9,104	8,651
Technology Services	2,096	2,152	6,351	6,606
Storage	796	833	2,438	2,523
Networking	672	644	1,960	1,870
Business Critical Systems	233	284	691	856
Enterprise Group	6,894	6,764	20,544	20,506
Infrastructure Technology Outsourcing	3,494	3,791	10,592	11,501
Application and Business Services	2,096	2,181	6,295	6,642
Enterprise Services	5,590	5,972	16,887	18,143
Software	959	1,010	2,846	2,928

HP Financial Services	855	879	2,592	2,717
Corporate Investments	3	5	297	19
Total segment net revenue	28,540	28,172	85,760	85,737
Eliminations of intersegment net revenue and other	(955)	(946)	(2,712)	(2,570)
Total HP consolidated net revenue	$ 27,585	$ 27,226	$ 83,048	$ 83,167

63

Table of Contents

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is organized as follows:

Overview. A discussion of our business and overall analysis of financial and other highlights affecting the company to provide context for the remainder of MD&A.

Critical Accounting Policies and Estimates. A discussion of accounting policies and estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results.

Results of Operations. An analysis of our financial results comparing the three and nine months ended July 31, 2014 to the prior-year periods. A discussion of the results of operations at the consolidated level is followed by a more detailed discussion of the results of operations by segment.

Liquidity and Capital Resources. An analysis of changes in our cash flows and a discussion of our financial condition and liquidity.

Contractual and Other Obligations. An overview of contractual obligations, retirement and post-retirement benefit plan funding, restructuring plans, uncertain tax positions and off-balance sheet arrangements.

Factors that Could Affect Future Results. A description of factors that could materially affect our business, financial condition or operating results.

We intend the discussion of our financial condition and results of operations that follows to provide information that will assist the reader in understanding our Consolidated Condensed Financial Statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our Consolidated Condensed Financial Statements. This discussion should be read in conjunction with our Consolidated Condensed Financial Statements and the related notes that appear elsewhere in this document.

The Overview, Results of Operations and Liquidity discussion and analysis compares the three and nine months ended July 31, 2014 to the three and nine months ended July 31, 2013, unless otherwise noted. The Capital Resources and Contractual and Other Obligations discussions present information as of July 31, 2014, unless otherwise noted.

OVERVIEW

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

Explanation of Responses:

Table of Contents

segments for financial reporting purposes: Personal Systems, Printing, the Enterprise Group ("EG"), Enterprise Services ("ES"), Software, HP Financial Services ("HPFS") and Corporate Investments.

The following provides an overview of our key financial metrics by segment:

	HP Consolidated[(1)]	Printing and Personal Systems Group: Personal Systems	Printing and Personal Systems Group: Printing	Printing and Personal Systems Group: Total	Enterprise Group	Enterprise Services	Software	HPFS	Corporate Investments[(2)]
	Dollars in millions, except per share amounts								
Three Months Ended July 31, 2014									
Net revenue	$ 27,585	$ 8,649	$ 5,590	$ 14,239	$ 6,894	$ 5,590	$ 959	$ 855	$ 3
Year-over-year change %	1.3%	11.8%	(3.8)%	5.1%	1.9%	(6.4)%	(5.0)%	(2.7)%	(40.0)%
Earnings from operations	$ 1,458	$ 346	$ 1,026	$ 1,372	$ 966	$ 228	$ 203	$ 79	$ (115)
Earnings from operations as a % of net revenue	5.3%	4.0%	18.4%	9.6%	14.0%	4.1%	21.2%	9.2%	NM
Year-over-year change percentage points	(1.5)pts	0.9pts	2.6pts	1.1pts	(1.1)pts	0.9pts	1.1pts	(2.1)pts	NM
Net earnings	$ 985								
Net earnings per share									
Basic	$ 0.53								
Diluted	$ 0.52								

(1) HP consolidated net revenue excludes intersegment net revenue and other. HP consolidated earnings from operations includes corporate and unallocated costs and eliminations, stock-based compensation expense, amortization of intangible assets, restructuring charges and acquisition-related charges.

(2) "NM" represents not meaningful.

HP net revenue increased 1.3% (increased 0.9% on a constant currency basis) in the three months ended July 31, 2014, as compared to the prior-year period. The leading contributor to the HP net revenue increase was growth in Personal Systems from the notebook, desktop and workstation product categories. To a lesser extent, growth in EG from Industry Standard Servers ("ISS") and Networking also contributed to HP net revenue growth. Partially offsetting growth in Personal Systems and EG were net revenue declines in ES from key account runoff and weaker performance in Europe, the Middle East and Africa ("EMEA"), lower Printing supplies volume, and a decline in Software revenue. HP's gross margin increased by 0.6 percentage points in the three months ended July 31, 2014 due primarily to gross margin improvement in Printing as a result of favorable currency impacts and a favorable mix of inkjet supplies along with service delivery efficiencies in ES. We continue to experience gross margin pressures resulting from a competitive pricing environment across our hardware portfolio, particularly in EG. HP's operating margin decreased by 1.5 percentage points in the three months ended July 31, 2014 due primarily to higher restructuring charges and investments in research and development expenses ("R&D"). Partially offsetting these unfavorable impacts to operating margin were the gross margin increase, lower levels of intangible asset amortization and operating margin improvements primarily in Printing, Personal Systems and ES.

	HP Consolidated[(1)]	Printing and Personal Systems Group: Personal Systems	Printing and Personal Systems Group: Printing	Printing and Personal Systems Group: Total	Enterprise Group	Enterprise Services	Software	HPFS	Corporate Investments
	Dollars in millions, except per share amounts								
Nine Months Ended July 31, 2014									
Net revenue	$ 83,048	$ 25,355	$ 17,239	$ 42,594	$ 20,544	$ 16,887	$ 2,846	$ 2,592	$ 297
Year-over-year change %	(0.1)%	7.6%	(3.4)%	2.8%	0.2%	(6.9)%	(2.8)%	(4.6)%	NM
Earnings from operations	$ 5,277	$ 915	$ 3,145	$ 4,060	$ 2,933	$ 429	$ 534	$ 279	$ (92)
Earnings from operations as a % of net revenue	6.3%	3.6%	18.2%	9.5%	14.3%	2.5%	18.8%	10.8%	(31.0)%
Year-over-year change percentage points	0.0pts	0.6pts	2.2pts	0.9pts	(1.1)pts	0.2pts	0.4pts	(0.1)pts	NM
Net earnings	$ 3,683								
Net earnings per share									
Basic	$ 1.95								

Diluted	$	1.93

(1) HP consolidated net revenue excludes intersegment net revenue and other. HP consolidated earnings from operations includes corporate and unallocated costs and eliminations, stock-based compensation expense, amortization of intangible assets, restructuring charges and acquisition-related charges.

Table of Contents

HP net revenue declined 0.1% (increased 0.4% on a constant currency basis) in the nine months ended July 31, 2014, as compared to the prior-year period. The leading contributors to the HP net revenue decline were key account runoff in ES and lower Printing supplies volume. Partially offsetting the net revenue decline was growth in Personal Systems from the notebook, desktop, and workstation product categories as well as the sale of a portfolio of mobile computing intellectual property ("IP") which primarily benefited the Corporate Investments segment. HP's gross margin increased by 0.5 percentage points in the nine months ended July 31, 2014 due primarily to favorable currency impacts along with continued cost structure improvements in Printing, service delivery efficiencies in ES and improving margins in professional services in Software. We continue to experience gross margin pressures resulting from a competitive pricing environment across our hardware portfolio. HP's operating margin was flat for the nine months ended July 31, 2014 as compared to the prior year period due primarily to the gross margin increase, operating margin improvements primarily in Printing, Personal Systems and Corporate Investments, and lower intangible asset amortization, offset by higher restructuring charges, investments in R&D, and higher selling, general and administrative ("SG&A") expenses. The increase in SG&A expenses was partially offset by gains from sales of real estate.

Our business continues to produce significant cash flow from operations, generating $9.6 billion in the nine months ended July 31, 2014. Additionally, we invested $2.2 billion in net property, plant and equipment, repurchased $2.0 billion of common stock and returned $875 million to stockholders through dividends. As of July 31, 2014, cash and cash equivalents and short- and long-term investments was $14.8 billion, representing an increase of approximately $2.3 billion from the October 31, 2013 balance of $12.5 billion.

We continue to experience challenges that are representative of trends and uncertainties that may affect our business and results of operations. One set of challenges relates to continuing dynamic and accelerating market trends. Another set of challenges relates to changes in the competitive landscape. Our major competitors are expanding their product and service offerings with integrated products and solutions, our business-specific competitors are exerting increased competitive pressure in targeted areas and are entering new markets, our emerging competitors are introducing new technologies and business models, and our alliance partners in some businesses are increasingly becoming our competitors in others. A third set of challenges relates to business model changes and our go-to-market execution. The macroeconomic weakness we have experienced across geographic regions has moderated in some areas but remains an overall challenge. A discussion of some of these challenges at the segment level is set forth below.

In Personal Systems, we have been negatively impacted by the market shift towards tablet products within mobility products, which has reduced the demand for PCs, particularly consumer notebooks. If benefits from our new product investments in this area do not materialize, we will continue to be negatively impacted by this trend. However, the pace of market contraction is slowing with signs of stabilization and HP is gaining market share. In Personal Systems, we are maintaining our strategic focus on profitable growth through improved market segmentation with respect to multi-OS, multi-architectures, geography, customer segments and other key attributes. In the first nine months of fiscal 2014, Personal Systems experienced broad revenue growth with particular strength in EMEA and Asia Pacific in each of the notebook, desktop and workstation product categories driven by growth in commercial and consumer PCs, due in part to customers migrating from the Windows XP operating system, benefits from the delayed installed base refresh cycle and new product introductions.

In Printing, we are experiencing the impact of the growth in mobility and demand challenges in both consumer and commercial markets, as well as an overall competitive pricing environment. To be successful in addressing these challenges, we need to continue to execute on our key initiatives of focusing on high usage product categories, developing emerging market opportunities with new business models, and introducing new revenue delivery models to consumers in mature markets.

In EG, we are experiencing revenue growth challenges due to multiple market trends, including the increasing demand for hyperscale computing infrastructure products, the transition to cloud computing, and a highly competitive pricing environment. In addition, demand for our Business Critical Systems ("BCS") products continues to weaken along with the overall market for UNIX products and services contracts. To be successful in overcoming these challenges, we must address business model shifts and go-to-market execution challenges, including improved channel execution, and continue to pursue new product innovation, such as 3PAR storage, the HP CloudSystem, HP Moonshot servers, and in areas such as software-defined networking, storage, blade servers and wireless networking.

In ES, we are facing internal execution challenges, including managing the revenue runoff from several large contracts, pressured public sector spending, a competitive pricing environment and market pressures from a mixed global economic recovery. To be successful in addressing these challenges, we must execute on the ES multi-year turnaround plan, which includes a cost reduction initiative to align our costs to our revenue trajectory, a shift to shorter duration contracts, a focus on higher margin Strategic Enterprise Services ("SES") and initiatives to improve execution in sales performance and accountability, contracting practices and pricing.

