

THOMAS NEMES and JUDITH NEMES,
As Trustees for the Thomas Nemes and
Judith Nemes Living Trust, Derivatively on Behalf of Nominal Defendant
ENTERASYS NETWORKS, INC.

v.

CRAIG R. BENSON, JAMES A. DAVIDSON, PAUL R. DUNCAN,
ENRIQUE P. FIALLO, EDWIN A. HUSTON, JAMES E. RIDDLE, and
CHRISTINE A. VARNEY, and ENTERASYS NETWORKS, INC.

NOTICE OF PENDENCY OF SETTLEMENT OF SHAREHOLDER DERIVATIVE ACTIONS

TO: ALL PERSONS WHO CURRENTLY OWN ENTERASYS NETWORKS, INC. ("ENTERASYS" OR THE "COMPANY") COMMON STOCK

PLEASE READ THIS NOTICE CAREFULLY AND IN ITS ENTIRETY. YOUR RIGHTS MAY BE AFFECTED BY PROCEEDINGS IN THIS ACTION. HOWEVER, NO ENTERASYS SHAREHOLDER HAS THE RIGHT TO RECEIVE INDIVIDUAL COMPENSATION AS A RESULT OF THE SETTLEMENT OF THE ACTIONS.

This Notice has been sent to you pursuant to an order of the Superior Court, Rockingham, New Hampshire (the "Court"), following the execution of a Stipulation of Settlement signed by the parties on October 29, 2003 (the "Stipulation"). The purpose of this Notice is to inform you of the proposed settlement (the "Settlement") of two shareholder derivative actions (the "Actions") and of the hearing to be held by the Court on December 18, 2003 to: (1) consider the fairness, reasonableness, and adequacy of the Settlement; and (2) rule upon Plaintiffs' counsel's request for attorneys' fees and reimbursement of expenses. This Notice describes the rights you may have in connection with the Settlement and what steps you may take in relation to the Settlement. This Notice is not intended to be and should not be construed as an expression of any opinion by the Court about the merits of any of the claims or defenses asserted by any party in the Actions or the fairness or adequacy of the Settlement.

I. THE ACTIONS

On or about February 26, 2002, Thomas Nemes and Judith Nemes initiated a shareholders' derivative action in this Court, purportedly on behalf of and for the benefit of Enterasys against certain of its officers and directors, Craig R. Benson, James A. Davidson, Paul R. Duncan, Enrique P. Fiallo, Edwin A. Huston, James E. Riddle, and Christine A. Varney (Enterasys and Messrs. Benson, Davidson, Duncan, Fiallo, Huston, Riddle, and Ms. Varney being known herein as "Defendants") captioned Nemes v. Benson et al., No. 02C-170 (the "Nemes Action"). Plaintiffs in the Nemes Action alleged, *inter alia*, that certain of the officers and directors of Enterasys had breached their fiduciary duties to Enterasys and its shareholders in the management and oversight of Enterasys' business, particularly with respect to the Company's internal financial and accounting controls.

On or about April 16, 2002, Plaintiff Albert Meisner initiated a shareholder's derivative action in the Court of Chancery for the State of Delaware, New Castle County, captioned Meisner v. Fiallo et al., No. 19558-NC (the "Delaware Action"). Plaintiff in the Delaware Action asserted claims that were substantially similar to the claims asserted in the Nemes Action. Collectively, the Nemes and Delaware Actions will be referred to as the "Actions." It is the Parties intention that the Actions be disposed of by filing the necessary papers to effect a dismissal with prejudice and without costs in conjunction with the proposed settlement (the "Settlement") set forth in this Stipulation.

II. INVESTIGATION AND RESEARCH CONDUCTED BY PLAINTIFFS SETTLEMENT COUNSEL

Plaintiffs' Settlement Counsel (as that term is defined in Section V hereof) has conducted an investigation during the development, prosecution and settlement of the Actions. This discovery and investigation has included, *inter alia*, (i) inspecting, reviewing and analyzing tens of thousands of pages of documents and news articles related to Enterasys and its directors and officers; (ii) consulting with experts in the areas of securities law and corporate governance; (iii) participating in conferences with Defendants' counsel; and (iv) researching the applicable law with respect to the claims asserted in the complaints filed in the Actions and the potential defenses thereto.

III. DEFENDANTS' DENIALS OF WRONGDOING AND LIABILITY

Defendants deny any wrongdoing whatsoever with respect to each and all of the allegations, claims and contentions alleged by the Representative Plaintiffs in the Actions.

