3COM CORP
Form 10-K
July 25, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended May 30, 2008

OR

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

For the transition period from __________ to __________

Commission file number: 0-12867

3COM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**94-2605794**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
350 Campus Drive Marlborough, Massachusetts	**01752**
(Address of principal executive offices)	(Zip Code)

(508) 323-1000

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act**:**

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value per share	The NASDAQ Global Select Market
Preferred Stock Purchase Rights	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of November 30, 2007, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $1,723,402,811 based on the closing sale price as reported on The NASDAQ Global Select Market.
Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at July 18, 2008
Common Stock, $0.01 par value per share	405,288,012 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Stockholders to be held September 24, 2008 (Proxy Statement)	Part III, to the extent stated herein

3Com Corporation
Form 10-K Annual Report
For the Fiscal Year Ended May 30, 2008
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EX-10.2 3COM Corporation 1984 Employee Stock Purhcase Plan
EX-10.32 Stand Alone Stock Option Agreement dated May 6, 2008
EX-10.33 Stand Alone Restricted Stock Agreement dated May 6, 2008
EX-10.54 First Amendment to A&R Credit Agreement dated June 18, 2008
EX-21.1 Subsidiaries of Registrant
EX-23.1 Consent of Independent Registered Public
EX-31.1 Section 302 Certification of CEO
EX-31.2 Section 302 Certification of CFO

EX-32.1 Section 906 Certification of CEO & CFO

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We use a 52 or 53 week fiscal year ending on the Friday nearest to May 31, with each fiscal quarter ending on the Friday generally nearest August 31, November 30 and February 28. For presentation purposes, the periods are shown as ending on August 31, November 30, February 28 and May 31, as applicable.

We acquired majority (51 percent) ownership of Huawei-3Com Co., Ltd. n/k/a H3C Technologies Co., Limited (H3C), a China-based networking equipment business, on January 27, 2006 and determined it was then appropriate to consolidate H3C s results. For convenience of close purposes we consolidated the results of H3C as of February 1, 2006. H3C follows a calendar year basis of reporting and therefore results are consolidated on a two-month time lag. In fiscal 2006, we recorded equity income for the period April 1, 2005 through January 31, 2006 and consolidated H3C s results for the period February 1, 2006 through March 31, 2006.

We acquired the remaining 49 percent minority interest of H3C on March 29, 2007.

3Com, the 3Com logo, Digital Vaccine, IntelliJack, NBX, OfficeConnect, TippingPoint and TippingPoint Technologies are registered trademarks and H3C and VCX are trademarks of 3Com Corporation or one of its wholly owned subsidiaries. Other product and brand names may be trademarks or registered trademarks of their respective owners.

This Annual Report on Form 10-K contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements regarding the following aspects of our business: H3C strategy, growth, dependence, expected benefits, tax rate, sales from China, and resources needed to comply with Sarbanes-Oxley and manage operations; impact of recent accounting regulations; expected annual amortization expense; environment for enterprise networking equipment; challenges relating to sales growth; trends and goals for each of our segments and regions; expectation of license fees totaling $70 million and other resolutions in connection with agreement with Realtek; intent to pursue termination fee; supply of components; research and development focus; future sales of connectivity products; execution of our go-to-market strategy; strategic product and technology development plans; goal of profitability; dependence on China; ability to satisfy cash requirements for at least the next twelve months; restructuring activities and expected charges to be incurred; expected cost savings from restructuring activities and integration; potential acquisitions and strategic relationships; future contractual obligations; recovery of deferred tax assets; reserves; market risk; outsourcing; competition and pricing pressures; expectation regarding base interest rates; impact of foreign currency fluctuations; belief regarding meritorious defenses to litigation claims and effect of litigation; and you can identify these and other forward-looking statements by the use of words such as may, can, should, expects, plans, antic believes, estimates, predicts, intends, continue, or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any forward-looking statements. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Part I Item 1A Risk Factors. All forward-looking statements included in this document are based on our assessment of information available to us at the time this report is filed. We do not intend, and disclaim any obligation, to update any forward-looking statements.

In this Form 10-K we refer to the People s Republic of China as China or the PRC.

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PART I

ITEM 1. BUSINESS

GENERAL

We provide secure, converged networking solutions on a global scale to organizations of all sizes. Our products and solutions enable customers to manage business-critical voice, video, data and other advanced networking technologies in a secure, scalable, reliable and efficient network environment. We deliver networking products and services for enterprises that view their networks as mission critical, and value cost-effective superior performance. Our products form integrated solutions and function in multi-vendor environments based upon open, not proprietary, platforms. Our objective and strategy is to be one of the leading enterprise networking companies by delivering innovative, secure, feature-rich networking products and solutions built on open platform technology.

3Com was incorporated in California on June 4, 1979 and reincorporated in Delaware on June 12, 1997. Our corporate headquarters are located in Marlborough, Massachusetts. We have offices and sales capabilities in 35 countries and 60 locations worldwide. Our Web site address is www.3Com.com. We make available on our Web site, free of charge, our SEC filings (including our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 filings on Forms 3, 4 and 5, and any amendments to those reports) as soon as reasonably practicable after we electronically file with or furnish such material to the Securities and Exchange Commission (SEC). The information contained on our Web site is not incorporated by reference in this Annual Report on Form 10-K. Further, a copy of this Annual Report on Form 10-K is located at the SEC s Public Reference Room at 100 F. Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at http://www.sec.gov.

MARKETS AND CUSTOMERS

We design and market our offerings to enterprises that vary in size from small business to large multi-national entities. These organizations range across a number of vertical industries, including education, finance, government, healthcare, insurance, manufacturing and real estate. We offer our customers solutions for mission-critical network environments on an open platform design.

Our product designs recognize that enterprise networking customers face the following fundamental challenges:

- Performance Enterprise networks have increasing performance requirements with the expansion of internet protocol, or IP, traffic driven by newer applications such as voice and video over IP.

- Security The threat environment for today s enterprises is rapidly changing and requires pervasive network solutions that help control access, quarantine malicious data, and restore data.

- Application delivery Enterprise customers have evolving needs for increased application solutions tied to their networks. Customers benefit from best-in-class solutions for needs such as wide area network, or WAN optimization and voice solutions integrated directly into their networking solutions.

- Cost effectiveness Enterprise customers value solutions which are affordable to acquire and operate and offer long-term scalability.

