



Dear Fellow Shareholders,

As I complete my first year as CEO of 3Com, it is clear that Fiscal 2007 was a year of several positive achievements and milestones for the company. In Fiscal 2007 we:

1. Completed the acquisition of the remaining stake in H3C, making us a global networking leader with more than a billion dollars in revenue;
2. Continued right sizing the organization and achieved Non-GAAP operating profitability; and
3. Delivered a differentiated technology strategy that we believe will establish us as the clear alternative for secure, converged networking solutions for organizations of all sizes.

Individually, each of these milestones stands alone, but collectively, they are clear signs that 3Com has improved its ability to execute, is establishing itself as a leader in the industry and is positioned to drive revenue growth and profitability for the long term. Following is a closer look at each of these significant accomplishments.

Early in Fiscal 2007, we announced that our intent was to purchase Huawei Technologies' 49 percent stake in H3C. Our view was, and continues to be, that this is a strategic move that will shape the long-term future of our company. We won the bid process in November 2006 and in March 2007 3Com acquired Huawei's stake in H3C for \$882 million, for an implied equity value of \$1.8 billion. We now own 100 percent of this China-based enterprise networking company.

According to some industry analysts, the acquisition of H3C immediately positions 3Com as the #2 provider of switching (by market share) worldwide.* We now have a robust portfolio of enterprise networking solutions and a highly talented team of more than 2,400 engineers. The cost advantages of China combined with 3Com's strength in quality and testing bring together the best of both worlds enabling us to deliver industry leading, low-cost, high-quality products.

With the acquisition complete, we immediately began the integration process. The first phase of integration was to merge the two companies' sales and marketing teams in the regions outside of China. We've completed this process in Asia, Latin America and North America. In these regions, the 3Com and H3C Sales and Marketing organizations are now one team with an integrated go-to-market strategy and a broader product portfolio. We will begin a similar integration process in Europe, Middle East and Africa (EMEA) in the first half of fiscal year 2008. Moving forward, 3Com will look to combine systems in the region, as appropriate, in order to streamline processes and promote operational efficiency.

In addition to the clear product and market share benefits we gain from H3C, the combined entity is much stronger from a financial perspective. During fiscal 2007 we recognized approximately \$1.3 billion in revenue. We also returned to profitability on a non-GAAP basis, delivering three consecutive quarters of non-GAAP operating profitability and ending the year with \$27 million in non-GAAP

Contents:

Letter to Shareholders

Notice of 2007 Annual Meeting and Proxy Statement

2007 Annual Report on Form 10-K

operating profit for fiscal 2007. We achieved positive cash flow from operations for the fiscal year, generating \$166 million in cash flow from operations. For the full fiscal year we were cash flow positive for the year for the first time in four years.

These achievements largely were driven by the consolidation of H3C's operating results as well as improvements in our secure converged networking (SCN) business. A year ago we announced our intent to undertake a restructuring program to significantly reduce the cost structure of the company. Our SCN segment saw a 29 percent improvement in its net loss for fiscal year 2007. While still not profitable, the restructuring actions we took in FY07 provide us with a lower cost base as we enter fiscal year 2008. We believe the SCN product portfolio is strong and we see opportunity to grow revenues in areas such as voice ready networking and secure converged networks solutions.

On my first conference call with investors as 3Com CEO, I said for 3Com to win long term we must change the rules of the game by differentiating our offerings. This ultimately will help us take back market share and compete more effectively. During fiscal year 2007, we launched our product strategy called Open Services Networking, or OSN, the industry's first open platform that integrates best-of-breed and open source applications into the network infrastructure.

Our mission is to provide organizations worldwide with high-quality, low-cost, networking infrastructure solutions that enable the convergence of applications and emerging technologies into the network. OSN, which allows us to deliver on this mission, was created through the collaboration of our SCN and H3C segments. H3C is the lead provider of the hardware and system platform around OSN, while SCN delivers the middleware and drives the partnerships and integration with best-of-breed, third party applications. We are very excited about OSN and we believe this strategy gives us a competitive advantage. We are still in the early days of OSN, but we believe it is the right approach that will help to restore long-term growth.

Overall, we recognize that there is still a lot of work to be done, but we are proud of the achievements we made in fiscal year 2007. During this next fiscal year we will be focused on three key initiatives:

- Completing the integration of H3C across all regions. We believe this will enable us to run a more efficient and effective organization.
- Taking a more holistic view of the company, ultimately looking at 3Com as one company with an enterprise and SMB business.
- Achieving profitable revenue growth with a goal of year-over-year growth for each of our major business units.

We know this will take focus and effort from our entire organization, but we believe we have the right pieces in place to be a leader in our industry.

Thank you for your continued commitment to 3Com, and I look forward to communicating with you on our progress as we move through the year.



Edgar Masri
President & CEO

**Source: Dell'Oro Group*

Reconciliation of Non-GAAP Operating Income

(in thousands)
(unaudited)

Twelve Months Ended June 1, 2007

GAAP operating loss	\$ (132,521)
Restructuring	3,494
Amortization of intangible assets	42,525
In-process research and development	35,753
Employee Appreciation Rights Plan (EARP)	57,308
Stock-based compensation expense	20,095
Non-GAAP operating income	<u>\$ 26,654</u>



**Notice of 2007 Annual Meeting
and Proxy Statement**



**350 Campus Drive
Marlborough, Massachusetts 01752-3064
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held September 26, 2007**

Dear Stockholder:

We cordially invite you to attend our Annual Meeting of Stockholders, which will be held on Wednesday, September 26, 2007 at 8:00 a.m. local time at the Company's headquarters, 350 Campus Drive, Marlborough, Massachusetts. The purpose of the meeting is to:

1. Elect three Class I directors, each to hold office for a two-year term;
2. Ratify the appointment of Deloitte & Touche LLP as our registered independent public accounting firm for the fiscal year ending May 30, 2008; and
3. Transact such other business as may properly come before the meeting and any adjournments thereof.

You are entitled to vote your 3Com common stock if our records showed that you held your shares as of the close of business on August 3, 2007. For ten days before the meeting, you can examine a complete list of the stockholders entitled to vote at the meeting for any purpose germane to the meeting during regular business hours at our offices at 350 Campus Drive, Marlborough, Massachusetts.

By Order of the Board of Directors,

Neal D. Goldman
Secretary

August 17, 2007
Marlborough, Massachusetts

IMPORTANT: Please complete, date, sign and promptly mail the enclosed proxy card in the accompanying postage-paid envelope to assure that your shares are represented at the meeting. If you attend the meeting, you may choose to vote in person even if you have previously mailed your proxy card.



350 Campus Drive
Marlborough, Massachusetts 01752-3064

PROXY STATEMENT

Your vote is very important. For this reason, our Board of Directors is requesting that you allow your common stock to be represented at the annual meeting by the proxies named on the enclosed proxy card. This solicitation is being made, and this proxy statement and form of proxy are being sent to you, in connection with the Board's request. These materials have been prepared for the Board by our management.

The annual meeting of stockholders will be held on Wednesday, September 26, 2007 at 8:00 a.m. local time at the Company's headquarters, 350 Campus Drive, Marlborough, Massachusetts. Our principal executive offices are located at 350 Campus Drive, Marlborough, Massachusetts 01752 and our telephone number is (508) 323-1000. This proxy statement and form of proxy are first being sent to our stockholders on or about August 17, 2007.

GENERAL INFORMATION

Our Financial Information. Our financial statements and related information are included in our Annual Report on Form 10-K, which is enclosed with this proxy statement.

Who Can Vote. You are entitled to vote your 3Com common stock if our records showed that you held your shares as of the close of business on August 3, 2007. We refer to this date as the "Record Date." At the close of business on the Record Date, a total of 399,528,738 shares of common stock were issued and outstanding. You may vote in person or by proxy. Each share of 3Com common stock has one vote. There is no cumulative voting in the election of our directors.

Cost of this Proxy Solicitation. We will pay the cost of soliciting proxies. In addition to soliciting stockholders by mail and through our regular employees, we will request banks, brokers and other nominees to solicit their customers who hold our stock in street name and will reimburse them for their reasonable, out-of-pocket costs. We may also ask our officers, directors and others to solicit proxies, personally or by telephone, facsimile or electronic mail. None of these individuals will receive any additional or special compensation for soliciting proxies. We may retain a proxy solicitation firm to assist in the solicitation of proxies. We will bear all reasonable solicitation fees and expenses if such a firm is retained.

Voting Your Proxy. If you hold your common stock in street name through a bank, broker or other nominee, you will receive instructions from your bank, broker or other nominee that you must follow to vote your shares. If you hold your shares in your own name as a holder of record, you may vote by signing, dating and mailing the proxy card in the postage-paid envelope that we have provided to you with this proxy statement. The proxies will vote your shares as you instruct. Of course, you can always attend the meeting and vote your shares in person. If you sign and return a proxy card without specific voting instructions, your shares will be voted as recommended by our Board.

Revoking Your Proxy. To revoke your proxy if you are a holder of record, you must advise our Secretary in writing before the meeting, deliver a validly executed proxy with a later date that we receive prior to the meeting, or attend the meeting and vote your shares in person. You may revoke your proxy at any time before your shares are voted.

Quorum. The annual meeting will be held if a majority of the outstanding common stock entitled to vote is represented at the meeting. Shares that are voted “FOR,” “AGAINST,” “ABSTAIN” or “WITHHELD” on a matter are treated as being present at the meeting for purposes of establishing a quorum and are also treated as shares entitled to vote on that matter at the annual meeting (the “Votes Cast”).

Abstentions. Although the law in Delaware is unclear on the proper treatment of abstentions, we believe that abstentions should be counted for purposes of determining both (i) whether a quorum is present and (ii) the total number of Votes Cast with respect to a proposal (other than the election of directors). Without controlling precedent to the contrary, we intend to treat abstentions in this manner. Accordingly, abstentions will have no effect on the outcome of Proposal 1 and abstentions will have the effect of a vote against Proposal 2.

Broker Non-Votes. We will count broker non-votes in determining the presence or absence of a quorum, but broker non-votes will not be counted for purposes of determining the number of Votes Cast on a particular proposal. Accordingly, broker non-votes will have no effect on the outcome of any of the proposals.

Householding of Proxy Materials. In an effort to reduce printing costs and postage fees, we have adopted a practice approved by the Securities and Exchange Commission called “householding.” Under this practice, stockholders who have the same address and last name will receive only one copy of our proxy materials, unless one or more of these stockholders notifies us that he or she wishes to continue receiving individual copies. Stockholders who participate in householding will continue to receive separate proxy cards.

If you share an address with another stockholder and received only one set of proxy materials and would like to request a separate copy of these materials, please (1) mail your request to 3Com, 350 Campus Drive, Marlborough, MA 01752-3064, Attn: Investor Relations, or (2) call our Investor Relations department at (508) 323-1198. Similarly, you may contact us if you received multiple copies of the proxy materials and would prefer to receive a single copy in the future.

PROPOSAL 1: ELECTION OF DIRECTORS

Our bylaws authorize the Board to fix the number of directors. The exact number of directors is currently fixed at eight. Our Board is divided into two classes, with the classes serving for staggered two-year terms. Class I currently has four members and Class II currently has four members. You may not vote for more than three (3) nominees at the annual meeting. Each of the three Class I directors to be elected at the 2007 annual meeting are to be elected to hold office until the 2009 annual meeting and until his successor has been duly elected and qualified or his earlier death, resignation or removal.

Paul Yovovich, one of our current directors, has determined not to stand for re-election as a Class I director at the 2007 Annual Meeting, although he will finish out his term which expires at the 2007 Annual Meeting. Accordingly, immediately following our 2007 Annual Meeting and assuming the re-election of all nominees, our board size will decrease to seven, Class I will have three members and Class II will have four members.

The Board's nominees as Class I directors are Messrs. Mao, Masri and Trempont. If a nominee declines to serve or becomes unavailable for any reason, the proxies may be voted for such substitute nominee as the Board may designate. The Board believes that all nominees are willing and able to serve if elected.

VOTE REQUIRED

Directors will be elected by a plurality of the votes cast at the meeting. This means that the three nominees receiving the highest number of votes will be elected as Class I directors. Votes withheld for any nominee will not be counted. Assuming a quorum is present, abstentions and broker non-votes will have no effect on the election of directors. **THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" MESSRS. MAO, MASRI AND TREMPONT.**

NOMINEES AND OTHER DIRECTORS

The following table sets forth the name, age, principal occupation during the past five years and the period of service as a director of 3Com Corporation (the “Company” or “3Com”) of each (1) nominee, (2) director whose term of office will continue after the annual meeting, and (3) director whose term of office will expire at the annual meeting (and will not continue). Each nominee currently serves as a director. There are no family relationships among any directors or executive officers.

Nominees for Election

Robert Y. L. Mao
Director since 2007
Age 63

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 Vice Chairman of the Board of Governors of the Pacific Telecommunication Council. Mr. Mao serves on the Board of Hurray! Holding Co., Ltd., a wireless value-added services provider.

Edgar Masri
Director since 2006
Age 49

Mr. Masri has been our President and Chief Executive Officer since August 2006. Mr. Masri is also Chairman and Chief Executive Officer of H3C Technologies Co., Limited, our China-based subsidiary. Before re-joining 3Com, Mr. Masri was a General Partner from 2000 to March 2006, and more recently an advisor, at Matrix Partners, a leading technology venture capital firm, where he made investments in the wireless, broadband and semiconductor industries. Mr. Masri was also Chief Operating Officer at Redline Communications, a leading provider of advanced broadband wireless access and backhaul solutions based in Canada, from April to August 2006. Mr. Masri spent fifteen years as a senior manager at 3Com, from 1985 to 2000. During this time he served as Senior Vice President and General Manager of our Network Systems Business Unit and Premises Distribution Unit, President of 3Com Ventures and held senior roles in our marketing group. Mr. Masri holds a Master’s degree in electrical engineering and computer science and earned an MBA from Stanford University.

Dominique Trempont
Director since 2006
Age 53

Mr. Trempont is currently a member of the Board of Directors and Audit Committee of Finisar Corporation, a public company that develops and markets high speed data communication systems and software for networking and storage, a position he has held since September 2005. Since June 2006, Mr. Trempont has served on the Board of Directors of Cquay Technologies Corp., a private company that develops next generation search software. Mr. Trempont was CEO-in-Residence at Battery Ventures, a venture capital firm, from September 2003 to September 2005. Prior to Battery Ventures, Mr. Trempont was Chairman, President and Chief Executive Officer of Kanisa, Inc., a software company focused on customer self-service, contact center, and peer support applications, from May 1999 to November 2002. Mr. Trempont has served as Chief Executive Officer of Gemplus Corporation, a smart card application company, and Chief Financial Officer at NeXT Software. Mr. Trempont began his career at Raychem Corporation, a high-tech material

science company focused on telecommunication, electronics, automotive and other industries, including holding the position of Chief Audit Officer. Mr. Trempont received an undergraduate degree in Economics from College Saint Louis (Belgium), a bachelor's in Business Administration and Computer Sciences from IAG at the University of Louvain (Belgium) and a master's in Business Administration from INSEAD.

Continuing Directors

Eric A. Benhamou
Director since 1990
Age 51

Mr. Benhamou has been our Chairman of the Board since July 1994. Since June 2005, this position has been in a non-employee capacity. Mr. Benhamou served as Chief Executive Officer of Palm, Inc. from October 2001 to October 2003. Mr. Benhamou served as our Chief Executive Officer from September 1990 to January 2001 and President from April 1990 through August 1998. Mr. Benhamou is currently Chairman and Chief Executive Officer of Benhamou Global Ventures, LLC, an investment vehicle he formed in 2004. Mr. Benhamou is also Chairman of the Board of Palm, Inc. and Cypress Semiconductor Corporation, and a director of RealNetworks, Inc. and SVB Financial Group. Mr. Benhamou is also a member of the Computer Science and Technology Board and serves on the Executive Committee of Technet.

Gary T. DiCamillo
Director since 2000
Age 56

Mr. DiCamillo has been the President and CEO of GW Premier America, Inc. (formerly known as American Crystal, Inc.), a group of privately-held technical, professional and commercial staffing companies, since September 2005. Prior to that, he was President and CEO of TAC Worldwide Companies, a large privately-held technical and professional staffing company, from 2002 to 2005. Prior to that, Mr. DiCamillo was Chairman and Chief Executive Officer of Polaroid Corporation, a position he held from 1995 through 2002. Prior to joining Polaroid, Mr. DiCamillo served as Group Vice President of the Black & Decker Corporation and President of its Worldwide Power Tools and Accessories business from 1993 to 1995. Mr. DiCamillo is a director of the Whirlpool Corporation.

James R. Long
Director since 2000
Age 64

Mr. Long retired from his position as Executive Vice President of Nortel Networks, a global leader in telephony, data, wireless and wireline solutions for the Internet, in December 1999, a position he held since 1994. Mr. Long also served as President of Enterprise Solutions of Nortel Networks from 1997 through 1999, President of Nortel World Trade, based in London and Hong Kong, from 1994 through 1997, and Senior Vice President of Nortel's Asia Pacific Division from 1992 to 1994. Mr. Long is a director of Cypress Semiconductor Corporation.

Raj Reddy
Director since 2001
Age 70

Dr. Reddy is the Mozah Bint Nasser University Professor of Computer Science and Robotics in the School of Computer Science at Carnegie Mellon University, a position he has held since 1969. He served as dean of the School from 1991 to 1999. Dr. Reddy served as co-chair of the President's Information Technology Advisory Committee from 1999 to 2001.

Director Not Continuing After the Annual Meeting

Paul G. Yovovich
Director since 1997
Age 53

Mr. Yovovich is President of Lake Capital, a private investment firm that he co-founded in 1998.

CORPORATE GOVERNANCE

Board Independence

Our Board of Directors (the “Board”) has determined that each of Messrs. DiCamillo, Long, Reddy, Trempont and Yovovich are independent within the meaning of the listing standards of the NASDAQ Stock Market. Messrs. Benhamou, Mao and Masri do not qualify as independent because they are, or were within prescribed periods, a 3Com employee. The NASDAQ rules have both objective tests and a subjective test for determining who is an “independent director.” The objective tests state, for example, that a director is not considered independent if he or she is an employee of the company or is a partner in or executive officer of an entity to which the company made, or from which the company received, payments in the current or any of the past three fiscal years that exceed 5% of the recipient’s consolidated gross revenue for that year. The subjective test states that an independent director must be a person who lacks a relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. None of the directors were disqualified from “independent” status under the objective tests other than those individuals who are or were employees of 3Com within prescribed periods. In assessing independence under the subjective test, the Board took into account the standards in the objective tests, and reviewed and discussed additional information provided by the directors and the Company with regard to each director’s business and personal activities as they may relate to 3Com and 3Com’s management. Based on all of the foregoing, as required by NASDAQ rules, the Board made a subjective determination as to each independent director that no relationships exists which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board has not established categorical standards or guidelines to make these subjective determinations, but considers all relevant facts and circumstances. In addition to the board-level standards for director independence, the directors who serve on the Audit and Finance Committee each satisfy standards established by the Securities and Exchange Commission (“SEC”) providing that to qualify as “independent” for the purposes of membership on that Committee, members of audit committees may not accept directly or indirectly any consulting, advisory, or other compensatory fee from 3Com other than their director compensation.

In making its independence determinations, the Board considered transactions occurring since the beginning of fiscal 2005 between 3Com and entities associated with the independent directors that were identified to the Company. In making its subjective determination, the Board considered the transactions in the context of the NASDAQ objective standards, the special standards established by the SEC for members of audit committees, and the SEC and Internal Revenue Service (IRS) standards for compensation committee members. In each case, the Board determined that, because of the nature of the director’s relationship with the entity and/or the amount involved, the relationship did not impair the director’s independence. The Board’s independence determinations included reviewing a series of purchase transactions that 3Com has with three different suppliers. Messrs. Long, Reddy and Trempont each serve on the board of directors of one of these suppliers. In each instance, however, the transaction levels were well below the limits established by the objective tests. Each director confirmed he did not participate in these business dealings or receive compensation based on them. Further, each director agreed to recuse himself from any future involvement in such transactions, confirmed he was not employed by such supplier and disclosed that he had only minimal equity ownership in the supplier.

Board Meetings

During fiscal year 2007, our Board of Directors held five regularly scheduled meetings and fourteen special meetings. Each director attended at least 75% of the total meetings of the Board and the committees on which he served.

Committees of the Board

The Board of Directors has established an Audit and Finance Committee, a Compensation Committee, a Nominating and Governance Committee and a Technology Committee. From time to time, the Board designates temporary committees to serve specific functions. For example, the Board formed an H3C Oversight Committee to oversee our recent purchase of an additional 49% interest in H3C Technologies Co., Limited.

The Audit and Finance, Compensation, and Nominating and Governance committees are separately-designated standing committees and each committee consists of only “independent” directors (as independence is defined under applicable standards, including those of the NASDAQ Stock Market). In addition to being “independent” under NASDAQ’s general independence standards, the Board has determined that each member of the Audit and Finance Committee meets the additional independence standards set forth by SEC rules. Membership of each committee is listed below.

Audit and Finance	Compensation(1)	Nominating and Governance(2)	Technology
James R. Long*	Gary T. DiCamillo*	Paul G. Yovovich*	Eric A. Benhamou
Dominique Trempont**	Paul G. Yovovich	James R. Long**	Raj Reddy
Gary T. DiCamillo			

* Current Chair

** Appointed as Chair effective at the annual meeting; in the case of Mr. Trempont, assuming re-election to the Board at the annual meeting.

- (1) Mr. Yovovich has determined not to stand for re-election although he will finish his term expiring at the annual meeting. Mr. Trempont, an existing board member, has been appointed to join the Compensation Committee effective at the annual meeting, assuming he is re-elected to the Board of Directors at the annual meeting.
- (2) Mr. Yovovich has determined not to stand for re-election although he will finish his term expiring at the annual meeting. Mr. DiCamillo, an existing board member, has been appointed to join the Nominating and Governance Committee effective at the annual meeting.

Audit and Finance Committee. Our Audit and Finance Committee met fifteen times in fiscal year 2007. The Audit and Finance Committee engages our independent registered public accounting firm, approves services rendered by our independent registered public accounting firm, reviews the activities and recommendations of our internal audit department, and reviews and evaluates our accounting systems, financial controls and financial personnel. The Committee also meets regularly with our independent registered public accounting firm and our director of internal audit without management present. The Board has determined that Messrs. Long, Trempont and DiCamillo, independent members of our Board, are each an Audit Committee Financial Expert, as defined by Item 401(h) of Regulation S-K of the Securities Exchange Act of 1934. The Board has determined that each member of the Audit and Finance Committee meets the required NASDAQ standards for membership on such committee. Our Audit and Finance Committee operates under a written charter, a copy of which is available on our website at http://www.3com.com/corpinfo/en_US/investor/audit_finance.html.

Compensation Committee. Our Compensation Committee met ten times in fiscal year 2007. The Compensation Committee reviews salaries and other compensation arrangements for our directors and

executive officers and approves (or recommends to the full Board) such compensation, administers our stock option and stock purchase plans, and advises the Board on general aspects of our compensation and benefit policies. The Committee also evaluates and approves or makes recommendations to the Board regarding the performance of our Chief Executive Officer, as well as matters related to succession planning for executive officers. Our Compensation Committee operates under a written charter which is available on our website at http://www.3com.com/corpinfo/en_US/investor/comp_com.html.

Nominating and Governance Committee. Our Nominating and Governance Committee met four times in fiscal year 2007. The Nominating and Governance Committee focuses on the issues surrounding the composition and operation of the Board. The Nominating and Governance Committee assists the Board, the Chairman of the Board and the CEO in director selection, committee selection and rotation practices, evaluation of the overall effectiveness of the Board, and review and consideration of developments in corporate governance practices. The Nominating and Governance Committee recommends (to the full Board) directors for nomination to the Board. The Nominating and Governance Committee also selects directors for committee appointments and committee chairs. The Nominating and Governance Committee will determine the effect of a director's change in employment status on such director's continued tenure on the 3Com Board. The Nominating and Governance Committee operates under a written charter which is available on our website at http://www.3com.com/corpinfo/en_US/investor/nom_gov.html.

Technology Committee. Our Technology Committee met four times in fiscal year 2007. The Technology Committee was established to make recommendations to the Board of Directors regarding the long-term technology architecture and strategy that 3Com is pursuing. The Committee meets with 3Com's technology and engineering leaders and reviews the tactical or strategic benefits of selected projects in light of 3Com's overall business strategy. The Committee makes reports to the Board of Directors as appropriate.

Code of Ethics and Business Conduct and Complaint Procedures

Our Code of Ethics and Business Conduct, which is available on our website at <http://www.3com.com>, complies with the rules of the SEC and the listing standards of the NASDAQ Stock Market.

The Audit and Finance Committee has also adopted procedures for the receipt, treatment and retention of complaints and concerns regarding accounting and auditing matters in compliance with the rules of the NASDAQ Stock Market and the SEC. These procedures cover 3Com and its subsidiaries, including H3C Technologies Co., Limited, our China-based subsidiary. Employees may submit complaints (1) anonymously through our toll-free hotline (called the "Ethics and Compliance Line"), (2) to any member of our senior management team (in person, by email or by telephone) and/or (3) directly to the Chair of our Audit and Finance Committee. All complaints are treated confidentially. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of a member of our senior management, reviewed by the Audit and Finance Committee or one or more of its representatives, evaluated and (where appropriate) investigated. The Committee will determine what actions to take, if any. We will not retaliate against any person making a complaint in good faith.

Chairman of the Board and Lead Independent Director

Our Board is led by our Chairman of the Board, Mr. Benhamou, and by our lead independent director, Mr. DiCamillo. During the first month of fiscal year 2007 (through June 21, 2006), Mr. Yovovich served as our lead independent director. Mr. DiCamillo assumed that role commencing at the close of business on June 21, 2006, and continues in that capacity.

Nomination of Director Candidates

The Nominating and Governance Committee makes recommendations to the Board regarding director nominees. The Nominating and Governance Committee identifies potential director candidates from any outside advisors it may retain, as well as from other members of the Board, executive officers and other contacts. The Nominating and Governance Committee will also consider nominees recommended by any stockholder entitled to vote in the election of directors. Any stockholder wishing to nominate an individual for election to the Board must comply with the advance notice procedures described at the end of this proxy statement. The nomination must contain the following information about the nominee: name; age; business and residence addresses; principal occupation or employment; the number of shares of common stock held by the nominee; the information that would be required under SEC rules in a proxy statement soliciting proxies for the election of such nominee as a director; and a signed consent of the nominee to serve as a director of 3Com, if elected. The Nominating and Governance Committee has not specified any minimum qualifications or specific qualities or skills necessary for serving on the Board. However, in its assessment of potential candidates, the Nominating and Governance Committee will review the candidate's character, business experiences and understanding of the Company's business environment, and ability to devote the time and effort necessary to fulfill his or her responsibilities, all in the context of the perceived needs of the Board at that time.

Delegation to Committees

It is our general policy that all major Board decisions should be approved by the Board as a whole, unless delegated to a committee. Currently these committees are the Audit and Finance Committee, Compensation Committee, Nominating and Governance Committee and Technology Committee. All members of the Audit and Finance Committee, Compensation Committee and Nominating and Governance Committee are "independent" within the meaning of the independence standards of the NASDAQ Stock Market, including, in the case of the Audit and Finance Committee, the heightened independence standard required for such committee members. Each of these committees has adopted a written charter (available from our website), except for the Technology Committee.

Stockholder Communication with the Board of Directors

Stockholders who wish to communicate with our Board, or with any individual member of the Board, may do so by sending such communication in writing to the attention of the Corporate Secretary at the address of our principal executive office with a request to forward the communication to the intended recipient. Stockholder communications must include confirmation that the sender is a stockholder of the Company. All such communications will be reviewed by the Company's General Counsel and Corporate Secretary or Chief Financial Officer, as appropriate, in order to maintain a record of the communication, to assure director privacy, and to determine whether the communication relates to matters that are appropriate for review by our Board or by any individual director. Communications that (i) do not relate to the Company's business, (ii) contain material that is not appropriate for review by the Board based upon the established practice and procedure of the Board, or (iii) contain other improper or immaterial information, will not be forwarded to Board members.

Board Attendance at the Annual Meeting

Although we do not have a formal policy regarding attendance by members of the Board at our annual meetings of stockholders, directors are encouraged to attend annual meetings. In an effort to maximize director attendance at our annual meetings of stockholders, we attempt to schedule a meeting of the Board on the same day as the annual meeting of stockholders. All of our directors in office at the time (except Mr. Wajsgas whose term ended at such meeting) attended the 2006 annual meeting of stockholders.

Audit and Finance Committee Pre-Approval Policies

The Audit and Finance Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally detailed as to the particular services or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management periodically report to the Audit and Finance Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and its fees for the services performed to date. The Audit and Finance Committee also pre-approves the provision of particular services on a case-by-case basis.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee during fiscal year 2007 consisted of Messrs. Yovovich and DiCamillo, neither of whom is or has been an officer or employee of 3Com or any of our subsidiaries. No interlocking relationship existed during fiscal year 2007 between our Board or Compensation Committee and the board of directors or compensation committee of any other company.

Board Guidelines on Corporate Governance Issues

Our corporate governance principles are set forth in our "Board Guidelines on Corporate Governance Issues," which is available on our website at <http://www.3com.com>. These guidelines cover the following topics, each of which is summarized below:

- Primary functions of the Board of Directors;
- Authorization guidelines;
- Board access to senior management;
- Leadership of the Board;
- Charters of standing committees;
- Board selection process;
- Director's eligibility, education and term of office; and
- Board and committee meetings.

Primary Functions of the Board of Directors

The Board, which is elected by our stockholders, oversees the conduct of our business by management and reviews our financial objectives, major corporate plans, strategies, actions and major capital expenditures. Our directors are expected to promote the best interests of our stockholders in terms of corporate governance, fiduciary responsibilities, compliance with laws and regulations, and maintenance of accounting and financial controls. Our directors also participate in the selection, evaluation and, where appropriate, replacement of our chief executive officer and regularly approve a CEO succession plan. Directors also provide input to our CEO for the evaluation and recruitment of our principal senior executives.

Authorization Guidelines

Consistent with the Board's power to delegate management of the day-to-day operation of 3Com's business, the Board exercises business judgment in establishing and revising guidelines for authorization of expenditures or other corporate actions, and these are periodically reviewed with management.

Board Access to Senior Management

Our directors have complete access to our senior executive officers. Our directors use their judgment to ensure that contact with our senior executive officers is not distracting to our business operation or management reporting structure. Our Board expects our CEO to bring into board meetings managers who can provide additional insight into the matters being discussed or who have future potential that our CEO believes should be made visible to the Board.

Leadership of the Board

The leadership of the Board includes a Chairman of the Board and a lead independent director appointed by the Chairman. The Chairman works with the Secretary to disseminate materials to Board members and exercises initiative in recommending candidates for directorships and board committee assignments. The lead independent director serves as the focal point for independent directors regarding resolving conflicts with the CEO, or other independent directors, and coordinating feedback to the CEO on behalf of independent directors regarding business issues and board management. The lead independent director also serves as a special counsel to the CEO. The lead independent director and the other independent directors meet regularly without the CEO present.

Charters of Standing Committees

The current committee structure of the Board includes the following committees: Audit and Finance, Compensation and Nominating and Governance. The charters of each standing committee are reviewed periodically with a view to delegating committees with the authority of the Board concerning specified matters appropriate to such committee.

Board Selection Process

It is expected that all directors will be alert to potential Board candidates with appropriate skills and characteristics and communicate information regarding board selection matters to the Nominating and Governance Committee. The Nominating and Governance Committee is expected to exercise initiative in recommending to the Board candidates for directorships and board committee assignments. The Board endorses the value of seeking qualified directors from diverse backgrounds otherwise relevant to the Company's mission, strategy and business operations and perceived needs of the Board at a given time.

Director's Eligibility, Education, and Term of Office

Directors may not serve on the board of directors of more than five other public companies. Directors are reimbursed for costs incurred in connection with participating in a director education program that is accredited by Institutional Shareholder Services, or any similar organization. Directors are elected to hold office for a term of two years. As an alternative to term limits, the Chairman and lead director review each director's continuation on the Board at the conclusion of each two-year term. This also allows each director the opportunity to conveniently confirm his or her desire to continue as a member of the Board. Each director is required to submit a letter of resignation upon a job change. Such letter is to be accepted or rejected at the discretion of the Chairman. In addition, prior to accepting a position as a member of the board of directors of another public company, each director (other than the Chair of the Nominating and Governance Committee) is required to notify the Chair of the Nominating and Governance Committee of such matter and the Chair of the Nominating and Governance Committee is required to notify the lead independent director or the Chairman of the Board of such matter. Directors must retire from the board at the conclusion of any term during which the director reaches the age of seventy years.

Board and Committee Meetings

In preparation for meetings of the Board and its committees, the Chairman consults with the CEO regarding the agenda and content and, with support from the Secretary, disseminates to directors on a timely basis briefing materials regarding matters to be included in the meeting agenda, as well as minutes from prior meetings and any written reports by committees. Presentations to the Board may rely on directors having reviewed and digested information set forth in the briefing materials, thus allowing more time for discussion, clarification and feedback. The format of each quarterly Board meeting includes an executive session with the directors and Chairman. In addition, the independent directors meet in executive session on a regular basis. Adequate time is scheduled for completion of matters placed on the agenda of each meeting, including an annual off-site meeting of the Board to review long-term strategy. The Board has the authority to hire its own advisors and to have them present at meetings, as it deems necessary.

DIRECTOR COMPENSATION

The following tables provide information on 3Com's annual compensation practices during fiscal year 2007 for our non-employee directors, as well as the actual compensation earned by non-employee directors who served during the 2007 fiscal year. In addition to the cash compensation described below, which is payable on a quarterly basis, members of the Board who reside outside of the local area are reimbursed for travel expenses to attend Board and Committee meetings at our headquarters. All non-employee directors are reimbursed for travel expenses to attend meetings at locations other than our headquarters. During fiscal year 2007, our Chief Executive Officers did not receive any separate compensation for Board activities. The Compensation Committee retains the services of a leading compensation consulting firm, currently Pearl Meyer & Partners, to present relevant market practices and trends regarding director compensation.

Non-Employee Director Compensation (Fiscal Year 2007 Annual Compensation)

Annual Board Membership Compensation

Chairman of the Board.....	\$ 100,000
Lead Independent Director.....	45,000
Other Directors.....	35,000

Committee and Attendance Compensation

Committee Chair (other than Audit & Finance).....	2,500
Committee Chair, Audit & Finance	5,000
Payment for each Board meeting attended.....	1,000
Payment for each Committee meeting attended.....	1,000

The foregoing amounts also represent the current annual compensation for non-employee directors for fiscal year 2008. The only change made to director compensation in fiscal year 2007, when compared with fiscal year 2006, was to increase the additional annual retainer for the Audit and Finance Committee Chair from \$2,500 to \$5,000.

Director Compensation in Fiscal Year 2007

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (1) (\$)	Non-Equity Incentive Plan Compensation (\$)	Changes in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Eric A. Benhamou	122,000	—	130,954	—	—	—	252,954
Gary T. DiCamillo(2).....	83,328	—	83,583	—	1,164(3)	—	168,075
James R. Long.....	114,000	—	69,550	—	—	—	183,550
Robert Y. L. Mao (4).....	9,825	—	11,369	—	—	—	21,194
Raj Reddy.....	56,000	—	69,550	—	—	—	125,550
Dominique Trempont.....	41,077	—	66,367	—	—	—	107,444
Paul G. Yovovich.....	71,500	—	80,110	—	—	—	151,610
Julie St. John							
(5)	22,346	—	100,427	—	—	—	122,773
David Wajsglas (6).....	17,375	—	53,882	—	—	—	71,257

(1) Represents the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS123R, and thus may include amounts from awards granted during and prior to fiscal year 2007. See "Director Grants of Plan-Based Awards in 2007 Fiscal Year" table in this proxy statement for a detailed descriptions of option awards granted in fiscal year 2007.

(2) Mr. DiCamillo assumed the lead independent director role on June 21, 2006.

- (3) Directors are eligible to participate in the Company's nonqualified Deferred Compensation Plan. The Deferred Compensation Plan allows directors to defer the annual retainer and meeting fees compensation and postpone payment of taxes, and its earnings until a later date. The amount deferred is directed to a trust account with the Charles Schwab Trust Co., where directors are able to direct their investments within Schwab's full range of mutual funds. The account administrative fees are paid in full by 3Com. Because it is a nonqualified plan, the money deferred remains an asset of 3Com and is subject to the general creditors of the Company in the event of bankruptcy or insolvency. Mr. DiCamillo's balance in the Deferred Compensation Plan as of May 31, 2007 was \$20,038.
- (4) Mr. Mao joined the Board of Directors on March 23, 2007 and earned a pro-rated portion of the annual board membership retainer.
- (5) Ms. St. John resigned as a director on September 30, 2006.
- (6) Mr. Wajsglas' term as a director ended following the 2006 annual meeting of stockholders held on September 20, 2006.

Non-employee directors receive options to purchase common stock pursuant to the 2003 Stock Plan. The 2003 Stock Plan provides for the initial grant of an option to purchase shares of our common stock (identified as the "Initial Grant" in the "Director Grants of Plan-Based Awards in 2007 Fiscal Year" table, below) to each non-employee director, with a maximum of 120,000 shares to be subject to each such option (or 160,000 shares for the Chairman of the Board and the lead independent director). Additionally, at the time an initial grant is made to a new director, he or she also receives an option grant for a number of shares equal to the number of shares subject to the annual renewal grants made to continuing directors, described below, pro-rated to reflect the number of full months of service remaining prior to the next annual stockholder meeting (identified as the "Pro Rata Grant" in the "Director Grants of Plan-Based Awards in 2007 Fiscal Year" table, below). For continuing directors, an annual renewal grant is made effective with each regularly scheduled annual stockholder meeting, subject to the same share limits described for initial grants (identified as the "Annual Grant" in the "Director Grants of Plan-Based Awards in 2007 Fiscal Year" table, below). The actual number of shares to be subject to the options granted for Board and committee service is established by a committee of employee directors. All options granted have a seven-year term, and the initial grant vests 25% on each anniversary date of the grant and the pro rata grant and annual renewal grant vest over two years with the first 50% vesting one year after grant and the remaining 50% vesting two years after grant as long as the option holder continues to serve on the Board.

During fiscal year 2007, options were granted to non-employee directors under the 2003 Stock Plan for the following number of shares and at the per share exercise prices shown:

Director Grants of Plan-Based Awards in 2007 Fiscal Year

Non-Employee Director	Initial Grant	Pro Rata Grant	Annual Grant	Exercise Price(1) (\$)	Fair Value at Grant(2) (\$)	Aggregate Number of Options Outstanding 6/1/07
Eric A. Benhamou	—	—	94,000	4.4100	216,924	4,787,166
Gary T. DiCamillo.....	—	—	67,500	4.4100	155,770	377,470
James R. Long	—	—	50,000	4.4100	115,385	283,350
Robert Y.L. Mao	79,500	—	—	3.9200	156,917	354,500
Robert Y.L. Mao	—	25,000	—	3.9200	49,345	—
Raj Reddy	—	—	50,000	4.4100	115,385	354,750
Dominique Trempont	79,500	—	—	4.9000	203,854	125,333
Dominique Trempont	—	45,833	—	4.9000	117,525	—
Paul G. Yovovich	—	—	50,000	4.4100	115,385	331,250

(1) The exercise price is equal to 100% of the fair market value of the underlying shares on the date of grant. The fair market value is the closing price of the Company's common stock as quoted on Nasdaq.

(2) The grant date fair value is generally the amount the Company would expense in its financial statements over the award's service period, which is calculated using the Black-Scholes option-pricing model.

The following table shows all outstanding equity awards held by the non-employee directors at the end of fiscal year 2007.

Director Outstanding Equity Awards at 2007 Fiscal Year-End

Name	Number of Securities Underlying Unexercised Options (#)		Option Awards	
	Exercisable	Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Eric A. Benhamou	564,771 (1)	0	\$11.7306	7/24/2007
	263,922 (1)	0	\$5.2827	9/1/2008
	211,186 (1)	0	\$8.0146	11/30/2008
	99,245 (1)	0	\$5.2179	6/14/2009
	1,013,692 (1)	0	\$5.5416	7/21/2009
	263,560 (1)	0	\$5.9818	9/13/2009
	111,506 (1)	0	\$8.9210	12/10/2009
	202,738 (1)	0	\$11.7565	7/11/2010
	37,046 (1)	0	\$4.9719	6/1/2008
	1,663,000 (1)	0	\$13.6875	8/1/2010
	37,500 (2)	0	\$4.0700	10/16/2012
	75,000 (2)	0	\$6.1500	9/23/2010
	75,000 (2)	0	\$4.3200	9/22/2011
	37,500 (2)	37,500	\$4.0400	9/28/2012
	0 (2)	94,000	\$4.4100	9/20/2013
Gary T. DiCamillo	79,500 (1)	0	\$10.0625	12/13/2010
	31,720 (2)	0	\$10.0625	12/13/2010
	39,750 (2)	0	\$3.7900	9/20/2011
	39,750 (2)	0	\$4.2600	9/24/2012
	39,750 (2)	0	\$6.1500	9/23/2010
	39,750 (2)	0	\$4.3200	9/22/2011
	19,875 (2)	19,875	\$4.0400	9/28/2012
	0 (2)	67,500	\$4.4100	9/20/2013
James R. Long	34,600 (2)	0	\$18.0000	12/13/2010
	19,875 (2)	19,875	\$4.0400	9/28/2012
	0 (2)	50,000	\$4.4100	9/20/2013
	39,750 (2)	0	\$4.3200	9/22/2011
	39,750 (2)	0	\$3.7900	9/20/2011
	39,750 (2)	0	\$6.1500	9/23/2010
	39,750 (2)	0	\$4.2600	9/24/2012
Robert Y.L. Mao	250,000 (1)	0	\$4.4500	09/05/2013
	0 (1)	79,500	\$3.9200	03/28/2014
	0 (2)	25,000	\$3.9200	03/28/2014
Raj Reddy	19,875 (2)	19,875	\$4.0400	9/28/2012
	39,750 (2)	0	\$4.3200	9/22/2011
	39,750 (2)	0	\$6.1500	9/23/2010
	39,750 (2)	0	\$4.2600	9/24/2012
	39,750 (2)	0	\$3.7900	9/20/2011
	26,500 (2)	0	\$10.1250	1/19/2011
	79,500 (1)	0	\$10.1250	1/19/2011
	0 (2)	50,000	\$4.4100	9/20/2013
Dominique Trempont	0 (1)	79,500	\$4.9000	10/23/2013
	0 (2)	45,833	\$4.9000	10/23/2013
Paul G. Yovovich	39,750 (2)	0	\$18.0000	12/13/2010
	39,750 (2)	0	\$3.7900	9/20/2011
	39,750 (2)	0	\$4.2600	9/24/2012
	54,000 (2)	0	\$6.1500	9/23/2010
	54,000 (2)	0	\$4.3200	9/22/2011
	27,000 (2)	27,000	\$4.0400	9/28/2012
	0 (2)	50,000	\$4.4100	9/20/2013
Julie St. John (3)	—	—	—	—
David Wajsgas (4)	—	—	—	—

(1) The total option award (which is the sum of the number of shares exercisable, unexercisable and exercised) vests over four years.

- (2) The total option award (which is the sum of the number of shares exercisable, unexercisable and exercised) vests over two years.
- (3) As of the 2007 fiscal year end, Ms. St. John did not have any options outstanding because all of her unvested options and unexercised options were canceled following her resignation from the Board.
- (4) As of the 2007 fiscal year end, Mr. Wajsgas did not have any options outstanding because all of his unvested options and unexercised options were canceled following his departure from the Board.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table contains information, as of August 3, 2007, with respect to the beneficial ownership of our common stock by:

- each individual or entity whom we know to own beneficially more than five percent of our common stock;
- each director and nominee;
- each of the current and former executive officers listed in the “Summary Compensation Table for Fiscal Year 2007” table included in this proxy statement; and
- all of our directors and current executive officers as a group.

Beneficial ownership is determined in accordance with the rules and regulations of the Securities and Exchange Commission and generally includes those persons who have voting or investment power with respect to the securities. Unless otherwise indicated, all persons named as beneficial owners of common stock have sole voting power and sole investment power with respect to the shares indicated as beneficially owned. In addition, unless otherwise indicated, all persons named below can be reached at 350 Campus Drive, Marlborough, Massachusetts 01752.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares of Common Stock Owned</u>	<u>Common Stock Underlying Options Exercisable Within 60 Days</u>	<u>Total Beneficial Ownership</u>	<u>Ownership Percent of Common Stock Beneficially Owned (1)</u>
5% Stockholders				
Entities and individuals related to Citadel Limited Partnership (2) 131 S. Dearborn Street, 32 nd Floor Chicago, IL 60603	39,085,937	—	39,085,937	9.8%
Entities related to Barclays Global Investors, N.A. (3) 45 Fremont Street San Francisco, CA 94105	20,274,767	—	20,274,767	5.1%
Directors and Named Executive Officers				
Non-Employee Directors				
Eric A. Benhamou (4).....	708,146	4,175,395	4,883,541	1.2%
Gary T. DiCamillo.....	1,000	343,720	344,720	*
James R. Long.....	12,800	258,350	271,150	*
Robert Y. L. Mao.....	—	250,000	250,000	*
Raj Reddy.....	1,000	329,750	330,750	*
Dominique Trempont.....	—	—	—	*
Paul G. Yovovich.....	482,669	306,250	788,919	*
Named Executive Officers				
Edgar Masri (5).....	515,031	3,000,000	3,515,031	*
Neal D. Goldman (6).....	581,317	663,750	1,245,067	*
James Hamilton (7).....	230,970	393,750	624,720	*
Dr. Shusheng Zheng (8).....	200,000	—	200,000	*
Dr. Marc Willebeek-LeMair (9).....	600,105	515,245	1,115,350	*
Donald M. Halsted, III (10).....	252,084	550,000	802,084	*
R. Scott Murray (11).....	—	—	—	—
All directors and current executive officers as a group (13 persons) (12).....	3,246,027	9,945,965	13,191,992	3.2%

* 1% or less

- (1) Percentage of beneficial ownership is based on 399,528,738 shares of common stock outstanding as of August 3, 2007. Shares of common stock subject to options currently exercisable, or exercisable within 60 days of August 3, 2007, are deemed outstanding for computing the percentage of the person holding such options but are not deemed outstanding for computing the percentage for any other person.
- (2) Represents shares beneficially owned by Citadel Limited Partnership, Citadel Investment Group, L.L.C., Kenneth Griffin, Citadel Equity Fund Ltd., Citadel Derivatives Group LLC, based on a Schedule 13D/A that was filed jointly by these individuals and entities with the SEC on July 2, 2007.
- (3) Represents shares beneficially owned by Barclays Global Investors, NA., Barclays Global Fund Advisors, Barclays Global Investors, Ltd, Barclays Global Investors Japan Trust and Banking Company Limited, Barclays Global Investors Japan Limited, based on a Schedule 13G that was filed jointly by these entities with the SEC on January 23, 2007.
- (4) Includes 708,146 shares of common stock held in the Eric and Illeana Benhamou Living Trust dated September 11, 2000, of which Mr. Benhamou is a co-trustee.
- (5) Includes 500,000 unvested shares of restricted stock issued to Mr. Masri.
- (6) Includes 355,833 unvested shares of restricted stock issued to Mr. Goldman.
- (7) Includes 187,500 unvested shares of restricted stock issued to Mr. Hamilton.
- (8) Consists of 200,000 unvested shares of restricted stock issued to Dr. Zheng.
- (9) Includes 287,500 unvested shares of restricted stock issued to Dr. Willebeek-LeMair.
- (10) Mr. Halsted is the Company's former Executive Vice President and Chief Financial Officer. He resigned from those positions as of June 22, 2007 and his employment with the Company terminated July 27, 2007.
- (11) Mr. Murray is the Company's former President and Chief Executive Officer. He resigned from those positions as of the close of business on August 17, 2006.
- (12) Includes 1,730,833 unvested shares of restricted stock issued to current executive officers (including 300,000 shares held by Jay Zager, who became the Company's Executive Vice President and Chief Financial Officer on June 23, 2007, and 187,500 shares held by Robert Dechant, our Senior Vice President and General Manager, Data and Voice Business Unit). Does not include 287,500 shares held by Dr. Willebeek-LeMair, who (while still currently a 3Com officer) ceased to be a Section 16 executive officer on March 28, 2007.

The following table summarizes information related to our equity compensation plans as of June 1, 2007:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in 1 st column)
Equity compensation plans approved by stockholders	30,283,313	\$ 5.2600	14,918,472
Equity compensation plans not approved by stockholders (1)	<u>17,821,082</u>	<u>6.0600</u>	<u>—</u>
Total	48,104,395	\$ 5.5600	14,918,472

(1) Consists of 9,321,082 shares available for issuance pursuant to outstanding options under our 1994 Stock Option Plan and 8,500,000 shares that are available for issuance pursuant to outstanding options under a Stand Alone Stock Option Agreement with Edgar Masri dated September 5, 2006. Neither of these plans were required to be approved by stockholders. The 1994 Stock Option Plan was terminated as to future grants. Does not include an aggregate of 4,175,961 shares of common stock to be issued (subject to vesting) upon the exercise of outstanding option grants, with a weighted average exercise price of \$1.52 per share, assumed by 3Com in connection with various acquisitions. The option plans relating to such outstanding options were approved by the respective security holders of the acquired companies.

Disclosure Regarding Non-Stockholder-Approved Plans. The 1994 Stock Option Plan (“1994 Plan”) provided for the grant of stock options to employees other than officers and directors. The 1994 Plan, which was not approved by stockholders, was terminated as to future grants as of September 23, 2003. The 1994 Plan is administered by the Compensation Committee, which has the power to determine matters relating to outstanding option awards under the 1994 Plan, including conditions of vesting and exercisability. Options granted under the 1994 Plan expire no later than 10 years from the grant date. Options granted under the 1994 Plan generally vest in two or four years from the date of grant. Mr. Masri’s options under his Stand Alone Stock Option Agreement dated September 5, 2006 have a term of 7 years from the date of grant and vest and become exercisable in four equal annual installments on the anniversary of the date of grant.

