

3COM CORP
Form DEF 14A
August 05, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only
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- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

3COM CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

**350 Campus Drive
Marlborough, Massachusetts 01752-3064**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held September 23, 2003**

To Our Stockholders:

Our Annual Meeting will be held on Tuesday, September 23, 2003, at 10:30 a.m. at our campus located at 350 Campus Drive in Building 100, Marlborough, Massachusetts. The purpose of the meeting is to:

1. Elect two Class I directors, each to hold office for a two-year term;
2. Approve the 3Com 2003 Stock Plan with an initial share reserve of 20,000,000 and thereby eliminate the shares available for future grants under 3Com's prior equity compensation plans;
3. Approve an increase in the share reserve under our 1984 Employee Stock Purchase Plan by 5,000,000 shares;
4. Ratify the appointment of Deloitte & Touche LLP as our independent public accountants for the fiscal year ending May 28, 2004; and
5. Transact such other business as may properly come before the meeting.

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 July 25, 2003. 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.

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By Order of the Board of Directors,

Mark D. Michael
Secretary

August 12, 2003
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 proxy statement and form of proxy are being sent to you in connection with this request and have been prepared for the Board by our management.

The annual meeting will be held on Tuesday, September 23, 2003, at 10:30 a.m. and will be held at our principal executive offices at 350 Campus Drive, Marlborough, Massachusetts in Building 100. Our telephone number is (508) 323-5000. This proxy statement and form of proxy are first being sent to our stockholders on or about August 12, 2003.

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 July 25, 2003. We refer to this date as the Record Date. At the close of business on the Record Date, a total of 368,274,531 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 use 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.

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. 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

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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 Proposals 2, 3 and 4.

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.

Stock Ownership of Certain Beneficial Owners and Management. The following table contains information, as of the Record Date, with respect to the beneficial ownership of our common stock by (i) each person whom we know to own beneficially more than five percent of our common stock; (ii) each director and nominee; (iii) the Chief Executive Officer and each of our other executive officers included in the Summary Compensation Table; and (iv) all of our current executive officers and directors as a group.

Name	Amount (1)	Percent of Common Stock Outstanding
Citigroup Inc. (2)	38,059,291	10.3%
Citigroup Global Markets Holdings Inc. (3)	37,915,804	10.3%
Merrill Lynch & Co., Inc. (4)	32,310,084	8.8%
Smith Barney Fund Management LLC (3)	19,210,925	5.2%
Citigroup Financial Products Inc. (3)	18,566,636	5.0%
Fred D. Anderson (5)	111,000	*
Eric A. Benhamou (6)	8,270,212	2.2%
Gary T. DiCamillo (7)	112,220	*
James R. Long (8)	221,963	*
Raj Reddy (9)	107,000	*
Paul G. Yovovich (10)	1,157,829	*
Bruce L. Claflin (11)	7,321,518	2.0%
Dennis Connors (12)	992,334	*
John F. McClelland	1,483,303	*
Gwendolyn A. McDonald (13)	360,486	*
Mark D. Michael (14)	1,530,111	*
Mark Slaven (15)	449,324	*
All current directors and executive officers as a group (14 persons) (16)	21,079,548	5.7%

* Less than 1%.

- (1) To our knowledge, except as indicated in the footnotes to this table, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable.
- (2) Represents shares beneficially owned by Citigroup Inc. and includes shares held by Citigroup Global Markets Holdings Inc., Smith Barney Fund Management LLC and/or Citigroup Financial Products Inc., based on a Schedule 13G that was filed jointly by these entities with the SEC on June 10, 2003. Citigroup Inc. has shared voting and investment power with respect to these shares.
- (3) Represents shares beneficially owned based upon information reported on a Schedule 13G filed jointly by Citigroup Global Markets Holding Inc., Citigroup Inc., Smith Barney Fund Management LLC and Citigroup Financial Products Inc. with the SEC on June 10, 2003.

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Each of Citigroup Global Markets Holdings Inc., Citigroup Financial Products Inc. and Smith Barney Fund Management LLC has shared voting and investment power with respect to all shares beneficially owned.

- (4) Represents shares held by Merrill Lynch & Co., Inc. and affiliated persons based upon information reported on its Schedule 13G filed with the SEC, on January 6, 2003.

