3Com Corporation COMS (NAS)

Last Close	Industry	Sector
7.90 USD	Networking & Communication Devices	Hardware

Profile

Pricing data through 09 Apr 2010

In addition to this comprehensive company profile, Morningstar offers in-depth analyst research and ratings on selected companies.

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Contents

3Com Corp. provides secure, converged networking solutions on a global scale to businesses of all sizes. The company's products and solutions enable customers to manage business-critical voice and data in a network environment.

3Com's products and services can generally be classified in the following categories: Networking Infrastructure, Voice over IP Telephony, Security, Network and Security Management, and Global Services. The various categories of data networking infrastructure products and solutions include: LAN Switches, Routers and Gateways, and Wireless LAN. The company offers a portfolio of VoIP telephony products that work together to deliver business-focused applications, including: next-generation dial tone, IP messaging, IP presence, IP conferencing and IP customer contact center services. Its secure, Session Initiation Protocol- products include VoIP Telephony Platforms, a convergence Application Suite, and IP Phones.

3Com has a comprehensive security portfolio that includes end-to-end solutions for edge-to-core protection. Organizations can choose to implement overlaid or embedded security solutions that are automatic and centrally manageable and provide adaptive and dynamic protection. The company's security products include Intrusion Prevention Systems and Firewalls. It offers flexible and comprehensive network and security management application packages for advanced IT environments. Its network management applications include the following solutions: Network Supervisor, Network Director, Enterprise Management Suite, Network Administrator, Solutions for Open Management Platforms and Security Management System.

3Com Corporation COMS

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
1,254	3,145	Networking & Communication Devices	Hardware

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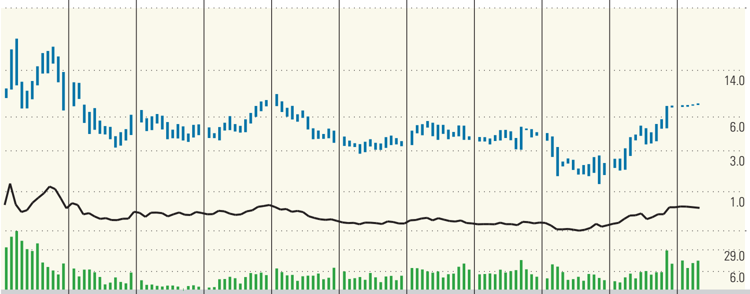
Marlborough, MA 01752
Phone: 1 508 323-5000
Website: http://www.3com.com

Employees: 5868

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
-	7.90	-	-	-	-

per share prices in USD

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD
Annual Price High	24.23	11.50	7.00	8.39	9.34	4.30	5.70	5.11	4.52	7.59	7.90
Low	6.94	3.37	3.79	3.91	3.72	2.96	3.55	3.22	1.43	2.02	7.40
Recent Splits											



Price Volatility
Monthly High/Low
Rel Strength to S&P 500

52 week High/Low
7.90 - 3.40

10 Year High/Low
24.23 - 1.43

Bear-Market Rank
8 (10=worst)

Trading Volume Million

Stock Performance

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD
Total Return %	-10.6	-24.9	-27.4	76.5	-49.0	-13.7	14.2	10.0	-49.6	228.9	5.3
+/- Market	-0.5	-11.9	-4.0	50.1	-58.0	-16.7	0.6	6.5	-11.1	205.5	-3.4
+/- Industry	13.7	32.3	3.7	-8.4	-32.2	-0.8	-35.1	8.1	-7.9	164.4	-13.4
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	0.0
Market Cap USD Mil	2892	2219	1672	3126	1586	1406	1633	1818	882	2970	3145

