HEWLETT PACKARD CO
Form 11-K
June 29, 2006

**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, 2005

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, 2005 and 2004, and for the Year Ended December 31, 2005
with Report of Independent Registered Public Accounting Firm

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Hewlett-Packard Company 401(k) Plan

Financial Statements and Supplemental Schedule

December 31, 2005 and 2004,
and for the Year Ended December 31, 2005

## 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, 2005 and 2004, and the related statement of changes in net assets available for benefits for the year ended December 31, 2005. 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 audit 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, 2005 and 2004, and the changes in its net assets available for benefits for the year ended December 31, 2005, 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, 2005, 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
May 25, 2006

Hewlett-Packard Company 401(k) Plan

Statements of Net Assets Available for Benefits

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| **Assets** | | |
| Cash | **$ 312,433** | $ - |
| Investments | **8,798,830,023** | 8,068,624,270 |
| Receivables: | | |
| Company contribution receivable | **7,554,760** | 9,418,626 |
| Amount due from brokers for securities sold | **36,154,295** | 18,844,047 |
| Interest and dividends receivable | **4,409,007** | 3,709,463 |
| Total receivables | **48,118,062** | 31,972,136 |
| Total assets | **8,847,260,518** | 8,100,596,406 |
| **Liabilities** | | |
| Amounts due to brokers for securities purchased | **46,167,970** | 16,307,044 |
| Other payables | **3,051,234** | 2,943,998 |
| Total liabilities | **49,219,204** | 19,251,042 |
| Net assets available for benefits | **$ 8,798,041,314** | $ 8,081,345,364 |

*See accompanying notes.*

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Hewlett-Packard Company 401(k) Plan

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 2005

| | | |
|---|---|---|
| **Additions** | | |
| Contributions: | | |
| Participant | $ | 458,407,459 |
| Company | | 200,357,352 |
| Rollover | | 60,370,572 |
| Total contributions | | 719,135,383 |
| Investment income: | | |
| Interest and dividends | | 286,373,895 |
| Net realized and unrealized appreciation in fair value of investments | | 607,082,193 |
| Total investment income | | 893,456,088 |
| Total additions | | 1,612,591,471 |
| **Deductions** | | |
| Benefits paid directly to participants | | 886,723,120 |
| Administrative expenses and fees | | 2,895,954 |
| Investment management fees | | 6,276,447 |
| Total deductions | | 895,895,521 |
| Net increase | | 716,695,950 |
| Net assets available for benefits: | | |
| Beginning of year | | 8,081,345,364 |
| End of year | $ | 8,798,041,314 |

See accompanying notes.

Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements

December 31, 2005

**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 17 brand-name mutual funds spanning several investment categories. Additionally, the Plan offers Company common stock as an investment option.

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.

Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements (continued)

**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 $14,000 for 2005.

Participants who are age 50 or older by the end of the plan year can contribute an additional $4,000 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.

The Company contributes 100% of the first 3% and 50% of the next 2% of compensation that each participant contributes to the Plan. The Plan uses a year-end true-up matching contribution feature to allow participants to receive the maximum matching contribution available by making up any loss in matching contributions resulting from the participant s individual savings strategies. To be eligible to receive the year-end true-up match, the participant must be employed on the last day of the plan year. The true-up matching contribution was $7,554,760 for the year ended December 31, 2005.

**Vesting**

Participants are one hundred percent vested in the Plan at all times.

Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements (continued)

**1. Description of the Plan (continued)**

**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. All amounts in participant accounts, including amounts invested in the Agilent Stock Fund prior to the June 2, 2000, spin-off of Agilent Technologies, Inc., are participant-directed.

However, effective June 2, 2000, no amounts may be directed into the Agilent Stock Fund. The Agilent Stock Fund was closed effective March 31, 2005. Proceeds from the liquidation of the fund were invested in the Stable Value Fund from which participants may redirect their investment, consistent with the Plan rules.

**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. Participants with account balances exceeding $5,000 may elect to receive a series of cash installment payments at their required beginning date. Lump-sum payments may be made in cash or shares of stock for distribution from the Company Stock Fund and prior to March 31, 2005, the Agilent Stock Fund. Hardship distributions and in-service withdrawals are permitted if certain criteria are met.

Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements (continued)

**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**

**Investment Valuation and Income Recognition**

Except for investment contracts, 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 quoted redemption value on the last business 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.

Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

Investments in guaranteed investment contracts and synthetic investment contracts are stated at contract value, which approximates fair value, because they are fully benefit-responsive. Contract value represents contributions made plus interest accrued at the contract rate, less withdrawals. The guaranteed investment contracts are promises by an insurance company or bank to repay principal plus accrued income at contract maturity, subject to the creditworthiness of the issuer. Synthetic investment contracts consist of various fixed income investments, together with contracts under a bank or other institution, which provide for fully benefit-responsive withdrawals by plan participants at contract value. There are no limitations on liquidity guarantees, and no valuation reserves are being recorded to adjust contract amounts.

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.