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- (5) Includes 106,000 shares subject to options that will be exercisable as of September 23, 2003, of which 19,875 will become exercisable between the Record Date and the annual meeting.
- (6) Includes 7,567,593 shares subject to options that will be exercisable as of September 23, 2003, of which 539,140 will become exercisable between the Record Date and the annual meeting.
- (7) Includes 111,220 shares subject to options that will be exercisable as of September 23, 2003, of which 19,875 will become exercisable between the Record Date and the annual meeting.
- (8) Includes 219,163 shares subject to options that will be exercisable as of September 23, 2003, of which 19,875 will become exercisable between the Record Date and the annual meeting.
- (9) Includes 106,000 shares subject to options that will be exercisable as of September 23, 2003, of which 19,875 will become exercisable between the Record Date and the annual meeting.
- (10) Includes 882,006 shares subject to options that will be exercisable as of September 23, 2003, of which 19,875 will become exercisable between the Record Date and the annual meeting.
- (11) Includes 7,032,678 shares subject to options that will be exercisable as of September 23, 2003, of which 366,952 will become exercisable between the Record Date and the annual meeting. Also includes 107,500 unvested shares of restricted stock issued to Mr. Claflin under the 3Com Restricted Stock Plan and 181,340 shares of common stock held in the Bruce and Karen Claflin Family Trust, of which Bruce L. Claflin is a co-trustee.
- (12) Includes 931,645 shares subject to options that will be exercisable as of September 23, 2003, of which 54,500 will become exercisable between the Record Date and the annual meeting. Also includes 45,000 unvested shares of restricted stock issued to Mr. Connors under the 3Com Restricted Stock Plan.
- (13) Includes 316,162 shares subject to options that will be exercisable as of September 23, 2003, of which 3,625 will become exercisable between the Record Date and the annual meeting. Also includes 27,500 unvested shares of restricted stock issued to Ms. McDonald under the 3Com Restricted Stock Plan.
- (14) Includes 1,397,306 shares subject to options that will be exercisable as of September 23, 2003, of which 62,344 will become exercisable between the Record Date and the annual meeting. Also includes 12,500 unvested shares of restricted stock issued to Mr. Michael under the 3Com Restricted Stock Plan, 22,375 shares of common stock held by Mr. Michael's wife, 8,371 shares of common stock held by Mr. Michael's daughter and 200 shares of common stock held by Mr. Michael's stepdaughter.
- (15) Includes 389,595 shares subject to options that will be exercisable as of September 23, 2003, of which 4,712 will become exercisable between the Record Date and the annual meeting. Also includes 22,500 unvested shares of restricted stock issued to Mr. Slaven under the 3Com Restricted Stock Plan, 225 shares of common stock held by Mr. Slaven's wife and 604 shares of common stock held in Mr. Slaven's 401(k) account.
- (16) Includes 19,416,839 shares subject to options that will be exercisable as of September 23, 2003, of which 1,143,148 will become exercisable between the Record Date and the annual meeting.

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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 seven and by resolution of the Board, will be fixed at six effective as of September 23, 2003, immediately prior to the Annual Meeting of Stockholders. Our Board is divided into two classes, with the classes serving for staggered two-year terms. Class I currently has three members and Class II currently has four members. Currently, Class I includes Fred Anderson. Mr. Anderson will not be standing for reelection at the annual meeting. The Board expects Mr. Anderson to continue serving as a director until the September meeting of the Board of Directors. You may not vote for more than two nominees at the annual meeting. The two Class I directors to be elected at the 2003 Annual Meeting are to be elected to hold office until the 2005 Annual Meeting and until their successors have been elected and qualified.

The Board's nominees as Class I directors are Messrs., Claflin and Yovovich. 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 has no knowledge that any nominee will be unwilling or unable to serve.

Vote Required

Directors will be elected by a plurality of the votes cast at the meeting. This means that the two 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. CLAFLIN AND YOVOVICH.**

Nominees and Other Directors

The following table sets forth the name and age of each nominee and each director whose term of office will continue after the annual meeting, the principal occupation of each during the past five years and the period during which each has served as a director of 3Com. Each nominee currently serves as a director. There are no family relationships among any directors or executive officers.