In Software, we are facing multiple challenges, including the market shift to software-as-a-service ("SaaS") and go-to-market execution challenges. To be successful in addressing these challenges, we must improve our go-to-market execution with integrated customer solutions more aligned to customer demand and achieve broader integration across our overall product portfolio as we work to capitalize on important market opportunities in cloud, big data and security.

To address these challenges, we continue to pursue innovation with a view towards developing new products and services aligned with market demand, industry trends and the needs of our customers and partners. In addition, we need to continue to improve our operations, with a particular focus on enhancing our end-to-end processes and efficiencies. We also need to continue to optimize our sales coverage models, align our sales incentives with our strategic goals, improve channel execution, strengthen our capabilities in our areas of strategic focus, and develop and capitalize on market opportunities.

For a further discussion of trends, uncertainties and other factors that could impact our operating results, see the section entitled "Risk Factors" in Part II, Item 1A, which is incorporated herein by reference.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our Consolidated Condensed Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net revenues and expenses, and disclosure of contingent liabilities. Management believes that there have been no significant changes during the nine months ended July 31, 2014 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended October 31, 2013, which is incorporated herein by reference.

Table of Contents

ACCOUNTING PRONOUNCEMENTS

For a summary of recent accounting pronouncements applicable to our financial statements see Note 1 to the Consolidated Condensed Financial Statements in Part I, Item 1, which is incorporated herein by reference.

RESULTS OF OPERATIONS

Revenue from our international operations has historically represented, and we expect will continue to represent, a majority of our overall net revenue. As a result, our revenue growth has been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. In order to provide a framework for assessing performance excluding the impact of foreign currency fluctuations, we present the year-over-year percentage change in revenue on a constant currency basis, which assumes no change in the exchange rates from the prior-year period. This information is provided so that revenue can be viewed without the impact of fluctuations in foreign currency exchange rates, which is consistent with how management evaluates our operational results and trends. This constant currency disclosure is provided in addition to, and not as a substitute for, the year-over-year percentage change in revenue on a GAAP basis. Other companies may calculate and define similarly labeled items differently, which may limit the usefulness of this measure for comparative purposes.

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

	Three months ended July 31				Nine months ended July 31			
	2014		2013		2014		2013	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
	Dollars in millions							
Net revenue	$ 27,585	100.0%	$ 27,226	100.0%	$ 83,048	100.0%	$ 83,167	100.0%
Cost of sales[1]	20,974	76.0%	20,859	76.6%	63,414	76.4%	63,943	76.9%
Gross profit	6,611	24.0%	6,367	23.4%	19,634	23.6%	19,224	23.1%
Research and development	887	3.2%	797	2.9%	2,571	3.1%	2,406	2.9%
Selling, general and administrative	3,388	12.3%	3,274	12.1%	9,989	12.0%	9,916	11.9%
Amortization of intangible assets	227	0.8%	356	1.3%	774	1.0%	1,056	1.3%
Restructuring charges	649	2.4%	81	0.3%	1,015	1.2%	619	0.7%
Acquisition-related charges	2		4		8		19	
Earnings from operations	1,458	5.3%	1,855	6.8%	5,277	6.3%	5,208	6.3%
Interest and other, net	(145)	(0.5)%	(146)	(0.5)%	(482)	(0.6)%	(518)	(0.6)%
Earnings before taxes	1,313	4.8%	1,709	6.3%	4,795	5.7%	4,690	5.7%
Provision for taxes	(328)	(1.2)%	(319)	(1.2)%	(1,112)	(1.3)%	(991)	(1.3)%
Net earnings	$ 985	3.6%	$ 1,390	5.1%	$ 3,683	4.4%	$ 3,699	4.4%

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

Net Revenue

For the three months ended July 31, 2014, HP net revenue increased 1.3% (increased 0.9% on a constant currency basis). United States ("U.S.") net revenue decreased 0.4% to $9.8 billion, while net revenue from outside of the U.S. increased 2.3% to $17.8 billion. The leading contributor to the HP net revenue increase was growth in Personal Systems from the notebook, desktop and workstation product categories. To a lesser extent, growth in EG from ISS and Networking also contributed to HP net revenue growth. Partially offsetting growth in Personal Systems and EG were net revenue declines

68

Table of Contents

in ES from key account runoff and weaker EMEA performance, lower Printing supplies volume, and a decline in Software revenue.

For the nine months ended July 31, 2014, total HP net revenue declined 0.1% (increased 0.4% on a constant currency basis). U.S. net revenue decreased 3.6% to $28.7 billion, while net revenue from outside of the U.S. increased 1.8% to $54.3 billion. The leading contributors to the HP net revenue decline were key account runoff in ES and lower Printing supplies volume, additionally net revenue declined due to unfavorable currency impacts. Partially offsetting the HP net revenue decline was growth in Personal Systems from the notebook, desktop, and workstation product categories as well as the sale of a portfolio of mobile computing IP which primarily benefited the Corporate Investments segment.

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

	Three months ended July 31, 2014	Nine months ended July 31, 2014
	Percentage Points	
Personal Systems	3.4	2.1
Enterprise Group	0.5	
Corporate Investments/Other	(0.1)	0.3
HP Financial Services	(0.1)	(0.2)
Software	(0.2)	(0.1)
Printing	(0.8)	(0.7)
Enterprise Services	(1.4)	(1.5)
Total HP	1.3	(0.1)

Three months ended July 31, 2014 compared with three months ended July 31, 2013

From a segment perspective, the primary factors contributing to the change in HP net revenue for the three months ended July 31, 2014 are summarized as follows:

Personal Systems net revenue increased due to growth in commercial and consumer PCs, particularly notebooks and Thin Client products;

EG net revenue increased due to growth in ISS and Networking;

HPFS net revenue decreased due primarily to lower average portfolio assets and lower asset management revenue, specifically in customer buyouts;

Software net revenue decreased due to lower revenue from licenses and professional services;

Printing net revenue decreased due primarily to a decline in Supplies; and

ES net revenue decreased due primarily to key account runoff, weak growth in new and existing accounts, particularly in EMEA, and contractual price declines in ongoing contracts.

Nine months ended July 31, 2014 compared with nine months ended July 31, 2013

From a segment perspective, the primary factors contributing to the change in HP net revenue for the nine months ended July 31, 2014 are summarized as follows:

- Personal Systems net revenue increased due to growth in commercial PCs, particularly notebooks and Thin Client products;

- EG net revenue increased due to growth in ISS and Networking;

Table of Contents

- HPFS net revenue decreased due primarily to lower average portfolio assets, lower asset management activity, and unfavorable currency impacts;
- Software net revenue decreased due to lower revenue from licenses, professional services and support;
- Printing net revenue decreased due primarily to a decline in Supplies and unfavorable currency impacts;
- Corporate Investments net revenue increased due to the sale of IP; and
- ES net revenue declined due primarily to key account net service revenue runoff, weak growth in new and existing accounts and contractual price declines in ongoing contracts.

A more detailed discussion of segment revenue is included under "Segment Information" below.

Gross Margin

Three months ended July 31, 2014 compared with three months ended July 31, 2013

HP's gross margin increased by 0.6 percentage points for the three months ended July 31, 2014. From a segment perspective, the primary factors impacting gross margin performance are summarized as follows:

- Printing gross margin increased due primarily to favorable currency impacts from the Japanese Yen, continued cost structure improvements and a higher mix of graphics supplies;
- ES gross margin increased due primarily to our continued focus on improving under-performing contracts, labor savings as a result of previous restructuring actions and service delivery efficiencies;
- Software gross margin increased due to improving margins in license revenue as a result of a mix shift within security to higher margin products, improving margins in professional services as a result of a shift to more profitable contracts and improved workforce utilization;
- HPFS gross margin decreased as a result of lower margins on asset management activity which were impacted in the period by a customer billing adjustment;
- EG gross margin decreased due primarily to a higher mix of ISS products and competitive pricing pressure; and
- Personal Systems gross margin increased due primarily to a higher mix of commercial notebooks and operational cost improvements.

Nine months ended July 31, 2014 compared with nine months ended July 31, 2013

HP's gross margin increased by 0.5 percentage points for the nine months ended July 31, 2014. From a segment perspective, the primary factors impacting gross margin performance are summarized as follows:

Printing gross margin increased due primarily to favorable currency impacts from the Japanese Yen, continued cost structure improvements and a favorable mix from a higher proportion of graphics and ink supplies;

ES gross margin increased due primarily to our continued focus on improving under-performing contracts, labor savings as a result of previous restructuring actions and service delivery efficiencies;

Corporate Investments gross margin increased due to the sale of IP;

Table of Contents

- Software gross margin increased due to improving margins in license revenue as a result of a mix shift within security to higher margin products, improving margins in professional services as a result of a shift to more profitable contracts and improved workforce utilization;

- HPFS gross margin increased due to a higher portfolio margin primarily from a lower cost of funds;

- EG gross margin decreased due primarily to a higher mix of ISS products and competitive pricing pressure; and

- Personal Systems gross margin was flat due primarily to a favorable commercial mix, operational cost improvements and the sale of IP.

A more detailed discussion of segment gross margins and operating margins is included under "Segment Information" below.

Operating Expenses

Research and Development

R&D expense increased for the three and nine months ended July 31, 2014 with increases across most of our segments as we continue to invest in our strategic focus areas of cloud, security, big data and mobility.

Selling, General and Administrative

SG&A expense increased for the three months ended July 31, 2014 due primarily to higher workforce compensation costs and the impact of the prior-year period containing a gain from the sale of real estate. SG&A expense increased in the nine months ended July 31, 2014 due primarily to higher workforce compensation costs and higher investments in systems and tools, partially offset by gains from sales of real estate.

Amortization of Intangible Assets

Amortization expense decreased for the three and nine months ended July 31, 2014 due primarily to certain intangible assets associated with prior acquisitions reaching the end of their respective amortization periods.

Restructuring

Restructuring charges increased for the three and nine months ended July 31, 2014 due primarily to higher charges in the current period from the 2012 Plan in part from the incremental increase to the 2012 Plan announced in May 2014. Restructuring in the prior-year periods also benefited from reversals of severance charges related to other restructuring plans.

Interest and Other, Net

For the three and nine months ended July 31, 2014, Interest and other, net decreased due primarily to lower interest expense from a lower average debt balance, partially offset by the prior-year periods containing a gain on sale of investments.

Provision for Taxes

Our effective tax rate was 25.0% and 18.7% for the three months ended July 31, 2014 and 2013, respectively, and 23.2% and 21.1% for the nine months ended July 31, 2014 and 2013, respectively. Our effective tax rate generally differs from the U.S. federal statutory tax rate of 35% due to favorable tax

Table of Contents

rates associated with certain earnings from our operations in lower-tax jurisdictions throughout the world. We have not provided U.S. taxes for all foreign earnings because we plan to reinvest some of those earnings indefinitely outside the U.S.

In the three and nine months ended July 31, 2014, we recorded discrete items resulting in net tax benefits of $88 million and $53 million, respectively. These amounts include tax benefits of $100 million and $145 million related to restructuring charges, respectively.

