

EXTREME NETWORKS INC  
Form 10-K  
September 15, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-K

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(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended June 30, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 000-25711

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Extreme Networks, Inc.  
(Exact name of Registrant as specified in its charter)

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Delaware 77-0430270  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

145 Rio Robles 95134  
San Jose, California (Zip Code)  
(Address of principal executive offices)  
Registrant's telephone number, including area code: (408) 579-2800

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Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common stock, \$.001 par value

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past

90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$652.6 million as of December 31, 2013, the last business day of the Registrant’s most recently completed second fiscal quarter, based upon the per share closing price of the Registrant’s common stock as reported on The NASDAQ Global Market reported on such date. For purposes of this disclosure, shares of common stock held or controlled by executive officers and directors of the registrant and by persons who hold more than 5% of the outstanding shares of common stock have been treated as shares held by affiliates. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purpose.

97,391,901 shares of the Registrant’s Common stock, \$.001 par value, were outstanding as of August 5, 2014.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2014 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

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### FORWARD LOOKING STATEMENTS

This annual report on Form 10-K, including the following sections, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including in particular, our expectations regarding results of operations, our ability to expand our market penetration, our ability to expand our distribution channels, customer acceptance of our products, our ability to meet the expectations of our customers, product demand and revenue, cash flows, product gross margins, our expectations to continue to develop new products and enhance existing products, our expectations regarding the amount of our research and development expenses, our expectations relating to our selling, general and administrative expenses, our efforts to achieve additional operating efficiencies and to review and improve our business systems and cost structure, our expectations to continue investing in technology, resources and infrastructure, our expectations concerning the availability of products from suppliers and contract manufacturers, anticipated product costs and sales prices, our expectations that we have sufficient capital to meet our requirements for at least the next twelve months, our expectations regarding materials and inventory management and our expectations of our ability to receive the anticipated benefits of the acquisition of Enterasys. These forward-looking statements involve risks and uncertainties, and the cautionary statements set forth below and those contained in the section entitled “Risk Factors” identify important factors that could cause actual results to differ materially from those predicted in any such forward-looking statements. We caution investors that actual results may differ materially from those projected in the forward-looking statements as a result of certain risk factors identified in this Form 10-K and other filings we have made with the Securities and Exchange Commission. More information about potential factors that could affect our business and financial results is set forth under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

### PART I

#### Item 1. Business

##### Overview

Extreme Networks, Inc., together with its subsidiaries, (collectively referred to as Extreme and as we, us and our) is a leading provider of wired and wireless network infrastructure equipment, software and services for enterprises, data centers, and service providers. Our customers include businesses, hospitals, hotels, universities, sports venues, telecommunications companies and government agencies around the world. We are driven by our guiding principles to build the very best products, to deliver world-class customer service and to be the easiest company with which to do business. As networks internal to businesses, between businesses and the Internet itself become more pervasive and critical to a wide variety of business and social communications, the volume and the demands of applications, data, users and devices on networks continue to increase. Our vision focuses on the design and delivery of simple, fast and smart networking solutions to deliver better connections, providing superior experiences for everyone. We primarily sell our products through an ecosystem of our channel partners who combine our Ethernet products with their offerings to create compelling information technology solutions for end user customers.

On October 31, 2013, we completed the acquisition of Enterasys Networks, Inc. (“Enterasys”), a privately held provider of wired and wireless network infrastructure and security solutions, whereby Enterasys became our wholly-owned subsidiary. The combined entity immediately became a networking industry leader with more than 12,000 customers. As network switching leaders in enterprise, data center and cloud, Extreme and Enterasys together combine and extend their world-class products and technologies to provide customers with some of the most advanced, high performance, and open solutions in the market as well as a superb overall customer experience. The combination of Extreme and Enterasys is significant in that it brings together two companies with distinct strengths addressing the key areas of the network, from unified wired and wireless edge, to the enterprise core, to the data center and cloud. With an open software approach, we can drive product innovations and customers will benefit from the increased resources and larger scale.

##### Industry Background

The networking industry has undergone significant changes in the last few years. With the mobilization of the workforce, the virtualization of the data center, and the demand for anywhere, anytime connectivity, across any

device, Ethernet is a common technology across both enterprises and service providers. Extreme Networks' strategy, product portfolio, and research and development are aligned with the following trends:

Ethernet (Wired and Wireless). Through its scalability, adaptability, and cost-effectiveness, Ethernet has solidified its role in both public and private networks. At the same time, the enterprises and service providers expect the technology to follow a price-performance curve that mandates continued innovation by Ethernet vendors.

- Mobile Workforce. Employees expect high-quality and secure access to corporate resources in a Bring Your Own Device ("BYOD") world across a diversity of endpoints such as laptops, tablets, smart phones and wearables, whether they are within the corporate firewall or on-the-go. Information technology ("IT") departments focus their investment

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decisions on this mobile workforce, taking a unified view of wireless access, the campus core, and the data center. Networking vendors offer end-to-end solutions that permit IT managers to meet employee expectations and to maximize IT return on investment.

The Cloud. Data center architectures are influenced by the cloud and by the deployment of server virtualization. Enterprises have migrated increasing numbers of applications and services to either private clouds, or public clouds offered by third parties. In either case, the network infrastructure must adapt to this new dynamic environment. Intelligence and automation are key if enterprises are to derive maximum benefit from their cloud deployments. Ethernet speeds, scaling from 10 Gigabits per second ("G") to 40G and even 100G, provides the infrastructure for both private and public clouds. In addition, there is growing interest in Software Defined Network ("SDN") approaches that may include technologies such as OpenFlow, OpenStack, and CloudStack for increased network agility.

Public Network Evolution. 3G and 4G mobile networks now provide the necessary capacity and reach to enable employees to be productive away from the office and away from fixed networks in a BYOD world. Mobile operators continue to invest in their next-generation networks, and Ethernet is the technology often used for their access networks, referred to as mobile backhaul.

Vendor Consolidation. We believe consolidation of vendors within the Ethernet networking market and between adjacent markets (storage, security, wireless & voice software and applications) continues to gain momentum. We believe that the underpinning technology for all of these adjacent markets is Ethernet. As a result, we believe that there will be continued mergers between adjacent market vendors to enable them to deliver complete and broad solutions to customers.

