HEWLETT PACKARD CO
Form 11-K
June 29, 2007

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

FORM 11-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the fiscal year ended December 31, 2006

OR

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

For the transition period from ____________ to ____________

Commission File Number: 1-4423

A. Full title of the plan and address of the plan, if different from that of the issuer named below:

HEWLETT-PACKARD COMPANY 401(k) PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

HEWLETT-PACKARD COMPANY
3000 HANOVER STREET
PALO ALTO, CALIFORNIA 94304

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

Hewlett-Packard Company 401(k) Plan
December 31, 2006 and 2005, and for the Year Ended December 31, 2006
with Report of Independent Registered Public Accounting Firm

Hewlett-Packard Company 401(k) Plan

Financial Statements and Supplemental Schedule

December 31, 2006 and 2005,
and for the Year Ended December 31, 2006

Contents

Report of Independent Registered Public Accounting Firm

Plan Administrator
Hewlett-Packard Company 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of the Hewlett-Packard Company 401(k) Plan as of December 31, 2006 and 2005, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2006 and 2005, and the changes in its net assets available for benefits for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2006, is presented for the purpose of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ ERNST & YOUNG LLP

San Jose, California
June 28, 2007

Hewlett-Packard Company 401(k) Plan

Statements of Net Assets Available for Benefits

	December 31 2006	December 31 2005
Assets		
Cash	**$ 2,181,631**	$ 312,433
Investments, at fair value	**10,221,639,271**	8,798,903,606
Receivables:		
Company contribution receivable	**--**	7,554,760
Amount due from brokers for securities sold	**19,427,254**	36,154,295
Forward foreign currency contracts receivable	**46,317,114**	--
Interest and dividends receivable	**4,953,463**	5,960,060
Other receivables	**1,544**	--
Total receivables	**70,699,375**	49,669,115
Total assets	**10,294,520,277**	8,848,885,154
Liabilities		
Amounts due to brokers for securities purchased	**7,455,279**	59,935,743
Forward foreign currency contracts payable	**45,915,466**	--
Other payables	**4,714,207**	3,123,663
Total liabilities	**58,084,952**	63,059,406
Net assets available for benefits, at fair value	**10,236,435,325**	8,785,825,748
Adjustment from fair value to contract value for fully benefit responsive investment contracts	**14,872,081**	12,215,566
Net assets available for benefits	**$ 10,251,307,406**	$ 8,798,041,314

See accompanying notes.

Hewlett-Packard Company 401(k) Plan

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2006

Additions	
Contributions:	
Participant	$ 450,607,117

Company		233,850,932
Rollover		76,061,145
Total contributions		760,519,194
Investment income:		
Interest and dividends		561,645,623
Net realized and unrealized appreciation in fair value of investments		870,578,208
Total investment income		1,432,223,831
Total additions		2,192,743,025
Deductions		
Benefits paid directly to participants		729,943,267
Administrative expenses and fees		1,978,396
Investment management fees		7,555,270
Total deductions		739,476,933
Net increase		1,453,266,092
Net assets available for benefits:		
Beginning of year		8,798,041,314
End of year	$	10,251,307,406

See accompanying notes.

Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements

December 31, 2006

1. Description of the Plan

The following brief description of the Hewlett-Packard Company 401(k) Plan (the Plan) provides only general information. Participants should refer to the plan document for a more complete description of the Plan s provisions.

General

The Plan is a defined contribution plan covering employees of Hewlett-Packard Company (the Company or HP) and designated domestic subsidiaries who are on the U.S. payroll and who are employed as regular full-time or regular part-time employees. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Assets of the Plan are invested in a three-tier investment structure. Tier 1 includes four ready-made portfolios that represent different points on the risk/return spectrum. Tier 2 includes 14 institutional funds in a range of asset classes. Tier 3 includes 15 brand-name mutual funds spanning several investment categories. Additionally, the Plan offers Company common stock as an investment option. All investments in participant accounts are participant-directed.

The Plan includes a non-leveraged employee stock ownership plan (the ESOP) within the meaning of Internal Revenue Service Code Section 4975(e)(7). The ESOP is maintained as part of the Plan and is designed to invest primarily in the Company s common stock. The purpose of the ESOP is to permit participants the option of having dividends on the Company s common stock re-invested in the Plan or paid directly to them in cash. Participants in the Plan who were formerly participants in the Compaq Computer Corporation 401(k) Investment Plan, but who did not become employees of the Company subsequent to the acquisition of Compaq Computer Corporation in May 2002 are not eligible to participate in the ESOP.