Nominees for Election as Class I Directors for a Term Expiring in 2005

Name	Principal Occupation During Past Five Years	Age	Director Since
Bruce L. Claflin	Mr. Claflin has been our President and Chief Executive Officer since January 2001 and was our President and Chief Operating Officer from August 1998 to January 2001. Prior to joining us, Mr. Claflin worked for Digital Equipment Corporation (DEC) from October 1995 to June 1998. From July 1997 to June 1998, he was Senior Vice President and General Manager, Sales and Marketing at DEC and prior to that he served as Vice President and General Manager of DEC's Personal Computer Business Unit from October 1995 to June 1997. Prior to October 1995, Mr. Claflin held a number of senior management and executive positions at International Business Machines Corporation (IBM). Mr. Claflin is also a director of Time Warner Telecom, Inc.	51	2001

Name	Principal Occupation During Past Five Years	Age	Director Since
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Paul G. Yovovich	Mr. Yovovich is President of Lake Capital, a private investment firm. Mr. Yovovich was a director of U.S. Robotics Corporation from 1991 until it was acquired by 3Com in June 1997. Mr. Yovovich served as President of Advance Ross Corporation, an international financial services company, from 1993 to 1996. Mr. Yovovich is also a director of APAC Customer Services, Inc.	49	1997
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Incumbent Class II Directors serving for a term expiring 2004

Eric A. Benhamou	Mr. Benhamou has been our Chairman of the Board since July 1994. 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 also Chairman of the Board and Chief Executive Officer of Palm, Inc. and Chairman of the Board of Cypress Semiconductor Corporation, and a director of Legato Systems, Inc. Mr. Benhamou is also a member of the Computer Science and Technology Board and serves on the Executive Committee of Technet.	47	1990
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Gary T. DiCamillo	Mr. DiCamillo is President and CEO of TAC Worldwide Companies, a large privately-held technical staffing company. 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.	52	2000
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James R. Long	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, on December 31, 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 also is a director of Cypress Semiconductor Corporation.	60	2000
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Raj Reddy	Mr. Reddy is the Herbert A. Simon University Professor of Computer Science and Robotics in the School of Computer Science at Carnegie Mellon University (CMU), a position he has held since 1969. He served as dean of the School of Computer Science at CMU from 1991 to 1999. Mr. Reddy served as co-chair of the President's Information Technology Advisory Committee from 1999 to 2001.	66	2001
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OUR CORPORATE GOVERNANCE PRINCIPLES

Primary Functions of the Board. 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. Our corporate governance principles are set forth in our Board Guidelines on Corporate Governance Issues, which is attached to this proxy statement as Appendix A.

Leadership of the Board. Our Board is led by our chairman of the board and by our lead outside director. With assistance from the Nominating and Governance Committee, our chairman appoints the lead outside director. Our chairman recommends to the Board candidates for director and board committee assignments. After gaining agreement from the lead outside director and chairman as to the agenda and key board interests, our management provides briefing materials to our directors prior to board meetings.

Lead Outside Director. Our lead outside director serves as the focal point for outside directors to resolve conflicts with our CEO or other outside directors, and coordinate feedback to our CEO on behalf of outside directors regarding business issues and board management. The lead outside director also serves as a special counsel to the CEO. The lead outside director and the other outside directors shall meet regularly without the CEO present.

Board Selection Process. We recently established a Nominating and Governance Committee. This committee will assist the board, our chairman and our CEO in director selection, committee assignments 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 will make recommendations to the Board regarding director nominees, whether for the slate of nominees proposed by the Board to stockholders or nominees elected by the Board to fill vacancies. In addition, this committee will review director candidates submitted by stockholders. The Nominating and Governance Committee will recommend 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.

Delegation to Committees. It is our general policy that all major decisions should be approved by the Board as a whole. As a consequence, the committee structure of the Board is limited to those committees considered to be basic to or required for the operation of a publicly-owned company. Currently these committees are the Audit and Finance Committee, Compensation Committee, Nominating and Governance Committee and Technology Committee. Each of these committees has adopted a written charter (available from our website), except for the Technology Committee. 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 financial, 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.