We believe that open platform technology offers our customers a more versatile environment for the increasing use of applications over network infrastructures. We further believe it offers a more cost-effective solution as it works in multi-vendor environments on a non-proprietary basis. Our open platform technology is designed into our switch and router products to directly deliver applications over networking capability. We believe that our customers benefit from the flexibility to interface best-in-class applications with our products and we therefore actively develop partnerships to deliver this value.

We focus on delivering superior networking solutions that offer a cost advantage to our customers to own and operate. Our products provide superior value through features such as lower power requirements, and inter-operability in multi-vendor networks. We believe that our global presence, brand identity, strong development organization and intellectual property portfolio provide a solid foundation for achieving our objectives.

Our products are sold on a worldwide basis through a combination of value added partners, distributors and direct sales representatives. We also work with service providers to deliver managed networking solutions for enterprise customers.

In support of the above vision we co-founded a Chinese joint-venture called H3C in 2003 to penetrate the developing China market as well as to create a strong development and operational base for building our networking solutions. In fiscal year

2007 we completed our acquisition of H3C. In fiscal 2008 we organized our operations into four reporting segments: H3C, Data Voice Business Unit (DVBU), TippingPoint, and Corporate Expenses (Corporate). Our H3C segment is our core for engineering and product development of a broad array of networking products and solutions, and it sells into the China market. Our DVBU segment designs and markets networking solutions targeted at customers in developed networking markets, and sells H3C s products and H3C-sourced networking gear on a worldwide basis. TippingPoint offers customers purpose built appliance security solutions through intrusion prevention systems, or IPS, technology and related virus protection services we call Digital Vaccine.

PRODUCTS AND SERVICES

H3C SEGMENT PRODUCTS AND SERVICES

H3C develops global products that address the global market. H3C products can generally be classified in the following categories:

§ *Networking LAN Switches, Routers, and Network Management Software;*

§ *Emerging Technology IP Storage and IP Video Surveillance;*

§ *Security Firewalls; and*

§ *Services.*

Networking

In order to meet the business and technology needs of our customers, our networking infrastructure products focus on the requirements for a secure, converged network: availability, performance, scalability and ease-of-use. We focus on reducing complexity and cost of ownership by making management and configuration of secure, converged voice and data networking much easier, and we continue to innovate around a standards-based, open architecture that supports multi-vendor environments.

LAN Switches

Switches are multi-port devices, located in the network core and at the network edge, that join multiple computers and peripheral devices and serve as the foundation for transporting voice, video and data over a network. We offer a number of fixed-configuration and modular chassis switches that we believe provide the performance and flexibility required by our customers.

Our switching products represent a broad offering, including full-featured modular, stackable and stand-alone switches ranging from 10 Megabits per second (Mbps) to near Terabit per second performance. Our switches are available as managed units, which are typically found in enterprise environments and unmanaged, standalone units, typically used by small and medium-sized organizations. We design our enterprise-class switches to share a common operating system and user interface that work together to lower the cost of ownership and management and enable customers to easily upgrade their network solution as their business and network requirements grow. Our switches also include robust network security features, and are built to support the convergence of data, voice and video. H3C s principal switch products are as follows:

§ *Core Routing Switches*. The S9500 Series 10G Multi-service Core Routing Switch is a new generation high performance switch. The S9500 series is designed to fully satisfy the requirements of end-users seeking its high capability, high reliability and multiple services. It is extensively applied as the core layer of E-government networks, campus networks, education networks and other enterprise networks and core layer or aggregation layer of carriers IP Metro Area Networks (MANs).

§ *Multi-Service Switches.* The S7500 Series high-end multi-service switch features high performance, high port density and high flexibility. It can be applied to the core layer of enterprise networks, campus networks and education MANs, to the convergence layer of carriers IP MANs, and to the access layer of data centers.

§ *Layer 3 Gigabit Stackable Switches* The 5500 series offers excellent security, reliability and multi-service support capability, making it an excellent choice for the convergence layer of large enterprise networks or campus networks, the core layer of medium- and small-sized enterprise networks, and the edge layer of MANs.

- § *Layer2 and Layer 3 Intelligent and Resilient Switches*. The Layer 2 series offers wire-speed Gigabit Ethernet switching products that provide high capacity with a full range of features. The Layer 3 series represents the next generation of desktop switches, which can help customers implement a gigabit Ethernet core network or aggregation layer with high availability as well as scalability.

Routers

Our routers, in combination with our other networking infrastructure products, provide a means of transporting converged voice and data traffic across an IP wide area network or WAN while preserving the quality of service or QoS required for mission critical applications.

Our H3C segment offers a full portfolio of router products from carrier-class core routers to modular routers to small business access routers designed to scale as these businesses grow. H3C router products are classified as SR, MSR and AR Series Routers. All SR routers are IPv6 ready and include carrier-class availability with redundancy in all key modules. MSR routers are oriented to support multiple-service applications, delivering wire speed and concurrent services of data, voice and video. The AR Series Routers are easy to manage, offer VPN functionality and support multiple security products.

- § *SR series Routers.* The SR family consists of core routers ranging from products that support a super-large capacity core router, which can be applied in national backbone networks, provincial backbone networks and other super-large networks (including those serving at the backbone network edge and MAN core), to those working at the core networks of industries and enterprises.

- § *Intelligent Multi-Service Enterprise Core Routers.* The MSR Series Routers support multiple services, integrating data, voice and video in one device. MSR adopts an optimized hardware and software structure to guarantee embedded security and significant performance while providing the services such as voice over IP or VoIP, business video and network analysis etc.

- § *Fixed Port Branch Routers.* The AR Series Access Routers are fixed-port products for small-sized enterprises and branch offices. They feature enhanced security, superior reliability and advanced QoS services.

Network and Access Management System

H3C offers a comprehensive network management solution designed to offer clients an end-to-end business management tool by providing a complete solution that integrates applications, resources and users. The Intelligent Management Center is a suite of scalable tools for simplifying network and access management on an open technology platform.

<u>Emerging Technology</u>

IP Storage

Our H3C segment is a leading developer of IP storage area network or IP SAN offerings in China. IP SAN is a third generation of technology for storage, and is based on the most advanced architecture and open, standard IP protocol. With the goal of storage virtualization and data management standardization, H3C integrates industry leading data management technology and application service technology on standard IP architecture, delivering a unified IP storage architecture.

