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HEWLETT PACKARD CO
Form 11-K
June 24, 2002

June 24, 2002

Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Compaq Computer Corporation
Commission File No. 1-4423
Annual Report on Form 11-K for
The Compaq Computer Corporation 401(k) Investment Plan

Ladies and Gentlemen:

Pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended, I am transmitting on behalf of Compaq Computer Corporation its Annual Report on Form 11-K for the Compaq Computer Corporation 401(k) Investment Plan for the fiscal year January 1, 2001 to December 31, 2001.

Very truly yours,

/s/ Ann O. Baskins

ANN O. BASKINS
Vice President
and Secretary

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

(Mark One)

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

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for the fiscal year ended December 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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:

COMPAQ COMPUTER CORPORATION 401(k) INVESTMENT PLAN

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

COMPAQ COMPUTER CORPORATION
3000 HANOVER STREET
PALO ALTO, CALIFORNIA 94304

REQUIRED INFORMATION

COMPAQ COMPUTER CORPORATION
401(k) INVESTMENT PLAN

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
DECEMBER 31, 2001 AND 2000 AND FOR THE YEAR ENDED DECEMBER 31, 2001

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REPORT OF INDEPENDENT AUDITORS

Participants and Administrative Committee of the
Compaq Computer Corporation
401(k) Investment Plan

We have audited the accompanying statements of net assets available for benefits of Compaq Computer Corporation 401(k) Investment Plan as of December 31, 2001 and 2000, and the related statement of changes in net assets available for benefits for the year ended December 31, 2001. 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 auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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, 2001 and 2000, and the changes in its net assets available for benefits for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. 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, 2001, is presented for purposes 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. The 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

ERNST & YOUNG, LLP

Houston, Texas

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May 6, 2002

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COMPAQ COMPUTER CORPORATION
401 (K) INVESTMENT PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

| | DECEMBER 31, | |
|-----------------------------------|------------------|------------------|
| | 2001 | 2000 |
| ----- | | |
| ASSETS | | |
| Investments | \$ 3,030,777,096 | \$ 3,310,800,451 |
| Contribution receivable: | | |
| Employer | 112,722 | 114,816 |
| Participant | - | 151,721 |
| | ----- | ----- |
| Net assets available for benefits | \$ 3,030,889,818 | \$ 3,311,066,988 |
| | ===== | ===== |

See accompanying notes.

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COMPAQ COMPUTER CORPORATION
401(k) INVESTMENT PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED
DECEMBER 31, 2001

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| | |
|---|------------------|
| Additions: | |
| Participant contributions | \$ 208,310,362 |
| Employer contributions | 123,045,148 |
| Rollovers | 10,028,456 |
| Dividends and interest | 72,574,120 |
| | ----- |
| Total additions | 413,958,086 |
| Deductions: | |
| Net depreciation in fair value of investments | 459,749,170 |
| Benefit payments | 237,384,752 |
| | ----- |
| Total deductions | 697,133,922 |
| Transfer to other qualified plan | (1,554,886) |
| Transfer from other qualified plans | 4,553,552 |
| | ----- |
| Net decrease | (280,177,170) |
| Net assets available for benefits: | |
| Beginning of year | 3,311,066,988 |
| | ----- |
| End of year | \$ 3,030,889,818 |
| | ===== |

See accompanying notes.

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COMPAQ COMPUTER CORPORATION
401(K) INVESTMENT PLAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. DESCRIPTION OF PLAN

GENERAL

The following description of the Compaq Computer Corporation 401(k) Investment Plan (the "Plan") is provided for general information only. The Plan, established April 1, 1985, is a defined contribution plan covering all eligible employees of Compaq Computer Corporation and certain of its subsidiaries (the "Company"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). Participants should refer to the Summary Plan Description for a more complete description of the Plan's provisions, a copy of which is available from the Company.

The Plan was restated in its entirety effective January 1, 2001 to amend the Plan to comply with tax legislation acts and to reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001.

Effective September 4, 2001, the Company entered into an agreement and plan of

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reorganization with Hewlett-Packard Company ("HP") and Heloise Merger Corporation. Effective May 3, 2002, the Company became a wholly owned subsidiary of HP.

