

Neuralstem, Inc.
Form 8-K
June 24, 2013

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): June 24, 2013 (June 21, 2013)

Neuralstem, Inc.

(Exact name of registrant as specified in Charter)

Delaware	000-1357459	52-2007292
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(IRS Employee Identification No.)

9700 Great Seneca Highway, Rockville, Maryland 20850

(Address of Principal Executive Offices)

(301) 366-4841

(Issuer Telephone number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.07 Submission of Matters to a Vote of Security Holders.

On June 21, 2013, Neuralstem, Inc. (“Company”) held its 2013 Annual Meeting at its headquarters located at 9700 Great Seneca Highway, Rockville, Maryland 20850, at 12:00 p.m. local time. Only stockholders of record as of the close of business on April 30, 2013, (“Record Date”) were entitled to vote at the 2013 Annual Meeting. As of the Record Date, 68,797,964 shares of the Company’s common stock were outstanding and entitled to vote at the 2013 annual meeting, of which 53,088,927 shares were represented, in person or by proxy, and which constituted a quorum. The final results of the stockholder vote on each proposal brought before the meeting were as follows:

(a) **Proposal 1.** Two (2) Class II Director nominees were elected to serve for a three-year term expiring at the 2016 annual meeting or until their successors are elected and qualified, upon the following votes:

Nominee	Votes For	Votes Withheld	Broker
			Non-Votes
William Oldaker	11,129,656	556,645	41,402,626
Stanley Westreich	11,067,590	618,711	41,402,626

(b) **Proposal 2.** The amendment to the Company’s 2010 Equity Compensation Plan (“Plan”) to increase the number of shares eligible for issuance under the Plan by 7,000,000 shares was not approved as a majority of votes was not received based upon the following votes:

Votes For	Votes Against	Abstentions	Broker
			Non-Votes
7,570,255	3,991,986	124,061	41,402,625

(b) **Proposal 3.** The ratification of Stegman & Company as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2013, was ratified based upon the following votes:

Votes For	Votes Against	Abstentions	Broker
			Non-Votes
52,720,807	203,157	164,963	—

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 8-K to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 24, 2013 Neuralstem, Inc.

/s/ Richard Garr
By: Richard Garr
Chief Executive Officer

cutive officer's annual target bonus; (iv) full accelerated vesting of equity compensation; and (v) a one-year post termination exercise period on their stock options and any stock appreciation rights. Such senior executive officers would be entitled to receive the foregoing benefits if any such officer is terminated without cause within three months prior to or twelve months following a Change of Control or if such officer voluntarily terminates for good reason during such time period. "Good Reason" under the Retention Agreements includes material reductions in duties, title, authority or responsibility, reduction of base salary, material reduction in aggregate level of employee benefits, relocation or constructive termination.

The Retention Agreement for our Executive Vice-President, Worldwide Operations provides that he also receives the benefits set forth above upon signing a release of all claims in the event his employment terminates (other than for cause, death or permanent disability) after being required and declining to relocate his primary residence to the Marlborough, Massachusetts area by June 1, 2004. He also receives the above benefits if his employment terminates (other than for cause, death or permanent disability) within 90 days following 3Com reducing his commuting benefits. 3Com may, in its sole discretion, extend the commuting period for our Executive Vice-President, Worldwide Operations up to June 1, 2005 (or some lesser period). 3Com extended the commuting period for a limited term in the 2005 fiscal year.

The Retention Agreement for our Executive Vice-President and Chief Financial Officer provides that he will receive the benefits that are payable under our Section 16 Officer Severance Plan (described above) upon signing a release of all claims in the event his employment terminates (other than for cause, death or permanent disability) after being required and declining to relocate his primary residence to the Marlborough, Massachusetts area by June 1, 2004. He also receives these benefits if his employment terminates (other than for cause, death or permanent disability) within 90 days following 3Com reducing his commuting benefits. 3Com may, in its sole discretion, extend the commuting period for our Executive Vice-President and Chief Financial Officer up to June 1, 2005 (or some lesser period). 3Com extended the commuting period for a limited term in the 2005 fiscal year. Our Executive Vice-President and Chief Financial Officer resigned as Chief Financial Officer, effective August 13, 2004. In connection with such

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resignation, 3Com and its Executive Vice-President and Chief Financial Officer entered into a Severance Agreement and General Release, discussed below.

In all of the Retention Agreements, if the officer's employment is terminated for any other reason, he or she will receive severance or other benefits only to the extent he or she would be entitled to receive those benefits under our then existing severance or benefit plans or pursuant to any other written agreement. For our Chief Executive Officer, if the benefits provided under the Retention Agreement constitute a parachute payment under Section 280G of the Internal Revenue Code and would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, then he shall receive (i) a payment sufficient to pay such excise tax and (ii) an additional payment sufficient to pay the taxes arising as a result of such payment. Other senior executive officers will receive these payments only if the excise tax is at least 3.59 times the "base amount" under Section 280G.

As defined in the Retention Agreements, a "Change of Control" means: (i) the acquisition by any person of 50% or more of the total voting power of our then outstanding securities; (ii) the consummation of the sale or disposition of all or substantially all company assets; (iii) the consummation of a merger or consolidation of us where the outstanding securities immediately prior thereto no longer represent at least 50% of the voting power immediately after such merger or consolidation; (iv) a change in the composition of the Board during any two consecutive years, such that a majority consists of persons who are not either directors who were in office when the agreement was entered into or whose nominations were approved by a majority of the directors who were in office not in connection with a transaction described in (i) through (iii) above.

Severance Agreement and General Release.