### The Extreme Networks Strategy

With the proliferation of mobile users and their devices, within a campus or across continents, the challenges of operating and managing a network have changed in the BYOD world of today. IT has rapidly evolved from a fixed world to a new world of mobility where everything - people, devices, machines, and applications - is in motion. IT now has to support end-users with smart phones, tablets, laptops and other wireless peripherals as well as their wired workstations. Users are beginning to define the services that IT must offer as they adopt smart phones, tablets and their applications, and as they work on-the-go. Users know what they need to be productive, and they expect the network to help them achieve productivity. The blurring of work and personal applications that must be supported on the network places increasing security demands on IT.

Extreme Networks delivers mission critical networks designed for this new BYOD world, spanning high-performance data centers, the campus, and the mobile infrastructure. Customers deploying our technology can know what resources are using the network, what they are requesting and where they are located, and can provide customized access to approved resources and content. Our networks help enable granular visibility and control, higher performance and resource security.

Our strategy is to offer open, scalable, secure and cost effective connectivity solutions as an alternative to single-sourced, highly proprietary networking equipment from other companies. Our commitment to open standards is manifested by demonstrated interoperability within both enterprise and service provider networks, and the active participation in key industry and standards associations.

Key elements of our strategy include:

Provide simple, fast, smart and cost-effective wired and wireless network infrastructure solutions as well as deliver network-based business and application analytics designed to optimize application delivery while reducing capital expenditure and operating expenditure to meet the specific demands of the following customers:

• Enterprises and cloud data centers use our products to deploy automated next generation virtualized and high-density server infrastructure solutions.

• Enterprises, universities, sports venues, hospitals, hotels and government agencies, use our products for their mobile campus access and backbone networks.

• Enterprises, universities and sports venues use our products to enable Big Data and High Performance Computing supporting large data processing and analytics requirements.

• Service Providers use our products to deliver high performance, high capacity and low latency connections to their customers.

• Mobile Operators deploy our products for mobile backhaul in support of mobile broadband.



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Extend switching and routing technology leadership. Our technological leadership is based on innovative switching, routing and wireless products, the depth and focus of our market experience and the ExtremeXOS® operating system - the software that runs on all of our Ethernet switches. Our standardization on a single network operating system, a primary merchant silicon vendor, and few select manufacturing partners for our core products permit us to derive leverage from our engineering investment. We intend to invest our engineering resources to continue to create leading-edge technologies that will increase the performance and functionality of our products and as a direct result, the value of our solution to our current and future customers. In addition, we look for maximum synergies from our engineering investment in our targeted verticals and when targeting new vertical market segments.

Expand WiFi technology leadership. Wireless is today's access method of choice and every business must deal with scale, density and BYOD challenges. The dramatic increase and demand being seen everywhere today, fueled by more users, with multiple devices increases the expectation that everything will just work. The network edge landscape is changing as the explosion of mobile devices increases the demand for mobile, transparent and always on wired to wireless edge services. This new "unified access layer" requires intelligent distributed components to ensure that access control and resiliency of business services are available across the entire infrastructure and manageable from a single console. Our unified access layer portfolio provides intelligence for the wired/wireless edge.

Deliver unified management across the wired, wireless environment from the data center to the mobile edge. Our rich set of integrated management capabilities provides centralized visibility and highly efficient anytime, anywhere control of enterprise wired and wireless network resources.

Offer network-powered business and application analytics. Our network-powered application analytics and optimization solution captures and analyzes context-based data about application traffic to deliver meaningful intelligence - about applications, users, locations and devices. This enables the network to become a strategic business asset - by enabling the mining of network-based business events and strategic information that help business leaders make faster and more effective decisions.

Data can now be mined to show how applications are being used; enabling a better understanding of customer behavior on the network, identifying the level of user engagement, and assuring business application delivery to optimize the user experience. Additionally application adoption can be tracked to determine the return on investment associated with new application deployments.

In addition visibility into network and application performance enables IT to pinpoint and resolve performance bottlenecks in the infrastructure whether they are caused by the network, application, or server. This saves both time and money for the business and ensures critical applications are running at the best possible performance.

Support Software Defined Network ("SDN"). Networks are built using switches, routers, and other devices in a distributed fashion to scale and provide reliability. In this distributed environment, it has become more complex to provide new end-to-end services and applications in a seamless and cost effective manner. As the business demands more agile and flexible IT services this has become a focal point for innovation and also for differentiation by vendors that have solved that challenge. To address the simultaneous needs for security, virtualization, manageability, mobility and agility in today's networks the concept of SDNs are gaining attention as a viable solution.

The value of SDN in the enterprise lies specifically in the ability to provide network virtualization and automation of configuration across the entire network/fabric so new services and end systems can be deployed rapidly and operational cost can be minimized.

Expand market penetration by targeting high-growth verticals. Within the campus, we focus on the mobile user, leveraging our automation capabilities and tracking wireless Local Area Network ("LAN") growth. Our data center approach leverages our product portfolio to address the needs of managed hosting and cloud data center providers, while we deliver key components of mobile backhaul solutions to our network equipment partners. Within the campus we also target the high-growth physical security market, converging technologies such as Internet Protocol ("IP")

video across a common Ethernet infrastructure in conjunction with our technology partners.

Leverage and expand multiple distribution channels. We distribute our products through select distributors, a large number of resellers and system-integrators worldwide and several large strategic partners. We maintain a field sales force to support our channel partners and to sell directly to certain strategic accounts. As an independent Ethernet switch vendor, we seek to provide products that, when combined with the offerings of our channel partners, create compelling solutions for end-user customers.

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Maintain and extend our strategic relationships. We have established strategic relationships with a number of industry-leading vendors to both provide increased and enhanced routes to market, but also to collaboratively develop unique solutions.

Provide high-quality customer service and support. We seek to enhance customer satisfaction and build customer loyalty through high-quality service and support. This includes a wide range of standard support programs that provide the level of service our customers require, from standard business hours to global 24-hour-a-day, 365-day-a-year real-time response support.

### Products

Our products offer resilient high performance networking, intelligence and operational simplicity for IT. We build our products into vertical markets solutions for converged campus networks with user and device mobility, data center and cloud administrators to virtualize their server and storage over a high-performance Ethernet infrastructure, service providers to provide bandwidth and service level agreements for Carrier Ethernet, 3G and 4G services, and management software that provide visibility, security and intelligent control - all through a single pane of glass.