RELATED PERSON TRANSACTIONS

We have no related party transactions.

It is the policy of the Board of Directors that all “related party” transactions, as defined by Item 404 of Regulation S-K, be subject to approval or ratification in accordance with the procedures set forth below. In furtherance of relevant Nasdaq rules and 3Com’s commitment to corporate governance, the charter of the Audit and Finance Committee provides that the Audit and Finance Committee shall review all “related party transactions” for potential conflict of interest situations on an ongoing basis, and all such transactions must be approved by the Committee. The Audit and Finance Committee also adopted a separate policy intended to provide more detail as to the procedures to be followed in implementing the Committee’s responsibilities under its charter. The material terms of the policy are as follows:

- the Audit and Finance Committee shall review the material facts of all related party transactions that require the Committee’s approval and either approve or disapprove of the transaction;
- in determining whether to approve or ratify a transaction, the Audit and Finance Committee will take into account, among other factors it deems appropriate, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person’s interest in the transaction;
- no director shall participate in any discussion or approval of a transaction for which he or she is a related party, except that the director shall provide all material information concerning the transaction to the Audit and Finance Committee;
- if a transaction will be ongoing, the Audit and Finance Committee may establish guidelines for the Company’s management to follow in its ongoing dealings with the related party; thereafter, the Audit and Finance Committee, on at least an annual basis, shall review and assess ongoing relationships with the related party to see that they are in compliance with the Committee’s guidelines and that the transaction remains appropriate; and
- as a general matter, the Company’s Chief Compliance Officer and his or her delegates will assist the Audit and Finance Committee in compiling and interpreting information received that bears on related party transactions.

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy and Objectives

3Com's executive compensation philosophy is to provide a meaningful total compensation opportunity to each executive with a large portion of the opportunity being variable and aligned with stockholder value creation. Consequently, we intend that our executives realize significant incentive value when 3Com stockholders receive significant gains. The goal of 3Com's executive compensation program is to:

- attract, retain and motivate highly qualified executives in a highly competitive market;
- align executive compensation with stockholder value creation;
- provide rewards that are commensurate with 3Com's business performance;
- maintain flexibility to respond to changing needs of the business; and
- provide transparency so that executives and other stockholders understand the executive compensation program and the objectives it seeks to achieve.

The following current or former officers are included in this Analysis:

- Edgar Masri, President and Chief Executive Officer
- R. Scott Murray, former President and Chief Executive Officer
- Donald M. Halsted, III, former Executive Vice President and Chief Financial Officer
- Neal D. Goldman, Executive Vice President and Chief Legal and Administrative Officer and Secretary
- James Hamilton, Senior Vice President and President, TippingPoint
- Robert Y. L. Mao, former Executive Vice President, Corporate Development
- Dr. Marc Willebeek-LeMair, Senior Vice-President and Chief Technology Officer
- Dr. Shusheng Zheng, Chief Operating Officer, H3C Technologies Co., Limited

Overview of Compensation Practices

The Compensation Committee, (the "*Committee*") reviews salaries and other compensation arrangements for our directors and those officers subject to the reporting requirements of Section 16 of the Securities Act of 1934, as amended ("*Executives*"). The Committee approves such compensation and advises the full Board of Directors (the "*Board*") on general aspects of our compensation and benefit policies. Although the Committee receives and considers input from Company executives, its compensation consultant and its legal advisers, it does not delegate decision-making authority on executive or director compensation. A detailed discussion of the Committee's structure, roles and responsibilities and related matters can be found above under the heading "Board of Directors Meetings and Committees". The Committee operates under a written charter that is available on our website at http://www.3com.com/corpinfo/en_US/investor/comp_com.html. The Committee meets as often as necessary to discharge its responsibilities. In fiscal year 2007, the Committee met ten times in a combination of regularly scheduled and special meetings, and met in modified executive session four times, once with the CEO, and three times with some combination of the Committee's consultant, the Chief Legal and Administrative Officer and the Vice President, Law and Assistant Secretary. In addition, the Board met in Executive Session, with only the Chief Administrative and Legal Officer and the Assistant Secretary present, to review and approve the employment agreements for President and Chief Executive Officer Edgar Masri and Executive Vice President Robert Y.L. Mao.

At least annually, the Committee reviews 3Com's Executive compensation programs and policies in light of the above philosophy and in relation to changes and trends in the marketplace. The Committee determines whether each Executive's total compensation is consistent with the compensation philosophy and market data, and makes adjustments as necessary. When making compensation decisions, the Committee takes into account market data for Executives with comparable responsibilities at our peer group companies and other factors, including each Executive's individual performance (particularly over the past year), his or her expected future contributions, financial and operational results, each Executive's historical compensation, any retention concerns, and the Chief Executive Officer's recommendations in the case of Executives other than himself. In looking at historical compensation, the Committee looks at the salary over time and also looks at the unvested and vested value inherent in equity awards, among other factors.

The Committee retains the services of a leading compensation consulting firm, Pearl Meyer & Partners, to advise on pay levels and mix, incentive plan design, performance measurement, and other relevant market practices and trends. Pearl Meyer & Partners also collects and analyzes relevant market data or "benchmarks" from peer group companies and industry-specific surveys in each of these areas. Pearl Meyer & Partners prepares reports for, delivers presentations to and engages in discussions with the Committee about its observations and analysis of the information it collects. Such reports, presentations, and discussions address topics ranging from the strategic considerations for compensation of the Company's Executives and Directors to potential tax and accounting implications and dilutive impacts of various compensation elements to specific adjustments of particular elements of both Executive and Director compensation. Pearl Meyer & Partners provides a limited amount of other advice and consulting services for the Company, primarily in the area of our equity program.

Role of Executives and Other Employees in Compensation Matters. The Chief Executive Officer annually reviews the performance and contribution of Executives. The conclusions reached and recommendations based on these reviews, including salary adjustments, semi-annual bonus awards and equity grants, are presented to the Committee. The Committee may exercise its discretion in modifying, accepting or rejecting these recommendations. Our Chief Administrative and Legal Officer and members of his staff facilitate the interaction between Pearl Meyer & Partners and the Committee as the case warrants.

The Chief Executive Officer, the Chief Legal and Administrative Officer and members of the latter's staff attend parts of meetings of the Compensation Committee. The Committee regularly meets in executive session without the Chief Executive Officer to discuss and decide elements of the compensation of the Chief Executive Officer and other Executives.

Market Positioning. 3Com targets Executive compensation to the relevant competitive market. The competition among high technology companies for qualified executives is intense, and our strategic plans depend heavily on a committed and highly qualified Executive team. Accordingly, we generally target Executive total direct compensation, which includes base salary, bonus, and long-term incentives, at the 65th to 75th percentile of the competitive market. Compensation for any Executive may vary from these targets, up or down, based on performance, tenure, experience, prior compensation and other factors that may be judged as critical and pertinent by the Committee.

Peer Group. Periodically, the Committee, working with Pearl Meyer & Partners, reviews its peer group to ensure that the companies selected are appropriate for compensation and performance comparison purposes. In fiscal year 2007, the peer group used by the Committee for pay comparisons and for evaluating our relative performance included:

- Adaptec, Inc.
- ADC Telecomm
- Avaya, Inc.

- Broadcom Corporation
- Brocade Communications
- Extreme Networks
- Foundry Networks
- Juniper Networks
- Tellabs, Inc.

At the beginning of fiscal year 2008 and primarily due to the acquisition of the balance of H3C, the Committee, with the assistance of Pearl Meyer & Partners, reevaluated the industry peer companies in light of the increased size and global footprint of the Company. The Committee developed a peer group that it believes more closely aligns with 3Com's current business strategy, annual revenue, market capitalization, and international presence. Based on this analysis, for fiscal year 2008, the peer group to be used by the Committee for pay comparisons and for evaluating our relative performance shall be:

- ADC Telecomm
- Avaya, Inc.
- Brocade Communications
- Extreme Networks
- Foundry Networks
- Juniper Networks
- McAfee, Inc.
- Netgear, Inc.
- Tellabs, Inc.

Components of Executive Compensation

Executive compensation at 3Com consists primarily of base salary, a short-term performance-based cash incentive opportunity, a long-term incentive opportunity (consisting primarily of equity-based vehicles), perquisites and other benefits. 3Com has selected these elements of compensation because each is considered useful and/or necessary to meet one or more of the principal objectives of our compensation policy. We design base salary and employee benefits with the goal of attracting employees by providing a threshold level of compensation for services performed. We provide performance-based cash incentives to motivate and reward achievement of short-term performance goals. We award long-term incentives to closely align Executive interests with those of our stockholders, to promote achievement of long-term business objectives and to retain key talent.

Base Salary. Base salaries provide a fixed amount of compensation for the Executive's work responsibilities. In determining each Executive's base salary, the Committee considers competitive market data for similar positions at high technology companies (including companies from our peer group), individual responsibilities and performance, and internal equity within 3Com. In June 2006 and again in July 2007, the Committee conducted its annual Executive salary review. Based upon market data and 3Com's overall performance, the Committee did not increase base salary levels in either year.

Annual Cash Incentive Bonus. The Company's compensation objective is to have a significant portion of each Executive's compensation tied to performance. To this end, the Company has established a target annual performance-based cash incentive opportunity for each Executive expressed as a percentage of base salary. In establishing the amount of target incentive, the Committee evaluates the total target cash compensation (base salary + target incentive) and compares it to benchmark data. The actual award earned may be higher or lower than this target incentive amount based on Company, divisional and/or individual performance factors.

The Committee believes that the Company's annual business plan and near-term business objectives are best supported by a cash incentive plan tied to performance goals established for a period of one year or less. Because of the rapidly changing industry in which 3Com competes, the Committee believes that annual or semi-annual goals can be established with greater specificity and linkage to the operating plan objectives and with less risk of error or misalignment with longer measurement periods. The Committee also believes that goals that can be achieved over an annual or semi-annual period are more effective at motivating performance and promoting retention than goals which take a longer time to achieve and are therefore inherently less under the control of the individual to accomplish. Moreover, the Committee believes that establishing annual or semi-annual plans provides the Company with the flexibility to adjust the structure and objectives of its plan to meet changes in the Company's business and competitive environment. For example, the Committee was able to set specific financial metrics for each half of fiscal year 2007 that established a clear set of priorities and concrete financial goals for Executives and, by extension, their various organizations and teams.

For fiscal year 2007, Executive bonus payments were issued under one of two cash incentive bonus programs: the 3Bonus Program and the H3C Cash Incentive Bonus Program. The table below indicates the percentage of base salary associated with target bonuses for each Executive under the 3Bonus Program. These percentages are unchanged for participating Executives in fiscal year 2008. The target for Dr. Zheng under the H3C program will be addressed below under the heading "H3C Cash Incentive Program."

Officer	Target Bonus based on % of Base Salary
Masri	100%
Murray	100%
Halsted	65%
Goldman	65%
Hamilton	65%
Mao	100%
Willebeek-LeMair	65%

3Bonus Program

For the first half of fiscal year 2007, the Committee set metrics for Executives participating in the 3Bonus Program based on the achievement of specified financial goals with respect to 3Com's operating profit on a non-GAAP basis and various segment and divisional financial results in the following categories: (1) revenue, (2) non-GAAP operating profit, and (3) contribution margin (defined as gross margin minus research and development expenses adjusted for certain items).

For each Executive, the individual metrics were weighted between 20% and 60% of a total 100% bonus opportunity. To set realistic but challenging goals and to emphasize the criticality of at least baseline achievement of the segment operating profit metrics, the Committee determined that each metric could be earned individually and independent of thresholds for other metrics, provided that no payouts were permitted unless the segment non-GAAP operating profit metric was achieved at "threshold level" or higher.

For the fiscal year 2007 and the first half fiscal year 2008 programs, although the "target" bonus amounts are set forth in the table above, the bonus potential ranges from 50% - 200% of target amounts, based on the degree of attainment of financial metrics. For each metric described above, the Committee set goals for payouts of bonus at three levels: "threshold" (the achievement of which would result in a payout of

50% of target bonus amounts), “target” (the achievement of which would result in a payout of 100% of target bonus amounts) and “maximum” (the achievement of which would result in the maximum payout of 200% of target bonus amounts). The programs call for actual payout to be based on a sliding scale for achievement attained in between specified levels, although no payouts result unless, at a minimum, “threshold” achievement levels were or are attained for that metric.

For the first half of fiscal year 2007, the achievement of financial metrics within the context of the approved 3Bonus Program was reviewed by the Committee. The Committee determined that the calculated bonus payout of 80% of the target incentive was appropriate for all Executives, including the CEO, correlating to the financial performance of the business against the plan. Mr. Masri’s payout was prorated based on his effective date of employment, in accordance with his employment agreement. Mr. Murray, the President and Chief Executive Officer for the first three months of fiscal year 2007, did not receive any payout under the 3Bonus Program during fiscal year 2007.

For the second half of fiscal year 2007, the Committee determined to adjust the 3Bonus Program to align with second half goals for consolidated Company performance, and allow for greater subjective assessment of individual Executive performance at the time of determining payout. The Committee set metrics for Executives participating in the 3Bonus Program based on the achievement of specific financial goals with respect to 3Com’s consolidated (1) revenue, (2) gross margin, and (3) non-GAAP operating profit. “Gross margin” (defined as revenue less cost of goods sold) was added as a metric in the second half due to the increasing importance of managing this aspect of performance across the organization. Because all metrics for the second half reflected consolidated measures, “contribution margin” (which is a profitability measure for a sub-unit of the organization) was not included as a metric. These three metrics were weighted between 25% - 50% of a total 100% potential target bonus opportunity. As with the 3Bonus Program for the first half of fiscal year 2007, each metric could be earned individually and independent of thresholds for other metrics, provided that no payouts were permitted unless the non-GAAP operating profit metric was achieved at “threshold” level or higher.

For the second half of fiscal year 2007, the Committee reviewed performance relative to the pre-established consolidated financial goals and determined that, based on the relative influence of H3C, the resulting payout would have over-compensated Executives when considering performance within their areas of direct accountability. Therefore, the Committee exercised its discretion to reduce the payout amounts to better coincide with performance against the financial metrics established for each Executive’s respective business unit, and granted bonuses to Executives ranging from 25% to 74% of Executives’ target bonus amounts. The Committee applied the same principle to the determination of Mr. Masri’s payout, issuing a payout at 74% of target incentive for the period to align his bonus payout with that of the Corporate group.

For the first half of fiscal year 2008, the Committee again set metrics for Executives participating in the 3Bonus Program based on the achievement of specified financial goals but changed the weighting of the metrics to 20% - 40% to create more of a balance of emphasis among the metrics. The metrics for the program for the first half of fiscal year 2008 are: (1) revenue, (2) non-GAAP operating profit and (3) gross margin. The Committee retains the discretion to adjust the payout levels funded under this structure based on its assessment of individual performance at the time it determines any payout.

H3C Cash Incentive Bonus Program

The Committee determined that it was in the Company's best interest at this time to emphasize Dr. Zheng's focus on the performance of H3C. Accordingly, Dr. Zheng is not a participant in the 3Bonus Program and instead is aligned with the H3C business unit of the Company as a participant in the H3C Cash Incentive Bonus Program. The H3C Cash Incentive Bonus Program, which pre-existed 3Com's March 29, 2007 acquisition of the remaining 49% of H3C (the "Acquisition"), was based on a set pool of available earnings under H3C's financial plan for calendar year 2006 (which is also H3C's fiscal year). H3C's overall financial performance for the period was just under its financial plan, so taking into account the disruptive effects of the Acquisition by 3Com, the Committee rewarded Dr. Zheng for his leadership of H3C to the full extent of his allocation.

The portion of Dr. Zheng's calendar year 2006 bonus that was earned in 3Com's fiscal year 2007 was approximately \$118,040. Under his employment agreement, Dr. Zheng's annual bonus opportunity for calendar year 2007 through the term of his agreement is approximately 67% of his current base salary. Dr. Zheng's payout for the calendar year 2007 bonus plan for H3C, if any, cannot yet be calculated.

Prior to the Acquisition, the Board of Directors of H3C established an Equity Appreciation Rights Plan (the "EARP") for the purpose of attracting and retaining high quality personnel by offering individual incentives to link to the success of H3C. The EARP, including the granting of annual shares in and the establishment of a supplementary pool to be distributed after the Acquisition, was administered by the H3C Board of Directors until the Acquisition. Thereafter, Dr. Zheng became an officer of the Company subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934, as amended, which required the Committee to review and approve the recommended supplementary grant of shares to him. In consideration of Dr. Zheng's effective leadership of H3C and H3C's strong growth and financial performance during the three-year period of time covered by the EARP, the Committee approved a supplementary grant to him valued at approximately \$1,609,960 shortly after the Acquisition.

Additional Bonus. In August 2006, upon recommendation of the Board, the Committee approved a special bonus of \$50,000 to Mr. Goldman in recognition of his leadership and efforts during several executive transitions and the related transactions.

Equity Incentives. Executives' compensation mix emphasizes equity incentives. The Committee believes that equity compensation should be emphasized because it most directly links Executive and stockholder interests. We normally target equity compensation for Executives at the 65th percentile of the market comparisons in order to attract, retain and reward qualified Executives and focus them on long-term Company performance. The Committee, with the assistance of Pearl Meyer & Partners, determines Executive equity grants by reviewing a composite set of data which includes Black-Scholes valuation estimates of disclosed grants made by comparable companies, third-party survey data, internal comparisons, potential incremental share dilution, and the FAS123(R) costs associated with equity grants.

Historically, 3Com's equity incentives at the Executive level, which are usually granted on an annual basis as part of a broader Company equity program, have been in the form of stock options with time-based vesting, restricted stock with time-based vesting, restricted stock with performance vesting, and restricted stock with performance-accelerated vesting ("PAVRS"). In accordance with 3Com's policy for granting equity awards, grants to Executives already employed by the Company are effective on the first Tuesday of the month that immediately follows the month in which grants are approved; grants to newly hired Executives are effective on the first Tuesday of the month that immediately follows the month in which they start. Stock options are issued at an exercise price equal to the closing price of the Company's common stock on the effective date of the grant and typically vest in equal annual installments over four years. We utilize stock options as a means to directly tie Executives' compensation to stockholder value appreciation. Restricted

stock with time-based vesting is typically issued as both a means to directly tie Executives to stockholder interests and to assist in the retention of Executives by efficiently providing some certainty of value of the holdings if they remain with the Company. We issue restricted stock with performance vesting and PAVRS as a means of tying Executives to key business performance metrics that directly relate to stockholder value appreciation. Performance vesting restricted stock is forfeited if the metrics are not achieved. PAVRS is not forfeited but converts to cliff vesting, usually four years from the grant date, provided the Executive remains employed by the Company.

The Committee has not granted nor does it intend in the future to grant, equity awards to Executives in anticipation of the release of material nonpublic information that is likely to result in changes to the price of the Company's common stock. Similarly, the Committee has not timed, nor does it intend in the future to time, the release of material nonpublic information based on equity award grant dates.

In recent years, in line with market trends and the Company's need to retain key Executives, the Company has altered its approach to equity incentives from predominantly using stock options to one that reflects an increased use of restricted stock. The Committee believes that the recent emphasis on restricted stock in the equity mix recognizes competitive market trends, balances stock options' incentive value of increasing the value of the Company's stock and the more certain retentive value of restricted stock. In addition, restricted stock may be a more efficient vehicle with respect to our equity plan share reserves and overall dilution, because generally fewer shares are needed to retain and motivate our Executives and other employees than is the case with stock options.

The need to hire, retain and motivate Executives in the current competitive environment in the high technology industry and the unique demands of the integration of H3C and other structural challenges facing the Company were heavily considered in determining both the size and type of fiscal year 2007 grants. In consideration of these factors, the Committee determined to grant the annual awards to Executives at levels beyond the 65th percentile targeted in past years with special retention grants. The Committee approved a combination of stock options and restricted stock with time-based vesting to each then-current Executive other than the Chief Executive Officer, as well as awards of restricted stock with performance vesting to two Executives. In determining the allocation of the awards, the Committee analyzed the expected value of the awards currently and under various stock price scenarios, the value of prior awards to the recipients, the Executive's target compensation in the context of relevant market data, the retention risk, the relative contribution of the Executive and the FAS123(R) costs of the proposed grants. The issued stock option grants vest 25% per year over four years, and the issued restricted stock grants with time-based vesting vest 16.7% semi-annually over three years. In recognition of the criticality of the Acquisition, the Committee awarded restricted stock with vesting dependent upon the consummation of a transaction whereby 3Com acquired additional interest in or recapitalized H3C to the two accountable Executives, the Chief Financial Officer and the Chief Legal and Administrative Officer. The amount of these awards was determined by the Committee taking into account the size and strategic value of the transaction, and the amount of value appropriate to motivate and reward the extraordinary efforts required to complete it.

In August 2006, the Company entered into an employment agreement with Mr. Masri to succeed Mr. Murray as the Company's President and Chief Executive Officer. The terms of that agreement included a grant of twelve million stock options, all of which were effective as of the first Tuesday of the month following his start date in accordance with the Company's equity grant policy, and were intended to cover a four-year period under normal circumstances. Eight million five hundred thousand of these stock options were granted under a Stand Alone Stock Option Agreement and qualify as an inducement to Mr. Masri to enter into the employment under the applicable NASDAQ rules. To further encourage stockholder value creation, six million of Mr. Masri's stock options have a premium exercise price. Specifically, three million stock options were granted at a 20% premium, and three million stock options were granted at a 30% premium to the closing price of the Company's common stock on NASDAQ on the effective date of the

grants. All of the stock options are subject to annual vesting over four years. The Committee also approved a grant to Mr. Masri of five hundred thousand restricted shares to vest annually over three years.

Also in August 2006, the Committee approved new hire grants totaling up to two million stock options to Mr. Mao. One million of the stock options were granted effective as of the first Tuesday of the month following his start date; the remaining one million of the stock options were to have been granted if he was appointed Chief Executive Officer of H3C by April 1, 2007, in anticipation of the Acquisition. Both grants were to vest in equal increments over four years. The second grant was never made. The Company determined in March 2007 that Mr. Mao's experience in China and the networking industry would be of greater benefit to the Company if he were a member of the Board rather than a member of management. Accordingly, the Company terminated his employment, triggering certain severance benefits, and the Board elected him as a director on March 23, 2007. See the "Severance and Change of Control Benefits" section below for a discussion of the disposition of the outstanding stock options and the triggered severance benefits upon the termination of Mr. Mao's employment.

In March 2007, intending to establish some direct alignment of the long-term interests of Dr. Zheng with not just the H3C business unit but the entire Company, the Committee approved a restricted stock grant of 200,000 shares that vests annually over three years in connection with his employment agreement, effective upon the Acquisition. The Committee believes that this time-based grant will also contribute to the Company's ability to retain Dr. Zheng throughout the integration period and beyond.

Perquisites and Other Benefits. Historically, the Company has made available to Executives benefits that are available to other employees of the Company. Executives are entitled to participate on the same basis and in the same medical, dental, vision, disability, life insurance, and other plans and programs made available to other full time employees in the applicable country of residence. The Company also provides certain additional perquisites that the Company and the Committee believe are reasonable and consistent with its overall compensation program to better enable the Company to attract and retain qualified individuals for certain Executive positions. Specifically, Mr. Masri, pursuant to his employment agreement, was entitled to receive a maximum of \$15,000 for legal and tax expenses incurred in connection with the negotiation, preparation and execution of his employment agreement, of which a total of \$10,000 was actually incurred. 3Com also purchases and maintains a \$10,000,000 life insurance policy for the benefit of the Chief Executive Officer (or his estate) throughout the term of his employment, with a maximum annual premium of \$30,000. The Committee has approved perquisites for other Executives on a case-by-case basis, as the situation requires, including expenses and tax equalization associated with Mr. Mao's expatriate assignment in China, and automobile lease and travel cost reimbursement to Mr. Hamilton. Pursuant to the terms of his employment agreement prior to our acquisition of TippingPoint, Mr. Hamilton was entitled to a housing allowance. The Company subsequently modified the benefit to cover an automobile lease and travel expenses for commuting to our offices in Austin, Texas. Such benefits were subject to an initial gross-up of the taxable values to Mr. Hamilton. The Committee approved the extension of these benefits to Mr. Hamilton for fiscal year 2008 in light of the need to retain his services while the Company contemplates strategic options for the TippingPoint business unit.

The Company has a 401(k) tax-qualified retirement savings plan pursuant to which all U.S.-based employees are entitled to participate. Employees can make contributions to the plan on a before-tax basis to the maximum amounts prescribed by the Internal Revenue Service. The Company will match 3% of the amount contributed by the employee. The Company matching contributions vest annually in thirds through the first three years of employment with 3Com and are fully vested thereafter. Participants in the Company's 401(k) plan direct their own investments, which does not include Company stock. Other than these generally available plans, there are no other deferred savings plans in which the Executives participate.

Attributed costs of the personal benefits described above for the Executives for the fiscal year ended June 1, 2007, are included in the column entitled "All Other Compensation" in the "Summary Compensation Table for Fiscal Year 2007" table in this proxy statement.

Severance and Change of Control Benefits

Consistent with market practice as reviewed and reported on by Pearl Meyer & Partners regarding compensation for chief executive officers and other executives, and to retain and promote focus of our management team, the Executives are covered by arrangements which specify payments in the event the Executive's employment is terminated under certain circumstances, including instances of constructive discharge resulting in the Executive's resignation for certain specified reasons.

Our Chief Executive Officer is entitled to severance benefits if he is terminated without "Cause" or resigns for "Good Reason" (as such terms are defined in his employment agreement). If such termination is not in connection with a "Change of Control," (as such term is defined in his employment agreement), the severance benefits include 12 months of base salary plus the payment of Mr. Masri's target annual cash incentive for the year in which the termination occurs, 12 months of accelerated vesting of outstanding equity awards (other than performance-based awards) and up to 18 months of reimbursement for premiums paid under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"). He is also entitled to an extension of the period in which to exercise his stock options after termination, from the earlier of the expiration of the stock option or 90 days provided for in the Company's 2003 Stock Plan to the earlier of the expiration of the stock option or 165 days, as well as continuation for up to one year of the life insurance policy in effect at the time of his termination. If such termination is in connection with a Change of Control, Mr. Masri is entitled to severance benefits including two years of base salary, the payment of two times his annual cash incentive for the year in which the termination occurs, full vesting of outstanding equity awards (other than performance-based awards), up to 18 months of reimbursement for premiums paid for COBRA coverage, an extension of the period in which to exercise his stock options after termination, from the earlier of the expiration of the stock option or 90 days provided for in the Company's 2003 Stock Plan to the earlier of the expiration of the stock option or 165 days, and continuation for up to one year of the life insurance policy in effect at the time of his termination. The Committee believes that conditioning Change of Control benefits on the "double trigger" of both altered control and termination avoids a windfall payment to the Executive.

In accordance with prevailing practice as reported by Pearl Meyer & Partners to the Committee in the context of its review of Mr. Masri's compensation arrangements at the time of his hiring, Mr. Masri is also entitled to full gross-up payments for excise taxes owed in connection with any "parachute payments" within the meaning of Section 280G of the Internal Revenue Code, provided that the Company may elect not to make such payments in certain instances including if they would not significantly benefit Mr. Masri.

In the event of termination without "Cause" or resignation for "Good Reason" (as those terms are defined in our Section 16 Officer Severance Plan and our forms of Management Retention Agreements), our other current Executives are entitled to receive 12 months of base salary, payment of their pro-rated earned cash incentive bonus for the year of termination (based on days worked), acceleration of six months outstanding equity awards (other than performance-based awards), and continuation of Company-paid premiums for health, dental and vision benefits for a period not to exceed 12 months, if such coverage is elected pursuant to COBRA. If such termination or resignation is in connection with a "Change of Control" (as such term is defined in our Section 16 Officer Severance Plan and our forms of Management Retention Agreements), these Executives also receive acceleration of all outstanding equity and payment of a year's target bonus amount and continued coverage of employee benefits for a period not to exceed 2 years (instead of 12 months). The gross-up protection for current Executives other than the Chief Executive Officer are limited to circumstances where the "parachute payments" would be greater than 3.59 times the "base amount" as those terms are defined by applicable tax regulations.

In addition to the severance benefits described just above, Mr. Hamilton is eligible for a modified severance if he chooses to resign between August 2, 2007 and November 2, 2007 with an effective date in November 2007. This modified severance includes six months of salary and benefits for Mr. Hamilton, one-half his annualized target bonus as well as acceleration by six months of time-based equity and 12.5% of performance-based equity. The Company extended this severance protection to Mr. Hamilton to retain him for a defined period of time while the Company was contemplating strategic options for its TippingPoint business unit.

Dr. Zheng is entitled to severance benefits if he is terminated without a “Valid Reason” (as that term is defined in his employment agreement) that include a payment equal to one month of his base salary per year of service with the Company, and an additional 12 months of base salary. Dr. Zheng’s benefits under the Section 16 Officer Severance Plan, his Severance Benefit Agreement or his Management Retention Agreement shall be offset and reduced by some of the specific severance benefits for which he is eligible under his employment agreement.

Each Executive is required to execute a general release and is subject to certain restrictive covenants in connection with the receipt of any severance benefits, generally including non-solicitation of employees, non-competition and non-disparagement covenants.

Mr. Mao received severance upon the termination of his employment on March 23, 2007, prior to his appointment as a member of the Board that same date. Given the importance of the Acquisition and the H3C business unit to the Company’s overall strategy, the Committee believes the severance was appropriate and necessary to secure the services of an executive with extensive experience in China. Mr. Mao received severance benefits including a payment of \$800,000, accelerated vesting of 250,000 stock options as well as an extended exercise period through September 4, 2007, fully-paid health benefits for up to eighteen months, and fully-paid life insurance premiums for up to 12 months. His severance agreement includes a general release as well as certain non-solicitation covenants.

Impact of Tax and Accounting Treatment

Section 162(m) of the Internal Revenue Code, enacted in 1993, generally disallows a tax deduction to a public corporation for compensation of more than \$1 million paid to the corporation’s Chief Executive Officer, Chief Financial Officer and three other most highly compensated Executives. Qualifying performance-based compensation will not be subject to the cap if certain requirements are met. The Committee has reviewed 3Com’s 3Bonus Program and has weighed the benefits of compliance against the burdens. While the Committee’s intent is to maximize the deductibility of Executive compensation to the extent reasonable, the Committee has chosen not to qualify the 3Bonus Program at this time in order to maintain flexibility. The Committee believes that any loss of deductibility will not be material to 3Com’s results and that the burdens of compliance outweigh the benefits. 3Com’s stock option plans, however, are designed to comply with Section 162(m), so stock option grants under the plans are generally tax deductible upon exercise.

COMPENSATION COMMITTEE REPORT

We, the Compensation Committee of the Board of Directors of 3Com Corporation, have reviewed and discussed the Compensation Discussion and Analysis set forth above with the management of the Company, and, based on such review and discussion, have recommended to the Board of Directors inclusion of the Compensation Discussion and Analysis in this proxy statement and, through incorporation by reference from this proxy statement, the Company's Annual Report on Form 10-K for the year ended June 1, 2007.

Compensation Committee:
Gary T. DiCamillo, *Chair*
Paul G. Yovovich

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table contains information concerning the compensation of (1) our current Chief Executive Officer, (2) our former Chief Executive Officer who served in such capacity during fiscal year 2007, (3) our former Chief Financial Officer who was serving in such capacity at the end of fiscal year 2007, (4) our three other most highly compensated executive officers who were serving as executive officers at the end of fiscal year 2007 and (5) two additional persons who were executive officers during fiscal year 2007 (but were not executive officers at the end of fiscal year 2007) and would have been one of the three most highly compensated executive officers in the table below had they been executive officers at the end of fiscal year 2007.

Summary Compensation Table for Fiscal Year 2007

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$ (1))	Option Awards (\$ (1))	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Edgar Masri..... President and Chief Executive Officer	2007	510,068	—	546,099	3,482,252	391,637 (2)	—	56,442 (3)	4,986,498
Neal D. Goldman Executive Vice President, Chief Administrative and Legal Officer and Secretary	2007	375,000	50,000 (4)	1,184,636	482,233	188,844 (5)	—	6,600 (6)	2,287,313
Dr. Shusheng Zheng..... Chief Operating Officer, H3C Technologies Co., Limited (7)	2007	176,866	—	42,312	—	2,790,411(8)	3,490 (9)	—	3,013,079
James Hamilton..... Senior Vice President and President, TippingPoint Division	2007	350,000	—	245,745	727,541	119,802 (10)	—	52,700 (11)	1,495,788
R. Scott Murray..... Former President and Chief Executive Officer (12)	2007	139,292	—	—	—	—	—	50,128 (13)	189,420
Dr. Marc Willebeek-LeMair. Current Senior Vice President and Chief Technology Officer (14)	2007	350,000	—	1,135,386	507,908	119,802 (15)	—	4,688 (16)	2,117,784
Donald M. Halsted, III Former Executive Vice President and Chief Financial Officer (17)	2007	350,000	—	1,031,299	424,086	176,254 (18)	—	6,737 (19)	1,988,376
Robert Y. L. Mao Former Executive Vice President, Corporate Development; Current Director (20)	2007	239,529	—	—	531,018(21)	91,100 (22)	—	980,060 (23)	1,841,707

- (1) Represents the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS123R, and thus may include amounts from awards granted during and prior to fiscal year 2007. See the “Grants of Plan-Based Awards in 2007 Fiscal Year” table in this proxy statement for a detailed description of stock and option awards granted in fiscal year 2007.
- (2) Consists of Mr. Masri’s semi-annual cash incentive bonus payments of \$148,054 for the first half of fiscal year 2007 and \$243,583 for the second half of fiscal year 2007.
- (3) Consists of term life insurance premiums and tax gross-ups related to the payment of these premiums of \$34,842 provided for under Mr. Masri’s employment agreement, company matching contributions to Mr. Masri’s 401(k) plan of \$11,600, and \$10,000 reimbursement for legal expenses incurred in connection with the negotiation, preparation, and execution of Mr. Masri’s employment agreement.
- (4) Represents a bonus paid to Mr. Goldman in August 2006 in recognition of his leadership throughout the Chief Executive Officer transition.
- (5) Consists of Mr. Goldman’s semi-annual corporate bonus plan payments of \$97,500 for the first half of fiscal year 2007 and \$91,344 for the second half of fiscal year 2007.
- (6) Represents company matching contributions to Mr. Goldman’s 401(k) plan of \$6,600.
- (7) Payments to Dr. Zheng are made in Chinese Yuan Renminbi (RMB). The amounts in this table are denoted in U.S. Dollars (USD), based on a conversion rate of .1276 RMB to \$1 USD. This is the average of the daily conversion rates for each business day of fiscal year 2007, as quoted by Oanda.com.
- (8) Consists of \$118,040 reflecting the portion of Dr. Zheng’s calendar year 2006 bonus that was earned in 3Com’s fiscal year 2007 and \$2,672,341 of earned payout under the H3C Equity Appreciation Rights Plan, of which \$1,062,451 was paid in May 2007 and \$1,609,890 will be paid over the next three years subject to Dr. Zheng’s continued employment on the payment dates. H3C operates on a calendar year basis, resulting in Dr. Zheng’s bonus being determined only for a portion of 3Com’s fiscal year 2007.
- (9) Reflects amount paid for Compulsory Social Insurance on behalf of Dr. Zheng during fiscal year 2007.
- (10) Consists of Mr. Hamilton’s semi-annual corporate bonus plan payments of \$91,000 for the first half of fiscal year 2007 and \$28,802 for the second half of fiscal year 2007.

- (11) Consists of payments made to Mr. Hamilton for (a) an automobile lease of \$16,408, (b) airline, hotel, and automobile rental expense associated with travel from his home to his work location in Austin, TX of \$18,427, (c) gasoline expense associated with travel from his home to his work location in Austin, TX of \$3,920, and (d) a gross-up amount of \$13,946 for the aforementioned expenses.
- (12) Mr. Murray resigned from the positions of President and Chief Executive Officer as of the close of business on August 17, 2006.
- (13) Includes term life insurance premiums and tax gross-ups related to the payment of these premiums of \$50,128 provided for under Mr. Murray's employment agreement.
- (14) Dr. Willebeek-LeMair continues to serve as the Company's Senior Vice President and Chief Technology Officer, however, he ceased to be a Section 16 executive officer on March 28, 2007.
- (15) Consists of Dr. Willebeek-LeMair's semi-annual corporate bonus plan payments of \$91,000 for the first half of fiscal year 2007 and \$28,802 for the second half of fiscal year 2007.
- (16) Represents company matching contributions to Dr. Willebeek-LeMair's 401(k) plan of \$2,423 and a patent award of \$2,265.
- (17) Mr. Halsted is the Company's former Executive Vice President and Chief Financial Officer. He resigned from those positions as of June 22, 2007 and his employment with the Company terminated July 27, 2007.
- (18) Consists of Mr. Halsted's semi-annual corporate bonus plan payments of \$91,000 for the first half of fiscal year 2007 and \$85,254 for the second half of fiscal year 2007.
- (19) Represents company matching contributions to Mr. Halsted's 401(k) plan of \$6,737.
- (20) Mr. Mao's employment as Executive Vice President, Corporate Development terminated on March 23, 2007, upon his appointment to the Company's Board.
- (21) Represents the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS123R for employee grants of \$519,649 and director grants of \$11,369.
- (22) Includes Mr. Mao's semi-annual corporate bonus plan payments of \$91,000 for the first half of fiscal year 2007.
- (23) The amount reported reflects (a) severance payments including (i) one year of annualized base salary at \$400,000 and one year of target bonus at \$400,000, (ii) the estimated aggregated monthly company-paid premiums of \$18,569 for health, dental, or vision coverage beginning on Mr. Mao's termination date and continuing for an 18-month period and (iii) estimated company-paid premiums for continued coverage under basic term life insurance of \$4,500 for an 18-month period, (b) \$25,594 in expatriate allowances, and (c) \$131,397 in company paid expatriate tax cost and associated gross-up.

The following table shows all plan-based awards granted to the named executive officers during fiscal year 2007. The option awards and the unvested portion of the stock awards identified in the table below are also reported in the “Outstanding Equity Awards at 2007 Fiscal Year-End” table below.

Grants of Plan-Based Awards in 2007 Fiscal Year

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (2)	All Other Option Awards: Number of Securities Underlying Options (3)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Options Awards (\$ (4)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	(#)	(#)		
Edgar Masri	09/05/06				—	—	—	500,000 (5)			2,225,000
	09/05/06								6,000,000 (6)	4.4500	10,465,800
	09/05/06								3,000,000	5.3400	4,400,400
	09/05/06								3,000,000	5.7850	4,046,700
	N/A	325,000	650,000	1,300,000							
Dr. Shusheng Zheng	04/03/07	—	204,193	—	—	—	—	200,000	—	—	786,000
Neal D. Goldman	09/05/06				—	—	—	350,000			1,557,500
	09/05/06								475,000	4.4500	828,543
	N/A	121,875	243,750	487,500							
Dr. Marc Willebeek-LeMair	09/05/06				—	—	—	225,000			1,001,250
	09/05/06								475,000	4.4500	828,543
	N/A	113,750	227,500	455,000							
James Hamilton	09/05/06				—	—	—	225,000			1,001,250
	09/05/06								475,000	4.4500	828,543
	N/A	113,750	227,500	455,000							
R. Scott Murray	—	—	—	—	—	—	—	—	—	—	—
Donald M. Halsted, III.	09/05/06							350,000			1,557,500
	09/05/06				—	—	—		475,000	4.4500	828,543
	N/A	113,750	227,500	455,000							
Robert Y. L. Mao	09/05/06				—	—	—	—	1,000,000	4.4500	1,744,300
	3/28/07								104,500(7)	3.9200	206,262
	N/A	200,000	400,000	800,000							

- (1) Each of the named executive officers (other than Dr. Zheng) participated in 3Com's 3Bonus Program in fiscal year 2007. In May 2006, the Compensation Committee approved financial goals for the 3Bonus Program performance period beginning June 1, 2006 and ending November 30, 2006 (first half). In November 2006, the Compensation Committee approved financial goals for the 3Bonus Program performance period beginning December 1, 2006 and ending June 2, 2007 (second half). The amounts shown under “Threshold” represent payment of 50% of the target 3Bonus for a full year performance period, assuming threshold level performance is achieved for all performance measures. The amounts shown under “Target” represent estimated payment of 100% of target bonus for a full year performance period. The amounts shown under “Maximum” represent estimated payment of 200% of the target bonus for a full year performance period, the maximum amount payable under the plan. The actual 3Bonus payments for fiscal year 2007 have been paid. The total fiscal year 2007 payment to each named executive officer is provided in the “Summary Compensation Table for Fiscal Year 2007” table in this proxy statement, and a description of our short-term incentive plan is provided in the section of this proxy statement entitled “Compensation Discussion and Analysis”. Dr. Zheng's bonus under the H3C Cash Incentive Bonus Program is described in the section entitled “Compensation Discussion and Analysis.” Dr. Zheng's target is 1.6 million RMB, or \$204,193, however there is no “threshold” or “maximum.” We used a conversion rate of .1276 RMB to \$1 USD.
- (2) Represents grants of restricted stock. These shares vest in six equal installments over three years, except for the shares held by Mr. Masri (see footnote 6).
- (3) Options were issued with an exercise price equal to the fair market value on the date of grant, which is the closing price of the Company's common stock as quoted on Nasdaq. The shares vest in four equal, annual installments and will expire seven years from the date of grant.
- (4) Represents the total dollar fair market value on the grant date of the option. The grant date fair value is generally the amount the Company would expense in its financial statements over the award's service period, which is calculated using the Black-Scholes option-pricing model. The grant date fair value of restricted stock is calculated by multiplying the closing price of the Company's common stock as quoted on Nasdaq on the date of grant by the number of shares granted.
- (5) Pursuant to his employment agreement, Mr. Masri received new hire restricted shares. These shares vest in three equal annual installments.
- (6) Pursuant to his employment agreement, Mr. Masri received new hire stock options. These shares vest in four equal annual installments.
- (7) These options were issued to Mr. Mao in his capacity as a director of the Company, not an executive officer.

The following table shows all outstanding equity awards held by the named executive officers at the end of fiscal year 2007.

Outstanding Equity Awards at 2007 Fiscal Year-End

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Edgar Masri.....	0 (1) 0 (1) 0 (1)	6,000,000 3,000,000 3,000,000	—	4.4500 5.3400 5.7850	09/05/13 09/05/13 09/05/13	500,000 (2)	2,345,000	—	—
Dr. Shusheng Zheng.....	—	—	—	—	—	200,000 (2)	938,000	—	—
Neal D. Goldman	247,500 (1) 60,000 (1) 37,500 (1) 50,000 (1) 0 (1)	82,500 60,000 112,500 150,000 475,000	—	6.1900 4.9900 3.5800 3.8900 4.4500	09/29/10 07/26/11 07/01/12 11/11/12 09/05/13	369,166 (4)	1,731,389	—	—
Dr. Marc Willebeek-LeMair	6,495 (1) 200,000 (1) 65,000 (1) 125,000 (1) 0 (1)	0 0 0 375,000 475,000	—	0.5400 3.6500 3.1100 3.9700 4.4500	02/07/12 02/01/12 05/16/12 11/02/12 09/05/13	287,500 (5)	1,348,375	—	—
James Hamilton.....	25,000 (1) 250,000 (1) 0 (1)	25,000 750,000 475,000	—	3.6500 3.9700 4.4500	02/01/12 11/02/12 09/05/13	187,500 (3)	879,375	—	—
R. Scott Murray (7)	—	—	—	—	—	—	—	—	—
Donald M. Halsted, III	212,500 (1) 56,250 (1) 0 (1)	212,500 168,750 475,000	—	4.9900 3.5800 4.4500	07/26/11 07/01/12 09/05/13	337,500 (6)	1,582,875	—	—
Robert Y.L. Mao	250,000 (1) 0 (1)	0 104,500	—	4.4500 3.9200	09/05/13 03/28/14	—	—	—	—

- (1) The total option award (which is the sum of the number of shares exercisable, unexercisable and exercised) vests in four equal annual installments on the anniversary of the date of grant.
- (2) Vests in three equal annual installments on the anniversary of the date of grant.
- (3) Vests in six equal installments over the three years. The first vesting date is six months from the date of grant, and subsequent vesting occurs at six-month intervals.
- (4) The award granted on September 29, 2003 vests over four years, with 5,000 shares unvested at the 2007 fiscal year end. The award granted on July 26, 2004 has performance-based vesting with a four year cliff, with 60,000 shares unvested at the 2007 fiscal year end. The award granted on July 1, 2005 has a three year vesting period, with 26,666 shares unvested at the 2007 fiscal year end. Another award granted on July 1, 2005 has performance-based vesting with a four year cliff, with 40,000 shares unvested at the 2007 fiscal year end. The award granted on November 11, 2005 vests over two years, with 50,000 unvested at the 2007 fiscal year end. The award granted on September 5, 2006 vests over 3 years, with 187,500 shares unvested at the 2007 fiscal year end.
- (5) The award granted on December 1, 2005 has performance-based vesting with a four year cliff, with 100,000 shares unvested at the 2007 fiscal year end. The award granted on September 5, 2006 vests over three years, with 187,500 shares unvested at the 2007 fiscal year end.
- (6) The award granted on July 26, 2004 vests over four years, with 25,000 shares unvested at the 2007 fiscal year end. The award granted on July 1, 2005 vests over three years, with 25,000 shares unvested at the 2007 fiscal year end. Another award granted on July 1, 2005 has performance-based vesting with a four year cliff, with 75,000 shares unvested at the 2007 fiscal year end. The award granted on September 5, 2006 vests over three years, with 187,500 shares unvested at the 2007 fiscal year end.
- (7) Mr. Murray resigned from the positions of President and Chief Executive Officer of the Company as of the close of business on August 17, 2006.

The following table shows all stock options exercised and value realized upon exercise, and all stock awards vested and value realized upon vesting, by the named executive officers during fiscal year 2007.

Option Exercises and Stock Vested in Fiscal Year 2007

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#) (1)	Value Realized on Vesting (\$)
Edgar Masri	—	—	—	—
Dr. Shusheng Zheng	—	—	—	—
Neal D. Goldman	—	—	230,834	969,795
Dr. Marc Willebeek-LeMair	—	—	392,500	1,721,825
James Hamilton	—	—	37,500	135,375
R. Scott Murray	—	—	—	—
Donald M. Halsted, III	—	—	215,000	888,650
Robert Y. L. Mao	—	—	—	—

(1) Reflects restricted shares that vested in fiscal year 2007.

The following table sets forth the pension plan benefits provided to Dr. Zheng by H3C Technologies Co., Limited, our China-based subsidiary.

Pension Benefits

<u>Name</u>	<u>Plan Name</u>	<u>Number of years of Credited Service (#)(1)</u>	<u>Present Value of Accumulated Benefit (\$) (2)</u>	<u>Payments During Last Fiscal Year (\$)</u>
Dr. Shusheng Zheng	Compulsory Social Insurance	3.5	9,180	-

(1) Reflects H3C service from November 2003 through June 2007.

(2) Reflects amount paid for Compulsory Social Insurance on behalf of Dr. Zheng during his tenure with H3C. Such amounts were converted into U.S. dollars at a rate of .1276 RMB to \$1 USD. This is the average of the daily conversion rates for each business day of fiscal year 2007, as quoted by Oanda.com.

The Compulsory Social Insurance Plan is the only pension plan that 3Com sponsors, and is a PRC-government-mandated plan that applies to all employees of H3C resident in the PRC. H3C cannot exercise discretion with respect to amounts it contributes to Dr. Zheng or any of its employees, but instead must make contributions required by Chinese regulations.

EMPLOYMENT, SEVERANCE AND CHANGE-OF-CONTROL ARRANGEMENTS

Employment Arrangements

Set forth below is a summary of the employment arrangements with our currently-employed named executive officers listed in the “Summary Compensation Table for Fiscal Year 2007” table in this proxy statement and our current Executive Vice President and Chief Financial Officer. All of the employment arrangements described below (other than the agreement entered into with Dr. Zheng) are “at-will.” The individuals are: Edgar Masri, Neal D. Goldman, Jay Zager, James Hamilton, Dr. Shusheng Zheng and Dr. Marc Willebeek-LeMair.

Edgar Masri

On August 8, 2006, we entered into an at-will employment agreement with Mr. Masri pursuant to which he agreed to serve as the Company’s President and Chief Executive Officer, effective August 18, 2006. The terms of the agreement include:

- A base salary of \$650,000 per year;
- Eligibility to receive an annual cash incentive payment for the achievement of performance goals established by the Board of Directors or the Compensation Committee, with a target of no less than 100% of Mr. Masri’s base salary and a maximum of 200% of Mr. Masri’s base salary;
- An obligation of the Company to grant the following stock options to Mr. Masri, which stock options vest as to 25% of the underlying shares on each anniversary of the grant date, assuming Mr. Masri’s continued employment on each scheduled vesting date:
 - 6,000,000 shares of the Company’s common stock at an exercise price equal to the closing price of the common stock on the first Tuesday of the month following the month in which Mr. Masri commences employment with us (the “First Tranche”);
 - 3,000,000 shares of the Company’s common stock at an exercise price of 20% above the exercise price of the First Tranche; and
 - 3,000,000 shares of the Company’s common stock at an exercise price of 30% above the exercise price of the First Tranche.
- The first 3.5 million stock options of the First Tranche were granted under the terms of our 2003 Stock Plan, as amended. The remaining stock options were granted under the terms of a Stand Alone Stock Option Agreement;
- An obligation of the Company to grant 500,000 shares of restricted stock to Mr. Masri, which shares vest annually and ratably over the three-year period following his commencement of employment with us;
- The payment of 12 months of base salary plus the payment of Mr. Masri’s target annual incentive for the year in which the termination occurs, 12 months of accelerated vesting of outstanding equity awards (other than performance-based awards), up to 18 months of reimbursement for premiums paid for COBRA coverage, an extension of the period in which to exercise his stock options after termination, from the earlier of the expiration of the stock option by its terms or 165

days, and continuation for up to one year of the life insurance policy in effect at the time of his termination, if Mr. Masri's employment is terminated without cause or he resigns for good reason, other than in connection with a change of control;

- The payment of two years of base salary plus the payment of two times Mr. Masri's target annual incentive for the year in which the termination occurs, full vesting of outstanding equity awards (other than performance-based awards), up to 18 months of reimbursement for premiums paid for COBRA coverage, an extension of the period in which to exercise his stock options after termination, from the earlier of the expiration of the stock option by its terms or 165 days, continuation for up to one year of the life insurance policy in effect at the time of his termination, and excise tax gross-up payments if Mr. Masri's employment is terminated without cause or he resigns for good reason in connection with a change of control; and
- An agreement by Mr. Masri not to solicit for employment any employee of the Company, an agreement not to compete with the Company and an agreement not to disparage the Company, in each case during the term of his employment with the Company until the one year anniversary following termination of employment.