We have entered into a Severance Agreement and General Release with our Executive Vice-President and Chief Financial Officer pursuant to which his position as Executive Vice-President and Chief Financial Officer will terminate effective August 13, 2004. Pursuant to the terms that agreement, our Executive Vice-President and Chief Financial Officer will remain an employee of 3Com in a non-executive capacity through December 31, 2004, with a seventy-five percent reduction in salary. Following the termination of his employment on December 31, 2004, our Executive Vice-President and Chief Financial Officer will receive the following benefits:

Severance payment equal to one year's base salary and target bonus;

Accelerated vesting of all outstanding options by one year;

COBRA benefits for a period of one year or, if earlier, until covered by another employer's plans;

Extension of exercise period for all vested and unexercised options for a one-year period following termination; and

Continuation of term life insurance for one year.

Acceleration under Option Plans.

Options granted under the 2003 Option Plan contain provisions pursuant to which outstanding options must either become fully vested and exercisable prior to a "change of control" transaction or must be assumed in the transaction, and all options terminate to the extent they are not assumed upon such "change of control" as defined in the 2003 Option Plan. Similarly, awards of restricted stock granted under the 2003 Option Plan contain provisions pursuant to which outstanding awards of restricted stock must either become fully vested prior to a "change of control" transaction or must be assumed in the transaction.

Options granted under the 1994 Option Plan contain provisions pursuant to which outstanding options must either become fully vested and immediately exercisable prior to a "transfer of control" transaction or

must be assumed in the transaction, and all unexercised options terminate to the extent they are not assumed upon such "transfer of control" as defined under the 1994 Option Plan. For purposes of the 1994 Option Plan, a transfer of control is a change in ownership in which our stockholders immediately prior to the ownership change do not retain, directly or indirectly, at least a majority of the beneficial interest in our voting stock after the ownership change.

Options granted under the 1983 Option Plan and the 1994 Option Plan have their vesting accelerated as to 50% of the unvested shares subject thereto if an executive or employee optionee is terminated without cause within 12 months after a "transfer of control" transaction.

Options granted under the 3Com Corporation Director Stock Option Plan (the "Director Plan") contain provisions pursuant to which all outstanding options granted under the Director Plan will become fully vested and immediately exercisable upon a merger or acquisition of us where we are not the survivor, or upon the sale of substantially all of our assets.

Employment Agreement with Bruce Claflin.

We entered into an at-will employment agreement with Mr. Claflin, effective January 1, 2001, concurrent with Mr. Claflin's promotion to Chief Executive Officer. This employment agreement provides for:

An initial base salary of \$750,000 per annum, which has subsequently been increased, plus a target bonus of 100% of base salary based on performance criteria set by our Compensation Committee. The Compensation Committee has discretion to vary the base salary and target bonus based on performance, competitive data and achievement levels;

An option, vesting as to 25% of the shares subject to the option on the anniversary of the date of grant each year over a period of four years, to purchase 1,000,000 shares of our common stock at the fair market value on the date of the employment agreement and with full acceleration of vesting in the event of a change of control;

100,000 shares of restricted stock, vesting as to 25% of the shares subject to the right of our repurchase on the anniversary of the date of grant each year over a period of four years and with full acceleration of vesting in the event of a change in control;

\$20,000,000 term life insurance policy, that 3Com will maintain through the term of his employment, benefiting Mr. Claflin's family with premiums paid by us; and

Severance benefits of two years' base salary and target bonus, 50% vesting of any unvested stock options and restricted stock and 18 months of continued benefits if Mr. Claflin is terminated without cause or if Mr. Claflin voluntarily terminates his employment for good reason as defined in the employment agreement.

Letter Agreements with Dennis Connors and Mark Slaven.

We entered into letter agreements with Dennis Connors and Mark Slaven, both effective June 1, 2003 in connection with the relocation of our corporate headquarters to Marlborough, Massachusetts. Pursuant to these agreements, 3Com agreed to reimburse these executives for certain commuting, lodging and incidental expenses, grossed-up for taxes, through June 1, 2004. Mr. Connors' agreement also provides for relocation reimbursements under 3Com's relocation program for his prior sale of his Texas primary residence in November, 2002 in the event that he is required and agrees to relocate to the Marlborough, Massachusetts area. Our Chief Executive Officer reviewed these agreements prior to June 1, 2004 and extended the terms of the agreements on a month to month basis. Mr. Slaven's letter agreement will terminate upon the effective date of his resignation as Executive Vice-President and Chief Financial Officer, August 13, 2004.

Compensation of Directors

Directors who are not 3Com employees received an annual retainer during fiscal 2004 as follows: lead director of the Board \$35,000; committee members \$30,000 each; other directors \$25,000 each; plus reimbursement of travel expenses for members of the Board who reside outside of the local area. Directors also receive \$1,000 for each Board and committee meeting they attend. From and after September 1, 2004, directors who are not 3Com employees will receive an annual retainer as follows: lead director of the Board \$45,000; other Board members \$35,000 each; chairs of committees will receive an additional \$2,500 each; plus reimbursement of travel expenses for members of the Board who reside outside of the local area. Directors will also continue to receive \$1,000 for each Board and committee meeting they attend.

Outside directors receive options to purchase common stock pursuant to the 2003 Stock Plan. The 2003 Stock Plan provides for the initial grant of an option to purchase shares of our common stock to each of our directors who is not a 3Com employee ("Outside Director"), with a maximum of 120,000 shares to be subject to each such option (or 160,000 shares for the "lead" director or Chairman of the Board). Additionally, at the time an initial grant is made to a new director, he or she also receives an option grant for a number of shares equal to the number of shares subject to the annual renewal grants made to continuing directors, described below, pro-rated to reflect the number of full months of service remaining prior to the next annual stockholder meeting. For continuing directors, an annual renewal grant is made effective with each regularly scheduled company annual stockholder meeting, subject to the same share limits described for initial grants. The actual number of shares to be subject to the options granted for Board of Directors and committee service is established by a committee of "inside" directors. All options granted have a seven-year term, and the initial grant vests 25% on each anniversary date of the grant and the pro rated grant and annual renewal grant vest over two years with the first 50% vesting one year after grant and the remaining 50% vesting two years after grant as long as the option holder continues to serve on the Board.