Resilient high performance networking. Customers can choose to deploy redundant management and fabric modules, hot swappable line cards, multi-speed stacking across 100 Megabits ("M")/1G/10G/40G/100G systems, redundant power supplies and fan trays delivering high hardware availability. These deployments are supported by ExtremeXOS, our modular and fault-tolerant network operating system that spans our complete switching portfolio, unique in the industry. Technologies supported include a variety of layer-2 resiliency protocols including multi-switch Link Aggregation ("M-LAG"), Ethernet Automatic Protection Switching ("EAPS"), Multiprotocol Label Switching ("MPLS") / Virtual Private LAN Service ("VPLS") for high service availability, and layer-3 IPv4 and IPv6 routing protocols for high network availability. EAPS is an example of our innovation and allows network managers to configure their network infrastructure so that critical network communications can be rapidly rerouted in the event of a network outage in most topologies. This level of high-speed communications 'reroute' is targeted for mission critical and demanding applications, including voice and video and maintains service delivery in the event of network outage. We further offer a versatile and flexible Quality of Service ("QoS") solution that allows network operators to configure bandwidth for mission critical applications and in doing so control the overall experience and the service-level of the communication flows. We have deep experience with communication quality controls, starting with our introduction to the market of the first broad QoS controls for Ethernet to the recent Data Center Bridging protocols for 'lossless' Ethernet that enables traditional storage networks to converge over a common Ethernet infrastructure. We provide Layer 2 ("L2") extension for data centers through multiple supported technologies that include Virtual Extensible LAN, VPLS, and Pseudo-Wire Emulation as well as Layer 2 extension with Generic Routing Encapsulation ("GRE/L2") and SPB (on the S-Series). In addition to GRE/L2 and Shortest Path Bridging ("SPB") on our S-Series, we offer innovative traffic optimization for east/west and north/south traffic using Fabric routing and Host routing, respectively. This means we can enable Virtual Machine ("VM") mobility using Layer 3 Data Center Interconnect, even without L2 stretch. Our mobile backhaul products also support sophisticated timing functionality including Synchronous Ethernet and RFC1588, as well as Time Division Multiplexing interfaces for the transport of T1/E1 traffic across an Ethernet infrastructure. Our unique CoreFlow2 architecture delivers tens of millions of flows for deep visibility and control over users, services, and applications to meet the demands of today's businesses applications.

Intelligence. Based on a unified, pervasive and intelligent software foundation, our customers can take advantage of user, machine and application visibility and control for the whole network infrastructure, from data center to edge. Universal Port automatically detects new devices such as IP phones that plug-in to the network and can assign appropriate power, server and other configurations. The Identity Management engine allows tracking of users based on their login id and host machine, and assigning them to roles based on guest, contractor, or employee privilege. In

the data center and cloud, ExtremeXOS Network Virtualization ("XNV") allows network administrators visibility into VM movement and having virtual port-profiles follow VMs as they move within and across network switches. CLEAR-Flow, our wire-speed security rules engine, helps detect and mitigate traffic anomalies, including denial of service attacks. NetSight provides centralized visibility and granular control of enterprise network resources end to end, to manage, automate and report on the entire network through a single interface. Network Access Control ("NAC")/ MobileIAM and Purview provide comprehensive visibility and policy for multi-vendor environments, providing detailed context that correlates users with their devices, applications, locations and other attributes. These products provide deep network insight and analytics, which can be used for better network optimization, improved security and smarter business decisions. This enables business innovation powered by the network infrastructure and empowers

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IT to turn the network into a strategic business asset that can now provide value to other lines of business. Our new Audio-Video Bridging ("AVB") capabilities add intelligence within the network to support the convergence of professional audio and video across Ethernet, while our SDN investments provide a foundation for enhanced automation, control and innovation.

Operational simplicity. We provide a unified management system for the entire network providing consistent management across all network segments and devices, making IT operations more efficient and simpler. No matter how many moves, adds, or changes occur in your environment, NetSight keeps everything in view and under control through role-based access controls. NetSight can even manage beyond Extreme Networks switching, routing, and wireless hardware to deliver standards-based control of other vendors' network equipment. This means faster provisioning, quicker problem resolution, tighter security and reduced IT administration time.

Vertical Market Solutions. Our hardware and software offerings can be combined into complete solutions targeted at specific high-growth vertical markets. These include Open Fabric, our architecture for open and scalable next-generation data center deployments that offer investment protection and provide a path to SDN. Extreme Networks' All Ethernet Open Fabric is anchored by our BlackDiamond BDX switch, our Summit top-of-rack data center switches, NetSight management, and where required, products from technology partners. In the campus, our Intelligent Mobile Edge offering combines our Summit edge virtual chassis switches, our WLAN access point and controller portfolio, and our NetSight management platform offering user and device identity awareness.

Our product categories include:

Modular Ethernet switching systems. Our Black Diamond® products deliver modular or chassis-based Ethernet connectivity solutions for enterprises, data centers and service providers. These products have a range of management and line cards that allow our customers to flexibly configure and re-purpose the systems to meet specific needs. Our Black Diamond products in conjunction with our ExtremeXOS operating system and our centralized management software product provide the density, performance and reliability required to serve in environments with demanding applications. During the last year we announced the industry's highest capacity 100G interfaces for the BlackDiamond BDX. Our S-Series and K-Series switching deliver flow-based architecture via our CoreFlow2 technology that enable granular visibility and policy control without impacting performance or user experience. These products scale up to 576 ports with Quad Small Form-factor Pluggable, 10GBase-T and SFP+ connectivity options, with built-in hardware support for 10/100/1000, 1GE, 10GE, 40GE, emerging protocols (IPv6) and large-scale deployment protocols (MPLS).

Stackable Ethernet switching systems. Our Summit® product family delivers Ethernet connectivity for the network edge, aggregation and core. Within the Summit family are products that offer a range of connection speeds (from 100 Megabit to 40 Gigabit), various physical presentations (copper and fiber) and options to deliver PoE or unpowered standard Ethernet ports. As with the our Black Diamond products, the Summit products in conjunction with our ExtremeXOS operating system provide the features, performance and reliability required by our customers to deploy, operate and manage converged networking infrastructures. We have recently announced the Summit X430, which we believe is the most cost-effective enterprise-grade switching platform in the industry.

