

3COM CORP
Form 8-K
June 09, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):

May 23, 2003

3COM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

0-12867

(Commission File Number)

94-2605794

(IRS Employer Identification No.)

5500 Great America Parkway

Santa Clara, CA

95052

(Address of Principal Executive Offices)

(Zip Code)

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

(Former name or former address, if changed since last report)

Item 2. Acquisition or Disposition of Assets

On March 4, 2003, 3Com Corporation (3Com) entered into an agreement to sell selected assets and liabilities of its CommWorks division to UTStarcom, Inc. (UTStarcom) (Asset Purchase Agreement) in exchange for \$100 million in cash, subject to certain closing adjustments.

On May 23, 2003, 3Com completed the sale of its CommWorks division and transferred certain assets and liabilities to UTStarcom pursuant to the terms of the Asset Purchase Agreement. Prior to its sale, CommWorks was engaged in developing and deploying carrier-class, Internet Protocol-based multi-service access and service creation platforms for telecommunications service providers. CommWorks product portfolio includes the three key components of next generation networks: wireline access systems; wireless access systems; and a media independent softswitch, that are critical to providing complete next generation data and voice services to both fixed and mobile subscribers. CommWorks is headquartered in Rolling Meadows, Illinois.

The above description of 3Com s sale of its CommWorks division is not intended to be complete. It is subject to, and qualified by reference to, the -----Asset Purchase Agreement, a copy of which is attached hereto as Exhibit 10.1. The press release announcing the execution of the Asset Purchase Agreement with UTStarcom and the press release announcing the closing of the transaction are attached hereto as Exhibits 99.1 and 99.2, respectively.

Item 7. Financial Statements, Pro Forma Information and Exhibits

(a) Financial Statements of Businesses Acquired.

Not Applicable

(b) Pro Forma Financial Information

On May 23, 2003, 3Com completed the sale of its CommWorks division and transferred certain assets and liabilities to UTStarcom pursuant to the terms of the Asset Purchase Agreement. Based on the carrying value of the assets and liabilities attributed to the CommWorks division on May 23, 2003, and the estimated costs and expenses incurred in connection with the sale, 3Com anticipates that it will record a gain of approximately \$88.9 million, less any applicable tax expense. The anticipated gain will be adjusted to reflect final net assets attributed to the CommWorks division on the date of the sale, less any applicable tax expense.

The following unaudited pro forma financial statements and notes thereto are being filed herewith:

Unaudited Pro Forma Condensed Balance Sheet as of February 28, 2003

Unaudited Pro Forma Condensed Statement of Operations for the nine months ended February 28, 2003

Unaudited Pro Forma Condensed Statement of Operations for the years ended May 31, 2002, June 1, 2001 and June 2, 2000

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The pro forma financial information represents, in the opinion of management, all adjustments necessary to present 3Com's pro forma results of operations and financial position in accordance with Article 11 of the United States Securities and Exchange Commission (SEC) Regulation S-X and are based upon available information and certain assumptions considered reasonable under the circumstances. The pro forma financial information also excludes the gain on sale noted above, and any other non-recurring charges or credits attributable to the transaction.

The pro forma condensed financial statements should be read in conjunction with 3Com's unaudited consolidated financial statements and notes thereto included in 3Com's Quarterly Report on Form 10-Q for the

period ended February 28, 2003 and audited consolidated financial statements and notes thereto included in 3Com's Annual Report on Form 10-K for the year ended May 31, 2002, filed on April 10, 2003 and August 2, 2002, respectively. The pro forma information may not necessarily be indicative of what 3Com's financial position or results of operations would have been had the transaction been in effect as of and for the periods presented, nor is such information necessarily indicative of 3Com's results of operations or financial position for any future period or date.

3Com Corporation**Pro Forma Consolidated Condensed Balance Sheets (Unaudited)**

(in thousands)