Functioning of the Board

Board and Committee Meetings. Briefing materials are provided to directors in advance of Board and Committee meetings to allow the directors to prepare for discussion at the meeting. The format of each Board meeting includes an executive session with the directors and chairman. In preparation for Board and committee meetings, our chairman and lead outside director consult with our CEO regarding the agenda and content and, with support from our secretary, distribute briefing materials to our directors for matters to be included in the meeting agenda, as well as minutes from prior meetings and any written reports by committees. The Board has the authority to hire its own advisors and to have them present at meetings, as it deems necessary.

Board Access to Senior Management. Our directors have complete access to our senior executive officers. Our directors are to use judgment to ensure that contact with our senior executive officers would not be distracting to

Board and Committee Meetings

In fiscal 2003, our Board consisted of Messrs. Anderson, Benhamou, Claflin, DiCamillo, Long, Reddy and Yovovich. In fiscal 2003, our Board of Directors held five regularly scheduled meetings and three special meetings. We currently have an Audit and Finance Committee, a Compensation Committee, a Nominating and Governance Committee, and a Technology Committee. The Audit and Finance, Compensation, and Nominating and Governance committees consist of only outside Directors.

Our Audit and Finance Committee met nine times in fiscal 2003. The Audit and Finance Committee makes recommendations to the Board regarding the engagement of our independent public accountants, approves services rendered by our accountants, reviews the activities and recommendations of our internal audit department, and reviews and evaluates our accounting systems, financial controls and financial personnel. In fiscal 2003, the Audit and Finance Committee consisted of Messrs. Anderson, DiCamillo and Long. Our Audit and Finance Committee operates under a written charter which is available on our website at http://www.3com.com/corpinfo/en_US/investor/audit_finance.html. For additional information concerning the Audit and Finance Committee, see REPORT OF THE AUDIT AND FINANCE COMMITTEE OF THE BOARD OF DIRECTORS.

Our Compensation Committee met eight times in fiscal 2003. The Compensation Committee reviews salaries and other compensation arrangements for our officers and other key employees, reviews the administration of our stock option and stock purchase plans, and advises the Board on general aspects of our compensation and benefit policies. The Compensation Committee consists of Messrs. DiCamillo and Yovovich. 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. For additional information concerning the Compensation Committee, see REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION.

Our Nominating and Governance Committee, the members of which were recently appointed, met once in fiscal 2003. The mission of the Nominating and Governance Committee is to focus on the broad range of 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. In fiscal 2003, the Nominating and Governance Committee consisted of Messrs. Anderson and Yovovich. 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.

The Nominating and Governance Committee will 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.

Our Technology Committee held four regular quarterly meetings in fiscal 2003. The Technology Committee consists of Messrs. Benhamou, Claflin and Reddy.

All of our directors attended more than 75% of the total number of meetings of the Board and committees on which they served during fiscal 2003.

EXECUTIVE COMPENSATION AND OTHER MATTERS

Executive Compensation

The following table contains information concerning the compensation of our (i) Chief Executive Officer, (ii) four other most highly compensated executive officers (based on salary plus bonus for fiscal 2003) who were serving as executive officers at the end of fiscal 2003 and (iii) two individuals who would have been included in this table under clause (ii) above except for the fact that they were not serving as executive officers at the end of fiscal 2003:

SUMMARY COMPENSATION TABLE

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Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Award		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$ (1))	Securities Underlying Options (# (2))	Other Compensation (\$ (3))
Bruce L. Clafin President and Chief Executive Officer	2003	825,000	216,563	41,289(4)	493,350(5)	1,000,000	6,359
	2002	781,250	210,375	27,000(4)	772,500(6)	840,000	7,812
	2001	687,500	403,469	27,065(4)	803,130(7)	2,421,467	5,584
Dennis Connors Executive Vice President, Worldwide Operations	2003	410,416	238,700	124,518(8)	278,350(5,9)	450,000	8,182
	2002	397,917	123,000	158,653(8)	247,200(6)	305,000	5,471
	2001	350,000	107,187	170,396(8)		249,376	5,261
John F. McClelland (10)	2003	380,682	134,493(11)	15,166(12)	193,050(5)	300,000	939,811
	2002	508,653	202,311(13)	25,494(14)	339,900(6)	230,000	64,900
	2001	478,873	253,548(15)	29,750(16)		510,512	80,864
Gwendolyn McDonald Senior Vice President, Human Resources	2003	311,538	39,375		107,250(5)	150,000	6,546
	2002	281,945			129,800(17)	107,000	6,181
	2001	210,000	35,746			14,500	5,718
Mark D. Michael Senior Vice President, General Counsel and Secretary	2003	350,000	45,938		107,250(5)	150,000	7,228
	2002	338,333			169,950(6)	110,000	6,922
	2001	325,000	54,732			242,136	6,187
Mark Slaven Executive Vice President and Chief Financial Officer	2003	364,583	56,250	125,780(18)	171,600(5)	300,000	7,645
	2002	242,500	25,663	47,723(18)	24,000(19)	56,000	5,158
	2001	225,833	47,081		28,594(20)	43,850	6,157