Effective January 2, 2001, in connection with certain divestitures, net assets of approximately \$1.6 million representing individual account balances of certain participants were transferred to the B2E Solutions 401(k) Plan.

Effective December 31, 2001, individual account balances from B2E Solutions 401(k) Plan of approximately \$1.6 million were returned to the Plan.

Effective December 31, 2001, net assets of approximately \$2.9 million representing individual account balances returned to the Plan from Ranier Technology, Inc. 401(k) Plan.

CONTRIBUTIONS

Participants may contribute from 1% to 19% of pretax annual compensation, as defined in the plan document. Participants may also rollover amounts representing distributions from other qualified defined benefit or defined contribution plans.

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The Company contributes an amount equal to the participant's contribution which does not exceed 6% of \$170,000 of base compensation for all participants except certain former employees of Digital Equipment Corporation ("Digital"). For those former Digital employees who had elected to earn employer pay credits in another company-sponsored benefit plan, so long as they remain eligible, the Company contributes an amount equal to the lesser of (i) 33 1/3% of such participant's contributions or (ii) 2% of the participant's compensation, not to exceed \$170,000 of base compensation, to the 401(k) plan and contributes the remaining 4% as an employer credit in the other company-sponsored benefit plan.

Participants direct the investment allocation of all contributions.

PARTICIPANT ACCOUNTS

Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution, and (b) Plan earnings or losses, and is charged with an allocation of administrative expenses, if any. Forfeited balances of terminated participants' nonvested accounts are used to reduce future Company contributions or pay eligible plan expenses. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account, net of any outstanding loans against those vested amounts.

VESTING

Participants are immediately vested in their deferral and rollover contributions plus actual earnings thereon. Vesting in the Company contribution portion of their accounts plus actual earnings thereon is based on years of service. Effective January 1, 1999, participants vest 20% per year in the employer contributions with 100% vesting after 5 years of credited service. The Plan document provides the vesting provisions for a participant's interest in their employer contribution account prior to January 1, 1999.

PARTICIPANT LOANS

Participants may borrow from their fund accounts up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loan terms range from 1 - 5 years or up to 30 years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at a fixed rate of 1% above the prime rate for the term of the loan. Principal and interest is paid ratably through payroll deductions. A participant can have no more than three loans outstanding at any given time.

PAYMENT OF BENEFITS

On termination of service or death, a participant or beneficiary may elect to receive Plan benefits in either a lump-sum distribution or in periodic installments. In addition, a participant who has attained age 59 1/2 may make withdrawals of his or her account while employed by the Company. The Plan also allows for hardship withdrawals.

ADMINISTRATIVE EXPENSES

The Company pays certain administrative expenses of the Plan.

PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts.

2. SUMMARY OF ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Benefits are recorded when paid.

INVESTMENT VALUATION AND INCOME RECOGNITION

The Plan's investments are stated at fair value, which represents the quoted market price on the last business day of the Plan year. Shares of registered investment companies are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end. The Company stock is valued at its quoted market price. Investments in common collective trust funds are based on the quoted market value as determined by the issuer based on the fair value of the underlying investments. The participant loans are valued at their outstanding balances, which approximates fair value.

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The Stable Value Fund is stated at fair value, which approximates contract value. It is expected that each unit of the Stable Value Fund will maintain a constant net asset value of \$1. However, there is no assurance that this will be the case. Contract value represents contributions made plus interest accrued at the contract rate, less withdrawals. Insurance contracts and bank contracts are nontransferable, but provide for benefit-responsive withdrawals by Plan participants at contract value in accordance with Statement of Position 94-4. The Stable Value Fund invests in both guaranteed investment contracts and alternative investment contracts. The guaranteed investment contracts are promises by an insurance company or bank to repay principal plus accrued income at contract maturity subject to the credit worthiness of the issuer. Alternative investment contracts consist of investments together with contracts under which a bank or other institution provides for benefit responsive withdrawals by Plan participants at contract value. In determining fair value, the Board of Directors of the Vanguard Fiduciary Trust Company considers such factors as the benefit responsiveness of the investment contracts, the ability of the parties to perform in accordance with the terms of the contracts, and the likelihood that plan-directed withdrawals would cause payments to Plan participants to be at amounts other than 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 financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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RISK AND UNCERTAINTIES

The Plan provides for various investments in common stock, mutual funds, and the Stable Value Fund. In general, investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits and participant account balances.