During fiscal 2004, options were granted to outside directors under the 2003 Stock Plan for the following number of shares and at the per share exercise prices shown:

Outside Director	Initial Grant	Pro Rata Grant	Annual Grant	Exercise Price
Gary T. DiCamillo			39,750	\$ 6.15
James R. Long			39,750	6.15
Raj Reddy			39,750	6.15
David C. Wajsgras	79,500	33,125		7.85
Paul Yovovich			54,000	6.15

During the fiscal year ended May 28, 2004, Mr. Benhamou served as our employee Chairman of the Board and received \$100,000 from us in salary. Mr. Benhamou is also eligible for annual stock option grants at a level commensurate with his current duties. In fiscal 2004, Mr. Benhamou was granted an option to purchase 75,000 shares of our common stock with an exercise price equal to \$6.15 per share.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act requires our directors, executive officers and persons who beneficially own more than 10% of our common stock to file reports with the SEC. These persons are required by the SEC to furnish us with copies of all Section 16(a) reports that they file.

Based on our review of reports furnished to us and written representations from our directors and executive officers, we believe that all filing requirements were complied with in a timely manner during fiscal 2004 except for the inadvertent late filing of a Form 4 by Dennis Connors related to a transaction occurring on March 15, 2004.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee during fiscal 2004 consisted of Messrs. Yovovich and DiCamillo, neither of whom is or has been an officer or employee of 3Com. No interlocking relationship existed during fiscal 2004 between our Board or Compensation Committee and the board of directors or compensation committee of any other company.

Related-Party Transactions

Except as described under "Executive Compensation," there have not been any transactions, and there are currently no proposed transactions, in which the amount involved would exceed \$60,000 to which we or any of our subsidiaries were or are to be a party and in which any executive officer, director or five percent beneficial owner of our common stock, or members of the immediate family of them, had or will have a direct or indirect material interest, and there are no business relationships between us and any entity of which a director of 3Com is an executive officer or of which a director of 3Com owns equity interest in excess of ten percent, involving payment for property or services in excess of five percent of our consolidated gross revenues or the other company's consolidated gross revenues fiscal 2004.

**REPORT OF THE COMPENSATION COMMITTEE OF THE
BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION**

The Compensation Committee (the "Committee") of the Board of Directors determines compensation for the chief executive officer, reviews and makes recommendations regarding pay programs for Section 16 Officers and supervises the administration of the Company's equity plans for all employees. The Committee is composed of two outside directors, neither of whom is an employee or former employee of the Company.

Executive Compensation Philosophy and Objectives

3Com's executive compensation philosophy seeks to provide a meaningful total compensation opportunity to each executive with a large portion of the package variable and aligned with stockholder value creation. Consequently, it is intended that 3Com executives may realize significant incentive value when 3Com stockholders receive significant gains. 3Com's executive compensation programs are designed to:

attract, retain and motivate highly qualified executives;

align executive compensation with stockholder value creation; and

ensure that rewards are commensurate with performance.

At least annually, the Committee reviews the Company's executive compensation programs and policies in light of the above philosophy, as well as changes and trends in the marketplace. The Committee retains the services of a leading compensation consulting firm to advise on pay levels and mix, incentive plan design, and performance measurement. To assess market pay levels and mix, the Committee relies upon published surveys and publicly-disclosed compensation data for executives with comparable responsibilities at other high-technology companies of comparable size and business focus. In addition, the Committee reviews 3Com's incentive plan designs and performance linkages to ensure that the plans continue to support the Company's strategic and operational goals. The Committee also reviews the performance of the officers against pre-established objectives to set incentive awards on a semi-annual basis.

Components of Compensation

Executive compensation at 3Com consists primarily of base salary, a short-term cash incentive opportunity, and long-term equity-based incentives consisting primarily of stock options and restricted stock.

Base Salary

3Com targets executives' base salaries at the 60th percentile of the competitive market. In determining each executive officer's base salary, the Committee considers competitive market data for similar positions at high-technology companies, individual responsibilities and performance, and internal equity within 3Com. In December 2003, the Committee conducted its scheduled salary review of the executive officers. Based upon market data and 3Com's overall performance, no base salary increases were awarded.

Cash Incentive

3Com's Executive Bonus Plan rewards executives for the attainment of key Company goals and targets cash incentives at the 50th percentile of the competitive market. The CEO's target cash incentive opportunity is 100% of annual base salary and the target opportunities for other executive officers range from 50% to 75% of annual base salary. If bonuses are earned in fiscal 2005, the corresponding cash payments will be made in January and July 2005.

For fiscal 2004, bonus payments for all executive officers were contingent upon achievement of corporate operating income targets, consolidated revenue goals and key operational objectives. Potential payments for fiscal 2004 ranged from zero to 200% of target, based on performance. For the first and second half of

fiscal year 2004, 3Com met some but not all of its revenue, operating income and key operational objectives, resulting in executive bonuses paid at 65% of each executive's target bonus.