In the three and nine months ended July 31, 2013, we recorded discrete items resulting in net tax charges of $63 million and net tax benefits of $40 million, respectively, including tax benefits of $13 million and $76 million, respectively, related to restructuring charges. The nine month period ended July 31, 2013 also included a tax benefit of $50 million from the retroactive research and development credit provided by the American Taxpayer Relief Act of 2012 and a tax charge of $150 million related to a past uncertain tax position.

Segment Information

A description of the products and services for each segment can be found in Note 16 to the Consolidated Condensed Financial Statements in Part I, Item 1, which is incorporated herein by reference. Future changes to this organizational structure may result in changes to the segments disclosed.

Effective at the beginning of the first quarter of fiscal 2014, we implemented certain organizational changes to align the segment financial reporting more closely with our current business structure. These organizational changes include:

- transferring the HP Exstream business from the Commercial Hardware business unit within the Printing segment to the Software segment;

- transferring the Personal Systems trade and warranty support business from the Technology Services ("TS") business unit within the EG segment to the Other business unit within the Personal Systems segment;

- transferring the spare and replacement parts supporting the Personal Systems and Printing segments from the TS business unit within the EG segment to the Other business unit within the Personal Systems segment and the Commercial Hardware business unit within the Printing segment, respectively; and

- transferring certain cloud-related incubation activities previously reported in Corporate and unallocated costs and eliminations and in the EG segment to the Corporate Investments segment.

In addition, we transferred certain intrasegment eliminations from the ES segment and the EG segment to corporate intersegment revenue eliminations.

None of these changes impacted our previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share.

Table of Contents

Printing and Personal Systems Group

The Personal Systems segment and the Printing segment are structured beneath a broader Printing and Personal Systems Group ("PPS"). We describe the results of the segments within PPS below.

Personal Systems

	Three months ended July 31		
	2014	2013	% Change
	Dollars in millions		
Net revenue	$ 8,649	$ 7,733	11.8%
Earnings from operations	$ 346	$ 238	45.4%
Earnings from operations as a % of net revenue	4.0%	3.1%	

	Nine months ended July 31		
	2014	2013	% Change
	Dollars in millions		
Net revenue	$ 25,355	$ 23,575	7.6%
Earnings from operations	$ 915	$ 715	28.0%
Earnings from operations as a % of net revenue	3.6%	3.0%	

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

	Three months ended July 31, 2014	Nine months ended July 31, 2014
	Percentage Points	
Notebook PCs	8.2	4.7
Desktop PCs	3.2	1.9
Workstations	0.5	0.3
Other	(0.1)	0.7
Total Personal Systems	11.8	7.6

Three months ended July 31, 2014 compared with three months ended July 31, 2013

Personal Systems net revenue increased 11.8% (increased 11.8% on a constant currency basis) for the three months ended July 31, 2014. While the Personal Systems business continues to experience significant challenges due to the market shift towards mobility products, the pace of PC market contraction is slowing with signs of stabilization driven by growth in commercial PCs. The revenue increase was due to growth in commercial and consumer PCs, particularly notebooks and Thin Client products. For the three months ended July 31, 2014, Personal Systems experienced strong revenue growth across all regions led by double-digit revenue growth in EMEA. The revenue increase in Personal Systems was driven by a 12.7% increase in unit volume, the effects of which were partially offset by a 0.6% decline in average selling prices ("ASPs"). The unit volume increase was primarily led by growth in commercial notebooks as well as strength in consumer notebooks, commercial and consumer desktops and Thin Client products. The decline in ASPs was due primarily to a competitive pricing environment, the effects of which were partially offset by a favorable mix of commercial PCs. Net revenue for commercial clients increased 14% driven by growth in all product categories as a result of traction from our new product lineup including detachable 2-in-1 notebooks as well as the new Elite 700 series focused on SMB customer, benefits from the delayed installed base refresh cycle and the effect of customers migrating from the Windows XP operating system. Net revenue for consumer clients increased 8% driven by consumer notebooks and consumer desktops. The growth in consumer notebooks is due in part to traction from our new product lineup including Chromebooks and hybrids.

73

Table of Contents

For the three months ended July 31, 2014, net revenue for Notebook PCs increased 17%, Desktop PCs increased 8%, Workstations increased 8% while Other net revenue decreased 3%.

Personal Systems earnings from operations as a percentage of net revenue increased 0.9 percentage points for the three months ended July 31, 2014. The improvement was driven by an increase in gross margin and a decline in operating expenses as a percentage of net revenue. The increase in gross margin was due primarily to a higher mix of commercial notebooks and operational cost improvements, the effects of which were partially offset by a competitive pricing environment and increased memory component costs. The decline in operating expenses as a percentage of net revenue was due primarily to the revenue increase and our cost structure optimization efforts.

Nine months ended July 31, 2014 compared with nine months ended July 31, 2013

Personal Systems net revenue increased 7.6% (increased 8.5% on a constant currency basis) for the nine months ended July 31, 2014. The revenue increase was due to growth in commercial PCs, particularly notebooks and Thin Client products. For the nine months ended July 31, 2014, Personal Systems experienced strong revenue growth across all regions led by double-digit growth in EMEA. The revenue increase was driven by a 9.3% increase in unit volume, the effects of which were partially offset by a 1.6% decline in ASPs. The unit volume increase was primarily led by growth in commercial notebooks, commercial desktops and Thin Client products. The decline in ASPs was due primarily to a competitive pricing environment and unfavorable currency impacts, the effects of which were partially offset by a favorable mix of commercial PCs. Net revenue for commercial clients increased 11% and was primarily driven by traction from our new product lineup, benefits from the delayed installed base refresh cycle and the effect of customers migrating from the Windows XP operating system. Net revenue for consumer clients increased 1% primarily driven by consumer notebooks. For the nine months ended July 31, 2014, net revenue for Notebook PCs increased 10%, Desktop PCs increased 5%, Workstations increased 4% and Other net revenue increased 20%. The net revenue increase in Other was due to the sale of IP in the first quarter of fiscal 2014 and increased sales of extended warranties.

Personal Systems earnings from operations as a percentage of net revenue increased 0.6 percentage points for the nine months ended July 31, 2014. The increase was driven by a decline in operating expenses as a percentage of net revenue while gross margin was flat. Gross margin was flat due primarily to a favorable commercial mix, operational cost improvements and the sale of IP in the first quarter of fiscal 2014, the effects of which were offset by increased memory component costs and unfavorable currency impacts. For the nine months ended July 31, 2014, operating expenses as a percentage of net revenue decreased due primarily to continued efforts to optimize the cost structure partially offset by increased research and development investments primarily in commercial and mobility products.

Printing

	Three months ended July 31		
	2014	2013	% Change
	Dollars in millions		
Net revenue	$ 5,590	$ 5,809	(3.8)%
Earnings from operations	$ 1,026	$ 915	12.1%
Earnings from operations as a % of net revenue	18.4%	15.8%	

74

Table of Contents

	Nine months ended July 31		
	2014	2013	% Change
	Dollars in millions		
Net revenue	$ 17,239	$ 17,849	(3.4)%
Earnings from operations	$ 3,145	$ 2,852	10.3%
Earnings from operations as a % of net revenue	18.2%	16.0%	

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

	Three months ended July 31, 2014	Nine months ended July 31, 2014
	Percentage Points	
Supplies	(3.1)	(3.0)
Consumer Hardware	(0.6)	(0.2)
Commercial Hardware	(0.1)	(0.2)
Total Printing	(3.8)	(3.4)

Three months ended July 31, 2014 compared with three months ended July 31, 2013

Printing net revenue decreased 3.8% (decreased 4.0% on a constant currency basis) for the three months ended July 31, 2014. The decline in net revenue was largely driven by a decline in Supplies, the effects of which were partially offset by growth in graphics products. Net revenue for Supplies decreased 5% driven by demand weakness in toner and ink sales, the effects of which were partially offset by growth in graphics supplies and favorable currency impacts. Printer unit volume decreased by 5% while average revenue per unit ("ARU") increased by 3%. The decline in printer unit volume was due primarily to the overall contraction in the printing market, partially offset by our targeted growth in high value products with our investments in Ink in the Office, Ink Advantage products and multifunction laser printers. The increase in ARUs was due primarily to a higher mix of Commercial printers and an ARU improvement in graphics printers. Net revenue for Commercial Hardware remained flat driven by a 2% decline in unit volume the effects of which were offset by a 2% increase in ARUs. The unit volume decline in Commercial Hardware was due primarily to a decline driven by our shift away from low-end mono printers, partially offset by growth in our multifunction laser printers and graphics printers. The ARU increase in Commercial Hardware was driven by an ARU increase in graphics printers. Net revenue for Consumer Hardware decreased 6% driven by a 6% decline in unit volume and a 1% decline in ARUs. The unit volume decline in Consumer Hardware was led by lower home and SMB printer volume. The unit volume decline in home printers was due to our continued focus on placing high value units. The unit volume decline in SMB printers was due primarily to promotional activities in the prior quarter in anticipation of our upcoming product transition related to Ink in the Office. The ARU decline was driven by increased discounts due to a competitive pricing environment, the effects of which were partially offset by a favorable mix within home printers.

Printing earnings from operations as a percentage of net revenue increased by 2.6 percentage points for the three months ended July 31, 2014 due to an increase in gross margin while operating expenses as a percentage of net revenue remained flat. The gross margin increase was due to favorable currency impacts from the Japanese Yen, continued cost structure improvements and a higher mix of graphics supplies, the effects of which were partially offset by a competitive pricing environment. Operating expenses as a percentage of net revenue remained flat due primarily to reduced marketing expenses, the effects of which were offset by higher R&D expenses.

Table of Contents

Nine months ended July 31, 2014 compared with nine months ended July 31, 2013

Printing net revenue decreased 3.4% (decreased 2.7% on a constant currency basis) for the nine months ended July 31, 2014. The decline in net revenue was driven by a decline in Supplies and unfavorable currency impacts, the effects of which were partially offset by growth in graphics products. Net revenue for Supplies decreased 4% due to unfavorable currency impacts and lower volumes of toner and ink, the effects of which were partially offset by growth in graphics supplies. Printer unit volume remained flat while ARUs declined by 1%. Printer unit volume was flat due primarily to a decline in home printers, the effects of which were offset by increased units in Ink in the Office, graphics and laser printer volume due primarily to our continued efforts to target high value areas of the market and our investments to replenish the installed base. The decline in ARUs was due primarily to competitive pricing pressures. Net revenue for Commercial Hardware decreased 1%, which was driven by a 3% decline in ARUs, partially offset by a 2% growth in unit volume. The ARU decline in Commercial Hardware was primarily driven by a decline in laserjet printers and a competitive pricing environment. The volume increase reflects growth from our investments in multifunction and graphics printers. Net revenue for Consumer Hardware decreased 2% as unit volume and ARU growth in consumer printers was flat. ARUs remained flat for Consumer Hardware due primarily to increased discounting for Ink in the Office printers which was offset by a mix shift within home printers. The unit volume in Consumer Hardware remained flat due primarily to a volume decline in home printers which was offset by growth in SMB printers reflecting our planned shift away from low-end printers.