The following table shows the unaudited pro forma condensed consolidated balance sheets at February 28, 2003 as if the transaction had taken place on February 28, 2003:

| | Historical (2) | Business to be disposed | Pro forma adjustments | Pro forma |
|--|----------------|-------------------------|-----------------------|--------------|
| ASSETS: | | | | |
| Current assets: | | | | |
| Cash and equivalents | \$ 503,459 | \$ | \$ 100,000 (1) | \$ 603,459 |
| Short-term investments | 937,592 | | | 937,592 |
| Accounts receivable, net | 120,152 | | | 120,152 |
| Inventories | 41,328 | (7,528) | | 33,800 |
| Investments and other | 49,662 | (1,810) | | 47,852 |
| Total current assets | 1,652,193 | (9,338) | 100,000 | 1,742,855 |
| Property and equipment, net | 426,162 | (14,047) | | 412,115 |
| Deposits and other assets | 46,284 | | | 46,284 |
| Deferred income taxes | 6,055 | | | 6,055 |
| Intangible assets, net | 13,518 | | | 13,518 |
| Goodwill | 899 | | | 899 |
| Total assets | \$ 2,145,111 | \$ (23,385) | \$ 100,000 | \$ 2,221,726 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| Current Liabilities: | | | | |
| Accounts payable | \$ 118,767 | \$ | \$ | \$ 118,767 |
| Accrued liabilities and other | 222,819 | (19,790) | 10,663 (1) | 213,692 |
| Current portion of debt | 31,102 | | | 31,102 |
| Total current liabilities | 372,688 | (19,790) | 10,663 | 363,561 |
| Long-term debt | 37,550 | | | 37,550 |
| Other long-term obligations | 4,660 | | | 4,660 |
| Stockholders equity: | | | | |
| Common stock | 2,129,697 | | | 2,129,697 |
| Treasury stock | (96,092) | | | (96,092) |
| Note receivable from sale of warrants | (12,631) | | | (12,631) |
| Unamortized stock-based compensation | (2,264) | | | (2,264) |

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| | | | | |
|---|--------------|-------------|-----------|--------------|
| Retained deficit | (284,924) | 85,742 | (1) | (199,182) |
| Accumulated other comprehensive loss | (3,573) | | | (3,573) |
| Total stockholders equity | 1,730,213 | 85,742 | | 1,815,955 |
| Total liabilities and stockholders equity | \$ 2,145,111 | \$ (19,790) | \$ 96,405 | \$ 2,221,726 |

3Com Corporation**Pro Forma Consolidated Condensed Statements of Operations (Unaudited)**

(in thousands, except per share data)

The following table shows the unaudited pro forma condensed consolidated results of operations for the nine months ended February 28, 2003 as if the transaction had taken place on May 29, 1999:

| | Historical (2) | Business to be disposed | Pro forma adjustments | Pro forma |
|--|----------------|-------------------------|-----------------------|--------------|
| Sales | \$ 852,842 | \$ (94,438) | \$ | \$ 758,404 |
| Cost of sales | 439,109 | (39,569) | | 399,540 |
| Gross margin | 413,733 | (54,869) | | 358,864 |
| Operating expenses: | | | | |
| Sales and marketing | 203,503 | (25,005) | | 178,498 |
| Research and development | 134,561 | (48,430) | | 86,131 |
| General and administrative | 78,082 | (5,716) | | 72,366 |
| Amortization and write down of intangibles | 14,205 | (5,401) | | 8,804 |
| Restructuring charges | 146,686 | (17,775) | | 128,911 |
| Loss on land and facilities, net | 887 | | | 887 |
| Total operating expenses | 577,924 | (102,327) | | 475,597 |
| Operating loss | (164,191) | (47,458) | | (116,733) |
| Loss on investments, net | (33,122) | | | (33,122) |
| Interest and other income, net | 18,683 | | | 18,683 |
| Loss before income taxes and cumulative effect of change in accounting principle | (178,630) | (47,458) | | (131,172) |
| Income tax provision | 1,105 | 926 | | 179 |
| Loss before cumulative effect of change in accounting principle | (179,735) | (48,384) | | (131,351) |
| Cumulative effect of change in accounting principle | (65,601) | (20,154) | | (45,447) |
| Net loss | \$ (245,336) | \$ (68,538) | \$ | \$ (176,798) |
| Basic and diluted loss per share: | | | | |
| Loss before cumulative effect of change in accounting principle | \$ (0.50) | | \$ | (0.36) |

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| | | | | |
|---|----|---------|----|---------|
| Cumulative effect of change in accounting principle | | (0.18) | | (0.13) |
| Net loss | \$ | (0.68) | \$ | (0.49) |
| Shares used in computing per share amounts: | | | | |
| Basic and diluted | | 359,266 | | 359,266 |

3Com Corporation**Pro Forma Consolidated Condensed Statements of Operations (Unaudited)**

(in thousands, except per share data)