3. INVESTMENTS

The Plan's investments are held by Vanguard Fiduciary Trust Company. Individual investments that represent 5% or more of net assets available for benefits at year end are as follows:

December 31
2001 2000

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| | | |
|---|----------------|----------------|
| Compaq Computer Corporation common stock | \$ 297,575,020 | \$ 432,074,249 |
| Compaq Computer Corporation Stable Value Fund | 616,237,472 | 631,185,879 |
| Vanguard 500 Index Fund | 600,928,759 | 502,477,388 |
| Vanguard Primecap Fund | 583,842,804 | 683,230,825 |
| Vanguard Growth and Income Fund | 324,084,769 | 457,833,888 |
| Franklin Small - Mid Cap Growth Fund, Class A | 137,365,252 | 197,662,444 |

During 2001, the Plan's investments (including investments bought, sold, and held during the year) appreciated/(depreciated) in value as follows:

| | |
|--------------------------|------------------|
| Mutual funds | \$ (316,030,212) |
| Common collective trusts | 11,489,674 |
| Common stock | (155,208,632) |
| | ----- |
| | \$ (459,749,170) |
| | ===== |

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The average yield of the Stable Value Fund for 2001 and 2000 was 6.24% and 6.86%, respectively. The crediting interest rates at December 31, 2001 and 2000 range from 4.50% to 7.84% and 5.64% to 7.84%, respectively. Investment contracts typically mature between 2 and 5 years after the date of initial deposit. The interest rate paid by the issuer or contract rate may be fixed over the life of the contract or adjusted periodically. Contract rates should not fall below -0-%.

4. INCOME TAX STATUS

The Plan has received a determination letter from the Internal Revenue Service ("IRS") dated January 3, 1995, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the "Code") and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The plan document was completely restated subsequent to its submission for a determination letter. On February 25, 2002, the Company submitted a request to the IRS for a determination on the restated plan document. The Company has indicated that it will take the necessary steps, if any, to maintain the Plan's qualified status.

5. SUBSEQUENT EVENTS

Effective May 3, 2002, any active employee of the Company and any former employee who had an account balance under the Plan as of May 3, 2002 was made fully vested in any unvested and unforfeited balance they may have had under the Plan as of this date.

In addition, any former employee (including a beneficiary or alternate payee of a former employee) with an account balance in the Plan as of May 3, 2002 is prohibited from further investments in the Compaq Stock Fund (which became the Hewlett-Packard Stock Fund effective May 3, 2002), and any dividend payments or

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loan repayment that would have been invested in the Hewlett-Packard Stock Fund will be invested in the Stable Value Fund.

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SUPPLEMENTAL SCHEDULE

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COMPAQ COMPUTER CORPORATION
401(K) INVESTMENT PLAN
EIN: 76-0011617 PN: 001

SCHEDULE H, LINE 4(I) - SCHEDULE OF ASSETS (HELD AT END OF YEAR)