IP Video Surveillance

IP video surveillance allows our customers to leverage existing network installations to cost effectively deliver video security features. The features of our switches, routers and network management such as power over Ethernet to power video devices and network management capabilities controlling access, are leveraged with surveillance equipment to deliver effective video surveillance solutions. Our H3C business unit sells integrated surveillance offerings to targeted vertical customers focused on integrated security solutions.

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Security

Firewalls

SecPath Firewalls are new-generation firewalls designed to provide a flexible, high-performance security solution for large and medium-enterprise central sites and service providers.

Services

H3C service offerings cover key aspects of support that customers need to keep their data networking solutions operating effectively, including telephone support, hardware replacement, software updates, dedicated on-site engineers and spare parts. H3C also offers high-end professional services and training to provide complete product plus service solutions for its customers. The portfolio of professional services includes assessment and design, project management, training and certifications, installation, and integration services that are especially important to customers that purchase higher-end switches, routers and IP telephony communications systems.

DATA AND VOICE BUSINESS UNIT (DVBU) SEGMENT PRODUCTS AND SERVICES

Our DVBU segment provides scalable, feature-rich, high performance, reliable, and secure standards-based networking solutions for customers on a global basis. Specifically, we believe our products appeal to enterprises and public sector organizations migrating to secure IP-based infrastructures that deliver converged voice and data applications. DVBU leverages our high-quality H3C developed offerings complemented with feature-specific designs oriented at the needs of customers globally. Our DVBU segment also supplements the H3C offerings with products purpose-built for globally targeted customers. DVBU products and services can generally be classified in the following categories:

§ *Networking;*

§ *IP Telephony;* and

§ *Services.*

Networking

Our DVBU segment markets H3C developed and manufactured networking equipment on a global scale. In addition to the offerings described above in our H3C segment products, DVBU carries a custom-developed product set of fixed configuration switches and routers designed to address the specific needs of our targeted verticals. All of our infrastructure platforms are based on open standards, which allows for interoperability as well as the ability to integrate emerging technologies and applications. Products include:

§ *Ethernet Switching.* We offer a full range of fixed-configuration and modular Ethernet switches that deliver performance and flexibility to the edge and core IP networks. At the edge, DVBU offerings include enterprise-class offerings such as the Switch 5500 family, Switch 4500 and Switch 4200 families of products, as well as our OfficeConnect® and Baseline series targeted at small and medium businesses. At the core, DVBU offers fully resilient, high-capacity and feature-rich modular switching products. These include our high-density Switch 8800 and our cost-effective Switch 7750 products.

§ *Wireless LAN.* We offer wireless networking products and solutions that enable users to stay connected to the network while at their desks or roaming within an enterprise or a large campus environment. The productivity increase associated with this ease of information access in a secure manner is driving many businesses to deploy wireless networks. We offer a complete portfolio of high-performance, standards-based wireless solutions, including 802.11 a/b/g wireless standards, along with wireless security and policy enforcement.

§ *Routers.* We offer routing solutions that bring enterprise-class WAN routing features, redundancy and performance to the regional offices of large enterprise customers and to the headquarters of medium-sized businesses. We also offer router products which provide fixed configuration solutions to securely connect small offices and remote offices of large enterprises.

- § *Security*. Leveraging the award winning TippingPoint Intrusion Prevention System (IPS), DVBU has a complete line of unified threat management (UTM) products that protect enterprises from the myriad of threats. The X-family of products complements the switching and wireless solutions to provide a fully secured network solution.

- § *Network Management*. We offer flexible and comprehensive network management application packages for advanced IT environments. Our network management applications help our customers manage large and small wired and wireless networks with tools for network monitoring, device control and fast problem resolution.

Internet Protocol (IP) Telephony

Voice communications are a mission critical function for businesses of all kinds and sizes around the world. IP is ubiquitous today both within an enterprise and outside of it, providing the ability for software applications and computers to communicate in an efficient manner. We offer a broad portfolio of IP telephony products that work together to deliver business-focused applications, including: next-generation dial tone, IP messaging, IP presence, IP conferencing, IP mobility and IP customer contact center services. Our secure, Session Initiation Protocol (SIP) based platform and applications are designed to meet the performance expectations of today s business environments: cost effectiveness, increased user productivity and strengthened customer interactions. Our IP telephony products fall within the following categories:

- § *IP Telephony Platforms*

- § *Convergence Application Suite*

- § *IP Phones*

Services

Our DVBU segment provides our channel partners and customers a single point of accountability for service performance and quality. Our global service offerings cover key aspects of support that customers need to keep their data networking and voice solutions operating effectively, including telephone support, hardware replacement, software updates, dedicated on-site engineers and spare parts. We also offer high-end professional services and training to provide complete product plus service solutions for our customers. Our portfolio of professional services includes assessment and design, project management, training and certifications, installation, and integration services that are especially important to our customers that purchase higher-end switches, routers and IP telephony communications systems.

To deliver our services, we employ a team of highly skilled and professional in-house services experts and also partner with select third party service providers. We also offer customers the benefits of virtually integrated services resources. Additionally, we have agreements with local and regional professional services providers to augment our onsite coverage and meet the demand for our services.

TIPPINGPOINT SECURITY DIVISION (TIPPINGPOINT) SEGMENT PRODUCTS

Security

We have a comprehensive security portfolio that includes end-to-end solutions for core-to-edge protection. Organizations can choose to implement overlaid or embedded security solutions that are automatic and centrally manageable and which provide adaptive and dynamic protection.

Our security products include the following:

- § *Intrusion Prevention Systems*;

- § *Security Services; and*

- § *Network Access Control.*

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Intrusion Prevention Systems

Our TippingPoint line of intrusion prevention systems or IPS are hardware-based products designed to analyze incoming data and prevent viruses and malicious traffic from entering the network. The TippingPoint IPS utilizes high-speed network processors that can operate at multi-Gigabit speeds. Our hardware platform is complemented by a robust security-oriented operating system and suite of vulnerability filters that can be dynamically updated. Our TippingPoint IPS offers bandwidth management, peer-to-peer protection, and default Recommended Settings to accurately block malicious traffic automatically upon installation without tuning.

The TippingPoint IPS provides application protection, performance protection and infrastructure protection through total packet inspection, which means that our system reviews all data processed through it for viruses and other malicious traffic. Application protection capabilities provide fast, accurate, reliable protection from internal and external cyber attacks. Through its infrastructure protection capabilities, the TippingPoint IPS protects IP telephony infrastructure, routers, switches, and other critical infrastructure from targeted attacks and traffic anomalies. Our performance protection capabilities enable customers to throttle non-mission critical applications that hijack valuable bandwidth and IT resources, thereby aligning network resources and business-critical application performance.