Equity Incentives

Executive officers' pay mix emphasizes equity incentives. Consequently, equity compensation for 3Com's executives is normally targeted at the 65th percentile of the market comparisons. Executive equity grants are determined by reviewing a composite set of data including Black-Scholes valuation estimates of disclosed grants made by comparable companies, third-party survey data, internal relationships, and potential incremental share dilution. The Committee believes that equity compensation should be emphasized because it most directly links executive and stockholder interests. The Company's equity incentives have been primarily in the form of stock options, with increasing use of performance-accelerated vesting restricted stock (PAVRS) at the Executive level. Stock options are issued at an exercise price equal to the fair market value on the date of grant and vest in equal annual installments over four years. The options we issue become valuable and exercisable only if the executive officer continues to work at 3Com and the stock price subsequently increases.

For fiscal 2004, the Company granted stock options, restricted stock and PAVRS to executives. The PAVRS cliff-vest after four years unless certain performance goals are achieved. For the fiscal 2004 PAVRS grant, 50% of the shares would vest after the completion of fiscal 2004 and the remaining 50% were targeted to vest at the end of fiscal 2005 if certain operational and financial targets were met during each fiscal year. For fiscal 2004, company performance fell below the threshold for acceleration and as a result the first 50% of the grant did not accelerate, although achievement of a set of more challenging measures for fiscal 2005 would vest those shares. In addition, the second 50% may also vest at the end of fiscal 2005 if a prescribed share price and certain financial goals are achieved. In the event that vesting is accelerated on any PAVRS, the executive will be required to hold those shares for at least one year post-vesting and the executive will receive a cash bonus to facilitate settlement of the executive's tax obligation and to pre-empt the need for the surrender of shares to satisfy any tax withholding obligations that arise upon the vesting date.

For fiscal 2005, the Committee has determined that a mix of stock options and PAVRS again will provide an appropriate long-term incentive. Again, as in fiscal 2004, we will take into account the dilutive effect of stock option grants and increase our use of PAVRS at the executive level. For fiscal 2005, stock options will vest 25% per year over four years. PAVRS will cliff vest after four years unless certain internal financial performance goals are achieved. 50% of the PAVRS will vest after one year upon achievement of certain goals and the remaining 50% will vest after two years upon achievement of certain other financial goals. If the first 50% does not accelerate at the end of fiscal 2005 it may accelerate at the end of fiscal 2006 if internal financial goals are attained. In addition the second 50% of the PAVRS grant may vest if more challenging internal financial goals or a sustained stock price target is attained by 3Com during the fourth quarter of fiscal 2006. In the event that vesting is accelerated on any PAVRS, the executive will be required to hold those shares for at least one year except for the surrender of shares to 3Com to satisfy any tax withholding obligations that arise upon the vesting date.

3Com encourages all employees, including executives, to participate in stock ownership through the tax-qualified Employee Stock Purchase Plan (ESPP). The ESPP, in accordance with Internal Revenue Service guidelines, gives employees the opportunity to purchase 3Com stock with up to 10% of their base salary and bonuses, which in turn permits employees and executives to increase their ownership in the Company and further aligns their economic interests with the stockholders'. The purchase price at which 3Com stock may be acquired under the ESPP is equal to eighty-five percent of the lesser of (a) the fair market value of the shares on the first day of a six-month offering period or (b) the fair market value of the shares on the last day of a six-month offering period.

CEO Compensation

The Chief Executive Officer's salary, bonus and equity grants follow the policies set forth above. In determining Mr. Claflin's compensation package, the Committee considered compensation practices at other high tech companies with which 3Com competes for talent. The annual base salary for Mr. Claflin is \$825,000. For a second year in a row, like the other executive officers, Mr. Claflin did not receive a salary increase during the Executive Compensation Review. Mr. Claflin's bonus opportunity ranges from zero to 200% of his target bonus, which is set at 100% of salary. For fiscal 2004, Mr. Claflin received a cash bonus of \$468,951, or 56.8% of his target bonus. Mr. Claflin's bonus fell below the 65% for other executives because his bonus incorporated a reduction prescribed in the CEO Management Retention Agreement. For fiscal 2004, Mr. Claflin was granted stock options and PAVRS of 900,000 and 170,000 shares, respectively. Like the other executive officers' grants, Mr. Claflin's stock options vest 25% per year over four years. The first 50% of the fiscal 2004 PAVRS grant for Mr. Claflin did not accelerate, and like other executives, if certain additional goals set for the 2004 grant are attained, there are other opportunities for the shares to vest, as described above.

Compliance with Section 162(m) of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code, enacted in 1993, generally disallows a tax deduction to a public corporation for compensation of more than \$1 million paid to the corporation's CEO and four other most highly compensated officers. Qualifying performance-based compensation will not be subject to the cap if certain requirements are met. The Committee has reviewed 3Com's Executive Bonus Program and has weighed the benefits of compliance against the burdens. While the Committee's intent is to maximize the deductibility of executive compensation to the extent reasonable, the Committee has chosen not to qualify the Executive Bonus Plan or the PAVRS plan at this time in order to maintain flexibility. The Committee believes that any loss of deductibility will not be material to the Company's results and that the burdens of compliance outweigh the benefits. 3Com's stock option plans, however, are designed to comply with Section 162(m), so stock option grants under the plans are generally tax deductible upon exercise.

THE COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS

Gary T. DiCamillo, *Chair*
Paul G. Yovovich

REPORT OF THE AUDIT AND FINANCE COMMITTEE OF THE BOARD OF DIRECTORS

The Audit and Finance Committee oversees our financial reporting process on behalf of the Board. Management has the primary responsibility for our financial statements and the overall reporting process, including our system of financial controls. In fulfilling its oversight responsibilities during fiscal 2004, the Audit and Finance Committee periodically:

reviewed the unaudited and audited financial statements with management and our independent auditors, Deloitte & Touche LLP;

discussed the accounting principles, significant assumptions, estimates and matters of judgment used in preparing the financial statements with management and Deloitte & Touche;

reviewed 3Com's financial controls and financial reporting process; and

reviewed significant financial reporting issues and practices, including changes in accounting principles and disclosure practices.