Nonetheless, Defendants have concluded that further litigation would be protracted and expensive, and that it is desirable that the Actions be fully and finally settled in the manner and upon the terms and conditions set forth in this Stipulation. Defendants also have taken into account the uncertainty and risks inherent in any litigation, especially in complex litigation such as the Actions. Defendants have, therefore, determined that it is desirable that the Actions be settled in the manner and upon the terms and conditions set forth in this Stipulation.

IV. CLAIMS OF THE REPRESENTATIVE PLAINTIFFS AND BENEFITS OF SETTLEMENT

The Representative Plaintiffs believe that the claims asserted in the Actions have merit. However, Plaintiffs' Settlement Counsel recognizes and acknowledges the expense and length of continued proceedings necessary to prosecute the Actions against Defendants through trial and the inevitable appeals that would follow. Plaintiffs' Settlement Counsel has also taken into account the uncertain outcome and the risk of any litigation, especially in complex litigation such as the Actions, as well as the difficulties and delays inherent in such litigation. Plaintiffs' Settlement Counsel also are mindful of the inherent problems of proof under, and possible defenses to, the alleged violations of law

asserted in the Actions. Based on these considerations, among others, Plaintiffs' Settlement Counsel believes that the settlement set forth in this Stipulation confers substantial benefits upon Representative Plaintiffs, Enterasys, and Enterasys Stockholders.

V. TERMS OF STIPULATION AND AGREEMENT OF SETTLEMENT

A. Definitions

As used herein, the following terms have the meanings specified below:

1. "Current Enterasys Stockholders" means any Person (as that term is defined herein) who owned Enterasys common stock as of October 7, 2003, and who continue to own their stock as of the date of the Settlement Hearing (as defined herein), but shall not include any of the Individual Defendants, their immediate family members, or any current or former directors or officers of Enterasys.

2. "Defendants" means Individual Defendants and Enterasys.

3. "Effective Date" means the first date by which all of the events and conditions specified in Section IX (A) of the Stipulation have been met and have occurred.

4. "Final" means: (i) The date of final affirmance on an appeal of the Judgment, the expiration of the time for a petition for or a denial of a writ of certiorari to review the Judgment and, if certiorari is granted, the date of final affirmance of the Judgment following review pursuant to that grant; or (ii) the date of final dismissal of any appeal from the Judgment or the final dismissal of any proceeding on certiorari to review the Judgment; or (iii) if no appeal is filed, the expiration date of the time for the filing or noticing of any appeal from the Court's Judgment approving the Stipulation substantially in the form attached as Exhibit D to the Stipulation; *i.e.*, thirty (30) days after entry of the Judgment. Any proceeding or order, or any appeal or petition for a writ of certiorari pertaining solely to any plan of allocation and/or application for attorneys' fees, costs or expenses, shall not in any way delay or preclude the Judgment from becoming Final.

5. "Individual Defendants" means Craig R. Benson, James A. Davidson, Paul R. Duncan, Enrique P. Fiallo, Edwin A. Huston, James E. Riddle, and Christine A. Varney.

6. "Judgment" means the Final Judgment and Order of Dismissal to be rendered by the Court, substantially in the form attached as Exhibit D to the Stipulation.

7. "Person" means an individual, corporation, limited liability company, professional corporation, limited liability partnership, partnership, limited partnership, association, joint stock company, estate, legal representative, trust, unincorporated association, government or any political subdivision or agency thereof, and any business or legal entity and their spouses, heirs, predecessors, successors, representatives, or assignees.

8. "Plaintiffs' Settlement Counsel" means the following counsel for Plaintiffs in the Actions: Schiffrin & Barroway, LLP, Robert B. Weiser, Esq., 3 Bala Plaza East, Suite 400, Bala Cynwyd, Pennsylvania 19004, Telephone (610) 667-7706; Bull & Lifshitz, LLP, Joshua M. Lifshitz, Esq., 18 East 41st Street, New York, New York 10017, Telephone (212) 213-6222.

9. "Related Parties" means each of a Defendant's past or present: directors, officers, managers, employees, partners, members, principals, agents, underwriters, insurers, co-insurers, reinsurers, controlling shareholders, attorneys, accountants or auditors, banks or investment banks, associates, personal or legal representatives, predecessors, successors, parents, subsidiaries, divisions, joint ventures, assigns, spouses, heirs, executors, administrators, related or affiliated entities, any entity in which a Defendant has a controlling interest, any members of their immediate families, or any trust of which any Defendant is the settlor or which is for the benefit of any Defendant and/or member(s) of his or her family.