The following table shows the unaudited pro forma condensed consolidated results of operations for the year ended May 31, 2002 as if the transaction had taken place on May 29, 1999:

| | Historical (2) | Business to be disposed | Pro forma adjustments | Pro forma |
|---|----------------|-------------------------|-----------------------|--------------|
| Sales | \$ 1,477,932 | \$ (218,963) | \$ | \$ 1,258,969 |
| Cost of sales | 999,731 | (108,018) | | 891,713 |
| Gross margin | 478,201 | (110,945) | | 367,256 |
| Operating expenses: | | | | |
| Sales and marketing | 336,495 | (62,943) | | 273,552 |
| Research and development | 285,584 | (87,626) | | 197,958 |
| General and administrative | 124,740 | (12,795) | | 111,945 |
| Amortization and write down of intangibles | 116,679 | (30,073) | | 86,606 |
| Restructuring charges | 167,462 | (58,426) | | 109,036 |
| Loss on land and facilities, net | 1,375 | | | 1,375 |
| Total operating expenses | 1,032,335 | (251,863) | | 780,472 |
| Operating loss | (554,134) | (140,918) | | (413,216) |
| Loss on investments, net | (17,888) | | | (17,888) |
| Interest and other income, net | 67,371 | | | 67,371 |
| Loss before income taxes | (504,651) | (140,918) | | (363,733) |
| Income tax provision | 91,299 | 1,380 | | 89,919 |
| Net loss | \$ (595,950) | \$ (142,298) | \$ | \$ (453,652) |
| Basic and diluted loss per share: | | | | |
| Net loss | \$ (1.71) | | \$ | \$ (1.30) |
| Shares used in computing per share amounts: | | | | |
| Basic and diluted | 349,489 | | | 349,489 |

3Com Corporation

Pro Forma Consolidated Condensed Statements of Operations (Unaudited)

(in thousands, except per share data)

The following table shows the unaudited pro forma condensed consolidated results of operations for the year ended June 1, 2001 as if the transaction had taken place on May 29, 1999:

| | Historical (2) | Business to be disposed | Pro forma adjustments | Pro forma |
|---|----------------|-------------------------|-----------------------|--------------|
| Sales | \$ 2,820,881 | \$ (399,716) | \$ | \$ 2,421,165 |
| Cost of sales | 2,287,250 | (285,161) | | 2,002,089 |
| Gross margin | 533,631 | (114,555) | | 419,076 |
| Operating expenses: | | | | |
| Sales and marketing | 803,994 | (97,755) | | 706,239 |
| Research and development | 535,718 | (128,821) | | 406,897 |
| General and administrative | 182,090 | (15,633) | | 166,457 |
| Amortization and write down of intangibles | 69,707 | (35,198) | | 34,509 |
| Restructuring charges | 163,657 | (8,732) | | 154,925 |
| Gain on land and facilities, net | (178,844) | | | (178,844) |
| Purchased in-process technology | 60,221 | | | 60,221 |
| Merger-related credits, net | (728) | | | (728) |
| Total operating expenses | 1,635,815 | (286,139) | | 1,349,676 |
| Operating loss | (1,102,184) | (171,584) | | (930,600) |
| Loss on investments, net | (18,614) | | | (18,614) |
| Litigation settlement | (250,000) | | | (250,000) |
| Interest and other income, net | 144,596 | | | 144,596 |
| Loss from continuing operations before income taxes and equity interest | (1,226,202) | (171,584) | | (1,054,618) |
| Income tax provision (benefit) | (257,641) | 8,163 | | (265,804) |
| Equity interest in loss on unconsolidated investee | 1,352 | | | 1,352 |
| Loss before discontinued operations | (969,913) | (179,747) | | (790,166) |
| Income from discontinued operations | 4,537 | | | 4,537 |
| Net loss | \$ (965,376) | \$ (179,747) | \$ | \$ (785,629) |

Basic and diluted loss per share:

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| | | | | |
|-------------------------|----|--------|----|--------|
| Continuing operations | \$ | (2.81) | \$ | (2.29) |
| Discontinued operations | | 0.01 | | 0.01 |
| Net loss | \$ | (2.80) | \$ | (2.28) |

Shares used in computing per share amounts:

| | | | | |
|-------------------|--|---------|--|---------|
| Basic and diluted | | 345,027 | | 345,027 |
|-------------------|--|---------|--|---------|

3Com Corporation

Pro Forma Consolidated Condensed Statements of Operations (Unaudited)

(in thousands, except per share data)