The switch-like performance characteristics of the TippingPoint IPS allow it to be placed at the core, in-line at the perimeter, on internal network segments, and at remote site locations with minimal or no adverse network impact. Additionally, our IPS solutions are deployed and managed using a scalable, tiered Security Management System (SMS). Using SMS, customers implement and manage coherent, enterprise-wide security policies based on rules and thresholds set within the SMS. The SMS offers a rich reporting system, allowing customized reports to be generated and distributed automatically on a scheduled basis. Support for multiple user profiles allows a range of users, such as administrators and executives, access to this management system.

Security Services

We provide a real-time update service, called the Digital Vaccine® service, which automatically and rapidly delivers vulnerability filters against the latest threats. To facilitate the creation of Digital Vaccine filters, our Threat Management Center monitors and collects security intelligence from customers and security agencies around the world. Based on this intelligence, we perform investigations of new software vulnerabilities and create antidotes that are delivered directly to our products. Additionally we offer installation, training and high-touch maintenance programs for our IPS equipment. Maintenance programs are offered as a bundled solution with our Digital Vaccine updates.

Network Access Control

We offer Network Access Control (NAC) features which enable enterprises to enforce device and user policies to ensure endpoint compliance, through our TippingPoint NAC Enforcer offering. NAC enables enterprises to verify the identity of users before allowing them to access different levels of the network. We are developing additional products for NAC functionality as well as investigating the integration of this technology into other network offerings.

SALES, MARKETING AND DISTRIBUTION

We use a broad distribution channel to bring our products and solutions to our customers. Our two-tier distribution channel comprises distributors and resellers.

Although a majority of our sales of enterprise networking products are made through our two-tier distribution channel, we also work with global systems integrators, service providers and direct marketers. Additionally, we maintain a field sales organization targeting small, medium and large enterprise accounts in conjunction with our partners.

COMPETITION

We compete in the networking infrastructure market, providing a broad portfolio of secure, converged voice and data networking products to small, medium, and large size organizations and, through our H3C segment s OEM sales, carrier customers. The market for our products is competitive, fragmented and rapidly changing. We expect competition to continue to intensify. Many of our competitors are bringing new solutions to market, focusing on specific segments of our target markets and establishing alliances and original equipment manufacturers (OEM) relationships with larger companies, some of which are our partners as well.

Our principal competitors include Alcatel Lucent, Avaya Inc., Cisco Systems, Inc., D-Link Systems, Inc., Enterasys Networks, Inc., Extreme Networks, Inc., F5 Networks, Inc., Foundry Networks, Inc., Hewlett-Packard Company, Juniper Networks, Inc., Mitel Networks Corporation, NETGEAR, Inc., and Nortel Networks Corporation. In addition, H3C also competes with key regional competitors such as Allied Telsis, Inc. (formerly Allied Telesyn), Buffalo Inc., Digital China, Hitachi, Huawei, and ZTE Corporation. TippingPoint s principal competitors are Cisco Systems, Inc., Internet Security Systems, Inc. (acquired by IBM), McAfee, Inc., and Sourcefire, Inc. Many of our competitors are larger than us and possess greater financial resources.

We believe the primary competitive factors in the enterprise networking infrastructure market are as follows:

- § *Maintain tier-one capability and presence.* To maintain tier-one capability and presence, a provider must have a comprehensive distribution channel and a strong financial position. In addition, that provider must have a globally-recognized and preferred brand and provide strong service and support capabilities.

- § *Offer innovative products and solutions.* To be considered innovative, a provider must deliver a broad line of products and solutions and maintain a substantial intellectual property portfolio.

RESEARCH AND DEVELOPMENT

Our research and development approach is to focus on activities that deliver differentiated products and solutions and drive reductions in product costs. Our current areas of focus include security, convergence of applications over IP, advanced switching, routing solutions and other advanced technologies. For activities such as mature technologies or widely available product design components, we work with contract developers and third parties. We believe this two-part approach increases our ability to bring products to market in a timely and cost effective manner and ensures that we focus on those products that matter most to our customers and clearly differentiate the products.

Our DVBU segment relies on H3C s engineering talent for new product development of enterprise switches and routers and on certain third party developers for small and medium size networking offerings. Our DVBU segment develops its voice offerings. Our TippingPoint segment develops the TippingPoint Intrusion Prevention Systems and Digital Vaccine security products and services. H3C develops its H3C core product portfolio.

Our research and development expenditures were $206.7 million in fiscal 2008, $215.6 million in fiscal 2007, and $101.9 million in fiscal 2006.

SIGNIFICANT CUSTOMERS AND PRODUCTS

For information regarding customer and product concentration for each of the last three fiscal years, see Note 19 to our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

FINANCIAL INFORMATION ABOUT SEGMENT, FOREIGN AND DOMESTIC OPERATIONS AND EXPORT

SALES

Segment financial data are set forth in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7, and in Note 19 of the Notes to the Company s Consolidated Financial Statements, which appears in Item 8 of this Annual Report on Form 10-K for the fiscal year ended May 31, 2008. A significant portion of our revenues are derived from overseas operations. The profitability of our segments is affected by fluctuations in the value of the U.S. dollar relative to foreign currencies, particularly the Chinese Renminbi. See the Geographic Information portion of Note 20 for further information relating to sales and long-lived assets by geographic area and Management s Discussion and Analysis of Financial Condition and Results of Operations.

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We market our products in all significant global markets, primarily through subsidiaries, sales offices, sales representatives, and relationships with OEMs and distributors with local presence. Outside the U.S., we have several research and development groups, with the two most significant being in China and the U.K. We also use contract developers in India. We maintain sales offices in 31 countries outside the U.S.

BACKLOG

Our backlog as of May 30, 2008, the last day of our 2008 fiscal year, was approximately $71.0 million (including $56.0 million of H3C backlog as of March 31, 2008), compared with backlog of approximately $65.7 million (including $54.8 million of H3C backlog as of March 31, 2007) as of June 1, 2007, the last day of our 2007 fiscal year. We include in our backlog purchase orders for which a delivery schedule has been specified for product shipment within one year. Generally, orders are placed by our customers on an as-needed basis and may be canceled or rescheduled by the customers without significant penalty to the customer. Accordingly, backlog as of any particular date is not necessarily indicative of our future sales.

