

Securities and Exchange Commission
Washington, D. C. 20549

FORM 10- K

annual report pursuant to section 13 or 15(d) of the securities [X] exchange act of 1934
For the Fiscal Year Ended May 31, 1996 Commission File No. 0- 12867 or
transition report pursuant to section 13 or 15(d) of the securities [] exchange act of 1934
For the transition period from _____ to _____

3Com Corporation
(Exact name of registrant as specified in its charter)
California 94-2605794
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

5400 Bayfront Plaza

Santa Clara, California 95052 (Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (408) 764- 5000

Securities registered pursuant to Section 12(b) of the Act: NONE Securities registered pursuant to Section 12(g) of the Act: Common Stock, no par value.

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 XX 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. [X]

The aggregate market value of the Registrant's Common Stock held by nonaffiliates, based upon the closing price of the Common Stock on July 31, 1996, as reported by the Nasdaq National Market, was approximately \$6,152,000,000. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock, based on Schedule 13G filings, have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of July 31, 1996, 169,570,302 shares of the Registrant's Common Stock were outstanding.

The Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on September 26, 1996 is incorporated by reference in Part III of this Form 10- K to the extent stated herein.

3Com Corporation
Form 10-K
For the Fiscal Year Ended May 31, 1996
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3Com, AccessBuilder, EtherLink, LANplex, LinkBuilder, LinkSwitch, NETBuilder, NETBuilder II, ONcore, Parallel Tasking, Transcend, and TokenLink are registered trademarks of 3Com Corporation. ATMLink, BRASICA, CELLplex, DynamicAccess, FDDILink, OfficeConnect, ONLINE, SuperStack, and ZipChip are trademarks of 3Com Corporation. Primary Access is a registered trademark of 3Com Primary Access. Aperture is a trademark of 3Com Primary Access. All other trademarks belong to their respective organizations.

PART I

ITEM 1. Business

3Com Corporation (referred to herein as 3Com, Registrant or the Company) was founded on June 4, 1979 and pioneered the networking industry. Over the years, 3Com has evolved from a supplier of discrete networking products to a broad-based supplier of local area network (LAN) and network access systems for the large enterprise, small business, home and network service provider markets. Today, 3Com is a multi-billion dollar company offering customers a broad range of ISO 9000 compliant global data networking solutions that include routers, hubs, remote access servers, switches and adapters for Ethernet, Fast Ethernet, Token Ring, fiber distributed data interface (FDDI), Asynchronous Transfer Mode (ATM) and other high speed networks. Additionally, the Company offers Integrated Services Digital Network (ISDN) adapters and internetworking products for small businesses and home users, and integrated digital remote access systems used by network service providers and telecommunications carriers. 3Com's products are distributed and serviced worldwide through 3Com and its partners: principally systems integrators, value-added resellers (VARs), national resellers and dealers, distributors and original equipment manufacturers (OEMs). Certain products, such as ISDN digital modems, PC Card adapters and the Network Starter Kit, are also sold through electronics catalogs and retailers. 3Com's name is derived from its focus on computer communication compatibility. Since its inception, the Company has been a leader in defining, shaping and promoting the growth of networking infrastructures that transmit data to all parts of the world quickly and efficiently. The Company's commitment to its customers goes beyond point-product excellence to making data networks fundamentally easier to design, install, maintain and evolve. The Company's objective is to make the network invisible to the individual end-user as well as flexible and unconstrained for the network manager.

During fiscal 1992 and 1993, 3Com focused on changing the direction of the Company to be more global in the industry. The Company rebuilt its product portfolio with the introduction of new adapter, hub and internetworking platforms, expanded the training of its sales force to sell connectivity systems and solutions, and expanded its global presence with new sales offices, service centers, and "parts banks" worldwide. The acquisition of the data networking products business of U.K.- based BICC Group, plc in fiscal 1992 strengthened the Company's position in the structured wiring hub market and expanded the Company's position in Europe. In fiscal 1993, 3Com enhanced its Token Ring technology base with the acquisition of Star- Tek, Inc., a Massachusetts- based Token Ring hub manufacturer. Also in fiscal 1993, to further meet increased demand for its network adapter products and to service the growing European market, 3Com began full- scale operations at its 60,000 square foot manufacturing facility in Blanchardstown, Ireland.