10. "Released Claims" shall collectively mean all claims (including "Unknown Claims" as defined herein), demands, rights, liabilities and causes of action of every nature and description whatsoever, known or unknown, whether or not concealed or hidden, asserted or that might have been asserted by the Representative Plaintiffs, Enterasys, or Current Enterasys Stockholders on behalf of Enterasys, or any of them, against the Released Persons in the Actions, that are based upon or related in any way to the facts, circumstances, transactions, events, occurrences, disclosures, statements, omissions, acts or failures to act which were alleged or could have been alleged in the Actions, including, without limitation, claims for negligence, gross negligence, breach of duty of care and/or breach of duty of loyalty, fraud, constructive fraud, self-dealing, misrepresentation (whether intentional, negligent or innocent), omission (whether intentional, negligent or innocent), suppression (whether intentional, negligent or innocent), mismanagement, gross mismanagement, abuse of control, unjust enrichment, breach of contract, breach of fiduciary duty, breach of duty of good faith or violations of any state or federal statutes, rules or regulations or any other source of legal or equitable obligation of any kind or description in whatever forum.

11. "Released Persons" means each and all of the Defendants and their respective Related Parties.

12. "Representative Plaintiffs" means Thomas Nemes, Judith Nemes and Albert Meisner.

13. "Representative Plaintiffs' Counsel" means counsel who have appeared for any of the Representative Plaintiffs in the Actions.

14. "Settling Parties" means, collectively, each of the Defendants and the Representative Plaintiffs on behalf of themselves and derivatively on behalf of Enterasys and Current Enterasys Stockholders.

15. "Unknown Claims" means any Released Claims which any Representative Plaintiff, Enterasys, or Current Enterasys Stockholder does not know or suspect to exist in his, her or its favor at the time of the release of the Released Persons which, if known by him, her or it, might or would have affected his, her or its settlement with and release of the Released Persons, or might have affected his, her or its decision not to object to this settlement. The Representative Plaintiffs, Enterasys or Current Enterasys Stockholders may hereafter discover facts in addition to or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Released Claims, but each Representative Plaintiff, Enterasys, or Current Enterasys Stockholder shall expressly, upon the Effective Date, be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever settled and released any and all Released Claims, known or unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct which is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts. The Representative Plaintiffs expressly acknowledge, and Current Enterasys Stockholders shall be deemed by operation of the Judgment to have acknowledged, that the foregoing waiver was separately bargained for and a key element of the settlement of which this release is a material and essential part and expressly waive (i) the benefits of the provisions of Section 1542 of the California Civil Code, which provides that "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor" and (ii) the benefits of any comparable law, statute, regulation or legal principle of any other jurisdiction.

B. The Settlement

After final Court approval of the Settlement (the "Commencement Date") of the Actions, the Board, as a result of the filing, prosecution and Settlement of the Actions, will take such steps as may be necessary to implement the Enterasys' new Corporate Governance Policies as set forth in the Stipulation at Exhibit A.

VI. NOTICE OF HEARING ON PROPOSED SETTLEMENT

A Settlement Hearing will be held on December 18, 2003, at 9:00 a.m., at the Rockingham County Courthouse, 10 Route 125, Brentwood, New Hampshire, 03833, (the "Settlement Hearing"). The purpose of the Settlement Hearing will be to: (1) determine whether the Settlement should be approved as fair, reasonable and adequate; and (2) rule upon Plaintiffs' Settlement Counsel's request for fees and reimbursement of expenses.

The Court may adjourn the Settlement Hearing by oral announcement at such hearing or at any adjournment without further notice of any kind. The Court may approve the Settlement with or without modifications, enter an Order and Final Judgment, and order the payment of attorneys' fees and expenses without further notice of any kind.