High density WiFi. In addition to our wired Ethernet switch portfolio, we offer our IdentiFi™ family of wireless access points, centralized management and appliance to enable the deployment of wired-like performance, at scale for high-density in every environment. Our wireless Access Point products offer both indoor and outdoor 802.11a/b/g/n/ac access points. Proven in the most demanding environments, IdentiFi delivers an exceptional experience for BYOD/Mobile users wherever they may roam. During the last year we announced multiple high-density venue deployments including multiple NFL stadiums including the Philadelphia Eagles Lincoln Financial Field, New England Patriots Gillette Stadium and Tennessee Titans LP Field.

Centralized management software. To provide a central network-wide visibility and control capability we offer our NetSight management software system. This system provides the ability to manage and automate the entire network through a single interface. This means deploy, configure, monitor and support the complete range of WiFi and switching infrastructure and also set network-wide policy to enable our customers to reduce the overall cost of network administration and operations, protect corporate resources and provide consistent high quality user experience.

NAC and BYOD management. Extreme Networks' NAC and MobileIAM products provide a complete standards-based, multi-vendor interoperable pre-connect and post-connect Network Access Control solution for wired and wireless LAN and VPN users. Automated BYOD registration allowing users to register their own devices using their credentials with no IT intervention. Guest registration access control features to assure secure guest networking

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without burdening IT staff. Also allows easy integration with other third party network management tools for Mobile Device Management integration, threat response (Next Generation Firewall (NGFW), Security Information and Event Management (SIEM), Intrusion Prevention System (IPS) and more.

**Application Analytics.** We recently announced Purview, a network-powered application analytics and optimization solution that captures network data, aggregates, analyzes, correlates, and reports on it to enable better decision making and improved business performance. Purview allows IT operations to optimize the network for each and every application, enhance security for those applications and provide data for business analytics. This empowers IT to turn the network into a strategic business asset that can now provide value to other lines of business, and it enables business innovation powered by the network infrastructure. As an example, Extreme was selected as the Official Wifi Analytics Provider for the NFL including Super Bowl XLVIII.

**SDN.** We recently announced our Open, Standards-Based and Comprehensive SDN solution. Extreme Networks' SDN platform is based on a comprehensive, hardened OpenDaylight (ODL) controller and includes: network management, network access control, application analytics and wireless controller technology. Extreme Networks' SDN platform drives innovation and investment protection through backward compatibility, efficiency through comprehensive Application Programming Interfaces ("APIs") and protocol support of OpenStack, OpenFlow and other protocols.

### **Sales, Marketing and Distribution**

We conduct our sales and marketing activities on a worldwide basis through a distribution channel utilizing distributors, resellers and our field sales organization. We primarily sell our products through an ecosystem of channel partners who combine our Ethernet, wireless and software analytics products with their offerings to create compelling information technology solutions for end-user customers. We utilize our field sales organization to support our channel partners and to sell direct to end-user customers, including some large global accounts.

**Alliance, Original Equipment Manufacturers ("OEM") and Strategic Relationships.** We have active Alliance, OEM & Strategic relationships with Barco NV, Ericsson Enterprise AB, SGI, Lenovo, PC HK Ltd., Motorola Inc., Nokia Siemens Networks, and Aviat Networks, Inc. as well as other global industry technology leaders in which our products are qualified to be included into an overall solution or reference architectures. These tested and validated solutions are then marketed and sold by the Alliance, OEM or Strategic partner into their specific verticals, market segments and customers as turnkey offerings.

**Distributors.** We have established several key relationships with leading distributors in the electronics and computer networking industries. Each of our distributors primarily resells our products to resellers. The distributors enhance our ability to sell and provide support to resellers, who may benefit from the broad service and product fulfillment capabilities offered by these distributors. Distributor, Westcon Group, Inc., accounted for 11%, 16%, and 19% of our net revenue in fiscal years 2014, 2013 and 2012, respectively. Distributor, Tech Data Corporation, accounted for 11% and 10% of our net revenue in fiscal years 2014 and 2013, respectively. Distributors are generally given the right to return a portion of inventory to us for the purpose of stock rotation, to claim rebates for competitive discounts and participate in various cooperative marketing programs to promote the sale of our products and services. We defer recognition of revenue on all sales to distributors who maintain inventory of our products until the distributors sell the product, as evidenced by monthly "sales-out" reports that the distributors provide to us, provided other revenue recognition criteria are met. (See "Revenue Recognition" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.)

**Resellers.** We rely on many resellers worldwide that sell directly to end-user customer. Our resellers include regional networking system resellers, resellers who focus on specific vertical markets, value added resellers, network integrators and wholesale resellers. We provide training and support to our resellers and our resellers generally provide the first level of contact to end-users of our products. Our relationships with resellers are on a non-exclusive basis. Our resellers are not given rights to return inventory and do not automatically participate in any cooperative marketing programs. We generally recognize product revenue from our reseller and end-user customers at the time of shipment, provided other revenue recognition criteria are met. When significant obligations or contingencies remain after products are delivered, such as installation or customer acceptance, revenue and related costs are deferred until

such obligations or contingencies are satisfied. (See “Revenue Recognition” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.)

Field Sales. We have trained our field sales organization to support and develop leads for our resellers and to establish and maintain key accounts and strategic end-user customers. To support these objectives, our field sales force:

- assists end-user customers in finding solutions to complex network system and architecture problems;
- differentiates the features and capabilities of our products from competitive offerings;



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continually monitors and understands the evolving networking needs of enterprise and service provider customers; promotes our products and ensures direct contact with current and potential customers; and assists our resellers to drive to closure business opportunities.

As of June 30, 2014, our worldwide sales and marketing organization consisted of approximately 540 employees, including vice presidents, directors, managers, sales representatives, and technical and administrative support personnel. We have domestic sales offices located in 5 states and international sales offices located in 29 countries. Customers with 10% of net revenue or greater

The following table sets forth major customers accounting for 10% or more of our net revenue:

	Fiscal Year Ended			
	June 30, 2014	June 30, 2013	June 30, 2012	
Tech Data Corporation	11	% 10	% *	
Westcon Group Inc.	11	% 16	% 19	%
Scansource, Inc.	*	12	% 13	%
Ericsson AB	*	*	12	%

\* Less than 10% of revenue

**International sales**

International sales are an important portion of our business. In fiscal 2014, sales to customers outside of the United States accounted for 59% of our consolidated net revenue, compared to 66% in fiscal 2013 and 67% in fiscal 2012. These sales are conducted primarily through foreign-based distributors and resellers managed by our worldwide sales organization. In addition, we have direct sales to end-user customers, including large global accounts. The primary markets for sales outside of the United States are countries in Europe and Asia, as well as Canada, Mexico, Central America and South America. (See "Net Revenue" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.)

