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Breaking Insight From WSJ.com

Soothing Words For Arbs in 3Com

Concern by Intelligence Officials
Over Involvement of China Firm
Spooks Some, Perhaps Unduly So

ASK MERGER-ARBITRAGE investors, and they may say the biggest security threat posed by the pending \$2.2 billion takeover of **3Com** involves their own financial security.

For so-called arb traders, 3Com is the latest installment in what could be called **the LBO Horror Show**. The handful of leveraged-buyout deals that have fallen apart as a result of the credit-market turmoil have given arb traders an itchy trigger finger.

Shares of 3Com plunged about 9% Friday on a Washington Times report that intelligence officials have said that the participation of a Chinese firm in the deal would threaten national security. **Huawei Technologies** is a minority partner of the acquirer, U.S. private-equity firm **Bain Capital**.

People on the buy side of the deal don't seem overly concerned 3Com will join the ranks of such busted buyouts as Harman International Industries, and say the move instead will likely resemble **Alliance Data Systems**, whose stock briefly dived Thursday on such fears, only to snap back when they were dispelled.

Caveat emptor: Handicapping moves by U.S. intelligence authorities is risky business, especially in a situation like this, which is politically fraught.

Still, consider the following: H3C, the unit that now accounts for most of 3Com's business, was controlled by Huawei until 3Com recently bought the stake.

Second, the part of 3Com that does do business with the U.S. government is called **TippingPoint Technologies**. Before agreeing to the Bain deal, 3Com indicated it would split off TippingPoint in an

initial public offering.

A person familiar with the matter said that after 3Com shareholders vote on the LBO, likely next month, a formal process to sell TippingPoint or conduct an IPO will begin, and that should go a long way toward calming any national-security fears.

—Dana Cimilluca

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Research Analysts: Best-Paid Concierges?

CORPORATE EXECUTIVES must be more fearsome than investment bankers.

According to Bloomberg News, 7% of all analyst recommendations

this year have been "sell," below even the paltry 11% in 2003, the year the industry's practices spawned a \$1.4 billion settlement with then-New York Attorney General Eliot Spitzer. Indeed, not a single top analyst following a sector they should know intimately—securities—has a sell rating on any firm in the troubled industry, the article says.

The reason analysts still aren't that

skeptical? It may be they have traded one master for another. In the dot-com bubble days, it was fear of losing investment-banking business for their firms that kept analysts from telling clients to sell stocks. Now, with bankers and analysts effectively divorced, it appears a fear of alienating the brass at the companies they analyze is motivating researchers.

As one hedge-fund manager tells Bloomberg: "An analyst cannot issue a sell rating because he doesn't want to lose access....It's logistically cumbersome for the [investor community] to arrange its own meetings with company management, so this concierge service is very useful."

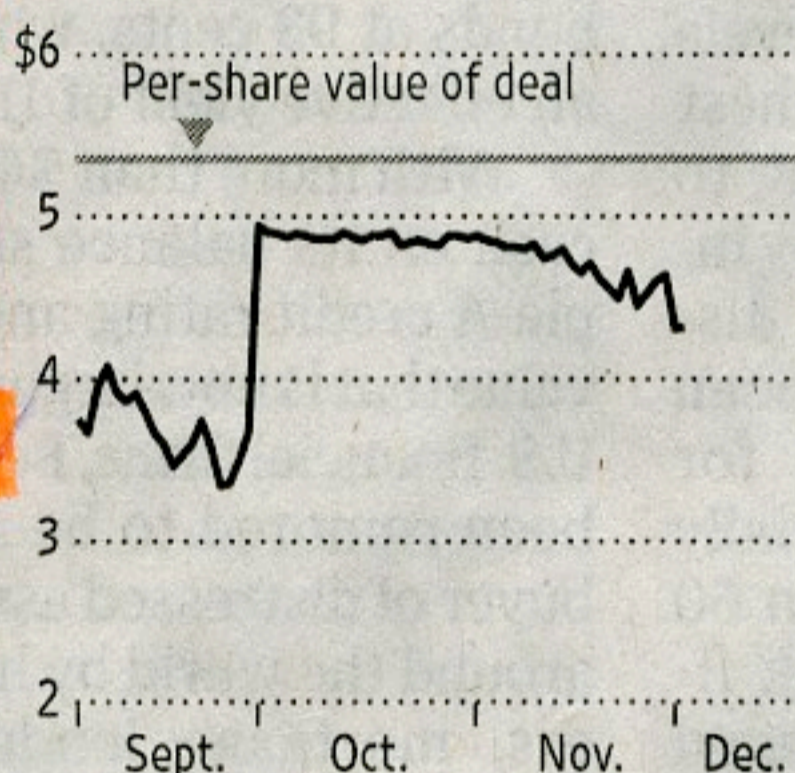
—D.C.

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3Com Corp. (COMS)

Yesterday's close: \$4.30

Change since end of August: up 15%



Source: WSJ Market Data Group

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