In fiscal 1994, 3Com was the first networking company to introduce a new architecture. This architecture focused on the true customer requirements for scaling network performance and extending network reach. Combined with Transcend(registered trademark) Network Management, which was introduced in September 1993, this architecture, called High Performance Scaleable Networking (HPSN) demonstrated the Company's ability to deliver complete connectivity systems for the enterprise and beyond, and provided customers with a framework for building and managing scaleable, high- performance networking infra- structures. During fiscal 1994, the Company enhanced its product offerings under HPSN with two strategic acquisitions. First, 3Com acquired Massachusetts- based Synernetics, Inc. (Synernetics), 3Com's long- term development partner and the revenue leader in the LAN switching market at that time. The switching products of Synernetics are marketed under the LANplex(registered trademark) name and include the LANplex 6000 backbone switch and the LANplex 2000 family of departmental switches. Second, 3Com acquired Centrum Communications, Inc. (Centrum) of San Jose, California, an innovator in remote access internetworking technology. Centrum remote access servers for Ethernet and Token Ring networks are marketed under the 3Com AccessBuilder(registered trademark) trademark.

Fiscal 1994 results included a \$134.5 million pre- tax charge to operations for the combined effect of purchased in- process technology related to the acquisitions, and a wireless technology licensing agreement. Also during fiscal 1994, the Company expanded its product offerings with new and enhanced adapter, internetworking and stackable hub products, extended its worldwide presence with sales offices in five additional countries, expanded its major accounts salesforce and added new production lines at its manufacturing facilities in both the U.S. and Ireland.

In fiscal 1995, there was accelerated customer migration toward higher performance and geographically dispersed networks. The Company expanded its product line to address this trend with high performance adapters, enhanced remote access products, new LAN and ATM switches and higher density internetworking platforms. In fiscal 1995, 3Com acquired substantially all the assets of Israel- based NiceCom, Ltd., (NiceCom) an innovator in ATM technology, and also acquired a company developing advanced network adapter technology. Fiscal 1995 results included a \$60.8 million pre- tax charge to operations for the effect of purchased in- process technology related to the acquisitions.

Also, in fiscal 1995, the Company capitalized on a substantial opportunity to provide connectivity solutions beyond the enterprise market, to the small and home office markets and to the commercial remote access market by completing two additional acquisitions. These acquisitions were the first steps in penetrating the small and home office networking markets, which provide dial- up connectivity to users of on- line information services, value- added networks, and transaction networks.

First, 3Com acquired its ISDN adapter development partner, New Jersey- based AccessWorks Communications Inc., (AccessWorks) in a purchase transaction. AccessWorks develops, manufactures, and markets ISDN transmission products. Second, the Company acquired all of the outstanding stock of Sonix Communications, Ltd., (Sonix) a U.K.- based innovator in ISDN internetworking technology, in a pooling- of- interests transaction valued at approximately \$70 million on the date the acquisition was announced. Sonix manufactures and markets a portfolio of network access products specifically designed for data and voice. Sonix's low- cost ISDN bridge/routers provide connectivity among small, dispersed workgroups and simple, high- performance, low- cost connectivity between central sites and remote offices. A market leader in the U.K., Sonix products are marketed throughout Europe and in the U.S. as part of the AccessBuilder family of remote access products.

In fiscal 1996, the Company extended its market presence to network service providers and carriers, and enhanced its enterprise- wide networking solutions through three strategic acquisitions. First, in the first quarter of fiscal 1996, the Company acquired Primary Access Corporation (Primary Access) based in San Diego, California, in a pooling- of- interests transaction valued at approximately \$170 million on the date the acquisition was announced. Primary Access pioneered software- defined access to public telephone networks with its digital Aperture(trademark) platform. Sold to interexchange carriers, cellular and local carriers, as well as providers of on- line information services, value added networks (VANs) and transaction networks, the Aperture platform replaces fixed- function hardware devices such as channel banks, modems, ISDN devices and remote access servers in central data processing sites or points of presence (POPs). Customers of Primary Access include CompuServe, AT&T, MCI, Sprint, regional Bell operating companies,