**Marketing**

We continue to develop and execute on a number of marketing programs to support the sale and distribution of our products by communicating the value of our solutions to our existing and potential customers, our distribution channels, our resellers and our technology alliance partners. Our marketing efforts include participation in industry tradeshows, conferences and seminars, publication of technical and educational articles in industry journals, communication across social media channels, frequent updates to our publicly available website, promotions, web-based training courses, advertising and public relations. We also submit our products for independent product testing and evaluation.

**Backlog**

Our products are often sold on the basis of standard purchase orders that are cancelable prior to shipment without significant penalties. In addition, purchase orders are subject to changes in quantities of products and delivery schedules in order to reflect changes in customer requirements and manufacturing capacity. Our business is characterized by seasonal variability in demand and short lead-time orders and delivery schedules. Actual shipments depend on the then-current capacity of our contract manufacturers and the availability of materials and components from our vendors. Although we believe that the orders included in the backlog are firm, all orders are subject to possible rescheduling by customers, cancellations by customers which we may elect to allow without penalty to customer, and further pricing adjustments on orders from distributors. Therefore, we do not believe that our backlog, as of any particular date is necessarily indicative of actual revenue for any future period.

Our product backlog at June 30, 2014, net of anticipated back end rebates for distributor sales, was approximately \$10.7 million, compared with product backlog of approximately \$16.4 million at June 30, 2013.

**Seasonality**

Like many of our competitors, we historically have experienced seasonal fluctuations in customer spending patterns, which generally adversely affect our first and third fiscal quarters. This pattern should not be relied upon or be

considered indicative of our future performance, however, as it has varied in the past.

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### Customer Service and Support

Our customers seek high reliability and maximum uptime for their networks. To that extent, we provide the following service offerings:

Support services for end-users, resellers and distributors. We meet the service requirements of our customers and channel partners through our Technical Assistance Centers, or TACs, located in Research Triangle Park ("RTP"), North Carolina; Salem, New Hampshire and Chennai, India. Our TAC engineers and technicians assist in diagnosing and troubleshooting technical issues regarding customer networks. Development engineers work with the TACs to resolve product functionality issues specific to each customer.

Professional services. We provide consultative services to improve customer productivity in all phases of the network lifecycle – planning, design, implementation, operations and optimization management. Our network architects develop and execute customized hardware deployment plans to meet individualized network strategies. These activities may include the management and coordination of the design and network configuration, resource planning, staging, logistics, migration and deployment. We also provide customized training and operational best practices manuals to assist customers in the transition and sustenance of their networks.

Education. We offer classes covering a wide range of topics such as installation, configuration, operation, management and optimization – providing customers with the necessary knowledge and experience to successfully deploy and manage our products in various networking environments. Classes may be scheduled and available at numerous locations worldwide. We deliver training using our staff, on-line training classes and authorized training partners. In addition, we make much of our training materials accessible free-of-charge on our internet site for customers and partners to use in self-education. We believe this approach enhances the market's ability to learn and understand the broad array of advantages of our products.

### Long-Lived Assets

See Note 3 of our Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for more information regarding our long-lived assets.

### Manufacturing

We outsource the majority of our manufacturing and supply chain management operations as part of our strategy to maintain global manufacturing capabilities and to reduce our costs. We conduct quality assurance, manufacturing engineering, document control and test development at engineering facilities in San Jose, California, RTP, North Carolina, Salem, New Hampshire, Toronto, Canada and Chennai, India. This approach enables us to reduce fixed costs and to flexibly respond to changes in market demand. Our end-to-end supply chain, including our three engineering facilities at San Jose, RTP and Chennai are all ISO 9001 certified.

We use Alpha Networks, Inc. headquartered in Hsinchu, Taiwan to design and manufacture our Summit, A-Series, B-Series, C-Series, Stackable products, G-Series, D-Series, I-Series and 800-Series Standalone products and Black Diamond Chassis products. Alpha Networks is a global networking Original/Joint Design Manufacturer ("ODM/JDM") leader with core competencies in areas such as Ethernet, LAN/MAN, Wireless, Broadband and VoIP. Alpha Networks manufacturing processes and procedures are ISO 9001 certified.

We use Benchmark Electronics, Inc. headquartered in Huntsville, Alabama and Flextronics Int'l headquartered in Singapore, to manufacture our S-Series and K-Series Chassis products; 7100-Series Stackable products and SSA Standalone products. Benchmark and Flextronics have a significant investment in capital to ensure they have the latest in manufacturing and test technologies and both companies are ISO 9001 certified.

Our wireless Access Point products are supplied by Senao Electronics, headquartered in Taipei, Taiwan. Senao's manufacturing processes and procedures are ISO 9001 certified.

Additional Altitude wireless products are supplied under an OEM supply agreement with Symbol Technologies, Inc., a subsidiary of Motorola, Inc. Motorola rebrands and customizes the wireless products for us to resell to customers. Motorola's manufacturing processes and procedures are ISO 9001 certified. Motorola has made ongoing supply and support commitments during the term of the agreement and is required to provide support for a defined period of time after any termination of the agreement.

All of our manufacturers utilize automated testing equipment to perform product testing and burn-in with specified tests. Together we rely upon comprehensive inspection testing and statistical process controls to assure the quality and

reliability of our products.

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We use a collaborative sales and operations planning forecast of expected demand to determine our material requirements. Lead times for materials and components vary significantly, and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. We order most of our materials and components on an indirect basis through our ODM/JDM, OEMs and CMs. Purchase commitments with our manufacturers ODM/JDM CMs and OEMs are generally on a purchase order basis.

### Research and Development

The success of our products to date is due in large part to our focus on research and development. We believe that continued success in the marketplace will depend on our ability to develop new and enhanced products employing leading-edge technology. Accordingly, we are undertaking development efforts with an emphasis on increasing the reliability, performance and features of our family of products, and designing innovative products to reduce the overall network operating costs of customers.

Our product development activities focus on solving the needs of enterprises, data centers, and service providers. Current activities include the continuing development of our innovative switching technology aimed at extending the capabilities of our products. Our ongoing research activities cover a broad range of areas, including, in particular, 40G and 100G Ethernet, routing, timing and resiliency protocols, open standards interfaces, software defined networks, network security, identity management, data center fabrics, and wireless networking.