The Audit and Finance Committee also reviewed with Deloitte & Touche, who are responsible for expressing an opinion on the conformity of the audited financial statements with generally accepted accounting principles, Deloitte & Touche's judgment as to the quality, and not just the acceptability, of our accounting principles as applied in our financial reporting and such other matters as are required to be discussed with the Audit and Finance Committee under generally accepted accounting principles. The Audit and Finance Committee periodically met with Deloitte & Touche, with and without management present, to discuss the results of their examinations, their evaluations of our internal controls and the overall quality of 3Com's financial reporting.

In addition, the Audit and Finance Committee discussed with Deloitte & Touche the independence of Deloitte & Touche from us and our management. The Audit and Finance Committee received from Deloitte & Touche the written disclosures required by the Independence Standards Board Standard No. 1 and discussed with Deloitte & Touche any matters required to be discussed by the Statement on Auditing Standards No. 61 (Communications with Audit Committees). The Audit and Finance Committee also considered the compatibility of Deloitte & Touche's non-audit services (principally tax advisory services) with the standards for auditors' independence. The Audit and Finance Committee discussed with Deloitte & Touche the overall scope and plans for their audit.

Each of the directors who serves on the Audit and Finance Committee is "independent" within the meaning of the rules of the Nasdaq Stock Market and meets the financial literacy and expertise requirements of the Nasdaq Stock Market and regulations promulgated by the SEC. The Audit and Finance Committee updated and revised its charter on June 30, 2004, a copy of which is attached hereto as Appendix A. During fiscal 2004, the Audit and Finance Committee met twelve times.

In reliance on the reviews and discussions referred to above and representations by management that the financial statements were prepared in accordance with generally accepted accounting principles, the Audit and Finance Committee recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended May 28, 2004. The Audit and Finance Committee also recommended to the Board, subject to stockholder approval, the selection of Deloitte & Touche LLP as our independent accountants for the fiscal year ending June 3, 2005.

**AUDIT AND FINANCE COMMITTEE
OF THE BOARD OF DIRECTORS**

David C. Wajsgas, *Chair*
Gary T. DiCamillo
Julie St. John*
James R. Long

*
Ms. St. John joined the Audit and Finance Committee upon her appointment to the Board on July 15, 2004.

COMPARISON OF STOCKHOLDER RETURN

Set forth below is a line graph comparing the cumulative total return of our common stock with the cumulative total return of the Standard & Poor's 500 Stock Index and our Peer Group(1) for the period commencing on May 30, 1999 and ending on May 28, 2004 (fiscal year end)(2)(3). Our Peer Group includes companies that are our principal competitors in the enterprise networking business.

DATA POINTS FOR PERFORMANCE GRAPH

	May 28,(3)					
	1999	2000	2001	2002	2003	2004
3Com Corporation	100.00	153.09	20.36	20.36	17.98	23.69
S&P 500	100.00	110.48	91.82	85.14	78.27	92.62
Peer Group	100.00	180.20	71.05	61.86	67.40	85.64

(1) Our Peer Group consists of Avaya, Inc., Cisco Systems, Inc., Dell Computer Corporation, Enterasys Networks, Inc., Extreme Networks, Inc., and Foundry Networks, Inc.

(2) Assumes that \$100.00 was invested on May 29, 1999 in our common stock and each index, and that all dividends were reinvested. No cash dividends have been declared on our common stock. On July 27, 2000, the Palm Distribution was made. The distribution of the Palm shares to our stockholders is treated as a special dividend for purposes of calculating stockholder return. It is assumed that the shares of Palm received in the Palm Distribution were sold at the when-issued closing market price on July 27, 2000 and all of the proceeds were reinvested in shares of our common stock at the when-issued closing market price on the same date. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

(3)

3Com uses a 52-53 week fiscal year ending on the Friday nearest to May 31.

**PROPOSAL 2:
RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS**

The Board has selected Deloitte & Touche LLP as our independent public accountants for the fiscal year ending June 3, 2005. Deloitte & Touche LLP has acted in this capacity since its appointment in 1980. A representative of Deloitte & Touche LLP will be present at the Annual Meeting, will be given the opportunity to make a statement if he or she so desires, and will be available to respond to appropriate questions. Stockholder ratification of the selection of Deloitte & Touche LLP as our independent public accountants is not required by our Bylaws or other applicable legal requirement. However, the Audit and Finance Committee is submitting the selection of Deloitte & Touche LLP to the stockholders for ratification as a matter of good corporate governance.

The following table shows the fees paid or accrued by 3Com for the audit and other services provided by Deloitte & Touche LLP for fiscal 2004 and 2003.

	Fiscal 2004	Fiscal 2003
Audit Fees(1)	\$ 1,304,440	\$ 1,797,081
Audit-Related Fees(2)	393,749	593,100
Tax Fees(3)	101,028	1,803,451
All Other Fees		
Total	\$ 1,799,217	\$ 4,193,642

- (1) Audit Fees represent fees for professional services provided in connection with the audit of our financial statements and review of our quarterly financial statement and audit services provided in connection with statutory or regulatory filings.
- (2) Audit-Related Fees consisted primarily of services related to our compliance with the Sarbanes-Oxley Act of 2002, our joint venture with Huawei Technologies Co., Ltd., and our sale of the CommWorks division to UTStarcom, Inc.
- (3) Tax Fees consisted of primarily services related to tax compliance, tax advice and tax planning.