Printing earnings from operations as a percentage of net revenue increased by 2.2 percentage points for the nine months ended July 31, 2014 due to an increase in gross margin more than offsetting an increase in operating expenses as a percentage of net revenue. The gross margin increase was due to favorable currency impacts from the Japanese Yen, continued cost structure improvements and a favorable mix from a higher proportion of graphics and ink supplies. Operating expenses as a percentage of net revenue increased due primarily to higher R&D expenses, the effects of which were partially offset by reduced marketing expenses.

Enterprise Group

	Three months ended July 31		
	2014	**2013**	**% Change**
	Dollars in millions		
Net revenue	$ 6,894	$ 6,764	1.9%
Earnings from operations	$ 966	$ 1,023	(5.6)%
Earnings from operations as a % of net revenue	14.0%	15.1%	

	Nine months ended July 31		
	2014	**2013**	**% Change**
	Dollars in millions		
Net revenue	$ 20,544	$ 20,506	0.2%
Earnings from operations	$ 2,933	$ 3,167	(7.4)%
Earnings from operations as a % of net revenue	14.3%	15.4%	

Table of Contents

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

	Three months ended July 31, 2014	Nine months ended July 31, 2014
	Percentage Points	
Industry Standard Servers	3.6	2.2
Networking	0.4	0.4
Storage	(0.5)	(0.4)
Business Critical Systems	(0.8)	(0.8)
Technology Services	(0.8)	(1.2)
Total EG	1.9	0.2

Three and nine months ended July 31, 2014 compared with three and nine months ended July 31, 2013

EG net revenue increased 1.9% (increased 1.4% on a constant currency basis) and increased 0.2% (increased 0.6% on a constant currency basis) for the three and nine months ended July 31, 2014, respectively. In EG, we continue to experience revenue growth challenges due to market trends, including the transition to cloud computing, and product and technology transitions, along with a highly competitive pricing environment. For the three month period, EG experienced revenue growth in EMEA and Asia Pacific partially offset by a revenue decline in the Americas. For the nine month period, EG experienced revenue growth in EMEA partially offset by revenue declines in the Americas and Asia Pacific.

For the three and nine months ended July 31, 2014, net revenue increased in ISS and Networking partially offset by revenue declines in Storage, BCS, and TS. ISS net revenue increased by 9% and 5% for the three and nine months ended July 31, 2014, respectively. For the three month period, the net revenue increase in ISS was due primarily to higher average unit prices in rack and blade server products driven by higher option attach rates for memory, processors and hard drives. For the nine month period, the increase in ISS net revenue was due primarily to growth in rack and density optimized server products. Networking net revenue increased 4% and 5% for three and nine months ended July 31, 2014, respectively, due to higher switching product revenue. Storage continues to experience multiple challenges including product transitions from traditional storage products to converged solutions, market weakness in high-end converged solutions and sales execution challenges. Storage net revenue decreased by 4% and 3% for the three and nine months ended July 31, 2014, respectively. For both periods, we experienced revenue declines in traditional storage products, which include our tape, storage networking and legacy external disk products, the effects of which were partially offset by revenue growth in our Converged Storage solutions, which include our 3PAR StoreServ, StoreOnce, StoreVirtual and StoreAll products. BCS net revenue decreased by 18% and 19% for the three and nine months ended July 31, 2014, respectively, as a result of ongoing pressures from the decline in the overall UNIX market. TS net revenue decreased by 3% and 4% for the three and nine months ended July 31, 2014, respectively, due primarily to a continued reduction in support for BCS and traditional storage products, partially offset by growth in support solutions for ISS and non-traditional storage products.

EG earnings from operations as a percentage of net revenue decreased by 1.1 percentage points for the three months ended July 31, 2014 due to a decrease in gross margin coupled with an increase in operating expenses as a percentage of net revenue. The gross margin decline was due primarily to a higher mix of ISS products and competitive pricing pressure, partially offset by discount discipline and lower component costs. The increase in operating expenses as a percentage of net revenue was driven by higher R&D investments.

Table of Contents

EG earnings from operations as a percentage of net revenue decreased by 1.1 percentage points for the nine months ended July 31, 2014 due to a decrease in gross margin which was partially offset by lower operating expenses as a percentage of net revenue. The gross margin decline was due primarily to a higher mix of ISS products and competitive pricing pressure in ISS and Networking partially offset by lower component costs. The decrease in operating expenses as a percentage of net revenue was the result of lower SG&A expenses as a percentage of net revenue due primarily to continued cost savings associated with our ongoing restructuring efforts.

Enterprise Services

	Three months ended July 31		
	2014	**2013**	**% Change**
	Dollars in millions		
Net revenue	$ 5,590	$ 5,972	(6.4)%
Earnings from operations	$ 228	$ 192	18.8%
Earnings from operations as a % of net revenue	4.1%	3.2%	

	Nine months ended July 31		
	2014	**2013**	**% Change**
	Dollars in millions		
Net revenue	$ 16,887	$ 18,143	(6.9)%
Earnings from operations	$ 429	$ 424	1.2%
Earnings from operations as a % of net revenue	2.5%	2.3%	

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

	Three months ended July 31, 2014	**Nine months ended July 31, 2013**
	Percentage Points	
Infrastructure Technology Outsourcing	(5.0)	(5.0)
Application and Business Services	(1.4)	(1.9)
Total Enterprise Services	(6.4)	(6.9)

Three and nine months ended July 31, 2014 compared with three and nine months ended July 31, 2013

ES net revenue decreased 6.4% (decreased 7.5% on a constant currency basis) and decreased 6.9% (decreased 6.8% on a constant currency basis) for the three and nine months ended July 31, 2014, respectively. Performance in ES remains challenged by the impact of several large contracts winding down and lower public sector spending in EMEA, particularly in the United Kingdom, and several other countries in the region. The net revenue decrease in ES for both periods was driven primarily by revenue runoff in key accounts, weak growth in new and existing accounts, particularly in EMEA, and contractual price declines. For both periods, these net revenue declines were partially offset by growth in our SES portfolio, which includes information management and analytics, security and cloud services. ES net revenue declines for the three months ended July 31, 2014 were also partially offset by favorable currency impacts.

Net revenue in Infrastructure Technology Outsourcing ("ITO") decreased by 8% for both the three and nine months ended July 31, 2014 due to revenue runoff in key accounts, weak growth in new and existing accounts and contractual price declines in ongoing contracts partially offset by growth in cloud and security revenue and favorable currency impacts. Net revenue in Application and Business Services ("ABS") decreased by 4% and 5% for the three and nine months ended July 31, 2014, respectively, due to revenue runoff in a key account and weak growth in new and existing accounts, particularly in

EMEA, partially offset by growth in information management and analytics revenue. ABS net revenue for the nine months ended July 31, 2014 also declined due to unfavorable currency impacts.

ES earnings from operations as a percentage of net revenue increased by 0.9 percentage points and 0.2 percentage points for the three and nine months ended July 31, 2014, respectively. The increase in operating profit for both periods was due to an increase in gross margin, partially offset by an increase in operating expenses as a percentage of net revenue. Gross margin increased due primarily to our continued focus on improving profit performance in under-performing contracts, labor savings as a result of restructuring and service delivery efficiencies, partially offset by unfavorable impacts from revenue runoff in key accounts and contractual price declines. For the three months ended July 31, 2014, the increase in operating expenses as a percentage of net revenue was primarily driven by the size of the revenue decline. Additionally, for the nine months ended July 31, 2014, the increase in operating expenses as a percentage of net revenue was driven by higher administrative expenses and field selling costs. The increase in administrative expenses was due to the prior-year period containing higher bad debt recoveries and insurance recoveries. The increase in field selling costs was the result of expanding the sales force coverage as we transition from a reactive sales model to a more proactive approach.

Software

	Three months ended July 31		
	2014	**2013**	**% Change**
	Dollars in millions		
Net revenue	$ 959	$ 1,010	5.0%
Earnings from operations	$ 203	$ 203	
Earnings from operations as a % of net revenue	21.2%	20.1%	

	Nine months ended July 31		
	2014	**2013**	**% Change**
	Dollars in millions		
Net revenue	$ 2,846	$ 2,928	(2.8)%
Earnings from operations	$ 534	$ 538	(0.7)%
Earnings from operations as a % of net revenue	18.8%	18.4%	

Three and nine months ended July 31, 2014 compared with three and nine months ended July 31, 2013

Software net revenue decreased 5.0% (decreased 5.9% on a constant currency basis) and decreased 2.8% (flat on a constant currency basis) for the three and nine months ended July 31, 2014, respectively. Revenue growth in Software is being challenged by the overall market and customer shift to SaaS solutions, which is impacting growth in license and support revenue. For the three months ended July 31, 2014, net revenue from licenses and professional services decreased by 16% and 3% respectively, while SaaS net revenue increased 8% and support net revenue was flat. For the nine months ended July 31, 2014, net revenue from both licenses and professional services decreased by 5%, support net revenue decreased by 2% while SaaS net revenue increased 6%.

The decline in license net revenue for both the three and nine months ended July 31, 2014, was due primarily to the impact of the market and customer shift to SaaS solutions. Additionally, for the three months ended July 31, 2014 the decline in license net revenue was impacted by sales execution challenges across the portfolio. Professional services net revenue decreased for both the three and nine months ended July 31, 2014 due to our continued management of this portfolio to focus on higher-margin contracts. Support net revenue for both the three and nine months ended July 31, 2014 was challenged by past declines in license revenue, partially offset by growth in security products. Demand for our SaaS products resulted in net revenue growth for both the three and nine months ended July 31, 2014 with growth across most of the portfolio.

Table of Contents

For the three and nine months ended July 31, 2014, Software earnings from operations as a percentage of net revenue increased by 1.1 percentage points and 0.4 percentage points, respectively, due to an increase in gross margin, the effect of which was partially offset by an increase in operating expenses as a percentage of net revenue. For both periods, the increase in gross margin was due to improving margins in license revenue as a result of a mix shift to higher margin solutions, improving margins in professional services as a result of a shift to more profitable contracts and improved workforce utilization. For both periods the increase in operating expenses as a percentage of net revenue was due primarily to investments in R&D partially offset by lower SG&A expenses due to cost savings associated with our ongoing restructuring efforts.

HP Financial Services

	Three months ended July 31		
	2014	2013	% Change
	Dollars in millions		
Net revenue	$ 855	$ 879	(2.7)%
Earnings from operations	$ 79	$ 99	(20.2)%
Earnings from operations as a % of net revenue	9.2%	11.3%	

	Nine months ended July 31		
	2014	2013	% Change
	Dollars in millions		
Net revenue	$ 2,592	$ 2,717	(4.6)%
Earnings from operations	$ 279	$ 297	(6.1)%
Earnings from operations as a % of net revenue	10.8%	10.9%	

Three months ended July 31, 2014 compared with three months ended July 31, 2013

HPFS net revenue decreased by 2.7% (decreased 3.6% on a constant currency basis) for the three months ended July 31, 2014. The net revenue decrease was due primarily to lower average portfolio assets and lower asset management revenue, specifically in customer buyouts, partially offset by favorable currency impacts.