In the second quarter of fiscal 1996, the Company acquired Chipcom Corporation (Chipcom), a provider of integrated multifunction hub and switching platforms, in a pooling-of-interests transaction valued at approximately \$775 million on the date the acquisition was announced. Chipcom's principal product lines, the ONline(trademark) hub and ONcore(registered trademark) multifunction switching platforms, complement 3Com's focused-function switching, hub and routing products and enhance 3Com's enterprise networking solutions. Additionally, IBM resold Chipcom products under its own brand names. The IBM relationship has continued and has been extended to include other 3Com products. The Company further capitalized on its relationship with IBM by forming, together with Bay Networks, the Network Interoperability Alliance. This alliance aligns the architectural strategies of the three companies so customers are assured of interoperability between products, and provides for the pursuit of common networking standards that allow customers to simplify, standardize and enhance the design of interoperable switched networks, and facilitates the migration to interoperable VLANs. During fiscal 1995, Chipcom acquired Artel Communications Corporation (Artel) and DSI ExpressNetworks, Inc. (DSI). Artel designed and developed high-performance communication systems for the inter-networking and video distribution markets. DSI developed and manufactured intelligent hubs and related internetworking products.

In the fourth quarter of fiscal 1996, the Company acquired AXON Networks, Inc. (AXON), a technological leader in next generation remote network management and monitoring (RMON2) and an OEM partner of embedded network management capabilities for 3Com systems products. The acquisition was accounted for as a purchase at an aggregate purchase price of \$65.3 million, which included a pre-tax charge of \$52.4 million for purchased in-process technology that had not yet reached technological feasibility. AXON provides client/server products for enterprise traffic management, including network management applications and network probes which enable central management and troubleshooting of remote networks.

In recognition of the changing needs of large enterprise customers and the growing importance of network management in evolving data network infrastructures, the Company expanded and enhanced its architectural framework to embrace three equally important dimensions: scaling network performance, extending network reach, and managing network growth. The framework was named Transcend Networking to reflect the integral role of the Company's network management software, Transcend Network Management, and provides for the migration to virtual local area networks (VLANs), which the Company believes is the next phase of data network evolution.

Under Transcend Networking, the Company introduced a number of new and enhanced products, including new stackable Ethernet, Fast Ethernet and Ethernet-to-ATM switches for connecting workgroups to high-speed backbones, LAN emulation capabilities for its CELLplex(trademark) family of ATM switches, Fast Ethernet and Token Ring capabilities for its LANplex family of backbone and departmental switches, and enhanced security capabilities for its AccessBuilder family of remote access servers. The Company also rebranded its remote access products under the AccessBuilder name and introduced the AccessBuilder 7000 Access Concentrator, the industry's first high-density LAN/WAN switch designed to provide remote access into corporate intranets. For the small office, 3Com introduced the OfficeConnect(trademark) system of "clippable" network components, the industry's first network system designed specifically for the small office. For desktop and mobile connectivity, the Company began shipping the industry's first LAN+modem PC Card adapter with v.34 (28.8 Kbps) connectivity, and enhanced Token Ring adapters based on 3Com custom application-specific integrated circuits (ASICs). Additionally, 3Com's industry-leading family of EtherLink(registered trademark) adapters were enhanced with DynamicAccess(trademark) capabilities, which allow the adapter to perform sophisticated network management functions and provide superior multimedia support, transforming the network adapter from a passive connectivity device to an active network component.

The Company believes that its principal competitive advantages lie in the depth and breadth of its product lines, its ability to recognize and respond to new trends in data networking, its focus on making all aspects of networking easier for network managers and users, and a strong yet flexible business infrastructure. 3Com has strong brand recognition in Ethernet adapters, which it believes is transferable to other product and technology areas and markets, such as stackable networking systems, LAN switching and remote office and personal office internetworking platforms. Additionally, the Company believes its low-cost manufacturing, worldwide presence, flexible distribution strategy, and comprehensive service and support capabilities allow the Company to take advantage of market trends that are extending the reach, scope and performance of today's data networks.

INDUSTRY SEGMENT INFORMATION

3Com operates in one industry segment as described above.

PRODUCTS

3Com Corporation is committed to making the complexities of networks invisible to end users and to making networks easier to design, install, maintain and evolve. As the cornerstone of this commitment, 3Com has developed Transcend

response levels, at lower cost, with less risk and with less effort.