Financials

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM
Revenue USD Mil	4334	2821	1478	933	699	652	795	1267	1295	1317	1254
Gross Margin %	42.7	18.9	32.4	45.2	34.8	36.1	41.3	45.6	50.5	57.1	59.4
Oper Income USD Mil	19	-1281	-554	-225	-338	-203	-157	-133	-263	101	61
Operating Margin %	0.4	-45.4	-37.5	-24.1	-48.3	-31.2	-19.8	-10.5	-20.3	7.6	4.9
Net Income USD Mil	674	-965	-596	-284	-349	-196	-101	-89	-229	115	89
Earnings Per Share USD	1.88	-2.80	-1.71	-0.79	-0.92	-0.51	-0.26	-0.22	-0.57	0.29	0.22
Dividends USD	—	—	—	—	—	—	—	—	—	—	—
Shares Mil	357	345	349	360	379	382	386	393	399	394	400
Book Value Per Share USD	10.78	6.28	4.99	4.03	3.55	3.16	3.04	2.80	2.73	2.96	3.08
Oper Cash Flow USD Mil	1203	-963	-139	80	-175	-136	-86	166	55	280	309
Cap Spending USD Mil	-275	-191	-352	-25	-16	-21	-17	-28	-18	-17	-15
Free Cash Flow USD Mil	928	-1154	-491	54	-191	-157	-104	137	37	264	294

Profitability

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM
Return on Assets %	12.3	-19.4	-19.9	-12.4	-18.0	-11.5	-5.8	-4.4	-11.7	6.4	4.8
Return on Equity %	18.6	-29.5	-26.8	-15.5	-21.7	-14.1	-8.1	-7.5	-21.3	10.9	7.8
Net Margin %	15.6	-34.2	-40.3	-30.4	-50.0	-30.0	-12.7	-7.0	-17.7	8.7	7.1
Asset Turnover	0.79	0.57	0.49	0.41	0.36	0.38	0.46	0.63	0.66	0.73	0.67
Financial Leverage	1.6	1.4	1.3	1.2	1.2	1.3	1.6	1.9	1.8	1.6	1.6

Financial Health

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	02-10
Working Capital USD Mil	4243	1398	1160	1314	1213	668	778	258	305	434	508
Long-Term Debt USD Mil	15	2	68	—	—	—	—	336	253	152	64
Total Equity USD Mil	4043	2505	1950	1719	1499	1275	1202	1151	995	1112	1224
Debt/Equity	0.00	0.00	0.04	—	—	—	—	0.29	0.25	0.14	0.05

Valuation

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM
Price/Earnings	24.3	—	—	—	—	—	—	—	—	59.9	35.6
P/E vs. Market	—	—	—	—	—	—	—	—	—	3.2	1.8
Price/Sales	0.8	1.2	1.3	4.5	2.4	2.0	1.5	1.4	0.7	2.4	2.5
Price/Book	0.8	1.0	0.9	2.0	1.2	1.1	1.4	1.6	0.8	2.5	2.6
Price/Cash Flow	—	—	29.4	—	—	—	—	15.2	4.5	9.3	10.3

Growth Rates Compound Annual

	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	1.7	18.3	13.5	-13.7
Operating Income %	—	—	—	-15.3
Earnings/Share %	—	—	—	-12.4
Dividends %	—	—	—	—
Book Value/Share %	16.3	-2.2	-5.7	-10.7
Stock Total Return %	112.9	25.9	18.6	-3.8
+/- Industry	32.1	20.1	6.8	6.8
+/- Market	70.7	31.8	17.4	-1.3

Profitability Analysis

	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	7.8	-8.0	17.0	18.9
Return on Assets %	4.8	-5.4	10.5	7.2
Fixed Asset Turns	31.1	16.0	9.2	6.7
Inventory Turns	4.6	7.6	10.5	12.4
Revenue/Employee USD K	213.6	212.5*	—	766.0
Gross Margin %	59.4	46.1	62.3	41.5
Operating Margin %	4.9	-14.8	17.4	12.2
Net Margin %	7.1	-11.7	18.6	8.2
Free Cash Flow/Rev %	23.4	—	22.5	0.1
R&D/Rev %	13.3	0.1	—	10.7

Financial Position

	05-09 USD Mil	02-10 USD Mil
Cash	546	795
Inventories	90	115
Receivables	153	157
Current Assets	945	1116
Fixed Assets	40	37
Intangibles	808	758
Total Assets	1815	1933
Payables	68	75
Short-Term Debt	48	48
Current Liabilities	510	607
Long-Term Debt	152	64
Total Liabilities	703	709
Total Equity	1112	1224