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1. Description of the Plan (continued)

Contributions

All employees are deemed to have elected a three percent compensation deferral effective on the first day of their employment unless the employee makes a change to that election in the manner prescribed by the Company.

Participants may annually contribute, on a pretax basis, up to 50% of their eligible compensation, as defined by the Plan. Contributions are subject to annual deductibility limits specified under the Internal Revenue Code (the Code). The annual limitation was $15,000 for 2006.

Participants who are age 50 or older by the end of the plan year can contribute an additional $5,000 above the annual limitation. These catch-up contributions are not eligible for the Company match. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans.

Effective January 1, 2006, employees with 62 or more points, calculated as age plus years of service, will continue to receive Company matching contributions equal to 100% of the first 3% and 50% of the next 2% of the eligible compensation the participant contributes to the Plan. Effective January 1, 2006, employees with fewer than 62 points, calculated as age plus years of service, as well as participants first hired or rehired on and after January 1, 2006, will be eligible for an enhanced Company matching contribution equal to 100% of the first 6% of the eligible compensation the participant contributes to the Plan.

Beginning in 2006, the Company will match contributions for all participants on a pay-period basis throughout the year, and the year-end true-up match will be discontinued. The final true-up match was provided for the 2005 plan year in early 2006.

Vesting

Participants are fully vested at all times with regard to their contributions and earnings thereon.

Participants who became employees before January 1, 2006 are also one hundred percent vested in their Company matching contributions and earnings thereon at all times.

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1. Description of the Plan (continued)

Vesting (continued)

Effective January 1, 2006, all new employees will be subject to a three-year cliff vesting schedule with regard to Company matching contributions. As a result, participants with no prior HP service who enter the Plan on or after January 1, 2006, will be 0% vested in Company matching contributions until the earlier of earning three years of credited service, attaining age 65, death before termination of employment, or becoming eligible for disability benefits under the Company s long-term disability benefits program, at which time they will become 100% vested in their Company matching contributions and earnings thereon.

Participant Accounts

Each participant s account is credited with the participant s contributions and allocations of (i) Company contributions and (ii) Plan earnings and losses. Allocations are determined in accordance with the provisions of the plan document. The benefit to which a participant is entitled is the benefit that can be provided from the vested portion of the participant s account.

Participant Loans

The Plan offers two types of loans, namely general-purpose loans and primary residence loans. The repayment period for a general-purpose loan may not exceed five years, and the repayment period for a primary residence loan may not exceed 15 years.

Participants may borrow from their fund accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50% of their vested account balances. Loans are secured by the participant s account and bear interest at a rate equal to the prevailing prime rate plus 1%. Principal and interest is paid ratably through payroll deductions.

Payment of Benefits

On termination of service, death or retirement, participants may elect to receive a lump-sum amount equal to the value of their account. Lump-sum payments may be made in cash or shares of stock for distribution from the Company Stock Fund. Hardship distributions and in-service withdrawals are permitted if certain criteria are met. Participants may also at any time withdraw the full balance of their rollover accounts.

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1. Description of the Plan (continued)

Administrative and Investment Management Expenses

Certain fees and expenses of the Plan for legal, accounting, and other administrative services are paid directly by the Company on behalf of the Plan. Other administrative fees and all investment management fees are charged to individual participants accounts. Certain administrative fees and investment management fees related to Tiers 1 and 2 investment options are paid directly to the Plan s investment managers and are reported separately on the statement of changes in net assets available for benefits. Investment management fees charged by the Tier 3 mutual funds are deducted from the net asset values of the mutual funds and are, therefore, recorded as a component of the net realized and unrealized appreciation in fair value of the Plan s investments.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

2. Summary of Significant Accounting Policies

Basis of Accounting and New Accounting Pronouncement

The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principals.

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2. Summary of Significant Accounting Policies (continued)

Basis of Accounting and New Accounting Pronouncement (continued)

The Plan has adopted Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and Statement of Position 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP)*,* which became effective for plan years ending on or after December 15, 2006, and is required to be applied retroactively to all prior periods presented for comparative purposes. As described in the FSP, investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of net assets available for benefits of the Plan attributable to fully benefit-responsive contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. Contract value represents contributions made plus interest accrued at the contract rate, less withdrawals. As required by the FSP, the statement of net assets available for benefits presents the fair value of the investment contracts, as well as an adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The requirements of the FSP have been applied retroactively to the statement of net assets available for benefits as of December 31, 2005 presented for comparative purposes. The statement of changes in net assets available for benefits is prepared on a contract value basis.