The Audit and Finance Committee pre-approves all audit-related and non-audit services to be performed by our independent auditors and the fees associated with those services. The Audit and Finance Committee pre-approved 100% of the audit-related and tax services performed by Deloitte & Touche LLP in fiscal 2004 and 2003.

Vote Required

The affirmative vote of a majority of the Votes Cast is necessary to approve this proposal. Assuming a quorum is present, abstentions will have the effect of a vote "against" this proposal, and broker non-votes will have no effect on the outcome of the vote. If our stockholders do not ratify the appointment of Deloitte & Touche LLP as our independent public accountants, the Board will reconsider such appointment.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR"
RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR
INDEPENDENT PUBLIC ACCOUNTANTS FOR THE FISCAL YEAR ENDING JUNE 3, 2005.**

STOCKHOLDER PROPOSALS TO BE PRESENTED AT NEXT ANNUAL MEETING

Stockholder proposals that are intended for inclusion in our proxy statement relating to the 2005 Annual Meeting of Stockholders must be received at our offices at 350 Campus Drive, Marlborough, Massachusetts 01752-3064 no later than April 28, 2005 and must satisfy the conditions established by the SEC for stockholder proposals to be included in our proxy statement for that meeting.

If a stockholder wishes to present a proposal at our 2005 annual meeting and the proposal is not intended to be included in our proxy statement relating to that meeting, the stockholder must give advance notice to us prior to June 24, 2004, which is the deadline determined in accordance with our bylaws. If a stockholder gives notice of such a proposal after the bylaw deadline, the stockholder will not be permitted to present the proposal at the meeting.

TRANSACTION OF OTHER BUSINESS

At the date of this Proxy Statement, the only business that the Board intends to present or knows that others will present at the meeting is as set forth above. If any other matter or matters are properly brought before the meeting, or any adjournment thereof, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their best judgment.

Any stockholder may present a matter from the floor for consideration at a meeting so long as certain procedures are followed. Under our bylaws, for a matter to be deemed properly presented by a stockholder, timely notice must be delivered to us not later than 90 days prior to the next annual meeting (under the assumption that the next annual meeting will occur on the same calendar day as the day of the most recent annual meeting). As to each proposed matter, the notice must include the following: (a) a brief description of the business desired to be brought before the meeting and reasons for conducting such business at the meeting; (b) the name and address, as they appear on our books, of the stockholder proposing such business; (c) the class and number of shares of our stock that are beneficially owned by the stockholder; and (d) any material interest of the stockholder in such business. The presiding officer of the meeting may refuse to acknowledge any matter not made in compliance with the foregoing procedure.

By Order of the Board of
Directors,

Neal D. Goldman
Secretary

August 26, 2004
Marlborough, Massachusetts

Appendix A

3COM CORPORATION

Audit and Finance Committee Charter

1. *Purpose.* The Audit and Finance Committee (the "*Committee*") of the Board of Directors (the "*Board*") of 3Com Corporation (the "*Company*") has been established for the purpose of assisting the Board in fulfilling its oversight responsibilities for the integrity of the Company's: (i) accounting and financial reporting process, (ii) system of internal controls over financial reporting, (iii) system of disclosure controls and procedures, (iv) audit process and (v) process for monitoring compliance with applicable laws and regulations and the Company's Code of Ethics and Business Conduct.

2. *Structure and Membership.*

2.1

Number. The Committee shall be composed of at least three members selected by the Nominating and Governance Committee.

2.2

Independence. Each member of the Committee shall be (i) an "Independent Director" as defined by the rules and regulations of the Nasdaq Stock Market ("Nasdaq") and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and (ii) shall not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years.

2.3

Financial Literacy. Each member of the Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. Additionally, at least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. Unless otherwise determined by the Board (in which case disclosure of such determination shall be made in the Company's annual report filed with the United States Securities and Exchange Commission (the "SEC")), at least one member of the Committee shall be an "audit committee financial expert" (as defined by applicable SEC rules).

2.4

Chair. The Nominating and Governance Committee shall elect a Chair of the Committee. The Chair shall, if present, preside at all meetings of the Committee and exercise and perform such other powers and duties as may be assigned to him or her by the Nominating and Governance Committee or the Committee.

2.5

Compensation. The compensation of Committee members shall be as determined by the Board. No member of the Committee may receive, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries, other than fees paid in his or her capacity as a member of the Board or a committee of the Board.

3. *Authority.* To allow the Committee to achieve its purpose and satisfy its responsibilities, the Committee shall have the authority described in this Section 3.

3.1

Subcommittees. The Committee may establish subcommittees of one or more members, and delegate its authority and responsibilities to such subcommittees, as it deems appropriate and in accordance with applicable rules and regulations.

3.2

Consultants and Advisors. The Committee is authorized, without further action by the Board, to engage such independent legal, accounting, financial and other advisors as it deems necessary or appropriate to carry out its responsibilities. The Committee is empowered, without further action

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by the Board, to cause the Company to pay the compensation of such advisors as established by the Committee.

3.3

Selection of Independent Auditors. The Committee shall have sole authority for appointing, evaluating, retaining, determining funding for, overseeing and, when necessary, terminating the engagement of the independent auditor. The Committee may, in its discretion, seek stockholder ratification of the independent auditor it appoints.

3.4

Other Services. The Committee shall have sole authority to approve, in advance, the provision by the Company's independent auditor of all permissible non-audit services.

3.5

Complaints. The Committee shall have the authority to establish procedures for (i) the receipt, retention, investigation, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees to the Company of concerns regarding questionable accounting or auditing matters.