We continue to enhance the functionality of our ExtremeXOS modular operating system which has been designed to provide high reliability and availability. This allows us to leverage a common operating system across different hardware and network chipsets.

As of June 30, 2014, our research and development organization consisted of 516 employees. Research and development efforts are conducted in several locations, including San Jose, California; RTP, North Carolina; Salem, New Hampshire, Toronto, Canada and Chennai, India. Our research and development expenses in fiscal years 2014, 2013 and 2012 were \$77.1 million, \$40.5 million and \$45.6 million, respectively.

### Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. As of June 30, 2014, we have 379 issued patents in the United States and 172 patents outside of the United States. The expiration dates of our issued patents in the United States range from 2014 to approximately 2032. Although we have patent applications pending, there can be no assurance that patents will be issued from pending applications or that claims allowed on any future patents will be sufficiently broad to protect our technology. With respect to trademarks, we have a number of pending and registered trademarks in the United States and abroad.

We enter into confidentiality, inventions assignment or license agreements with our employees, consultants and other third parties with whom we do business, and control access to, and distribution of, our software, documentation and other proprietary information. In addition, we provide our software products to end-user customers primarily under "shrink-wrap" or "click-through" license agreements. These agreements are not negotiated with or signed by the licensee, and thus these agreements may not be enforceable in some jurisdictions. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

### Competition

The market for network switches, routers and software (including analytics) which is part of the broader market for networking equipment is extremely competitive and characterized by rapid technological progress, frequent new product introductions, changes in customer requirements and evolving industry standards. We believe the principal competitive factors in this market are:

- expertise and familiarity with network protocols, network switching/routing/wireless and network management;
- expertise and familiarity with application analytics software;
- expertise with network operations and management software;
- product performance, features, functionality and reliability;
- price/performance characteristics;
- timeliness of new product introductions;

• adoption of emerging industry standards;

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customer service and support;  
size and scope of distribution network;  
brand name;  
breadth of product offering;  
access to customers; and  
size of installed customer base.

We believe that we compete with our competitors with respect to many of the foregoing factors. However, the market for network switching solutions is dominated by a few large companies, particularly Brocade Communications Systems, Inc., Cisco Systems, Inc., Dell, Hewlett-Packard Company, Huawei Technologies Co. Ltd., and Juniper Networks Inc. Most of these competitors have longer operating histories, greater name recognition, larger customer bases, broader product lines and substantially greater financial, technical, sales, marketing and other resources.

### Environmental Matters

We are subject to various environmental and other regulations governing product safety, materials usage, packaging and other environmental impacts in the United States and in various countries where our products are manufactured and sold. We are also subject to regulatory developments, including recent SEC disclosure regulations relating to so-called "conflict minerals," relating to ethically responsible sourcing of the components and materials used in our products. To date, compliance with federal, state, local, and foreign laws enacted for the protection of the environment has had no material effect on our capital expenditures, earnings, or competitive position.

We are committed to energy efficiency in our product lines. Accordingly, we believe this is an area that affords us a competitive advantage for our products in the marketplace. We maintain compliance with various regulations related to the environment, including the Waste Electrical and Electronic Equipment and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment regulations adopted by the European Union. To date, our compliance efforts with various U.S. and foreign regulations related to the environment has not had a material effect on our operating results.

### Employees

As of June 30, 2014, we employed 1,563 people, including 540 in sales and marketing, 516 in research and development, 218 in operations, 178 in customer support and service, and 111 in finance and administration. We have never had a work stoppage and no U.S. employees are represented under collective bargaining agreements. We consider our employee relations to be good.

We believe that our future success depends on our continued ability to attract, integrate, retain, train and motivate highly qualified employees, and upon the continued service of our senior management and key employees. None of our executive officers or key employees is bound by an employment agreement which mandates that the employee render services for any specific term. The market for qualified personnel is highly competitive.

### Organization

We were incorporated in California in May 1996 and reincorporated in Delaware in March 1999. Our corporate headquarters are located at 145 Rio Robles, San Jose, CA 95134 and our telephone number is (408) 579-2800. We electronically file our SEC disclosure reports with the Securities Exchange Commission and they are available free of charge at both [www.sec.gov](http://www.sec.gov) and [www.extremenetworks.com](http://www.extremenetworks.com). The public may also read or copy any materials we file with the Securities Exchange Commission at the Securities Exchange Commission's Public Reference Room at Station Place, 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities Exchange Commission at 1-800-SEC-0330.

Our corporate governance guidelines, the charters of our audit committee, our compensation committee, our nominating and corporate governance committee and our strategy committee and our code of conduct policy (including code of ethics provisions that apply to our principal executive officer, principal financial officer, controller and senior financial officers) are available on our website at [www.extremenetworks.com](http://www.extremenetworks.com) under "Corporate Governance." These items are also available to any stockholder who requests them by calling (408) 579-2800.

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## Executive Officers of the Registrant

The following table sets forth information regarding our executive officers as of September 15, 2014:

Name	Age	Position
Charles W. Berger	60	President and Chief Executive Officer
Kenneth Arola	58	Senior Vice President and Chief Financial Officer
Edward Carney	60	Executive Vice President, Products and Customer Success
Frank E. Blohm	55	Executive Vice President of Operations and IT
Allison Amadia	47	Vice President, General Counsel, and Corporate Secretary

Charles W. Berger. Mr. Berger has served as our President and Chief Executive Officer since April 2013. Prior to Extreme Networks, Mr. Berger served as President and Chief Executive Officer and as Chairman of ParAccel, Inc. from August 2010 until its sale to Actian Corporation in April 2013. From June 2010 through August 2010, Mr. Berger served as the Interim Chief Executive Officer of Official Payments Holdings, Inc. (NASDAQ: OPAY), for which he has served as a director since 2002. From April 2006 through December 2009, Mr. Berger served as Chief Executive Officer, and from December 2001, the Chairman of the board of directors, of DVDPlay, Inc. prior to its acquisition by NCR Corporation. From March 2003 through September 2005, when it merged with Scansoft, Inc., Mr. Berger served as President, Chief Executive Officer, and as a director of Nuance Communications, Inc. Mr. Berger also serves on the board of directors and as trustee for the United States Naval Memorial and is a trustee and member of the investment committee for Bucknell University. Mr. Berger received his B.S. in Business Administration from Bucknell University and his M.B.A., cum laude, from Santa Clara University.