Investment Valuation and Income Recognition

The Plan s investments are stated at fair value. The shares of registered investment companies are valued at quoted market prices, which represent the net asset values of shares held by the Plan at year-end. The shares of the common collective trust funds are valued at the unit prices established by the funds sponsors on the last business day of the plan year, based on the fair value of the assets underlying the funds. Guaranteed investment contracts are valued by the Plan s stable value investment advisor, Dwight Asset Management (Dwight), based on discounted cash flows. Wrapper contracts are valued by Dwight using a replacement cost methodology as of the last day of the plan year. Short-term investments are valued at cost plus accrued interest, which approximates fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last day of the plan year. Participant loans are valued at their outstanding balances, which approximate fair value.

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2. Summary of Significant Accounting Policies (continued)

Investment Valuation and Income Recognition (continued)

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

3. Investments

The fair values of individual investments that represent 5% or more of the fair value of the Plan s net assets are as follows:

	December 31 2006		December 31 2005	
Hewlett-Packard Company common stock	$	1,273,215,440	$	954,974,636
Vanguard Employee Benefit Index Fund		1,053,361,470		952,910,499
Vanguard PRIMECAP Fund		791,767,220		716,991,549
Fidelity Contrafund		638,892,576		577,471,923
Fidelity Magellan Fund		578,461,920		609,935,731
Dwight Target 2 Fund		575,468,656		549,406,888
Fidelity Low-Priced Stock Fund		*		442,313,583

*Less than 5% of the fair value of the Plan s net assets at December 31, 2006.

Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements (continued)

3. Investments (continued)

During 2006, the Plan s investments (including investments purchased, sold, as well as held during the year) appreciated in fair value as determined by quoted market prices as follows:

	Net Realized and Unrealized Appreciation in Fair Value of Investments	
Registered investment companies	$	98,860,862
U. S. government and corporate debt obligations		100,317
Common stock		126,645,507
Company common stock		401,857,569
Common collective trust funds		243,113,953
	$	870,578,208

4. Guaranteed and Synthetic Investment Contracts

The Plan offers a Stable Value Fund, which invests in guaranteed investment contracts and synthetic investment contracts, to provide participants with a stable, fixed-rate return and protection of principal from market changes. There are no reserves against contract value for credit risk of the contract issuers or otherwise. The crediting interest rates are based on a formula agreed upon with the issuer. The interest rate paid by the issuer or contract rate may be fixed over the life of the contract or adjusted periodically, but cannot fall below 0%.

Certain events limit the ability of the Plan to transact at contract value with the issuer. Such events include amendments to the plan document, changes to the Plan s prohibition of competing investment options, complete or partial termination of the Plan, the failure of the Plan or its trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA, the redemption of all or a portion of the Plan's interest in the investment at the direction of the Company, or delivery of any communication to participants designed to influence participants not to invest in the Stable Value Fund. The Company does not believe that the occurrence of any such event, which would limit the Plan s ability to transact at contract value with participants, is probable.

4. Guaranteed and Synthetic Investment Contracts (continued)

Guaranteed investment contracts generally do not permit issuers to terminate the contract prior to the scheduled maturity date. Wrapper contracts, a component of synthetic guaranteed investment contracts, generally allow the issuer to terminate upon notice at any time for market value. Wrap contracts generally also contain provisions to allow the Plan to elect to convert the wrapped portfolio to a declining direction strategy upon termination by the issuer. Such provisions are intended to result in contract value equaling market value by the ultimate termination date.

Average yields earned on these contracts are as follows:

	Year ended December 31	
	2006	**2005**
Based on actual earnings	5.47%	5.13%
Based on interest rate credited to participants	5.23%	4.81%

5. Forward Foreign Currency Exchange Contracts

The Plan began using forward foreign currency exchange contracts in 2006, as the Plan holds investments denominated in foreign currencies. Forward foreign currency contracts are generally utilized to hedge a portion of the currency exposure that results in those investments denominated in foreign currencies. The forward foreign currency contracts are not designated as hedging instruments.

Forward foreign currency contracts are generally marked to market at the prevailing forward exchange rate of the underlying currencies and the difference between contract value and market value is recorded as unrealized appreciation (depreciation) in net assets. When the forward currency contract is closed, the Plan transfers the unrealized appreciation (depreciation) to a realized gain (loss) equal to the change in the value of the forward exchange contract when it was opened and the value at the time it was closed or offset.

Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements (continued)

5. Forward Foreign Currency Exchange Contracts (continued)

Certain risks may arise upon entering into a forward currency contract from the potential inability of the counterparties to meet the terms of their contracts. Additionally, when utilizing forward currency contracts to hedge, the Plan gives up the opportunity to profit from favorable exchange rate movements during the term of the contract. As of December 31, 2006, the value of currencies under forward foreign currency contracts represented less than 1% of net assets.

6. Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service (IRS) dated August 22, 2000, stating that the Plan is qualified under Section 401(a) of the Code, and therefore the related trust is exempt from taxation. Subsequent to the issuance of the determination letter, the Plan was amended and restated. An application for a new determination letter was submitted to the IRS with the restated plan document in January 2007. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The plan administrator believes that the Plan is being operated in compliance with the applicable requirements of the Code and therefore believes that the Plan, as amended and restated, is qualified and the related trust is tax-exempt.

7. Related Party Transactions

Transactions in shares of the Company s common stock qualify as party-in-interest transactions under the provisions of ERISA. During 2006, the Plan made purchases of approximately $88,975,798 and sales of approximately $176,412,507 of the Company s common stock.

8. Risk and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants account balances and the amounts reported in the statements of net assets available for benefits.

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Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements (continued)

9. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

		December 31 2006
Net assets available for benefits per the financial statements	$	10,251,307,406
Less: Adjustment to fair value from contract value related to fully benefit-responsive investment contracts		(14,872,081)
Net assets available for benefits per the Form 5500	$	10,236,435,325

The following is a reconciliation of the net investment income per the financial statements for the year ended December 31, 2006 to the Form 5500:

		Year Ended December 31, 2006
Net investment income per the financial statements	$	1,432,223,831
Less: Adjustment between fair value and contract value related to fully benefit responsive investment contracts		(14,872,081)
Net investment income per Form 5500	$	1,417,351,750

10. Subsequent Events

Effective January 1, 2007, Roth 401(k) contributions will be permitted to be made to the Plan. The Plan shall also accept rollover contributions to a Roth deferral account from another Roth deferral account as described in Code section 402A(e)(1) and only to the extent the rollover is permitted under the rules of section 402(c) of the Code. Roth deferrals shall be treated as deferred contributions for all purposes under the Plan, including Company matching contributions.

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Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements (continued)

10. Subsequent Events (continued)

In May 2007, the Investment Review Committee approved changes to the Plan s investment lineup, including elimination of three of the Tier 1 funds, creation of several target date funds to replace the eliminated Tier 1 funds, and changing the default fund for automatic enrollment from the Stable Value Fund to the appropriate target date fund based on the participant's expected retirement date. The changes are expected to be implemented in late 2007.

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Supplemental Schedule

Hewlett-Packard Company 401(k) Plan

EIN: 94-1081436 PN: 004

Schedule H, Line 4i - Schedule of Assets (Held at End of Year)

December 31, 2006

(c)

(a)	(b) Identity of Issue, Borrower, Lessor, or Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value	(e) Current Value
Short-term investments			
	Dreyfus Cash Management Portfolio	22,283,982 shares	$ 22,283,983
	Mellon EB Temporary Investment	2,575,497 shares	2,575,497
	The Boston Company Pooled Employee Liquidity Fund	6,207,690 shares	6,207,690
*	Fidelity Institutional Cash Portfolio	56,751,002 shares	56,751,002
	SOC GEN NA Y Commecial Paper	$1,700,000 principal, 5.2%, due 4/2/07	1,670,042
			89,488,214
Registered investment companies			
	Mainstay I CAP Equity Portfolio	2,346,935 shares	105,682,475
	Artisan International Fund	3,127,998 shares	90,680,670
	PIMCO High Yield Fund	7,192,957 shares	71,138,342
	PIMCO Real Return Fund	5,126,748 shares	54,599,868
	Vanguard PRIMECAP ADMFund	11,065,929 shares	791,767,220
	American Funds New World Fund	2,788,123 shares	135,335,475
	PIMCO Global Bond II Fund	2,631,894 shares	25,266,180
	MFS International New Discovery Fund	8,559,302 shares	238,633,342
	Dodge & Cox International Stock	4,118,418 shares	179,810,121
	Domini Social Equity Fund	1,659,298 shares	20,973,521
*	Fidelity Magellan Fund	6,461,818 shares	578,461,920
*	Fidelity Contrafund	9,798,966 shares	638,892,576
*	Fidelity Growth & Income Portfolio	8,108,279 shares	252,572,878
*	Fidelity Real Estate Investment Portfolio	6,547,568 shares	