- (1) As of May 30, 2003, there were 507,750 shares of our restricted stock outstanding with an aggregate value of \$2,493,053. All such shares were subject to a right of repurchase by 3Com. We do not presently plan to pay any dividends on shares of our restricted stock.
- (2) The number of shares underlying options granted is shown on a post-Palm Distribution Adjustment (defined below) basis. On July 27, 2000, we completed the distribution of Palm, Inc. common stock held by us to our stockholders. Each eligible share of outstanding 3Com common stock received 1.483 shares of Palm common stock. As a result of the Palm Distribution, the number of shares of our common stock subject to options was adjusted by multiplying the pre-Palm Distribution number by 4.827 and the exercise price per share was adjusted by dividing the pre-Palm Distribution exercise price by 4.827 (the Palm Distribution Adjustment).
- (3) Under the 401(k) plan (or the equivalent pension plan for residents of the United Kingdom), we match 50% of each dollar contributed by the employee up to a maximum of 6% of target income. With respect to Mr. Clafin, all other compensation in the fiscal year ended May 30, 2003 represents 401(k) matching

payments. With respect to Mr. Connors, in the fiscal year ended May 30, 2003, all other compensation includes \$1,710 in group term life insurance premiums and \$6,472 in 401(k) matching payments. With respect to Ms. McDonald, in the fiscal year ended May 30, 2003, all other compensation includes \$990 in group term life insurance premiums and \$5,556 in 401(k) matching payments. With respect to Mr. Michael, in the fiscal year ended May 30, 2003, all other compensation includes \$1,794 in group term life insurance premiums and \$5,434 in 401(k) matching payments. With respect to Mr. Slaven, in the fiscal year ended May 30, 2003, all other compensation includes \$1,223 in group term life insurance premiums and \$6,422 in 401(k) matching payments. With respect to Mr. McClelland, in the fiscal year ended May 30, 2003, all other compensation includes \$891,352 in severance payments and \$48,459 in pension plan matching payments.

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Includes term life insurance premiums provided for under Mr. Claflin's employment agreement and tax gross-ups related to the payment of these premiums. The beneficiary under the policy is Bruce L. and Karen C. Claflin Family Trust UDT.