Neal D. Goldman

On September 12, 2003, we entered into an offer letter agreement with Mr. Goldman pursuant to which he agreed to serve as the Company's Senior Vice President Management Services, General Counsel and Secretary. The terms of the offer letter agreement include:

- A base salary of \$375,000 per year;
- A one-time signing bonus of \$300,000, with \$150,000 paid within thirty days of Mr. Goldman's start date and the remaining \$150,000 paid one year after Mr. Goldman's start date;
- Eligibility to participate in our 3Bonus Program, which provides for discretionary, semi-annual cash incentive payments based on the achievement of certain company and individual performance goals established by the Company, at a target annualized bonus of 65% of base salary;
- An obligation of the Company to grant Mr. Goldman stock options to purchase 330,000 shares of the Company's common stock, which stock options vest as to 25% of the underlying shares on each anniversary of the grant date, assuming Mr. Goldman's continued employment on each scheduled vesting date; and
- An obligation of the Company to grant 20,000 shares of restricted stock to Mr. Goldman, which shares vest as to 25% of the underlying shares on each anniversary of the grant date, assuming Mr. Goldman's continued employment on each scheduled vesting date.

Mr. Goldman is entitled to the severance and change-of-control benefits described below under the heading "Severance and Change-of-Control Benefits".

Mr. Goldman has agreed (i) not to solicit for employment any employee of the Company during the term of his employment with the Company until the one year anniversary following termination of employment and (ii) not to solicit customers of the Company during the term of his employment with the Company until the date that is six months following termination of employment.

Jay Zager

On May 9, 2007, we entered into an offer letter agreement with Mr. Zager pursuant to which he agreed to serve as the Company's Executive Vice President and Chief Financial Officer, effective June 23, 2007. The terms of the offer letter agreement include:

- A base salary of \$400,000 per year;
- Eligibility to participate in our 3Bonus Program, which provides for discretionary, semi-annual cash incentive payments based on the achievement of certain company and individual performance goals established by the Company, at a target annualized bonus of 65% of base salary;
- A one-time signing bonus of \$200,000;
- An obligation of the Company to grant Mr. Zager stock options to purchase 500,000 shares of the Company's common stock, which stock options vest as to 25% of the underlying shares on each anniversary of the grant date, assuming Mr. Zager's continued employment on each scheduled vesting date;
- An obligation of the Company to grant 300,000 shares of restricted stock to Mr. Zager, which shares vest as to 25% on each anniversary of the grant date, assuming Mr. Zager's continued employment on each scheduled vesting date;
- The severance and change-of-control benefits described below under the heading "Severance and Change-of-Control Benefits"; and
- An agreement by Mr. Zager not to solicit for employment any employee of the Company, and not to solicit customers of the Company, in each case during the term of his employment with the Company until the one year anniversary following termination of employment.

James Hamilton

On November 2, 2005, we entered into a new offer letter agreement with James Hamilton pursuant to which Mr. Hamilton agreed to serve as the Company's Senior Vice President and President, TippingPoint Division. The terms of the offer letter agreement include:

- A base salary of \$350,000 per year;
- An increased housing allowance to \$4,000 per month until the earlier of (i) October 31, 2006, which was subsequently extended through the end of fiscal year 2008, or (ii) relocation to Austin, TX or Marlborough, MA. This allowance was subsequently modified to include an automobile lease (in lieu of the housing allowance) and travel cost reimbursement for commuting from his home to our Austin, TX office, including airfare, car rental, gas and hotel expenses. In addition, Mr. Hamilton is entitled to an initial gross-up of the taxable values;
- Eligibility to participate in our 3Bonus Program, which provides for discretionary, semi-annual cash incentive payments based on the achievement of certain company and individual performance goals established by the Company, at a target annualized bonus of 65% of base salary;

- An obligation of the Company to grant Mr. Hamilton stock options to purchase 1,000,000 shares of the Company's common stock, which stock options vest as to 25% of the underlying shares on each anniversary of the grant date, assuming Mr. Hamilton's continued employment on each scheduled vesting date; and
- Acceleration of vesting of an outstanding grant of 25,000 shares of restricted stock such that the stock fully vested on February 1, 2006.

Mr. Hamilton is entitled to the severance and change-of-control benefits described below under the heading "Severance and Change-of-Control Benefits".

In addition, on February 28, 2007, we agreed to the following alternate severance benefit that would apply solely in the event that Mr. Hamilton voluntarily resigns from employment for any reason (other than for good reason, as such term is defined in the letter agreement) with an effective date during the month of November 2007:

- The payment of six months base salary plus the payment of one-half of Mr. Hamilton's annualized target bonus, six months of accelerated vesting of outstanding equity awards subject to time-based vesting, accelerated vesting of 12.5% of each equity award not subject to time-based vesting (other than cliff vesting), and the continuation for up to six months of the Company-paid portion of the premiums for COBRA coverage. Payments will be made through regular (bi-weekly) payroll and bonus payment practices, and will be subject to applicable withholding and reduced by severance benefits pursuant to any other contract with us. These benefits are subject to the release agreement described below under the heading "Severance and Change-of-Control Benefits", although the restrictive period shall be six months (as opposed to one year).

Mr. Hamilton has also agreed not to solicit for employment any employee of the Company, not to solicit Company customers, and not to compete with the Company, in each case during the term of his employment with the Company until the one year anniversary following termination of employment, or in the case of the voluntary resignation event described above, a six-month restrictive period.

Dr. Shusheng Zheng

On March 5, 2007, H3C Technologies Co., Limited, our China-based subsidiary, entered into an employment agreement with Dr. Shusheng Zheng, effective March 29, 2007, whereby Dr. Zheng would continue in his role as H3C's Chief Operating Officer. The terms of the agreement include:

- A term of two years, subject to early termination under certain conditions;
- A base salary of RMB 2,400,000 per year;
- Eligibility under H3C's discretionary bonus plan, called the H3C Cash Incentive Bonus Program, to receive an annual cash incentive payment for the achievement of H3C and individual performance goals established by the Board of Directors or the Compensation Committee of 3Com, with an annual target of no less than RMB 1,600,000 per year;
- Eligibility under a long-term incentive plan to be designed in the future payable on a discretionary basis in cash or 3Com equity, at 3Com's discretion, for the achievement of H3C and individual performance goals established by the Board of Directors or the Compensation Committee of 3Com;

- Participation in H3C's senior executive benefits programs;
- An obligation of the Company to grant 200,000 restricted stock units, or RSUs, under the Company's 2003 Stock Plan, which RSUs vest as to one-third of the underlying shares on each anniversary of the grant date, assuming Dr. Zheng's continued employment on each scheduled vesting date;
- The change-of-control benefits described below under the heading "Severance and Change-of-Control Benefits," provided that such benefits are offset and reduced by some of the specific benefits described below; and
- Entitlement to the following severance benefits:
 - If the Company terminates Dr. Zheng without valid reason, as defined in the agreement, he is entitled to:
 - a lump sum severance payment of one month's base salary for each year of service with H3C, provided Dr. Zheng signs a release of claims and a non-disparagement agreement; and
 - vesting and payout of any remaining EARP shares;
 - In exchange for the non-hire and non-compete provisions in the final paragraph of this section, upon termination of employment a payment of one year of Dr. Zheng's base salary at the time of termination of employment, payable in accordance with the Company's regular payroll practices;
 - The severance benefits described below under the heading, "Severance and Change-of-Control Benefits", provided that such benefits are offset and reduced by some of the specific benefits described above; and
- An agreement by Dr. Zheng not to (i) work for a competitor, which is defined generally and also specifically to include several named competitors including Huawei Technologies, (ii) solicit to hire or hire, directly or indirectly, any 3Com or H3C employee, (iii) engage in business in competition with the business of 3Com or H3C with any client, customer, account, distributor or vendor, (iv) serve as a consultant, director, and the like of a competitor, (v) own any ownership interest in a competitor and/or (vi) participate in the organization or management of a competitor, in each case for a period of one year following the termination of employment.

Dr. Marc Willebeek-LeMair

On November 2, 2005, we entered into an offer letter agreement with Dr. Willebeek-LeMair pursuant to which Dr. Willebeek-LeMair agreed to serve as the Company's Chief Technology Officer and Senior Vice President, effective November 2, 2005. The terms of the offer letter agreement include:

- A base salary of \$350,000 per year;
- Eligibility to participate in our 3Bonus Program, which provides for discretionary, semi-annual cash incentive payments based on the achievement of certain company and individual performance goals established by the Company, at a target annualized bonus of 65% of base salary;

- An obligation of the Company to grant Dr. Willebeek-LeMair stock options to purchase 500,000 shares of the Company's common stock, which stock options vest as to 25% of the underlying shares on each anniversary of the grant date, assuming Dr. Willebeek-LeMair's continued employment on each scheduled vesting date;
- An obligation of the Company to grant Dr. Willebeek-LeMair 200,000 shares of restricted stock, which shares vested as to 100% of the underlying shares on the first anniversary of the grant date;
- An obligation of the Company to grant Dr. Willebeek-LeMair 200,000 shares of restricted stock, which shares vest as to 25% of the underlying shares on each anniversary of the grant date, assuming Dr. Willebeek-LeMair's continued employment on each scheduled vest date, and which shares shall be subject to accelerated vesting upon attainment of strategic objectives established by our President and Chief Executive Officer; and
- An obligation of the Company to accelerate the vesting of Dr. Willebeek-LeMair's then-existing equity holdings, pursuant to which 50% vested on February 1, 2006 and the remaining 50% vested on February 1, 2007.

Dr. Willebeek-LeMair has also agreed not to solicit for employment any employee of the Company, not to solicit Company customers, and not to compete with the Company, in each case during the term of his employment with the Company until the one year anniversary following termination of employment.

Severance and Change-of-Control Benefits

We provide severance benefits to each of our executive officers. Except for Mr. Masri, whose severance benefits are contained in his employment agreement, these benefits are contained in a severance plan and accompanying severance benefits agreements. We also provide change-of-control benefits to each of our executive officers. Except for Mr. Masri, whose change-of-control benefits are contained in his employment agreement, these benefits are contained in a management retention agreement (of which we have two forms). The material terms of these severance and change-of-control benefits are set forth below.

Severance Plans

On September 11, 2006, the Board adopted an amended and restated Section 16 Officer Severance Plan and an Above Grade Severance Plan. These plans are identical and together cover all of the executives named above other than Mr. Masri. Mr. Masri's severance benefits are described above under the summary of his employment arrangements. The plan contains the following provisions:

Eligibility. Participants will only receive plan benefits upon involuntary termination of employment without cause or voluntary termination for good reason (as defined in the plan). The receipt of benefits is conditioned on signing, and complying with the terms of, a release agreement that includes (i) a non-solicitation provision prohibiting solicitation of employees, business opportunities, customers, distributors or vendors for one year following termination, (ii) a non-competition provision prohibiting direct or indirect competition for one year following termination and (iii) a non-disparagement provision.

Severance Payments. Participants will receive:

- One year of the participant's annualized base salary as of the termination date; and

- If earned, the participant's incentive bonus for the bonus period in which the termination date occurs, pro-rated based on number of days worked during the bonus period.

Payments will be made through regular (bi-weekly) payroll and bonus payment practices, and will be subject to applicable withholding and reduced by severance benefits pursuant to any other contract with us.

Health, Dental & Vision Benefits; Life Insurance. If elected, participants will receive continuation of coverage under health, dental, and vision insurance plans pursuant to COBRA and continuation of the company-paid portion of the premiums for the elected coverage under the plans until the earlier of: (i) one year from the termination date, or (ii) the date upon which the person becomes eligible for coverage under another employer's group health, dental, or vision insurance plan(s). In addition, participants will receive continued coverage under basic term life insurance for the same period.

Equity Compensation. Participants will receive:

- Six months of accelerated vesting of outstanding equity subject to time-based vesting; and
- Extension of the exercise period for vested stock options to the earlier of: (i) one hundred and sixty-five calendar days from the termination date; or (ii) the original term of the stock option grant.

Tax Provision. Notwithstanding the foregoing, if we reasonably determine that Section 409A of the Internal Revenue Code will result in the imposition of additional taxes or penalties based on the payment of benefits within the first six months following the termination date, we will modify the payment schedule to provide that the payments will begin on the first regularly scheduled payroll date following the expiration of six months and one day after the termination date.

We enter into individual severance benefit agreements with our executives that provide a contractual basis for the severance benefits contained in these plans and continue once the individual is no longer an officer covered by these plans.

Mr. Hamilton has an alternate severance benefit in a limited circumstance described above under the description of his employment arrangement. Dr. Zheng has additional severance benefits described above under the description of his employment agreement, provided that the benefits described in this section are offset by any benefits he receives under his employment agreement.

Change-of-Control Benefits

We have approved two forms of change-of-control benefits, which take the form of individual management retention agreements we execute with our executives. The first form applies to Mr. Goldman, Mr. Hamilton and Dr. Willebeek-LeMair. The second form applies to Mr. Dechant, Mr. Zager and Dr. Zheng, and is intended to apply to future executive officers of the Company. Mr. Masri has change-of-control benefits in his employment agreement and therefore such benefits are described under the above description.

Following a qualifying event involving a change of control (as described below), benefits include:

- A payment equal to 100% of such officer's annual base salary and target annual bonus. Under the first form, the payment is in a lump sum; under the second form, the payments are payable in accordance with regular payroll practices;

- A pro-rated bonus payment for the year in which the change-of-control occurs. Under the first form, the payment is paid in a lump sum and it is pro rated based on days in the year prior to the change-of-control event. Under the second form, the payment is made in accordance with regular payroll practices, is payable only on earned incentive bonus for the bonus period in which the termination date occurs (based on attainment of actual performance metrics) and is pro-rated based on days in the bonus period prior to the termination (unless the termination occurs prior to the change-of-control, in which case the pro-ration is based on the days in the bonus period prior to the change-of-control);
- Continued coverage of employee benefits until the earlier of two years from the date of termination or when such officer receives comparable benefits from another employer;
- Full accelerated vesting of equity compensation; and
- Extension of the post-termination exercise period on stock options to the lesser of the original term of the option and one year (in the case of the first form) and 165 days (in the case of the second form).

The foregoing benefits accrue only if the officer is terminated without cause, as described below, within three months prior to or twelve months following a “change of control” or if such officer voluntarily terminates for good reason, as described below, during such time period.

“Cause” is defined to mean (i) an act of theft, embezzlement or intentional dishonesty by the executive in connection with his/her employment; (ii) the executive being convicted of a felony, (iii) a willful act by the executive which constitutes gross misconduct and which is injurious to the Company, or (iv) following delivery to the executive of a written demand for performance from the Company which describes the basis for the Company’s reasonable belief that the executive has not substantially performed his/her duties, continued violations by the executive of the executive’s obligations to the Company which are demonstrably willful and deliberate on the executive’s part.

“Good reason”, while defined differently between the forms, generally includes material reductions in duties, title, authority, responsibilities, facilities or perquisites, reduction of base salary, material reduction in aggregate level of employee benefits, relocation or constructive termination.

A “change of control” means: (i) the acquisition by any person of 50% or more of the total voting power of our then outstanding securities; (ii) the consummation of the sale or disposition of all or substantially all company assets; (iii) the consummation of a merger or consolidation of us where the outstanding securities immediately prior thereto no longer represent at least 50% of the voting power immediately after such merger or consolidation; and solely in the case of the first form, (iv) a change in the composition of the Board during any two consecutive years, such that a majority consists of persons who are not either directors who were in office when the agreement was entered into or whose nominations were approved by a majority of the directors who were in office not in connection with a transaction described in (i) through (iii) above.

If the benefits provided constitute a parachute payment under Section 280G of the Internal Revenue Code and would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, then, provided the excise tax is at least 3.59 times the “base amount” under Section 280G, the officer shall receive (i) a payment sufficient to pay such excise tax and (ii) an additional payment sufficient to pay the taxes arising as a result of such payment. If the tax is less than 3.59 times the base amount, we may reduce the benefits to the extent necessary to avoid such tax. Solely with respect to the second form, if additional taxes would result due to Internal Revenue Code Section 409A, the Company will modify the payment schedule

described above so that payments do not occur until the date that is six months and one day after the termination date.

The benefits described above are conditioned on the executive signing a release of claims and a one-year non-solicitation clause. With respect to the second form, the executive must also sign a one-year non-competition agreement and abide by a non-disparagement clause.

Resignation of R. Scott Murray

As Mr. Murray's resignation from employment with us as of the close of business on August 17, 2006 was voluntary, he did not receive any severance benefits or accelerated vesting with respect to his options or restricted stock.

Acceleration under Option Plans

Options granted under the 2003 Stock Plan contain provisions pursuant to which outstanding options must either become fully vested and exercisable prior to a "change of control" transaction or must be assumed in the transaction, and all options terminate to the extent they are not assumed upon such "change of control" as defined in the 2003 Stock Plan. Similarly, awards of restricted stock granted under the 2003 Stock Plan contain provisions pursuant to which outstanding awards of restricted stock must either become fully vested prior to a "change of control" transaction or must be assumed in the transaction.

Options granted under the 1994 Option Plan contain provisions pursuant to which outstanding options must either become fully vested and immediately exercisable prior to a "transfer of control" transaction or must be assumed in the transaction, and all unexercised options terminate to the extent they are not assumed upon such "transfer of control" as defined under the 1994 Option Plan. For purposes of the 1994 Option Plan, a transfer of control is a change in ownership in which our stockholders immediately prior to the ownership change do not retain, directly or indirectly, at least a majority of the beneficial interest in our voting stock after the ownership change.

Options granted under the 1983 Option Plan, the 1994 Option Plan and the 2003 Stock Plan have their vesting accelerated as to 50% of the unvested shares subject thereto if an executive or employee optionee is terminated without cause within 12 months after a "transfer of control" transaction.

Options granted under the 3Com Corporation Director Stock Option Plan (the "Director Plan") contain provisions pursuant to which all outstanding options granted under the Director Plan will become fully vested and immediately exercisable upon a merger or acquisition of us where we are not the survivor, or upon the sale of substantially all of our assets.

Severance Tables

The following tables quantify the estimated payments and benefits that would be provided, or was provided, to each named executive officer upon termination in the regular course of business or termination in connection with a change-of-control of the Company. Mr. Murray did not receive any severance benefits in connection with his voluntary resignation as President and Chief Executive Officer as of the close of business on August 17, 2006. Based on the assumptions required by applicable regulations, Mr. Masri is the only executive with respect to which excise tax gross-up payments would be made in the event of a change-of-control.

Edgar Masri, President and Chief Executive Officer

Reason	Salary(\$)	Bonus(\$)	Benefits Continuation(\$)	Value of Accelerated Equity(\$)	Excise Tax Gross-up (\$)	Total(\$)
<u>Course of Business</u> – for Good Reason or Not for Cause	650,000 (1)	650,000 (2)	51,216 (3)	1,141,688 (4)	—	2,492,904
<u>Change-of-Control</u> – for Good Reason or Not for Cause (within 3 months prior to or 12 months following Change-of-Control).....	1,300,000 (5)	1,300,000 (6)	51,216 (7)	3,785,000 (8)	1,458,274 (9)	7,894,490

- (1) Represents one year of salary.
- (2) Represents one year target incentive bonus pursuant to Mr. Masri's employment agreement.
- (3) Reflects company paid benefits continuation for 18 months, basic term life insurance conversion, and payments for the continuation of Mr. Masri's supplemental life policy for 18 months pursuant to his employment agreement.
- (4) Reflects twelve months accelerated vesting for equity with time-based vesting (i.e., excluding PAVRS and performance shares) based on a termination date as of the last day of fiscal year 2007 and assuming a stock price equivalent to the closing stock price on the last day of fiscal year 2007.
- (5) Represents two years of salary.
- (6) Represents two times the target annual incentive bonus for the year in which termination occurs.
- (7) Reflects company paid benefits continuation for 18 months, basic term life insurance conversion, payments for the continuation of Mr. Masri's supplemental life policy for 18 months pursuant to his employment agreement.
- (8) Reflects accelerated vesting of all outstanding equity based on a termination date as of the last day of fiscal year 2007 and assuming a stock price equivalent to the closing stock price on the last day of fiscal year 2007.
- (9) Represents the additional amount estimated to be payable to Mr. Masri to make him whole for the federal excise tax on excess parachute payments (including payment of the taxes on the additional amount itself). This excise tax is payable if the value of certain payments that are contingent upon a change of control, referred to as parachute payments, exceeds a safe harbor amount. The computation of the excise tax is complex, is subject to various questions of interpretation and depends upon a number of variables that cannot be known at this time. 3Com engaged a third-party to assist it in preparing the excise tax calculation based upon information that we supplied regarding current and historical compensation and the provisions of our compensation and benefits arrangements.

Neal D. Goldman, Executive Vice President, Chief Administrative and Legal Officer and Secretary

Reason	Salary(\$)	Bonus(\$)	Benefits Continuation(\$)	Value of Accelerated Equity(\$)	Total(\$)
<u>Course of Business</u> – for Good Reason or Not for Cause	375,000 (1)	121,875 (2)	11,732 (3)	782,357 (4)	1,290,964
<u>Change-of-Control</u> – for Good Reason or Not for Cause (within 3 months prior to or 12 months following Change-of-Control).....	375,000 (5)	365,625 (6)	23,463 (7)	2,090,264 (8)	2,854,352

- (1) Represents one year of salary.

- (2) Represents target incentive bonus pursuant to Mr. Goldman's employment arrangements for a six-month period. 3Com pays executive bonuses in two six-month periods each year.
- (3) Reflects company paid benefits continuation for 12 months and basic term life insurance conversion pursuant to his employment arrangements.
- (4) Reflects six months accelerated vesting for equity with time-based vesting (i.e., excluding PAVRS and performance shares) based on a termination date as of the last day of fiscal year 2007 and assuming a stock price equivalent to the closing stock price on the last day of fiscal year 2007.
- (5) Represents one year of salary.
- (6) Represents one year of target incentive bonus and six months pro-rated bonus.
- (7) Reflects company paid benefits continuation for 24 months and basic term life insurance conversion pursuant to his employment arrangement.
- (8) Reflects accelerated vesting of all outstanding equity based on a termination date as of the last day of fiscal year 2007 and assuming a stock price equivalent to the closing stock price on the last day of fiscal year 2007.

James Hamilton, Senior Vice President and President, TippingPoint Division

Reason	Salary(\$)	Bonus(\$)	Benefits Continuation(\$)	Value of Accelerated Equity(\$)	Total(\$)
<u>Course of Business</u> – for Good Reason or Not for Cause.....	350,000 (1)	113,750 (2)	17,752 (3)	573,250 (4)	1,054,752
<u>Course of Business</u> – Voluntary Resignation in November 2007.....	175,000 (5)	113,750 (6)	8,876 (7)	573,250 (8)	870,876
<u>Change-of-Control</u> – for Good Reason or Not for Cause (within 3 months prior to or 12 months following Change-of-Control).....	350,000 (9)	341,250 (10)	30,256 (11)	1,559,375 (12)	2,280,881

- (1) Represents one year of salary.
- (2) Represents target incentive bonus pursuant to Mr. Hamilton's employment arrangements for a six-month period. 3Com pays executive bonuses in two six-month periods each year.
- (3) Reflects company paid benefits continuation for 12 months and basic term life insurance conversion pursuant to his employment arrangements.
- (4) Reflects six months accelerated vesting for equity with time-based vesting (i.e., excluding PAVRS and performance shares) based on a termination date as of the last day of fiscal year 2007 and assuming a stock price equivalent to the closing stock price on the last day of fiscal year 2007.
- (5) Represents six months of salary.
- (6) Represents one-half annual target incentive bonus pursuant to Mr. Hamilton's employment arrangements.
- (7) Reflects company paid benefits continuation for six months and basic term life insurance conversion pursuant to his employment arrangements.
- (8) Reflects six months accelerated vesting for equity with time-based vesting (i.e., excluding PAVRS and performance shares) based on a termination date as of the last day of fiscal year 2007 and assuming a stock price equivalent to the closing stock price on the last day of fiscal year 2007.
- (9) Represents one year of salary.
- (10) Represents one year of target incentive bonus and six months' pro-rated bonus.
- (11) Reflects company paid benefits continuation for 24 months and basic term life insurance conversion pursuant to his employment arrangements.
- (12) Reflects accelerated vesting of all outstanding equity based on a termination date as of the last day of fiscal year 2007 and assuming a stock price equivalent to the closing stock price on the last day of fiscal year 2007.

Donald M. Halsted, III, Former Executive Vice President and Chief Financial Officer (1)

Reason	Salary(\$)	Bonus(\$)	Benefits Continuation(\$)	Value of Accelerated Equity(\$)	Total(\$)
<u>Course of Business</u> – for Good Reason or Not for Cause.....	350,000 (2)	227,500 (3)	15,128 (4)	150,750 (5)	743,378

- (1) Represents the actual severance paid to Mr. Halsted in connection with the termination of his employment on July 27, 2007.

- (2) Represents one year of salary.
- (3) Represents one year target incentive bonus pursuant to Mr. Halsted's employment arrangements.
- (4) Reflects company paid benefits continuation for 12 months and basic term life insurance conversion pursuant to his employment arrangements.
- (5) Reflects six months of accelerated vesting for equity with time-based vesting (i.e., excluding PAVRS and performance shares) based on his July 27, 2007 termination date and a stock price of \$4.02, which equals the closing stock price on July 27, 2007.

Dr. Marc Willebeek-LeMair, Senior Vice President and Chief Technical Officer

Reason	Salary(\$)	Bonus(\$)	Benefits Continuation(\$)	Value of Accelerated Equity(\$)	Total(\$)
<u>Course of Business</u> – for Good Reason or Not for Cause.....	350,000 (1)	113,750 (2)	15,128 (3)	470,250 (4)	949,128
<u>Change-of-Control</u> – for Good Reason or Not for Cause (within 3 months prior to or 12 months following Change-of Control).....	350,000 (5)	341,250 (6)	30,255 (7)	1,732,375 (8)	2,453,880

- (1) Represents one year of salary.
- (2) Represents target incentive bonus pursuant to Dr. Willebeek-LeMair's employment arrangements for a six-month period. 3Com pays executive bonuses in two six month periods each year.
- (3) Reflects company paid benefits continuation for 12 months and basic term life insurance conversion pursuant to his employment arrangements.
- (4) Reflects six months accelerated vesting for equity with time-based vesting (i.e., excluding PAVRS and performance shares) based on a termination date as of the last day of fiscal year 2007 and assuming a stock price equivalent to the closing stock price on the last day of fiscal year 2007.
- (5) Represents one year of salary.
- (6) Represents one year target incentive bonus and six months pro-rated bonus.
- (7) Reflects company paid benefits continuation for 24 months and basic term life insurance conversion pursuant to his employment arrangements.
- (8) Reflects accelerated vesting of all outstanding equity based on a termination date as of the last day of fiscal year 2007 and assuming a stock price equivalent to the closing stock price on the last day of fiscal year 2007.

Dr. Shusheng Zheng, Chief Operating Officer, H3C Technologies Co., Limited

Reason	Salary(\$)	Bonus(\$)	Benefits Continuation(\$)	Value of Accelerated Equity(\$)	Total(\$)
<u>Course of Business</u> – for Good Reason or Not for Cause.....	395,625 (1)	1,814,113 (2)	3,490 (3)	0 (4)	2,213,228
<u>Change-of-Control</u> – for Good Reason or Not for Cause (within 3 months prior to or 12 months following Change-of Control).....	395,625 (1)	2,018,306 (5)	6,980 (6)	938,000 (7)	3,358,911

- (1) Represents one year of salary and one month of salary per year of service for a total of fifteen and one-half months of salary.
- (2) Represents payments earned, but not yet paid, of \$1,609,920 under H3C's Employee Appreciation Rights Plan and target annual bonus of \$204,193.
- (3) Represents estimated one year contribution for Chinese Compulsory Social Insurance.
- (4) Because six months of vesting acceleration would not result in any vested equity, the value of accelerated equity is 0.
- (5) Represents payments earned, but not yet paid, of \$1,609,920 under H3C's Employee Appreciation Rights Plan, one hundred percent of target annual bonus of \$204,193, and pro-rated bonus payment of \$204,193 for the year in which the change-of-control occurs, assuming a full year payment (as H3C pays bonuses on an annual basis).
- (6) Represents estimated two year contribution for Chinese Compulsory Social Insurance.
- (7) Reflects accelerated vesting of all outstanding equity based on a termination date as of the last day of 3Com's fiscal year 2007 and assuming a stock price equivalent to the closing stock price on the last day of 3Com's fiscal year 2007.

Robert Y. L. Mao, Former Executive Vice President, Corporate Development (1)

Reason	Salary(\$)	Bonus(\$)	Benefits Continuation(\$)	Value of Accelerated Equity(\$)	Total(\$)
<u>Course of Business</u> – for Good Reason or Not for Cause.....	400,000 (2)	400,000 (3)	22,569 (4)	0 (5)	822,569

- (1) Represents the actual severance paid to Mr. Mao in connection with the termination of his employment on March 23, 2007.
- (2) Represents actual severance payments of one year of annualized base salary.
- (3) Represents severance payment of one year target bonus.
- (4) Represents aggregated monthly Company-paid premiums of \$18,569 for health, dental or vision coverage beginning on Mr. Mao's termination date and continuing for an 18-month period and Company-paid premiums for continued coverage under basic term life insurance of \$4,500 for an 18-month period.
- (5) Because the exercise price of all of Mr. Mao's options on the date of his termination was greater than the fair market value on such date, the value of his accelerated equity was zero.

REPORT OF THE AUDIT AND FINANCE COMMITTEE OF THE BOARD OF DIRECTORS

The Audit and Finance Committee oversees our financial reporting process on behalf of the Board. Management has the primary responsibility for our financial statements and the overall reporting process, including our system of financial controls. In fulfilling its oversight responsibilities during fiscal year 2007, the Audit and Finance Committee periodically:

- reviewed and discussed the unaudited and audited financial statements with management and our independent registered public accounting firm, Deloitte & Touche LLP;
- discussed the accounting principles, significant assumptions, estimates and matters of judgment used in preparing the financial statements with management and Deloitte & Touche;
- reviewed our financial controls and financial reporting process; and
- reviewed significant financial reporting issues and practices, including changes in accounting principles and disclosure practices.

The Audit and Finance Committee also reviewed with Deloitte & Touche, who are responsible for expressing an opinion on the conformity of the audited financial statements with generally accepted accounting principles, Deloitte & Touche's judgment as to the quality, and not just the acceptability, of our accounting principles as applied in our financial reporting and such other matters as are required to be discussed with the Audit and Finance Committee under generally accepted accounting principles. The Audit and Finance Committee periodically met with Deloitte & Touche, with and without management present, to discuss the results of their examinations, their evaluations of our internal control over financial reporting and the overall quality of our financial reporting.

Each of the directors who serves on the Audit and Finance Committee is "independent" within the meaning of the rules of the NASDAQ Stock Market and the SEC and meets the financial literacy and expertise requirements of the NASDAQ Stock Market and regulations promulgated by the SEC. The Audit and Finance Committee has adopted a written charter, which was updated and revised on September 20, 2006. During fiscal year 2007, the Audit and Finance Committee met fifteen times.

In addition, the Audit and Finance Committee received the written disclosures and the letter from Deloitte & Touche required by the Independence Standards Board Standard No. 1 and discussed with Deloitte & Touche the independence of Deloitte & Touche from us and our management. The Audit and Finance Committee also discussed with Deloitte & Touche the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (Communications with Audit Committees). The Audit and Finance Committee also considered the compatibility of Deloitte & Touche's non-audit services with the standards for auditors' independence. The Audit and Finance Committee discussed with Deloitte & Touche the overall scope and plans for their audit.

Based on the reviews and discussions referred to above and representations by management that the financial statements were prepared in accordance with generally accepted accounting principles, the Audit and Finance Committee recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended June 1, 2007 for filing with the SEC. The Audit and Finance Committee also selected, subject to stockholder approval, Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending May 30, 2008.

AUDIT AND FINANCE COMMITTEE
OF THE BOARD OF DIRECTORS

James R. Long, *Chair*
Gary T. DiCamillo
Dominique Trempont

PROPOSAL 2:

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit and Finance Committee of our Board has selected Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending May 30, 2008, including service to our consolidated subsidiaries. Deloitte & Touche LLP has acted in this capacity since its appointment in 1980. A representative of Deloitte & Touche LLP will be present at the annual meeting, will be given the opportunity to make a statement if he or she so desires, and will be available to respond to appropriate questions. Stockholder ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm is not required by our bylaws or other applicable legal requirement. However, the Audit and Finance Committee is submitting the selection of Deloitte & Touche LLP to the stockholders for ratification as a matter of good corporate governance.

The following table shows the fees paid or accrued by us for the audit and other services provided by Deloitte & Touche LLP for fiscal years 2006 and 2007.

	Fiscal Year 2006	Fiscal Year 2007
Audit Fees (1)	\$ 1,947,200	\$2,479,462
Audit-Related Fees (2)	25,000	192,388
Tax Fees (3)	144,749	23,830
All Other Fees	—	—
Total	\$ 2,116,949	\$2,695,680

- (1) Audit Fees represent fees for professional services provided in connection with the audit of our annual financial statements, review of our quarterly financial statements, audit services provided in connection with statutory or regulatory filings and the audit of our internal control over financial reporting.
- (2) Audit-Related Fees for fiscal year 2007 consisted of fees for financing, public offering and acquisition related activities. Audit-Related Fees for fiscal 2006 consisted of services related to a SAS 50 report delivered in connection with our determination to consolidate the results of our China-based subsidiary (which was at the time a majority-owned joint venture), H3C Technologies Co., Limited.
- (3) Tax Fees consisted primarily of services related to tax compliance, tax advice and tax planning.

The Audit and Finance Committee pre-approves all audit-related and non-audit services to be performed by our independent registered public accounting firm and the fees associated with those services. The Audit and Finance Committee pre-approved 100% of the audit-related and non-audit services performed by Deloitte & Touche LLP in fiscal 2006 and 2007.

VOTE REQUIRED

The affirmative vote of a majority of the Votes Cast is necessary to approve this proposal. Assuming a quorum is present, abstentions will have the effect of a vote “against” this proposal, and broker non-votes will have no effect on the outcome of the vote. If our stockholders do not ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm, the Audit and Finance Committee will reconsider such appointment.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR”
RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR
ENDING MAY 30, 2008.**

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act requires our directors, executive officers and persons who beneficially own more than 10% of our common stock to file reports with the SEC. These persons are required by the SEC to furnish us with copies of all Section 16(a) reports that they file. Based on our review of reports furnished to us and written representations from our directors and executive officers, we believe that all filing requirements were complied with in a timely manner during fiscal year 2007.

STOCKHOLDER PROPOSALS TO BE PRESENTED AT NEXT ANNUAL MEETING

Stockholder proposals that are intended for inclusion in our proxy statement relating to the 2008 Annual Meeting of Stockholders must be received at our principal executive offices at 350 Campus Drive, Marlborough, Massachusetts 01752-3064 no later than April 19, 2008 and must satisfy the conditions established by the SEC for stockholder proposals to be included in our proxy statement for that meeting.

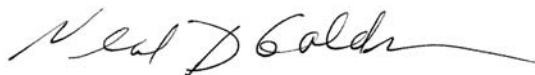
If a stockholder wishes to present a proposal at our 2008 annual meeting and the proposal is not intended to be included in our proxy statement relating to that meeting, the stockholder must give advance notice to us prior to June 28, 2008, which is the deadline determined in accordance with our bylaws. If a stockholder gives notice of such a proposal after the bylaw deadline, the stockholder will not be permitted to present the proposal at the meeting.

TRANSACTION OF OTHER BUSINESS

At the date of this proxy statement, the only business that the Board intends to present or knows that others will present at the meeting is as set forth above. If any other matter or matters are properly brought before the meeting, or any adjournment thereof, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their best judgment.

Any stockholder may present a matter from the floor for consideration at a meeting so long as certain procedures are followed. Under our bylaws, for a matter to be deemed properly presented by a stockholder, timely notice must be delivered to us not later than 90 days prior to the next annual meeting (under the assumption that the next annual meeting will occur on the same calendar day as the day of the most recent annual meeting). As to each proposed matter, the notice must include the following: (a) a brief description of the business desired to be brought before the meeting and reasons for conducting such business at the meeting; (b) the name and address, as they appear on our books, of the stockholder proposing such business; (c) the class and number of shares of our stock that are beneficially owned by the stockholder; and (d) any material interest of the stockholder in such business. The presiding officer of the meeting may refuse to acknowledge any matter not made in compliance with the foregoing procedure.

By Order of the Board of Directors,



Neal D. Goldman, Secretary
August 17, 2007
Marlborough, Massachusetts



2007 Annual Report on Form 10-K

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

FORM 10-K

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

For the fiscal year ended June 1, 2007

OR

☐ 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

(State or other jurisdiction of
incorporation or organization)

94-2605794

(I.R.S. Employer
Identification No.)

350 Campus Drive

Marlborough, Massachusetts

(Address of principal executive offices)

01752

(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 Stock Market LLC
Preferred Stock Purchase Rights	The NASDAQ Stock Market LLC

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 ☒ No ☐

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 ☐ No ☒

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 ☒

No ☐

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. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]

Accelerated filer []

Non-accelerated filer []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [] No [X]

As of December 1, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,601,609,102 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 27, 2007
Common Stock, \$0.01 par value per share	399,502,446 shares

DOCUMENTS INCORPORATED BY REFERENCE

<u>Document</u>	<u>Parts Into Which Incorporated</u>
Proxy Statement for the Annual Meeting of Shareholders to be held September 26, 2007 (Proxy Statement)	Part III, to the extent stated herein

3Com Corporation
Form 10-K Annual Report
For the Fiscal Year Ended June 1, 2007
Table of Contents

	<u>Page</u>
<u>Part I</u>	
Item 1. Business.....	3
Item 1A. Risk Factors.....	17
Item 1B. Unresolved Staff Comments.....	29
Item 2. Properties.....	29
Item 3. Legal Proceedings.....	30
Item 4. Submission of Matters to a Vote of Security Holders.....	30
<u>Part II</u>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	30
Item 6. Selected Financial Data.....	32
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation.....	33
Item 7A. Quantitative and Qualitative Disclosures about Market Risk.....	51
Item 8. Financial Statements and Supplementary Data.....	53
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	94
Item 9A. Controls and Procedures.....	94
Item 9B. Other Information.....	97
<u>Part III</u>	
Item 10. Directors, Executive Officers and Corporate Governance.....	97
Item 11. Executive Compensation.....	97
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	97
Item 13. Certain Relationships and Related Transactions, and Director Independence.....	97
Item 14. Principal Accounting Fees and Services.....	98
<u>Part IV</u>	
Item 15. Exhibits and Financial Statement Schedules.....	98
Exhibit Index.....	98
Signatures.....	104
Financial Statement Schedule.....	105

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. (“H3C”), a China-based joint venture, 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. Prior to 2006 we reported our equity in H3C’s net loss for H3C’s fiscal period from April 1, 2004 through March 31, 2005 and the date of formation (November 17, 2003) through March 31, 2004 in our results of operations for fiscal 2005 and 2004.

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

3Com, the 3Com logo, Digital Vaccine, NBX, IntelliJack, OfficeConnect, TippingPoint Technologies, UnityOne, and H3C are registered trademarks of 3Com Corporation or its subsidiaries. TippingPoint and VCX are trademarks of 3Com Corporation. 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: future growth of H3C, including strategy, growth, management of growth, dependence, expected benefits, method of consolidation, tax rate, sales from China, adjustments to preliminary purchase price allocation for 49 percent acquisition, and resources needed to comply with Sarbanes-Oxley and manage operations; impact of SFAS No. 123(R) and other accounting regulations; expected annual amortization expense; TippingPoint IPO; environment for enterprise networking equipment; challenges relating to sales growth; supply of components; trend towards Gigabit products; research and development focus; characteristics of IPS and certain H3C products; future sales of connectivity products; re-assessment, development and execution of our “go-to-market” strategy; strategic product and technology development plans; management of SCN segment to reach sustained profitability; 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; potential additional restructuring and cost reduction activities; expected sale of land; 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; 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,” “anticipates,” “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.

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 and data 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 products are sold on a worldwide basis through a combination of value added partners and direct sales representatives.

We deliver products and solutions that support the increasingly complex and demanding application environments in today's businesses. We aspire to be one of the leading enterprise networking companies by delivering innovative, secure, feature-rich products and solutions built on open platform technology. We believe that our global presence, brand identity and intellectual property portfolio provide a solid foundation for achieving our objectives.

On January 27, 2006, 3Com completed the purchase of an additional two percent ownership interest in, and we assumed majority ownership of, H3C, our China-based subsidiary, from Huawei Technologies, or Huawei. With the completion of that transaction, 3Com held a 51 percent majority interest in and control of the joint venture and has consolidated its results from the transaction closing date. Three years after formation of H3C, that started as a joint venture with Huawei, we and Huawei each had the right to initiate a bid process to purchase the equity interest in H3C held by the other. 3Com initiated the bidding process on November 15, 2006 to buy Huawei's 49 percent stake in H3C and our last bid of \$882 million was accepted by Huawei on November 27, 2006. The transaction closed on March 29, 2007, at which time the purchase price was paid in full.

When the joint venture was initially formed in 2003, we had three key objectives: first, to establish a substantial presence in China, a rapidly growing large market; second, to create a resource capable of building enterprise-class, cutting-edge switching and routing products faster than we could deliver on our own; and third, to capitalize on a rapidly growing pool of engineering talent. With the completion of our acquisition bringing us to 100 percent ownership of H3C we intend to continue to deliver on the above objectives as well as to increasingly integrate the businesses.

Since commencing the consolidation of H3C during our fourth fiscal quarter of 2006, 3Com has reported two operating business segments: the Secure, Converged Networking (SCN) segment, comprising our security, networking, and voice product offerings (other than H3C offerings in these areas), and the H3C segment. See Note 19 to our Consolidated Financial Statements in Item 8 of this Form 10-K for certain financial information relating to our segments.

In addition to our acquisition of incremental ownership in H3C, during the past year we undertook several actions we believe will enhance our competitiveness, execution and financial performance over the longer term. First, we continued to manage our expenses in an effort to achieve profitability. These actions will be discussed in more detail later in this report. Second, we focused on developing offerings that deliver on the needs of converged networking, and we began to launch products and enter into partnership arrangements to support our open platform networking strategy. More specifically, we have introduced multiple new products targeted at enterprises of all sizes, including new convergence ready switch offerings and secure switches for the small and medium enterprise, network based storage solutions for large enterprise, new security offerings including network access control features and enhancements to our TippingPoint products.

Third, we also announced our Open Services Networking (OSN) strategic initiative which is designed to uniquely provide enterprises and service providers with open intelligent switches and routers, to deliver converged voice, video and security services which are designed to reduce total cost of acquisition and ownership. OSN is intended to allow customers the freedom to innovate with an open "ecosystem" of open source, best of breed and 3Com technologies to enable the rapid development and deployment of new networking solutions in a timeframe that is driven by the customer.

During the fiscal year ended June 1, 2007, we focused on continuing the profitable growth of our H3C segment while reducing expenses in our SCN segment in a manner intended to limit the impact on revenues. In our 2008 fiscal year we intend to focus on growth in each of our segments, while maintaining our focus on controlling costs in our business.

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.

SECURED, CONVERGED NETWORKING “SCN” SEGMENT PRODUCTS AND SERVICES

Networking needs vary among customers and, therefore, we offer a broad line of products and solutions. We strive to meet our customers’ needs by delivering scalable, feature-rich, high performance, reliable, and secure standards-based networking solutions.

Our long-term technology-based strategy centers on enterprises and public sector organizations migrating to secure IP-based infrastructures that deliver converged voice and data applications. Our products and services can generally be classified in the following categories:

- *Security;*
- *IP Telephony;*
- *Networking; and*
- *Services.*

During fiscal 2007 we decided to discontinue our connectivity products through an “end-of-life” program. The revenues from these products over the past three fiscal years were \$15.4 million for 2007, \$39.8 million for 2006 and \$54.0 million for 2005. With the exception of certain revenue sharing and royalty relationships associated with the technologies for these products we expect the revenues from this business to be insignificant on a going-forward basis.

Each of our principal product categories and service offerings is described in greater detail below.

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;*
- *Network Access Control; and*
- *Firewalls.*

Intrusion Prevention Systems

Our TippingPoint™ line of intrusion prevention systems (IPS) are hardware-based products utilizing high-speed network processors and Field Programmable Gate Arrays (FPGAs) 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, DNS 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.

We provide a real-time update service, called 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.

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. We are developing additional products for NAC functionality as well as investigating the integration of this technology into other network offerings.

Firewalls

We offer a range of firewall solutions including embedded, standalone and application or situation-specific offerings. Our firewall solutions are designed to protect networks by preventing unauthorized network access, blocking attacks and encrypting traffic traveling across the Internet.

Our firewall solutions include the following:

- *Integrated switch firewalls;*
- *Secure network interface cards;*
- *Secure switches and routers; and*
- *SMB VPN firewall devices with Content Filter Services.*

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)-driven platform and applications are designed to meet the performance expectations of today's business environments: cost effectiveness, increased user productivity and strengthened customer interactions. These products include the following:

- *IP Telephony Platforms*
- *Convergence Application Suite*
- *IP Phones*

IP Telephony Platforms

Our IP telephony platforms deliver converged voice and data services to enterprises with distributed or single-location networks. Our NBX® platform was initially introduced in 1998, making it the first-to-market IP-Private Branch Exchange (PBX) system. NBX platforms provide the benefits of industry-standard, SIP-based call control along with a robust set of built-in applications to small to medium size businesses. Our VCX™ platform, introduced in April 2003, delivers the benefits of SIP-based carrier-class “survivability” and next-generation network applications to enterprises with up to thousands of users. Designed for enterprise campus, multi-site and multinational networks, VCX platforms include modular software components that are highly scalable – performing call control, signaling, application creation and media control.

Convergence Application Suite

Our Convergence Application Suite includes real-time, efficiency-generating applications that share a common infrastructure for call control, authentication, privacy, location and presence. These applications are designed to help enterprises lower cost, improve productivity, and strengthen customer interactions. Our Convergence Application Suite includes the following components:

- *IP Telephony Module.* Scalable and flexibly-deployed NBX and VCX solutions delivering proven reliability and cost-effective capabilities for organizations of all sizes.
- *IP Messaging Module.* Messaging with server software for centralized voice mail, fax mail, and e-mail services.
- *IP Presence Module.* Software for improving collaboration and communications.
- *IP Conferencing Module.* Audio, video, and data sharing to cost-effectively enhance collaboration.
- *IP Mobility Module.* 802.11 wireless phone and remote telecommuting options designed to address the increasing needs of a mobile workforce.
- *IP Contact Center Module.* Complete multi-media customer interaction management application.
- *IP Convergence Client.* Provides convenient personal portal to a variety of interpersonal communications functions including telephony, audio & video conferencing, messaging, presence, document sharing and instant messaging.
- *IP Telecommuting Module.* Delivers the benefits of 3Com Converged applications to users connecting to enterprise network from remote locations.

IP Phones

The advanced features and high-fidelity of our IP Phones are designed to help enterprises function more productively and meet customer needs more competitively. Our IP Phones are compatible with our NBX and VCX IP Telephony platforms. In addition to customary features, our phones include advanced functionality such as power over ethernet, or PoE, interactive display, intuitive user interface and browser-based administration.

Our line of phones consists of the following products:

- *3108 Wireless Phone;*
- *3106/3107 Cordless Phones;*
- *3105 Attendant Console;*
- *3103 Manager Phone;*
- *3102 Business Phone;*
- *3101 Basic Phone and with Speaker*
- *3100 Entry Phone.*

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 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.

We deliver our networking infrastructure capabilities in the following categories of data networking infrastructure products and solutions, each of which is described in greater detail below:

- *Local Area Network (LAN) Switches;*
- *Routers and Gateways;*
- *Mobility and Wireless LAN; and*
- *Network and Security Management.*

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. We offer a number of switching products, which we generally classify in the following families:

- *Core Switching.* We offer modular chassis core networking solutions in our Switch 8800 series and Switch 7750 series of products. They are highly resilient, secure and convergence-ready, with Layer 2 and Layer 3 IPv4 and IPv6 Gigabit Ethernet and 10-Gigabit connectivity. The 7750 series can also be used in conjunction with the 8800 as either an aggregation or edge switch capable of delivering PoE, as well as Quarantine Protection, a feature of our TippingPoint Security Management System.
- *Gigabit Ethernet Switching.* Our Switch 5500G, 4500G, 4200G families of products address the growing requirements for Gigabit speeds at the edge of the network as well as features such as PoE, security and Quarantine Protection. These stackable switches are offered in configurations to provide customers with both 24- and 48-port models and built-in 10-Gigabit expansion slot capability.
- *Fast Ethernet Switching.* We offer a full range of fixed-configuration switches that deliver performance and flexibility to the edge of the network. These 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. Several of these switches are available in managed and unmanaged configurations, offer line speeds of 10/100/1000 Mbps and incorporate PoE technology allowing power from the wiring closet to be supplied to any compliant device, including IP phones, wireless LAN access points and IntelliJack® products.

Routers and Gateways

Our enterprise 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 (WAN) while preserving the Quality of Service (QoS) required for mission critical applications.

Our enterprise routers, all of which support a variety of WAN connection speeds, are offered in the following three families of products:

- *Router 6000 Products.* The Router 6000 series of products 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.
- *Router 5000 Products.* The Router 5000 series of modular products are designed to connect corporate sites, from small branch to large regional offices.
- *Router 3000 Products.* The Router 3000 series of products provide a fixed configuration platform to securely connect small offices and remote offices of large enterprises.

Mobility and 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.