IDENTITY OF ISSUE,
BORROWER, LESSOR, OR
SIMILAR PARTY

DESCRIPTION OF INVESTMENT

CURRENT
VALUE

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| | | | |
|---|-----------------------------|--|----------------|
| * | Compaq Computer Corporation | Common stock | \$ 297,575,0 |
| | Franklin Capital Guardian | Small - Mid Cap Growth Fund, Class A | 137,365,2 |
| | T. Rowe Price | International Equity Fund | 105,195,4 |
| | The Vanguard Group | Small-Cap Stock Fund | 4,681,8 |
| * | The Vanguard Group | LifeStrategy Conservative Growth Fund | 34,948,9 |
| * | The Vanguard Group | LifeStrategy Growth Fund | 103,968,2 |
| * | The Vanguard Group | LifeStrategy Moderate Growth Fund | 100,411,3 |
| * | The Vanguard Group | Total Bond Market Index Fund | 18,165,9 |
| * | The Vanguard Group | 500 Index Fund | 600,928,7 |
| * | The Vanguard Group | PrimeCap Fund | 583,842,8 |
| * | The Vanguard Group | Growth and Income Fund | 324,084,7 |
| | The Vanguard Group | Compaq Computer Corporation Stable Value Fund** | 616,237,4 |
| * | The Vanguard Group | Extend Market Index Fund | 30,091,0 |
| * | Wells Fargo Bank, N.A. | S&P 500 Index Fund | 216,0 |
| * | Wells Fargo Bank, N.A. | Stable Return Fund | 397,8 |
| | Goldman Sachs | Government Income Fund Service Class | 375,8 |
| | Dreyfus | Dreyfus Technology Growth Fund | 663,8 |
| | Janus Funds | Janus Investment Growth & Income Fund | 285,2 |
| | MFS | New Discovery Fund Class A | 559,6 |
| * | Wells Fargo Bank, N.A. | International Equity Fund Institutional Class | 114,4 |
| * | Wells Fargo Bank, N.A. | Large Company Growth Fund Institutional Class | 246,6 |
| | Janus Funds | Janus Investment Fund Balanced Fund | 23,5 |
| * | The Vanguard Group | Equity Income Fund | 23,0 |
| * | The Vanguard Group | International Group Fund | 104,4 |
| * | The Vanguard Group | Small Cap Index Fund | 134,9 |
| * | The Vanguard Group | Retirement Savings Trust | 194,9 |
| * | Participant loans | Loans with varying maturing dates and interest rates ranging from 5.75% to 10% | 69,939,6 |
| | | | ----- |
| | | | \$ 3,030,777,0 |
| | | | ===== |

* Party-in-interest

** See attached for detail of underlying investments

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| IDENTITY OF ISSUE, BORROWER, LESSOR, OR SIMILAR PARTY ----- | INTEREST RATE ---- | MATURITY DATE ---- | CURREN VALUE ----- |
|--|--------------------------|--------------------------|--|
| COMPAQ COMPUTER CORPORATION STABLE VALUE FUND: AIG Financial Products 245258: Wrapper *Vanguard Total Bond Market Institutional Index | 6.23 | N/A | \$ (2,027, 59,274, ----- \$ 57,246, |
| AIG Life Assurance 1104 | 7.60 | 8/15/2003 | 13,776, |

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| | | | |
|--|------|------------|--|
| Allstate Life Insurance 6210 | 7.15 | 7/1/2003 | 32,006, |
| Bankers Trust 175570 | 6.32 | 5/1/2002 | 386, |
| Bayerische Landesbank BLB00005B | 7.84 | 5/15/2005 | 10,494, |
| Bayerische Landesbank 00-005 | 7.53 | 2/15/2005 | 11,361, |
| Canada Life Insurance P45973 | 7.13 | 1/2/2002 | 3,814, |
| CDC Financial Products FA 423-01: Wrapper RASC 1999-KS4 AI6 - Amstel Commercial Paper | 4.50 | 11/21/2004 | (1,762, 26,883, ----- 25,121, |
| CDC Financial Products 423-02: Wrapper AMLT 1997-3 A7 - Motorola Commercial Paper | 6.72 | 12/25/2004 | (611, 18,324, ----- 17,713, |
| CDC Financial Products 423-03: Wrapper GTHEL 1999-D A6 - TASMAN Commercial Paper | 6.78 | 10/15/2003 | (78, 10,218, ----- 10,139, |
| -12- | | | |
| CDC Financial Products 423-04: Wrapper RFMS2 1999-H18 AI4 CF AB 1999-2 IA5 GTHEL 1999-D A6 | 7.09 | 10/15/2005 | \$(825, 5,918, 13,206, 1,991, ----- 20,291, |
| GE Life and Annuity Assurance 3435 | 7.66 | 5/15/2005 | 22,339, |
| Jackson National Life Insurance 1205 | 6.14 | 4/1/2002 | 3,383, |
| John Hancock Life Insurance 15119 | 6.47 | 7/15/2005 | 10,299, |
| John Hancock Life Insurance 8915 | 7.02 | 1/2/2002 | 3,814, |
| John Hancock Life Insurance 9656 | 6.30 | 10/1/2002 | 10,001, |
| John Hancock Life Insurance 9779 | 6.18 | 7/1/2003 | 13,197, |
| Massachusetts Mutual Life Insurance 35056 | 7.21 | 8/15/2005 | 10,908, |
| Metropolitan Life Insurance 25234 | 7.04 | 10/1/2002 | 25,004, |
| New York Life Insurance 270071: Wrapper GSI Collective Investment Trust | 7.06 | 3/15/2005 | (405, 11,318, ----- 10,912, |
| New York Life Insurance 30261-2 | 6.26 | 1/2/2003 | 13,613, |
| New York Life Insurance 31257-001 | 6.24 | 2/28/2006 | 5,268, |
| Principal Life Insurance 4-19159-3 | 6.35 | 3/31/2002 | 10,922, |
| Principal Life Insurance 4-191594 | 6.08 | 11/30/2005 | 10,493, |
| Rabobank Nederland CPQ090001: Wrapper *VFTC Corporate Bond Trust *VFTC Intermediate-Term Bond Trust | 5.41 | N/A | (265, 14,783, 21,040, |