- (5) Represents the value of shares granted on July 18, 2002. 115,000 shares were granted to Mr. Claflin, 45,000 to Mr. McClelland, 40,000 to each of Mr. Connors and Mr. Slaven, and 25,000 to each of Ms. McDonald and Mr. Michael. With respect to each of these grants, shares were to vest 50% upon the completion of each of two milestones, or if the milestones were missed, over time. The first milestone was reached (and 50% of the shares vested) on December 12, 2002. Since the second milestone was not reached, the remaining 50% of the shares will vest on July 18, 2006.
- (6) The restricted stock fully vested as of June 24, 2002, due to the attainment of specified performance-based milestones.
- (7) Represents the value of 100,000 shares of restricted stock received by Mr. Claflin on December 22, 2000 based on the closing price on the date of grant of \$8.0312 per share. The restricted stock vests in four equal annual installments, provided that Mr. Claflin continues to be an employee.
- (8) Represents money paid by us on Mr. Connors' behalf for expenses related to transportation and rent, as well as applicable taxes owed.
- (9) Represents the value of 25,000 shares of restricted stock received by Mr. Connors on March 13, 2003 based on the closing price on the date of grant of \$4.27 per share. The restricted stock vests in four equal annual installments.
- (10) Mr. McClelland is a resident of the United Kingdom and was paid in British pounds sterling. For purposes of this table (except for the value of restricted stock awards), his compensation was converted to United States Dollars using an average exchange rate of US\$1.61 for each pound sterling with respect to fiscal year 2003, and US\$1.47 for each pound sterling with respect to fiscal years 2002 and 2001. Mr. McClelland resigned from 3Com effective as of January 17, 2003.
- (11) Consists of (i) \$72,784 in semi-annual bonus payments and (ii) \$61,709, which represents the forgiveness of 25% of a loan made by 3Com to Mr. McClelland plus imputed interest. Under the terms of a Promissory Note and a Debt Forgiveness and Bonus Agreement between Mr. McClelland and 3Com made at the time of his employment, we loaned a principal amount of \$285,180 to Mr. McClelland. Under the terms of the Promissory Note and the Debt Forgiveness and Bonus Agreement, (i) the loan is not interest bearing, (ii) 3Com will gross up the loan to take into account any imputed taxes (since the loan is not interest bearing) and (iii) the total debt will be forgiven 25% per year that Mr. McClelland remains employed with us.
- (12) Consists of (i) a \$2,714 gross up amount to pay for taxes on the imputed interest related to a loan made by us to Mr. McClelland (see Note 11) and (ii) \$12,452, which represents the value of our car allowance to Mr. McClelland that is a customary part of our UK employee compensation packages.
- (13) Consists of (i) \$122,458 in semi-annual bonus payments and (ii) \$79,853, which represents the forgiveness of 25% of a loan made by 3Com to Mr. McClelland (see Note 11) plus imputed interest.
- (14) Consists of (i) a \$7,448 gross up amount to pay for taxes on the imputed interest related to a loan made by us to Mr. McClelland (see Note 11) and (ii) \$18,046, which represents the value of our car allowance to Mr. McClelland.

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- (15) Consists of (i) \$168,885 in semi-annual bonus payments and (ii) \$84,663, which represents the forgiveness of 25% of a loan made by 3Com to Mr. McClelland (see Note 11) plus imputed interest.
 - (16) Consists of (i) a \$11,704 gross up amount to pay for taxes on the imputed interest related to a loan made by us to Mr. McClelland (see Note 11) and (ii) \$18,046, which represents the value of our car allowance to Mr. McClelland.
 - (17) Represents the value of 10,000 shares granted on June 22, 2001 and 20,000 shares granted on October 19, 2001, based upon the closing price on the date of grant of \$4.80 and \$4.09, respectively. The restricted stock granted on June 22, 2001 vests in two equal annual installments, and the restricted stock granted on October 19, 2001 vests in four equal annual installments, provided that Ms. McDonald continues to be an employee.

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- (18) Represents money paid by us on Mr. Slaven's behalf for expenses related to transportation and rent, as well as applicable taxes owed.
- (19) Represents the value of 5,000 shares granted on June 22, 2001 based upon the closing price on the date of grant of \$4.80. The restricted stock vests in two equal annual installments, provided that Mr. Slaven continues to be an employee.
- (20) Represents the value of 5,000 shares granted on March 30, 2001 based upon the closing price on the date of grant of \$5.7188. The restricted stock vests in four equal annual installments, provided that Mr. Slaven continues to be an employee.

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The following table provides information concerning grants of options to purchase our common stock made during fiscal 2003 to the executive officers listed in the Summary Compensation Table:

OPTION GRANTS IN FISCAL 2003

**Expiration
Date**



bid and ask spread for similar sized trades of structured notes.

sequences” on page S-41 of the accompanying product supplement no. 1,738 unless and until such time as Congress, the Treasury Dep

significantly modified and treated as retired and reissued) on or after January 1, 2021, but will also apply to certain 871(m) financial inst

group, which was moved from the Consumer Discretionary sector and renamed the Media & Entertainment Industry group. The Media &

ending their finalization.

vided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applic

Terms and Conditions

Hypothetical Examples

Additional Risk Factors Specific to Your Notes

The Underlier

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Supplemental Plan of Distribution; Conflicts of Interest

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Supplemental Terms of the Notes

The Underliers

S&P 500® Index

MSCI Indices

Hang Seng China Enterprises Index

Russell 2000® Index

FTSE®100 Index

EURO STOXX 50® Index

TOPIX

The Dow Jones Industrial Average®

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Cautionary Statement Pursuant to the Private Securities Litigation Reform Act of 1995