HPFS earnings from operations as a percentage of net revenue decreased by 2.1 percentage points for the three months ended July 31, 2014 due primarily to a decrease in gross margin and an increase in operating expenses as a percentage of net revenue. The decrease in gross margin was the result of lower margins on asset management activity which were impacted in the period by a customer billing adjustment. The increase in operating expenses as a percentage of net revenue was due primarily to higher field selling costs, partially offset by higher capitalization of initial direct costs on higher financing volumes.

Nine months ended July 31, 2014 compared with nine months ended July 31, 2013

HPFS net revenue decreased by 4.6% (decreased 4.3% on a constant currency basis) for the nine months ended July 31, 2014. The net revenue decrease was due primarily to lower average portfolio assets, lower asset management activity and unfavorable currency impacts.

HPFS earnings from operations as a percentage of net revenue decreased by a 0.1 percentage point for the nine months ended July 31, 2014 due primarily to an increase in operating expenses as a percentage of net revenue, partially offset by an increase in gross margin. The increase in gross margin was the result of a higher portfolio margin, primarily from a lower cost of funds, partially offset by lower margins on asset management activity. The increase in operating expenses as a percentage of net revenue was due primarily to higher field selling costs, partially offset by higher capitalization of initial direct costs on higher financing volume.

Financing Volume

	Three months ended July 31		Nine months ended July 31	
	2014	2013	2014	2013
	In millions			
Total financing volume	$ 1,702	$ 1,496	$ 4,532	$ 3,960

New financing volume, which represents the amount of financing provided to customers for equipment and related software and services, including intercompany activity, increased 13.8% and 14.4% for the three and nine months ended July 31, 2014, respectively. The increase in both periods was driven by higher financing associated with HP product sales and related services offerings.

Portfolio Assets and Ratios

The HPFS business model is asset intensive and uses certain internal metrics to measure its performance against other financial services companies, including a segment balance sheet that is derived from our internal management reporting system. The accounting policies used to derive these amounts are substantially the same as those used by the consolidated company. However, intercompany loans and certain accounts that are reflected in the segment balances are eliminated in our Consolidated Condensed Financial Statements.

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

	July 31, 2014	October 31, 2013
	Dollars in millions	
Financing receivables, gross	$ 6,780	$ 7,153
Net equipment under operating leases	2,524	2,370
Capitalized profit on intercompany equipment transactions(1)	751	715
Intercompany leases(1)	2,316	2,202
Gross portfolio assets	12,371	12,440
Allowance for doubtful accounts(2)	126	131
Operating lease equipment reserve	77	76
Total reserves	203	207
Net portfolio assets	$ 12,168	$ 12,233
Reserve coverage	1.6%	1.7%
Debt-to-equity ratio(3)	7.0x	7.0x

(1) Intercompany activity is eliminated in consolidation.

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

(3) Debt attributable to HPFS consists of intercompany equity that is treated as debt for segment reporting purposes, intercompany debt, and borrowing- and funding-related activity associated with HPFS and its subsidiaries. At both July 31, 2014 and October 31, 2013, debt attributable to HPFS totaled $10.8 billion. HPFS equity at both July 31, 2014 and October 31, 2013 was $1.5 billion. We believe the HPFS debt-to-equity ratio is comparable to that of other similar financing companies.

Table of Contents

At July 31, 2014 and October 31, 2013, HPFS cash balances were $862 million and $697 million, respectively.

Net portfolio assets at July 31, 2014 decreased 0.5% from October 31, 2013. The decrease generally resulted from unfavorable currency impacts, along with portfolio runoff in excess of new financing volume.

For the three and nine months ended July 31, 2014, HPFS recorded net bad debt expenses and operating lease equipment reserves of $12 million and $32 million, respectively. For the comparable periods in fiscal 2013, net bad debt expenses and operating lease equipment reserves were $10 million and $31 million, respectively.

Corporate Investments

	Three months ended July 31		
	2014	**2013**	**% Change**
	Dollars in millions		
Net revenue	$ 3	$ 5	(40.0)%
Loss from operations	$ (115)	$ (82)	40.2%
Loss from operations as a % of net revenue	NM	NM	

	Nine months ended July 31		
	2014	**2013**	**% Change**
	Dollars in millions		
Net revenue	$ 297	$ 19	NM
Loss from operations	$ (92)	$ (230)	(60)%
Loss from operations as a % of net revenue	(31.0)%	NM	

Three and nine months ended July 31, 2014 compared with three and nine months ended July 31, 2013

The revenue increase for the nine months ended July 31, 2014 was due primarily to the sale in the first quarter of fiscal 2014 of IP related to the Palm acquisition.

The increase in loss from operations in Corporate Investments for the three months ended July 31, 2014 was due primarily to higher expenses associated with certain incubation projects and to a lesser extent, increased expenses related to HP Labs, corporate strategy and global alliances. The decrease in the loss from operations for the nine months ended July 31, 2014 was due primarily to the sale of IP, the benefits of which were partially offset by higher expenses resulting from activities in certain incubation projects, corporate strategy, HP Labs and global alliances.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

We use cash generated by operations as our primary source of liquidity. We believe that internally generated cash flows are generally sufficient to support our operating businesses, capital expenditures, restructuring activities, maturing debt, income tax payments and the payment of stockholder dividends, in addition to investments and share repurchases. We are able to supplement this short-term liquidity, if necessary, with broad access to capital markets and credit facilities made available by various domestic and foreign financial institutions. Our access to capital markets may be constrained and our cost of borrowing may increase under certain business, market and economic conditions; however, our use of a variety of funding sources to meet our liquidity needs is designed to facilitate continued access to capital resources under all such conditions.

Our cash balances are held in numerous locations throughout the world, with substantially all of those amounts held outside of the U.S. We utilize a variety of planning and financing strategies in an effort to ensure that our worldwide cash is available when and where it is needed. Our cash position remains strong, and we expect that our cash balances, anticipated cash flow generated from operations and access to capital markets will be sufficient to cover our expected near-term cash outlays.

Amounts held outside of the U.S. are generally utilized to support non-U.S. liquidity needs, although a portion of those amounts may from time to time be subject to short-term intercompany loans into the U.S. Most of the amounts held outside of the U.S. could be repatriated to the U.S. but, under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. Repatriation of some foreign earnings is restricted by local law. Except for foreign earnings that are considered indefinitely reinvested outside of the U.S., we have provided for the U.S. federal tax liability on these earnings for financial statement purposes. Repatriation could result in additional income tax payments in future years. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is that cash balances would remain outside of the U.S. and we would meet liquidity needs through ongoing cash flows, external borrowings, or both. We do not expect restrictions or potential taxes incurred on repatriation of amounts held outside of the U.S. to have a material effect on our overall liquidity, financial condition or results of operations.

Financial Condition (Sources and Uses of Cash)

	Nine months ended July 31	
	2014	**2013**
	In millions	
Net cash provided by operating activities	$ 9,632	$ 8,792
Net cash used in investing activities	(1,998)	(1,859)
Net cash used in financing activities	(5,323)	(4,983)
Net increase in cash and cash equivalents	$ 2,311	$ 1,950

Operating Activities

Compared to the corresponding period in 2013, net cash provided by operating activities increased by $840 million for the nine months ended July 31, 2014. The increase was due primarily to improvements in working capital management.

Our working capital management depends on effectively managing our cash conversion cycle, which represents the number of days that elapse from the day we pay for the purchase of inventory

Table of Contents

from our suppliers to the day we collect cash from our customers. Our key working capital metrics were as follows:

	Three months ended July 31	
	2014	**2013**
Days of sales outstanding in accounts receivable	46	47
Days of supply in inventory	27	28
Days of purchases outstanding in accounts payable.	(65)	(57)
Cash conversion cycle	8	18

Days of sales outstanding in accounts receivable ("DSO") measures the average number of days our receivables are outstanding. DSO is calculated by dividing ending accounts receivable, net of allowance for doubtful accounts, by a 90-day average net revenue. The decrease in DSO was due primarily to the expansion of our factoring programs which we estimate improved DSO by approximately one to two days.

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

Days of purchases outstanding in accounts payable ("DPO") measures the average number of days our accounts payable balances are outstanding. DPO is calculated by dividing ending accounts payable by a 90-day average cost of goods sold. The increase in DPO was primarily the result of an extension of payment terms with our product suppliers and a favorable change in business mix toward Personal Systems.

The cash conversion cycle is the sum of DSO and DOS less DPO. The cash conversion cycle for the third quarter of fiscal 2014 is below what we expect to be a long-term sustainable rate. Items which may cause the cash conversion cycle in a particular period to differ from a long-term sustainable rate include, but are not limited to, changes in business mix, changes in payment terms, extent of receivables factoring, seasonal trends and the timing of revenue recognition and inventory purchases within the period.

Investing Activities

Compared to the corresponding period in 2013, net cash used in investing activities increased by $139 million for the nine months ended July 31, 2014 due primarily to higher cash utilization for purchases of property, plant and equipment and available-for-sale securities, partially offset by cash generated from sales of available-for-sale securities.

Financing Activities

Compared to the corresponding period in 2013, net cash used in financing activities increased by $340 million for the nine months ended July 31, 2014 due primarily to higher debt repayments and repurchases of common stock, partially offset by proceeds from the issuance of U.S. Dollar Global Notes in January 2014. For more information on our share repurchase programs, see Note 13 to the Consolidated Condensed Financial Statements in Part I, Item 1, which is incorporated herein by reference.

Table of Contents

Capital Resources

Debt Levels

We maintain debt levels that we establish through consideration of a number of factors, including cash flow expectations, cash requirements for operations, investment plans (including acquisitions), share repurchase activities, HP's cost of capital and our targeted capital structure. Outstanding borrowings were $19.8 billion as of July 31, 2014 and $22.6 billion as of October 31, 2013, bearing weighted-average interest rates of 2.8% and 3.0%, respectively. During the first nine months of fiscal 2014, we issued $2.0 billion of U.S. Dollar Global Notes under the 2012 Shelf Registration Statement which mature in 2019 and repaid $4.5 billion of U.S. Dollar Global Notes. We also issued and repaid $5.5 billion of commercial paper during the first nine months of fiscal 2014.

During the next twelve months, $1.8 billion of U.S. Dollar Global Notes are scheduled to mature, of which $350 million matures in September 2014. For more information on our borrowings, see Note 11 to the Consolidated Condensed Financial Statements in Part I, Item 1, which is incorporated herein by reference.

Our weighted-average interest rate reflects the average effective rate on our borrowings prevailing during the period and reflects the impact of interest rate swaps. For more information on our interest rate swaps, see Note 8 to the Consolidated Condensed Financial Statements in Part I, Item 1, which is incorporated herein by reference.