VII. THE RIGHT TO BE HEARD AT THE HEARING

Any Current Enterasys Stockholder may, but is not required to, enter an appearance in the Actions and be represented by counsel of his, her or its choice and expense. Any Current Enterasys Stockholder who does not enter an appearance will be represented by the attorney for Representative Plaintiffs listed below. Any Current Enterasys Stockholder who objects to any aspect of the Settlement may appear and be heard at the Settlement Hearing. Any such person must submit a written notice of objection, sent via first class mail or hand delivered such that it is received on or before December 8, 2003, by each of the following:

By Hand Delivery: **Raymond W. Taylor, Clerk of the Court
Rockingham County Superior Court
10 Route 125
Brentwood, NH 03833**

OR

By First Class Mail: **Raymond W. Taylor, Clerk of the Court
Rockingham County Superior Court
P.O. Box 1258
Kingston, NH 03848**

and has served copies of all such papers at the same time upon the following by first class mail:

**Robert B. Weiser, Esq.
SCHIFFRIN & BARROWAY, LLP
Three Bala Plaza East, Suite 400
Bala Cynwyd, PA 19004**

Counsel For Representative Plaintiffs

**Harvey J. Wolkoff, Esq.
ROPES & GRAY, LLP
One International Place
Boston, MA 02110-2624**

Counsel For Enterasys

In order to object to the Settlement, the notice of objection must demonstrate the objecting Person's standing as a Current Enterasys Stockholder. The notice of objection must also contain the reasons for objection, the names of any witnesses that the objecting Person plans on calling at the Settlement Hearing and the substance of any testimony that any testifying witness will provide at the Settlement Hearing. Only Current Enterasys Stockholders who have submitted written notices of objection in this manner will be entitled to be heard at the Settlement Hearing, although attendance at the Settlement Hearing is not necessary in order for an objection to be considered by the Court. **However, unless otherwise ordered by the Court, any Current Enterasys Stockholder who does not make his, her or its objection or opposition to the Settlement in the manner provided above shall be deemed to have waived all objections and opposition to the fairness, reasonableness and adequacy of the proposed settlement and the requested attorneys' fees and expenses.**

VIII. DISMISSAL AND RELEASES

If the Settlement is approved, the Court will enter a Final Judgment and Order of Dismissal with Prejudice, pursuant to the terms of the Stipulation ("Judgment"). The Judgment will dismiss the Released Claims with prejudice as to all Defendants.

IX. ATTORNEYS' FEES AND EXPENSES

Enterasys, on behalf of all Defendants and upon Court approval, has agreed to pay Plaintiffs' Settlement Counsel such amount as ordered by the Court up to an amount of \$400,000.00 for their fees and expenses for the filing, prosecuting and settlement of the Actions (the "Fees and Expenses").

To date, Plaintiffs' Settlement Counsel have not received any payment for their services in prosecuting the Actions, nor have counsel been reimbursed for their substantial out-of-pocket expenses. The fee requested by Plaintiffs' Settlement Counsel would compensate counsel for their efforts in achieving the benefits for the Company described in detail in the Stipulation and for their risk in undertaking this representation on a contingency basis.

X. CONDITIONS FOR SETTLEMENT

The Settlement is conditioned upon the occurrence of certain events, including among other things: (1) entry of the Judgment by the Court, as provided for in the Stipulation; (2) expiration of the time to appeal from or alter or amend the Judgment; and (3) the dismissal with prejudice of the Delaware Action. If, for any reason, any one of the conditions described in the Stipulation is not met (including, but not limited to those conditions identified in the preceding sentence), the Stipulation might be terminated and, if terminated, will become null and void, and the parties to the Stipulation will be restored to their respective positions prior to the execution of the Stipulation.

XI. NOTICE TO PERSONS OR ENTITIES HOLDING RECORD OWNERSHIP ON BEHALF OF OTHERS

Brokerage firms, banks and other persons or entities who are Current Enterasys Stockholders in their capacities as record owners, but not as beneficial owners, are requested to send this Notice promptly to beneficial owners. Additional copies of this Notice for transmittal to beneficial owners are available on request directed to:

In re Enterasys Networks, Inc. Litigation
c/o The Garden City Group, Inc.
The Notice Administrator
P.O. BOX 9000 #6162
Merrick, New York 11566-9000
Phone (866) 808-3520

XII. EXAMINATION OF PAPERS

This Notice is a summary and does not describe all of the details of the Stipulation. For full details of the matters discussed in this Notice, you may desire to review the Stipulation filed with the Court, which may be inspected during business hours, at the office of the Clerk of the Court, Rockingham County Superior Court, 10 Route 125, Brentwood, New Hampshire 03833.

For further information regarding this settlement you may contact Plaintiffs' Settlement Counsel.

DO NOT TELEPHONE THE COURT REGARDING THIS NOTICE.

DATED: November 6, 2003

BY ORDER OF THE SUPERIOR COURT ROCKINGHAM COUNTY