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	35.6	—	30.9	20.0
Forward P/E	20.5	—	—	14.5
Price/Cash Flow	10.3	—	17.4	7.5
Price/Free Cash Flow	10.8	—	19.6	18.3
Dividend Yield %	—	—	0.1	1.7
Price/Book	2.6	1.5	3.8	2.3
Price/Sales	2.5	1.6	4.4	1.4
PEG Ratio	—	—	—	1.6

*3Yr Avg data is displayed in place of 5Yr Avg

Quarterly Results

Revenue USD Mil	May 09	Aug 09	Nov 09	Feb 10
Most Recent Period	295.1	290.5	322.2	345.9
Prior Year Period	321.3	342.6	354.6	324.7

Rev Growth %	May 09	Aug 09	Nov 09	Feb 10
Most Recent Period	-8.2	-15.2	-9.1	6.5
Prior Year Period	3.3	7.3	11.6	-3.5

Earnings Per Share USD	May 09	Aug 09	Nov 09	Feb 10
Most Recent Period	0.05	0.02	0.05	0.10
Prior Year Period	-0.41	0.20	0.03	0.00

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
3Com Corporation	3145	1254	35.6	7.8
Cisco Systems, Inc.	155795	35533	26.2	15.5
Extreme Networks, In	319	304	—	-5.8

Major Fund Holders

	% of shares
Wells Fargo Advantage Small Cap Val Inv	3.21
BlackRock Global Allocation I	1.89
Vanguard Small Cap Index	1.33

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Wells Fargo Advantage Small Cap Val Inv	QQQQ	3.21	2.23	-1,840	31 Oct 2009
BlackRock Global Allocation I	QQQQQ	1.89	0.13	66	31 Oct 2009
Vanguard Small Cap Index	QQQ	1.33	0.23	401	31 Dec 2009
Vanguard Total Stock Mkt Idx	QQQ	0.96	0.02	145	31 Dec 2009
Vanguard Small Cap Value Index	QQQ	0.79	0.46	17	31 Dec 2009

Concentrated Holders					
Berwyn	QQQQ	0.20	4.25	0	31 Dec 2009
AQR Diversified Arbitrage I		0.10	3.84	44	31 Dec 2009
Adirondack Small Cap	QQQQ	0.02	3.70	-2	30 Sep 2009
Paradigm Opportunity	QQQ	0.01	3.31	2	30 Sep 2009

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Merger	QQQQ	0.69	1.00	2,736	31 Dec 2009
Fidelity Series Small Cap Opps	QQQ	0.62	0.93	2,457	31 Oct 2009
Fidelity Small Cap Growth	QQQQ	0.39	0.66	1,558	31 Oct 2009
Vanguard Small Cap Index	QQQ	1.33	0.23	401	31 Dec 2009
TFS Market Neutral	QQQQQ	0.19	0.47	296	31 Oct 2009

Top 5 Sellers					
Vanguard Explorer Inv	QQQQ	0.09	0.03	-2,576	31 Dec 2009
Wells Fargo Advantage Small Cap Val Inv	QQQQ	3.21	2.23	-1,840	31 Oct 2009
Oppenheimer Main St Small Cap A	QQ	0.51	0.28	-319	30 Sep 2009
Schwab Hedged Equity Select	QQQ	0.26	1.70	-269	31 Oct 2009

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Industry Focus: Networking & Communication Devices

How Much Do Handset Prices Matter?

26 June 2009

Joseph Beaulieu
Senior Stock Analyst

We should find out as the smartphone war heats up.

The dirty secret of mobile handset pricing is that the cost of the phone is typically a drop in the bucket when one considers the total cost of ownership, given that most phones are sold along with a 24-month service contract. But as Americans have become accustomed to getting their phones for free or just a token payment, it is reasonable to question whether a $100 difference in the price of a high-end phone can have a psychological impact on a purchasing decision.