The following table shows the unaudited pro forma condensed consolidated results of operations for the year ended June 2, 2000 as if the transaction had taken place on May 29, 1999:

| | Historical (2) | Business to be disposed | Pro forma adjustments | Pro forma |
|---|----------------|-------------------------|-----------------------|--------------|
| Sales | \$ 4,333,942 | \$ (577,767) | \$ | \$ 3,756,175 |
| Cost of sales | 2,475,934 | (249,991) | | 2,225,943 |
| Gross margin | 1,858,008 | (327,776) | | 1,530,232 |
| Operating expenses: | | | | |
| Sales and marketing | 949,228 | (96,365) | | 852,863 |
| Research and development | 597,816 | (99,094) | | 498,722 |
| General and administrative | 213,085 | (10,200) | | 202,885 |
| Amortization and write down of intangibles | 24,535 | (3,959) | | 20,576 |
| Restructuring charges | 68,867 | (347) | | 68,520 |
| Gain on land and facilities, net | (25,483) | | | (25,483) |
| Purchased in-process technology | 13,456 | (13,456) | | |
| Merger-related credits, net | (2,297) | | | (2,297) |
| Total operating expenses | 1,839,207 | (223,421) | | 1,615,786 |
| Operating income (loss) | 18,801 | 104,355 | | (85,554) |
| Gains on investments, net | 838,795 | | | 838,795 |
| Interest and other income, net | 104,258 | | | 104,258 |
| Income from continuing operations before income taxes and equity interest | 961,854 | 104,355 | | 857,499 |
| Income tax provision | 341,672 | 48,250 | | 293,422 |
| Other interest in gain on unconsolidated joint venture | (1,028) | | | (1,028) |
| Equity interest in loss on unconsolidated investee | 5,647 | | | 5,647 |
| Income before discontinued operations | 615,563 | 56,105 | | 559,458 |
| Income from discontinued operations | 58,740 | | | 58,740 |
| Net income | \$ 674,303 | \$ 56,105 | \$ | \$ 618,198 |

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| | | | |
|---|----|---------|---------|
| Net income per share: | | | |
| Basic: | | | |
| Continuing operations | \$ | 1.77 | \$ 1.60 |
| Discontinued operations | | 0.17 | 0.17 |
| | \$ | 1.94 | \$ 1.77 |
| Diluted: | | | |
| Continuing operations | \$ | 1.72 | \$ 1.56 |
| Discontinued operations | | 0.16 | 0.17 |
| | \$ | 1.88 | \$ 1.73 |
| Shares used in computing per share amounts: | | | |
| Basic | | 348,314 | 348,314 |
| Diluted | | 357,883 | 357,883 |

NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

Basis of Presentation

The above unaudited pro forma condensed consolidated financial statements present financial information for 3Com giving effect to the sale of its CommWorks division, which was effective as of May 23, 2003. The unaudited pro forma condensed balance sheet as of February 28, 2003 is presented as if the transaction occurred on that date. The unaudited proforma condensed statements of operations for the nine months ended February 28, 2003 and for the years ended May 31, 2002, June 1, 2001 and June 2, 2000 are presented as if the transaction had occurred on May 29, 1999 and exclude the anticipated gain to be realized.

Unaudited Pro Forma Financial Information

(1) Reflects the sale of certain net assets of CommWorks for a total cash payment of \$100 million on May 23, 2003. The pro forma adjustment to other current liabilities reflects the estimated costs and expenses incurred in connection with the sale, as if the sale occurred on February 28, 2003.

(2) The historical amounts were derived from unaudited and audited financial statements included in 3Com's quarterly report on Form 10-Q for the period ended February 28, 2003 and annual report on Form 10-K for the year ended May 31, 2002. Certain amounts in fiscal 2002 have been reclassified to conform to the presentation for the nine-month period ended February 28, 2003.

(c) Exhibits

Exhibit No.

10.1 Asset Purchase Agreement by and between 3Com Corporation and UTStarcom, Inc. dated March 4, 2003

99.1 Text of Press Release dated March 4, 2003, titled "UTStarcom Agrees to Acquire Selected Assets of 3Com's CommWorks Business for \$100 Million"

99.2 Text of Press Release dated May 23, 2003, titled "3Com Announces Completion of the Sale of CommWorks Assets"

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

3Com Corporation
(Registrant)

Date: June 9, 2003

By: /s/ Mark Slaven

Mark Slaven
Executive Vice President, Finance, and Chief
Financial Officer (Principal Financial and Accounting
Officer)