Our wireless product offerings include the following:

- *Wireless LAN Access Points – stand-alone and managed;*
- *Wireless Controllers and Switches;*
- *Wireless Routers;*
- *Wireless Bridges; and*
- *Wireless Switch Manager.*

Network and Security Management

We offer flexible and comprehensive network and security management application packages for advanced IT environments. Our network and security management applications help our customers manage large and small wired and wireless networks with tools for network monitoring, device control and fast problem resolution. Our network management applications include the following solutions:

- *Network Supervisor.* Practical, easy-to-use software, downloadable from the Internet, maps and monitors the network and quickly alerts administrators to emerging problems.
- *Network Director.* Turnkey management application suite offering advanced monitoring and control features to IT managers.
- *Enterprise Management Suite.* Comprehensive and flexible solutions for very large enterprise environments.
- *Solutions for Open Management Platforms.* A selection of solutions that enable enterprises to choose management applications that meet their business and technical needs.
- *Security Management System.* A scalable and flexible reporting tool used to manage our intrusion prevention system, TippingPoint SMS enables users to manage multiple devices and reports on network security activity.

Services

We provide 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.

We have a team of highly skilled and professional in-house services experts and also partner with select third party service providers and we 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.

H3C

H3C Technologies, our wholly-owned Chinese subsidiary, began operations on November 17, 2003. H3C is domiciled in Hong Kong, and its principal operating center is in Hangzhou, China.

H3C SEGMENT PRODUCTS AND SERVICES

H3C products can generally be classified in the following categories:

- *Networking – LAN Switches, Routers, Network Management Software and Access Control Server;*
- *Security – Firewalls and VPN Gateways;*
- *Emerging Technology – IP Storage and IP Video Surveillance; and*
- *Services.*

Each of H3C's principal product categories are described in greater detail below. H3C is significantly dependent on its China operations.

LAN Switches

H3C offers customers a full portfolio of LAN switch products ranging from switches for the small business market to enterprise-class switches to Metro Ethernet Switches geared to the carrier markets. H3C's switches enable customers to easily upgrade their network solution as their business and network requirements grow. H3C switches also include robust network security features, and are built to support the convergence of data, voice and video.

- *Core Routing Switches.* The S9500 Series 10G Multi-service Core Routing Switch is a new generation high performance switch. 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). Moreover, based on the 10G platform, it supports the new generation high-speed 10Gbps interface card that provides interconnection between MANs, campus networks and data centers to construct end-to-end Ethernet, featuring cost-effective, high performance and reliability to support abundant services. Furthermore, it provides Layer 2 and Layer 3 wire-speed packet forwarding and distributed Multi-protocol Label Switching (MPLS) wire-speed forwarding by its high performance, high density and high reliability chassis architecture design. It also provides rich service functions, such as a QoS guarantee, complete security management and high reliability. The S9500 series is designed to fully satisfy the requirements of end-users seeking, its high capability, high reliability and multiple services.
- *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. The S7500 Series switch can provide Layer 2 and Layer 3 switching. It can provide high-speed links for MAN, campus networks and data centers based on the 10GE platform and offer service functions, such as NAT/NetStream/PBR and PoE solutions, a powerful QoS guarantee, a comprehensive security management mechanism and high level carrier-class reliability, designed to fully satisfy the requirements of high-end users for multiple services.
- *Layer 3 Intelligent and Resilient Switches.* The S5600 Series Switches are innovative switches that improve LAN operating efficiency by integrating leading technology called Intelligent Resilient Framework (IRF). These switches allow high stacking bandwidth up to 96G, high density GE, 10GE uplink and a swappable power supply unit. This 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.
- *Layer 2 Intelligent Gigabit Ethernet Switches.* The S5000 Series are intelligent Layer 2 wire-speed Gigabit Ethernet switching products that provide high capacity with a full range of features. With the high performance ASIC and flexible modular structure, they provide Layer 2-Layer 7 intelligent flow classification and Access Control Lists (ACL) policies. They implement complete service control and user management, so they are suitable for the access layer switches in enterprise networks and MANs.

- *Fast Ethernet Layer 3 Intelligent and Resilient Switches.* The S3900 Series Ethernet Switches are a new generation of premier multi-layer switches that are designed to meet the enterprise customers' requirement of designing and implementing a unified, highly resilient network. One of the most important and innovative elements of these switches, is their IRF technology that allows network managers to build affordable stackable networks with the high resilience, flexibility and exceptional performance of larger systems.
- *10/100 Mbps Enhanced Layer 3 Switches.* The S3500 Series Switches are Layer 3 wire-speed Ethernet switches with 10/100M aggregation in service provider data centers, server cluster, wiring cabinet and MANs. It provides six types of high performance Ethernet switches. Running on H3C's (VRP) networking operating system, this series of products provides abundant routing protocols, Virtual LAN (VLAN) switching, traffic management, QoS, powerful bandwidth control and user management.
- *10/100 Mbps Enhanced Layer 2 Intelligent and Access Switches.* The S3000 and S2000-EI Series are intelligent Layer 2 wire-speed Ethernet switching products that are designed to meet the needs of large-capacity switching and high QoS requirements. This series utilizes high performance ASICs and a flexible modular structure, providing Layer 2 through Layer 7 intelligent flow classification, complete QoS, comprehensive service control and subscriber management. It can be used as the access layer switch for service control, user management and network security guarantee in enterprise networks and MANs.
- *Unmanaged Ethernet Switches.* The S1000/1200 Series is a non-intelligent, Layer 2 wire speed switch. By deploying power plug and play and fan-less design, it provides a perfect silent desktop access solution for offices. The S1000 series provides 10/100M Ethernet ports while the S1200 series supports 10/100/1000M Ethernet ports. With minimum cost required for network management, this product line is an ideal choice for the small and home office environment.

Routers

H3C 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 either NetEngine Series Routers or AR Series Routers. All NetEngine routers are IPv6 ready and include carrier-class availability with redundancy in all key modules to support multiple services such as Multi-protocol Label Switching Virtual Private Network (MPLS VPN), Multi-protocol Label Switching Traffic Engineering (MPLS TE), Multicasting and Netstream. The AR Series Routers support multiple services, integrating data voice and video in one device. They are also easy to manage, offer VPN functionality as well as support multiple security products including firewalls, IPS and Intrusion Detection Systems (IDS).

- *NetEngine Series Routers.* The NetEngine family of routers is purchased from Huawei Technologies under an original equipment manufacturing agreement. These core routers consist of products from a super-large capacity core router, which can be applied in the 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). Incorporating advanced technologies such as a 10G/40G interface, three-stage switching fabric, optical shelf interconnection for multi-chassis stack, network processors (NP) for forwarding engine, and the mature, stable VRP routing software, it can meet the availability requirements and the multi-service demands of carrier-class and large enterprise networks.
- *AR Series Routers.* The AR Series Routers support multiple services, integrating data voice and video in one device. The BIMS system provides easy-to-use management tools. These routers offer VPN functionality (L2TP, GRE, IPSec and MPLS VPN) as well as support multiple security products including firewalls, IPS and Intrusion Detection Systems (IDS), ACL, Authentication, Authorization, and Accounting (AAA), CA, and Huawei Terminal Access Controller Access Control System (Huawei-TACAS+).

- *Intelligent Multi-Service Enterprise Core Routers.* The AR46 Intelligent Multi-Service Enterprise Core Routers are multi-service routers with high performance and reliability developed for enterprise, industry and carrier networks. AR46 routers can serve as central routers for carrier networks. The AR46 routers are designed to meet enterprise and carrier requirements for network performance, service integration, high reliability, high security and three-in-one solutions.
- *Modular Branch Routers.* The AR28 Series are modular multi-service branch routers, providing flexible LAN and WAN options, comprehensive security and VPN solutions, and voice and data integration. The extended performance, high density, enhanced security and concurrent applications enable the AR28 Series to meet the growing demands of enterprises.
- *Fixed Port Branch Routers.* The AR18 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 Management System

The Quidview network management software is a suite of scalable tools for simplifying network management and maintenance. Quidview implements comprehensive IP-based network management applications, providing total and unified network management solutions, such as centralized network monitoring, fault management, performance monitoring, multi-vendor device management, device management and cluster management. It has the ability to construct effective network management solutions, network environments at all levels, according to user's demands.

Comprehensive Access Management Server (CAMS)

CAMS is a comprehensive identity-based access control server for the network infrastructure of H3C switches, routers and security devices. As the enterprise network user management center, CAMS provides LAN, VPN, wireless access management, authentication, authorization and accounting. CAMS is at the heart of the integration and control layer, constructing a multiple service management, maintenance, and security control framework with high interoperability within existing enterprise systems.

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. SecPath firewall series products integrate DoS, DDoS depth defense system, VPN and traffic management functionality and offer high levels of total throughput for firewall and VPN support.

VPN Gateways

SecPath VPN Gateways provide total VPN solutions from SOHO to large enterprise. They support all mainstream VPN technologies (such as Layer 2 Tunneling Protocol Virtual Private Network (L2TP VPN), Generic Router Encapsulation Virtual Private Network (GRE VPN), IP Security Virtual Private Network (IPSec VPN), Secure Socket Level Virtual Private Network (SSL VPN), Dynamic VPN and MPLS VPN), providing complete QoS and flow control ability, enabling users to deploy cost-effective remote access, extranet and intranet security.

IP Storage

The NeoOcean series of IP storage products are used in IPTV/ stream-media VOD/medical care/power supply/ social insurance/ taxation datacenters and disaster back-up centers.

IP Video Surveillance

These newly developed products can be deployed in public security checkpoints, road safety monitoring spots, cashier checkout counters, hotels and private property monitor locations. Market demands are driven by metro-level applications, mass utilization and high resolution needs. The increase in national safety and public security concerns around the world has contributed to market demand for these products.

Services

H3C 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. 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.

CUSTOMERS AND MARKETS

Through our SCN segment we have a global installed base of enterprise and small and medium-sized business customers. These organizations range across a number of vertical industries, including education, government, healthcare, manufacturing, finance, insurance and real estate. In addition to a growing number of enterprise customers (in areas such as government, finance, education, education, energy, communication, manufacturing, health and commercial buildings markets), H3C also has access to a strong, increasing base of carrier customers, primarily through OEM sales to Huawei.

H3C's customers and end-users span across a wide range of enterprises and vertical markets. Huawei traditionally has sold H3C products primarily to the carrier markets in both China and overseas. Through channel partners in and outside of China and through other key strategic partners H3C maintains coverage of the IP networking and data communication market in most geographies and industries.

We target major customer groups that:

- view their networks as mission-critical tools that help them to deliver mandatory and/or value-add differentiated services to their customers or constituents;
- seek convergence-ready voice and data solutions and wireless solutions that are standards-based to reduce complexity and protect their investments; and
- value networking solutions that are affordable to acquire, operate, maintain and expand.

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 Avaya Inc., Cisco Systems, Inc., D-Link Systems, Inc., Enterasys Networks, Inc., Extreme Networks, Inc., F5 Networks, Inc., Foundry Networks, Inc., Hewlett-Packard Company, Internet Security Systems, Inc. (acquired by IBM), Juniper Networks, Inc., McAfee, Inc., Alcatel, 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. 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 focuses internal investments upon those core activities that are necessary to deliver differentiated products and solutions and drive reductions in product costs. Our current areas of focus include security, convergence, wireless networking, and advanced switching and routing solutions. For activities such as mature technologies or widely available product design components, we work with contract developers and third parties for sourcing these components. 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 are focused upon those product attributes that matter most to our customers and clearly differentiate the products we deliver.

Our SCN 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 SCN segment develops our voice and security offerings, including, TippingPoint's Intrusion Prevention Systems and Digital Vaccine security products. H3C uses its own engineers to develop the H3C core product portfolio.

Our research and development expenditures were \$215.6 million in fiscal 2007, \$101.9 million in fiscal 2006, and \$94.6 million in fiscal 2005.

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, 2007. 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. 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.

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 35 countries outside the U.S.

BACKLOG

Our backlog as of June 1, 2007, the last day of our 2007 fiscal year, was approximately \$65.7 million (including \$54.8 million of H3C backlog as of March 31, 2007), compared with backlog of approximately \$69.8 million (including \$45.9 million of H3C backlog as of March 31, 2006) as of June 2, 2006, the last day of our 2006 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 SCN segment revenues and earnings have not demonstrated consistent seasonal characteristics.

MANUFACTURING AND COMPONENTS

For the SCN segment 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 2007 and Flextronics International and Jabil Circuits were the two most significant during fiscal 2006. 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 some cases, 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.

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.

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 June 1, 2007, our SCN segment had 1,433 issued U.S. patents (including 1400 utility patents and 33 design patents) and 410 foreign issued 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. The H3C portfolio includes 104 issued Chinese patents, over 718 pending Chinese applications, and 17 pending foreign applications. During fiscal 2007, 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 SCN segment has 45 registered trademarks in the U.S. and has a total of 579 registered trademarks in 80 foreign countries. H3C has 6 registered trademarks in China and has a total of 62 registered trademarks in 8 foreign countries. Numerous applications for registration of domestic and foreign trademarks are currently pending for both our SCN and H3C segments.

EMPLOYEES

	<u>Total</u>
Sales and marketing	1,855
Customer service and supply chain operations	975
Research and development	2,829
General and administrative	<u>650</u>
Total	<u>6,309</u>

The SCN segment has 1,456 employees and the H3C segment has 4,853 employees.

Our employees are not represented by a labor organization and we consider our employee relations to be satisfactory. The SCN segment employee data is as of June 1, 2007 and the H3C segment employee data is as of March 31, 2007, the date of the H3C balance sheet we consolidated into our fiscal year 2007 balance sheet.

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

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table lists the names, ages and positions held by all executive officers of 3Com as of July 31, 2007. There are no family relationships between any director (or nominee) or executive officer and any other director (or nominee) or executive officer of 3Com.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Edgar Masri	49	President and Chief Executive Officer, 3Com; Chief Executive Officer, H3C Technologies Co., Limited
Neal D. Goldman	56	Executive Vice President, Chief Administrative and Legal Officer and Secretary, 3Com
Jay Zager	57	Executive Vice President and Chief Financial Officer
Robert Dechant	45	Senior Vice President and General Manager, Data and Voice Business Unit
James Hamilton	43	President, TippingPoint Division
Dr. Shusheng Zheng	40	Chief Operating Officer, H3C Technologies Co., Limited

In addition, Messrs. Masri, Goldman, Zager and Zheng serve on the Boards of Directors of various subsidiaries of 3Com.

Edgar Masri has been our President and Chief Executive Officer since August 2006. Mr. Masri is also Chief Executive Officer of H3C Technologies Co., Limited, our China-based networking equipment subsidiary. Mr. Masri joined our Board of Directors in September 2006. Before re-joining 3Com, Mr. Masri was a General Partner from 2000 to March 2006, and more recently an advisor, at Matrix Partners, a leading technology venture capital firm, where he made investments in the wireless, broadband and semiconductor industries. Mr. Masri was also Chief Operating Officer at Redline Communications, a leading provider of advanced broadband wireless access and backhaul solutions based in Canada, from April to August of 2006. Mr. Masri spent fifteen years as a senior manager at 3Com, from 1985 to 2000. During this time he served as Senior Vice President and General Manager of our Network Systems Business Unit and Premises Distribution Unit, President of 3Com Ventures and held senior roles in our marketing group. Mr. Masri holds a Master's degree in electrical engineering and computer science and earned an MBA from Stanford University.

Neal D. Goldman has been 3Com's Executive Vice President, Chief Administrative and Legal Officer and Secretary since March 2007, and he has served as our Senior Vice President, Management Services, General Counsel and Secretary since September 2003. Mr. Goldman also serves on the Board of H3C Technologies. 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.

Jay Zager has been our Executive Vice President and 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 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 Masters degree in Finance and Strategic Planning from Sloan School of Management, Massachusetts Institute of Technology and a Bachelor of Science degree in Operations Research from Massachusetts Institute of Technology.

Robert Dechant has been 3Com's Senior Vice President and General Manager, Data and Voice Business Unit since October 2006, and was our Senior Vice President, Worldwide Sales and Marketing from April 2006 to October 2006. Prior to 3Com, from March 2003 to September 2004, Mr. Dechant was Executive Vice President of Sales and Marketing for Modus Media International where he led sales, marketing and client management on a global basis. Before Modus, Mr. Dechant served as Chief Operating Officer (from December 2001 to January 2003) and Senior Vice President of Sales and Marketing (from July 1997 to November 2001) at Stream International, Inc. He also held sales and marketing leadership positions with Software Support Inc. which was acquired by Convergys Corporation and Worldtek Travel, Inc. He also spent nine years in sales and marketing positions at IBM.

James Hamilton has served as 3Com's President of the TippingPoint Division since November 2005. From January to November of 2005, Mr. Hamilton served as TippingPoint's Chief Operating Officer. At the time 3Com acquired TippingPoint in January 2005, Mr. Hamilton was President and COO of TippingPoint, a position he held from October 2003 to the date of acquisition. Prior to TippingPoint, Mr. Hamilton was President and Chief Executive Officer of Efficient Networks, Inc., a subsidiary of Siemens AG, from February 2002 to April 2003. From April 2001 to February 2002, Mr. Hamilton served in other senior roles at Efficient Networks. Prior to Efficient Networks' acquisition by Siemens in April 2001, he served as Executive Vice President of Worldwide Sales and Marketing as well as General Manager of the company's four products divisions from 1999 to 2001. Prior to Efficient Networks, Mr. Hamilton served as Vice President of Worldwide Sales and Service for Picazo Communications, Inc., an IP telephony company sold to Intel Corporation in late 1999. He has previous experience as Director of the Communications Products Group at Compaq Computer Corporation, Vice President of Sales at NetWorth, Inc., which was sold to Compaq in 1995, and managed the North American reseller channel at 3Com Corporation.

Dr. Shusheng Zheng has served as the Chief Operating Officer of our H3C Technologies Co., Limited subsidiary since its inception in the Fall of 2003. Previously, Dr. Zheng worked at Huawei Technologies from 1993 to 2003. At Huawei, Dr. Zheng held positions in the research and development department, was Director of Manufacturing and Customer Service, Head of Sales and Marketing for the datacom business, and finally president of Huawei's switching business unit starting in 1998. 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 \$89 million for the year ended May 31, 2007, \$101 million for the year ended May 31, 2006 and \$196 million for year ended May 31, 2005, 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, particularly in our SCN segment:

- 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;
- management changes;
- disruptions and expenses resulting from our workforce reductions, management changes and employee attrition;
- risk of increased excess and obsolete inventories; and
- interest expense resulting from our senior secured loan.

If we cannot overcome these challenges, reduce our expenses and/or increase our revenue, we may not become profitable.

We may not be able to compensate for lower sales or unexpected cash outlays with cost reductions sufficient to generate positive net income or cash flow.

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 reducing our sales. If we are not able to effectively reduce our costs and expenses, particularly in our SCN segment, we may not be able to generate positive net income. If we continue to experience negative cash flow from operations from our SCN segment over a prolonged period of time or if we suffer unexpected cash outflows, our liquidity and ability to operate our business effectively could be adversely affected.

We are unable to predict the exact amount of increased sales and/or cost reductions required for us to generate positive net income because it is difficult to predict the amount of our future sales and gross margins. Moreover, the amount of our future sales depends, in part, on future economic and market conditions, which are difficult to forecast accurately.

Efforts to reduce operating expenses have involved, and could involve further, workforce reductions, closure of offices and sales or discontinuation of businesses, leading to reduced sales and other disruptions in our business; if these efforts are not successful, we may experience higher expenses than we desire.

Our operating expenses as a percent of sales continue to be higher than our desired long-term financial model. We have taken, and will continue to take, actions to reduce these expenses. For example, in June 2006 we announced a restructuring plan which focused on reducing components of our SCN operating segment cost structure, including the closure of certain facilities, a reduction in workforce and focused sales, marketing and services efforts. Such actions have and may in the future include integration of businesses and regions, reductions in our workforce, closure of facilities, relocation of functions and activities to lower cost locations, the sale or discontinuation of businesses, changes or modifications in information technology systems or applications, or process reengineering. As a result of these actions, the employment of some employees with critical skills may be terminated and other employees have, and may in the future, leave our company voluntarily due to the uncertainties associated with our business environment and their job security. In addition, reductions in overall staffing levels could make it more difficult for us to sustain historic sales levels, to achieve our growth objectives, to adhere to our preferred business practices and to address all of our legal and regulatory obligations in an effective manner, which could, in turn, ultimately lead to missed business opportunities, higher operating costs or 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, including the failure to succeed in achieving net cost savings, will likely cause our expense levels to continue to be at levels above our desired model, which, in turn, could result in a material adverse impact on our ability to become profitable (and, if we become profitable, to sustain such profitability).

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 31, 2007, our total debt balance was \$430 million, of which \$94 million was classified as a current liability. These amounts represent borrowing under a senior secured loan incurred to finance a portion of the purchase price for the March 2007 acquisition of the remaining 49 percent equity interest in H3C. 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 service obligations (interest and principal) of between approximately \$48 million and \$172 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 at our H3C or SCN segments, 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. The agreements also impose affirmative covenants, including financial reporting obligations and compliance with law. 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 if we are unable to amend such financial covenants. 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, 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), and/or require 3Com Corporation, 3Com Holdings Limited or 3Com Technologies to use any of their substantial cash balances under their parental guarantees of this debt, if such guarantees have not yet been released by such time. Any of these actions would likely result in a material adverse effect on our business and financial condition.

An adverse change in the interest rates for our borrowings could adversely affect our financial condition.

Interest to be paid by us on our senior secured loan is at an interest rate based on the LIBOR rate, plus an applicable margin. The published LIBOR rate is subject to change on a periodic basis. Recently, interest rates have trended upwards in major global financial markets. If these interest rate trends continue, this will result in increased interest rate expense as a result of higher LIBOR rates. Continued increases in interest rates could have a material adverse effect on our financial position, results of operations and cash flows, particularly if such increases are substantial. In addition, interest rate trends could affect global economic conditions.

Rating downgrades may make it more expensive for us to refinance our debt or borrow money.

Moody's Investors Service has assigned a Ba2 rating to our senior secured loans at H3C and a Ba2 corporate family rating (stable outlook) to H3C Holdings Limited, the borrower. Standard & Poor's Ratings Services assigned these loans a 'BB' rating (with a recovery rating of '1') and assigned a BB- corporate credit rating (stable outlook) to H3C Holdings Limited. We are required to maintain a rating from each of these agencies during the term of the loan. These credit ratings are subject to change at the discretion of the rating agencies. If our credit ratings are downgraded, it would likely make it more expensive for us to refinance our existing loan or raise additional capital in the future. Such refinancing or capital raising may be on terms that may not be acceptable to us or otherwise not available. Any future adverse rating agency actions with respect to our ratings could have an adverse effect on the market price of our securities, our ability to compete for new business and our ability to access capital markets.

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 year ended May 31, 2007, H3C accounted for approximately 53 percent of our consolidated revenue and approximately 59 percent of our consolidated gross profit. H3C, which is domiciled in Hong Kong and has its principal operations in Hangzhou, China, is subject to all of the operational risks that normally arise for a technology company with global operations, including risks relating to research and development, manufacturing, sales, service, marketing, and corporate functions. Furthermore, H3C may not be successful in selling directly 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.

Sales from our H3C segment, and therefore in China, constitute a material portion of our total sales, and our business, financial condition and results of operations will to a significant degree be subject to economic, political and social events in the PRC.

Our sales are significantly dependent on China, with approximately 46 percent of our consolidated revenues attributable to sales in China for the fiscal year ended May 31, 2007. 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. We discuss risks related to the PRC in further detail below.

Our H3C segment is dependent on Huawei Technologies in several material respects, including as an important customer; should Huawei reduce its business with H3C, our business will likely be materially adversely affected.

H3C derives a material portion of its sales from Huawei. In the twelve months ended May 31, 2007, Huawei accounted for approximately 35 percent of the revenue for our H3C segment and approximately 20 percent of our consolidated revenue. Huawei has no minimum purchase obligations with respect to H3C. Should Huawei reduce its business with H3C, H3C's sales will suffer. On March 29, 2007 we acquired Huawei's 49 percent interest in H3C for \$882 million, giving us 100 percent ownership of H3C. Since Huawei is no longer an owner of H3C, it is possible that over time Huawei will purchase fewer products and services from H3C. We will need to continue to provide Huawei with products and services that satisfy its needs or we risk the possibility that it sources products from another vendor or internally develops these products. 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 December 2008; 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 we determine to undertake; if we are not successful in these efforts, our business will suffer.

Our H3C acquisition presents unique challenges that we must address. We must successfully execute on managing our two business 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, H3C 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 SCN segment and H3C. In order to more closely manage and, to the extent we choose, integrate H3C, 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 two business 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 or other strategies that take advantage and leverage H3C's and SCN's respective strengths. If we are not successful at transitioning effectively to full ownership of H3C, or 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.

Risks 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 SCN segment; 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, 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.

Risks Related to Competition

If we do not respond effectively to increased competition caused by industry volatility and consolidation our business could be harmed.

Our business could be seriously harmed if we do not compete effectively. We face competitive challenges that are likely to arise from a number of factors, including the following:

- industry volatility resulting from rapid product development cycles;
- increasing price competition due to maturation of basic networking technologies;
- industry consolidation resulting in competitors with greater financial, marketing, and technical resources; and
- the presence of existing competitors with greater financial resources together with the potential emergence of new competitors with lower cost structures and more competitive offerings.

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 not 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.

Huawei's incentive not to compete with H3C or us, and its incentive to assist H3C, may diminish now that Huawei does not own any interest in H3C. In addition, Huawei maintains a strong presence within China and the Asia Pacific region and has significant resources with which to compete within the networking industry, including the assets of Harbour Networks, a China-based competitor of H3C. We cannot predict whether Huawei will compete with us. If competition from Huawei increases, our business will likely suffer.

Finally, if any of H3C's senior managers, and other key H3C employees that originally worked for Huawei prior to the inception of H3C, return to work for Huawei, the competitive risks discussed above may be heightened. 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.

Risks Related to Business and Technology Strategy

We may not be successful at identifying and responding to new and emerging market and product opportunities, or at responding quickly enough to technologies or markets that are in decline.

The markets in which we compete are characterized by rapid technology transitions and short product life cycles. Therefore, our success depends on our ability to do the following:

- identify new market and product opportunities;
- predict which technologies and markets will see declining demand;
- develop and introduce new products and solutions in a timely manner;
- gain market acceptance of new products and solutions, particularly in targeted emerging markets; and
- rapidly and efficiently transition our customers from older to newer enterprise networking technologies.

Our financial position or results of operations could suffer if we are not successful in achieving these goals. For example, our business would suffer if any of the following occurs:

- there is a delay in introducing new products;
- we lose certain channels of distribution or key partners;
- our products do not satisfy customers in terms of features, functionality or quality; or
- our products cost more to produce than we expect.

Because we will continue to rely on original design manufacturers to assist in product design of some of our products, we may not be able to respond to emerging technology trends through the design and production of new products as well as if we were working independently.

We expect to utilize strategic relationships and other alliances as key elements in our strategy. If we are not successful in forming desired ventures and alliances or if such ventures and alliances are not successful, our ability to achieve our growth and profitability goals could be adversely affected.

We have announced alliances with third parties, such as IBM and Trapeze Networks. In the future, we expect to evaluate other possible strategic relationships, including joint ventures and other types of alliances, and we may increase our reliance on such strategic relationships to broaden our sales channels, complement internal development of new technologies and enhancement of existing products, and exploit perceived market opportunities.

If we fail to form the number and quality of strategic relationships that we desire, or if such strategic relationships are not successful, we could suffer missed market opportunities, channel conflicts, delays in product development or delivery, or other operational difficulties. Further, if third parties acquire our strategic partners or if our competitors enter into successful strategic relationships, we may face increased competition. Any of these difficulties could have an adverse effect on our future sales and results of operations.

Our strategy of outsourcing functions and operations may fail to reduce cost and may disrupt our operations.

We continue to look for ways to decrease cost and improve efficiency by contracting with other companies to perform functions or operations that, in the past, we have performed ourselves. We have outsourced the majority of our manufacturing and logistics for our SCN products. We now rely on outside vendors to meet the majority of our manufacturing needs as well as a significant portion of our IT needs for the SCN segment. Additionally, we outsource certain functions for technical support and product return services. We are currently transitioning our outsourced customer service and support functions from a single vendor to a combination of vendors complemented by internal sources. During this transition period, and under our new support model, if we do not provide our customers with a high quality of service, we risk losing customers and/or increasing our support costs. To achieve future cost savings or operational benefits, we may expand our outsourcing activities to cover additional services which we believe a third party may be able to provide in a more efficient or effective manner than we could do internally ourselves.

Although we believe that outsourcing will result in lower costs and increased efficiencies, this may not be the case. Because these third parties may not be as responsive to our needs as we would be ourselves, outsourcing increases the risk of disruption to our operations. In addition, our agreements with these third parties sometimes include substantial penalties for terminating such agreements early or failing to maintain minimum service levels. Because we cannot always predict how long we will need the services or how much of the services we will use, we may have to pay these penalties or incur costs if our business conditions change.

Our reliance on industry standards, technological change in the marketplace, and new product initiatives may cause our sales to fluctuate or decline.

The enterprise networking industry in which we compete is characterized by rapid changes in technology and customer requirements and evolving industry standards. As a result, our success depends on:

- the convergence of technologies, such as voice, data and video on single, secure networks;
- the timely adoption and market acceptance of industry standards, and timely resolution of conflicting U.S. and international industry standards; and
- our ability to influence the development of emerging industry standards and to introduce new and enhanced products that are compatible with such standards.

Slow market acceptance of new technologies, products, or industry standards could adversely affect our sales or overall results of operations. In addition, if our technology is not included in an industry standard on a timely basis or if we fail to achieve timely certification of compliance to industry standards for our products, our sales of such products or our overall results of operations could be adversely affected.

We focus on enterprise networking, and our results of operations may fluctuate based on factors related entirely to conditions in this market.

Our focus on enterprise networking may cause increased sensitivity to the business risks associated specifically with the enterprise networking market and our ability to execute successfully on our strategies to provide superior solutions for larger and multi-site enterprise environments. To be successful in the enterprise networking market, we will need to be perceived by decision making officers of large enterprises as committed for the long-term to the high-end networking business. Also, expansion of sales to large enterprises may be disruptive in a variety of ways, such as adding larger systems integrators that may raise channel conflict issues with existing distributors, or a perception of diminished focus on the small and medium enterprise market.

Risks Related to Operations and Distribution Channels

A significant portion of our SCN sales is derived from a small number of distributors. If any of these partners reduces its business with us, our business could be seriously harmed.

We distribute many of our products through two-tier distribution channels that include distributors, systems integrators and value added resellers, or VARs. A significant portion of our sales is concentrated among a few distributors; our two largest distributors accounted for a combined 35 percent of SCN sales and 18 percent of our consolidated revenue for the year ended May 31, 2007 and a combined 35 percent of SCN sales and 30 percent of our consolidated revenue for the year ended May 31, 2006. If either of these distributors reduces its business with us, our sales and overall results of operations could be adversely affected.

We depend on distributors who maintain inventories of our products. If the distributors reduce their inventories of our products, our sales could be adversely affected.

We work closely with our distributors to monitor channel inventory levels and ensure that appropriate levels of products are available to resellers and end users. Our target range for channel inventory levels is between three and five weeks of supply on hand at our distributors. Partners with a below-average inventory level may incur “stock outs” that would adversely impact our sales. Our distribution agreements typically provide that our distributors may cancel their orders on short notice with little or no penalty. If our channel partners reduce their levels of inventory of our products, our sales would be negatively impacted during the period of change.

If we are unable to successfully develop relationships with system integrators, service providers, and enterprise VARs, our sales may be negatively affected.

As part of our sales strategy, we are targeting system integrators, or SIs, service providers, or SPs, and enterprise value-added resellers, or eVARs. In addition to specialized technical expertise, SIs, SPs and eVARs typically offer sophisticated services capabilities that are frequently desired by larger enterprise customers. In order to expand our distribution channel to include resellers with such capabilities, we must be able to provide effective support to these resellers. If our sales, marketing or services capabilities are not sufficiently robust to provide effective support to such SIs, SPs, and eVARs, we may not be successful in expanding our distribution model and current SI, SP, and eVAR partners may terminate their relationships with us, which would adversely impact our sales and overall results of operations.

We may pursue acquisitions of other companies that, if not successful, could adversely affect our business, financial position and results of operations.

In the future, we may pursue acquisitions of companies to enhance our existing capabilities. There can be no assurances that acquisitions that we might consummate will be successful. If we pursue an acquisition but are not successful in completing it, or if we complete an acquisition but are not successful in integrating the acquired company's technology, employees, products or operations successfully, our business, financial position or results of operations could be adversely affected.

We may be unable to manage our supply chain successfully, which would adversely impact our sales, gross margin and profitability.

Current business conditions and operational challenges in managing our supply chain affect our business in a number of ways:

- in the past, some key components have had limited availability;
- as integration of networking features on a reduced number of computer chips continues, we are increasingly facing competition from parties who are our suppliers;
- our ability to accurately forecast demand is diminished;
- our reliance on, and long-term arrangements with, third-party manufacturers places much of the supply chain process out of our direct control and heightens the need for accurate forecasting and reduces our ability to transition quickly to alternative supply chain strategies; and
- we may experience disruptions to our logistics.

Some of our suppliers are also our competitors. We cannot be certain that in the future our suppliers, particularly those who are also in active competition with us, will be able or willing to meet our demand for components in a timely and cost-effective manner.

There has been a trend toward consolidation of vendors of electronic components. Our reliance on a smaller number of vendors and the inability to quickly switch vendors increases the risk of logistics disruptions, unfavorable price fluctuations, or disruptions in supply, particularly in a supply-constrained environment.

Supplies of certain key components have become tighter as industry demand for such components has increased. If the resulting increase in component costs and time necessary to obtain these components persists, we may experience an adverse impact to gross margin.

If overall demand for our products or the mix of demand for our products is significantly different from our expectations, we may face inadequate or excess component supply or inadequate or excess manufacturing capacity. This would result in orders for products that could not be manufactured in a timely manner, or a buildup of inventory that could not easily be sold. Either of these situations could adversely affect our market share, sales, and results of operations or financial position.

Our strategies to outsource the majority of our manufacturing requirements to contract manufacturers may not result in meeting our cost, quality or performance standards. The inability of any contract manufacturer to meet our cost, quality or performance standards could adversely affect our sales and overall results from operations.

The cost, quality, performance, and availability of contract manufacturing operations are and will be essential to the successful production and sale of many of our products. We may not be able to provide contract manufacturers with product volumes that are high enough to achieve sufficient cost savings. If shipments fall below forecasted levels, we may incur increased costs or be required to take ownership of inventory. In addition, a significant component of maintaining cost competitiveness is the ability of our contract manufacturers to adjust their own costs and manufacturing infrastructure to compensate for possible adverse exchange rate movements. To the extent that the contract manufacturers are unable to do so, and we are unable to procure alternative product supplies, then our own competitiveness and results of operations could be adversely impacted.

In portions of our business we have implemented a program with our manufacturing partners to ship products directly from regional shipping centers to customers. Through this program, we are relying on these partners to fill customer orders in a timely manner. This program may not yield the efficiencies that we expect, which would negatively impact our results of operations. Any disruptions to on-time delivery to customers would adversely impact our sales and overall results of operations.

If we fail to adequately evolve our financial and managerial control and reporting systems and processes, including the management of our H3C segment, our ability to manage and grow our business will be negatively affected.

Our ability to successfully offer our products and implement our business plan in a rapidly evolving market depends upon an effective planning and management process. We will need to continue to improve our financial and managerial control and our reporting systems and procedures in order to manage our business effectively in the future. If we fail to implement improved systems and processes, our ability to manage our business and results of operations could be adversely affected. For example, now that we own all of H3C, we are spending additional time, resources and capital to manage its business, operations and financial results. If we are not able to successfully manage H3C, our business results could be adversely affected.

Risks Related to our Operations in the People's Republic of China

China's governmental and regulatory reforms and changing economic environment may impact our ability to do business in China.

As a result of the historic reforms of the past several decades, multiple government bodies are involved in regulating and administering affairs in the enterprise networking industry in China. These government agencies have broad discretion and authority over all aspects of the networking, telecommunications and information technology industry in China; accordingly their decisions may impact our ability to do business in China. Any of the following changes in China's political and economic conditions and governmental policies could have a substantial impact on our business:

- the promulgation of new laws and regulations and the interpretation of those laws and regulations;
- enforcement and application of rules and regulations by the Chinese government;
- the introduction of measures to control inflation or stimulate growth; or
- any actions that limit our ability to develop, manufacture, import or sell our products in China, or to finance and operate our business in China.

If China's entry into the World Trade Organization, or the WTO, results in increased competition or has a negative impact on China's economy, our business could suffer. Since early 2004, the Chinese government has implemented certain measures to control the pace of economic growth. Such measures may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition.

Uncertainties with respect to the Chinese legal system may adversely affect us.

We conduct our business in China primarily through H3C, a Hong Kong entity which in turn owns several Chinese entities. These entities are generally subject to laws and regulations applicable to foreign investment in China. In addition, there are uncertainties regarding the interpretation and enforcement of laws, rules and policies in China. Because many laws and regulations are relatively new and the Chinese legal system is still evolving, the interpretations of many laws, regulations and rules are not always uniform. Moreover, the interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Finally, enforcement of existing laws or contracts based on existing law may be uncertain, and it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. Any litigation in China may be protracted and result in substantial costs and diversion of resources and management's attention.

If PRC tax benefits available to H3C are reduced or repealed, our business could suffer.

If the PRC government changes, removes or withdraws any of the tax benefits currently enjoyed by our H3C segment, it will likely adversely affect our results of operations. For example, H3C enjoys preferential income tax rates due to its status as a newly-formed high technology enterprise headquartered within a high tech zone in Hangzhou, PRC. In March 2007 the People's National Congress in the PRC approved a new tax reform law, effective on January 1, 2008, the broad intention of which is to align the tax regime applicable to foreign owned Chinese enterprises with that applicable to domestically-owned Chinese enterprises. If applicable to H3C, the effect of this new law would be to increase the statutory income tax rate for H3C in the PRC. It is proposed that some high-tech enterprises will be exempt from the increased rate; although much of the detail of the new law is yet to be issued in regulations, we currently believe that we will continue to qualify for the foreseeable future as a high-tech enterprise entitled to our existing tax concessions.

If H3C is not exempt from this new law, other tax benefits currently enjoyed by H3C are withdrawn or reduced, or new taxes are introduced which have not applied to H3C before, there would likely be a resulting increase to H3C's statutory tax rates in the PRC. Increases to tax rates in the PRC, where our H3C segment is profitable, could adversely affect our results of operations.

H3C is subject to restrictions on paying dividends and making other payments to us.

Chinese regulations currently permit payment of dividends only out of accumulated profits, as determined in accordance with Chinese accounting standards and regulations. H3C does business primarily through a Chinese entity that is required to set aside a portion of its after-tax profits – currently 10 percent - according to Chinese accounting standards and regulations to fund certain reserves. The Chinese government also imposes controls on the conversion of Renminbi into foreign currencies and the remittance of currencies out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. These restrictions may in the future limit our ability to receive dividends or repatriate funds from H3C. In addition, the credit agreement governing our senior secured loan also imposes significant restrictions on H3C's ability to dividend or make other payments to our SCN segment.

We are subject to risks relating to currency rate fluctuations and exchange controls and we do not hedge this risk in China.

A significant portion of our sales and a portion of our costs are made in China and denominated in Renminbi. At the same time, our senior secured bank loan – which we intend to service and repay primarily through cash flow from H3C's PRC operations – is denominated in US dollars. In July 2005, China uncoupled the Renminbi from the U.S. dollar and let it float in a narrow band against a basket of foreign currencies. The move initially revalued the Renminbi by 2.1 percent against the U.S. dollar; however, it is uncertain what further adjustments may be made in the future. The Renminbi-U.S. dollar exchange rate could float, and the Renminbi could appreciate or depreciate relative to the U.S. dollar. Any movement of the Renminbi may materially and adversely affect our cash flows, revenues, operating results and financial position, and may make it more difficult for us to service our U.S. dollar-denominated senior secured bank loan. We do not currently hedge the currency risk in H3C through foreign exchange forward contracts or otherwise and China employs currency controls restricting Renminbi conversion, limiting our ability to engage in currency hedging activities in China. Various foreign exchange controls are applicable to us in China, and such restrictions may in the future make it difficult for H3C or us to repatriate earnings, which could have an adverse effect on our cash flows and financial position.

Risks Related to Intellectual Property

If our products contain undetected software or hardware errors, we could incur significant unexpected expenses and could lose sales.

High technology products sometimes contain undetected software or hardware errors when new products or new versions or updates of existing products are released to the marketplace. Undetected errors could result in higher than expected warranty and service costs and expenses, and the recording of an accrual for related anticipated expenses. From time to time, such errors or component failures could be found in new or existing products after the commencement of commercial shipments. These problems may have a material adverse effect on our business by causing us to incur significant warranty and repair costs, diverting the attention of our engineering personnel from new product development efforts, delaying the recognition of revenue and causing significant customer relations problems. Further, if products are not accepted by customers due to such defects, and such returns exceed the amount we accrued for defect returns based on our historical experience, our operating results would be adversely affected.

Our products must successfully interoperate with products from other vendors. As a result, when problems occur in a network, it may be difficult to identify the sources of these problems. The occurrence of hardware and software errors, whether or not caused by our products, could result in the delay or loss of market acceptance of our products and any necessary revisions may cause us to incur significant expenses. The occurrence of any such problems would likely have a material adverse effect on our business, operating results and financial condition.

We may need to engage in complex and costly litigation in order to protect, maintain or enforce our intellectual property rights; in some jurisdictions, such as China, our rights may not be as strong as the rights we enjoy in the U.S.

Whether we are defending the assertion of intellectual property rights against us, or asserting our intellectual property rights against others, intellectual property litigation can be complex, costly, protracted, and highly disruptive to business operations because it may divert the attention and energies of management and key technical personnel. Further, plaintiffs in intellectual property cases often seek injunctive relief and the measures of damages in intellectual property litigation are complex and often subjective and uncertain. In addition, such litigation may subject us to counterclaims or other retaliatory actions that could increase its costs, complexity, uncertainty and disruption to the business. Thus, the existence of this type of litigation, or any adverse determinations related to such litigation, could subject us to significant liabilities and costs. Any one of these factors could adversely affect our sales, gross margin, overall results of operations, cash flow or financial position.

In addition, the legal systems of many foreign countries do not protect or honor intellectual property rights to the same extent as the legal system of the United States. For example, in China, the legal system in general, and the intellectual property regime in particular, are still in the development stage. It may be very difficult, time-consuming and costly for us to attempt to enforce our intellectual property rights, and those of H3C, in these jurisdictions.

We may not be able to defend ourselves successfully against claims that we are infringing the intellectual property rights of others.

Many of our competitors, such as telecommunications, networking, and computer equipment manufacturers, have large intellectual property portfolios, including patents that may cover technologies that are relevant to our business. In addition, many smaller companies, universities, and individual inventors have obtained or applied for patents in areas of technology that may relate to our business. The industry continues to be aggressive in assertion, licensing, and litigation of patents and other intellectual property rights.

In the course of our business, we receive claims of infringement or otherwise become aware of potentially relevant patents or other intellectual property rights held by other parties. We evaluate the validity and applicability of these intellectual property rights, and determine in each case whether to negotiate licenses or cross-licenses to incorporate or use the proprietary technologies, protocols, or specifications in our products, and whether we have rights of indemnification against our suppliers, strategic partners or licensors. If we are unable to obtain and maintain licenses on favorable terms for intellectual property rights required for the manufacture, sale, and use of our products, particularly those that must comply with industry standard protocols and specifications to be commercially viable, our financial position or results of operations could be adversely affected. In addition, if we are alleged to infringe the intellectual property rights of others, we could be required to seek licenses from others or be prevented from manufacturing or selling our products, which could cause disruptions to our operations or the markets in which we compete. Finally, even if we have indemnification rights in respect of such allegations of infringement from our suppliers, strategic partners or licensors, we may not be able to recover our losses under those indemnity rights.

OSN, our new open source strategy, subjects us to additional intellectual property risks, such as less control over development of certain technology that forms a part of this strategy and a higher likelihood of litigation.

We recently announced Open Services Networking, or OSN, a new networking strategy that uses open source software, or OSS, licenses. The underlying source code for OSS is generally made available to the general public with either relaxed or no intellectual property restrictions. This allows users to create user-generated software content through either incremental individual effort, or collaboration. The use of OSS means that for such software we do not exercise control over many aspects of the development of the open source technology. For example, the vast majority of programmers developing OSS used by us are neither our employees nor contractors. Therefore, we cannot predict whether further developments and enhancements to OSS selected by us would be available. Furthermore, rival OSS applications often compete for market share. Should our choice of application fail to compete favorably, its OSS development may wane or stop. In addition, OSS has few technological barriers to entry by new competitors and it may be relatively easy for new competitors, who have greater resources than us, to enter our markets and compete with us. Also, because OSS is often compiled from multiple components developed by numerous independent parties and usually comes “as is” and without indemnification, OSS is more vulnerable to third party intellectual property infringement claims. Finally, some of the more prominent OSS licenses, such as the GNU General Public License, are the subject of litigation. It is possible that a court could hold such licenses to be unenforceable or someone could assert a claim for proprietary rights in a program developed and distributed under them. Any ruling by a court that these licenses are not enforceable or that open source components of our product offerings may not be liberally copied, modified or distributed may have the effect of preventing us from selling or developing all or a portion of our products. If any of the foregoing occurred, it could cause a material adverse impact on our business.

Risks Related to the Trading Market

Fluctuations in our operating results and other factors may contribute to volatility in the market price of our stock.

Historically, our stock price has experienced volatility. We expect that our stock price may continue to experience volatility in the future due to a variety of potential factors such as:

- fluctuations in our quarterly results of operations and cash flow;
- changes in our cash and equivalents and short term investment balances;
- variations between our actual financial results and published analysts’ expectations; and
- announcements by our competitors.

In addition, over the past several years, the stock market has experienced significant price and volume fluctuations that have affected the stock prices of many technology companies. These factors, as well as general economic and political conditions or investors’ concerns regarding the credibility of corporate financial statements and the accounting profession, may have a material adverse affect on the market price of our stock in the future.

Risks Related to Anti-takeover Mechanisms

We have various mechanisms in place to discourage takeover attempts, which may reduce or eliminate our stockholders' ability to sell their shares for a premium in a change of control transaction.

Various provisions of our certificate of incorporation and bylaws and of Delaware corporate law may discourage, delay or prevent a change in control or takeover attempt of our company by a third party that is opposed by our management and board of directors. Public stockholders who might desire to participate in such a transaction may not have the opportunity to do so. These anti-takeover provisions could substantially impede the ability of public stockholders to benefit from a change of control or change in our management and board of directors. These provisions include:

- no cumulative voting for directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- control by our board of directors of the size of our board of directors and our classified board of directors;
- prohibition on the ability of stockholders to call special meetings of stockholders;
- the ability of our board of directors to alter our bylaws without stockholder approval;
- prohibition on the ability of stockholders to take actions by written consent;
- advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted upon by our stockholders at stockholder meetings;
- certain amendments to our certificate of incorporation and bylaws require the approval of holders of at least 66 ⅔ percent of the voting power of all outstanding stock; and
- the ability of our board of directors to issue, without stockholder approval, preferred stock with rights that are senior to those of our common stock.

In addition, our board of directors has adopted a stockholder rights plan, the provisions of which could make it more difficult for a potential acquirer of 3Com to consummate an acquisition transaction. Also, Section 203 of the Delaware General Corporation Law may prohibit large stockholders, in particular those owning 15 percent or more of our outstanding voting stock, from merging or consolidating with us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease properties in the United States and a number of foreign countries. For information regarding property, plant and equipment by geographic region for each of the last two fiscal years, see Note 20 to our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

The following table summarizes our significant leased real estate properties as of June 1, 2007 (all facilities are for our SCN segment except where indicated otherwise):

<u>Location</u>	<u>Sq. Ft.</u>	<u>Owned/Leased</u>	<u>Primary Use</u>
United States—Boston Area	201,000	Leased	Corporate headquarters, office, research and development, and customer service.
United States—Austin Area	70,000	Leased	TippingPoint's main office, research and development, and customer service.
United States—Chicago Area	43,000	Leased	Office, research and development, and customer service.
Europe—U.K.	39,000	Leased	Office, research and development, and customer service.
China—Hangzhou	1,682,000	Leased	Office, research and development, manufacturing, sales, and training. Used by our H3C segment. Lease expires January 2009.
China—Beijing	481,000	Leased	Research and development, training, sales and customer service. Used by our H3C segment.

As part of our initiatives to maximize our efficiency, we are consolidating our operations wherever feasible and are actively engaged in efforts to dispose of excess facilities. As of June 1, 2007, we lease and sublease to third-party tenants approximately 49,000 square feet in various other facilities throughout North America and Europe. The facilities under sublease are leased facilities agreements that expire at various times between 2008 and 2009.

We believe that our facilities are adequate for our present needs in all material respects.

ITEM 3. LEGAL PROCEEDINGS

The material set forth in Note 22 to the Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders in the fourth quarter of the fiscal year covered by this Annual Report on Form 10-K.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Global Select Market under the symbol COMS and has been quoted on NASDAQ since our initial public offering on March 21, 1984. The following table sets forth the high and low sale prices as reported on NASDAQ during the last two fiscal years. As of July 27, 2007, we had approximately 4,642 stockholders of record. We have not paid, and do not anticipate that we will pay, cash dividends on our common stock.

<u>Fiscal 2007</u>	<u>High</u>	<u>Low</u>	<u>Fiscal 2006</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 5.31	\$ 3.95	First Quarter	\$ 4.00	\$ 3.21
Second Quarter	5.24	3.95	Second Quarter	4.30	3.37
Third Quarter	4.24	3.73	Third Quarter	5.27	3.47
Fourth Quarter	4.79	3.60	Fourth Quarter	5.70	4.25

The following table summarizes repurchases of our stock, including shares returned to satisfy tax withholding obligations, in the quarter ended June 1, 2007:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
March 3, 2007 through March 30, 2007	396,751	(2) \$ 3.89	-	\$ 100,000,000
March 31, 2007 through April 27, 2007	13,634	(2) 3.94	-	-
April 28, 2007 through June 1, 2007	12,082	(2) 4.17	-	-
Total	422,467	\$ 3.90	-	\$ -

(1) On March 23, 2005, our Board of Directors had approved a stock repurchase program providing for expenditures of up to \$100.0 million through March 31, 2007, provided that all repurchases are pre-approved by the Audit and Finance Committee of the Board of Directors. We did not repurchase shares of our common stock pursuant to this authorization in the year ended May 31, 2007. The program has now expired.