**3. Investments**

The following investments represent 5% or more of the fair value of the Plan s net assets:

| | December 31 | |
|---|---|---|
| | **2005** | **2004** |
| Hewlett-Packard Company common stock | **$ 954,974,636** | $ 810,232,925 |
| Fidelity Magellan Fund | **609,935,731** | 725,591,053 |
| Fidelity Contrafund | **577,471,923** | 454,973,081 |
| Vanguard PRIMECAP Fund | **716,991,549** | 690,285,001 |
| Fidelity Low-Priced Stock Fund | **442,313,583** | 437,765,920 |
| Vanguard Employee Benefit Index Fund | **952,910,499** | 944,314,522 |
| Dwight Target 2 Fund | **549,406,888** | 433,680,009 |

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Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements (continued)

**3. Investments (continued)**

During 2005, 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 (Depreciation) in Fair Value of Investments |
|---|---|
| Registered investment companies | $ 137,143,728 |
| U. S. government securities | (673,087) |
| Common stock | 86,534,362 |
| Company common stock | 266,703,410 |
| Common collective trust fund | 117,373,780 |
| | $ 607,082,193 |

**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.

The average yield of the various investment contracts in the Stable Value Fund for 2005 and 2004 was approximately 4.74% and 4.50%, respectively. The crediting interest rates at December 31, 2005 and 2004, range from 3.19% to 6.24% and 3.19% to 7.84%, respectively. 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%. The fair value of the guaranteed investment contracts, estimated by the issuers based on discounted cash flows, was $17,124,423 at December 31, 2005 and $108,801,050 at December 31, 2004. The fair value of the underlying assets related to the synthetic investment contracts was $1,089,792,281 at December 31, 2005 and $850,371,023 at December 31, 2004, resulting in positive wrapper values totaling $9,739,927 at December 31, 2005 and negative wrapper values totaling $(10,154,670) at December 31, 2004.

Hewlett-Packard Company 401(k) Plan

Notes to Financial Statements (continued)

**5. Income Tax Status**

The Plan has received a determination letter from the Internal Revenue Service 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. 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, is qualified and the related trust is tax-exempt.

**6. Related Party Transactions**

Transactions in shares of the Company s common stock qualify as party-in-interest transactions under the provisions of ERISA. During 2005, the Plan made purchases of approximately $53,311,435 and sales of approximately $175,268,135 of the Company s common stock.

**7. 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.

**8. Subsequent Events**

Effective January 1, 2006, employees with fewer than 62 points, calculated as age plus years of service, 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.

In addition, the Company will match contributions for all participants on a pay-period basis throughout the year. The year-end true-up match will no longer be made beginning with the 2006 plan year. The final true-up match was provided for the 2005 plan year in early 2006.

Effective January 1, 2006, all new employees will be subject to a three-year cliff vesting schedule with regard to 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 earning three years of credited service, at which time they will become 100% vested in their matching contributions.

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, 2005

| (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 | 15,358,548 | shares | $ 15,358,548 |
| | Mellon EB Temporary Investment | 2,241,294 | shares | 2,241,294 |
| | The Boston Company Pooled Employee Liquidity Fund | 3,344,440 | shares | 3,344,440 |
| * | Fidelity Institutional Cash Portfolio | 7,651,000 | shares | 7,651,000 |
| | BNP PARBS FIN CP 4.34% | 5,600,000 | shares | 5,541,265 |
| | DNB NOR BK DN 0% 2/22/06 | 4,800,000 | shares | 4,747,114 |
| | HBOS TREAS DN 0% 2/24/06 | 5,600,000 | shares | 5,536,677 |
| | SOC GEN NA YCP 4.34% | 2,400,000 | shares | 2,373,671 |
| | WESTPAC BANK 42CP 0% | 2,300,000 | shares | 2,277,592 |
| | | | | 49,071,601 |
| **Registered investment companies** | | | | |
| | ICAP Equity Portfolio | 1,811,778 | shares | 74,590,884 |
| | Artisan International Fund | 1,366,217 | shares | 34,578,945 |
| | Montag & Caldwell Growth Fund | 203,879 | shares | 4,866,603 |
| | PIMCO High Yield Fund | 4,918,941 | shares | 47,812,108 |
| | PIMCO Real Return Fund | 5,310,134 | shares | 58,836,289 |
| | Vanguard PRIMECAP Fund | 10,579,778 | shares | 716,991,549 |
| | American Funds New World Fund | 1,596,229 | shares | 61,853,869 |
| | PIMCO Global Bond II Fund | 2,088,733 | shares | 20,427,806 |
| | MFS International New Discovery Fund | 6,613,399 | shares | 160,374,919 |
| | BNY Hamilton Small Cap Growth Fund | 966,980 | shares | 14,301,630 |
| | Domini Social Equity Fund | 1,841,238 | shares | 20,842,819 |
| | Templeton Foreign Advisor Class | 11,024,786 | shares | 139,463,544 |
| * | Fidelity Magellan Fund | 5,730,324 | shares | 609,935,731 |
| * | Fidelity Contrafund | 8,917,108 | shares | 577,471,923 |
| * | Fidelity Growth & Income Portfolio | 7,438,656 | shares | 255,889,762 |
| * | Fidelity Real Estate Investment Portfolio | 5,117,763 | shares | 159,469,486 |
| * | Fidelity Low-Priced Stock Fund | 10,830,401 | shares | 442,313,583 |
| | Dodge & Cox Income Fund | 7,460,667 | shares | 93,556,763 |
| | Dodge & Cox Stock Fund | 1,118,759 | shares | 153,516,112 |
| | Lord Abbett Midcap Value Fund | 1,071,938 | shares | 23,979,254 |

Hewlett-Packard Company 401(k) Plan

EIN: 94-1081436 PN: 004

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

December 31, 2005

| (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 |
|---|---|---|---|---|
| **Registered investment companies (continued)** | | | | |
| | PIMCO Asset Backed Securities Fund | 196,435 | shares | $ 2,064,537 |
| | PIMCO Emerging Markets Fund | 590,635 | shares | 6,691,900 |
| | PIMCO International Portfolio | 1,766,621 | shares | 8,780,106 |