This question of the importance of pricing springs to mind because of Apple's AAPL recent move to cut the price of the iPhone 3G (the second generation of iPhone) to $99 and to introduce the iPhone 3GS at $199. Palm PALM has a lot riding on the success of the Pre, its flagship product introduced in June. The company has taken on debt and issued shares to have the financial resources to develop the Pre and support its launch, and it is our opinion that if sales of the Pre do not live up to expectations, or if the company is forced to cut pricing too soon, Palm will have a very difficult time recovering.

Free Phones Move the Most Volume by Far

We already know for certain that, at least for the handset market as a whole, pricing matters a lot. According to market research firm comScore, the percentage of phones that were "sold for free" (that is, fully subsidized by the carriers) between November 2008 and January 2009 ranged from 48% at Verizon to 75% at ATT. Moreover, the iPhone was only ATT's ninth bestselling phone during that period, and the BlackBerry Storm was Verizon's eighth bestseller. So clearly, pricey smartphones aren't for everyone just yet.

However, it is less clear whether pricing matters so much for high-end smartphones. As most of the total cost of ownership of a smartphone is related to monthly service costs, rational consumers should be somewhat indifferent to $100 price differentials--especially since the handset is the gateway through which a consumer accesses the functionality that monthly service package allows. Obviously, this argument breaks down at some point, as it is unlikely that the N97, Nokia 's NOK latest flagship device which retails at $699 and is not being subsidized by any U.S. carriers, will take much market share. Moreover, we think Research in Motion RIMM is still somewhat insulated from pricing pressures, as more than half of its customers (by our estimates) are corporate users whose phones are subsidized by their employers that are committed to the BlackBerry platform.

Pre's Total Ownership Cost Already Cheaper than iPhone's

By our calculation, the Pre is already cheaper than the iPhone 3GS and even the iPhone 3G, in terms of total cost of ownership. Retailing at $549 and available from Sprint for $199 with a new contract, the Pre's sticker price is twice as high as that of the original iPhone 3G at $99 and on par with $199 for the iPhone 3GS. Given that the base monthly cost for the 24-month contract for the Pre and the iPhone is about $70 and $90, respectively (assuming no multiphone contracts and assuming heavy text messaging use), this gets us to about $1,900 for the 24-month cost of a Pre and about $2,300 for the iPhone 3G. (Both estimates exclude the various taxes and miscellaneous fees that can add 10% or more to a monthly phone bill, and also exclude discounts for multiple phones on the same account.)

Is Lower Total Cost Enough to Gain Crucial Market Share?

For the sake of argument, let's say that handset prices matter for smartphones. What would we expect to see in the coming months? Most important, we'd expect to see a price cut for the Pre. We don't think the 4%-5% market share held by Palm before the release of the Pre is enough for the firm to repay its debt and continue to invest in marketing and research and development to compete with RIM, Apple, and Nokia. And although the customers that make up Palm's

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Industry Focus: Networking & Communication Devices

current market share might be loyal, new converts are going to have to be enticed by something--whether it's price, style, or functionality. Pre's slide-out keyboard is neat, but RIM's phones also have keyboards. Touchscreens are now fairly common, and every smartphone we can think of has all of the applications we believe are core to smartphones: voice, e-mail, texting, Web browsing.

Given that Apple blew away all expectations for sales of the new iPhone over the weekend of June 19-21 (1 million iPhones sold compared with an estimated 50,000 Pres during the Pre's launch weekend) we should know soon enough whether Palm will have to cut the Pre's price, and whether it can remain profitable.

Despite Lack of Glowing Press in U.S., Nokia Remains Global Leader

It's a lot of fun to talk about the technological and public relations battles among Apple, RIM, and Palm, but Nokia is the most intriguing investment in the handset market, in our opinion. Nokia continues to dominate the worldwide smartphone market, with about 40% of the total (down from about 50% last year, thanks to gains by Apple and RIM). We see Nokia as the handset maker with the largest competitive advantages, based on its economies of scale, power over suppliers, and ability to shift production to different markets in order to follow demand and favorable pricing. Additionally, Nokia's revenue mix is much more diversified than that of its competitors. It holds a strong competitive position in developing markets, where cheap phones are in high demand, and it while it isn't as well known in the United States, Nokia is a household name in most developed markets.