Available Borrowing Resources

As of July 31, 2014, we had the following resources available to obtain short-term or long-term financings if we need additional liquidity:

	As of July 31, 2014	
	In millions	
2012 Shelf Registration Statement[1]		Unspecified
Commercial paper programs[1]	$	16,168
Uncommitted lines of credit[1]	$	1,298

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

Credit Ratings

Our credit risk is evaluated by major independent rating agencies based on publicly available information as well as information obtained in our ongoing discussions with them. Our credit ratings did not change during the first nine months of fiscal 2014, and as of July 31, 2014 were:

	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings Services
Short-term debt ratings	A-2	Prime-2	F2
Long-term debt ratings	BBB+	Baa1	A-

In November 2012, our credit ratings were assigned a negative outlook by Moody's Investors Service. While we do not have any rating downgrade triggers that would accelerate the maturity of a material amount of our debt, previous downgrades have increased the cost of borrowing under our credit facilities, have reduced market capacity for our commercial paper and have required the posting of additional collateral under some of our derivative contracts. In addition, any further downgrade in our credit ratings by any of these rating agencies may further impact us in a similar manner, and, depending on the extent of the downgrade, could have a negative impact on our liquidity and capital

Table of Contents

position. We expect to rely on alternative sources of funding, including drawdowns under our credit facilities or the issuance of debt or other securities under our existing 2012 Shelf Registration Statement, if necessary, to offset potential reductions in the market capacity for our commercial paper.

CONTRACTUAL AND OTHER OBLIGATIONS

Contractual Obligations

For contractual obligations see "Contractual and Other Obligations" in Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended October 31, 2013, which is incorporated herein by reference. Our contractual obligations have not changed materially since October 31, 2013, except for the issuance of $2.0 billion of U.S. Dollar Global Notes in January 2014, which mature in 2019, and related interest, and the repayment of $4.5 billion of U.S. Dollar Global Notes.

Retirement and Post-Retirement Benefit Plan Funding

For the remainder of fiscal 2014, HP anticipates making contributions of approximately $158 million to its non-U.S. pension plans, expects to pay approximately $13 million to cover benefit payments to its U.S. non-qualified plan participants and expects to pay approximately $36 million to cover benefit claims under HP's post-retirement benefit plans. Our policy is to fund our pension plans so that we meet at least the minimum contribution requirements, as established by local government, funding and taxing authorities. For more information on our retirement and post-retirement benefit plans, see Note 14 to the Consolidated Condensed Financial Statements in Part I, Item 1, which is incorporated herein by reference.

Restructuring Plans

As of July 31, 2014, we expect future cash expenditures of approximately $1.3 billion in connection with our approved restructuring plans which includes approximately $400 million and $800 million expected to be paid during the remainder of fiscal 2014 and fiscal 2015, respectively, with the remaining $100 million of cash payments to be made through fiscal 2021. For more information on our restructuring activities, see Note 6 to the Consolidated Condensed Financial Statements in Part I, Item 1, which is incorporated herein by reference.

Uncertain Tax Positions

As of July 31, 2014, we had approximately $3.4 billion of recorded liabilities and related interest and penalties pertaining to uncertain tax positions. These liabilities and related interest and penalties include $23 million expected to be paid within one year. For the remaining amount, we are unable to make a reasonable estimate as to when cash settlement with the tax authorities might occur due to the uncertainties related to these tax matters. Payments of these obligations would result from settlements with taxing authorities. For more information on our uncertain tax positions, see Note 12 to the Consolidated Condensed Financial Statements in Part I, Item 1, which is incorporated herein by reference.

Off-Balance Sheet Arrangements

As part of our ongoing business, we have not participated in transactions that generate material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

We have third-party revolving short-term financing arrangements intended to facilitate the working capital requirements of certain customers. The total aggregate maximum capacity of the financing arrangements was $3.1 billion as of July 31, 2014, including an aggregate maximum capacity of $1.1 billion in non-recourse financing arrangements and an aggregate maximum capacity of $2.0 billion in partial-recourse facilities. For more information on our third-party revolving short-term financing arrangements, see Note 4 to the Consolidated Condensed Financial Statements in Part I, Item 1, which is incorporated herein by reference.

Table of Contents

FACTORS THAT COULD AFFECT FUTURE RESULTS

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

If we are unsuccessful at addressing our business challenges, our business and results of operations may be adversely affected and our ability to invest in and grow our business could be limited.

We are in the process of addressing many challenges facing our business. One set of challenges relates to dynamic and accelerating market trends, such as the decline in the PC market, the growth of multi-architecture devices running competing operating systems, the market shift towards tablets within mobility products, the market shift to cloud-related infrastructure, software, and services, and the growth in software-as-a-service business models. Another set of challenges relates to changes in the competitive landscape. Our major competitors are expanding their product and service offerings with integrated products and solutions; our business-specific competitors are exerting increased competitive pressure in targeted areas and are going after new markets; our emerging competitors are introducing new technologies and business models; and our alliance partners in some businesses are increasingly becoming our competitors in others. A third set of challenges relates to business model and go-to-market execution. In addition, we have faced and may continue to face a series of significant macroeconomic challenges, including weakness across many geographic regions, particularly in the Americas, emerging markets in EMEA, including weakness in Russia, and certain countries and businesses in Asia, such as Japan and India. We may experience delays in the anticipated timing of activities related to these efforts and higher than expected or unanticipated execution costs. In addition, we are vulnerable to increased risks associated with these efforts given our large portfolio of businesses, the broad range of geographic regions in which we and our customers and partners operate, and the integration of acquired businesses. If we do not succeed in these efforts, or if these efforts are more costly or time-consuming than expected, our business and results of operations may be adversely affected, which could limit our ability to invest in and grow our business.

In May 2012, we adopted a multi-year, company-wide restructuring plan. The restructuring plan includes both voluntary early retirement programs and non-voluntary workforce reductions. Significant risks associated with these actions that may impair our ability to achieve anticipated cost reductions or that may otherwise harm our business include delays in implementation of anticipated workforce reductions in highly regulated locations outside of the U.S., particularly in Europe and Asia, decreases in employee morale and the failure to meet operational targets due to the loss of employees. In addition, our ability to achieve the anticipated cost savings and other benefits from these actions within the expected time frame is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic and other uncertainties, some of which are beyond our control. If these estimates and assumptions are incorrect, if we experience delays, or if other unforeseen events occur, our business and financial results could be adversely affected.

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

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

Table of Contents

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

Companies with whom we have alliances in some areas may be competitors in other areas. In addition, companies with whom we have alliances also may acquire or form alliances with our competitors, which could reduce their business with us. If we are unable to effectively manage these complicated relationships with alliance partners, our cash flows and results of operations could be adversely affected.

We face aggressive price competition for our products and services and, as a result, we may have to continue lowering the price of our products and services to be competitive, while at the same time trying to maintain or improve revenue and gross margin. In addition, competitors who have a greater presence in some of the lower-cost markets in which we compete may be able to offer lower prices than we are able to offer. Our cash flows, results of operations and financial condition may be adversely affected by these and other industry-wide pricing pressures.

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

Even if we are able to maintain or increase market share for a particular product, revenue could decline because the product is in a maturing industry or market segment or contains technology that is becoming obsolete. For example, our Storage business unit is experiencing the effects of a market transition towards converged products and solutions, which has led to a decline in demand for our traditional storage products. In addition, the performance of our Business Critical Systems business unit has been adversely affected by the decline in demand for UNIX servers and concerns about the development of new versions of software to support our Itanium-based products. Revenue and margins also could decline due to increased competition from other types of products. For example, growing demand for an increasing array of mobile computing devices and the development of cloud-based solutions has reduced demand for some of our products. In addition, refill and remanufactured alternatives for some of HP's LaserJet toner and inkjet cartridges compete with our printing supplies business, which has and in the future could adversely affect our revenue and prospects.

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

Our long-term strategy is focused on leveraging our portfolio of hardware, software and services as we adapt to a changing and hybrid model of IT delivery and consumption driven by the growing adoption of cloud computing and increased demand for integrated IT solutions. To successfully execute this strategy, we need to continue evolving our focus towards the delivery of integrated IT solutions for our customers and to continue to invest and expand into cloud computing, security, big data and

Table of Contents

mobility. Any failure to successfully execute this strategy, including any failure to invest sufficiently in strategic growth areas, could adversely affect our business, results of operations and financial results.

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

In the course of conducting our business, we must adequately address quality issues associated with our products, software, services and solutions, including defects in our engineering, design and manufacturing processes and unsatisfactory performance under service contracts, as well as defects in third-party components included in our products and unsatisfactory performance or even malicious acts by third-party contractors or subcontractors or the employees of those contractors or subcontractors. In order to address quality issues, we work extensively with our customers and suppliers and engage in product testing to determine the causes of problems and to develop and implement appropriate solutions. However, the products, software, services and solutions that we offer are complex, and our regular testing and quality control efforts may not be effective in controlling or detecting all quality issues or errata, particularly with respect to faulty components manufactured by third-parties. If we are unable to determine the cause, find an appropriate solution or offer a temporary fix (or "patch") to address quality issues with our products, we may delay shipment to customers, which would delay revenue recognition and could adversely affect our revenue and reported results. Addressing quality issues can be expensive and may result in additional warranty, replacement and other costs, adversely affecting our profits. If new or existing customers have difficulty operating our products or are dissatisfied with our services or solutions, our results of operations could be adversely affected, and we could face possible claims if we fail to meet our customers' expectations. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our brand and reputation, which could, in turn, adversely affect our results of operations.

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

Our revenue and gross margin depend significantly on worldwide economic conditions and the demand for technology hardware, software and services in the markets in which we compete. Economic weakness and uncertainty have resulted, and may result in the future, in decreased revenue, gross margin, earnings or growth rates and in increased expenses and difficulty in managing inventory levels. For example, we have experienced and may continue to experience macroeconomic weakness across many geographic regions, particularly in EMEA, China and other high-growth markets. Economic weakness and uncertainty may adversely affect demand for our products, services and solutions, may result in increased expenses due to higher allowances for doubtful accounts and potential goodwill and asset impairment charges, and may make it more difficult for us to make accurate forecasts of revenue, gross margin, expenses and cash flows.

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

Economic weakness and uncertainty could cause our expenses to vary materially from our expectations. Any financial turmoil affecting the banking system and financial markets or any significant financial services institution failures could negatively impact our treasury operations, as the financial condition of such parties may deteriorate rapidly and without notice in times of market volatility and disruption. Poor performance of financial markets or lower interest rates and the adverse effects of fluctuating foreign currency exchange rates could lead to higher pension and post-retirement benefit expenses. Interest and other expenses could vary materially depending on changes in interest rates, borrowing costs, currency exchange rates, costs of hedging activities and the fair value of derivative instruments. Economic downturns also may lead to restructuring actions and associated expenses.