(2) Represents shares surrendered to us to satisfy tax withholding obligations that arose upon the vesting of restricted stock awards.

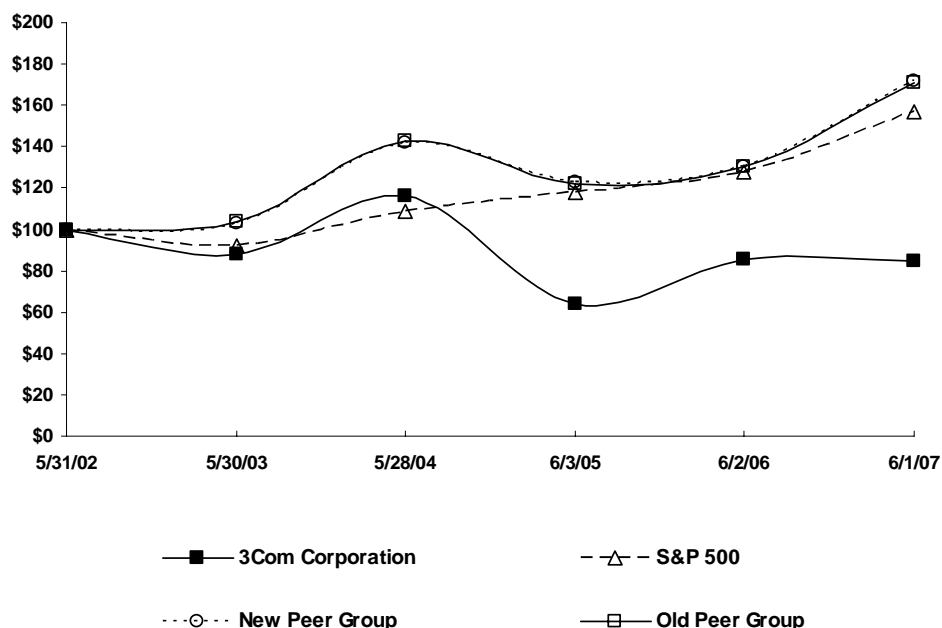
COMPARISON OF STOCKHOLDER RETURN

Set forth on the next page is a line graph comparing the cumulative total return of our common stock with the cumulative total return of the Standard & Poor's 500 Stock Index, our New Peer Group⁽¹⁾ and our Old Peer Group⁽¹⁾ for the period commencing on May 31, 2002 and ending on June 1, 2007 (fiscal year end)⁽²⁾⁽³⁾. We historically have constructed our peer group based on comparable market offerings, revenue composition and size. In re-evaluating our peer group this year, we removed one peer that is no longer publicly-traded. We also added one new peer; in light of the evolving nature of our business, we believe this addition to the peer group provides a more meaningful comparison in terms of competition in one of our important product offerings and other relevant factors. This information shall not be deemed to be "filed" with the Securities and Exchange Commission and shall not be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, unless we specifically incorporate it by reference.

- (1) Our New Peer Group consists of Avaya, Inc., Cisco Systems, Inc., Extreme Networks, Inc., Foundry Networks, Inc., McAfee, Inc. and Netgear Inc. Our Old Peer Group consists of Avaya, Inc., Cisco Systems, Inc., Extreme Networks, Inc., Foundry Networks, Inc. and Netgear Inc. Internet Security Systems Inc. was acquired in 2006 and has been removed from the Old Peer Group.
- (2) Assumes that \$100.00 was invested on May 31, 2002 in our common stock and each index, and that all dividends were reinvested. No cash dividends have been declared on our common stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.
- (3) 3Com uses a 52-53 week fiscal year ending on the Friday nearest to May 31.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among 3Com Corporation, The S&P 500 Index,
A New Peer Group And An Old Peer Group



* \$100 invested on 5/31/02 in stock or index-including reinvestment of dividends.
Index calculated on month-end basis.

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www.researchdatagroup.com/S&P.htm

DATA POINTS FOR PERFORMANCE GRAPH

	5/31/02	5/30/03	5/28/04	6/3/05	6/2/06	6/1/07
3Com Corporation	100.00	88.31	116.37	63.67	85.61	84.35
S&P 500	100.00	91.94	108.79	117.75	127.92	157.08
New Peer Group	100.00	103.16	141.66	123.05	130.39	172.01
Old Peer Group	100.00	104.12	142.98	122.20	130.38	171.23

ITEM 6. SELECTED FINANCIAL DATA

The data set forth below should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. Our fiscal year ends on the Friday closest to May 31. Fiscal 2007 consists of the 52 weeks ended June 1, 2007. Fiscal year 2006 consists of the 52 weeks ended June 3, 2006. Fiscal 2005 consisted of 53 weeks and ended on June 2, 2005. Fiscal years 2004 and 2003 each consisted of 52 weeks and fiscal 2004 ended on June 3, 2004, fiscal 2003 ended on May 30, 2003. For convenience, the consolidated financial statements have been shown as ending on the last day of the calendar month. The following balance sheet data and statements of operations data for each of the five years ended May 31, 2007 were derived from our audited consolidated financial statements. Consolidated balance sheets as of May 31, 2006 and 2005 and the related consolidated statements of operations and cash flows for each of the three years in the period ended May 31, 2007 and notes thereto appear elsewhere in this Annual Report on Form 10-K.

On May 23, 2003, we completed the sale of our CommWorks division. Accordingly, the information set forth in the table below is presented to reflect the CommWorks division as discontinued operations. On January 27, 2006 we acquired an additional 2 percent ownership in our H3C joint venture and became the majority shareholder (we have since acquired full ownership of H3C). Accordingly, the information set forth in the tables below is presented to reflect the consolidated results as of that date.

	<u>Fiscal Year May 31,</u>				
(In thousands, except per share amounts)	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Sales	\$1,267,481	\$794,807	\$651,244	\$698,884	\$932,866
Net (loss)	(88,589)	(100,675)	(195,686)	(349,263)	(283,754)
(Loss) from continuing operations before cumulative effect of accounting change	(88,589)	(100,675)	(195,686)	(346,863)	(230,093)
(Loss) per share from continuing operations before cumulative effect of accounting change					
Basic and diluted	\$(0.22)	\$(0.26)	\$(0.51)	\$(0.91)	\$(0.64)

The provisions of Statement of Financial Accounting Standard (SFAS) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” are applicable to disposals occurring after our adoption of SFAS No. 144, effective June 1, 2002. In accordance with such provisions, the table below does not reflect the CommWorks division as a discontinued operation. Accordingly, the information set forth in the table below is presented to reflect the consolidated balances as of that date.

	<u>Balances as of May 31,</u>				
(In thousands)	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash, equivalents and short-term investments	\$ 559,217	\$ 864,347	\$ 844,104	\$1,383,356	\$1,484,588
Total assets	2,151,092	1,861,361	1,592,967	1,820,818	2,062,360
Working capital, (1)	257,614	778,064	667,949	1,213,108	1,314,012
Deferred taxes and long-term obligations	23,725	13,788	8,484	15,135	4,595
Long term debt	336,000	-	-	-	-
Retained deficit	(1,176,406)	(1,087,512)	(967,952)	(755,244)	(405,981)
Stockholders’ equity	1,151,299	1,202,362	1,274,923	1,499,114	1,718,597

(1) Working capital is defined as total current assets less total current liabilities.

On November 15, 2006, 3Com initiated a bid process under a shareholders' agreement for its H3C joint venture by submitting a bid to buy Huawei's entire ownership interest in H3C. On November 27, 2006, Huawei accepted 3Com's bid to buy its remaining 49 percent of H3C for \$882 million. The transaction was approved by the PRC government.

On March 29, 2007, 3Com Technologies completed its purchase of the remaining 49 percent of H3C it did not already own at which time the purchase price was paid in full. Huawei-3Com Co., Limited is now known as H3C Technologies Co., Limited, or H3C. During fiscal 2006 we exercised our right to purchase an additional two percent ownership interest in H3C and entered into an agreement with Huawei for an aggregate purchase price of \$28.0 million. We were granted regulatory approval by the Chinese government and subsequently completed this transaction on January 27, 2006 (date of acquisition). We consolidated H3C's financial statements from the date of acquisition. The acquisition is being accounted for as a purchase, and accordingly, the assets purchased and liabilities assumed are included in the consolidated balance sheet as of May 31, 2006 using H3C's March 31, 2006 balance sheet data. Because H3C follows a calendar year end, we report its results on a two-month lag. The operating results of H3C are included in the consolidated financial statements from the date of acquisition, resulting in the latter two months of H3C's three months ended March 31, 2006 being included in our year ended May 31, 2006 statement of operations.

Our acquisition of TippingPoint on January 31, 2005 was accounted for as a purchase, and accordingly, the assets purchased and liabilities assumed are included in the consolidated balance sheet as of May 31, 2005. The operating results of TippingPoint are included in the consolidated financial statements since the date of acquisition. Accordingly, fiscal 2006 contains a full year of TippingPoint's results compared to five months of results in fiscal 2005.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Item 8 of Part II of this Annual Report on Form 10-K.

BUSINESS OVERVIEW

We are incorporated in Delaware. A pioneer in the computer networking industry, we provide secure, converged networking solutions, as well as maintenance and support services, for enterprises and public sector organizations of all sizes. Headquartered in Marlborough, Massachusetts, we have worldwide operations, including sales, marketing, research and development, and customer service and support capabilities.

Our products and services can generally be classified in the following categories:

- Networking;
- Security;
- Voice;
- Services; and
- Legacy Connectivity Products.

We have undergone significant changes in recent years, including:

- forming the Huawei-3Com joint venture or H3C;
- acquisition of majority ownership of H3C and subsequently purchasing Huawei's remaining 49 percent ownership interest in H3C;
- financing a portion of the purchase price for the acquisition of Huawei's 49 percent ownership in H3C by entering into a \$430 million senior secured credit agreement;
- restructuring activities which included outsourcing of information technology, all manufacturing activity in our SCN segment, and significant headcount reductions in other functions, and selling excess facilities;
- significant changes to our executive leadership;
- acquiring TippingPoint Technologies, Inc.; and
- realigning our SCN sales and marketing channels and expenditures.

We believe an overview of these significant recent events is helpful to gain a clearer understanding of our operating results.

Significant Events

H3C

On November 17, 2003, we formed our joint venture, Huawei-3Com Co., Limited (now known as H3C Technologies Co., Limited) which is domiciled in Hong Kong and has its principal operating center in Hangzhou, China. We contributed \$160.0 million in cash, assets related to our operations in China and Japan, and licenses to intellectual property related to those operations in exchange for a 49 percent ownership interest of the joint venture. During fiscal 2006, we exercised our right to purchase an additional two percent ownership interest in H3C and entered into an agreement with Huawei, our joint venture partner, for an aggregate purchase price of \$28.0 million in cash. We were granted regulatory approval by the PRC, and subsequently completed this transaction on January 27, 2006 (date of acquisition). Consequently, we owned a majority interest in the joint venture and determined that the criteria of Emerging Issues Task Force No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights" was met. Accordingly, we consolidated H3C's financial statements from the date of the acquisition of the additional two percent ownership interest.

Under the H3C shareholders' agreement, both partners had the right to initiate a bid process to purchase all of the other partner's ownership interest at any time after the third anniversary of H3C's formation. We initiated the bidding process on November 15, 2006 to buy Huawei Technologies' 49 percent stake in H3C, and our bid of \$882 million was accepted by Huawei on November 27, 2006. The transaction closed on March 29, 2007.

We financed a portion of the purchase price for the acquisition of Huawei's 49 percent ownership in H3C through a \$430 million senior secured credit agreement with several lenders. Details of the borrowing are more fully discussed in the "Liquidity and Capital Resources" section below.

New Products

We have introduced multiple new products targeted at the small, medium and large enterprise markets, including modular switches and routers, as well as voice over IP, or VoIP, security, wireless and unified switching solutions. We also announced our Open Services Networking, or OSN, strategy.

Business Environment and Future Trends

Networking industry analysts and participants differ widely in their assessments concerning the prospects for near-term industry growth. Industry factors and trends also present significant challenges in the medium-term with respect to our goals for sales growth, gross margin improvement and profitability. Such factors and trends include:

- Intense competition in the market for higher end, enterprise core routing and switching products;
- Aggressive product pricing by competitors targeted at gaining share in market segments where we have had a strong position historically, such as the small to medium-sized enterprise market; and
- The advanced nature and ready availability of merchant silicon, which allows low-end competitors to deliver competitive products and makes it increasingly difficult for us to differentiate our products.

We believe that long-term success in this environment requires us to be a global technology leader. Now that we have closed our H3C transaction, we intend to leverage our global footprint to more effectively sell our products into expanding markets and to utilize cost-effective technology development strategies. We also believe that our long-term success is dependent on investing in the development of key technologies. Accordingly, our key focus of fiscal 2008 will continue to be to manage our H3C operating segment for expected continued long-term growth, to make targeted investments in the integration of sales efforts and back office functions between H3C and SCN, as well as to manage our SCN operating segment towards our goal of a return to profitability while maintaining investment levels in key technologies. In fiscal 2008, we also intend to continue investing in the H3C segment. This is expected to involve continued investment in research and development, increased focus on growth both inside and outside of China, growing the dedicated H3C infrastructure in concert with a global 3Com consolidated plan, and managing certain key aspects of employee retention as discussed below. In addition we may make certain targeted investments in the integration of the H3C and SCN operating segments designed to drive more profitable near and long-term growth of the business.

We continue to face significant challenges in the SCN segment with respect to sales growth, gross margin and profitability. We believe future sales growth for the SCN segment depends to a substantial degree on increased sales of our networking products, and we believe our best growth opportunity requires us to expand our product lines targeting small and medium businesses, or SMB, customers as well as selected medium-enterprise customers. These product enhancements are expected to be based in part upon leveraging open source and open architecture platforms to differentiate our networking offerings. These are also expected to be complemented by expanded security offerings such as the development of attack, access and application controls.

Finally, we intend to look to improve our channels to market on these products, especially through relationships with system integrators and service providers. In order to achieve our sales goals in the SCN segment for fiscal 2008, it is important that we continue to enhance the features and capabilities of our products in a timely manner in order to expand our addressable market opportunities, distribution channels and market competitiveness. Also, we expect a very competitive pricing environment for the foreseeable future; this will likely continue to exert downward pressure on our SCN sales, gross margin and profitability.

Another key priority will be the integration of H3C. Our integration focus will initially include:

- Launching the second phase of our integration of our Asia Pacific Region sales models for data networking sales, especially in the medium-enterprise market; and
- Integrating certain information technology (IT), supply chain and customer support functions to enable seamless go-to-market models and achieve synergies between our operating segments.

Other important factors in the continued success of our H3C business are expected to include: retaining key management and employees, continuing sales through Huawei as an OEM partner of H3C in the near to medium term, and continuing the year-over-year growth in H3C. H3C's China sales growth has been historically strong, however we expect this growth to be closer to market rates in fiscal 2008. We intend to retain employees through a long-term retention and incentive structure at H3C.

We also currently have the intention to execute an initial public offering (IPO) of common stock of our wholly owned subsidiary TippingPoint, our business that develops, markets and sells security products and services, such as its intrusion prevention system appliances and its security protection updates through its Digital Vaccine service. Any sale of TippingPoint stock would be registered under the Securities Act of 1933, and such shares of common stock would only be offered and sold by means of a prospectus. This Annual Report does not constitute an offer to sell or the solicitation of any offer to buy any securities of TippingPoint, and there will not be any sale of any such securities in any state in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such state. We currently expect to file a registration statement related to the IPO by the end of the calendar year. We currently intend to remain a majority TippingPoint shareholder following the IPO and plan to reduce our ownership over time in subsequent transactions.

BASIS OF PRESENTATION

Our fiscal year ends on the Friday closest to May 31. Fiscal 2007 consisted of 52 weeks and ended on June 1, 2007. Fiscal year 2006, consisted of 52 weeks ended on June 2, 2006, and fiscal year 2005 consisted of 53 weeks and ended on June 3, 2005. For convenience, the consolidated financial statements have been shown as ending on the last day of the calendar month.

During fiscal 2006 we exercised our right to purchase an additional two percent ownership interest in H3C and entered into an agreement with Huawei for an aggregate purchase price of \$28.0 million. We were granted regulatory approval by the Chinese government and subsequently completed this transaction on January 27, 2006 (date of acquisition). Since that time, we have owned a majority interest in the joint venture and have determined that the criteria of Emerging Issues Task Force No. 96-16, “Investor’s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights” have been met. Accordingly, we consolidated H3C’s financial statements from the date of acquisition, and, until we became a 100 percent owner of H3C as described below, recorded Huawei’s proportionate share of the income of H3C as a minority interest in the income of consolidated joint venture.

Both joint venture partners had the right to initiate a bid process to purchase all of the other partner’s ownership interest at any time after the third anniversary of H3C’s formation. On November 15, 2006, 3Com initiated a bid process under the shareholders’ agreement by submitting a bid to buy Huawei’s entire ownership interest in H3C. On November 27, 2006, Huawei accepted 3Com’s last bid to buy Huawei’s remaining 49 percent share for \$882 million. The transaction was approved by the PRC government and on March 29, 2007, 3Com Technologies completed its purchase at which time the purchase price was paid in full. Huawei-3Com Co., Limited is now known as H3C Technologies Co., Limited, or H3C.

On March 22, 2007, H3C Holdings Limited (the “Borrower”), an indirect wholly-owned subsidiary of 3Com Corporation, entered into a Credit and Guaranty Agreement dated as of March 22, 2007 among the Borrower, 3Com Corporation, 3Com Holdings Limited and 3Com Technologies, as Holdco Guarantors, various Lenders, Goldman Sachs Credit Partners L.P., as Mandated Lead Arranger, Bookrunner, Administrative Agent and Syndication Agent (“GSCP”), and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent (the “Existing Credit Agreement”). Under the Existing Credit Agreement, on March 28, 2007 the Borrower borrowed \$430 million (the “Existing Loan”) to finance a portion of the purchase price for the March 29, 2007 acquisition (the “Acquisition”) of Huawei’s 49 percent stake in H3C.

On May 25, 2007, the parties amended and restated the Existing Credit Agreement in order to, among other things, convert the Existing Loan into two tranches with different principal amortization schedules and different interest rates (the “A&R Loans”). The other provisions of the Existing Credit Agreement, including covenants, collateral, temporary guarantees and other provisions, remain largely unchanged. The closing of the A&R Loans occurred on May 31, 2007.

Following the H3C 2 percent acquisition we determined that our chief decision making officer receives reports, manages, and operates our business as two separate units, the SCN business and the H3C business. As a result we currently report two operating segments, SCN and H3C. See footnote Note 19 of the Consolidated Financial Statements for additional information on our segments.

Prior to the additional 2 percent acquisition we accounted for our investment in H3C by the equity method. Under this method, we recorded our proportionate share of H3C’s net income or loss based on the most recently available quarterly financial statements of H3C under the caption “Equity interest in income (loss) of unconsolidated joint venture” in our consolidated financial statements.

Our acquisition of TippingPoint on January 31, 2005, was accounted for as a purchase, and accordingly, the assets purchased and liabilities assumed are included in the consolidated balance sheet as of May 31, 2005. The operating results of TippingPoint are included in the consolidated financial statements since the date of acquisition. Accordingly, fiscal 2006 contains a full year of TippingPoint’s results compared to five months of results in fiscal 2005.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are outlined in Note 2 to the Consolidated Financial Statements, which appear in Item 8 of Part II of this Annual Report on Form 10-K. Some of those accounting policies require us to make estimates and assumptions that affect the amounts reported by us. The following items require the most significant judgment and often involve complex estimation:

Revenue recognition: We recognize a sale when the product has been delivered and risk of loss has passed to the customer, collection of the resulting receivable is reasonably assured, persuasive evidence of an arrangement exists, and the fee is fixed or determinable. The assessment of whether the fee is fixed or determinable considers whether a significant portion of the fee is due after our normal payment terms. If we determine that the fee is not fixed or determinable, we recognize revenue at the time the fee becomes due, provided that all other revenue recognition criteria have been met. Also, sales arrangements may contain customer-specific acceptance requirements for both products and services. In such cases, revenue is deferred at the time of delivery of the product or service and is recognized upon receipt of customer acceptance.

For arrangements that involve multiple elements, such as sales of products that include maintenance or installation services, revenue is allocated to each respective element based on its relative fair value and recognized when revenue recognition criteria for each element have been met. We use the residual method to recognize revenue when an arrangement includes one or more elements to be delivered at a future date and vendor-specific objective evidence of the fair value of all the undelivered elements exists. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If evidence of fair value of one or more undelivered elements does not exist, revenue is deferred and recognized when delivery of those elements occurs or when fair value can be established.

We assess collectibility based on a number of factors, including general economic and market conditions, past transaction history with the customer, and the creditworthiness of the customer. If we determine that collection of the fee is not reasonably assured, then we defer the fee and recognize revenue upon receipt of payment. We do not typically request collateral from our customers. In the H3C segment, certain customers pay accounts receivable with bills receivable from Chinese banks with maturities less than six months. These are also referred to as “bankers’ acceptances”.

A significant portion of our sales is made to distributors and value added resellers (VARs). Revenue is generally recognized when title and risk of loss pass to the customer, assuming all other revenue recognition criteria have been met. Sales to these customers are recorded net of appropriate allowances, including estimates for product returns, price protection, and excess channel inventory levels. We maintain reserves for potential allowances and adjustments; if the actual level of returns and adjustments differ from the assumptions we use to develop those reserves, additional allowances and charges might be required.

For sales of products that contain software that is marketed separately, we apply the provisions of AICPA Statement of Position 97-2, “Software Revenue Recognition,” as amended. Sales of services, including professional services, system integration, project management, and training, are recognized upon delivery of performance. Other service revenue, such as that related to maintenance and support contracts, is recognized ratably over the contract term, provided that all other revenue recognition criteria have been met. Royalty revenue is generally recognized when we receive payment.

Allowance for doubtful accounts: We monitor payments from our customers on an on-going basis and maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. When we evaluate the adequacy of our allowances for doubtful accounts, we take into account various factors including our accounts receivable aging, customer creditworthiness, historical bad debts, and geographic and political risk. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Inventories: Inventory is stated at the lower of standard cost, which approximates cost, or net realizable value. We perform detailed reviews related to the net realizable value of inventory on an ongoing basis, for both inventory on hand and inventory that we are committed to purchase, giving consideration to deterioration, obsolescence, and other factors. If actual market conditions differ from those projected by management and our estimates prove to be inaccurate, additional write-downs or adjustments to cost of sales might be required; alternatively, we might realize benefits through cost of sales for sale or disposition of inventory that had been previously written off.

Goodwill and intangible assets: Carrying values of goodwill and other intangible assets with indefinite lives are reviewed for possible impairment in accordance with the applicable accounting literature. We test our goodwill for impairment annually during our third fiscal quarter and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. We review the value of our intangible assets in accordance with the applicable accounting literature for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. As of May 31, 2007, we had \$766.4 million of goodwill and \$371.3 million of net intangible assets remaining on our balance sheet, which we currently believe to be realizable based on the estimated fair value of these assets. We estimate fair value of goodwill using third-party valuation reports and the fair value of our intangible assets using estimated future cash flows of the associated products and technology. It is possible that the estimates and assumptions used in assessing the carrying value of these assets, such as future sales and expense levels, may need to be re-evaluated in the case of continued market deterioration, which could result in further impairment of these assets.

Equity securities and other investments: We account for non-marketable equity securities and other investments at historical cost or, if we have the ability to exert significant influence over the investee, by the equity method. Investments accounted for by the equity method include investments in limited partnership venture capital funds and, prior to the acquisition of majority ownership on January 27, 2006, the investment in H3C. In accounting for these investments by the equity method, we record our proportionate share of the fund's net income or loss, or H3C's net income or loss, based on the most recently available quarterly financial statements. Since H3C has adopted a calendar year basis of reporting, we reported our equity in H3C's net income or loss based on H3C's most recent quarterly financial statements, two months in arrears. For the year ended May 31, 2006 we accounted for H3C under the equity method for ten months of the year.

We review all of our investments for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investment may not be fully recoverable. The impairment review requires significant judgment to identify events or circumstances that would likely have a significant adverse effect on the fair value of the investment. Investments identified as having an indication of impairment are subject to further analysis to determine if the impairment is other than temporary; in the event that the investment impairment is other than temporary, we would write the investment down to its impaired value.

Stock-based Compensation. In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), which requires all stock-based compensation to employees (as defined in SFAS No. 123(R)), including grants of employee stock options, restricted stock awards, and restricted stock units, to be recognized in the financial statements based on their fair values.

Estimates of the fair value of equity awards in future periods will be affected by the market price of our common stock, as well as the actual results of certain assumptions used to value the equity awards. These assumptions include, but are not limited to, the expected volatility of the common stock, the expected term of options granted, and the risk free interest rate.

The fair value of stock options and employee stock purchase plan shares is determined by using the Black-Scholes option pricing model and applying the single-option approach to the stock option valuation. The options generally have vesting on an annual basis over a vesting period of four years. We estimate the expected option term by analyzing the historical term period from grant to exercise and also considers the expected term for those options that are outstanding. The expected term of employee stock purchase plan shares is the average of the remaining purchase periods under each offering period. For equity awards granted after June 1, 2006, the volatility of the common stock is estimated using the historical volatility. The risk-free interest rate used in the Black-Scholes option pricing model is determined by looking at historical U.S. Treasury zero-coupon bond issues with terms corresponding to the expected terms of the equity awards. In addition, an expected dividend yield of zero is used in the option valuation model, because we do not expect to pay any cash dividends in the foreseeable future. Lastly, in accordance with SFAS No. 123(R), we are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. In order to determine an estimated pre-vesting option forfeiture rate, we used historical forfeiture data, which yields a forfeiture rate of 27 percent. We believe this historical forfeiture rate to be reflective of our anticipated rate on a go-forward basis. This estimated forfeiture rate has been applied to all unvested options and restricted stock outstanding as of June 1, 2006 and to all options and restricted stock granted since June 1, 2006. Therefore, stock-based compensation expense is recorded only for those options and restricted stock that are expected to vest.

Restructuring charges: Over the last several years we have undertaken significant restructuring initiatives. These initiatives have required us to record restructuring charges related to severance and outplacement costs, lease cancellations, accelerated depreciation and write-downs of held for sale properties, write-downs of other long-term assets, and other restructuring costs.

Given the significance of our restructuring activities and the time required for execution and completion of such activities, the process of estimating restructuring charges is complex and involves periodic reassessments of estimates made at the time the original decisions were made. The accounting for restructuring costs and asset impairments requires us to record charges when we have taken actions or have the appropriate approval for taking action, and when a liability is incurred. Our policies require us to periodically evaluate the adequacy of the remaining liabilities under our restructuring initiatives. As we continue to evaluate the business, we might be required to record additional charges for new restructuring activities as well as changes in estimates to amounts previously recorded.

Product Warranty: A limited warranty is provided on most of our products for periods ranging from 90 days to limited lifetime, depending upon the product, and allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires us to make estimates of product return rates and expected costs to repair or replace the products under warranty. If actual return rates and/or repair and replacement costs differ significantly from our estimates, adjustments to recognize additional cost of sales might be required.

Income taxes: We are subject to income tax in a number of jurisdictions. A certain degree of estimation is required in recording the assets and liabilities related to income taxes, and it is reasonably possible that such assets may not be recovered and that such liabilities may not be paid or that payments in excess of amounts initially estimated and accrued may be required. We assess the likelihood that our deferred tax assets will be recovered from our future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance. We consider historical taxable income, estimates of future taxable income, and ongoing prudent and feasible tax planning strategies in assessing the amount of the valuation allowance. Based on various factors, including our recent losses, retained deficit, operating performance in fiscal 2007, and estimates of future profitability, we have concluded that future taxable income will, more likely than not, be insufficient to recover our U.S. net deferred tax assets as of May 31, 2007. Accordingly, we have established an appropriate valuation allowance to offset such deferred tax assets. In addition to valuation allowances against deferred tax assets, we maintain reserves for potential tax contingencies arising in jurisdictions in which we do or have done business. Many of these contingencies arise from periods when we were a substantially larger company. Such reserves are based on our assessment of the likelihood of an unfavorable outcome and the expected potential loss from such contingency, and are monitored by management. These reserves are maintained until such time as the matter is settled or the statutory period for adjustment has passed. Adjustments could be required in the future if we determine that the amount to be realized is greater or less than the valuation allowance we have recorded or that our reserves for tax contingencies are inadequate. We have U.S. federal loss carryforwards of approximately \$2.5 billion as of May 31, 2007 expiring between fiscal years 2008 and 2027, substantially all of which expire between fiscal years 2021 and 2027.

RESULTS OF OPERATIONS
YEARS ENDED MAY 31, 2007, 2006, AND 2005

As a result of the acquisition of H3C, we currently report two operating segments, SCN and H3C, for the years ended May 31, 2007 and 2006. For the year ended May 31, 2005 we managed and reported our operations as a single, integrated business.

The following table sets forth, for the fiscal years indicated, the percentage of total sales represented by the line items reflected in our consolidated statements of operations.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Sales	100.0%	100.0%	100.0%
Cost of sales	<u>54.4</u>	<u>58.7</u>	<u>64.0</u>
Gross profit margin	<u>45.6</u>	<u>41.3</u>	<u>36.0</u>
Operating expenses:			
Sales and marketing	25.2	34.6	37.4
Research and development	17.0	12.8	14.5
General and administrative	7.4	9.1	9.2
Amortization and write-down of intangible assets	3.4	2.6	1.4
In-process research and development	2.8	0.1	1.0
Restructuring charges	<u>0.3</u>	<u>1.8</u>	<u>3.7</u>
Total operating expenses	<u>56.1</u>	<u>61.0</u>	<u>67.2</u>
Operating loss	(10.5)	(19.7)	(31.2)
Gain on investments, net	0.1	0.5	0.2
Interest income, net	3.2	3.6	3.3
Other income (expense), net	<u>3.1</u>	<u>1.0</u>	<u>(0.7)</u>
Loss from operations before income taxes, equity interest in loss of unconsolidated joint venture and minority interest in income of consolidated joint venture	(4.1)	(14.6)	(28.4)
Income tax (provision) benefit	(0.8)	1.9	(0.5)
Equity interest in income (loss) of unconsolidated joint venture	-	1.4	(1.1)
Minority interest in income of consolidated joint venture	<u>(2.1)</u>	<u>(1.4)</u>	<u>-</u>
Net loss	<u>(7.0)%</u>	<u>(12.7)%</u>	<u>(30.0)%</u>

Comparison of fiscal 2007 and 2006

During the year ended June 1, 2007 we continued to experience strong results in our H3C segment offset by declines in our SCN segment's sales and we continued to reduce operating expenses in our SCN business segment, offset in part by continued investment in the TippingPoint security business.

Sales

The increase in sales from the 2006 fiscal year to the 2007 fiscal year was primarily due to the inclusion of full year H3C sales in the current period, as well as increased sales of TippingPoint security products. The increase was partially offset by decreases in networking revenues in our SCN segment.

The following table shows our sales from products categories in absolute dollars and as a percentage of total sales for fiscal 2007 and fiscal 2006 (in millions):

	Fiscal Year			
	2007		2006	
Networking	\$ 1,028.1	81.1%	\$ 577.0	72.6%
Security	120.1	9.5	88.0	11.1
Voice	68.0	5.4	56.6	7.1
Services	35.9	2.8	33.4	4.2
Connectivity Products	15.4	1.2	39.8	5.0
Total	<u>\$ 1,267.5</u>		<u>\$ 794.8</u>	

Networking revenue includes sales of our Layer 2 and Layer 3 stackable 10/100/1000 managed switching lines, our modular switching lines, routers, wireless switching offerings and our small to medium-sized enterprise market products. Sales of our networking products in fiscal 2007 increased 78 percent from fiscal 2006. The increase in sales was primarily driven by the inclusion of full year results from our H3C segment offset in part by decreases in SCN sales.

Security revenue includes our TippingPoint™ products and services, as well as other security products, such as virtual private network, or VPN, and network access control, or NAC, offerings. Sales of our security products in fiscal 2007 increased 36 percent from fiscal 2006. The increase is primarily attributable to organic growth in sales of security products in fiscal 2007 and the inclusion of H3C's full year results of security product sales.

Voice revenue includes our VCX™ and NBX® voice-over-internet protocol, or VoIP, product lines, as well as voice gateway offerings. Sales of our VoIP telephony products in fiscal 2007 increased 20 percent from fiscal 2006. The increase was primarily driven by the inclusion of full year results from our H3C segment.

Services revenue includes professional services and maintenance contracts, excluding TippingPoint maintenance which is included in security revenue. Service revenue in fiscal 2007 increased 7 percent from fiscal 2006. The increase in sales was primarily driven by the inclusion of full year results from our H3C segment.

Connectivity Products revenue includes our legacy network interface card, personal computer card, and mini-peripheral component interconnect offerings. At the end of fiscal 2007 sales of these products are close to zero with continued revenue only expected to be from royalty arrangements.

Sales by geographic region are as follows (in millions):

	Fiscal Year			
	2007		2006	
North America	\$ 233.7	18.4 %	\$ 248.5	31.3 %
Latin and South America	70.4	5.6	72.2	9.1
Europe, Middle East, and Africa	272.8	21.5	298.5	37.5
Asia Pacific	103.5	8.2	91.4	11.5
China	587.1	46.3	84.2	10.6
Total	<u>\$ 1,267.5</u>		<u>\$ 794.8</u>	

Sales information by geography to the extent available is reported based on the customer's designated delivery point, except in the case of H3C's OEM sales which are based on the hub locations of H3C's OEM partners. China sales increased 597 percent primarily due to the inclusion of H3C results for the full year in fiscal 2007.

Gross Profit Margin

Gross profit margin improved 4.3 percent to 45.6 percent in the twelve months ended June 1, 2007 from 41.3 percent in the same period in the previous fiscal year. Significant components of the improvement in gross profit margins were as follows:

	Twelve Months Ended June 1, 2007
1) Consolidation of H3C	6.5%
2) SCN cost improvements	2.3%
3) SCN product mix and selling price reductions	(3.3%)
4) SCN volume impact	(1.2%)
Total	4.3%

- 1) The increase is due to the consolidation of H3C results in the current period. The H3C segment generally has higher gross margins.
- 2) The increase in the SCN margin was primarily the result of lower product material and delivery costs.
- 3) The decrease in the SCN margin was the result of lower average selling prices and an unfavorable shift in product mix.
- 4) The decrease in the SCN margin was the result of lower revenue on the portion of our costs that are fixed in nature.

Operating Expenses

Operating expenses in fiscal 2007 were \$711.0 million, compared to \$485.2 million in fiscal 2006, a net increase of \$225.8 million. Included in the increase in operating expenses were H3C operating expenses of \$354.0 million for the full year ended May 31, 2007 as compared to \$36.6 million for the two months consolidated in 2006. In addition, the incurrence of the change-in-control portion of H3C's EARP bonus program contributed compensation expenses of \$51.5 million in the year ended May 31, 2007, which were not incurred in the previous fiscal year. This increase was partially offset by significant cost reduction in our SCN segment as compared to the previous year. The full year inclusion of H3C was the primary contributor to increases in sales and marketing expenses of \$45.0 million, research and development expenses of \$113.8 million, general and administrative expenses of \$21.3 million, and amortization of intangibles of \$21.6 million. Purchase accounting charges related to the acquisition of the remaining 49 percent interest of H3C was the main contributor to the increase in in-process research and development of \$35.1 million. These increases were partially offset by the decrease of restructuring charges of \$10.9 million.

As a percent of sales, total operating expenses in fiscal 2007 were 56.1 percent, compared to 61.0 percent in fiscal 2006. In aggregate, sales and marketing, research and development, and general and administrative expenses were 49.6 percent of sales in fiscal 2007, compared to 56.5 percent in fiscal 2006, and increased \$180.0 million in fiscal 2007 compared to fiscal 2006. We believe that to a significant degree, these expenses are controllable and discretionary over time, but they are not directly variable with sales levels within a particular period. The most significant component of the increase of \$180.0 was the inclusion of \$292 million of H3C expenses for the entire fiscal year ended May 31, 2007 partially offset by significant cost reductions in our SCN segment.

A more detailed discussion of the factors affecting each major component of total operating expenses is provided below.

Sales and Marketing. Sales and marketing expenses in fiscal 2007 increased \$45.0 million compared to fiscal 2006. This increase was due primarily to the inclusion of H3C expenses for the entire fiscal year ended May 31, 2007. In addition, the incurrence of the change-in-control portion of H3C's EARP bonus program contributed compensation expenses of \$17.7 million in our H3C segment in the year ended May 31, 2007. The expenses were not incurred in the previous fiscal year and were partially offset by a reduction in the SCN sales and marketing expenses. The reduction of the SCN sales and marketing expenses were primarily related to the reduction of programmatic marketing expenses, and a reduction in employee related expenses due to our restructuring efforts.

Research and Development. Research and development expenses in fiscal 2007 increased \$113.8 million compared to fiscal 2006. This increase was due primarily to the inclusion of H3C expenses for the entire fiscal year ended May 31, 2007. In addition, the incurrence of the change-in-control portion of H3C's EARP bonus program contributed compensation expenses of \$27.2 million in our H3C segment in the year ended May 31, 2007. These expenses were not incurred in the previous fiscal year and were partially offset by the reduction in SCN research and development expenses. The decrease in the SCN research and development costs was related to reduced non-recurring engineering projects and employee related expenses in the non-TippingPoint related portion of our SCN segment which was slightly offset by increased investment in TippingPoint research and development.

General and Administrative. General and administrative expenses in fiscal 2007 increased \$21.3 million from fiscal 2006. This increase is primarily due to the inclusion of H3C expenses for the entire fiscal year ended May 31, 2007. In addition, the incurrence of the change-in-control portion of H3C's EARP bonus program contributed compensation expenses of \$6.6 million in our H3C segment in the year ended May 31, 2007. These expenses were not incurred in the previous fiscal year and were partially offset by a reduction in the SCN general and administrative expenses. The reduction of the SCN general and administrative expenses were primarily related to the reduced workforce-related expenses due to our restructuring initiatives and reduced IT and facilities-related expenses.

Amortization and Write-Down of Intangibles. Amortization and write-down of intangibles were \$42.5 million in fiscal 2007 and \$20.9 million in fiscal 2006, an increase of \$21.6 million. Amortization and write-down of intangibles increased due primarily to the inclusion of H3C expenses for the entire fiscal year ended May 31, 2007. The amortization expense related to the March 29, 2007 purchase of 49 percent of H3C in 2007 is through March 31, 2007 as we record H3C results on a two month lag.

In-process research and development. \$34.1 million of the total purchase price of 49 percent of the remaining minority interest in H3C has been preliminarily allocated to in-process research and development and was expensed in the fourth quarter of fiscal 2007. Projects that qualify as in-process research and development represent those that have not yet reached technological feasibility and which have no alternative future use. At the time of acquisition, H3C had multiple in-process research and development efforts under way for certain current and future product lines.

Restructuring Charges. Restructuring charges were \$3.5 million in fiscal 2007 and \$14.4 million in fiscal 2006. Restructuring charges in fiscal 2007 were composed primarily of charges for actions taken in fiscal 2007, including employee severance and outplacement costs of \$12.1 million, and facilities-related credits of \$7.5 million. Restructuring charges for fiscal 2007 were the result of reductions in workforce and continued efforts to consolidate and dispose of excess facilities.

Further actions may be taken if our business activity declines or additional cost reduction efforts are necessary.

Gain on Investments, Net

During fiscal 2007, net gains on investments were \$1.1 million, primarily reflecting gains from sales of certain equity securities. During fiscal 2006, net gains on investments were \$4.3 million, primarily reflecting gains from sales of certain equity securities.

Interest Income and Other Income (Expense), Net

Interest and other income, net, was \$79.2 million in fiscal 2007, an increase of \$41.9 million compared to \$37.3 million in fiscal 2006. Contributing to the increase was \$30.6 million of other income from H3C for an operating subsidy program by the Chinese VAT authorities in the form of a partial refund of VAT taxes collected by H3C from purchasers of software products. An increase in interest income accounted for \$12.0 million of the increase, primarily attributable to higher interest rates applicable to short-term investments and the inclusion of a full year of results of H3C. Interest income and interest expense related to H3C are included through the period ended March 31, 2007. Thus, there is only three days of interest expense recorded related to the debt incurred on March 28, 2007. In fiscal 2006 our results reflected a quarterly VAT payment that was received during the two month period of H3C's results that are in our consolidated financials. Future subsidy payments, which are funded by VAT receipts, are subject to the discretion of Chinese VAT authorities.

Income Tax (Provision) Benefit

Our income tax provision was \$10.2 million in fiscal 2007, compared to an income tax benefit of \$14.8 million in fiscal 2006. The income tax provision for fiscal 2007 was the result of providing for taxes in certain state and foreign jurisdictions. The tax benefit for fiscal 2006 was the result of a \$23.0 million benefit resulting from a tax settlement with foreign tax authorities in the second quarter of fiscal 2006, for which reserves had been provided in prior years and which have now been reversed into income upon reaching settlement. Partially offsetting the income tax benefit for fiscal 2006 was the provision of additional taxes in certain state and foreign jurisdictions.

Minority Interest of Huawei in the Income of Consolidated Huawei-3Com Joint Venture

In fiscal 2007, we recorded a charge of \$26.2 million related to the acquisition of the 49 percent interest in H3C held by Huawei prior to our purchase. In fiscal 2006, we recorded a charge of \$11.1 million representing Huawei's 49 percent interest in the net income reported by the former H3C joint venture for the two month period included in our fiscal 2006.

Comparison of fiscal 2006 and 2005

Sales

The increase in sales from the 2005 fiscal year to the 2006 fiscal year was primarily due to the inclusion of two months of H3C sales in the fiscal 2006, as well as increased sales of TippingPoint security products and the inclusion of TippingPoint's results for the full year. The increase was partially offset by decreases in networking revenues in our SCN segment.

The following table shows our sales from products categories in absolute dollars and as a percentage of total sales for fiscal 2006 and fiscal 2005 (in millions):

	Fiscal Year			
	2006		2005	
Networking	\$ 577.0	72.6%	\$ 494.5	75.9%
Security	88.0	11.1	25.8	4.0
Voice	56.6	7.1	44.9	6.9
Services	33.4	4.2	32.0	4.9
Connectivity Products	39.8	5.0	54.0	8.3
Total	<u>\$ 794.8</u>		<u>\$ 651.2</u>	

Sales of networking products in fiscal 2006 increased 17 percent from fiscal 2005. Networking revenue includes sales of the H3C sourced enterprise products, our Layer 2 and Layer 3 stackable 10/100/1000 managed switching lines, wireless and OfficeConnect hardware, baseline branded small to medium-sized enterprise market products, and H3C's router and switching products. The increase in sales was primarily driven by the inclusion of two months results from the H3C joint venture. We also saw growth from the introduction of the 5500 line of Layer 3 switches sourced from H3C as well as growth in our modular core and router products. This growth was partially offset by a decline in demand for Layer 2 switches and a reduction in average selling prices resulting from significant price competition, particularly for our 10/100 Mbps switching products as the industry migrates to gigabit switching solutions, and by a shift in mix towards lower-priced products.

Sales of security products in fiscal 2006 increased 241 percent from fiscal 2005. Security revenue includes our TippingPoint products and services, as well as other security products, such as our embedded firewall product. The increase is primarily attributable to the inclusion of TippingPoint's sales for the full period and, to a lesser extent, organic growth in sales of security products in fiscal 2006 and the inclusion of H3C's security product sales. Sales of our embedded firewall products increased in the year ended May 31, 2006.

VoIP Telephony revenue includes our VCX and NBX VoIP product lines. Sales of our VoIP telephony products in fiscal 2006 increased 26 percent from fiscal 2005. The increase in such sales was due largely to growth in the demand for our NBX products as well as a shift in focus to larger enterprise contracts. Incremental sales of VCX products and to a lesser extent, the inclusion of H3C's voice products also contributed to the increase in VoIP telephony sales in fiscal 2006.

Services revenue includes professional services and maintenance contracts, excluding TippingPoint maintenance which is included in security.

Connectivity Products revenue includes our legacy network interface card, personal computer card, and mini-peripheral component interconnect offerings. Sales of our connectivity products continue to decrease as these applications are integrated into other solutions, and these offerings continue to move toward the end of the product life cycle.

Sales by geographic region are as follows (in millions):

	Fiscal Year			
	2006		2005	
North America	\$ 248.5	31.3 %	\$ 214.1	32.9 %
Latin and South America	72.2	9.1	57.7	8.9
Europe, Middle East, and Africa	298.5	37.5	294.7	45.2
Asia Pacific	175.6	22.1	84.7	13.0
Total	<u>\$ 794.8</u>		<u>\$ 651.2</u>	

Sales information by geography to the extent available is reported based on the customer's designated delivery point, except in the case of H3C's OEM sales which are based on the hub locations of H3C's OEM partners. Asia Pacific sales increased 107 percent primarily due to the inclusion of H3C results for two months in fiscal 2006.

Gross Profit Margin

Gross profit margin as a percentage of sales improved 5.3 percentage points from 36.0 percent of sales in fiscal 2005 to 41.3 percent of sales in fiscal 2006. Significant components of the improvement in gross profit margin were as follows:

- | | |
|--|-------------|
| 1) Increased sales of security products and inclusion of TippingPoint higher margin products for full current period | 3.6% |
| 2) Consolidation of H3C higher margin products | 2.1 |
| 3) SCN product mix and selling price reductions | (2.4) |
| 4) Royalty payment reductions | 1.1 |
| 5) Other | 0.9 |
| Total | <u>5.3%</u> |
- 1) The increase was the result of higher average selling prices and margin for TippingPoint's security products compared to other SCN products as well as the inclusion of a full year of TippingPoint results in fiscal year 2006.
 - 2) The increase is due to the inclusion of two months of results of H3C which generally have higher gross margins.
 - 3) The decrease in the SCN margin was the result of lower average selling prices and an unfavorable shift in product mix. These declines were partially offset by product cost reductions.
 - 4) Fiscal year 2005 included final disbursements on two significant royalty payments.
 - 5) Other cost reduction activities included freight consolidation, and a reduction in the Connectivity Products business that consequently caused a decrease in unit shipment per revenue dollar which lowered variable costs.

Operating Expenses

Operating expenses in fiscal 2006 were \$485.2 million, compared to \$437.8 million in fiscal 2005, a net increase of \$47.4 million. Included in the increase in operating expenses were H3C operating expenses of \$36.6 million for the two month period ended May 31, 2006 and the inclusion of a full year of TippingPoint operating expenses in fiscal 2006 as compared to five months in 2005. Both of these factors were the primary contributors to increases in sales and marketing expenses of \$31.0 million, research and development expenses of \$7.3 million, general and administrative expenses of \$12.8 million, and amortization of intangibles of \$11.9 million. The increase was partially offset by the decrease of in-process research and development of \$6.1 million and restructuring charges of \$9.5 million.

As a percent of sales, total operating expenses in fiscal 2006 were 61.0 percent, compared to 67.2 percent in fiscal 2005. In aggregate, sales and marketing, research and development, and general and administrative expenses were 56.5 percent of sales in fiscal 2006, compared to 61.1 percent in fiscal 2005, and increased \$51.1 million in fiscal 2006 compared to fiscal 2005. We believe that to a significant degree, these expenses are controllable and discretionary over time, but they are not directly variable with sales levels within a particular period. The most significant component of the increase of \$51.1 was the inclusion of \$30.2 million of H3C expenses for the two months ended May 31, 2006.

A more detailed discussion of the factors affecting each major component of total operating expenses is provided below.

Sales and Marketing. Sales and marketing expenses in fiscal 2006 increased \$31.0 million compared to fiscal 2005. This increase was due primarily to the inclusion of H3C expenses for the two months ended May 31, 2006 and TippingPoint's expenses for the entire 2006 fiscal period. In addition, our investment in our branding campaign and the incurrence of performance related compensation expenses in the year ended May 31, 2006, which were not incurred in the previous fiscal year, contributed to the increase. Employee incentive compensation is aligned to the accomplishment of specific financial objectives and certain of these objectives were met in the current fiscal year, whereas these objectives were not met in the previous fiscal year. Partially offsetting these increases were reduced headcount and related expenses in fiscal 2006, compared to the same period in fiscal 2005.

Research and Development. Research and development expenses in fiscal 2006 increased \$7.3 million compared to fiscal 2005. This increase was due primarily to the inclusion of H3C expenses for the two months ended May 31, 2006 and the inclusion of TippingPoint's expenses in the 2006 fiscal period. In addition, a \$4.2 million charge resulting from the impairment of licensed software was incurred for which we had no alternative future use. The increase was offset by reduced workforce expenses as a result of restructuring activities and reduced project spending in the current year.

General and Administrative. General and administrative expenses in fiscal 2006 increased \$12.8 million from fiscal 2005. This increase is due to H3C expenses for the two months ended May 31, 2006 and the inclusion of TippingPoint's expenses in the 2006 fiscal period and \$4.6 million related to executive transition costs in the current year. In addition, we incurred performance related compensation expenses in the year ended May 31, 2006, which were not incurred in the previous fiscal year.

Amortization and Write-Down of Intangibles. Amortization and write-down of intangibles were \$20.9 million in fiscal 2006 and \$9.0 million in fiscal 2005, an increase of \$11.9 million. Amortization and write-down of intangibles increased due to \$132.6 million of purchased intangibles acquired in the acquisition of 2 percent of the equity of H3C in fiscal 2006 that are being amortized on a straight-line basis over their estimated useful lives of between three and five years. Partially offsetting this increase was a reduction in impairment charges.

In-process research and development. \$0.7 million of the total purchase price of 2 percent of the equity of H3C has been preliminarily allocated to in-process research and development and was expensed in the fourth quarter of fiscal 2006. Projects that qualify as in-process research and development represent those that have not yet reached technological feasibility and which have no alternative future use. At the time of acquisition, H3C had multiple in-process research and development efforts under way for certain current and future product lines.