SEASONALITY

Our H3C segment s calendar first quarter generally experiences some seasonal effect on sales, due to the Chinese New Year which typically falls during that quarter. Our DVBU and TippingPoint segments revenues and earnings have not been impacted by seasonality to any significant degree.

MANUFACTURING AND COMPONENTS

For the DVBU and TippingPoint segments we outsource the majority of our manufacturing and our supply chain management operations to contract manufacturers and original design manufacturer suppliers, with our H3C segment handling the remainder of these functions. This is part of our strategy to maintain global manufacturing capabilities and to reduce our costs. This subcontracting includes activities such as material procurement, assembly, test, shipment to our customers and repairs. We believe this approach enables us to reduce fixed costs and to quickly respond to changes in market demand. We have contract manufacturing arrangements with several companies, of which Jabil Circuits and Accton Technology Corp. were the two most significant during fiscal 2008 and fiscal 2007. Based on current and forecasted demand, our contract manufacturers are expected to have an adequate supply of components required for the production of our products.

We determine the components that are incorporated in our products and design the supply chain solution. Our suppliers manufacture based on rolling forecasts. Each of the suppliers procures components necessary to assemble the products in our forecast and test the products according to our specifications. Products are then shipped directly to our logistics provider. We generally do not own the components and our customers take title to our products upon shipment from the logistics provider or, in certain jurisdictions, upon payment. In certain circumstances, we may be liable to our suppliers for carrying costs and obsolete material charges for excess components purchased based on our forecasts.

For the H3C segment, a significant portion of self-designed products are also manufactured by contract manufacturers, mainly Flextronics, System Integration Electronics and Flash Electronics. However, H3C does retain an in-house manufacturing capability and capacity for pilot run, low volume production, as well as special projects, and this capability includes a state-of-the-art SMT (surface mount technology) line, backend assembly and test lines and distribution facilities. H3C typically takes title to the product directly from the contract manufacturer, builds an inventory position for forecasted sales and ships to the customer s designated delivery hub.

Although we have contracts with our manufacturers, those contracts set forth a framework within which the supplier may accept purchase orders from us. The contracts do not require them to manufacture our products on a long-term basis.

We use standard parts and components for our products where it is appropriate. We purchase certain key components used in the manufacture of our products from single or limited sources.

Purchase commitments with our single- or limited-source suppliers are generally on a purchase order basis. A number of vendors supply standard product integrated circuits and microprocessors for our products.

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INTELLECTUAL PROPERTY AND RELATED MATTERS

Through our research and development activities over many years, we have developed a substantial portfolio of patents covering a wide variety of networking technologies. This ownership of core networking technologies creates opportunities to leverage our engineering investments and develop more integrated, powerful, and innovative networking solutions for customers.

We rely on U.S. and foreign patents, copyrights, trademarks, and trade secrets to establish and maintain proprietary rights in our technology and products. We have an active program to file applications for and obtain patents in the U.S. and in selected foreign countries where potential markets for our products exist. Our general policy has been to seek to patent those patentable inventions that we expect to incorporate in our products or that we expect will be valuable otherwise. As of May 30, 2008, our DVBU segment had 1,425 issued U.S. patents (including 1,393 utility patents and 32 design patents) and 403 foreign issued patents. As of May 30, 2008, our TippingPoint segment had 7 issued U.S. patents (all of which are utility patents). Numerous patent applications that relate to our research and development activities are currently pending in the U.S. and other countries. We also have patent cross license agreements with other companies. As of March 31, 2008, the H3C portfolio includes 180 issued Chinese patents, over 1,050 pending Chinese applications, and 35 pending foreign applications. During fiscal 2008, we continued our patent licensing program, through which we identify potential sources of licensing revenue, including investigation of situations in which we believe that other companies may be improperly using our patented technology.

Our DVBU segment has 37 registered trademarks in the U.S. and has a total of 524 registered trademarks in 77 foreign jurisdictions. Our TippingPoint segment has 9 registered trademarks in the U.S. and has a total of 25 registered trademarks in 9 foreign jurisdictions. H3C has 10 registered trademarks in China and has a total of 58 registered trademarks in 14 foreign jurisdictions. Numerous applications for registration of domestic and foreign trademarks are currently pending for our DVBU, TippingPoint and H3C segments.

EMPLOYEES

	Total
Sales and marketing	1,826
Customer service and supply chain operations	983
Research and development	2,772
General and administrative	522
Total	6,103

The H3C segment has 4,684 employees, the DVBU segment has 920 employees, the TippingPoint segment has 287 employees and the Corporate segment has 212 employees.

Our employees are not represented by a labor organization and we consider our employee relations to be satisfactory. The DVBU, TippingPoint, and Corporate segments employee data is as of May 30, 2008 and the H3C segment employee data is as of March 31, 2008, the date of the H3C balance sheet we consolidated into our 2008 fiscal year end balance sheet.

Please see Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of certain restructuring actions affecting DVBU employee headcount.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following table lists the names, ages and positions held by all executive officers of 3Com as of July 25, 2008. There are no family relationships between any director (or nominee) or executive officer and any other director (or nominee) or executive officer of 3Com.

Name	Age	Position
Robert Y. L. Mao	64	Chief Executive Officer
Ronald A. Sege	51	President and Chief Operating Officer
Jay Zager	58	Executive Vice President, Chief Financial Officer
Neal D. Goldman	57	Executive Vice President, Chief Administrative and Legal Officer and Secretary
Dr. Shusheng Zheng	41	Executive Vice President, Chief Operating Officer, H3C

In addition, the foregoing individuals serve on the Boards of Directors of various subsidiaries of 3Com.

Robert Y. L. Mao has been our Chief Executive Officer since April 2008 and a member of our Board of Directors since March 2007. Prior to his appointment as Chief Executive Officer, Mr. Mao was most recently our Executive Vice President, Corporate Development from August 2006 to March 2007. Mr. Mao has over 30 years of experience in the telecommunications and IT industries. Before joining 3Com, Mr. Mao was President and Chief Executive Officer of Greater China for Nortel Networks from September 1997 to May 2006 and Regional President of Greater China for Alcatel from September 1995 to September 1997. Nortel and Alcatel are global suppliers of communication equipment serving both service provider and enterprise customers. At these positions, Mr. Mao managed operations in the People s Republic of China, Taiwan, Hong Kong and Macao. Mr. Mao also held senior managerial and technical positions at Alcatel and ITT in Asia and the U.S. Mr. Mao holds a Master s degree from Cornell University in Material Science and Metallurgical Engineering and earned a Master s in Management from MIT. Mr. Mao is the past Vice Chairman of the Board of Governors of the Pacific Telecommunication Council (from 2003 to 2005). Mr. Mao serves on the Board of Hurray! Holding Co., Ltd., a wireless value-added services provider.