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

Our revenue, gross margin and profit vary among our products and services, customer groups and geographic markets and therefore will likely be different in future periods than our current results. Our revenue depends on the overall demand for our products and services. Delays or reductions in IT spending could have a material adverse effect on demand for our products and services, which could result in a significant decline in revenue. In addition, revenue declines in some of our businesses, particularly our services businesses, may affect revenue in our other businesses as we may lose cross-selling opportunities. Overall gross margins and profitability in any given period are dependent partially on the product, service, customer and geographic mix reflected in that period's net revenue. Competition, lawsuits, investigations and other risks affecting those businesses therefore may have a significant impact on our overall gross margin and profitability. Certain segments have a higher fixed cost structure and more variation in gross margins across their business units and product portfolios than others and may therefore experience significant operating profit volatility on a quarterly basis. In addition, newer geographic markets may be relatively less profitable due to investments associated with entering those markets and local pricing pressures, and we may have difficulty establishing and maintaining the operating infrastructure necessary to support the high growth rate associated with some of those markets. Market trends, industry shifts, competitive pressures, commoditization of products, seasonal rebates, increased component or shipping costs, regulatory impacts and other factors may result in reductions in revenue or pressure on gross margins of certain segments in a given period, which may lead to adjustments to our operations. Moreover, our efforts to address the challenges facing our business could increase the level of variability in our financial results because the rate at which we are able to realize the benefits from those efforts may vary from period to period.

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

Many of the markets in which we compete are characterized by rapid technological advances in hardware performance and software features and functionality, frequent introduction of new products, short product life cycles, and continual improvement in product price characteristics relative to product performance. To maintain our competitive position in these markets, we must successfully develop and introduce new products and services. Among the risks associated with the introduction of new offerings are: delays in development or manufacturing, variations in costs, delays in customer purchases or

Table of Contents

reductions in the price of existing products in anticipation of new introductions, difficulty in predicting customer demand for the new offerings and challenges of effectively managing inventory levels to align with anticipated demand; risks associated with new products meeting customer qualifications and customer evaluation of new products; and the risk that new products may have quality or other defects or may not be supported adequately by application software. If we do not make an effective transition from existing products and services to future offerings, our revenue and gross margins may decline and our profitability may be harmed.

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

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

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

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

Our results of operations may be adversely affected by any conflicts that might arise between our various sales channels, the loss or deterioration of any alliance or distribution arrangement or the loss of retail shelf space. Moreover, some of our wholesale and retail distributors may have insufficient financial resources and may not be able to withstand changes in business conditions, including economic weakness and industry consolidation. Many of our significant distributors operate on narrow gross margins and have been negatively affected by business pressures. Considerable trade receivables that are not covered by collateral or credit insurance are outstanding with our distribution and retail channel partners. Revenue from indirect sales could suffer, and we could experience disruptions in distribution, if our distributors' financial conditions, abilities to borrow funds in the credit markets or operations weaken.

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

We must manage inventory effectively, particularly with respect to sales to distributors, which involves forecasting demand and pricing issues. Distributors may increase orders during periods of product shortages, cancel orders if their inventory is too high or delay orders in anticipation of new products. Distributors also may adjust their orders in response to the supply of our products and the products of our competitors and seasonal fluctuations in end-user demand. Our reliance upon indirect distribution methods may reduce visibility to demand and pricing issues,

Table of Contents

and therefore make forecasting more difficult. If we have excess or obsolete inventory, we may reduce our prices or have to write down inventory. Moreover, our use of indirect distribution channels may limit our willingness or ability to adjust prices quickly and otherwise to respond to pricing changes by competitors. We also may have limited ability to estimate future product rebate redemptions in order to price our products effectively.

We depend on third-party suppliers, and our financial results could suffer if we fail to manage suppliers properly.

Our operations depend on our ability to anticipate our needs for components, products and services, as well as our suppliers' ability to deliver sufficient quantities of quality components, products and services at reasonable prices and in time for us to meet critical schedules. Given the wide variety of systems, products and services that we offer, the large number of our suppliers and contract manufacturers that are located around the world, and the long lead times required to manufacture, assemble and deliver certain components and products, problems could arise in production, planning, and inventory management that could seriously harm us. In addition, our ongoing efforts to optimize the efficiency of our supply chain could cause supply disruptions and be more expensive, time-consuming and resource intensive than expected. Other supplier problems that we could face include component shortages, excess supply, risks related to the terms of our contracts with suppliers, risks associated with contingent workers, and risks related to our relationships with single source suppliers, as described below.

Shortages. Occasionally we may experience a shortage of, or a delay in receiving, certain components as a result of strong demand, capacity constraints, supplier financial weaknesses, inability of suppliers to borrow funds in the credit markets, disputes with suppliers (some of whom are also customers), disruptions in the operations of component suppliers, other problems experienced by suppliers or problems faced during the transition to new suppliers. For example, our PC business relies heavily upon outsourced manufacturers ("OMs") to manufacture its products and is therefore dependent upon the continuing operations of those OMs to fulfill demand for our PC products. We represent a substantial portion of the business of some of these OMs, and any changes to the nature or volume of business transacted by us with a particular OM could adversely affect the operations and financial condition of the OM and lead to shortages or delays in receiving products from that OM. If shortages or delays persist, the price of certain components may increase, and we may be exposed to quality issues or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build products or provide services in a timely manner in the quantities or according to the specifications needed. Accordingly, our revenue and gross margin could suffer as we could lose time-sensitive sales, incur additional freight costs or be unable to pass on price increases to our customers. If we cannot adequately address supply issues, we might have to reengineer some product or service offerings, which could result in further costs and delays.

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

Contractual terms. As a result of binding price or purchase commitments with vendors, we may be obligated to purchase components or services at prices that are higher than those available in the current market and be limited in our ability to respond to changing market conditions. If we commit to purchasing components or services for prices in excess of the then-current market

Table of Contents

price, we may be at a disadvantage to competitors who have access to components or services at lower prices, our gross margin could suffer, and we could incur additional charges relating to inventory. In addition, many of our competitors obtain products or components from the same OMs and suppliers that we utilize. Our competitors may obtain better pricing, more favorable contractual terms and conditions, and more favorable allocations of products and components during periods of limited supply, and our ability to engage in relationships with certain OMs and suppliers could be limited. The practice employed by our PC business of purchasing product components and transferring those components to its OMs may create large supplier receivables with the OMs that, depending on the financial condition of the OMs, may create collectibility risks. In addition, certain of our OMs and suppliers may decide to discontinue conducting business with us. Any of these actions by our competitors, OMs or suppliers could adversely affect our future results of operations and financial condition.

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

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

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

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

Our sales cycle makes planning and inventory management difficult and future financial results less predictable.

In some of our segments, our quarterly sales often reflect a pattern in which a disproportionate percentage of each quarter's total sales occurs towards the end of such quarter. This uneven sales pattern makes predicting revenue, earnings, cash flow from operations and working capital for each financial period difficult, increases the risk of unanticipated variations in quarterly results and financial condition and places pressure on our inventory management and logistics systems. If predicted demand is substantially greater than orders, there may be excess inventory. Alternatively, if orders substantially exceed predicted demand, we may not be able to fulfill all of the orders received in the last few weeks of each quarter. Depending on when they occur in a quarter, developments such as a systems failure, component price movements, component shortages or global logistics disruptions could adversely impact inventory levels and results of operations in a manner that is disproportionate to the number of days in the quarter affected.

We experience some seasonal trends in the sale of our products that also may produce variations in quarterly results and financial condition. For example, sales to governments (particularly sales to the U.S. government) are often stronger in the third calendar quarter, consumer sales are often stronger in the fourth calendar quarter, and many customers whose fiscal and calendar years are the same spend their remaining capital budget authorizations in the fourth calendar quarter prior to new budget constraints in the first calendar quarter of the following year. European sales are often weaker during the summer months. Demand during the spring and early summer also may be adversely impacted by market anticipation of seasonal trends. Moreover, to the extent that we introduce new products in anticipation of seasonal demand trends, our discounting of existing products may adversely affect our gross margin prior to or shortly after such product launches. Typically, our third fiscal quarter is our weakest and our fourth fiscal quarter is our strongest. Many of the factors that create and affect seasonal trends are beyond our control.

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

For the third quarter of fiscal 2014, sales outside the U.S. made up approximately 64% of our net revenue. In addition, an increasing portion of our business activity is being conducted in emerging

Table of Contents

markets, including Brazil, India and China. Our future revenue, gross margin, expenses and financial condition could suffer due to a variety of international factors, including:

- ongoing instability or changes in a country's or region's economic or political conditions, including inflation, recession, interest rate fluctuations, economic sanctions, and actual or anticipated military or political conflicts;
- longer collection cycles and financial instability among customers;
- trade regulations and procedures and actions affecting production, pricing and marketing of products;
- local labor conditions and regulations, including local labor issues faced by specific HP suppliers and OMs;
- managing a geographically dispersed workforce;
- changes in the regulatory or legal environment;
- differing technology standards or customer requirements;
- import, export or other business licensing requirements and restrictions or requirements relating to making foreign direct investments, which could increase our cost of doing business in certain jurisdictions, prevent us from shipping products to particular countries or markets, affect our ability to obtain favorable terms for components, increase our operating costs or lead to penalties or restrictions;
- difficulties associated with repatriating earnings generated or held abroad in a tax-efficient manner and changes in tax laws; and
- fluctuations in freight costs, limitations on shipping and receiving capacity, and other disruptions in the transportation and shipping infrastructure at important geographic points of exit and entry for our products.

The factors described above also could disrupt our product and component manufacturing and key suppliers located outside of the U.S. For example, we rely on manufacturers in Taiwan for the production of notebook computers and other suppliers in Asia for product assembly and manufacture.

Currencies other than the U.S. dollar, including the euro, the British pound, Chinese yuan renminbi and the Japanese Yen, can have an impact on our results (expressed in U.S. dollars). Currency variations also contribute to variations in sales of products and services in impacted jurisdictions. For example, in the event that one or more European countries were to replace the euro with another currency, our sales into such countries, or into Europe generally, would likely be adversely affected until stable exchange rates are established. Accordingly, fluctuations in foreign currency exchange rates could adversely affect our revenue growth in future periods. In addition, currency variations can adversely affect margins on sales of our products in countries outside of the U.S. and margins on sales of products that include components obtained from suppliers located outside of the U.S. We use a combination of forward contracts and options designated as cash flow hedges to protect against foreign currency exchange rate risks. The effectiveness of our hedges depends on our ability to accurately forecast future cash flows, which is particularly difficult during periods of uncertain demand for our products and services and highly volatile exchange rates. We may incur significant losses from our hedging activities due to factors such as volatility and currency variations. In addition, our hedging activities may be ineffective or may not offset any or more than a portion of the adverse financial impact resulting from currency variations. Losses associated with hedging activities also may impact our revenue and to a lesser extent our cost of sales and financial condition.

Explanation of Responses:

Table of Contents

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by laws and regulations applicable to us, such as the FCPA. For example, in April 2014, we announced a resolution of an investigation conducted by the U.S. Department of Justice and the Securities and Exchange Commission into allegations that certain current and former employees of HP engaged in bribery, embezzlement and tax evasion. In addition, the Polish Central Anti-Corruption Bureau is conducting an investigation into potential corruption violations by a former employee of an HP subsidiary in connection with certain public-sector transactions in Poland. Although we implement policies and procedures designed to facilitate compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. A violation, even if prohibited by our policies, could result in restrictions or prohibitions on our business activities and have an adverse effect on our business and reputation.