Restructuring Charges. Restructuring charges were \$14.4 million in fiscal 2006 and \$23.9 million in fiscal 2005. Restructuring charges in fiscal 2006 were composed primarily of charges for actions taken in fiscal 2006, including employee severance and outplacement costs of \$9.6 million, and facilities-related charges of \$1.6 million. Restructuring charges for fiscal 2006 were the result of reductions in workforce and continued efforts to consolidate and dispose of excess facilities.

We announced in June 2006 a multi-faceted SCN restructuring. The plan focuses on reducing components of the SCN operating segment cost structure in order to achieve our goal of future profitability. The plan includes: the closure of approximately 21 facilities around the world; a reduction in workforce of approximately 250 full-time employees, equating to approximately 15 percent of our SCN headcount; and focusing our sales, marketing, and services effort. Further actions may be taken if our business activity declines and additional cost reduction efforts are necessary.

Gain on Investments, Net

During fiscal 2006, net gains on investments were \$4.3 million, primarily reflecting gains from sales of certain equity securities. During fiscal 2005, net gains on investments were \$1.6 million, reflecting \$2.2 million of recognized gains from the sale of an investment in a privately-held company and public traded securities partially offset by a net loss of \$0.6 million due to fair value adjustments of investments in limited partnership venture capital funds.

Interest Income and Other Income (Expense), Net

Interest and other income, net, was \$37.3 million in fiscal 2006, an increase of \$20.7 million compared to \$16.6 million in fiscal 2005. An increase in interest income accounted for \$7.7 million of this increase, primarily attributable to higher interest rates applicable to short-term investments and the inclusion of two months of H3C results. Also contributing to the increase was \$7.4 million of other income from H3C for an operating subsidy program by the Chinese VAT authorities in the form of a partial refund of VAT taxes collected by H3C from purchasers of software products, and a reduction in interest expense due to the expiration of our revolving credit facility in November 2004 according to its terms. Our results reflect a quarterly payment that was received during the two month period of H3C's results that are in our consolidated financials.

Income Tax (Provision) Benefit

Our income tax benefit was \$14.8 million in fiscal 2006, compared to an income tax provision of \$3.5 million in fiscal 2005. The tax benefit for fiscal 2006 was the result of a \$23.0 million benefit resulting from a tax settlement with foreign tax authorities in the second quarter of fiscal 2006, for which reserves had been provided in prior years and have now been reversed into income upon reaching settlement. Partially offsetting income tax benefit for fiscal 2006 was the provision of additional taxes in certain state and foreign jurisdictions. Our income tax provision for fiscal 2005 was the result of providing for taxes in certain state and foreign jurisdictions, partially offset by the favorable resolution of an income tax audit in a foreign jurisdiction.

Equity Interest in Income (Loss) of Unconsolidated Joint Venture

As described more fully above, we accounted for our investment in H3C by the equity method prior to the acquisition of majority ownership on January 27, 2006. In fiscal 2006 we recorded income of \$11.0 million representing our share of the net income from operations generated by H3C from April 1, 2005 through January 31, 2006. In fiscal 2005 we recorded a charge of \$7.0 million representing our share of the net loss from operations incurred by H3C from April 1, 2004 through March 31, 2005.

Minority Interest of Huawei in the (Income) of Consolidated Huawei-3Com Joint Venture

In fiscal 2006, we recorded a charge of \$11.1 million representing Huawei 49 percent interest in the net income reported by the H3C joint venture for the two month period included in our fiscal 2006.

LIQUIDITY AND CAPITAL RESOURCES

Cash and equivalents and short-term investments as of May 31, 2007 were \$559.2 million, a decrease of approximately \$305.1 million compared to the balance of \$864.3 million as of May 31, 2006. These balances were comprised of the following (in millions):

	2007	2006	2005
Cash and equivalents	\$ 559.2	\$ 501.1	\$ 268.5
Short-term investments	-	363.2	575.6
Cash and equivalents and short term investments	<u>\$ 559.2</u>	<u>\$ 864.3</u>	<u>\$ 844.1</u>

The May 31, 2007 balance included cash and equivalents in our H3C segment of \$328.7 million.

The following table shows the major components of our consolidated statements of cash flows for the last three fiscal years:

(in millions)	Years Ended May 31,		
	2007	2006	2005
Cash and equivalents, beginning of period	\$ 501.1	\$ 268.5	\$ 476.3
Net cash provided by (used in) operating activities	165.5	(86.2)	(135.6)
Net cash provided by (used in) investing activities	(505.9)	300.8	(12.7)
Net cash provided by (used in) financing activities	387.9	15.7	(59.4)
Other	10.6	2.3	(0.1)
Cash and equivalents, end of period	<u>\$ 559.2</u>	<u>\$ 501.1</u>	<u>\$ 268.5</u>

Net cash provided by operating activities was \$165.5 million for fiscal 2007. The increase in cash was largely due to non-cash adjustments to our net loss which included \$75.0 million of depreciation and amortization, \$35.8 million of IPR&D charges, the minority interest in H3C income of \$26.2 million and \$20.1 million of stock based compensation, as well as significant reductions in inventories and other liabilities, which were partially offset by our net loss. Based on current business conditions and our current operating and financial plans, we believe that our existing cash, cash equivalents and short-term investments will be sufficient to satisfy our anticipated cash and debt payment requirements for at least the next 12 months.

Significant commitments that will require the use of cash in future periods include obligations under debt, lease, contract manufacturing and outsourcing agreements, as shown in the following table (in millions):

	Payments Due by Period				
<u>Contractual Obligations (1)</u>	<u>Total</u>	<u>Less than one year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Operating leases	\$ 47.2	\$ 27.7	\$ 19.5	\$ -	\$ -
Purchase commitments with contract manufacturers (2)	70.3	70.3	-	-	-
Long term debt (3)	430.0	94.0	144.0	192.0	-
Outsourcing agreements (4)	12.0	12.0	-	-	-
Total	\$ 559.5	\$ 204.0	\$ 163.5	\$ 192.0	\$ -

(1) Includes SCN segment obligations as of May 31, 2007 and H3C segment obligations as of March 31, 2007. Does not include EARP payment requirements described below.

(2) We have entered into purchase agreements with our contract manufacturers. Pursuant to these agreements, if our actual orders and purchases fall below forecasted levels, we may be required to purchase finished goods inventory manufactured to meet our requirements. In addition, we may be required to purchase raw material and work in process inventory on-hand that is unique to our products, and we may be required to compensate the contract manufacturers with respect to their non-cancelable purchase orders for such inventory. The amount shown in the table above represents our estimate of inventory held by contract manufacturers that we could be required to purchase within the next 12 months. We do not expect any such required purchases to exceed our requirements for inventory to meet expected sales of our products to our customers.

(3) Represents required principal and interest payments on our senior secured loan, but does not include “excess cash flow” payments which are dependent on whether H3C generates any excess cash flow, as defined in the A&R Loans.

(4) Under our customer service, IT outsourcing agreements and research and development agreement we are subject to service level commitments and contractor commitments levels providing for annual minimum payments that vary depending on the levels we choose. The amounts shown in the table above represent the amounts that would be payable, based on current levels, through the expiration of the agreements. However, our IT agreement may be terminated at any time upon 120 days notice and the payment of a termination fee ranging from approximately \$1.1 million to \$1.5 million, and our research and development agreement may be terminated at any time with a \$0.8 million payment. Our customer service agreement with Siemens expires in 2011 but we have communicated that we are terminating the contract for convenience on the third anniversary date, which is in October of 2007. We currently expect to incur approximately \$1.7 million of termination fees.

We have no material commitments for capital expenditures as of May 31, 2007 other than ordinary course of business purchases of computer hardware, software and leasehold improvements.

Net cash used in investing activities was \$505.9 million for fiscal 2007, including \$898.5 million used to purchase the remaining 49 percent interest in H3C and the purchase of the assets of Roving Planet, and \$28.3 million of outflows related to the purchase of property and equipment. We made investments totaling \$225.0 million in fiscal 2007 and \$421.3 million in fiscal 2006, in municipal and corporate bonds, government agency instruments and equity securities. Proceeds from maturities and sales of municipal and corporate bonds, government agency instruments and equity securities were \$609.3 million in fiscal 2007 and \$629.0 million in fiscal 2006. We also had \$36.6 million of proceeds from the sale of the Santa Clara facility and insurance proceeds for the previously disclosed damage to our Hemel Hemstead facility. In September 2006 we sold all of our remaining venture portfolio and generated cash of approximately \$1.3 million with a loss on sale of investments of \$0.7 million. In August 2006, we sold certain limited partnership interests and generated cash of approximately \$17.0 million with a gain on sale of investment of \$2.4 million and eliminated our future capital call requirements.

Net cash provided by financing activities was \$387.9 million for fiscal 2007, which includes \$415.8 million of proceeds from the A&R Loans partially offset by \$80.0 million of H3C return of capital to 3Com and Huawei, its two shareholders at the time. Accordingly, our consolidated cash balance was reduced by \$40.8 million for Huawei’s share of the distribution. During fiscal 2007, we also repurchased shares of restricted stock valued at \$13.5 million upon vesting of awards from employees consisting of shares to satisfy the tax withholding obligations that arise in connection with such vesting. This was offset by proceeds of \$23.6 million from issuances of our common stock upon exercise of stock options. During fiscal 2005, we entered a new agreement facilitating the issuance of standby letters of credit and bank guarantees required in the normal course of business. As of May 31, 2007, such bank-issued standby letters of credit and guarantees totaled \$5.9 million, including \$5.0 million relating to potential foreign tax, custom, and duty assessments.

During fiscal 2007, we issued approximately 7.2 million shares of our common stock in connection with our employee stock purchase and option plans with total proceeds from such issuances of \$14.9 million. As of May 31, 2007, our outstanding stock options as a percentage of outstanding shares were 13 percent.

On March 22, 2007, H3C Holdings Limited (the “Borrower”), an indirect wholly-owned subsidiary of 3Com Corporation, entered into a Credit and Guaranty Agreement with various lenders (the “Credit Agreement”). On March 28, 2007, the Borrower borrowed \$430 million under the Credit Agreement in the form of a senior secured term loan to finance a portion of the purchase price for 3Com’s acquisition of 49 percent of H3C.

On May 25, 2007, the parties amended and restated the Credit Agreement in order to, among other things, convert the facility into two tranches with different principal amortization schedules and different interest rates, as further described below (the “A&R Loans”). The parties closed the A&R Loans on May 31, 2007.

The A&R Loans are subject to the terms and conditions of an Amended and Restated Credit and Guaranty Agreement dated as of May 25, 2007 and effective as of May 31, 2007 (the “A&R Credit Agreement”).

As amended, borrowings under the Credit Agreement consist of two tranches with different principal amortization schedules and different interest rates. We are required to maintain a rating from Moody’s and S&P during the term of the A&R Loans.

Interest on borrowings is payable semi-annually on March 28 and September 28, commencing on September 28, 2007. All amounts outstanding under the Tranche A Term Facility will bear interest, at the Borrower's option, at the (i) LIBOR, or (ii) Base Rate (i.e., prime rate), in each case plus the applicable margin percentage set forth in the table below, which is based on a "leverage ratio" of consolidated indebtedness of the Borrower and its subsidiaries to EBITDA (as defined in the A&R Credit Agreement, and calculated to exclude certain one-time nonrecurring charges) for the relevant twelve-month period:

Leverage Ratio	LIBOR +	Base Rate +
>3.0:1.0	2.25%	1.25%
≤ 3.0:1.0 but > 2.0:1.0	2.00%	1.00%
≤ 2.0:1.0 but > 1.0:1.0	1.75%	0.75%
≤ 1.0:1.0	1.50%	0.50%

All amounts outstanding under the Tranche B Term Facility will bear interest, at the Borrower's option, at the (i) LIBOR plus 3.00 percent or (ii) Base Rate (i.e., prime rate) plus 2.00 percent. We have elected to use LIBOR as the reference rate for borrowings to date, and expect to do so for the foreseeable future. In addition, the applicable margin for the Tranche A Term Facility is 2.00 percent at May 31, 2007.

A default rate shall apply on all obligations in the event of default under the A&R Loans at a rate per annum of 2 percent above the applicable interest rate.

The Borrower's principal asset is 100 percent of the shares of H3C. Covenants and other restrictions under the A&R Credit Agreement generally apply to the Borrower and its subsidiaries, which we refer to as the "H3C Group." 3Com's SCN segment is not generally subject to the terms of the A&R Credit Agreement, other than through parental guarantees. Required payments under the loan are generally expected to be serviced by cash flows from the H3C Group and the loan is secured by assets at the H3C level, as well as the parental guarantees (which are expected to be released after H3C effects a successful capital reduction).

The A&R Loans may be prepaid in whole or in part without premium or penalty. The Borrower will be required to make mandatory prepayments using net proceeds from H3C Group (i) asset sales, (ii) insurance proceeds and (iii) equity offerings or debt incurrence. In addition, the Borrower will be required to make annual prepayments in an amount equal to 75 percent of "excess cash flow" of the H3C Group. This percentage will decrease to the extent that the Borrower's leverage ratio is lower than specified amounts. Any excess cash flow amounts not required to prepay the loan may be distributed to and used by the Company's SCN segment, provided certain conditions are met.

H3C and all other existing and future subsidiaries of the Borrower (other than PRC subsidiaries or small "excluded subsidiaries") will guarantee all obligations under the A&R Loans and are referred to as "Guarantors." Additionally, 3Com Corporation, 3Com Holdings Limited and 3Com Technologies, will also guarantee all obligations under the A&R Loans until H3C effects a successful capital reduction; these entities are not considered "Guarantors." The loan obligations will be secured by (1) first priority security interests in all assets of the Borrower and the Guarantors, including their bank accounts, and (2) a first priority security interest in 100 percent of the capital stock of the Borrower and H3C and the PRC subsidiaries of H3C.

The Borrower must maintain a minimum debt service coverage, minimum interest coverage, maximum capital expenditures and a maximum total leverage ratio. Negative covenants restrict, among other things, (i) the incurrence of indebtedness by the Borrower and its subsidiaries, (ii) the making of dividends and distributions to 3Com's SCN segment, (iii) the ability to make investments including in new subsidiaries, (iv) the ability to undertake mergers and acquisitions and (v) sales of assets. Also, cash dividends from the PRC subsidiaries to H3C, and H3C to the Borrower, will be subject to restricted use pending payment of principal, interest and excess cash flow prepayments. Standard events of default apply.

Payments of principal on the A&R Loans are due as follows on September 28, for fiscal years ending May 31 (in thousands):

	Tranche A	Tranche B
2008	\$92,000	\$2,000
2009	46,000	2,000
2010	46,000	2,000
2011	46,000	2,000
2012	-	20,000
2013	-	172,000

The closing of the remaining 49 percent acquisition of H3C triggered a bonus program for substantially all of H3C's approximately 4,800 employees. This program, which was implemented by Huawei and 3Com in a prior period, is called the Equity Appreciation Rights Plan, or EARP, and funds a bonus pool based upon a percentage of the appreciation in H3C's value from the initiation of the program to the time of the closing of the Acquisition. A portion of the program is also based on cumulative earnings of H3C. The total value of the EARP is expected to be approximately \$180 million. Approximately \$94 million related to cumulative earnings and change-in-control was accrued by March 31, 2007, and about \$86 million is expected to vest in future periods. The first cash pay-out under the program is currently expected to occur within 3Com's first fiscal quarter of 2007, and we expect this payment to be approximately \$94 million. We expect the unvested portion will be accrued in our H3C operating segment over the next 4 fiscal years serving as a continued retention and incentive program for H3C employees. The only stipulation for payout is that the participants remain employed with the Company on the date of the payout which is required to be made within a specified period after the anniversary date of our 49 percent H3C acquisition on March 29, 2007.

Cash payment requirements under the Equity Appreciation Rights Plan for fiscal years ending May 31 are approximately as follows (in thousands):

2008	\$94,000
2009	39,000
2010	30,000
2011	17,000

It is expected that we will have significant cash outflows in fiscal 2008 of \$108 million of loan payments for principal and interest and approximately \$94 million for EARP commitments.

EFFECTS OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For additional information regarding recently issued accounting pronouncements, see Note 2 to our Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Disclosures. The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates, foreign currency exchange rates, and equity security price risk. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Sensitivity. Interest to be paid by us on our senior secured loan is at an interest rate based, at our option, on either the LIBOR or the prime rate, plus an applicable margin. We expect the base interest rate generally to be based on the published LIBOR rate, which is subject to change on a periodic basis. Recently, interest rates have trended upwards in major global financial markets. If these interest rate trends continue, this will result in increased interest rate expense as a result of higher LIBOR rates. Continued increases in interest rates could have a material adverse effect on our financial position, results of operations and cash flows, particularly if such increases are substantial. In addition, interest rate trends could affect global economic conditions.

Foreign Currency Exchange Risk. Our risk management strategy currently uses forward contracts to hedge certain foreign currency exposures. The intent is to offset gains and losses that occur on the underlying exposures with gains and losses resulting from the forward contracts that hedge these exposures. We attempt to reduce the impact of foreign currency fluctuations on corporate financial results by hedging existing foreign currency exposures and anticipated foreign currency transactions expected to occur within one month. Anticipated foreign currency transaction exposures with a maturity profile in excess of one month may be selectively hedged. Translation exposures are not hedged. Due to the limitations on converting Renminbi, we are limited in our ability to engage in currency hedging activities in China. Although the impact of currency fluctuations of Renminbi to date has been slight, fluctuations in currency exchange rates in the future may have a material adverse effect on our cash flow and results of operations.

Gains and losses on the forward contracts are largely offset by gains and losses on the underlying exposure. A hypothetical ten percent appreciation of the U.S. Dollar from May 31, 2007 market rates would increase the unrealized value of our forward contracts by \$2.0 million. Conversely, a hypothetical ten percent depreciation of the U.S. Dollar from May 31, 2007 market rates would decrease the unrealized value of our forward contracts by \$2.0 million. The gains or losses on the forward contracts are largely offset by the gains or losses on the underlying transactions and consequently we believe that a sudden or significant change in foreign exchange rates would not have a material impact on future net income or cash flows.

Equity Security Price Risk. We hold publicly traded equity securities that are subject to market price volatility. Equity security price fluctuations of plus or minus 50 percent would not have had a material impact on our financial statements as of May 31, 2007.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

	<u>Page</u>
Consolidated Financial Statements:	
Report of Independent Registered Public Accounting Firm	54
Consolidated Statements of Operations for the years ended May 31, 2007, 2006, and 2005	55
Consolidated Balance Sheets as of May 31, 2007 and 2006	56
Consolidated Statements of Stockholders' Equity for the years ended May 31, 2007, 2006, and 2005	57
Consolidated Statements of Cash Flows for the years ended May 31, 2007, 2006, and 2005	58
Notes to Consolidated Financial Statements	59
Financial Statement Schedule:	
Schedule II – Valuation and Qualifying Accounts and Reserves	105

All other schedules are omitted, because they are not required, are not applicable, or the information is included in the consolidated financial statements and notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of 3Com Corporation
Marlborough, Massachusetts:

We have audited the accompanying consolidated balance sheets of 3Com Corporation and subsidiaries (3Com or the "Company") as of June 1, 2007 and June 2, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended June 1, 2007. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of 3Com's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, such consolidated financial statements present fairly, in all material respects, the financial position of 3Com at June 1, 2007 and June 2, 2006, and the results of its operations and its cash flows for each of the three years in the period ended June 1, 2007 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised), *Share-Based Payment*, effective June 3, 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of June 1, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 31, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
July 31, 2007

3COM CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Years Ended May 31,		
	2007	2006	2005
Sales	\$ 1,267,481	\$ 794,807	\$ 651,244
Cost of sales	689,027	466,743	416,916
Gross profit	578,454	328,064	234,328
Operating expenses:			
Sales and marketing	319,696	274,745	243,700
Research and development	215,632	101,870	94,584
General and administrative	93,875	72,596	59,833
Amortization and write-down of intangible assets	42,525	20,903	8,989
In-process research and development	35,753	650	6,775
Restructuring charges	3,494	14,403	23,922
Total operating expenses	710,975	485,167	437,803
Operating loss	(132,521)	(157,103)	(203,475)
Gain on investments, net	1,143	4,333	1,580
Interest income, net	40,863	29,085	21,406
Other income (expense), net	38,291	8,235	(4,785)
Loss from operations before income taxes, equity interest in income (loss) of unconsolidated joint venture, and minority interest in income of consolidated joint venture	(52,224)	(115,450)	(185,274)
Income tax (provision) benefit	(10,173)	14,833	(3,490)
Equity interest in income (loss) of unconsolidated joint venture	-	11,016	(6,922)
Minority interest in income of consolidated joint venture	(26,192)	(11,074)	-
Net loss	\$ (88,589)	\$ (100,675)	\$ (195,686)
Basic and diluted net loss per share:			
Net loss	\$ (0.22)	\$ (0.26)	\$ (0.51)
Shares used in computing per share amounts:			
Basic and diluted	393,894	386,801	382,309

The accompanying notes are an integral part of these consolidated financial statements.

3COM CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	May 31,	
	2007	2006
ASSETS		
Current assets:		
Cash and equivalents	\$ 559,217	\$ 501,097
Short-term investments	-	363,250
Notes receivable	77,368	63,224
Accounts receivable, less allowance for doubtful accounts of \$15,292 and \$16,422, respectively	102,952	115,120
Inventories	107,988	148,819
Other current assets	50,157	57,835
Total current assets	897,682	1,249,345
Property and equipment, less accumulated depreciation and amortization of \$234,554 and \$232,944, respectively	76,460	89,109
Goodwill	766,444	354,259
Intangible assets, net	371,289	111,845
Deposits and other assets	39,217	56,803
Total assets	<u>\$ 2,151,092</u>	<u>\$ 1,861,361</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 110,430	\$ 153,245
Current portion of long-term debt	94,000	-
Accrued liabilities and other	435,638	318,036
Total current liabilities	640,068	471,281
Deferred taxes and long-term obligations	23,725	13,788
Long-term debt	336,000	-
Minority interest	-	173,930
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; none outstanding	-	-
Common stock, \$0.01 par value, 990,000 shares authorized; shares issued: 399,064 and 393,442 respectively	2,323,356	2,300,396
Unamortized stock-based compensation	-	(7,565)
Retained deficit	(1,176,406)	(1,087,512)
Accumulated other comprehensive income (loss)	4,349	(2,957)
Total stockholders' equity	1,151,299	1,202,362
Total liabilities and stockholders' equity	<u>\$ 2,151,092</u>	<u>\$ 1,861,361</u>

The accompanying notes are an integral part of these consolidated financial statements.

3COM CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	<u>Common Stock</u>		<u>Treasury Stock</u>		<u>Unamortized</u> <u>Stock-based</u>	<u>Retained</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Compensation</u>	<u>Deficit</u>	<u>Income (Loss)</u>	<u>Total</u>
Balances, May 31, 2004	392,738	\$2,262,223	-	\$ -	\$ (2,577)	\$ (755,244)	\$ (5,288)	\$1,499,114
Components of comprehensive loss:								
Net loss						(195,686)		(195,686)
Unrealized loss on available-for-sale securities, net of tax							(213)	(213)
Net unrealized loss on derivative instruments, net of tax							(81)	(81)
Accumulated translation adjustments							99	99
Total comprehensive loss								(195,881)
Repurchase of common stock	(36)	(181)	(14,983)	(73,364)				(73,545)
Common stock issued under stock plans, net of cancellations	675	3,698	6,848	33,543	(4,760)	(17,022)		15,459
Stock-based compensation expense		395			2,446			2,841
Stock issued in connection with acquisition		36,055			(9,120)			26,935
Balances, May 31, 2005	393,377	2,302,190	(8,135)	(39,821)	(14,011)	(967,952)	(5,483)	1,274,923
Components of comprehensive loss:								
Net loss						(100,675)		(100,675)
Unrealized gain on available-for-sale securities, net of tax							300	300
Accumulated translation adjustments							2,226	2,226
Total comprehensive loss								(98,149)
Repurchase of common stock	(588)	(2,848)	(864)	(4,228)				(7,076)
Common stock issued under stock plans, net of cancellations	653	2,230	8,999	44,049	(4,593)	(18,885)		22,801
Stock-based compensation expense		199			9,664			9,863
Reduction of shares reserved for issuance of options in connection with acquisition		(1,375)			1,375			-
Balances, May 31, 2006	393,442	2,300,396	-	-	(7,565)	(1,087,512)	(2,957)	1,202,362
Elimination of unamortized stock-based compensation		(7,565)			7,565			-
Components of comprehensive loss:								
Net loss						(88,589)		(88,589)
Unrealized gain on available-for-sale securities, net of tax							2,310	2,310
Accumulated translation adjustments							4,996	4,996
Total comprehensive loss								(81,283)
Repurchase of common stock	(2,359)	(9,041)	(870)	(4,259)		(163)		(13,463)
Common stock issued under stock plans, net of cancellations	7,981	19,471	870	4,259		(142)		23,588
Stock-based compensation expense		20,095						20,095
Balances, May 31, 2007	<u>399,064</u>	<u>\$2,323,356</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(1,176,406)</u>	<u>\$ 4,349</u>	<u>\$ 1,151,299</u>

The accompanying notes are an integral part of these consolidated financial statements.

3COM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended May 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net loss	\$ (88,589)	\$ (100,675)	\$ (195,686)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	74,990	44,685	51,852
Write-down of intangibles	-	-	1,404
Gain on property and equipment disposals	(14,714)	(646)	(4,741)
Minority interest	26,192	11,074	-
Stock-based compensation expense	20,095	9,863	2,841
Gain on investments, net	(1,417)	(235)	(1,580)
Deferred income taxes	(10,487)	121	3,044
In-process research and development	35,753	650	6,775
Equity interest in (income) loss of unconsolidated joint venture	-	(11,016)	6,922
Changes in assets and liabilities:			
Accounts receivable	(24,677)	5,913	4,708
Inventories	50,589	(23,047)	(9,629)
Other assets	32,368	1,891	748
Accounts payable	(34,760)	3,430	19,224
Other liabilities	100,195	(28,172)	(21,476)
Net cash provided by (used in) operating activities	165,538	(86,164)	(135,594)
Cash flows from investing activities:			
Purchases of investments	(225,005)	(421,279)	(618,320)
Proceeds from maturities and sales of investments	609,342	629,036	931,122
Purchases of property and equipment	(28,331)	(17,404)	(21,121)
Businesses acquired in purchase transactions, net of cash acquired	(898,529)	110,407	(355,686)
Proceeds from sale of property and equipment	36,580	-	51,300
Net cash (used in) provided by investing activities	(505,943)	300,760	(12,705)
Cash flows from financing activities:			
Issuances of common stock	23,588	22,801	15,459
Repurchases of common stock	(13,463)	(7,076)	(73,545)
Proceeds from long term debt	415,811	-	-
Repayments of borrowings	-	-	(1,308)
Dividend paid to minority interest shareholder	(40,785)	-	-
Other, net	2,787	-	-
Net cash provided by (used in) financing activities	387,938	15,725	(59,394)
Effect of exchange rate changes on cash and equivalents	10,587	2,241	(46)
Net change in cash and equivalents during period	58,120	232,562	(207,739)
Cash and equivalents, beginning of period	501,097	268,535	476,274
Cash and equivalents, end of period	\$ 559,217	\$ 501,097	\$ 268,535
Other cash flow information			
Interest paid	\$ 5,596	\$ 212	\$ 528
Income tax (payments) refunds received, net	(18,970)	(2,230)	10,402
Inventory transferred to property and equipment	8,814	16,995	7,996

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Description of Business

We are incorporated in Delaware. A pioneer in the computer networking industry, we provide secure, converged networking solutions, as well as maintenance and support services, for enterprises and public sector organizations of all sizes. Headquartered in Marlborough, Massachusetts, we have worldwide operations, including sales, marketing, research and development, and customer service and support capabilities.

Note 2: Significant Accounting Policies

Fiscal year

Our fiscal year ends on the Friday closest to May 31. Fiscal 2007 consisted of 52 weeks and ended on June 1, 2007. Fiscal 2006 consisted of the 52 weeks ended on June 2, 2006 and Fiscal 2005 consisted of the 53 weeks ended on June 3, 2005. For convenience, the consolidated financial statements have been shown as ending on the last day of the calendar month.

Use of estimates in the preparation of consolidated financial statements

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of sales, costs and expenses during the reporting periods. Such management assumptions and estimates include allowances for doubtful accounts receivable, product returns, rebates and price protection; provisions for inventory to reflect net realizable value; estimates of fair value for investments in privately held companies, goodwill and other intangible assets, estimation of fair value of acquired businesses, and properties held for sale; valuation allowances against deferred income tax assets; and accruals for severance costs, compensation, product warranty, other liabilities, and income taxes, among others. Actual results could materially differ from those estimates and assumptions.

Basis of presentation

The consolidated financial statements include the accounts of 3Com and its wholly-owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation. As discussed in Notes 3 and 5, we accounted for our investment in the H3C joint venture by the equity method until fiscal 2006, when we exercised our right to purchase an additional 2 percent equity to give us a 51 percent majority ownership in H3C and we entered into an agreement with Huawei, the other shareholder, for an aggregate purchase price of \$28.0 million. We were granted regulatory approval by the Chinese government and subsequently completed this transaction on January 27, 2006 (date of acquisition). Since that time, we have owned a majority interest in the joint venture and have determined that the criteria of Emerging Issues Task Force No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights" have been met. Accordingly, we consolidate H3C's financial statements beginning February 1, 2006, a date used under the principle of convenience close. H3C follows a calendar year basis of reporting and therefore, H3C is consolidated on a two-month lag.

Segment reporting

As of May 31, 2007, we were organized in two reportable segments: Secured Converged Networking ("SCN") and H3C. The SCN reportable segment was comprised of all business activities outside of our wholly-owned subsidiary, H3C, in China. The H3C segment was comprised of operations of our wholly-owned subsidiary in China. Prior to 2006 we had one reportable segment.

Cash equivalents

Cash equivalents consist of highly liquid investments in debt securities with maturities of three months or less when purchased.

Short-term investments

Short-term investments primarily consist of investments in debt securities acquired with maturities exceeding three months but less than one year. Our intent is to hold our investments in debt securities to maturity. However, consistent with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," all investments in debt securities and all investments in equity securities that have readily determinable fair values have been classified as available-for-sale, since the sale of such investments may be required prior to maturity to implement management strategies. Our short-term investments are reported at fair value, with unrealized gains or losses excluded from earnings and included in other comprehensive income (loss). Short-term investments are evaluated quarterly for other than temporary declines in fair value, which are reported in earnings as identified. The cost of investments sold is based on the specific identification method.

Allowance for doubtful accounts

We monitor payments from our customers on an on-going basis and maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. When we evaluate the adequacy of our allowances for doubtful accounts, we take into account various factors including our accounts receivable aging, customer creditworthiness, historical bad debts, and geographic and political risk. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Notes receivable

Notes receivable represent bills receivable from fourteen Chinese banks to our H3C wholly-owned subsidiary that have maturities of less than six months. These notes originate from customers who settle their commitments to H3C by providing us these bills issued by the Chinese banks. The Chinese banks are responsible to pay H3C. The notes are also referred to as "bankers' acceptances".

Non-marketable equity securities and other investments

Non-marketable equity securities and other investments consist primarily of direct investments in private companies and investments in limited partnership venture capital funds. Non-marketable equity securities and other investments are accounted for at historical cost or, if we had significant influence over the investee, by the equity method. Cost basis investments are evaluated quarterly for other than temporary declines in fair value, which are reported in earnings as identified. Investments accounted for by the equity method include investments in limited partnership venture capital funds. The net income or loss of limited partnership venture capital funds, and the fair values of the funds, are obtained from the funds' most recently issued financial statements. We record our proportionate share of the net income or loss of the funds, and adjustments reflecting changes in the fair values of the funds, in gain on investments, net. Net investment gains and losses recorded as a result of sales of our investments in the limited partnership venture capital funds are based on the difference between the net sales proceeds and the carrying value of the investment at the time of sale. Generally, in connection with such sales and with the approval of the applicable fund's general partners, we are released from all obligations with respect to future capital calls associated with the investment sold except as otherwise required by applicable law.

Concentration of credit risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and equivalents, short-term investments, notes receivable and accounts receivable. For our cash and equivalents and notes receivable in China we maintain a minimum BB+ rating and for the period ended March 31, 2007 the average rating was A+.

Inventories

Inventories are stated at the lower of standard cost or market, which approximates actual cost. Cost is determined using the first-in, first-out method.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and amortization. Equipment under capital leases is stated at the lower of fair market value or the present value of the minimum lease payments at the inception of the lease. We capitalize eligible costs related to the application development phase of software developed internally or obtained for internal use. Capitalized costs related to internal-use software are amortized using the straight-line method over the estimated useful lives of the assets, which range from two to five years; the amounts charged to amortization expense were \$0.4 million in fiscal 2007, \$0.7 million in fiscal 2006, and \$1.0 million in fiscal 2005.

Long-lived assets

Long-lived assets and certain identifiable intangible assets to be held and used are subject to periodic amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability of long-lived assets is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Depreciation and amortization

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of property and equipment are generally 2-15 years, except for buildings for which the useful lives are 25-40 years. Depreciation and amortization of leasehold improvements are computed using the shorter of the remaining lease terms or estimated useful life.

Goodwill and purchased intangible assets

SFAS No. 142, "Goodwill and Other Intangible Assets", requires goodwill to be tested for impairment on an annual basis and between annual tests when events or circumstances indicate a potential impairment. We test our goodwill for impairment annually during our third fiscal quarter. There was no impairment of goodwill in fiscal 2007, 2006, or 2005. Furthermore, SFAS No. 142 requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite. Purchased intangible assets are carried at cost less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, generally 2 - 7 years.

Revenue recognition

We recognize the majority of product revenue in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" and Staff Accounting Bulletin No. 104, "Revenue Recognition." Specifically, product revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred and risk of loss has passed to the customer, the fee is fixed or determinable, and collectibility is reasonably assured. In instances where the customer specifies final acceptance of the product or service, revenue and related costs are deferred until all acceptance criteria have been met. For sales of products that contain software that is marketed separately, we apply the provisions of AICPA Statement of Position 97-2 "Software Revenue Recognition," as amended.

A significant portion of our sales are made to distributors and resellers through a two-tier distribution channel. Revenue related to such sales is reduced for allowances for product returns, price protection, rebates and other offerings established in our sales agreements. We allow for product return rights that are generally limited to a percentage of sales over a one to three month period.

Sales of services, including professional services, system integration, project management, and training, are recognized upon completion of performance. Other service revenue, such as that related to maintenance and support contracts, is recognized ratably over the contract term, provided that all other revenue recognition criteria have been met. Royalty revenue is generally recognized when we receive payment.

For arrangements that involve multiple elements, such as sales of products that include maintenance or installation services, revenue is allocated to each respective element based on its relative fair value and recognized when the revenue recognition criteria for each element have been met. We use the residual method to recognize revenue when an arrangement includes one or more elements to be delivered at a future date and objective and reliable evidence of the fair value of all the undelivered elements exists. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue for the delivered elements, provided that all other revenue recognition criteria have been met. If objective and reliable evidence of fair value of one or more undelivered elements does not exist, revenue is deferred and recognized when delivery of those elements occurs or when fair value can be established.

Product warranty

We provide limited warranty on most of our products for periods ranging from 90 days to the lifetime of the product, depending upon the product. The warranty generally includes parts, labor and service center support. We estimate the costs that may be incurred under our warranty obligations and record a liability in the amount of such costs at the time sales are recognized. Factors that affect our warranty liability include the number of installed units, historical and anticipated rates of warranty claims, and cost per claim. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

Advertising

Costs associated with cooperative advertising programs are estimated and recorded as a reduction of revenue at the time the related sales are recognized. All other advertising costs are expensed as incurred in sales and marketing.

Restructuring charges

In recent fiscal years, we have undertaken several initiatives involving significant changes in our business strategy and cost structure. In connection with these initiatives, we have recorded significant restructuring charges, as more fully described in Note 4. Generally, costs associated with an exit or disposal activity are recognized when the liability is incurred. Costs related to employee separation arrangements requiring future service beyond a specified minimum retention period are recognized over the service period.

Foreign currency remeasurement and translation

Our foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The majority of our SCN sales transactions are denominated in U.S. dollars. The majority of our H3C sales are denominated in Renminbi. For foreign operations with the local currency as the functional currency, local currency denominated assets and liabilities are translated at the year-end exchange rates, and sales, costs and expenses are translated at the average exchange rates during the year. Gains or losses resulting from foreign currency translation are included as a component of accumulated other comprehensive loss in the consolidated balance sheets. For foreign operations with the U.S. dollar as the functional currency, foreign currency denominated assets and liabilities are remeasured at the year-end exchange rates except for property and equipment which are remeasured at historical exchange rates. Foreign currency denominated sales, costs and expenses are recorded at the average exchange rates during the year. Gains or losses resulting from foreign currency remeasurement are included in other income (expense), net, in the consolidated statements of operations.

Our risk management strategy uses forward contracts to hedge certain foreign currency exposures. The intent is to offset gains and losses that occur on the underlying exposures with gains and losses resulting from the forward contracts that hedge these exposures. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, these contracts are recorded at fair value, and fair value changes are expensed in the current period in other income (expense), net. In addition, we enter into foreign exchange forward contracts to hedge exposures related to anticipated foreign currency cash flows. Due to the limitations on converting Renminbi we do not engage in currency hedging activities in China. These contracts, designated as cash flow hedges, also are recorded at fair value. The gain or loss from the effective portion of the hedge is reported in the consolidated statement of operations in the same period or periods and manner as the hedged transaction. The gain or loss from the ineffective portion of the hedge is recognized in other income (expense), net, during the period of change. We do not enter into derivatives for trading or other speculative purposes, nor do we use leveraged financial instruments.

Other income (expense), net included net foreign currency losses of \$1.2 million in fiscal 2007 and \$1.5 million in fiscal 2006 and 2005.

Income taxes:

We are subject to income tax in a number of jurisdictions. A certain degree of estimation is required in recording the assets and liabilities related to income taxes, and it is reasonably possible that such assets may not be recovered and that such liabilities may not be paid or that payments in excess of amounts initially estimated and accrued may be required. We assess the likelihood that our deferred tax assets will be recovered from our future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance. We consider historical taxable income, estimates of future taxable income, and ongoing prudent and feasible tax planning strategies in assessing the amount of the valuation allowance. Based on various factors, including our recent losses, retained deficit, operating performance in fiscal 2007, and estimates of future profitability, we have concluded that future taxable income will, more likely than not, be insufficient to recover our U.S. net deferred tax assets as of May 31, 2007. Accordingly, we have established an appropriate valuation allowance to offset such deferred tax assets. In addition to valuation allowances against deferred tax assets, we maintain reserves for potential tax contingencies arising in jurisdictions in which we do or have done business. Many of these contingencies arise from periods when we were a substantially larger company. Such reserves are based on our assessment of the likelihood of an unfavorable outcome and the expected potential loss from such contingency, and are monitored by management. These reserves are maintained until such time as the matter is settled or the statutory period for adjustment has passed. Adjustments could be required in the future if we determine that the amount to be realized is greater or less than the valuation allowance we have recorded or that our reserves for tax contingencies are inadequate. We have U.S. federal loss carryforwards of approximately \$2.5 billion as of May 31, 2007 expiring between fiscal years 2008 and 2027, substantially all of which expire between fiscal years 2021 and 2027.

Comprehensive income (loss)

We account for comprehensive income (loss) in accordance with the provisions of SFAS No.130, "Reporting Comprehensive Income." SFAS No. 130 is a financial statement presentation standard that requires us to disclose non-owner changes included in equity but not included in net income or loss. Comprehensive income (loss) presented in the financial statements consists of foreign currency translation and unrealized gains (losses) on available-for-sale securities.

An analysis of accumulated other comprehensive income (loss) follows (in thousands):

	Unrealized Gain (Loss)	Accumulated Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance as of May 31, 2004	\$ (2,107)	\$ (3,181)	\$ (5,288)
Change in period	(294)	99	(195)
Balance as of May 31, 2005	(2,401)	(3,082)	(5,483)
Change in period	300	2,226	2,526
Balance as of May 31, 2006	(2,101)	(856)	(2,957)
Change in period	2,310	4,996	7,306
Balance as of May 31, 2007	<u>\$ 209</u>	<u>\$ 4,140</u>	<u>\$ 4,349</u>

Stock-based Compensation

Prior to fiscal 2007, we accounted for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25 "Accounting for Stock Issued to Employees". As described in Note 14, effective June 3, 2006, we adopted the fair value method of accounting for stock-based compensation under Statement of Financial Accounting Standards (SFAS) 123(R) "Share-Based Payment". Under the intrinsic value method, compensation cost associated with a stock award was measured as the difference between the fair value of the common stock underlying the award and the amount, if any, that an employee was required to pay for the award; measurement generally occurred on the date of grant, which was the date on which the number of shares and price to be paid was apparent. Under the fair value method, compensation cost associated with a stock award is measured based on the estimated fair value of the award itself, determined using established valuation models and principles, and is generally measured as on the date of grant. The amounts measured under either method are generally recognized as expense over the requisite service period, which is typically the vesting period.

Estimates of the fair value of equity awards in future periods will be affected by the market price of our common stock, as well as the actual results of certain assumptions used to value the equity awards. These assumptions include, but are not limited to, the expected volatility of the common stock, the expected term of options granted, the risk free interest rate and dividend yield.

The fair value of stock options and employee stock purchase plan shares is determined by using the Black-Scholes option pricing model and applying the single-option approach to the stock option valuation. The options generally have vesting on an annual basis over a vesting period of four years. We estimate the expected option term by analyzing the historical term period from grant to exercise and also consider the expected term for those options that are outstanding. The expected term of employee stock purchase plan shares is the average of the remaining purchase periods under each offering period. The volatility of the common stock is estimated using historical volatility.

The risk-free interest rate used in the Black-Scholes option pricing model is determined by looking at historical U.S. Treasury zero-coupon bond issues with terms corresponding to the expected terms of the equity awards. In addition, an expected dividend yield of zero is used in the option valuation model, because we do not expect to pay any cash dividends in the foreseeable future. We estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. In order to determine an estimated pre-vesting option forfeiture rate, we used historical forfeiture data, which yields a forfeiture rate of 27 percent. We believe this historical forfeiture rate to be reflective of our anticipated rate on a go-forward basis. This estimated forfeiture rate has been applied to all unvested options and restricted stock outstanding as of June 1, 2006 and to all options and restricted stock granted since June 1, 2006. Therefore, stock-based compensation expense is recorded only for those options and restricted stock that are expected to vest.

Net loss per share

Basic earnings per share is computed using the weighted-average number of common shares outstanding. Diluted earnings per share is computed using the weighted-average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of employee stock options and restricted stock, and are excluded from the diluted earnings per share computation in periods where net losses were incurred.

Recently issued accounting pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes," which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return, including a decision whether or not to file a return in a particular jurisdiction. Under this new guidance, the financial statements will reflect expected future tax consequences including interest and penalties of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. This guidance also revises disclosure requirements and introduces a prescriptive, annual, tabular roll-forward of unrecognized tax benefits. We are currently evaluating the impact of adopting FIN 48 and its impact on our financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by 3Com in the first quarter of fiscal 2009. We have not yet determined the impact, if any, that the implementation of SFAS No. 157 will have on our results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by 3Com in the first quarter of fiscal 2009. 3Com currently is determining whether fair value accounting is appropriate for any of its eligible items and cannot estimate the impact, if any, which SFAS 159 will have on its consolidated results of operations and financial condition.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements", which

expresses the staff's views regarding the process of quantifying financial statement misstatements. The Bulletin is effective at our fiscal year end 2008. The Company believes the implementation will have no impact on our results of operations, cash flow or financial position.

Note 3: Acquisitions

H3C

On November 17, 2003, we formed H3C, formerly known as the Huawei-3Com joint venture, with a subsidiary of Huawei Technologies, Ltd. (Huawei). H3C is domiciled in Hong Kong, and has its principal operating center in Hangzhou, China.

At the time of formation, we contributed cash of \$160.0 million, assets related to our operations in China and Japan, and licenses related to certain intellectual property in exchange for a 49 percent ownership interest. We recorded our initial investment in H3C at \$160.1 million, reflecting our carrying value for the cash and assets contributed. Huawei contributed its enterprise networking business assets - including Local Area Network (LAN) switches and routers; engineering, sales and marketing resources and personnel; and licenses to its related intellectual property - in exchange for a 51 percent ownership interest. Huawei's contributed assets were valued at \$178.2 million at the time of formation.

Two years after formation of H3C, we had the one-time option to purchase an additional two percent ownership interest from Huawei. On October 28, 2005, we exercised this right and entered into an agreement to purchase an additional 2 percent ownership interest in H3C from Huawei for an aggregate purchase price of \$28.0 million. We were granted regulatory approval by the Chinese government and subsequently completed this transaction on January 27, 2006 (date of acquisition). Since then, we have owned a majority interest in the joint venture and determined that the criteria of Emerging Issues Task Force No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights" were met and, therefore, consolidated H3C's financial statements beginning February 1, 2006, a date used under the principle of a convenience close. As H3C reports on a calendar year basis, we consolidate H3C based on H3C's most recent financial statements, two months in arrears.

Three years after formation of H3C, we and Huawei each had the right to initiate a bid process to purchase the equity interest in H3C held by the other. 3Com initiated the bidding process on November 15, 2006 to buy Huawei's 49 percent stake in H3C and our bid of \$882 million was accepted by Huawei on November 27, 2006. The transaction closed on March 29, 2007, at which time the purchase price was paid in full.

The acquisition transactions were all accounted for as purchases, and accordingly, the purchase price was allocated to the assets purchased and liabilities assumed based on their estimated fair values. Subsequent to obtaining control, the operating results of H3C for the period February 1, 2006 to March 31, 2006 are included in the consolidated financial statements, resulting in the latter two months of H3C's three months ended March 31, 2006 being included in our year ended May 31, 2006 statement of operations.

The purchase prices for our various transactions are shown below (in millions):

	2003	2006	2007
	Investment	Purchase	Purchase (Preliminary)
Cash paid for common stock	\$ 160.0	\$ 28.0	\$ 882.0
Assets contributed	0.1	-	
Acquisition direct costs	0.0	0.2	8.7
Total purchase price	<u>\$ 160.1</u>	<u>\$ 28.2</u>	<u>\$ 890.7</u>

In accordance with SFAS No. 141, "Business Combinations," the purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed, including in-process research and development, based on their estimated fair values. The excess purchase price over those values is recorded as goodwill. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, and other information compiled by management. Goodwill recorded as a result of these acquisition is not deductible for tax purposes. In accordance with SFAS No. 142, goodwill is not amortized but will be reviewed at least annually for impairment. Purchased intangibles with finite lives will be amortized on a straight-line basis over their respective estimated useful lives. The total purchase price has been allocated as follows (in millions):

	2003 <u>Investment</u>	2006 <u>Purchase</u>	2007 <u>Purchase</u>
Net tangible assets assumed		\$ 7.4	\$148.6
Amortizable intangible assets:			
Existing technology	\$ 111.7	17.8	180.6
Trade name and trademarks			55.5
Non-compete agreement with Huawei			33.0
Distributor agreements	<u>2.7</u>	<u>0.4</u>	<u>29.1</u>
Total amortizable intangible assets	114.4	18.2	298.2
Amortization prior to the 2006 acquisition	<u>(65.7)</u>	<u>-</u>	<u>-</u>
Net intangible assets	48.7	18.2	298.2
In-process research and development	24.7	0.7	34.0
Goodwill	<u>43.2</u>	<u>1.9</u>	<u>409.9</u>
Total preliminary purchase price allocation		<u>\$ 28.2</u>	<u>\$890.7</u>

The preliminary allocation of the 2007 purchase price was based upon a preliminary valuation and our estimates and assumptions are subject to change upon the finalization of the valuation.

Intangible assets include amounts recognized for the fair value of existing technology, maintenance agreements, trade name and trademarks, distributor agreements and non-compete agreement. These intangible assets have a weighted-average useful life of approximately five years.

In-process research and development (IPR&D) represents incomplete H3C research and development projects that had not reached technological feasibility and had no alternative future use as of the acquisition dates. Technological feasibility is established when an enterprise has completed all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features, and technical performance requirements. At the dates of acquisition, H3C had multiple IPR&D efforts under way for certain current and future product lines. Purchased IPR&D relates primarily to projects associated with the H3C routers and switch products, which had not yet reached technological feasibility as of the acquisition date and have no alternative future use.

Of the total estimated purchase price paid to gain full control in 2007, a preliminary estimate of approximately \$148.6 million was allocated to net assets acquired. Net assets were valued at their respective carrying amounts, which management believes approximate fair value, except for adjustments to inventory and deferred revenue. Inventory was adjusted by an increase of \$11.1 million in the consolidated balance sheet as of June 2, 2007, to adjust inventory to the actual fair value less direct selling expense. Deferred revenues were reduced by \$0.5 million in the consolidated balance sheet as of June 2, 2007, to adjust deferred revenue to the estimated cost plus an appropriate profit margin to perform the support and maintenance services.

Approximately \$298.2 million of the 2007 purchase price was allocated to acquired identifiable intangible assets. Existing core technology is comprised of products that have reached technological feasibility, which includes most of H3C's technology. The remainder of intangible assets is associated with maintenance agreements, trademarks, and non-compete agreements. One day worth of the amortization expense related to the amortizable intangible assets is reflected in the audited consolidated statements of operations for the year ended June 2, 2007.

Of the total estimated 2007 purchase price, approximately \$409.9 million was allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill amounts are not amortized, but rather are tested for impairment at least annually. In the event that we determine that the value of the goodwill has become impaired, an accounting charge for the amount of the impairment will be incurred in the quarter in which such determination is made.

TippingPoint

On January 31, 2005, we completed our acquisition of 100 percent of the outstanding common shares of TippingPoint Technologies, Inc. for consideration of \$430.0 million. This amount excludes the cost of integration, as well as other costs related to the transaction. TippingPoint is a provider of networked-based intrusion prevention systems. The acquisition enabled us to expand our portfolio of secure, converged voice and data networking solutions.