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35,558,

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| | | | |
|--|------|-----------|------------------|
| Rabobank Nederland CPQ119901: | 6.88 | 9/30/2004 | |
| Wrapper | | | \$ (2,778, |
| *Vanguard Targeted Return Trust (4-03) | | | 12,148, |
| *Vanguard Targeted Return Trust (3-04) | | | 12,252, |
| *Vanguard Targeted Return Trust (2-04) | | | 12,229, |
| *Vanguard Targeted Return Trust (1-04) | | | 12,196, |
| | | | ----- 46,049, |
| State Street Bank & Trust 100003: | 6.23 | 9/30/2006 | |
| Wrapper | | | (2,422, |
| *Vanguard Targeted Return Trust (1-04) | | | 12,311, |
| *Vanguard Targeted Return Trust (3-06) | | | 9,956, |
| *Vanguard Targeted Return Trust (2-04) | | | 12,330, |
| *Vanguard Targeted Return Trust (1-06) | | | 10,818, |
| *Vanguard Targeted Return Trust (2-05) | | | 11,623, |
| *Vanguard Targeted Return Trust (2-06) | | | 10,850, |
| | | | ----- 65,467, |
| Travelers Life Insurance 17149 | 5.67 | 4/1/2002 | 6,147 |
| Travelers Life Insurance 17412 | 7.16 | 7/1/2003 | 10,001 |
| UBS Warburg 2752: | 7.14 | 9/30/2005 | |
| Wrapper | | | (4,171 |
| *Vanguard Targeted Return Trust (2-03) | | | 6,044 |
| *Vanguard Targeted Return Trust (4-04) | | | 13,573 |
| *Vanguard Targeted Return Trust (3-04) | | | 12,384 |
| *Vanguard Targeted Return Trust (3-05) | | | 11,284 |
| *Vanguard Targeted Return Trust (1-03) | | | 6,006 |
| *Vanguard Targeted Return Trust (3-03) | | | 12,196 |
| | | | ----- 57,319 |
| *Vanguard Prime Money Market Institutional | 2.32 | N/A | \$ 43,850 |
| | | Totals | ----- 616,90 |
| Pending Trades | | | (66 |
| Total Compaq Computer Corporation | | | ----- |
| Stable Value Fund | | | \$ 616,23 |
| | | | ===== |

* Party-in-interest

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SIGNATURES

The Plan. Pursuant to the requirements of the Securities and Exchange Act of 1934. The trustees (or other persons who administer the employee benefits plan) have duly caused this annual report to be signed by the undersigned thereunto duly authorized.

Date: June 24, 2002

COMPAQ COMPUTER CORPORATION
401(K) INVESTMENT PLAN

/s/ Ann O. Baskins

ANN O. BASKINS
Vice President,
and Secretary

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EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-87742) pertaining to the Compaq Computer Corporation 401(k) Investment Plan of our report dated May 6, 2002, with respect to the financial statements and schedule of the Compaq Computer Corporation 401(k) Investment Plan included in this Annual Report (Form 11-K) for the year ended December 31, 2001.

/s/ Ernst & Young LLP

ERNST & YOUNG, LLP

Houston, Texas
June 17, 2002