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

As part of our business strategy, we may acquire companies or businesses, divest businesses or assets, enter into strategic alliances and joint ventures and make investments to further our business (collectively, "business combination and investment transactions"). In order to pursue this strategy successfully, we must identify candidates for, and successfully complete, business combination and investment transactions, some of which may be large or complex, and manage post-closing issues such as the integration of acquired businesses, products, services or employees. Risks associated with business combination and investment transactions include the following, any of which could adversely affect our revenue, gross margin, profitability and financial results:

- Managing business combination and investment transactions requires varying levels of management resources, which may divert our attention from other business operations.

- We may not fully realize all of the anticipated benefits of any business combination and investment transaction, and the timeframe for realizing benefits of a business combination and investment transaction may depend partially upon the actions of employees, advisors, suppliers or other third parties.

- Business combination and investment transactions have resulted, and in the future may result, in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, goodwill and asset impairment charges, charges from the elimination of duplicative facilities and contracts, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans.

- Any increased or unexpected costs, unanticipated delays or failure to meet contractual obligations could make business combination and investment transactions less profitable or unprofitable.

- Our ability to conduct due diligence with respect to business combination and investment transactions, and our ability to evaluate the results of such due diligence, is dependent upon the veracity and completeness of statements and disclosures made or actions taken by third-parties or their representatives.

- Our due diligence process may fail to identify significant issues with the acquired company's product quality, financial disclosures, accounting practices or internal controls.

Table of Contents

The pricing and other terms of our contracts for business combination and investment transactions may require us to make estimates and assumptions at the time we enter into these contracts, and, during the course of our due diligence, we may not identify all of the factors necessary to estimate accurately our costs, timing and other matters or we may incur costs if a business combination is not consummated.

In order to complete a business combination and investment transaction, we may issue common stock, potentially creating dilution for existing stockholders.

We may borrow to finance business combination and investment transactions, and the amount and terms of any potential future acquisition-related or other borrowings, as well as other factors, could affect our liquidity and financial condition.

Our effective tax rate on an ongoing basis is uncertain, and business combination and investment transactions could adversely impact our effective tax rate.

An announced business combination and investment transaction may not close timely or at all, which may cause our financial results to differ from expectations in a given quarter.

Business combination and investment transactions may lead to litigation.

If we fail to identify and successfully complete and integrate business combination and investment transactions that further our strategic objectives, we may be required to expend resources to develop products, services and technology internally, which may put us at a competitive disadvantage.

We have incurred and will incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with business combination and investment transactions, and, to the extent that the carrying amount of goodwill or intangible assets acquired in connection with a business combination and investment transaction becomes impaired, we may be required to incur additional material charges relating to the impairment of those assets. For example, in our third fiscal quarter of 2012, we recorded an $8.0 billion impairment charge relating to the goodwill associated with our enterprise services reporting unit within our former Services segment and a $1.2 billion impairment charge as a result of an asset impairment analysis of the "Compaq" trade name acquired in 2002. In addition, in our fourth fiscal quarter of 2012, we recorded an $8.8 billion impairment charge relating to the goodwill and intangible assets associated with Autonomy. If there are future decreases in our stock price or significant changes in the business climate or results of operations of our reporting units, we may incur additional charges, which may include goodwill or intangible asset impairment charges.

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

combining product and service offerings and entering or expanding into markets in which we are not experienced or are developing expertise;

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

Table of Contents

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

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

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

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

- achieving savings from supply chain integration; and

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

While we do not currently plan to divest any of our major businesses, we regularly evaluate the potential disposition of assets and businesses that may no longer help us meet our strategic objectives. When we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the achievement of our strategic objectives. We may also dispose of a business at a price or on terms that are less desirable than we had anticipated. In addition, we may experience greater dis-synergies than expected, and the impact of the divestiture on our revenue growth may be larger than projected. After reaching an agreement with a buyer or seller for the acquisition or disposition of a business, we are subject to satisfaction of pre-closing conditions as well as to necessary regulatory and governmental approvals on acceptable terms, which, if not satisfied or obtained, may prevent us from completing the transaction. Dispositions may also involve continued financial involvement in the divested business, such as through continuing equity ownership, guarantees, indemnities or other financial obligations. Under these arrangements, performance by the divested businesses or other conditions outside of our control could affect our future financial results.

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

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

Because of the rapid pace of technological change in the information technology industry, much of our business and many of our products rely on key technologies developed or licensed by third parties. We may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms, or such third parties may demand cross-licenses to our intellectual property. In addition, it is possible that as a consequence of a merger or acquisition, third parties may

Table of Contents

obtain licenses to some of our intellectual property rights or our business may be subject to certain restrictions that were not in place prior to the transaction. Consequently, we may lose a competitive advantage with respect to these intellectual property rights or we may be required to enter into costly arrangements in order to terminate or limit these rights.

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

Our results of operations and cash flows have been and could continue to be affected in certain periods and on an ongoing basis by the imposition, accrual and payment of copyright levies or similar fees. In certain countries (primarily in Europe), proceedings are ongoing or have been concluded involving HP in which groups representing copyright owners have sought or are seeking to impose upon and collect from HP levies upon equipment (such as PCs, MFDs and printers) alleged to be copying devices under applicable laws. Other such groups have also sought to modify existing levy schemes to increase the amount of the levies that can be collected from us. Other countries that have not imposed levies on these types of devices are expected to extend existing levy schemes, and countries that do not currently have levy schemes may decide to impose copyright levies on these types of devices. The total amount of the copyright levies will depend on the types of products determined to be subject to the levy, the number of units of those products sold during the period covered by the levy, and the per unit fee for each type of product, all of which are affected by several factors, including the outcome of ongoing litigation involving us and other industry participants and possible action by the legislative bodies in the applicable countries, and could be substantial. Consequently, the ultimate impact of these copyright levies or similar fees, and our ability to recover such amounts through increased prices, remains uncertain.

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

The risks that accompany our services business differ from those of our other businesses and include the following:

- The success of our services business is to a significant degree dependent on our ability to retain our significant services clients and maintain or increase the level of revenues from these clients. We may lose clients due to their merger or acquisition, business failure, contract expiration or their selection of a competing service provider or decision to in-source services. In addition, we may not be able to retain or renew relationships with our significant clients. As a result of business downturns or for other business reasons, we are also vulnerable to reduced processing volumes from our clients, which can reduce the scope of services provided and the prices for those services. We may not be able to replace the revenue and earnings from any such lost clients or reductions in services. In addition, our contracts may allow a client to terminate the

Table of Contents

contract for convenience, and we may not be able to fully recover our investments in such circumstances.

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

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

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

If we do not hire, train, motivate and effectively utilize employees with the right mix of skills and experience in the right geographic regions to meet the needs of our services clients, our profitably could suffer. For example, if our employee utilization rate is too low, our profitability and the level of engagement of our employees could suffer. If that utilization rate is too high, it could have an adverse effect on employee engagement and attrition and the quality of the work performed, as well as our ability to staff projects. If we are unable to hire and retain a sufficient number of employees with the skills or backgrounds to meet current demand, we might need to redeploy existing personnel, increase our reliance on subcontractors or increase employee compensation levels, all of which could also negatively affect our profitability. In addition, if we have more employees than we need with certain skill sets or in certain geographies, we may incur increased costs as we work to rebalance our supply of skills and resources with client demand in those geographies.

Failure to comply with our customer contracts or government contracting regulations could adversely affect our revenue and results of operations.

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

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

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

- speculation, coverage or sentiment in the media or the investment community about, or actual changes in, our business, strategic position, market share, organizational structure, operations, financial condition, cash flows, financial reporting and results, effectiveness of cost-cutting efforts, value or liquidity of our investments, exposure to market volatility, prospects, business combination or investment transactions, future stock price performance, HP's Board of Directors, executive team, our competitors or our industry in general;

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

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

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

- developments relating to pending investigations, claims and disputes; and

- the timing and amount of share repurchases by HP.

General or industry specific market conditions or stock market performance or domestic or international macroeconomic and geopolitical factors unrelated to HP's performance also may affect the price of HP stock. For these reasons, investors should not rely on recent or historical trends to predict future stock prices, financial condition, results of operations or cash flows. In addition, as discussed in Note 15 to the Consolidated Condensed Financial Statements, we are involved in several securities class action litigation matters. Additional volatility in the price of our securities could result in the filing of additional securities class action litigation matters, which could result in substantial costs and the diversion of management time and resources.

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

Our credit risk is evaluated by the major independent rating agencies. Two of those rating agencies, Moody's Investors Service and Standard & Poor's Ratings Services, downgraded our ratings once during fiscal 2012, and a third rating agency, Fitch Ratings, downgraded our ratings twice during that fiscal year. In addition, Moody's Investors Service downgraded our ratings again in November 2012. Our credit ratings remain under negative outlook by Moody's Investors Service. These

Table of Contents

downgrades have increased the cost of borrowing under our credit facilities, have reduced market capacity for our commercial paper, and may require the posting of additional collateral under some of our derivative contracts. There can be no assurance that we will be able to maintain our current credit ratings, and any additional actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, may further impact us in a similar manner and may have a negative impact on our liquidity, capital position and access to capital markets.

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

In connection with the preparation of HP's Consolidated Condensed Financial Statements, we use certain estimates and assumptions based on historical experience and other factors. Our most critical accounting estimates are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2 of this report. In addition, as discussed in Note 1 and Note 15 to the Consolidated Condensed Financial Statements, we make certain estimates, including decisions related to provisions for legal proceedings and other contingencies. While we believe that these estimates and assumptions are reasonable under the circumstances, they are subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could adversely affect our results of operations.

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

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

In order to be successful, we must attract, retain, train, motivate, develop and transition key employees, and failure to do so could seriously harm us.

In order to be successful, we must attract, retain, train, motivate, develop and transition qualified executives and other key employees, including those in managerial, technical, sales, marketing and IT support positions. Identifying, developing internally or hiring externally, training and retaining qualified executives, engineers, skilled solutions providers in the IT support business and qualified sales representatives are critical to our future, and competition for experienced employees in the IT industry can be intense. In order to attract and retain executives and other key employees in a competitive

Table of Contents

marketplace, we must provide a competitive compensation package, including cash- and share- based compensation. Our share-based incentive awards include stock options, restricted stock units, performance-adjusted restricted stock units and performance-based restricted units, some of which contain conditions relating to HP's stock price performance and HP's long-term financial performance that make the future value of those awards uncertain. If the anticipated value of such share-based incentive awards does not materialize, if our share-based compensation otherwise ceases to be viewed as a valuable benefit, if our total compensation package is not viewed as being competitive, or if we do not obtain the stockholder approval needed to continue granting share-based incentive awards in the amounts we believe are necessary, our ability to attract, retain, and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. Further, changes in our management team may be disruptive to our business, and any failure to successfully transition and assimilate key new hires or promoted employees could adversely affect our business and results of operations.

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

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

We manage and store various proprietary information and sensitive or confidential data relating to our business. In addition, our outsourcing services business routinely processes, stores and transmits large amounts of data for our clients, including sensitive and personally identifiable information. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of prop