

# Us robotics merger



The 3Com/ US Robotics merger was considered to be the biggest merger in the networking industry. The 3Com company offers a wide range of communicationsolutions and products (The 3Com Website, 2009) and is famous for manufacturing computer network products. It was founded in 1979 and merged with the US Robotics in 1997. The US Robotics was founded in 1976 and was involved in manufacturing computers and related products such as modems and both wired and wireless networking.

The merging of the two companies in 1997 was expected to produce a company that would p both communication and networking products. In this paper, the type of merger, the financial strategy, corporate governance and the financial situation of the merger will be discussed. The question of whether the merger has been successful or not will also is addressed.

Discussion Description of the 3Com / US Robotics merger When it occurred, the merger of 3Com with the US Robotics was considered to be the biggest merger deal to be witnessed in the communication industry.

The merger required the 3Com Corporation to pay \$7. 33 billion in stock in order to take control of the US Robotics. The merger aimed at combining the production of high speed modems to the 3Com's computer networking products (Afuah, 2001). In addition, the merger was expected to dominate the sale of modems and computer networking products. The stock swap that resulted to the merger enabled the two companies to form the second-largest computer networking company. This would ensure that the company competed favorably with its rivals such as the Cisco Systems Inc.

One way through which the merger would do this was by broadening the product line. The merger deal required that each share of the US Robotics be

exchanged for 1.75 shares of 3Com stock and the acquisition of the US Robotics by 3Com was estimated to cost \$6.6 billion. The chairman and the chief executive of 3Com Eric Benhamou when announcing the company's plan to acquire US Robotics confirmed that the US Company had great expectations about the merger. For example, the merger was expected to provide 3Com with a full end-to-end solution for networks.

The merger deal was seen to be a good strategic initiative for both companies and after the merger, the companies operated under the name 3Com. The US Robotics Chairman and the Chief Executive Casey Cowell expressed optimism that the merger would enable the companies to provide easier to use, faster and more intelligent products that would serve customers much better. After the merger, 3Com customers were able to have a one stop shopping for both wide area and local networks from the network interface. The financial strategy of the merger

The 3Com acquired the US Robotics in a stock deal that was estimated to amount to \$6.6 billion. The merger was expected to improve the financial performance of the two merged companies. Before the merger, the US Robotics had indicated a disappointing performance and the 3Com lacked an impressive performance (Suzanne, 1997). One way through which the financial performance of 3Com would be improved by the merger was through the end-to-end solutions that the company would provide to networking customers. The merger would also put 3Com at a good place to compete with its rivals (Michaelson, 2002).

The merger deal intended to take advantage of the heating up of the home networking market by marketing products through the US Robotics retail

distribution channel. The expansion of the geographic market and manufacturing operations after the merger were expected to cut costs of production for the new company. The merger was expected to elevate the 3Com's stock by promoting more profitable operations. The two companies' management was optimistic that the merger would not reduce the earnings for the fiscal year 1998.

Although some economic analysts predicted the 1998 earnings for the company to remain neutral after the merger, an increase in 1999 was expected. For instance, in 1996, 3Com was estimated to generate revenue of \$2.33 billion and a net income of \$177.9 million for the fiscal year. By February 1997, the 3Com managed to generate revenue of \$2.33 billion and a \$284.8 million net income. This supported the financial strategy of the merger which aimed at increasing revenue and profits by combining the two companies' synergies.

Although some shareholders of the companies were opposed to the merger deal. However, the US Robotics value which had fallen was boosted by the company's executive campaign that aimed at convincing the Wall Street and shareholders that the merger was a great idea that would boost the two companies financially. Employee lay offs and cost cutting measures were expected to minimize cost of operations while the consolidation and plant closures were intended to increase the financial returns of the 3Com. The corporate governance and ethical issues arising from the merger

After the merger deal was announced, the cost of shares of both 3Com and US Robotics went up. The merger changed the corporate governance structure at the new 3Com company. The deal required the 3Coms' Chief

Executive Officer and Chairman to retain his title in the new company while the US Robotics Chief Executive Officer and Chairman Casey Cowell joined the 3Coms' Board of Directors and acquired the Vice Chairman position. Locations of 3Com centers of operation were established for Asia, UK, China, United States and Singapore.

Changes in the corporate governance of the company continued to be witnessed. In 2001, Bruce Claflin replaced Eric Benhamou as the Chief Executive Officer of 3Com. Mr. Claflin left 3Com in 2006, and Edgar Masri came in as CEO and President. In 2007, Jay Zager was hired as the Vice President (Executive). Robert Mao became CEO in April 2008 while Ron Sege was appointed to be the Chief Operating Officer and President. The 3Com corporate structure was changed to accommodate leaders and employees from the US Robotics. Some ethical issues arose from the merger.

The shareholders at 3Com sued the company for accounting irregularities during and after acquiring the US Robotics Corporation in 1997. The shareholders accused the company of concealing losses experienced at US Robotics during the merger (Scott, 2009). Due to the lawsuit, 3Com agreed to pay \$259 million in November 2000 to settle the shareholders lawsuits. The SEC pressure on the company forced it to reduce its 1997 stated net income by \$111 million. In addition, the company had to reduce purchase-related charge by \$158 million for 1998.