Kenneth Arola. Mr. Arola has served as our Senior Vice President, Chief Financial Officer, since June 2014. Prior to Extreme Networks, from 2005 to 2013, Mr. Arola served as Vice President, Finance and Chief Financial Officer of Align Technology. Prior to Align Technology, Mr. Arola spent 14 years as Vice President Finance, Corporate Controller at Adaptec. Mr. Arola holds a M.B.A. from Santa Clara University and a B.A. from the University of the Pacific.

Edward Carney. Mr. Carney has served as our Executive Vice President, Products and Customer Success since July 2013. Prior to Extreme Networks, Mr. Carney spent 15 years in general management at Cisco Systems, including as Vice President of Cisco's Networked Solutions Integration Test Engineering (NSITE) laboratory and was the senior executive for its RTP site. Prior to Cisco, Mr. Carney spent 15 years at IBM where he directed engineering for the IBM Global Network. Mr. Carney serves on the board of directors and is past chairman for the Food Bank of Central and Eastern North Carolina. Mr. Carney holds a B.S. in General Engineering from the United States Military Academy at West Point, NY.

Frank E. Blohm. Mr. Blohm has served as our Executive Vice President of Operations since October 2002. Prior to Extreme Networks, Mr. Blohm was Vice President of Operations at Sanmina-SCI, where he was responsible for the custom integration division. Mr. Blohm brings more than 20 years of experience in supply chain and operations for high-technology companies.

Allison Amadia. Ms. Amadia has served as our Vice President, General Counsel and Secretary since July 2013. Prior to Extreme Networks, from 2002 until 2013, Ms. Amadia represented numerous public and private technology companies as an independent legal consultant. In addition, from 1995 through 2002, Ms. Amadia held executive and director legal positions while with Voxeo Corporation, Crystal Decisions (formerly Seagate Software), VeriFone Inc. (a wholly owned subsidiary of HP), and Novell Inc. Prior to that, Ms. Amadia represented Silicon Valley companies as business counsel with Morrison & Foerster from 1993 until 1995. Ms. Amadia received a JD from the University of Pennsylvania, where she graduated cum laude. Ms. Amadia received her B.A. in Political Science from the University of California at Davis. She also completed elective courses in Corporate Finance and Management at the Wharton School of Business.

## Item 1A. Risk Factors

The following is a list of risks and uncertainties which may have a material and adverse effect on our business, financial condition or results of operations. The risks and uncertainties set out below are not the only risks and



uncertainties we face, and some are endemic to the networking industry.

We cannot assure you that we will be profitable in the future because a number of factors could negatively affect our financial results.

We have a limited history of profitability and have reported losses in some of our prior fiscal years. In addition, in years when we reported profits, we were not profitable in each quarter during those years. We anticipate continuing to incur significant

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sales and marketing, product development and general and administrative expenses. Any delay in generating or recognizing revenue could result in a loss for a quarter or full year. Even if we are profitable, our operating results may fall below our expectations and those of our investors, which could cause the price of our stock to fall.

We may experience challenges or delays in generating or recognizing revenue for a number of reasons and our revenue and operating results have varied significantly in the past and may vary significantly in the future due to a number of factors, including, but not limited to, the following:

- we are dependent upon obtaining orders during a quarter and shipping those orders in the same quarter to achieve our revenue objectives;

- decreases in the prices of the products that we sell;

- the mix of products sold and the mix of distribution channels through which products are sold;

- acceptance provisions in customer contracts;

- our ability to deliver installation or inspection services by the end of the quarter;

- changes in general and/or specific economic conditions in the networking industry;

- seasonal fluctuations in demand for our products and services;

- a disproportionate percentage of our sales occurring in the last month of the quarter;

- our ability to ship products by the end of a quarter;

- reduced visibility into the implementation cycles for our products and our customers' spending plans;

- our ability to forecast demand for our products, which in the case of lower-than-expected sales, may result in excess or obsolete inventory in addition to non-cancelable purchase commitments for component parts;

- sales to the telecommunications service provider market, which represent a significant source of large product orders, are especially volatile and difficult to forecast;

- product returns or the cancellation or rescheduling of orders;

- announcements and new product introductions by our competitors;

- our ability to develop and support relationships with enterprise customers, service providers and other potential large customers;

- our ability to achieve targeted cost reductions;

- fluctuations in warranty or other service expenses actually incurred;

- our ability to obtain sufficient supplies of sole- or limited-source components for our products on a timely basis;

- increases in the price of the components that we purchase.

Due to the foregoing factors, period-to-period comparisons of our operating results should not be relied upon as an indicator of our future performance.

We may fail to realize the anticipated benefits of the acquisition of Enterasys.

The success of the acquisition of Enterasys Networks Inc., which we acquired on October 31, 2013, will depend on, among other things, our ability to combine the businesses of Extreme and Enterasys in a manner that does not materially disrupt existing relationships and that allows us to achieve anticipated operational synergies. We have faced and will continue to face significant challenges in combining the two operations into one in a timely and efficient manner. The failure to integrate successfully and to manage successfully the challenges presented by the integration process may result in us not achieving the anticipated benefits of the acquisition.

We have made certain assumptions relating to the acquisition in our forecasts but the actual results could differ materially.

We have made certain assumptions relating to the forecast level of cost savings, synergies and associated costs of the acquisition of Enterasys. Our assumptions relating to the forecast level of cost savings, synergies and associated costs of the acquisition may be inaccurate based on the information available to us, including as the result of the failure to realize the expected benefits of the acquisition, higher than expected transaction and integration costs, including our ability to service new debt, as well as general economic and business conditions that may adversely affect the combined company following the completion of the acquisition.

The combination of our business with the Enterasys' business will continue to require significant management attention, and we expect to incur significant additional costs due to integration.

The combined company requires us to devote significant management attention and other resources to integrating the two businesses. We may not successfully complete the integration of our operations in a timely manner and may experience disruptions in relationships with customers, suppliers and employees as a result.