Ronald A. Sege has been our President and Chief Operating Officer and a member of our Board of Directors since April 2008. Mr. Sege most recently served as President and Chief Executive Officer of Tropos Networks, Inc. a provider of wireless broadband networks, from 2004 to 2008. He is currently a member of Tropos Board of Advisors. Prior to Tropos, Mr. Sege was President and Chief Executive Officer of Ellacoya Networks, Inc. a provider of broadband service optimization solutions based on deep packet inspection technology, from 2001 to 2004. Prior to Ellacoya, Mr. Sege was Executive Vice President of Lycos, Inc., an internet search engine, from 1998 to 2001. Prior to Lycos, Mr. Sege spent nine years at 3Com Corporation, from 1989 to 1998, serving in a variety of senior management roles including Executive Vice President, Global Systems Business Unit. Mr. Sege holds an MBA from Harvard University and a BA from Pomona College.

Jay Zager has been our Executive Vice President, Chief Financial Officer since June 2007. Immediately prior to joining 3Com, Mr. Zager was an executive at Gerber Scientific, Inc., a leading international supplier of sophisticated automated manufacturing systems for sign making and specialty graphics, apparel and flexible materials, and ophthalmic lens processing. Mr. Zager joined Gerber in February 2005 as Senior Vice President and Chief Financial Officer and was appointed Executive Vice President and Chief Financial Officer in April 2006, a position he held until he left the company in June 2007. As a member of the senior management team of Gerber, he was responsible for financial reporting, accounting, treasury operations, business planning, corporate development, investor relations, tax/pension administration and information technology. Prior to joining Gerber, Mr. Zager was Senior Vice President and Chief Financial Officer of Helix Technology Corp., a semiconductor equipment manufacturer, from February 2002 to February 2005. Earlier, from 2000 to 2001, he was Executive Vice President and Chief Financial Officer of Inrange Technologies Corp., a storage networking company. Before Inrange, he was with the Compaq/Digital Equipment organization for 14 years, holding a number of senior financial and business management positions including Vice President, Business Development and Vice President, Chief Financial Officer of Worldwide Engineering & Research. Mr. Zager received a Master s degree in Finance and Strategic Planning from the Sloan School of Management, Massachusetts Institute of Technology and a Bachelor of Science degree in Operations

Research from the Massachusetts Institute of Technology.

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Neal D. Goldman has been 3Com s Executive Vice President, Chief Administrative and Legal Officer and Secretary since March 2007, and he served as our Senior Vice President, Management Services, General Counsel and Secretary from September 2003 until March 2007. Prior to joining 3Com, Mr. Goldman worked for Polaroid Corporation from August 1997 to September 2003. From March 2003 to September 2003, he was Executive Vice President, Business Development and Chief Legal Officer of Polaroid and prior to that Mr. Goldman served as Executive Vice President, Chief Administrative and Legal Officer from July 2001 to June 2002. From August 1997 to July 2001, Mr. Goldman held a number of senior management and executive positions at Polaroid, including Senior Vice President, General Counsel and Secretary and Deputy General Counsel. Before joining Polaroid, Mr. Goldman served as Vice President, General Counsel and Secretary at Nets, Inc. from March 1996 to June 1997. Before joining Nets, Inc., Mr. Goldman held a number of positions with Lotus Development Corporation, including Vice President and General Counsel from November 1995 to February 1996 and Deputy General Counsel and Assistant Secretary from April 1990 to November 1995.

Dr. Shusheng Zheng has served as our Executive Vice President since May 2008 and as the Chief Operating Officer of our China-based H3C subsidiary since its inception in the fall of 2003. Previously, Dr. Zheng worked at Huawei Technologies, a leading telecommunications equipment provider based in China, from 1993 to 2003. At Huawei, Dr. Zheng held several senior management positions, including manager in the research and development department, Director of Manufacturing and Customer Service, Head of Sales and Marketing for the datacom business, and President of the switching business unit. Dr. Zheng holds a PhD in Telecommunication Science from Zhejiang University in China.

ITEM 1A. RISK FACTORS

Risk factors may affect our future business and results. The matters discussed below could cause our future results to materially differ from past results or those described in forward-looking statements and could have a material adverse effect on our business, financial condition, results of operations and stock price.

Risks Related to Historical Losses, Financial Condition and Substantial Indebtedness

We have incurred significant net losses in recent fiscal periods, including $228.8 million for the fiscal year ended May 30, 2008, and we may not be able to return to profitability.

We cannot provide assurance that we will return to profitability. While we continue to take steps designed to improve our results of operations, we have incurred significant net losses in recent periods. We face a number of challenges that have affected our operating results during the current and past several fiscal years. Specifically, we have experienced, and may continue to experience, the following:

- declining sales due to price competition and reduced incoming order rate;
- operating expenses that, as a percentage of sales, have exceeded our desired financial model;
- significant senior leadership and other management changes;
- disruptions and expenses resulting from our workforce reductions and employee attrition; and
- interest expense resulting from our senior secured loan.

If we do not increase our sales, we may need to further reduce costs in order to achieve profitability. As we have implemented significant cost reduction programs over the last several years, it may be difficult to make significant further cost reductions without in turn impacting our sales. Restructuring activity could also make it more difficult for us to address all of our legal and regulatory obligations in an effective manner, which could lead to penalties. In addition, we may choose to reinvest some or all of our realized cost savings in future growth opportunities or in our H3C integration efforts. Any of these events or occurrences will likely cause our expense levels to continue to be at levels above our desired model.

If we cannot overcome these challenges, reduce our expenses and/or increase our revenue, we may not become profitable (and if we become profitable, to sustain such profitability).

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Our substantial debt could adversely affect our financial condition; and the related debt service obligations may adversely affect our cash flow and ability to invest in and grow our businesses.

We now have, and for the foreseeable future will continue to have, a significant amount of indebtedness. As of May 30, 2008, our total debt balance was $301 million, of which $48 million is due within one year and was classified as a current liability. In addition, despite current debt levels, the terms of our indebtedness allow us or our subsidiaries to incur more debt, subject to certain limitations.