The TippingPoint acquisition was accounted for as a purchase, and accordingly, the assets purchased and liabilities assumed are included in the consolidated balance sheet as of May 31, 2006 and 2005. The operating results of TippingPoint are included in the consolidated financial statements since the date of acquisition.

The purchase price categories are shown below (in millions):

Cash paid for common stock	\$ 389.5
Fair value of outstanding stock options assumed	36.1
Acquisition direct costs	4.4
Total purchase price	<u>\$ 430.0</u>

In accordance with SFAS No. 141, "Business Combinations," the purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed, including in-process research and development, based on their estimated fair values, while the associated deferred stock compensation was recorded based on intrinsic value. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, and other information compiled by management, including valuations that utilize established valuation techniques appropriate for the high technology industry. Goodwill recorded as a result of this acquisition is not deductible for tax purposes. In accordance with SFAS No. 142, goodwill is not amortized but will be reviewed at least annually for impairment. Purchased intangibles with finite lives will be amortized on a straight-line basis over their respective estimated useful lives. The total purchase price has been allocated as follows (in millions):

Net tangible assets assumed	\$ 37.4
Amortizable intangible assets:	
Existing technology	39.1
Maintenance agreements	19.0
Other	<u>11.8</u>
Total amortizable intangible assets	69.9
In-process research and development	5.1
Deferred compensation on unvested stock options	9.4
Goodwill	<u>308.2</u>
Total purchase price	<u>\$ 430.0</u>

During the three months ended August 31, 2005, we revised the purchase price allocation by increasing net tangible assets assumed and reducing goodwill by \$1.3 million. This adjustment related to the revision of an estimate for a contingent liability assumed in the acquisition and has been incorporated into the purchase price allocation above. As of February 28, 2006 the purchase price has been finalized.

Intangible assets include amounts recognized for the fair value of existing technology, maintenance agreements, trade name and trademarks, and non-competition agreements. These intangible assets have a weighted-average useful life of approximately five years.

IPR&D represents incomplete TippingPoint research and development projects that had not reached technological feasibility and had no alternative future use as of the acquisition date. Technological feasibility is established when an enterprise has completed all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features, and technical performance requirements. At the time of acquisition, TippingPoint had multiple IPR&D efforts under way for certain current and future product lines. The value assigned to IPR&D was determined by considering the importance of each project to our overall development plan, estimating costs to develop the purchased IPR&D into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value based on the percentage of completion of the IPR&D projects. Purchased IPR&D relates primarily to projects associated with the TippingPoint UnityOne® products and Software Management System product, which had not yet reached technological feasibility as of the acquisition date and have no alternative future use. We utilized the multi-period excess earnings method to value the IPR&D, using a discount rate of 20 percent. At the time of acquisition, it was estimated that these development efforts would be completed over the next twelve months at an estimated cost of approximately \$10 million. As of February 28, 2006, these projects had been completed.

Pro forma Results of Operations

The following unaudited pro forma financial information presents the consolidated results of operations of 3Com and H3C as if the acquisition of full control of H3C had occurred as of the beginning of the periods presented below. Preliminary adjustments, which reflect the amortization of purchased intangible assets, in-process research and development and charges to cost of sales for inventory write-ups, have been made to the consolidated results of operations. We also eliminate the inter-company activity between the parties in the consolidated results. The unaudited proforma financial information is not intended, and should not be taken as representative of our future consolidated results of operations or financial condition or the results that would have occurred had the acquisition occurred as of the beginning of the earliest period.

(in millions, except per share amounts)

	Fiscal Year	
	2007	2006
Net sales	\$ 1,267.5	\$ 1,146.8
Net loss	(201.3)	(102.2)
Basic and diluted net loss per share	\$ (0.51)	\$ (0.26)

Our 2006 consolidated statements of cash flows reflect \$110.4 million of the line item businesses acquired in purchase transactions, net of cash acquired. This reflects acquired cash of \$138.4 million on January 31, 2006 offset by the purchase price payment of \$28.0 million for an additional 2 percent ownership of H3C.

Roving Planet Acquisition

On December 5, 2006, the Company acquired certain assets and liabilities of Roving Planet, Inc. (“Roving Planet”) to support our strategy of extending our appliance-based intrusion prevention system (“IPS”) business to include network access control (“NAC”) features. Under the terms of the definitive agreement the Company acquired the Roving Planet assets for \$8.0 million in cash, plus assumption of liabilities of approximately \$0.2 million.

The consolidated financial statements include the operating results of Roving Planet from the date of acquisition, as part of the Company’s SCN operating segment. Pro forma results for the Roving Planet acquisition have not been presented because the effects of the acquisitions were not material to the Company’s financial results.

The Company’s methodology for allocating the purchase price for purchase acquisitions to in-process research and development, purchased intangible assets and goodwill is determined through established valuation techniques. In-process research and development is expensed upon acquisition because technological feasibility has not been established and no future alternative uses exist.

Based upon these established valuation techniques the Company assigned the purchase price for the acquisition in the following manner (in millions):

	2007 Preliminary Purchase Price Allocation	Useful Life for Purchased Intangible Assets
In-process research and development	\$ 1.7	-
Purchased core technology	3.1	3 years
Goodwill	3.2	-
Other	0.2	-
Total acquisition value	<u>\$ 8.2</u>	-

The purchase price and related allocation are preliminary and may be revised as a result of adjustments made to the purchase price, additional information regarding liabilities assumed, including revisions of preliminary estimates of fair values made at the date of purchase.

Note 4: Restructuring Charges

In recent fiscal years, we have undertaken several initiatives involving significant changes in our business strategy and cost structure.

In fiscal 2001, we began a broad restructuring of our business to enhance the focus and cost effectiveness of our business units in serving their respective markets. These restructuring efforts continued through fiscal 2004. We took the following specific actions in fiscal 2001, 2002, 2003, and 2004 (the “Fiscal 2001, 2002, 2003, and 2004 Actions”):

- announced the integration of the support infrastructure of two of our business units to leverage a common infrastructure in order to drive additional costs out of the business;
- organized around independent businesses that utilized shared central services;
- outsourced the manufacturing of certain high volume desktop, mobile and server connectivity products in a contract manufacturing arrangement;
- entered into an agreement to outsource certain information technology (IT) functions;
- outsourcing of our remaining manufacturing operations in Dublin, Ireland;
- reduced our workforce; and
- continued efforts to consolidate and dispose of excess facilities.

During fiscal 2005 (the “Fiscal 2005 Actions”), we took the following additional measures to reduce costs:

- Reductions in workforce; and
- continued efforts to consolidate and dispose of excess facilities.

During fiscal 2006 (the “Fiscal 2006 Actions”), we took the following additional measures to reduce costs:

- Reductions in workforce; and
- continued efforts to consolidate and dispose of excess facilities.

During fiscal 2007 (the “Fiscal 2007 Actions”), we took the following additional measures to reduce costs:

- Further reductions in workforce; and
- continued efforts to consolidate and dispose of excess facilities.

Restructuring charges related to these various initiatives were \$3.5 million in fiscal 2007, \$14.4 million in fiscal 2006, and \$23.9 million in fiscal 2005. Such charges were net of credits of \$13.3 million in fiscal 2007, \$0.1 million in fiscal 2006, and \$7.6 million in fiscal 2005, related primarily to revisions of previous estimates of employee separation expenses, lease obligation costs and values on held for sale properties.

Accrued liabilities associated with restructuring charges are included in the caption “Accrued liabilities and other” in the accompanying consolidated balance sheets. These liabilities are classified as current because we expect to satisfy such liabilities in cash within the next 12 months.

Fiscal 2007 Actions

Activity and liability balances related to the fiscal 2007 restructuring actions are as follows (in thousands):

	Employee Separation Expense	Facilities- related Charges	Other Restructuring Costs	Total
Balance as of June 1, 2006	\$ -	\$ -	\$ -	\$ -
Provisions	12,134	(7,501)	247	4,880
Payments and non-cash charges	<u>(10,804)</u>	<u>7,765</u>	<u>(247)</u>	<u>(3,286)</u>
Balance as of May 31, 2007	<u>\$ 1,330</u>	<u>\$ 264</u>	<u>\$ -</u>	<u>\$ 1,594</u>

Employee separation expenses include severance pay, outplacement services, medical and other related benefits. The reduction in workforce affected employees involved in research and development, sales and marketing, customer support, and general and administrative functions. Through May 31, 2007, the total reduction in workforce associated with actions initiated during fiscal 2007 included approximately 233 employees who had been separated or were currently in the separation process and approximately 15 additional employees who had been notified but had not yet worked their last day.

We believe that the all remaining actions will be completed by the end of fiscal 2008.

Fiscal 2006 Actions

Activity and liability balances related to the fiscal 2006 restructuring actions are as follows (in thousands):

	Employee Separation Expense	Facilities- related Charges	Total
Balance as of June 1, 2005	\$ -	\$ -	\$ -
Provisions	9,558	1,635	11,193
Payments and non-cash charges	<u>(4,681)</u>	<u>(744)</u>	<u>(5,425)</u>
Balance as of May 31, 2006	4,877	891	5,768
Provisions	(688)	(136)	(824)
Payments and non-cash charges	<u>(4,189)</u>	<u>(619)</u>	<u>(4,808)</u>
Balance as of May 31, 2007	<u>\$ -</u>	<u>\$ 136</u>	<u>\$ 136</u>

Employee separation expenses include severance pay, outplacement services, medical and other related benefits. The reduction in workforce affected employees involved in research and development, sales and marketing, customer support, and general and administrative functions. Through May 31, 2007, the total reduction in workforce associated with actions initiated during fiscal 2006 included approximately 227 employees who had been separated or were currently in the separation process and approximately 41 additional employees who had been notified but had not yet worked their last day.

We believe that the all remaining actions will be completed by the end of fiscal 2008.

Fiscal 2005 Actions

Activity and liability balances related to the fiscal 2005 restructuring actions are as follows (in thousands):

	<u>Employee Separation Expense</u>	<u>Long-term Asset Write-downs</u>	<u>Facilities- related Charges</u>	<u>Other Restructuring Costs</u>	<u>Total</u>
Balance as of June 1, 2004	\$ -	\$ -	\$ -	\$ -	\$ -
Provisions	23,391	1,021	468	768	25,648
Payments and non-cash charges	<u>(15,186)</u>	<u>(766)</u>	<u>(80)</u>	<u>(755)</u>	<u>(16,787)</u>
Balance as of May 31, 2005	8,205	255	388	13	8,861
Provisions	1,873	221	32	364	2,490
Payments and non-cash charges	<u>(8,235)</u>	<u>(221)</u>	<u>(420)</u>	<u>(364)</u>	<u>(9,240)</u>
Balance as of May 31, 2006	1,843	255	-	13	2,111
Provisions	(1,395)	(255)	32	(13)	(1,631)
Payments and non-cash charges	<u>(145)</u>	<u>-</u>	<u>(32)</u>	<u>-</u>	<u>(177)</u>
Balances as of May 31, 2007	<u>\$ 303</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 303</u>

Employee separation expenses include severance pay, outplacement services, medical and other related benefits. The reduction in workforce affected employees involved in research and development, sales and marketing, customer support, general and administrative, and manufacturing functions. Through May 31, 2007, the total reduction in workforce associated with actions initiated during fiscal 2005 included approximately 397 employees who had been separated or were currently in the separation process and approximately 3 additional employees who had been notified but had not yet worked their last day. The provision of \$1.9 million recorded in fiscal 2006 relates to employees separation costs for employees that were not notified or had not worked their last day until fiscal 2006. For the year ended May 31, 2007, 2006 and 2005, total separation payments associated with actions initiated during fiscal 2005 were approximately \$0.1 million, \$8.2 million and \$15.2 million, respectively.

Long-term asset write-downs were associated with assets that no longer support our continuing operations. The provision of \$1.0 million was related to capitalized software licenses with no future benefit (\$0.5 million) and leasehold improvements in vacated facilities (\$0.5 million).

Facilities-related charges included write-downs and accelerated depreciation of properties, including properties that were classified as held for sale prior to fiscal 2005, as well as expenses related to lease obligations.

Other restructuring costs of \$0.4 million and \$0.8 million for the years ended May 31, 2006 and 2005, respectively, included payments to suppliers and contract termination fees.

We believe that the all remaining actions will be completed by the end of fiscal 2008.

Fiscal 2001, 2002, 2003 and 2004 Actions

Activity and liability balances related to the fiscal 2001, 2002, 2003 and 2004 restructuring actions are as follows (in thousands):

	<u>Employee Separation Expense</u>	<u>Long-term Asset Write-downs</u>	<u>Facilities- related Charges</u>	<u>Other Restructuring Costs</u>	<u>Total</u>
Balance as of May 31, 2004	\$ 5,529	\$ -	\$ 9,819	\$ 82	\$ 15,430
Provisions	(2,829)	12	813	278	(1,726)
Payments and non-cash charges	<u>(2,700)</u>	<u>(12)</u>	<u>(1,891)</u>	<u>(355)</u>	<u>(4,958)</u>
Balance as of May 31, 2005	-	-	8,741	5	8,746
Provisions	-	90	609	-	699
Payments and non-cash charges	<u>-</u>	<u>(90)</u>	<u>(3,709)</u>	<u>-</u>	<u>(3,799)</u>
Balance as of May 31, 2006	-	-	5,641	5	5,646
Provisions	-	-	1,053	16	1,069
Payments and non-cash charges	<u>-</u>	<u>-</u>	<u>(5,351)</u>	<u>(21)</u>	<u>(5,372)</u>
Balance as of May 31, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,343</u>	<u>\$ -</u>	<u>\$ 1,343</u>

The reductions in workforce affected employees involved in sales, customer support, product development, and general and administrative positions. During fiscal 2005, we recorded a net benefit related to revisions of previous estimates of employee separation expenses.

Facilities-related charges included accelerated depreciation of buildings, write-downs of land and buildings held for sale, losses on sales of facilities, and lease obligations.

Other restructuring costs included payments to suppliers and contract termination fees.

We believe that the all remaining actions will be completed by the end of fiscal 2008.

Note 5: Investment in Unconsolidated Joint Venture

As described in Note 3 we formed the Huawei-3Com joint venture (H3C) with a subsidiary of Huawei Technologies, Ltd. (Huawei).

At the time of formation, we contributed cash of \$160.0 million, assets related to our operations in China and Japan, and licenses related to certain intellectual property in exchange for a 49 percent ownership interest. We recorded our initial investment in H3C at \$160.1 million, reflecting our carrying value for the cash and assets contributed. Huawei contributed its enterprise networking business assets - including Local Area Network (LAN) switches and routers; engineering, sales, marketing resources and personnel; and licenses to its related intellectual property - in exchange for a 51 percent ownership interest. Huawei's contributed assets were valued at \$178.2 million at the time of formation.

Prior to the acquisition we accounted for our investment by the equity method. Under this method, we recorded our proportionate share of H3C's net income or loss based on the most recently available quarterly financial statements. Since H3C follows a calendar year basis of reporting, we reported our equity in H3C's net loss for H3C's fiscal period from April 1, 2005 through January 31, 2006 for the fiscal year 2006, April 1, 2004 through March 31, 2005 for the fiscal year 2005 in our results of operations for fiscal 2006 and 2005. This represents reporting two months in arrears.

Summarized information from the balance sheet and statement of operations for H3C for the ten month period ended January 31, 2006, and for the year ended March 31, 2005 (in thousands):

	January 31, 2006	March 31, 2005
<u>Balance Sheet</u>		
Current assets	\$ 404,068	\$ 259,369
Non-current assets	132,130	149,571
Current liabilities	210,853	109,097
Non-current liabilities	8,866	8,866
<u>Statement of Operations:</u>		
Sales	\$ 399,612	\$ 297,977
Gross profit	181,553	120,498
Income (loss) from operations	10,132	(17,064)
Net income (loss)	22,487	(14,125)

In determining our share of the net loss of H3C certain adjustments are made to H3C's reported results. These adjustments are made primarily to recognize the value and the related amortization expense associated with Huawei's contributed assets, as well as to defer H3C's sales and gross profit on sales of products sold to us that remained in our inventory at the end of the accounting period. We recorded our equity interest in income (loss) of \$11.0 million in fiscal 2006 (prior to the acquisition of majority ownership on January 27, 2006) for the period April 1, 2005 through January 31, 2006 and, (\$6.9) million in fiscal 2005 for the period April 1, 2004 through March 31, 2005 as our share of H3C's net income (loss); this income (loss) is included in our results of operations under the caption "Equity interest in income (loss) of unconsolidated joint venture."

3Com and H3C are parties to agreements for the sale of certain products between the two companies. During the ten months ended January 31, 2006 (date of the 2 percent acquisition) we recorded sales to H3C of approximately \$10.6 million and made purchases of approximately \$53.8 million. During fiscal 2005, we recorded sales to H3C of approximately \$13.2 million and made purchases of approximately \$26.9 million.

Note 6: Investments

Available-for-sale securities consist of (in thousands):

May 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Publicly traded corporate equity securities	\$ 257	\$ 210	\$ -
Total	<u>\$ 257</u>	<u>\$ 210</u>	<u>\$ -</u>
May 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
State and municipal securities	\$ 22,816	\$ -	\$ (96)
U.S. Government and agency securities	136,317	13	(486)
Corporate debt securities	205,793	13	(1,120)
Short-term investments	364,926	26	(1,702)
Publicly traded corporate equity securities	309	93	-
Total	<u>\$ 365,235</u>	<u>\$ 119</u>	<u>\$ (1,702)</u>

The total cost and carrying value of corporate equity securities consist of (in thousands):

		May 31, 2007
		Carrying Value
Publicly traded corporate equity securities		\$ 467
Total corporate equity securities		\$ 467

		May 31, 2006
		Initial Cost
		Carrying Value
Investments in limited partnership venture capital funds	\$ 25,498	\$ 15,794
Direct investments in private companies	12,262	91
Total private equity investments	\$ 37,760	15,885
Publicly traded corporate equity securities		402
Total corporate equity securities		\$ 16,287

Publicly traded corporate equity securities are included in other current assets. Private equity instruments are included in deposits and other assets.

The following table provides gross realized gains and losses related to our investments (in thousands):

	Years Ended May 31,		
	2007	2006	2005
Gross realized gains	\$ 3,560	\$ 5,499	\$ 3,594
Gross realized losses	(2,417)	(1,166)	(2,014)
Total	\$ 1,143	\$ 4,333	\$ 1,580

Note 7: Inventories

Inventories consist of (in thousands):

	May 31,	
	2007	2006
Finished goods	\$ 61,857	\$ 69,386
Work-in-process	7,143	12,777
Raw materials	38,988	66,656
Total	\$ 107,988	\$ 148,819

Note 8: Property and Equipment

Property and equipment, net, consists of (in thousands):

	May 31,	
	2006	2006
Land	\$ 1,724	\$ 6,999
Buildings and improvements	-	11,122
Machinery and equipment	231,886	202,407
Software	31,387	63,814
Furniture and fixtures	20,217	21,161
Leasehold improvements	17,201	13,667
Construction in progress	8,599	2,883
Total	311,014	322,053
Accumulated depreciation and amortization	(234,554)	(232,944)
Property and equipment, net	\$ 76,460	\$ 89,109

Significant property and equipment transactions

For the Year Ended May 31, 2007. We continue to carry the Hemel Hempstead land as held for use, which was damaged in December of 2005, on our balance sheet. Based on the size of the experienced damage, our insurance policy administrator paid us a reimbursement value of approximately \$28 million. Furthermore, with no feasible business necessity to keep this property, we are soliciting offers from prospective buyers to acquire the building and land. Any sale would be contingent on UK government agencies allowing reconstruction of the building. We believe this process will take more than one year and as a result we have kept the land classified as held for use. In the first fiscal quarter we received \$16.0 million of proceeds from the sale of our Santa Clara facility.

For the Year Ended May 31, 2006. On December 11, 2005, our Europe, Middle East and Africa headquarters facility in Hemel Hempstead, United Kingdom was damaged by explosions at a third-party oil depot facility which occurred approximately one quarter mile from our facility. Approximately 300 employees and contractors worked at our Hemel campus, primarily in our sales, marketing and product operations groups. The incident occurred during non-business hours and no employee casualties or injuries were reported. We activated our back-up systems and established business operations at alternative facilities to ensure business continuity and minimize disruption to our customers. We believe we have sufficient insurance and recourse against third parties so that any loss incurred by us in connection with these explosions should not have a material adverse effect on our results of operations. The building is currently not being used for operations and the carrying amount of \$16.2 million has been reclassified from property and equipment to other non-current assets and the associated depreciation has been ceased.

For the Year Ended May 31, 2005. In February 2005, we completed the sale of certain properties in Hemel Hempstead, U.K. that were classified as held for sale. This property, consisting of approximately 111,000 square feet of office and research and development space, previously had been used for our administrative and research and development activities. Net proceeds from the sale resulted in a gain on the sale of \$0.1 million that was recorded in restructuring charges in the third quarter of fiscal 2005.

Note 9: Intangible Assets

Intangible assets consist of (in thousands):

	May 31, 2007			May 31, 2006		
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Existing technology	\$ 387,233	\$(148,641)	\$ 238,592	\$ 203,946	\$(114,235)	\$ 89,711
Trademark	55,500	-	55,500	-	-	-
Huawei non-compete agreement	33,000	(61)	32,939	-	-	-
OEM agreement	23,800	(22)	23,778	-	-	-
Maintenance contracts	19,000	(7,389)	11,611	19,000	(4,222)	14,778
Other	21,924	(13,055)	8,869	15,301	(7,945)	7,356
Total	<u>\$ 540,457</u>	<u>\$(169,168)</u>	<u>\$371,289</u>	<u>\$ 238,247</u>	<u>\$(126,402)</u>	<u>\$111,845</u>

During fiscal 2007, we recorded approximately \$298.2 million and \$3.1 million of intangible assets related to the H3C acquisition and the Roving Planet acquisition, respectively (See Note 3). These amounts were recognized for the fair value of existing technology, maintenance agreements, trade name and trademarks, distributor agreements and non-competition agreements. These intangible assets have a weighted-average useful life of approximately four years.

During fiscal 2007, we reclassified \$0.9 million of goodwill that no longer has an indefinite life to intangible assets.

During fiscal 2006, we recorded approximately \$132.6 million of intangible assets related to the H3C acquisition and our consolidation of H3C (See Note 3). These amounts were recognized for the fair value of existing technology, maintenance agreements, trade name and trademarks, and non-competition agreements. These intangible assets have a weighted-average useful life of approximately four years.

During fiscal 2005, we recorded approximately \$69.9 million of intangible assets related to the TippingPoint acquisition (See Note 3). These amounts were recognized for the fair value of existing technology, maintenance agreements, trade name and trademarks, and non-competition agreements. These intangible assets have a weighted-average useful life of approximately five years.

Annual amortization expense related to intangible assets is expected to be as follows for each of the following five succeeding fiscal years (in thousands):

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Amortization expense	\$103,431	\$81,240	\$60,337	\$36,206	\$15,163

Note 10: Accrued Liabilities and Other

Accrued liabilities and other consist of (in thousands):

	May 31,	
	2007	2006
Accrued payroll and related expenses	\$ 81,791	\$ 88,305
EARP Accrual	94,563	16,960
Accrued rebates and other marketing	67,446	60,301
Deferred revenue	54,034	57,050
Accrued product warranty	40,596	41,791
Income and other taxes payable	36,365	25,759
Advance from customers	8,300	-
Restructuring	3,376	13,525
Other	49,167	14,345
Total	<u>\$ 435,638</u>	<u>\$ 318,036</u>

Note 11: Accrued Warranty and Other Guarantees

Most products are sold with varying lengths of warranty ranging from 90 days to limited lifetime. Allowances for estimated warranty obligations are recorded in the period of sale, based on historical experience related to product failure rates and actual warranty costs incurred during the applicable warranty period and are recorded as part of cost of goods sold. Also, on an ongoing basis, we assess the adequacy of our allowances related to warranty obligations recorded in previous periods and may adjust the balances to reflect actual experience or changes in future expectations.

The following table summarizes the activity in the allowance for estimated warranty costs (in thousands):

	Years Ended May 31,		
	2007	2006	2005
Accrued warranty, beginning of period	\$ 41,791	\$ 41,782	\$ 43,825
Cost of warranty claims	(46,950)	(32,958)	(32,910)
Accrual for warranties issued during the period	46,406	28,424	30,867
Adjustments to preexisting warranties	(651)	-	-
Reserves related to H3C at date of 2 percent acquisition	-	4,543	-
Accrued warranty, end of period	<u>\$ 40,596</u>	<u>\$ 41,791</u>	<u>\$ 41,782</u>

Note 12: Long-Term Debt

On March 22, 2007, H3C Holdings Limited (the “Borrower”), an indirect wholly-owned subsidiary of 3Com Corporation, entered into the Credit and Guaranty Agreement dated as of March 22, 2007 among H3C Holdings Limited, as Borrower, 3Com Corporation, 3Com Holdings Limited and 3Com Technologies, as Holdco Guarantors, various Lenders, Goldman Sachs Credit Partners L.P., as Mandated Lead Arranger, Bookrunner, Administrative Agent and Syndication Agent (“GSCP”), and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent (the “Credit Agreement”). On March 28, 2007, the Borrower borrowed \$430 million under the Credit Agreement in the form of a senior secured term loan to finance a portion of the purchase price for 3Com’s acquisition of 49 percent of H3C Technologies Co., Limited, or H3C.

On May 25, 2007, the parties amended and restated the Credit Agreement in order to, among other things, convert the facility into two tranches with different principal amortization schedules and different interest rates, as further described below (the “A&R Loans”). The parties closed the A&R Loans on May 31, 2007.

The A&R Loans are subject to the terms and conditions of an Amended and Restated Credit and Guaranty Agreement dated as of May 25, 2007 and effective as of May 31, 2007 among H3C Holdings Limited, as Borrower, 3Com Corporation, 3Com Holdings Limited and 3Com Technologies, as Holdco Guarantors, H3C, as a Guarantor, various Lenders, GSCP, as Mandated Lead Arranger, Bookrunner, Administrative Agent and Syndication Agent, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent (the “A&R Credit Agreement”).

As amended, borrowings under the Credit Agreement consist of two tranches with different principal amortization schedules and different interest rates. The first tranche, the “Tranche A Term Facility,” matures in 2010 and its aggregate principal amount of \$230 million is payable as to 40 percent in year one and then evenly (20 percent per year) over the succeeding three years. The second tranche, the “Tranche B Term Facility,” matures in 2012 and its \$200 million principal amount is payable primarily in its fourth (10 percent) and fifth (86 percent) years. Moody’s Investors Service has assigned a Ba2 rating to the A&R Loans and a Ba2 corporate family rating (stable outlook) to H3C Holdings Limited. Standard & Poor’s Ratings Services assigned the A&R Loans a ‘BB’ rating (with a recovery rating of ‘1’) and assigned a BB- corporate credit rating (stable outlook) to H3C Holdings Limited. We are required to maintain a rating from each of these agencies during the term of the A&R Loans.

Interest on borrowings is payable semi-annually on March 28 and September 28, commencing on September 28, 2007. All amounts outstanding under the Tranche A Term Facility will bear interest, at the Borrower’s option, at the (i) LIBOR, or (ii) Base Rate (i.e., prime rate), in each case plus the applicable margin percentage set forth in the table below, which is based on a “leverage ratio” of consolidated indebtedness of the Borrower and its subsidiaries to EBITDA (as defined in the A&R Credit Agreement, and calculated to exclude certain one-time nonrecurring charges) for the relevant twelve-month period:

Leverage Ratio	LIBOR +	Base Rate +
>3.0:1.0	2.25%	1.25%
≤ 3.0:1.0 but > 2.0:1.0	2.00%	1.00%
≤ 2.0:1.0 but > 1.0:1.0	1.75%	0.75%
≤ 1.0:1.0	1.50%	0.50%

All amounts outstanding under the Tranche B Term Facility will bear interest, at the Borrower’s option, at the (i) LIBOR plus 3.00 percent or (ii) Base Rate (i.e., prime rate) plus 2.00 percent. We have elected to use LIBOR as the reference rate for borrowings to date, and expect to do so for the foreseeable future. In addition, the applicable margin for the Tranche A Term Facility is 2.00 percent at May 31, 2007.

A default rate shall apply on all obligations in the event of default under the A&R Loans at a rate per annum of 2 percent above the applicable interest rate.

The Borrower’s principal asset is 100 percent of the shares of H3C. Covenants and other restrictions under the A&R Credit Agreement generally apply to the Borrower and its subsidiaries, which we refer to as the “H3C Group.” 3Com’s SCN segment is not generally subject to the terms of the A&R Credit Agreement, other than through parental guarantees. Required payments under the loan are generally expected to be serviced by cash flows from the H3C Group and the loan is secured by assets at the H3C level, as well as the parental guarantees (which are expected to be released after H3C effects a successful capital reduction).

The A&R Loans may be prepaid in whole or in part without premium or penalty. The Borrower will be required to make mandatory prepayments using net proceeds from H3C Group (i) asset sales, (ii) insurance proceeds and (iii) equity offerings or debt incurrence. In addition, the Borrower will be required to make annual prepayments in an amount equal to 75 percent of “excess cash flow” of the H3C Group. This percentage will decrease to the extent that the Borrower’s leverage ratio is lower than specified amounts. Any excess cash flow amounts not required to prepay the loan may be distributed to and used by the Company’s SCN segment, provided certain conditions are met.

H3C and all other existing and future subsidiaries of the Borrower (other than PRC subsidiaries or small “excluded subsidiaries”) will guarantee all obligations under the A&R Loans and are referred to as “Guarantors.” Additionally, 3Com Corporation, 3Com Holdings Limited and 3Com Technologies, will also guarantee all obligations under the A&R Loans until H3C effects a successful capital reduction; these entities are referred to as “Parent Guarantors” and are not considered “Guarantors.” The loan obligations will be secured by (1) first priority security interests in all assets of the Borrower and the Guarantors, including their bank accounts, and (2) a first priority security interest in 100 percent of the capital stock of the Borrower and H3C and the PRC subsidiaries of H3C.

The Borrower must maintain a minimum debt service coverage, minimum interest coverage, maximum capital expenditures and a maximum total leverage ratio. Negative covenants restrict, among other things, (i) the incurrence of indebtedness by the Borrower and its subsidiaries, (ii) the making of dividends and distributions to 3Com's SCN segment, (iii) the ability to make investments including in new subsidiaries, (iv) the ability to undertake mergers and acquisitions and (v) sales of assets. Also, cash dividends from the PRC subsidiaries to H3C, and H3C to the Borrower, will be subject to restricted use pending payment of principal, interest and excess cash flow prepayments. Standard events of default apply.

Payments of principal on the A&R Loans are due as follows on September 28, for fiscal years ending May 31 (in thousands):

	Tranche A	Tranche B
2008	\$92,000	\$2,000
2009	46,000	2,000
2010	46,000	2,000
2011	46,000	2,000
2012	-	20,000
2013	-	172,000

Note 13: Borrowing Arrangements and Commitments

During fiscal 2005, our revolving credit facility was allowed to expire according to its terms in November 2004, and we entered into a new arrangement to facilitate the issuance of standby letters of credit and bank guarantees required in the normal course of business. Since we provide collateral for any standby letters of credit and bank guarantees issued under this agreement, the availability of additional issuances is restricted by the amount of cash and short-term investments that we can provide as collateral. As of May 31, 2007, these facilities were backed by collateral of \$5.9 million provided to the respective banks.

We lease certain of our facilities under operating leases. Leases expire at various dates from 2008 to 2012, and certain leases have renewal options with rentals based upon changes in the Consumer Price Index or the fair market rental value of the property. We also sublet certain of our leased and owned facilities to third party tenants. The sublease agreements expire at various dates from 2008 to 2011.

Future operating lease commitments and future rental income as of May 31, 2007 are as follows (in thousands):

Fiscal year	Future Lease Payments	Future Rental Income
2008	\$ 27,671	\$ 2,341
2009	15,486	838
2010	3,647	541
2011	383	70
2012	42	-
Total	<u>\$ 47,229</u>	<u>\$ 3,790</u>

Rent expense was approximately \$27.7 million in fiscal 2007, \$16.3 million in fiscal 2006, and \$16.5 million in fiscal 2005. Rental income, which includes rents received for both owned and leased property, was \$5.5 million in fiscal 2007, \$6.8 million in fiscal 2006, and \$6.0 million in fiscal 2005, and is recorded as an offset to operating expenses.

In September 2006 we sold all of our remaining venture portfolio and generated cash of approximately \$1.3 million with a loss on sale of investments of \$0.7 million. In August 2006, we sold certain limited partnership interests and generated cash of approximately \$17.0 million with a gain on sale of investment of \$2.4 million and eliminated our future capital call requirements.

Note 14: Stock Based Compensation Plans

In December 2004, the FASB issued SFAS No. 123(R) "Share-Based Payment", which requires all stock-based compensation expense to employees (as defined in SFAS No. 123(R)), including grants of employee stock options, restricted stock awards, restricted stock units, and employee stock purchase plan shares to be recognized in the financial statements based on their fair values. We adopted SFAS No. 123(R) on June 3, 2006 using the modified prospective transition method and accordingly, prior period amounts have not been restated. In order to determine the fair value of stock options and employee stock purchase plan shares, we use the Black-Scholes option pricing model and apply the single-option valuation approach to the stock option valuation. In order to determine the fair value of restricted stock awards and restricted stock units we use the closing market price of 3Com common stock on the date of grant. We recognize stock-based compensation expense on a straight-line basis over the requisite service period of the awards for options granted following the adoption of SFAS No. 123(R) for time vested awards. We recognize compensation expense for performance based restricted stock in the fiscal quarter when an event makes the probability that performance will more than likely be achieved. For unvested stock options outstanding as of May 31, 2006, we will continue to recognize stock-based compensation expense using the accelerated amortization method prescribed in FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans".

Estimates of the fair value of equity awards in future periods will be affected by the market price of our common stock, as well as the actual results of certain assumptions used to value the equity awards. These assumptions include, but are not limited to, the expected volatility of the common stock price, the expected term of options granted, and the risk free interest rate.

As noted above, the fair value of stock options and employee stock purchase plan shares is determined by using the Black-Scholes option pricing model and applying the single-option approach to the stock option valuation. The options generally vest on an annual basis over a period of four years. We estimate the expected option term by analyzing the historical term period from grant to exercise and also consider the expected term for those options that are still outstanding. The expected term of employee stock purchase plan shares is the average of the remaining purchase periods under each offering period. For equity awards granted after May 31, 2006, the volatility of the common stock is estimated using the historical volatility. We believe that historical volatility represents the best information currently available for projecting future volatility.

The risk-free interest rate used in the Black-Scholes option pricing model is based on the historical U.S. Treasury zero-coupon bond issues with terms corresponding to the expected terms of the equity awards. In addition, an expected dividend yield of zero is used in the option valuation model because we do not expect to pay any cash dividends in the foreseeable future. In accordance with SFAS No. 123(R), we are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods based upon new information. In order to determine an estimated pre-vesting option forfeiture rate, we used historical forfeiture data, which currently yields an expected forfeiture rate of 27 percent. This estimated forfeiture rate has been applied to all unvested options and restricted stock outstanding as of May 31, 2006 and to all options and restricted stock granted since May 31, 2006. Therefore, stock-based compensation expense is recorded only for those options and restricted stock that are expected to vest.

The Company's policy is to issue new shares, or reissue shares from treasury stock, upon settlement of share based payments.

The following table summarizes the incremental effects of the share-based compensation expense resulting from the application of SFAS No. 123(R) to the stock options, restricted stock and employee stock purchase plan:

(In thousands, except per share data)

	<u>May 31, 2007</u>
Cost of sales	\$ 1,576
Sales and marketing	5,756
Research and development	4,621
General and administrative	8,142
Incremental share-based compensation effect of SFAS No. 123(R) on net loss	<u>\$ 20,095</u>

As of May 31, 2007, total unrecognized stock-based compensation expense relating to unvested employee stock options, restricted stock and employee stock purchase plan, adjusted for estimated forfeitures, was \$20.1 million. This amount is expected to be recognized over a weighted-average period of 2.7 years. If actual forfeitures differ from current estimates, total unrecognized stock-based compensation expense will be adjusted for future changes in estimated forfeitures.

Prior to June 1, 2006, we accounted for stock options using the intrinsic value method, pursuant to the provisions of Accounting Principles Board (“APB”) No. 25. Under this method, stock-based compensation expense was measured as the difference between the option’s exercise price and the market price of the Company’s common stock on the date of grant.

Pro forma information required under SFAS No. 123 for the prior fiscal years, as if we had applied the fair value recognition provisions of SFAS No. 123 to awards granted under our equity incentive plans, was as follows:

(In thousands, except per share amounts)	May 31, 2006	May 31, 2005
Net loss as reported	\$ (100,675)	\$ (195,686)
Add: Stock-based compensation included in reported net loss	9,846	2,841
Deduct: Total stock-based compensation determined under the fair value-based method, net of related tax effects	(25,496)	(16,203)
Adjusted net loss	<u>\$ (116,325)</u>	<u>\$ (209,048)</u>
Net loss per share-basic and diluted:		
As reported	\$ (0.26)	\$ (0.51)
Adjusted	\$ (0.30)	\$ (0.55)

There were 1.4 million shares of common stock issued under the employee stock purchase plan during the year ended May 31, 2007. Employee stock purchases normally occur only in the quarters ended November 30 and May 31.

Share-based compensation recognized in the year ended May 31, 2007 as a result of the adoption of SFAS No. 123(R) as well as pro forma disclosures according to the original provisions of SFAS No. 123 for periods prior to the adoption of SFAS No. 123(R) use the Black-Scholes option pricing model for estimating the fair value of options granted under the company’s equity incentive plans. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. The underlying weighted-average assumptions used in the Black-Scholes model and the resulting estimates of fair value per share were as follows for options granted during the years ended May 31, 2007, May 31, 2006 and May 31, 2005:

	2007	2006 ¹	2005 ¹
<i>Employee stock options:</i>			
Volatility	42.7%	41.9%	53.2%
Risk-free interest rate	4.7%	4.3%	3.5%
Dividend yield	0.0%	0.0%	0.0%
Expected life (years)	4.0	4.0	4.0
Fair value per option	\$ 1.67	\$ 1.52	\$ 1.89
<i>Employee Stock Purchase Plan:</i>			
Volatility	39.2%	38.1%	39.2%
Risk-free interest rate	5.1%	4.4%	2.6%
Dividend yield	0.0%	0.0%	0.0%
Expected life (years)	0.5	0.5	0.5
Fair value per option	\$ 1.10	\$ 1.20	\$ 1.04

1 – Assumptions used in the calculation of fair value according to the provisions of SFAS No. 123.

As of May 31, 2007, our outstanding stock options as a percentage of outstanding shares were approximately 13 percent. Stock option detail activity for the period June 1, 2006 to May 31, 2007 was as follows (shares in thousands):

	Number of shares	Weighted-Average Exercise Price
Outstanding, May 31, 2004	56,885	\$ 7.18
Granted	10,002	4.22
TippingPoint options assumed	13,886	1.31
Exercised	(4,273)	2.01
Canceled	<u>(13,141)</u>	<u>6.90</u>
Outstanding, May 31, 2005	63,359	5.83
Granted	21,974	4.22
Exercised	(5,467)	2.07
Canceled	<u>(18,445)</u>	<u>5.83</u>
Outstanding, May 31, 2006	61,421	\$ 5.71
Granted	24,285	4.71
Exercised	(2,527)	3.00
Canceled	<u>(30,899)</u>	<u>5.94</u>
Outstanding, May 31, 2007	<u>52,280</u>	<u>\$ 5.23</u>
Exercisable	<u>22,174</u>	<u>\$6.20</u>
Weighted-average grant-date fair value of options granted		<u>\$1.67</u>

Additional information about employee options outstanding and exercisable at December 31, 2006 is included in the following table:

Range of Exercise Prices	Outstanding Options as of May 31, 2007			Exercisable as of May 31, 2007	
	Number of Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Number of Shares (in thousands)	Weighted-Average Exercise Price
\$ 0.00 - \$ 4.00	11,101	\$ 2.87	5.5	5,360	\$ 2.33
4.01 - 5.00	21,172	4.47	5.7	4,421	4.52
5.01 - 6.00	12,664	5.52	4.8	5,238	5.51
6.01 - 7.00	1,363	6.21	2.4	1,242	6.21
7.01 - 8.00	403	7.35	2.6	354	7.36
8.01 - 22.00	5,577	11.84	2.6	5,559	11.85
Total	<u>52,280</u>	<u>\$ 5.23</u>	<u>5.0</u>	<u>22,174</u>	<u>\$ 6.20</u>

As of May 31, 2007, there were approximately 22.2 million options exercisable with a weighted-average exercise price of \$6.20 per share. By comparison, there were approximately 32.5 million options exercisable as of May 31, 2006 with a weighted-average price of \$6.96 per share.

During the year ended May 31, 2007 approximately 2.5 million options were exercised at an aggregate intrinsic value of \$4.5 million. The intrinsic value above is calculated as the difference between the market value on exercise date and the option price of the shares. The closing market value per share as of June 1, 2007 was \$4.69 as reported by the NASDAQ Global Select Market. The aggregate intrinsic value of options outstanding and options exercisable as of May 31, 2007 was \$25.4 million and \$13.6 million respectively. The aggregate intrinsic value is calculated as the difference between the market value as of June 1, 2007 and the option price of the shares.

Options outstanding that are vested and expected to vest as of May 31, 2007 are as follows:

	Number of Shares	Weighted- Average Option Price	Weighted- Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Vested and expected to vest at May 31, 2007	38,248,782	\$ 5.46	4.60	\$ 21,103

Restricted stock awards activity during the year ended May 31, 2007 and restricted stock awards outstanding as of May 31, 2007, were as follows (shares in thousands):

	Number of Shares (unvested)	Weighted- Average Grant- Date Fair Value
Outstanding, May 31, 2004	723	\$ 4.97
Granted	1,484	4.23
Exercised	(154)	5.31
Canceled	<u>(316)</u>	<u>4.90</u>
Outstanding, May 31, 2005	1,737	4.32
Granted	2,419	3.84
Exercised	(854)	4.07
Canceled	<u>(1,185)</u>	<u>3.96</u>
Outstanding, May 31, 2006	2,117	\$ 4.07
Granted	2,380	4.45
Exercised	(1,151)	4.13
Canceled	<u>(943)</u>	<u>4.30</u>
Outstanding, May 31, 2007	<u>2,403</u>	<u>\$ 4.33</u>

During the year ended May 31, 2007 approximately 1.2 million restricted award shares with an aggregate fair value of \$4.9 million became vested.

Restricted stock unit activity during the year ended May 31, 2007 and restricted stock units outstanding as of May 31, 2007, were as follows (shares in thousands):

	Number of Shares (unvested)	Weighted- Average Purchase Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding June 1, 2006	-	\$ -	-	\$ -
Granted	4,356	-	-	-
Vested	(836)	-	-	3,319
Forfeited	<u>(409)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Outstanding May 31, 2007	<u>3,111</u>	<u>\$ -</u>	1.19	<u>\$ 14,591</u>

During the year ended May 31, 2007 approximately 0.8 million restricted share units with an aggregate fair value of \$3.3 million became vested.

Employee Stock Purchase Plan. We have an employee stock purchase plan (ESPP) under which eligible employees may authorize payroll deductions of up to ten percent of their compensation, as defined, to purchase common stock at a price of 85 percent of the lower of the fair market value as of the beginning or the end of the six-month offering period. In September 2003, our stockholders approved an increase of five million shares available for issuance under the ESPP. We recognized \$1.6 million of stock-based compensation expense in the year ended May 31, 2007.

Preferred Shares Rights Plan. In September 1989, the Board of Directors approved a common stock purchase rights plan, which was amended and restated in December 1994, and again in March 2001. In November 2002, the Board of Directors approved a Third Amended and Restated Preferred Shares Rights Plan (the Preferred Shares Rights Plan), which replaced the March 2001 Plan. The Preferred Shares Rights Plan provides that the preferred share rights (the Rights) will become exercisable only following the acquisition by a person or a group of 15 percent or more of the outstanding common stock or ten days following the announcement of a tender or exchange offer for 15 percent or more of the outstanding common stock (the Distribution Date). After the Distribution Date, each Right will entitle the holder to purchase for \$55.00 (the Exercise Price), one-one thousandth of a share of our Series A Participating Preferred Stock (or cash, stock or other assets approved by the Board of Directors) with economic terms similar to that of one share of our common stock. Upon a person or a group acquiring 15 percent or more of the outstanding common stock, each Right will allow the holder (other than the acquirer) to purchase common stock or securities of 3Com having a then current market value of two times the Exercise Price of the Right. In the event that following the acquisition of 15 percent of the common stock by an acquirer, we are acquired in a merger or other business combination or 50 percent or more of our assets or earning power is sold, each Right will entitle the holder to purchase for the Exercise Price, common stock or securities of the acquirer having a then current market value of two times the Exercise Price. In certain circumstances, the Rights may be redeemed by us at a redemption price of \$0.001 per Right. If not earlier exchanged or redeemed, the Rights will expire on March 8, 2011.

Stock Reserved for Issuance. As of May 31, 2007 we had reserved common stock for issuance as follows (in thousands):

Stock option and restricted stock plans for granted shares	55,391
Stock option and restricted stock plans for future grants	14,918
Employee stock purchase plan	3,510
Total shares reserved for issuance	<u>73,819</u>

In addition, as of May 31, 2007 we had 0.4 million shares of preferred stock reserved for issuance under our Preferred Shares Rights Plan.

Stock Repurchase and Option Programs. During the fourth quarter of fiscal 2005, the Board of Directors approved a new stock repurchase program that authorizes expenditures of up to \$100.0 million during a two-year period which expired March 31, 2007, provided that all repurchases are pre-approved by the Audit and Finance Committee of the Board of Directors. Our prior stock repurchase program was announced on March 19, 2003 and permitted expenditures up to \$100.0 million through March 2005.

Pursuant to these authorizations, we did not repurchase any shares during fiscal 2007 or fiscal 2006. We repurchased 15.0 million shares of our common stock during fiscal 2005 at a cost of \$73.5 million.

Note 15: Financial Instruments

The following summary disclosures concerning our financial instruments are made in accordance with the provisions of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," which requires the disclosure of fair value information about both on- and off-balance sheet financial instruments where it is practicable to estimate the value. Fair value is defined in SFAS No. 107 as the amount at which an instrument could be exchanged in a current transaction between willing parties, rather than in a forced or liquidation sale.

(in thousands)	May 31, 2007		May 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and equivalents	\$ 559,217	\$ 559,217	\$ 501,097	\$ 501,097
Short-term investments	-	-	363,250	363,250
Corporate equity securities	257	467	16,287	16,174

The following methods and assumptions were used in estimating the fair values of financial instruments:

Cash and equivalents. The carrying amounts reported in the consolidated balance sheets for cash and equivalents approximate their estimated fair values.

Short-term investments. The fair values of short-term investments are based on market prices.

Corporate equity securities. Fair value of publicly traded corporate equity securities is based on quoted market prices. Fair value of privately held corporate equity securities is based on all available information. For these non-quoted investments, our policy is to regularly review the assumptions underlying the financial performance of the privately held companies in which the investments are maintained. If and when a determination is made that a decline in fair value below the cost basis is other than temporary, the related investment is written down to its estimated fair value.

Foreign exchange contracts. We enter into foreign exchange forward contracts to hedge certain balance sheet exposures and intercompany balances against future movements in foreign exchange rates. In addition, we enter into foreign exchange forward contracts to hedge exposures related to anticipated foreign currency cash flows other than in China. We do not use foreign forward exchange contracts for speculative or trading purposes.

Our foreign exchange forward contracts require the exchange of foreign currencies for U.S. Dollars or vice versa, and generally mature in one month or less. We had outstanding foreign exchange forward contracts with aggregate notional amounts of \$42.8 million as of May 31, 2007 and \$39.0 million as of May 31, 2006, that had remaining maturities of one month or less. The fair value of foreign exchange forward contracts is based on prevailing financial market information. The carrying amounts, which were also the estimated fair values, of foreign exchange forward contracts were not significant as of May 31, 2007 and 2006. See Note 2 for information concerning our significant accounting policies for foreign exchange forward contracts.

Because SFAS No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements, any aggregation of the fair value amounts presented in the table above would not necessarily represent the underlying value of all of our financial instruments.

Note 16: Interest and Other Income (Expense), Net

Interest and other income (expense), net, consists of (in thousands):

	Years Ended May 31,		
	2007	2006	2005
Interest income	\$ 41,310	\$ 29,297	\$ 22,807
Interest expense	(447)	(212)	(1,401)
Interest income, net	<u>\$ 40,863</u>	<u>\$ 29,085</u>	<u>\$ 21,406</u>
Other income (expense), net	<u>\$ 38,291</u>	<u>\$ 8,235</u>	<u>\$ (4,785)</u>

Other income (expense), net includes \$30.6 million and \$7.3 million in fiscal year 2007 and 2006, respectively, of other income from H3C for an operating subsidy program by the Chinese VAT authorities in the form of a partial refund of VAT taxes collected by H3C from purchasers of software products. Other income also includes a gain from the insurance proceeds from our Hemel facility in fiscal 2007. In 2005, other income (expense), net includes a provision of \$2.4 million for unrecoverable value added tax for prior years that was recorded in fiscal 2005 as a result of an unfavorable tax authority ruling, \$1.5 million loss on foreign exchange, and \$0.9 million of bank charges.