Transcend Networking takes a "three- vectored" approach to evolving networks. Each vector consists of a host of innovative architectures, networking technologies, platforms and specific products. The three vectors include:

- o Scaling the Performance of the Network: Switching and desktop connectivity solutions which provide migration to increased LAN bandwidth/capacity by meeting the distinct requirements of the core and boundary of the LAN;
- o Extending the Reach of the Network: Wide area network (WAN) routing and remote access solutions which provide remote workgroups and individual users with connectivity to resources on corporate backbones by meeting the specific requirements of central and remote sites and of mobile and home users;
- o Managing the Growth of the Network: Networking products with embedded, scaleable management features and innovative distributed network monitoring, analysis and management solutions.

Transcend Networking's Principles

3Com designs solutions by first developing platforms (e.g., types of routers, switches, and remote access devices) that meet the distinct requirements of each location in the network, then selecting/developing the networking technologies (e.g., high- speed technologies, management features) to solve location- dependent needs and finally, packaging the solution (e.g., stackable or chassis form factor).

Transcend Networking's driving principles include:

- o Technology and platform neutrality - - no biases toward any network type (e.g., Ethernet, Fast Ethernet, FDDI, ATM) or kind of system (e.g., switch, router, stackable, chassis) in order to offer customers more effective, economical and tailored solutions;
- o Centralizing complexity and distributing simplicity - - installing the more complex systems and network functions required at the network core to take advantage of central processing, support facilities and economies of scale, while distributing the simplest, easiest to maintain and least expensive systems to the network boundary where users are connected to the network;
- o Standards- based, open multi- vendor architecture - - innovative solutions based on industry standards to enable 3Com's systems to interoperate with any other vendor's equipment;
- o Investment protection with incremental evolution - - solutions that allow customers to upgrade their networks to new functionality and higher performance technologies as their needs evolve;
- o Low total cost of ownership - - providing complete enterprise, multiplatform solutions, combined with point- product excellence, which are optimized for total price/performance and efficient, low cost operations management.

Within Transcend Networking, 3Com offers a complete breadth of products and innovative technologies that scale network performance, extend network reach and manage network growth for the enterprise market, as well as solutions for small sites/small businesses, network service providers and individual mobile or home users. 3Com's solutions include network systems products and network adapters, which accounted for 57 percent and 39 percent of fiscal 1996 sales, respectively.

Network Systems Products

LAN and ATM switching platforms: 3Com switches provide cost- effective, high- speed links between multiple network segments, simplifying network design and reducing network latency in client/server networks. Switches can also provide direct links to either the desktop or server, providing dedicated capacity to high- bandwidth users. The development of custom ASICs for switching is central to the Company's switching strategy. Virtually all of 3Com's internally developed switches are based on custom- designed ASICs, which the Company believes will dramatically improve performance and reliability while reducing costs. Switching ASICs developed by 3Com include the Intelligent Switching Engine (ISE) chip for Ethernet- to- FDDI switching, the BRASICA(trade- mark) chip for Ethernet and Fast Ethernet switching, the ZipChip(trademark) for Ethernet- to- ATM switching and the Token Ring Switching Engine for Token Ring switching. 3Com switches are available in either chassis or stackable formats and are optimized to meet the specific need of the network core and its boundaries.

High function switches: High function switches are designed to meet the requirements of the network core (backbone) for high density connectivity, scaleable capacity, reliability and network control, and to meet the migration needs of the customer. In a collapsed backbone environment, high function switches might act as a high- performance, high capacity switch connecting multiple boundary switches or hubs, or both, depending on the network design and bandwidth needs of the different network segments. 3Com's chassis (modular) high function switches include:

- o The CELLplex family of ATM switches for aggressive migration to cell- switched network backbones. CELLplex switches include VLAN capabilities for the creation of logical user groups and broadcast domains, as well as integrated ATM forum LAN emulation for smooth Ethernet- to- ATM communica- tions.
- o The ONcore line of integrated, multifunction switches for highly integrated migration from shared LANs to packet- switched and cell- switched backbones. The ONcore platform supports a full range of LAN technologies, including shared and switched Ethernet, Token Ring, FDDI and ATM, as well as remote access, routing and communication server

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