3.6

Investigations. The Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate, including the authority to request any officer, employee or advisor of the Company to meet with the Committee or any advisors engaged by the Committee.

3.7

Funding. The Committee is empowered, without further action by the Board, to cause the Company to pay the ordinary administrative expenses of the Committee that are incurred in carrying out its duties.

3.8

Other Actions. The Committee may take such other actions as the Committee deems necessary or appropriate to satisfy its responsibilities set forth in this Charter.

4. *Meetings.* The Committee shall meet at least four times a year, with authority to convene additional meetings as circumstances require. The Committee may invite members of management, the Company's independent auditor, legal counsel or other advisors to attend meetings and provide pertinent information; provided, however, the Committee may meet in executive session at its discretion.

5. *Responsibilities.* The Committee shall be responsible for assisting the Board in fulfilling its oversight responsibilities for the integrity of the Company's: (i) accounting and financial reporting process, (ii) system of internal controls over financial reporting, (iii) system of disclosure controls and procedures, (iv) audit process and (v) process for monitoring compliance with applicable laws and regulations and the Company's Code of Ethics and Business Conduct.

5.1

General Financial and Accounting Matters.

(a)

Regulatory or Accounting Initiatives. The Committee shall review with management and the independent auditors the effect of significant regulatory and accounting initiatives.

(b)

Off-Balance Sheet Transactions. The Committee shall review and approve the effect of any off-balance sheet structures or transactions on the Company's financial statements.

(c)

Investments. The Committee shall periodically meet with management on matters pertaining to the Company's policies and practices for foreign exchange, investments, and derivatives.

(d)

Review of Quarterly Press Releases and Filings. The Committee shall review with management the Company's quarterly press release regarding results of operations, including the quarterly financial statements and the independent auditor's reviews of the quarterly financial statements. In addition, the Committee shall review with management the Company's quarterly report on Form 10Q required to be filed with the SEC.

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- (e) *Review of Capital Structure.* The Committee shall review the Company's capital structure annually, and, to the extent deemed necessary, recommend to the Board transactions or alterations of the capital structure of the Company.
- (f) *Expenditure Authorizations.* The Committee shall establish guidelines pertaining to the Company's treasury resolutions and expenditure authorizations.
- (g) *Investments in Other Entities.* The Committee shall establish guidelines pertaining to unusual methods of acquiring or holding interests in other entities.

5.2

Internal Audit.

- (a) *Oversight.* The Committee shall review with management and the internal audit director the plans, annual budget, activities, staffing and organizational structure of the internal audit function. The Committee shall take such actions as it deems necessary or appropriate to ensure there are no unjustified restrictions or limitations which impact or impair the scope of the internal audit department's activities or their access to required information.
- (b) *Internal Audit Director.* The Committee shall approve the appointment, replacement or dismissal of the internal audit director. The internal audit director shall, in addition to his or her reporting relationship in the Company, have a separate and independent reporting relationship to the Chair of the Committee.

5.3

Oversight of Independent Auditors.

- (a) *Selection.* The Committee shall be responsible for appointing, evaluating, retaining, determining funding for, overseeing and, when necessary, terminating the engagement of the independent auditor.
- (b) *Independence.* The Committee shall take, or recommend that the full Board take, appropriate action to oversee the independence of the independent auditor. In connection with this responsibility, the Committee shall obtain and review a formal written statement from the independent auditor describing all relationships between the auditor and the Company, including the disclosures required by Independence Standards Board Standard No. 1. The Committee review and discuss with the auditor any disclosed relationships or services that might impact the objectivity and independence of the auditor.
- (c) *Compensation.* The Committee shall have sole and direct responsibility for setting the compensation of the independent auditor. The Committee is empowered, without further action by the Board, to cause the Company to pay the compensation of the independent auditor established by the Committee.
- (d) *Preapproval of Services.* The Committee shall preapprove all audit services to be provided to the Company, whether provided by the principle auditor or other firms, and all other permissible services (review, attest and non-audit) to be provided to the Company by the independent auditor; provided, however, that *de minimis* non-audit services may instead be approved in accordance with applicable SEC rules.
- (e) *Oversight.* The Committee shall review the independent auditors' proposed audit scope and approach. The independent auditor shall report directly to the Committee, and the Committee shall have sole and direct responsibility for overseeing the work of the independent auditor, including resolution of disagreements between Company management and the independent auditor regarding financial reporting. In connection with its oversight role, the Committee shall, from time to time as appropriate, receive and consider the reports required to be made by the independent auditor regarding:

- (i)

critical accounting policies and practices;

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- (ii) alternative treatments within GAAP for the policies and practices related to material items that have been discussed with Company management, including ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
 - (iii) other material written communications between the independent auditor and Company management.
- (f) *Employment or Engagement of Independent Auditor Personnel.* The Committee shall review and approve the Company's hiring as an employee or engagement as a contractor of any employees of the independent auditor who were engaged on the Company's account in the most recent two years.

5.4

Audited Financial Statements.

- (a) *Review and Discussion.* The Committee shall review and discuss with the Company's management and independent auditor the Company's audited financial statements, including the matters about which Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU §380) requires discussion.
- (b) *Recommendation to Board Regarding Financial Statements.* The Committee shall consider whether it will recommend to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K required to be filed with the SEC.
- (c) *Audit Committee Report.* The Committee shall be responsible for preparing a report to be included in the Company's proxy statement relating to its annual meeting of stockholders.

5.5

Internal Controls and Procedures.

