



FOR IMMEDIATE RELEASE

January 31, 2008

WLF OPPOSES ACQUISITION OF 3COM BY CHINESE FIRM WITH TIES TO RED ARMY

The Washington Legal Foundation this week called on the federal government to bar the sale of 3Com Corp. to a group that includes a Chinese corporation with ties to the Chinese military, unless the group overhauls the proposed acquisition to ensure that sensitive military-related technology does not fall into enemy hands. WLF expressed its concerns in a letter sent to the Committee on Foreign Investment in the United States (CFIUS), a federal government agency that reviews acquisitions of U.S. assets by foreign companies. WLF said that the 3Com Corp. acquisition, as currently structured, "raises grave national security concerns."

3Com Corp. is a computer networking company based in Massachusetts. One of its divisions, TippingPoint, engages in highly sensitive national security work. In particular, TippingPoint provides the U.S. Department of Defense with intrusion prevention technology, designed to prevent intrusions into telecommunications systems maintained by DoD. Such intrusions raise vital national security concerns. Nor are such intrusions merely hypothetical; DoD believes that the Chinese military conducted a massive cyber-attack on its systems in June 2007, an attack that temporarily shut down DoD systems. The technology supplied by 3Com plays a vital role in efforts to prevent such attacks in the future.

In October 2007, 3Com agreed to be acquired by a group headed by Bain Capital Partners. Huawei Technologies, a major Chinese telecommunications company, will have an initial stake of 16.5% of the acquiring entity, with the right to increase that share to 21.5%.

WLF's letter stated that the acquisition deal, as currently structured, raises too great a risk that 3Com's intrusion prevention technology would fall into the hands of the Chinese military, a group whose hostile intentions toward the United States have already been demonstrated by its 2007 cyber attack. WLF urged CFIUS not to approve the acquisition unless Bain agrees to divest 3Com's TippingPoint division.

WLF's letter said that there is good reason to fear that Huawei would use its position as a minority owner to funnel sensitive 3Com technology to the Chinese army. WLF noted that the head of Huawei, Ren Zhengfei, is a former officer in the Chinese army. WLF said that there is considerable uncertainty surrounding Huawei's corporate

status. Ren Zhengfei reportedly owns 1% of outstanding Huawei shares, and just who owns the remaining shares is far from clear. WLF charged that while Zhengfei contends that Huawei is 100% employee-owned, there is at least some basis for concern that the Chinese government and/or the People's Liberation Army either own or have significant control over Huawei. WLF noted that the Rand Corporation reports that Huawei has "deep ties" with the Chinese military. WLF also charged Huawei has had a history of sharing its technology with enemies of the United States. WLF noted that the CIA has reported that in 2000, Huawei -- in violation of a United Nations embargo -- sold fiber optics equipment to Iraq for the purpose of upgrading Iraq's military technology. Huawei also maintained business dealings with the Taliban regime in Afghanistan and the Chinese military.

WLF said that it is "hard to believe that Huawei, which is in the process of rapid international expansion in the telecommunications field, is involved in the proposed acquisition solely because it intends to remain a passive investor in 3Com, which has been unprofitable for quite some time." WLF said that gaining access to 3Com technology "must have played a significant role in its decision." Once the technology falls into Huawei's hands, its release to the Chinese military is almost inevitable, WLF said.

WLF noted that according to a recent news article, the U.S. Director of National Intelligence has determined that the proposed acquisition of 3Com represents a threat to national security. WLF urged CFIUS to heed that warning and to block the 3Com acquisition in the absence of an agreement to divest TippingPoint. CFIUS in early January 2008 commenced a 45-day investigation of the proposed acquisition. CFIUS is required by law to make a decision one way or the other at the end of that 45-day period.

WLF is a public interest law and policy center with supporters in all 50 states. WLF strongly supports efforts to promote and protect U.S. national security. It also supports efforts to reduce barriers to the free flow of capital across international borders, and seeks to promote a proper balance between those sometimes conflicting goals.

* * *

For further information, contact WLF Chief Counsel Richard Samp, (202) 588-0302. A copy of WLF's letter to CFIUS is available on its web site, www.wlf.org.