While our senior secured loan is outstanding, we will have annual debt obligations of between approximately $48 million and $137 million. The interest rate on this loan is floating based on the LIBOR rate; accordingly, if the LIBOR rate is increased, these amounts could be higher. The maturity date on this loan is September 28, 2012. We intend to fulfill our debt service obligations primarily from cash generated by our H3C segment operations, if any, and, to the extent necessary, from its existing cash and investments. Because we anticipate that a substantial portion of the cash generated by our operations will be used to service this loan during its term, such funds will not be available to use in future operations, or investing in our businesses. Further, a significant portion of the excess cash flow generated by our H3C segment, if any, must be used annually to prepay principal on the loan. The foregoing may adversely impact our ability to expand our businesses or make other investments. In addition, if we are unable to generate sufficient cash to meet these obligations and must instead use our existing cash or investments, we may have to reduce, curtail or terminate other activities of our businesses.

Our indebtedness could have significant negative consequences to us. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to obtain additional financing;
- require the dedication of a substantial portion of any cash flow from operations to the payment of principal of, and interest on, our indebtedness, thereby reducing the availability of such cash flow to fund growth, working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry; and
- place us at a competitive disadvantage relative to our competitors with less debt.

The restrictions imposed by the terms of our senior secured loan facility could adversely impact our ability to invest in and grow our H3C business.

Covenants in the agreements governing our senior secured loan materially restrict our H3C operations, including H3C s ability to incur debt, pay dividends, make certain investments and payments, make acquisitions of other businesses and encumber or dispose of assets. These negative covenants restrict our flexibility in operating our H3C business. In addition, in the event our H3C segment s financial results do not meet our plans, the failure to comply with the financial covenants contained in the loan agreements could lead to a default. Our lenders may attempt to call defaults for violations of financial covenants (or other items, even if the underlying financial performance of H3C is satisfactory) in an effort to extract waiver or consent fees from us or to force a refinancing. A default and acceleration under one debt instrument or other contract may also trigger cross-acceleration under other debt instruments or other agreements, if any. An event of default, if not cured or waived, could have a material adverse effect on us because the lenders will be able to accelerate all outstanding amounts under the loan or foreclose on the collateral (which consists primarily of the assets of our H3C segment and could involve the lenders taking control over our H3C segment). Any of these actions would likely result in a material adverse effect on our business and financial condition.

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Risks Related to H3C Segment and Dependence Thereon

We are significantly dependent on our H3C segment; if H3C is not successful we will likely experience a material adverse impact to our business, business prospects and operating results.

For the fiscal year ended May 30, 2008, H3C accounted for approximately 60 percent of our consolidated revenue and approximately 65 percent of our consolidated gross profit. In addition to China-related risks discussed elsewhere in this filing, H3C is subject to specific risks relating to its ability to:

- maintain a leading position in the networking equipment market in China;
- build profitable operations in other emerging markets throughout the world, but particularly in the Asia Pacific region;
- offer new and innovative products and services to attract and retain a larger customer base;
- increase awareness of the H3C brand and continue to develop customer loyalty;
- respond to rapidly changing competitive market conditions;
- respond to changes in the regulatory environment;
- manage risks associated with intellectual property rights, particularly in China;
- maintain effective control of costs and expenses; and
- attract, retain and motivate qualified personnel.

H3C has been growing and profitable since inception, and maintains a leading position in many market categories in China. It has experienced growth in recent periods in part due to the growth in China s technology industry, which may not be representative of future growth or be sustainable. Companies that have leading positions may find it more challenging to grow in their markets. We cannot therefore assure you that H3C s historical financial information is indicative of its future operating results or future financial performance, or that its profitability will be sustained.

H3C faces competition from domestic Chinese industry participants, and as a foreign-owned business, may not be as successful in selling to Chinese customers, particularly those in the public sector, to the extent that such customers favor Chinese-owned competitors.

Given the significance of H3C to our financial results, if H3C is not successful, our business will likely be adversely affected.

We are dependent to a large extent on sales in China, and may face difficulty growing our China business in the future due to our existing leading market share in China and the economic, political and social risks inherent in that country.

Our sales are significantly dependent on China, with approximately 47 percent of our consolidated revenues attributable to sales in China for the fiscal year ended May 30, 2008. We expect that a significant portion of our sales will continue to be derived from China for the foreseeable future. As a result, our business, financial condition and results of operations are to a significant degree subject to economic, political, legal and social developments and other events in China and surrounding areas. In addition, because we already have a significant percentage of the market share in China for enterprise networking products (and together with Cisco represent a substantial portion of that market), our opportunities to grow market share in China are more limited than in the past. We discuss risks related to the PRC in further detail below.

We are dependent on Huawei Technologies (Huawei) in several material respects, including as an important customer; we expect Huawei to reduce its business with H3C, which could materially adversely affect our business results.

H3C derives a material portion of its sales from Huawei, which formerly held a significant investment in H3C. In the three months ended May 30, 2008, which includes results from H3C s March 31, 2008 quarter, Huawei accounted for approximately 26 percent of the revenue for our H3C segment and approximately 15 percent of our consolidated revenue. In the twelve months ended May 30, 2008, Huawei accounted for approximately 29 percent of the revenue for our H3C segment and approximately 17 percent of our consolidated revenue. Huawei s percentage of H3C s revenues has been trending downward from 41 percent, during the three months ended November 30, 2006, to the current level, and we expect this downward trend to continue. We further expect that Huawei will in the future reduce its business with H3C and, accordingly, that its purchases in absolute dollars will decrease. Huawei does not have any minimum purchase requirements under our existing OEM agreement, which expires in November 2008. While we are seeking a renewal of that agreement, we may not be able to renew it. In sum, we risk the possibility that Huawei sources products from another vendor or internally develops these products. We need to develop additional channels within China and in other regions, including channels to the carrier market, and we believe in any case that increasing our DVBU segment s sales of H3C products is highly important to H3C s global growth opportunities. If we fail in these efforts, our business will suffer. Further, we have and expect to continue to incur costs relating to transition matters with respect to support that Huawei previously provided for H3C when it was a shareholder. In addition, our China headquarters in Hangzhou, PRC is owned by Huawei and leased to us under a lease agreement that expires in January 2009; if we cannot renew this lease on terms favorable to us or find alternate facilities, we may suffer disruption in our H3C business. If any of the above risks occur, it will likely have an adverse impact on H3C s sales and business performance.