Note 17: Income Taxes

The provision (benefit) for income taxes consists of the following (in thousands):

	Years Ended May 31,		
	2007	2006	2005
Current:			
Federal	\$ -	\$ -	\$ -
State	530	200	308
Foreign	<u>19,640</u>	<u>(14,421)</u>	<u>138</u>
Total current	20,170	(14,221)	446
Deferred			
Federal	-	-	-
State	-	-	-
Foreign	<u>(9,997)</u>	<u>(612)</u>	<u>3,044</u>
Total deferred	<u>(9,997)</u>	<u>(612)</u>	<u>3,044</u>
Total	<u>\$ 10,173</u>	<u>\$ (14,833)</u>	<u>\$ 3,490</u>

The components of net deferred tax assets consist of the following (in thousands):

	<u>May 31, 2007</u>	<u>May 31, 2006</u>
Gross deferred tax assets:		
Operating loss carryforwards	\$ 1,003,569	\$ 975,506
Amortization and depreciation	33,478	42,725
Tax credit carryforwards	55,618	60,075
Capital loss carryforwards	25,828	10,979
Unrealized losses on private investments, net	-	19,053
Royalty and purchased research and development	3,639	9,916
Other	1,270	5,769
	<u>1,123,402</u>	<u>1,124,023</u>
Gross deferred tax assets	1,123,402	1,124,023
Gross deferred tax liabilities:		
Reserves recognized in different periods for tax purposes	(144,486)	(146,565)
Acquired intangibles	(59,115)	(25,375)
Other	-	(1,021)
	<u>(203,601)</u>	<u>(172,961)</u>
Gross deferred tax liabilities	(203,601)	(172,961)
Valuation allowance	<u>(937,075)</u>	<u>(942,758)</u>
Net deferred tax (liabilities) assets	<u>\$ (17,274)</u>	<u>\$ 8,304</u>

Deferred tax assets and liabilities as of May 31, 2007, related to the acquisition of H-3C, TippingPoint and Roving Planet, and May 31, 2006, related to the acquisition of H-3C and TippingPoint, include the tax effect of temporary differences and tax attributes related to these acquisitions. A valuation allowance was recorded as the realization of the TippingPoint and Roving Planet deferred tax assets was uncertain so that the impact on the net deferred tax assets was zero.

We have net operating loss carryforwards related to the following income tax jurisdictions and expiration periods: U.S. federal loss carryforwards of approximately \$2.5 billion expiring between fiscal years 2008 and 2027, substantially all of which expire between fiscal years 2021 and 2027; various state loss carryforwards of approximately \$1.2 billion expiring between 2008 and 2027; and various foreign loss carryforwards with \$15.1 million expiring between 2008 and 2014, and \$18.6 million with an unlimited carryforward period. We also have capital loss carryforwards estimated at approximately \$73.8 million expiring between fiscal years 2009 and 2012; a U.S. federal research credit carryforward of \$25.2 million expiring between 2008 and 2027; a U.S. federal foreign tax credit carryforward of \$6.2 million expiring between 2008 and 2012; and a U.S. federal alternative minimum tax credit carryforward of \$10.7 million that has an unlimited carryforward period.

SFAS No. 109, "Accounting for Income Taxes," requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The valuation allowance relates to net operating loss and credit carryforwards and temporary differences for which we believe that realization is uncertain. The valuation allowance decreased \$5.7 million in fiscal 2007, and increased \$30.6 million in fiscal 2006, and \$92.5 million in fiscal 2005. The total valuation allowance of \$937.1 million includes \$143.5 million attributable to the tax benefit of stock option deductions, which, if recognized, will be allocated directly to paid-in-capital. In addition, the valuation allowance includes approximately \$59.3 million for acquired net operating loss carryforwards which, if realized, would result in a decrease in goodwill.

The provision (benefit) for income taxes differs from the amount computed by applying the federal statutory income tax rate to income before taxes as follows:

	Years Ended May 31,		
	2007	2006	2005
Tax computed at federal statutory rate	(35.0)%	(35.0)%	(35.0)%
State income taxes, net of federal effect	17.1	(2.1)	(2.5)
Provision for combined foreign and U.S. taxes on certain foreign income at rates greater than U.S. rates	31.7	15.2	10.9
Valuation allowance	(3.1)	24.1	27.5
Income tax benefit arising from settlement of foreign tax audit	-	(19.9)	-
Non-deductible purchased in-process technology and merger-related charges	7.0	3.2	0.9
Other	1.8	1.7	0.1
Total	19.5%	(12.8)%	1.9%

Loss before income taxes includes foreign losses of \$20.0 million in fiscal 2007, \$29.9 million in fiscal 2006 and \$47.9 million in fiscal 2005. We have not provided for federal tax on approximately \$293.2 million of undistributed earnings of our foreign subsidiaries because we consider these earnings to be indefinitely reinvested in foreign subsidiary operations.

During fiscal 2006, we settled a tax audit with foreign tax authorities regarding issues covering multiple years. This transaction resulted in the release of \$24.3 million of our tax reserves which were previously reported under the caption "Accrued liabilities and other" on our balance sheet. The release of the reserves resulted in the following amounts being included in the statement of operations; a tax benefit of \$23.0 million included in the caption "Income tax benefit" and a related foreign exchange gain of \$1.3 million included in the caption "Other income (expense), net".

We have certain other domestic and foreign income tax audits that are currently in progress. The outcome of these examinations cannot be predicted with certainty and, should unfavorable rulings be made, assessments against us could be significant. Many of these contingencies arise from periods when we were substantially larger. Reserves for contingencies are based on an assessment of the likelihood of an unfavorable outcome and the expected potential loss from such contingency, and are monitored by management. These reserves are maintained until such time as the matter is settled or the statutory period for adjustment has passed. Adjustments could be required in the future if we determine that the reserves for tax contingencies are inadequate. However, we believe that amounts currently provided for such matters are adequate and that the ultimate resolution of the examinations is not expected to have a material adverse effect on our consolidated financial position or results of operations. As of May 31, 2007, our reserves for such income tax contingencies are \$22.5 million.

H3C is located in the Hangzhou High-tech Zone and obtained a preferential tax rate from the Municipal Tax Bureau because we qualified as a high-and-new technology company. H3C was entitled to tax concessions beginning in 2004 whereby it was exempted from the PRC income tax for two consecutive years and is entitled to a 50% reduction in income tax in the following three years. Consequently the H3C statutory tax rate is 7.5% in respect of calendar 2006, 2007 and 2008. Effective calendar 2009, we expect the H3C statutory rate to be 15%. In March 2007 the PRC enacted a Tax Reform Law, the broad objective of which is to standardize the tax treatment of foreign-owned enterprises with that of domestic-owned enterprises. One of the effects of the new law is that there will be a unified PRC corporate income tax rate of 25%. It is proposed that some high-tech enterprises will be exempt from the increased rate, and although much of the detail of the new law is yet to be issued in regulations, we believe that we will continue to qualify as a high-tech enterprise and therefore that these tax concessions will continue to be available for the foreseeable future.

Note 18: Net Loss per Share

The following table presents the calculation of basic and diluted earnings per share (in thousands, except per share data):

	Years Ended May 31,		
	2007	2006	2005
Net loss	<u>\$ (88,589)</u>	<u>\$ (100,675)</u>	<u>\$ (195,686)</u>
Weighted-average shares - Basic	393,894	386,801	382,309
Effect of dilutive securities:			
Employee stock options	-	-	-
Restricted stock	-	-	-
Weighted-average shares – Diluted	<u>393,894</u>	<u>386,801</u>	<u>382,309</u>
Net loss per share – Basic and Diluted			
Net loss	<u>\$ (0.22)</u>	<u>\$ (0.26)</u>	<u>\$ (0.51)</u>

Employee stock options and restricted stock totaling 57.8 million shares in fiscal 2007, 63.5 million shares in fiscal 2006 and 65.1 million shares in fiscal 2005, were not included in the computation of diluted earnings per share as the net loss for these periods would have made their effect anti-dilutive.

Note 19: Segment Information

Based on the information provided to our chief operating decision-maker (CODM) for purposes of making decisions about allocating resources and assessing performance, prior to February 1, 2006, we reported one operating segment, 3Com.

Following the acquisition of a majority and controlling interest in H3C, we have two segments that provide information to the CODM. The operating structure is aligned along the SCN business and the acquired H3C business. Each of these segments has designated management teams with direct responsibility over the operations of the respective segments. Accordingly, our CODM now focuses primarily on information and analysis for purposes of making decisions about allocating resources and assessing performance. As a result, we currently report two operating segments, SCN and H3C.

Management evaluates segment performance based on segment net revenue, operating income (loss), net income (loss), and net assets.

Summarized financial information of our continuing operations by segment in 2007 and 2006 is as follows (in thousands).

	Year Ended May 31, 2007			
	SCN	H3C	Eliminations	Total
Revenue	\$ 642,816	\$ 731,132	\$ (106,467)	\$ 1,267,481
Gross profit	239,245	339,209	-	578,454
Sales and marketing, research and development, and general and administrative	337,523	291,680	-	629,203
Restructuring, amortization, and in-process research and development	19,493	62,279	-	81,772
Operating loss	(117,771)	(14,750)	-	(132,521)
Net (loss) income	\$ (81,446)	\$ 19,049	\$ (26,192)	\$ (88,589)
Total expenditures for additions to property, plant and equipment	\$ 11,686	\$ 16,645	-	\$ 28,331
Assets	\$ 1,408,214	\$ 1,394,199	\$ (651,321)	\$ 2,151,092
Goodwill	\$ 311,380	\$ 455,064	-	\$ 766,444

	Year Ended May 31, 2006			
	SCN	H3C	Eliminations	Total
Revenue	\$ 705,339	\$ 108,290	\$ (18,822)	\$ 794,807
Gross profit	276,627	51,437	-	328,064
Sales and marketing, research and development, and general and administrative	419,008	30,203	-	449,211
Restructuring, amortization, and in-process research and development	29,579	6,377	-	35,956
Operating (loss) income	(171,960)	14,857	-	(157,103)
Net (loss) income	\$ (114,420)	\$ 21,568	\$ (7,823)	\$ (100,675)
Total expenditures for additions to property, plant and equipment	\$ 14,426	\$ 2,978	-	\$ 17,404
Assets	\$ 1,482,670	\$ 406,981	\$ (28,290)	\$ 1,861,361
Goodwill	\$ 309,918	\$ 44,341	-	\$ 354,259

Certain product groups accounted for a significant portion of our sales. Sales from these product groups as a percentage of total sales for the past three fiscal years were as follows (in thousands):

	Years Ended May 31,					
	2007		2006		2005	
Networking	\$ 1,028,090	81.1%	\$ 577,038	72.6%	\$ 494,492	75.9%
Security	120,053	9.5	88,012	11.1	25,760	4.0
Voice	68,033	5.4	56,632	7.1	44,950	6.9
Services	35,871	2.8	33,357	4.2	32,062	4.9
Connectivity Products	15,434	1.2	39,768	5.0	53,980	8.3
Total	<u>\$ 1,267,481</u>		<u>\$ 794,807</u>		<u>\$ 651,244</u>	

Sales from significant customers as a percentage of total consolidated sales for the past three fiscal years were as follows:

Customer	Years Ended May 31,		
	2007	2006	2005
Huawei Technologies Co.	20%	4%	-%
Ingram Micro, Inc.	11%	19%	21%
Tech Data (1)	*	11%	13%
Total	<u>31%</u>	<u>34%</u>	<u>34%</u>

(1) - Customer does meet the 10 percent threshold in fiscal 2007

Huawei Technologies Co, Ltd. (a customer of our H3C segment and the former minority shareholder of H3C) represented approximately 20 percent of our accounts receivable balance as of May 31, 2007. Ingram Micro, Inc (a customer of our SCN segment. represented approximately 24 percent of our accounts receivable balance as of May 31, 2007, compared to 16 percent for the previous fiscal year.

Note 20: Geographical Information

Sales by geographic region are as follows (in thousands):

Sales

	Years Ended May 31,		
	2007	2006	2005
Americas	\$ 233,691	\$ 248,532	\$ 214,051
Latin and South America	70,419	72,164	57,717
Europe, Middle East, and Africa	272,826	298,545	294,753
Asia Pacific	103,501	91,396	84,723
China	587,044	84,170	-
Total	<u>\$ 1,267,481</u>	<u>\$ 794,807</u>	<u>\$ 651,244</u>

Sales information by geography is reported based on the customer's designated delivery point.

The growth in our international operations, which is due primarily to our acquisition of H3C, has increased our exposure to foreign currency fluctuations. Primary currencies of the revenue is U.S. dollars and Chinese Renminbi; expenses include Euros, Singapore Dollars, British Pounds, and Chinese Renminbi. The income statements of our international operations whose functional currencies are the local currencies, are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenues and operating expenses. Conversely, our revenues and operating expenses will decrease when the U.S. dollar strengthens against foreign currencies.

Property and equipment by geographic region are as follows (in thousands):

	May 31, 2007	May 31, 2006
Property and Equipment:		
United States	\$ 30,104	\$ 41,186
United Kingdom	7,843	10,325
China	32,070	32,859
Other	6,443	4,739
Total	<u>\$ 76,460</u>	<u>\$ 89,109</u>

Property and equipment by geography is based on the physical location of the assets at the end of the fiscal year. As of May 31, 2007 and May 31, 2006, property and equipment in the United States, the United Kingdom and China exceeded ten percent of total property and equipment, as shown in the table above.

During fiscal 2006 our Europe, Middle East and Africa headquarters facility in Hemel Hempstead, United Kingdom was damaged by explosions at a third-party oil depot facility which occurred approximately one quarter mile from our facility. Approximately 300 employees and contractors worked at our Hemel campus, primarily in our sales, marketing and product operations groups. The incident occurred during non-business hours and no employee casualties or injuries were reported. We activated our back-up systems and established business operations at alternative facilities to ensure business continuity and minimize disruption to our customers. We believe we have sufficient insurance and recourse against third parties so that any loss incurred by us in connection with these explosions should not have a material adverse effect on our results of operations. During fiscal 2007 we have received approximately \$28 million of insurance proceeds while the net book value of the building has been written off resulting in a gain of \$8.0 million recorded in other income (expense), net. We are in the process of determining the feasibility of selling the Hemel land. We talked with prospective buyers and negotiations are underway. Before any potential sale can be completed the UK government must assess the ability to rebuild on the land. Since it is not believed that this process will be completed within the year we are still categorizing the land as held for use.

Note 21: Employee Benefit Plan and EARP

We have adopted a plan known as the 3Com 401(k) Plan (the 401(k) Plan) to provide retirement benefits to domestic employees. As allowed under Section 401(k) of the Internal Revenue Code, the 401(k) Plan provides tax-deferred salary deductions for eligible employees. Participants may elect to contribute from one percent to 22 percent of their annual compensation to the 401(k) Plan each calendar year, limited to a maximum annual amount as set periodically by the Internal Revenue Service. In addition, the 401(k) Plan provides for contributions as determined by the Board of Directors. We match 50 percent for each dollar on the first six percent of eligible annual compensation contributed by the employee. Employees become vested in our matching contributions according to a three-year vesting schedule based on initial date of

hire. Matching contributions to the 401 (k) Plan totaled \$1.8 million in fiscal 2007, \$2.2 million in fiscal 2006, and \$2.2 million in fiscal 2005.

The closing of the acquisition triggered a bonus program for substantially all of H3C's approximately 4,800 employees. This program, which was implemented by Huawei and 3Com in a prior period, is called the Equity Appreciation Rights Plan, or EARP, and funds a bonus pool based upon a percentage of the appreciation in H3C's value from the initiation of the program to the time of the closing of the acquisition. A portion of the program is based on cumulative earnings of H3C. The total value of the EARP is expected to be approximately \$180 million. Approximately \$37 million was accrued by December 31, 2006. H3C recorded an incremental charge of approximately \$57 million just prior to the closing of the acquisition. At May 31, 2007 the \$57 million of the change-in-control was accrued for on the balance sheet and is expected to be paid in the first quarter of fiscal 2008. H3C expects the unvested portion amounting to \$86 million to be accrued in H3C's operating results over the next three years serving as a continued retention and incentive program for employees.

Note 22: Litigation

We are a party to lawsuits in the normal course of our business. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. We believe that we have meritorious defenses in the matters set forth below in which we are named as a defendant. An unfavorable resolution of the lawsuits described below could adversely affect our business, financial position, or results of operations. We cannot estimate the loss or range of loss that may be reasonably possible as a result of these litigations and, accordingly, we have not recorded any associated liability in our consolidated balance sheets.

On December 5, 2001, TippingPoint and two of its current and former officers and directors, as well as the managing underwriters in TippingPoint's initial public offering, were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of New York. The lawsuit, which is part of a consolidated action that includes over 300 similar actions, is captioned *In re Initial Public Offering Securities Litigation, Brian Levey vs. TippingPoint Technologies, Inc., et al.* (Civil Action Number 01-CV-10976). The principal allegation in the lawsuit is that the defendants participated in a scheme to manipulate the initial public offering and subsequent market price of TippingPoint's stock (and the stock of other public companies) by knowingly assisting the underwriters' requirement that certain of their customers had to purchase stock in a specific initial public offering as a condition to being allocated shares in the initial public offerings of other companies. In relation to TippingPoint, the purported plaintiff class for the lawsuit is comprised of all persons who purchased TippingPoint stock from March 17, 2000 through December 6, 2000. The suit seeks rescission of the purchase prices paid by purchasers of shares of TippingPoint common stock. On September 10, 2002, TippingPoint's counsel and counsel for the plaintiffs entered into an agreement pursuant to which the plaintiffs dismissed, without prejudice, TippingPoint's former and current officers and directors from the lawsuit. In May 2003, a memorandum of understanding was executed by counsel for the plaintiffs, the issuer-defendants and their insurers setting forth the terms of a settlement that would result in the termination of all claims brought by the plaintiffs against the issuer-defendants and the individual defendants named in the lawsuit. In August 2003, TippingPoint's Board of Directors approved the settlement terms described in the memorandum of understanding. In May 2004, TippingPoint signed a settlement agreement on behalf of itself and its current and former directors and officers with the plaintiffs. This settlement agreement formalizes the previously approved terms of the memorandum of understanding and, subject to certain conditions, provides for the complete dismissal, with prejudice, of all claims against TippingPoint and its current and former directors and officers. Any direct financial impact of the settlement is expected to be borne by TippingPoint's insurers. On August 31, 2005, the District Court issued its preliminary approval of the settlement terms. The settlement remains subject to numerous conditions, including final approval by the District Court. On December 5, 2006, the U.S. Court of Appeals for the Second Circuit held that the District Court erred in granting class-action status to six "focus cases" of the consolidated class action lawsuits that comprise the action. The impact of this decision on the settlement is uncertain. The Plaintiffs petitioned the Second Circuit to hear this case en banc, but the appeals court rejected the petition. The matter is now back before the District Court. If the settlement does not occur for any reason and the litigation against TippingPoint continues, we intend to defend this action vigorously, and to the extent necessary, to seek indemnification and/or contribution from the underwriters in TippingPoint's initial public offering pursuant to its underwriting agreement with the underwriters. However, there can be no assurance that indemnification or contribution will be available to TippingPoint or enforceable against the underwriters.

On December 22, 2006, Australia's Commonwealth Scientific and Research Organization (CSIRO) filed suit in the United States District Court for the Eastern District of Texas (Tyler Division) against several manufacturers and suppliers of wireless products, including 3Com, seeking money damages and injunctive relief. The complaint alleges that the manufacture, use, and sale of wireless products compliant with the IEEE 802.11(a) or 802.11(g) wireless standards infringes on CSIRO's patent, U.S. Patent No. 5,487,069. On March 9, 2007, 3Com filed its Answer, denying infringement and claiming invalidity and unenforceability of the CSIRO patent, among other defenses. The case is in the discovery phase of litigation. The

majority of 3Com's wireless products are supplied to the Company under OEM Purchase and Development Agreements that impose substantial intellectual property indemnifications obligations upon 3Com's suppliers. We cannot make any predictions as to the outcome of this litigation and intend to vigorously defend the matter.

Note 23: Impairment Charge

During the closing process for the three months ended February 28, 2006, management decided to discontinue certain development plans utilizing a purchased technology license for which we did not have an alternative use. Management believed this decision indicated that the carrying value of the related asset may have been impaired and that an impairment analysis should be performed. In performing the analysis for recoverability, management estimated the future cash flows expected to result from this license. We recorded a \$4.2 million impairment charge based on this recoverability analysis. The impaired asset was fully written off and recorded in research and development as of February 28, 2006. There were no impairment charges recorded in 2007.

Note 24: Quarterly Results of Operations (Unaudited)

	<u>Fiscal 2007</u>				<u>Fiscal 2006</u>			
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	(In thousands, except per share data)							
Sales	\$300,144	\$332,976	\$323,441	\$310,920	\$177,636	\$184,332	\$177,563	\$255,276
Gross profit	136,429	150,151	153,437	138,437	70,066	74,315	72,406	111,277
Gross profit margin %	45.5%	45.1%	47.4%	44.5%	39.4%	40.3%	40.8%	43.6%
Operating loss	(20,868)	(9,380)	(8,935)	(93,338)	(46,685)	(42,226)	(47,272)	(20,920)
Net loss	(14,068)	(3,516)	(4,779)	(66,226)	(42,041)	(10,700)	(32,760)	(15,174)
Basic and diluted loss per share	\$ (0.04)	\$ (0.01)	\$ (0.01)	\$ (0.17)	\$ (0.11)	\$ (0.03)	\$ (0.08)	\$ (0.04)

We acquired majority (51 percent) ownership of Huawei-3Com Co., Ltd. ("H3C"), a China-based joint venture, 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 beginning February 1, 2006. H3C follows a calendar year basis of reporting and therefore results are consolidated on a two-month time lag. On November 27, 2006, the shareholders agreed that 3Com buy Shenzhen Huawei's 49 percent shares of the Company for \$882 million. The transaction was approved by the Chinese government. On March 29, 2007, 3Com Technologies completed its purchase at which time the purchase price was paid in full. Huawei-3Com Co., Limited is now known as H3C Technologies Co., Limited, or H3C.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Form 10-K pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that, as of June 1, 2007, our disclosure controls and procedures were effective.

The term “disclosure controls and procedures,” as defined under the Exchange Act, means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended June 1, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT’S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f). Our management has assessed the effectiveness of our internal control over financial reporting as of June 1, 2007. Management’s evaluation was based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and board of directors; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on the COSO criteria and our management’s evaluation, our management has concluded that our internal control over financial reporting was effective as of June 1, 2007.

Our independent registered public accounting firm, Deloitte & Touche LLP, has audited the financial statements included in this Annual Report on Form 10-K and has issued an attestation report on management’s assessment of our internal control over financial reporting as well as on the effectiveness of our internal control over financial reporting. This report appears in this Annual Report on Form 10-K.

Important Considerations

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures or internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
3Com Corporation
Marlborough, Massachusetts

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, included in Item 9A of the Annual Report on Form 10-K, that 3Com Corporation and its subsidiaries (3Com or the "Company") maintained effective internal control over financial reporting as of June 1, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of June 1, 2007 is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 1, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended June 1, 2007 of the Company and our report dated July 31, 2007 expressed an unqualified opinion on those financial statements and financial statement schedule, and includes an explanatory paragraph regarding the Company's adoption of Statement of Financial Accounting Standards No. 123(Revised), *Share-Based Payment*.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
July 31, 2007

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

(a) Directors

Incorporated herein by reference is the information appearing under the caption “Nominees and Other Directors” in our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders (Proxy Statement).

(b) Executive Officers

Incorporated herein by reference is the information appearing under the caption “Executive Officers of the Registrant” in Part I of Item I of this Annual Report on Form 10-K.

(c) Section 16(a) Beneficial Ownership Reporting Compliance

Incorporated herein by reference is the information appearing under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement.

(d) Code of Ethics

We have adopted a Code of Ethics and Business Conduct that applies to all employees, including our principal executive officer, principal financial officer and principal accounting officer and persons performing similar functions. Our Code of Ethics and Business Conduct, which is available on our website at <http://www.3com.com>, complies with the rules of the SEC and the listing standards of the NASDAQ Stock Market. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K, regarding an amendment to or waiver from our code of ethics, by posting the required information on our Internet website at <http://www.3com.com> and will send a paper copy to any shareholder who submits a request in writing to our Secretary.

(e) Corporate Governance

Incorporated herein by reference is the information appearing under the caption “Corporate Governance” in our Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 of this Annual Report on Form 10-K is incorporated by reference from the information contained in the sections captioned “Executive Compensation”, “Employment, Severance and Change-of-Control Arrangements”, “Director Compensation”, “Compensation Discussion and Analysis”, “Compensation Committee Report” and “Corporate Governance/Compensation Committee Interlocks and Insider Participation” in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 of this Annual Report on Form 10-K is incorporated by reference from the information appearing under the captions “Equity Compensation Plan Information” and “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 of this Annual Report on Form 10-K is incorporated by reference from the information contained in the sections captioned “Related Person Transactions” and “Corporate Governance” in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 of this Annual Report on Form 10-K is incorporated by reference from the information contained in the section captioned “Ratification of Appointment of Independent Registered Public Accounting Firm” in the Proxy Statement.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a) (1) Financial Statements - See Index to Consolidated Financial Statements and Financial Statement Schedule at page 53 of this Form 10-K.
- (2) Financial Statement Schedule - See Financial Statement Schedule at page 105 of this Form 10-K.
- (3) Exhibits - See Exhibit Index at page 98 of this Form 10-K.
- (b) See Exhibit Index at page 98 of this Form 10-K.
- (c) See Index to Consolidated Financial Statements and Financial Statement Schedule at page 53 of this Form 10-K.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Master Separation and Distribution Agreement between the Registrant and Palm, Inc. effective as of December 13, 1999	10-Q	002-92053	2.1	4/4/00	
2.2	Indemnification and Insurance Matters Agreement between the Registrant and Palm, Inc.	10-Q	002-92053	2.11	4/4/00	
2.3	Agreement and Plan of Merger, dated December 13, 2004, by and among the Registrant, Topaz Acquisition Corporation and TippingPoint Technologies, Inc.	8-K	000-12867	2.1	12/16/04	
2.4	Securities Purchase Agreement by and among 3Com Corporation, 3Com Technologies, Huawei Technologies Co., Ltd. and Shenzhen Huawei Investment & Holding Co., Ltd., dated as of October 28, 2005	8-K/A	000-12867	2.1	3/30/06	
2.5	Stock Purchase Agreement by and between Shenzhen Huawei Investment & Holding Co., Ltd. and 3Com Technologies, dated as of December 22, 2006	8-K	000-12867	10.1	12/27/06	
3.1	Corrected Certificate of Merger filed to correct an error in the Certificate of Merger	10-Q	002-92053	3.4	10/8/99	
3.2	Registrant’s Bylaws, as amended on March 23, 2005	8-K	000-12867	3.1	3/28/05	
3.3	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock	10-Q	000-12867	3.6	10/11/01	
4.1	Third Amended and Restated Preferred Shares Rights Agreement, dated as of November 4, 2002	8-A/A	000-12867	4.1	11/27/02	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.1	3Com Corporation 1983 Stock Option Plan, as amended and restated effective September 30, 2001*	10-Q	000-12867	10.1	1/11/02	
10.2	3Com Corporation 1984 Employee Stock Purchase Plan, as amended and restated as of July 15, 2003*	10-K	000-12867	10.3	8/1/03	
10.3	3Com Corporation Director Stock Option Plan, as amended*	10-Q	000-12867	10.4	10/10/03	
10.4	3Com Corporation Restricted Stock Plan, as amended July 1, 2001*	10-K	000-12867	10.6	8/2/02	
10.5	3Com Corporation 1994 Stock Option Plan, as amended and restated effective April 30, 2002*	10-K	000-12867	10.7	8/2/02	
10.6	3Com Corporation 2003 Stock Plan, as amended*	8-K	000-12867	10.1	10/3/05	
10.7	Stand Alone Stock Option Agreement dated January 25, 2006 by and between R. Scott Murray and 3Com Corporation *	10-Q	000-12867	10.8	4/10/06	
10.8	Stand Alone Stock Option Agreement dated September 5, 2006 by and between Edgar Masri and 3Com Corporation *	10-Q	000-12867	10.2	10/10/06	
10.9	Stand Alone Stock Option Agreement dated July 3, 2007 by and between Jay Zager and 3Com Corporation *	S-8	333-144322	10.2	7/3/07	
10.10	Stand Alone Restricted Stock Agreement dated July 3, 2007 by and between Jay Zager and 3Com Corporation *	S-8	333-144322	10.3	7/3/07	
10.11	Form of Stock Option Agreement for 2003 Stock Plan (Non-Employee Directors)	10-K	000-12867	10.7	8/5/05	
10.12	Form of Stock Option Agreement for 2003 Stock Plan (Employees)*	10-K	000-12867	10.8	8/5/05	
10.13	Form of Performance Accelerated Vesting Restricted Stock Agreement*	10-K	000-12867	10.9	8/5/05	
10.14	Form of Performance Vesting Restricted Stock Agreement*	10-Q	000-12867	10.6	4/10/06	
10.15	Form of Restricted Stock Grant Agreement – Standard 4-Year Vesting*	10-K	000-12867	10.10	8/5/05	
10.16	Form of Restricted Stock Agreement (Time-Based Vesting)*	8-K	000-12867	10.2	11/17/05	
10.17	Form of Restricted Stock Unit Grant Award Agreement*	10-Q	000-12867	10.3	10/10/06	
10.18	R. Scott Murray Employment Agreement, amended and restated as of February 2, 2006, between the registrant and R. Scott Murray *	8-K/A	000-12867	10.1	2/6/06	
10.19	Performance Vesting Restricted Stock Agreement dated January 25, 2006 by and between R. Scott Murray and 3Com Corporation *	10-Q	000-12867	10.7	4/10/06	
10.20	Edgar Masri Employment Agreement, dated as of August 8, 2007, between the registrant and Edgar Masri *	8-K	000-12867	10.1	8/9/06	
10.21	Employment Agreement, effective as of March 29, 2007, between H3C and Shusheng Zheng*					X
10.22	Offer Letter dated May 9, 2007 between the Registrant and Jay Zager*	8-K	000-12867	10.1	5/10/07	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.23	Offer Letter dated June 19, 2004 between the Registrant and Donald M, Halsted III*	10-K	000-12867	10.16	8/11/06	
10.24	Offer Letter dated September 12, 2003 between the Registrant and Neal D. Goldman*	10-K	000-12867	10.17	8/11/06	
10.25	Offer Letter dated November 2, 2005 between the Registrant and Marc Willebeek-LeMair*	10-K	000-12867	10.18	8/11/06	
10.26	Offer Letter dated April 11, 2006 between the Registrant and Robert Dechant*	8-K	000-12867	10.1	4/17/06	
10.27	Offer Letter dated November 2, 2005 between the Registrant and James Hamilton*					X
10.28	Severance Benefits Agreement dated February 28, 2007, between the Registrant and James Hamilton*					X
10.29	Robert Y. L. Mao Employment Agreement, dated as of August 7, 2006, between the registrant and Robert Mao*					X
10.30	Summary of Executive Officer Fiscal 2008 Compensation	8-K	000-12867	Text of Item 5.02(e)	7/27/07	
10.31	Summary of Equity Appreciation Rights Plan (H3C Technologies)*					X
10.32	3Com Corporation Section 16 Officer Severance Plan, amended and restated effective September 11, 2006 *	10-Q	000-12867	10.3	1/09/07	
10.33	Above Grade Severance Plan effective September 11, 2006 *					X
10.34	Form of Severance Benefits Agreement between the Registrant and each of the officers or former officers named in our proxy statement (other than Messrs. Masri and Mao)*	8-K	000-12867	10.3	4/4/06	
10.35	Form of Management Retention Agreement between the Registrant and each of the following officers or former officers named in our proxy statement: Messrs. Goldman, Halsted, Hamilton and Willebeek-LeMair*	10-K	000-12867	10.15	8/5/05	
10.36	Form of Management Retention Agreement between the Registrant and the following officers or former officers named in our proxy statements: Messrs. Dechant, Zheng and Zager and future executive officers*					X
10.37	3Com Corporation Deferred Compensation Plan*	10-K	000-12867	10.23	8/9/04	
10.38	Form of Indemnity Agreement between the Registrant and its officers and directors	S-3/A	333-102591	10.1	4/9/03	
10.39	3Com Corporation Consultant Services Agreement made as of August 8, 2006 by and between 3Com Corporation and Anik Bose*	8-K	000-12867	10.1	8/11/06	
10.40	Office Lease, dated as of November 26, 2002, by and between Marlborough Campus Limited Partnership and the Registrant	10-K	000-12867	10.20	8/9/04	
10.41	First Amendment to Lease, dated as of November 26, 2002, by and between	10-K	000-12867	10.17	8/5/05	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.42	Marlborough Campus Limited Partnership and the Registrant Second Amendment to Lease, dated as of July 18, 2005, by and between 3Com Corporation and Marlborough Campus Limited Partnership	10-Q	000-12867	10.2	4/5/05	
10.43	Third Amendment to Lease, dated as of July 18, 2005, by and between 3Com Corporation and Marlborough Campus Limited Partnership	8-K	000-12867	10.1	7/22/05	
10.44	Fourth Amendment to Lease dated as of December 12, 2005 by and between Marlborough Campus Limited Partnership and 3Com Corporation	10-Q	000-12867	10.1	1/09/07	
10.45	Fifth Amendment to Lease dated as of October 27, 2006 by and between Bel Marlborough I LLC and 3Com Corporation	10-Q	000-12867	10.2	1/09/07	
10.46	Agreement for the Lease of Hangzhou Real Property between Huawei Technologies Co. Ltd. and Hangzhou Huawei-3Com Technology Co., Ltd. dated January 1, 2004	10-Q	000-12867	10.7	10/10/06	
10.47	Purchase and Sale Agreement made as of July 24, 2006 by and between 3Com Corporation and SSC II, L.P.	8-K	000-12867	10.1	7/26/06	
10.48	Shareholders' Agreement by and among Shenzhen Huawei Investment & Holding Co. Ltd., 3Com Technologies and Huawei-3Com Co., Ltd. (the "Shareholders' Agreement") dated as of November 15, 2003 (Certain Portions Omitted; Confidential Treatment Requested)	10-K	000-12867	10.33	8/11/06	
10.49	Amendment No. 1 to the Shareholders' Agreement dated as of July 31, 2004 (Certain Portions Omitted; Confidential Treatment Requested)	10-K	000-12867	10.34	8/11/06	
10.50	Amendment No. 2 to the Shareholders' Agreement dated as of January 27, 2006 (Certain Portions Omitted; Confidential Treatment Requested)	10-K	000-12867	10.35	8/11/06	
10.51	Credit and Guaranty Agreement dated as of March 22, 2007 among H3C Holdings Limited, as Borrower, 3Com Corporation, 3Com Holdings Limited and 3Com Technologies, as Holdco Guarantors, various Lenders, Goldman Sachs Credit Partners L.P., as Mandated Lead Arranger, Bookrunner, Administrative Agent and Syndication Agent, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent	8-K	000-12867	10.1	3/23/07	
10.52	Amended and Restated Credit and Guaranty Agreement dated as of May 25, 2007 and effective as of May 31, 2007 among H3C Holdings Limited, as Borrower, 3Com Corporation, 3Com Holdings Limited and 3Com Technologies, as Holdco Guarantors,	8-K	000-12867	10.1	5/25/07	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
	H3C Technologies Co., Limited, as Guarantor, various Lenders, Goldman Sachs Credit Partners L.P., as Mandated Lead Arranger, Bookrunner, Administrative Agent and Syndication Agent, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					
10.53	Borrower Share Charge dated March 22, 2007 among 3Com Technologies, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.54	Borrower Fixed and Floating Charge dated March 22, 2007 among H3C Holdings Limited, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.55	Borrower Charge Over Bank Accounts dated March 22, 2007 among H3C Holdings Limited, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.56	H3C Fixed and Floating Charge dated April 3, 2007 among Huawei-3Com Co., Limited, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.57	H3C Share Mortgage dated March 30, 2007 among H3C Holdings Limited, as Mortgagor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.58	H3C Equitable Share Charge dated March 29, 2007 among 3Com Technologies, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.59	Deed of Charge in relation to the 100% equity interests in WFOE dated April 3, 2007 among Huawei-3Com Co., Limited, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.60	Deed of Charge in relation to the 100% equity interests in Queenhive dated April 3, 2007 among Huawei-3Com Co., Limited, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.61	Deed of Release made March 30, 2007 by Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent, in favour of 3Com Technologies					X
10.62	Commitment Letter, dated as of December 20, 2006, by and between 3Com Technologies and Goldman Sachs Credit	10-Q	000-12867	10.1	4/09/07	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
	Partners L.P.					
21.1	Subsidiaries of Registrant					X
23.1	Consent of Independent Registered Public Accounting Firm – Deloitte & Touche LLP					X
31.1	Certification of Principal Executive Officer					X
31.2	Certification of Principal Financial Officer					X
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X

* Indicates a management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 31st day of July, 2007.

3COM CORPORATION
(Registrant)

By /s/ Edgar Masri
Edgar Masri
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 31st day of July, 2007.

<u>Signature</u>	<u>Title</u>
<u>/s/ EDGAR MASRI</u> (Edgar Masri)	President, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ JAY ZAGER</u> (Jay Zager)	Executive Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ ERIC A. BENHAMOU</u> (Eric A. Benhamou)	Chairman of the Board
<u>/s/ GARY T. DICAMILLO</u> (Gary T. DiCamillo)	Director
<u>/s/ JAMES R. LONG</u> (James R. Long)	Director
<u>/s/ ROBERT MAO</u> (Robert Mao)	Director
<u>/s/ RAJ REDDY</u> (Raj Reddy)	Director
<u>/s/ DOMINIQUE TREMPONT</u> (Dominique Trempont)	Director
<u>/s/ PAUL G. YOVOVICH</u> (Paul G. Yovovich)	Director

3Com Corporation
 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
 For the Years Ended May 31, 2005, 2006, and 2007
 (In thousands)

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Other</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
<i>Year ended May 31, 2005:</i>					
Allowance for doubtful accounts	\$ 16,276	\$ (2,251)	\$ 793 (2)	\$ (272) (1)	\$ 15,090
Allowance for product returns	5,917	20,578	-	21,443	5,052
Accrued product warranty	43,825	30,867	-	32,910	41,782
<i>Year ended May 31, 2006:</i>					
Allowance for doubtful accounts	\$ 15,090	\$ 1,000	\$ 165 (3)	\$ (167) (1)	\$ 16,422
Allowance for product returns	5,052	15,288	6,768 (3)	18,416	8,692
Accrued product warranty	41,782	28,424	4,543 (3)	32,958	41,791
<i>Year ended May 31, 2007:</i>					
Allowance for doubtful accounts	16,422	\$ (586)	\$ -	\$ 544 (1)	\$ 15,292
Allowance for product returns	8,692	13,963	-	16,614	6,041
Accrued product warranty	41,791	46,406	-	47,601	40,596

(1) Accounts written off - net of recoveries

(2) Represents reserves related to the TippingPoint acquisition

(3) Represents reserves related to the H3C acquisition

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
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2.2	Indemnification and Insurance Matters Agreement between the Registrant and Palm, Inc.	10-Q	002-92053	2.11	4/4/00	
2.3	Agreement and Plan of Merger, dated December 13, 2004, by and among the Registrant, Topaz Acquisition Corporation and TippingPoint Technologies, Inc.	8-K	000-12867	2.1	12/16/04	
2.4	Securities Purchase Agreement by and among 3Com Corporation, 3Com Technologies, Huawei Technologies Co., Ltd. and Shenzhen Huawei Investment & Holding Co., Ltd., dated as of October 28, 2005	8-K/A	000-12867	2.1	3/30/06	
2.5	Stock Purchase Agreement by and between Shenzhen Huawei Investment & Holding Co., Ltd. and 3Com Technologies, dated as of December 22, 2006	8-K	000-12867	10.1	12/27/06	
3.1	Corrected Certificate of Merger filed to correct an error in the Certificate of Merger	10-Q	002-92053	3.4	10/8/99	
3.2	Registrant's Bylaws, as amended on March 23, 2005	8-K	000-12867	3.1	3/28/05	
3.3	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock	10-Q	000-12867	3.6	10/11/01	
4.1	Third Amended and Restated Preferred Shares Rights Agreement, dated as of November 4, 2002	8-A/A	000-12867	4.1	11/27/02	
10.1	3Com Corporation 1983 Stock Option Plan, as amended and restated effective September 30, 2001*	10-Q	000-12867	10.1	1/11/02	
10.2	3Com Corporation 1984 Employee Stock Purchase Plan, as amended and restated as of July 15, 2003*	10-K	000-12867	10.3	8/1/03	
10.3	3Com Corporation Director Stock Option Plan, as amended*	10-Q	000-12867	10.4	10/10/03	
10.4	3Com Corporation Restricted Stock Plan, as amended July 1, 2001*	10-K	000-12867	10.6	8/2/02	
10.5	3Com Corporation 1994 Stock Option Plan, as amended and restated effective April 30, 2002*	10-K	000-12867	10.7	8/2/02	
10.6	3Com Corporation 2003 Stock Plan, as amended*	8-K	000-12867	10.1	10/3/05	
10.7	Stand Alone Stock Option Agreement dated January 25, 2006 by and between R. Scott Murray and 3Com Corporation *	10-Q	000-12867	10.8	4/10/06	
10.8	Stand Alone Stock Option Agreement dated September 5, 2006 by and between Edgar Masri and 3Com Corporation *	10-Q	000-12867	10.2	10/10/06	
10.9	Stand Alone Stock Option Agreement dated July 3, 2007 by and between Jay Zager and	S-8	333-144322	10.2	7/3/07	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.10	3Com Corporation * Stand Alone Restricted Stock Agreement dated July 3, 2007 by and between Jay Zager and 3Com Corporation *	S-8	333-144322	10.3	7/3/07	
10.11	Form of Stock Option Agreement for 2003 Stock Plan (Non-Employee Directors)	10-K	000-12867	10.7	8/5/05	
10.12	Form of Stock Option Agreement for 2003 Stock Plan (Employees)*	10-K	000-12867	10.8	8/5/05	
10.13	Form of Performance Accelerated Vesting Restricted Stock Agreement*	10-K	000-12867	10.9	8/5/05	
10.14	Form of Performance Vesting Restricted Stock Agreement*	10-Q	000-12867	10.6	4/10/06	
10.15	Form of Restricted Stock Grant Agreement – Standard 4-Year Vesting*	10-K	000-12867	10.10	8/5/05	
10.16	Form of Restricted Stock Agreement (Time-Based Vesting)*	8-K	000-12867	10.2	11/17/05	
10.17	Form of Restricted Stock Unit Grant Award Agreement*	10-Q	000-12867	10.3	10/10/06	
10.18	R. Scott Murray Employment Agreement, amended and restated as of February 2, 2006, between the registrant and R. Scott Murray *	8-K/A	000-12867	10.1	2/6/06	
10.19	Performance Vesting Restricted Stock Agreement dated January 25, 2006 by and between R. Scott Murray and 3Com Corporation *	10-Q	000-12867	10.7	4/10/06	
10.20	Edgar Masri Employment Agreement, dated as of August 8, 2007, between the registrant and Edgar Masri *	8-K	000-12867	10.1	8/9/06	
10.21	Employment Agreement, effective as of March 29, 2007, between H3C and Shusheng Zheng*					X
10.22	Offer Letter dated May 9, 2007 between the Registrant and Jay Zager*	8-K	000-12867	10.1	5/10/07	
10.23	Offer Letter dated June 19, 2004 between the Registrant and Donald M. Halsted III*	10-K	000-12867	10.16	8/11/06	
10.24	Offer Letter dated September 12, 2003 between the Registrant and Neal D. Goldman*	10-K	000-12867	10.17	8/11/06	
10.25	Offer Letter dated November 2, 2005 between the Registrant and Marc Willebeek-LeMair*	10-K	000-12867	10.18	8/11/06	
10.26	Offer Letter dated April 11, 2006 between the Registrant and Robert Dechant*	8-K	000-12867	10.1	4/17/06	
10.27	Offer Letter dated November 2, 2005 between the Registrant and James Hamilton*					X
10.28	Severance Benefits Agreement dated February 28, 2007, between the Registrant and James Hamilton*					X
10.29	Robert Y. L. Mao Employment Agreement, dated as of August 7, 2006, between the registrant and Robert Mao*					X
10.30	Summary of Executive Officer Fiscal 2008 Compensation	8-K	000-12867	Text of Item 5.02(e)	7/27/07	
10.31	Summary of Equity Appreciation Rights Plan (H3C Technologies)*					X

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.32	3Com Corporation Section 16 Officer Severance Plan, amended and restated effective September 11, 2006 *	10-Q	000-12867	10.3	1/09/07	
10.33	Above Grade Severance Plan effective September 11, 2006 *					X
10.34	Form of Severance Benefits Agreement between the Registrant and each of the officers or former officers named in our proxy statement (other than Messrs. Masri and Mao)*	8-K	000-12867	10.3	4/4/06	
10.35	Form of Management Retention Agreement between the Registrant and each of the following officers or former officers named in our proxy statement: Messrs. Goldman, Halsted, Hamilton and Willebeek-LeMair*	10-K	000-12867	10.15	8/5/05	
10.36	Form of Management Retention Agreement between the Registrant and the following officers or former officers named in our proxy statements: Messrs. Dechant, Zheng and Zager and future executive officers*					X
10.37	3Com Corporation Deferred Compensation Plan*	10-K	000-12867	10.23	8/9/04	
10.38	Form of Indemnity Agreement between the Registrant and its officers and directors	S-3/A	333-102591	10.1	4/9/03	
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10.40	Office Lease, dated as of November 26, 2002, by and between Marlborough Campus Limited Partnership and the Registrant	10-K	000-12867	10.20	8/9/04	
10.41	First Amendment to Lease, dated as of November 26, 2002, by and between Marlborough Campus Limited Partnership and the Registrant	10-K	000-12867	10.17	8/5/05	
10.42	Second Amendment to Lease, dated as of July 18, 2005, by and between 3Com Corporation and Marlborough Campus Limited Partnership	10-Q	000-12867	10.2	4/5/05	
10.43	Third Amendment to Lease, dated as of July 18, 2005, by and between 3Com Corporation and Marlborough Campus Limited Partnership	8-K	000-12867	10.1	7/22/05	
10.44	Fourth Amendment to Lease dated as of December 12, 2005 by and between Marlborough Campus Limited Partnership and 3Com Corporation	10-Q	000-12867	10.1	1/09/07	
10.45	Fifth Amendment to Lease dated as of October 27, 2006 by and between Bel Marlborough I LLC and 3Com Corporation	10-Q	000-12867	10.2	1/09/07	
10.46	Agreement for the Lease of Hangzhou Real Property between Huawei Technologies Co. Ltd. and Hangzhou Huawei-3Com Technology Co., Ltd. dated January 1, 2004	10-Q	000-12867	10.7	10/10/06	
10.47	Purchase and Sale Agreement made as of July 24, 2006 by and between 3Com	8-K	000-12867	10.1	7/26/06	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.48	Corporation and SSC II, L.P. Shareholders' Agreement by and among Shenzhen Huawei Investment & Holding Co. Ltd., 3Com Technologies and Huawei-3Com Co., Ltd. (the "Shareholders' Agreement") dated as of November 15, 2003 (Certain Portions Omitted; Confidential Treatment Requested)	10-K	000-12867	10.33	8/11/06	
10.49	Amendment No. 1 to the Shareholders' Agreement dated as of July 31, 2004 (Certain Portions Omitted; Confidential Treatment Requested)	10-K	000-12867	10.34	8/11/06	
10.50	Amendment No. 2 to the Shareholders' Agreement dated as of January 27, 2006 (Certain Portions Omitted; Confidential Treatment Requested)	10-K	000-12867	10.35	8/11/06	
10.51	Credit and Guaranty Agreement dated as of March 22, 2007 among H3C Holdings Limited, as Borrower, 3Com Corporation, 3Com Holdings Limited and 3Com Technologies, as Holdco Guarantors, various Lenders, Goldman Sachs Credit Partners L.P., as Mandated Lead Arranger, Bookrunner, Administrative Agent and Syndication Agent, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent	8-K	000-12867	10.1	3/23/07	
10.52	Amended and Restated Credit and Guaranty Agreement dated as of May 25, 2007 and effective as of May 31, 2007 among H3C Holdings Limited, as Borrower, 3Com Corporation, 3Com Holdings Limited and 3Com Technologies, as Holdco Guarantors, H3C Technologies Co., Limited, as Guarantor, various Lenders, Goldman Sachs Credit Partners L.P., as Mandated Lead Arranger, Bookrunner, Administrative Agent and Syndication Agent, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent	8-K	000-12867	10.1	5/25/07	
10.53	Borrower Share Charge dated March 22, 2007 among 3Com Technologies, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.54	Borrower Fixed and Floating Charge dated March 22, 2007 among H3C Holdings Limited, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.55	Borrower Charge Over Bank Accounts dated March 22, 2007 among H3C Holdings Limited, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.56	H3C Fixed and Floating Charge dated April					X

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
	3, 2007 among Huawei-3Com Co., Limited, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					
10.57	H3C Share Mortgage dated March 30, 2007 among H3C Holdings Limited, as Mortgagor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.58	H3C Equitable Share Charge dated March 29, 2007 among 3Com Technologies, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.59	Deed of Charge in relation to the 100% equity interests in WFOE dated April 3, 2007 among Huawei-3Com Co., Limited, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.60	Deed of Charge in relation to the 100% equity interests in Queenhive dated April 3, 2007 among Huawei-3Com Co., Limited, as Chargor, and Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent					X
10.61	Deed of Release made March 30, 2007 by Industrial and Commercial Bank of China (Asia) Limited, as Collateral Agent, in favour of 3Com Technologies					X
10.62	Commitment Letter, dated as of December 20, 2006, by and between 3Com Technologies and Goldman Sachs Credit Partners L.P.	10-Q	000-12867	10.1	4/09/07	
21.1	Subsidiaries of Registrant					X
23.1	Consent of Independent Registered Public Accounting Firm – Deloitte & Touche LLP					X
31.1	Certification of Principal Executive Officer					X
31.2	Certification of Principal Financial Officer					X
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X

* Indicates a management contract or compensatory plan or arrangement

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Edgar Masri, certify that:

1. I have reviewed this Annual Report on Form 10-K of 3Com Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2007

/s/ EDGAR MASRI
 Edgar Masri
 President and Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Jay Zager, certify that:

1. I have reviewed this Annual Report on Form 10-K of 3Com Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2007

/s/ JAY ZAGER
 Jay Zager
 Executive Vice President, Finance and Chief
 Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Edgar Masri, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of 3Com Corporation on Form 10-K for the fiscal year ended June 1, 2007 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of 3Com Corporation.

Date: July 31, 2007

By: /s/ EDGAR MASRI
Name: Edgar Masri
Title: President and Chief Executive Officer

I, Jay Zager, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of 3Com Corporation on Form 10-K for the fiscal year ended June 1, 2007 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of 3Com Corporation.

Date: July 31, 2007

By: /s/ JAY ZAGER
Name: Jay Zager
Title: Executive Vice President, Finance and Chief Financial Officer