- (a) *Oversight.* The Committee shall coordinate the Board's oversight of the Company's internal control over financial reporting and disclosure controls and procedures. The Committee shall consider and review with management, the independent auditor and the director of internal audit, the effectiveness of the Company's internal controls over annual and interim financial reporting. The Committee shall receive and review any reports of the Chief Executive Officer or Chief Financial Officer required by Rule 13a-14 of the Exchange Act, the independent auditor's attestation report on management's assessment of the Company's internal control over financial reporting required by Item 308 of Regulation S-K.
- (b) *Procedures of Complaints.* The Committee shall establish procedures for the: (i) receipt, retention, investigation, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (ii) confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. The Committee shall also periodically review the complaint procedures to confirm that they are effectively operating.
- (c) *Related-Party Transactions.* The Committee shall review all "related party transactions" (defined as transactions required to be disclosed pursuant to Item 404 of Regulation S-K) for potential conflict of interest situations on an ongoing basis, and all such transactions must be approved by the Committee.

5.6

Compliance.

- (a) *Correspondence with Governmental Agencies.* The Committee shall review with management and the independent auditors correspondence received from regulators or governmental agencies which raise material issues regarding the Company's financial statements or accounting policies. Management shall regularly keep the Committee informed of the status of such matters.

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- (b) *Legal and Other Matters.* The Committee shall obtain regular updates from management and the Company's general counsel regarding legal matters which may have a material impact on the Company's financial statements, including any related-party transactions, and any material reports or inquiries received from regulators or governmental agencies.
- (c) *Compliance with Laws and Regulations.* The Committee shall review the effectiveness of the Company's system for monitoring compliance with laws and regulations and the results of management's investigation (including disciplinary action) of any instances of noncompliance).
- (d) *Code of Ethics and Business Conduct.* The Committee shall review the process for communicating the Code of Ethics and Business Conduct to Company personnel, for reporting violations and for monitoring compliance annually.

5.7

Annual Performance Evaluation. The Committee shall complete an annual performance evaluation of itself and its members consistent with practices established by the Nominating and Governance Committee (or any successor committee).

5.8

Additional Responsibilities. The Committee shall have such other responsibilities as may be delegated from time to time by the Board.

6. *Reporting.* The Committee's reporting responsibilities will include reports to the Board about Committee activities, issues and related recommendations, the preparation of written minutes of Committee meetings and preparation of the report to be included in the Company's annual proxy statement describing the Committee and its activities, as required by SEC rules.

7. *Committee Charter.* The Committee shall also perform other activities related to this Charter as requested by the Board, including: (i) a review and assessment of the adequacy of this Charter annually and request for Board approval of any proposed changes; (ii) annual confirmation that the responsibilities outlined in this Charter have been carried out; and (iii) ensure that this Charter is published or otherwise made publicly available as required by rules and regulations established by the SEC and Nasdaq.

Adopted: June 30, 2004

3COM CORPORATION

**THIS PROXY IS SOLICITED ON BEHALF OF
THE BOARD OF DIRECTORS**

The undersigned hereby appoints Bruce L. Claflin and Neal D. Goldman, and either of them, as proxyholders and attorneys-in-fact of the undersigned, with full power of substitution, to vote all shares of stock that the undersigned is entitled to vote at the Annual Meeting of Stockholders of 3Com Corporation to be held at 350 Campus Drive, Building 100, Marlborough, Massachusetts 01752-3064 on Wednesday, September 22, 2004 at 9:30 a.m., local time, and at any continuation or adjournment thereof, with all the powers that the undersigned would have if personally present at the meeting.

The undersigned hereby acknowledges receipt of the Notice of Annual Meeting and Proxy Statement, dated August 26, 2004, and a copy of 3Com's fiscal 2004 Annual Report to Stockholders on Form 10-K. The undersigned hereby expressly revokes any and all proxies heretofore given or executed by the undersigned with respect to the shares of stock represented by this Proxy and, by filing this Proxy with the Secretary of 3Com, gives notice of such revocation.

WHERE NO CONTRARY CHOICE IS INDICATED BY THE STOCKHOLDER, THIS PROXY, WHEN RETURNED, WILL BE VOTED FOR EACH NOMINEE SET FORTH HEREIN, FOR THE RATIFICATION OF ACCOUNTANTS AND WITH DISCRETIONARY AUTHORITY UPON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING. THIS PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE TIME IT IS VOTED.

PLEASE COMPLETE, DATE AND SIGN THIS PROXY AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.

(PLEASE SIGN ON THE REVERSE)

3COM CORPORATION
C/O AMERICAN STOCK TRANSFER & TRUST CO.
59 MAIDEN LANE
NEW YORK, NY 10038

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to 3Com Corporation, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: 3COMCR KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

3COM CORPORATION

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE FOLLOWING:

1.	ELECTION OF FIVE CLASS II DIRECTORS: EACH TO HOLD OFFICE FOR A TWO-YEAR TERM:	For All 0	Withhold All 0	For All Except 0	To withhold authority to vote, mark "For All Except" and write the nominee's number on the line below.
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Nominees:

- 01) ERIC A. BENHAMOU
- 02) GARY T. DICAMILLO
- 03) JAMES R. LONG
- 04) RAJ REDDY
- 05) DAVID C. WAJSGRAS

2.	To ratify the appointment of Deloitte & Touche LLP as the Company's independent public accountants for the fiscal year ending June 3, 2005.	For 0	Against 0	Abstain 0
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THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED "FOR" PROPOSALS 1 AND 2.

Please date and sign exactly as your name or names appear herein. Corporate or partnership proxies should be signed in full corporate or partnership name by an authorized person. Persons signing in a fiduciary capacity should indicate their full title in such capacity.

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Signature (PLEASE SIGN WITHIN BOX)

Date

Signature (Joint Owners)

Date

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