We must execute on a global strategy to leverage the benefits of our H3C acquisition, including integration activities to operate more effectively as one company; if we are not successful in these efforts, our business will suffer.

Our acquisition of H3C presents unique challenges that we must address. We must successfully execute on managing our operating segments, and, to the extent we so choose, integrating these businesses, in order to fully benefit from this acquisition. As a joint venture owned by two separate companies until March 2007, H3C historically operated in many ways independently from 3Com and Huawei. H3C s business is largely based in the PRC and therefore significant cultural, language, business process and other differences exist between our other segments and H3C. In order to more closely manage and integrate our legacy 3Com and H3C businesses, we expect to incur significant transition costs, including management retention costs and other related items. There may also be business disruption as management and other personnel focus on global management activities and integration matters.

In order to realize the full benefits of this acquisition, we will need to manage our operating segments and employ strategies to leverage H3C. These efforts will require significant time and attention of management and other key employees at 3Com and H3C. Depending on the decisions we make on various strategic alternatives available to us, we may develop new or adjusted global design and development initiatives, go-to-market strategies, branding tactics, unified back office, supply chain and IT systems, streamlined engineering efforts or other strategies that take advantage and leverage H3C s and our other segments respective strengths. The terms of our existing H3C senior secured indebtedness may make these efforts more difficult to the extent they limit or prohibit our ability to fully integrate H3C. If we do not execute on a global strategy that enables us to leverage the benefits of this acquisition, our business will be substantially harmed.

If we cannot continue to increase our DVBU segment s sales of H3C products outside of China, we will likely find it increasingly difficult to grow our overall business.

We believe that increasing our DVBU segment s sales of H3C products is highly important to 3Com s global growth opportunities and ultimately to our consolidated growth. If we fail in these efforts, our business will suffer.

Risk Related to Personnel

Our success is dependent on continuing to hire and retain qualified managers and other personnel, including at our H3C segment, and reducing senior management turnover in our other segments; if we are not successful in attracting and retaining these personnel, our business will suffer.

Competition for qualified employees is intense. If we fail to attract, hire, or retain qualified personnel, our business will be harmed. We have experienced significant turnover in our senior management team in the last several years and we may continue to experience change at this level. If we cannot retain qualified senior managers and provide stability in the senior management team to enable them to work together for an extended period of time, our business may not succeed.

The senior management team at H3C has been highly effective since H3C s inception in 2003. We need to continue to incentivize and retain H3C management. We cannot be sure that we will be successful in these efforts. If we are not successful, our H3C business may suffer, which, in turn, will have a material adverse impact on our consolidated business. Many of these senior managers, and other key H3C employees, originally worked for Huawei prior to the inception of H3C. Subject to non-competition agreements with us (if applicable), these employees could return to work for Huawei at any time. Huawei is not subject to any non-solicitation obligations in respect of H3C or 3Com. Further, former Huawei employees that work for H3C may retain financial interests in Huawei.

In addition, due to our recent merger transaction with affiliates of Bain Capital Partners, LLC that did not close, and the recent decline in our stock price, we believe it will be substantially more difficult to retain key employees and we will likely need to take significant actions to retain these individuals over time. If we are not successful in these retention efforts, our business will likely suffer.

Risks Related to Competition

Intense competition in the market for networking solutions could prevent us from maintaining or increasing revenue and achieving profitability.

The market for networking solutions is intensely competitive. In particular, Cisco maintains a dominant position in this market and several of its products compete directly with our products. Cisco s substantial resources and market dominance have enabled it to reduce prices on its products within a short period of time following the introduction of these products, which typically causes its competitors to reduce prices and, therefore, the margins and the overall profitability of its competitors. Purchasers of networking solutions may choose Cisco s products because of its broader product line and strong reputation in the networking market. In addition, Cisco may have developed, or could in the future develop, new technologies that directly compete with our products or render our products obsolete. We cannot provide assurance that we will be able to compete successfully against Cisco, currently the leading provider in the networking market.

We also compete with several other significant companies in the networking industry. Some of our current and potential competitors have greater market leverage, longer operating histories, greater financial, technical, sales, marketing and other resources, more name recognition and larger installed customer bases. Additionally, we may face competition from unknown companies and emerging technologies that may offer new networking solutions. Furthermore, a number of these competitors may merge or form strategic relationships that would enable them to apply greater resources and sales coverage than we can, and to offer, or bring to market earlier, products that are superior to ours in terms of features, quality, pricing or a combination of these and other factors.

In order to remain competitive, we must, among other things, invest significant resources in developing new products with superior performance at lower prices than our competitors, enhance our current products and maintain customer satisfaction. In addition, we must make certain our sales and marketing capabilities allow us to compete effectively against our competitors. If we fail to do so, our products may not compete favorably with those of our competitors and our revenue and profitability could suffer.

Our competition with Huawei in the enterprise networking market could have a material adverse effect on our sales and our results of operations; and after a contractual non-compete period expires, Huawei can increase its level of competition, which would likely materially and adversely affect our business.

As Huawei expands its international operations, there could be increasing instances where we compete directly with Huawei in the enterprise networking market. As an OEM customer of H3C, Huawei has had, and continues to have, access to H3C s products for resale. This access enhances Huawei s current ability to compete directly with us. We could lose a competitive advantage in markets where we compete with Huawei, which in turn could have a material adverse effect on our sales and overall results of operations. In addition, Huawei s obligation not to offer or sell enterprise class, and small-to-medium size business (or SMB), routers and switches that are competitive with H3C s products continues until September 29, 2008. After that date, we are subject to the risk of increased competition from Huawei, which could materially harm our results of operations. More specifically, after the non-compete period expires, Huawei may offer and sell its own enterprise or SMB routers and switches, or resell products that it sources from our competitors. Huawei is not prohibited from developing (but is prohibited from offering or selling) competing products during the non-compete period. Huawei is also not prohibited from currently selling products in ancillary areas such as security, voice over internet protocol and storage products that are also sold today by H3C. We compete in those ancillary product areas today. If Huawei chooses to increase its competition with us, or if we do not compete favorably with Huawei, it is likely that our H3C business results, particularly in the Asia Pacific region and specifically in China, will be materially and negatively affected.

Huawei s incentive not to compete with H3C or us, and its incentive to assist H3C, is more likely to diminish now that Huawei does not own any interest in H3C and our merger transaction with affiliates of Bain Capital Partners, LLC (in which Huawei would have participated as a minority investor) was not consummated. In addition, Huawei maintains a strong p