The case between 3Com and the "class" aimed at bringing a litigation of people who purchased 3Com common stock between April 23, 1997 to November 5, 1997. The people alleged that both the 3Com and US Robotics published inflated and artificial financial results. This was considered to be

intentional presentation of misleading information through the annual reports, forms 10-K and 10-Q forms, Registration statements, joint proxy statements. Financial situation of 3Com after the merger When the merger deal was signed, it was expected to slightly improve the company's earnings during the 1998 fiscal year.

By December 1997, the new 3Com was experiencing financial problems as a result of the financial tumult that was being experienced in the Asian markets. Due to the shareholder lawsuit against the company for providing misleading financial information during the merger, the company incurred a loss to settle the lawsuit in November (Scott, 2009). The company had to reduce its income by \$111 million in 1997 due to the SEC pressure. In 1998, the purchase related charge costs amounted to \$158 million. In Asia, the company was affected by the change in the Asian market. This made the company cut its inventory levels.

Despite the merger, the company continued to experience severe price competition in the market and by 1999, 3Com was struggling financially due to the slow growth of analog modem business. The company therefore made plans to move into the more lucrative markets that involved home networking, digital subscriber line (DSL), and cable modems. The success of traditional competitors and rival such as Lucent Technologies and Cisco Systems reduced the company's earnings in 1999. In 2003, 3Com's ability to outperform HP and Cisco in testing high speed switches contributed to the growth of the company.

3Com growth was motivated by the acquisition of NBX in 1999 and Tipping point in 2005. In 2006 fiscal year, 3Com in the first quarter generated total

revenue of \$184 million which was a 22 per cent growth rate (Day Reports Financial Results for First Quarter for Fiscal Year 2005, 2005) . The gross profit margins also improved. In 2007, the acquisition of H3C Technologies Co. Limited boosted the company's earnings in the China market. It increased 3Coms' market share in America, Europe and Asia. This made the 3Com products to be sold under the brand names, Tipping point, 3Com and H3C.

In the same year, 3Com managed to buy 49 per cent stake of Huawei as a result of its 2003 joint venture with it. In 2008, the company's revenue was estimated to be \$1.3 billion. The annual revenue by the end of May 2008 was \$1.3 billion. By 2009, the operating income of the company was US\$496 million (February) and the net income for the same period US\$94.6 million. The first quarter of the 2009 fiscal year showed that the company generated \$343million and increased its gross margins (3Com F1Q09 (Qtr End 8/29/08) Earnings Call Transcript, 2009). The operations in the company generated an estimated \$39million in cash.

Whether the merger was successful The 3Com / US Robotics merger has been successful in the long run although the company experienced some financial problems few years after the merger. Before the merger, both companies were experiencing some financial problems. For instance, the new 3Com after the merger was accused of giving false financial reports and statements that concealed US Robotics losses during the process of acquisition. The lawsuit had 3Com compensate its shareholders. An acquisition of other companies by 3Com since its merger with the US Robotics has continued to contribute to its financial growth.

This has enabled the company's products to compete favorably with those of its rival companies such as Cisco (3Com Beats Competition for Gigabit Ethernet Customers, 2001) . Through the Tipping point, 3Com has become a leader in providing network based intrusion prevention systems. The joint venture with the Huawei - 3Com Co. Ltd (H3C) brought cost effective products and innovative development in the 3Com Corporation enabling 3Com to out compete its rivals in providing secure converged networks. The company has continued to provide improved products and solutions in networking to its customers.

For example, 3Com switch 5500G-E1 was in 2006 proved to be more superior to the Cisco catalyst 3750G-48TS switch(3Com outperforms Cisco in independent test conducted by the Tolly Group, 2006). The company has been able to sell its networking products to both the medium and small businesses and its expansion in the Asian markets such as in Middle East is expected to generate more revenue. For instance, the company has won a contract to provide the Saudi Zamil Industries Infrastructure network with its products. The growth of the company in China has continued to benefit 3Com by promoting its strong revenue performance.

Conclusion The 3Com solutions and products have been developed to overcome the challenges of the current business environment. Since it's established, the company has been successful in providing networking solutions to its customers (Bulette and Chacon, 1991), lowering the cost of doing business for its customers and improving productivity. The merger between 3Com/US Robotics aimed at improving the financial status of the two companies and increasing 3Com market share. Although the company



after the merger experienced some financial problems, it was able to recover.

The increase in market share, the company's expansion in new geographic areas and the development of new products has enabled it to compete favorably with its rivals such as Cisco Systems Inc as the company strives to increase its revenue and to compete with its rivals in the market, developing good production and marketing strategies will be vital. References Afuah, T. 2001. Internet Business Models and Strategies, McGraw-Hill Irwin, New York, NY Bulette, G. , and Chacon, M. 1991. Understanding 3COM Networks Word ware Publishing Inc 3Com Beats Competition for Gigabit Ethernet Customers. 2001.

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