3COM CORP
Form 10-Q
April 10, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2003

or

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

For the transition period from   to

Commission File No. 0-12867

3Com Corporation

(Exact name of registrant as specified in its character)

Delaware	**94-2605794**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5500 Great America Parkway		
Santa Clara, California		**95052**
(Address of principal executive offices)		(Zip Code)

Registrant s telephone number, including area code: (408) 326-5000

Former name, former address and former fiscal year, if changed since last report: N/A

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.

<div align="center">

Yes ý   **No** o

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

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Yes ý   **No** o

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As of March 21, 2003, 362,314,245 shares of the Registrant s Common Stock were outstanding.

This report contains a total of 47 pages of which this page is number 1.

3Com Corporation

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PART I.   FINANCIAL INFORMATION

Item 1.   **Financial Statements**

3Com Corporation

Condensed Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

		Three Months Ended				Nine Months Ended		
		February 28, 2003		March 1, 2002		February 28, 2003		March 1, 2002
Sales	$	244,926	$	355,978	$	852,842	$	1,139,421
Cost of sales		132,536		222,506		439,109		810,184
Gross margin		112,390		133,472		413,733		329,237
Operating expenses:								
Sales and marketing		68,861		78,642		203,503		269,893
Research and development		39,035		72,275		134,561		231,376
General and administrative		25,543		27,417		78,082		97,202
Amortization and write down of intangibles		1,705		63,517		14,205		92,885
Restructuring charges		53,990		64,039		146,686		153,090
Loss on land and facilities, net				1,375		887		1,375
Total operating expenses		189,134		307,265		577,924		845,821
Operating loss		(76,744)		(173,793)		(164,191)		(516,584)
Loss on investments, net		(14,570)		(12,302)		(33,122)		(19,572)
Interest and other income, net		5,177		9,302		18,683		55,100
Loss before income taxes and cumulative effect of change in accounting principle		(86,137)		(176,793)		(178,630)		(481,056)
Income tax provision (benefit)		(6,895)		59,341		1,105		91,136
Loss before cumulative effect of change in accounting principle		(79,242)		(236,134)		(179,735)		(572,192)
Cumulative effect of change in accounting principle						(65,601)		
Net loss	$	(79,242)	$	(236,134)	$	(245,336)	$	(572,192)

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Basic and diluted loss per share:								
Loss before cumulative effect of change in accounting principle	$	(0.22)	$	(0.67)	$	(0.50)	$	(1.65)
Cumulative effect of change in accounting principle						(0.18)		
Net loss	$	(0.22)	$	(0.67)	$	(0.68)	$	(1.65)
Shares used in computing per share amounts:								
Basic and diluted		361,020		351,596		359,266		347,537

See notes to condensed consolidated financial statements.

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3Com Corporation

Condensed Consolidated Balance Sheets

(In thousands, except par value)

	February 28, 2003		May 31, 2002
	(Unaudited)		
ASSETS			
Current assets:			
Cash and equivalents	$ 503,459	$	679,055
Short-term investments	937,592		702,993
Accounts receivable, net	120,152		147,113
Inventories	41,328		61,777
Investments and other	49,662		72,106
Total current assets	1,652,193		1,663,044
Property and equipment, net	426,162		676,154
Deposits and other assets	46,284		87,213
Deferred income taxes	6,055		6,192
Intangible assets, net	13,518		27,689
Goodwill	899		66,500
Total assets	$ 2,145,111	$	2,526,792
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 118,767	$	125,903
Accrued liabilities and other	222,819		275,965
Current portion of debt	31,102		101,354
Total current liabilities	372,688		503,222
Long-term debt	37,550		68,404
Other long-term obligations	4,660		4,961
Stockholders equity:			
Preferred stock, $.01 par value, 10,000 shares authorized; none outstanding			
Common stock, $.01 par value, 990,000 shares authorized; shares issued: 365,739 and 365,449, respectively	**2,129,697**		**2,126,583**

Common stock, $.01 par value, 990,000 shares authorized; shares issued: 365,739 and 365,449, respectively

Treasury stock, at cost, 3,826 and 7,743 shares, respectively	**(96,092)**	**(182,341)**

Note receivable from sale of warrants	(12,631)	(21,052)
Unamortized stock-based compensation	**(2,264)**	**(5,030)**

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	(12,631)	(21,052)
Unamortized stock-based compensation	**(2,264)**	**(5,030)**

Retained earnings (deficit)		(284,924)	35,814
Accumulated other comprehensive loss		(3,573)	(3,769)
Total stockholders equity		1,730,213	1,950,205
Total liabilities and stockholders equity	$	2,145,111 $	2,526,792

See notes to condensed consolidated financial statements.

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3Com Corporation

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended	
	February 28, 2003	March 1, 2002
Cash flows from operating activities:		
Net loss	$ (245,336)	$ (572,192)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	130,317	212,634
Loss on property and equipment	77,758	69,509
Write downs of goodwill and intangibles, including the cumulative effect of change in accounting principle	73,251	54,422
Loss on investments, net	33,122	19,572
Deferred income taxes	371	78,420
Stock-based expense	5,627	7,380
Changes in current assets and liabilities:		
Accounts receivable	26,962	106,971
Inventories	13,116	116,950
Other assets	23,560	50,990
Accounts payable	(7,137)	(104,373)
Accrued liabilities and other	(53,213)	(289,879)
Income taxes payable	(243)	87,690
Net cash provided by (used in) operating activities	78,155	(161,906)
Cash flows from investing activities:		
Purchase of investments	(989,548)	(567,596)
Proceeds from sales and maturities of investments	753,663	532,815
Purchase of property and equipment	(17,727)	(346,807)
Proceeds from sale of property and equipment	80,667	15,420
Net cash used in investing activities	(172,945)	(366,168)
Cash flows from financing activities:		
Issuance of common stock	12,648	33,711
Repurchase of common stock	(1,548)	(3,660)
Net proceeds from (repayments on) revolving line of credit	(70,000)	95,000
Proceeds from term loan		105,000
Repayments of long-term borrowings	(31,020)	(8,189)
Collection on note receivable from sale of warrants	8,421	
Capitalization of deferred financing costs		(5,165)

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Other, net