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Through June 30, 2014, we have incurred transaction and integration costs in connection with the Enterasys acquisition of approximately \$25.7 million. We expect to incur additional costs integrating the companies' operations, product offerings, and personnel, which cannot be estimated accurately at this time. Although we expect that the realization of efficiencies related to the integration of the business will offset incremental transaction, integration and restructuring costs over time, we cannot give any assurance that this net benefit will be achieved. If the total costs of the integration exceed the anticipated benefits of the acquisition, our results of operations could be adversely affected. We expect the average selling prices of our products to decrease, which may reduce gross margin and/or revenue. The network equipment industry has traditionally experienced an erosion of average selling prices due to a number of factors, including competitive pricing pressures, promotional pricing and technological progress. We anticipate that the average selling prices of our products will decrease in the future in response to competitive pricing pressures, excess inventories, increased sales discounts and new product introductions by us or our competitors. We may experience decreases in future operating results due to the erosion of our average selling prices. To maintain our gross margin, we must develop and introduce on a timely basis new products and product enhancements and continually reduce our product costs. Our failure to do so would likely cause our revenue and gross margin to decline. We may engage in future acquisitions that dilute the ownership interests of our stockholders, cause us to incur debt or assume contingent liabilities.

As part of our business strategy, we review acquisition and strategic investment prospects that we believe would complement our current product offerings, augment our market coverage or enhance our technical capabilities, or otherwise offer growth opportunities. In the event of any future acquisitions, we could:

- issue equity securities which would dilute current stockholders' percentage ownership;
- incur substantial debt;
- assume contingent liabilities; or
- expend significant cash.

These actions could have a material adverse effect on our operating results or the price of our common stock.

Moreover, even if we do obtain benefits in the form of increased sales and earnings, these benefits may be recognized much later than the time when the expenses associated with an acquisition are incurred. This is particularly relevant in cases where it would be necessary to integrate new types of technology into our existing portfolio and new types of products may be targeted for potential customers with which we do not have pre-existing relationships. Acquisitions and investment activities also entail numerous risks, including:

- difficulties in the assimilation of acquired operations, technologies and/or products;
- unanticipated costs associated with the acquisition or investment transaction;
- the diversion of management's attention from other business concerns;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience;
- the potential loss of key employees of acquired organizations; and
- substantial charges for the amortization of certain purchased intangible assets, deferred stock compensation or similar items.

We may not be able to successfully integrate any businesses, products, technologies, or personnel that we might acquire in the future, and our failure to do so could have a material adverse effect on our business, operating results and financial condition.

Our credit facilities impose financial and operating restrictions on us.

Our debt instruments impose, and the terms of any future debt may impose, operating and other restrictions on us. These restrictions could affect, and in many respects limit or prohibit, among other items, our ability to:

- incur additional indebtedness;
- create liens;
- make investments;
- enter into transactions with affiliates;

- sell assets;
- guarantee indebtedness;
- declare or pay dividends or other distributions to stockholders;
- repurchase equity interests;
- change the nature of our business;
- enter into swap agreements;

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issue or sell capital stock of certain of our subsidiaries; and  
consolidate, merge, or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis.

The agreements governing our credit facilities also require us to achieve and maintain compliance with specified financial ratios.

A breach of any of these restrictive covenants or the inability to comply with the required financial ratios could result in a default under our debt instruments. If any such default occurs, the lenders under our credit agreement may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. The lenders under our credit agreement also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we are unable to repay outstanding borrowings when due, the lenders under our credit agreement will have the right to proceed against the collateral granted to them to secure the debt. If the debt under our credit agreement were to be accelerated, we cannot give assurance that this collateral would be sufficient to repay our debt.

If we fail to meet our payment or other obligations under our credit agreement, the lenders under such credit agreement could foreclose on, and acquire control of, substantially all of our assets.

Our credit agreement is jointly and severally guaranteed by us and certain of our subsidiaries. Borrowings under our credit facilities are secured by liens on substantially all our assets, including the capital stock of certain of our subsidiaries, and the assets of our subsidiaries that are loan party guarantors. If we are unable to repay outstanding borrowings when due, the lenders under our credit agreement will have the right to proceed against this pledged capital stock and take control of substantially all of our assets.

We purchase several key components for products from single or limited sources and could lose sales if these suppliers fail to meet our needs.

We currently purchase several key components used in the manufacture of our products from single or limited sources and are dependent upon supply from these sources to meet our needs. Certain components such as tantalum capacitors, SRAM, DRAM, and printed circuit boards, have been in the past, and may in the future be, in short supply. We have encountered, and are likely in the future to encounter, shortages and delays in obtaining these or other components, and this could have a material adverse effect on our ability to meet customer orders. Our principal sole-source components include:

- ASICs;
- Merchant silicon;
- microprocessors;
- programmable integrated circuits;
- selected other integrated circuits;
- custom power supplies; and
- custom-tooled sheet metal.

Our principal limited-source components include:

- flash memory;
- DRAMs and SRAMs;
- printed circuit boards; and
- CAMs
- Connectors
- Timing circuits (crystals & clocks).

We use our forecast of expected demand to determine our material requirements. Lead times for materials and components we order vary significantly, and depend on factors such as the specific supplier, contract terms and

demand for a component at a given time. If forecasts exceed orders, we may have excess and/or obsolete inventory, which could have a material adverse effect on our operating results and financial condition. If orders exceed forecasts, we may have inadequate supplies of certain materials and components, which could have a material adverse effect on our ability to meet customer delivery requirements and to recognize revenue.

Generally, we do not have agreements fixing long-term prices or minimum volume requirements from suppliers. From time to time we have experienced shortages and allocations of certain components, resulting in delays in filling orders. Qualifying new suppliers to compensate for such shortages may be time-consuming and costly, and may increase the likelihood of errors in design or production. In addition, during the development of our products, we have experienced delays in the prototyping of our chipsets,

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which in turn has led to delays in product introductions. Similar delays may occur in the future. Furthermore, the performance of the components as incorporated in our products may not meet the quality requirements of our customers.

Intense competition in the market for networking equipment could prevent us from increasing revenue and maintaining profitability.

The market for network switching solutions is intensely competitive and dominated primarily by Brocade Communications Systems, Inc., Cisco Systems Inc., Dell, Hewlett-Packard Company, Huawei Technologies Co. Ltd., and Juniper Networks, Inc. Most of our competitors have longer operating histories, greater name recognition, larger customer bases, broader product lines and substantially greater financial, technical, sales, marketing and other resources. As a result, these competitors are able to devote greater resources to the development, promotion, sale and support of their products. In addition, they have larger distribution channels, stronger brand names, access to more customers, a larger installed customer base and a greater ability to make attractive offers to channel partners and customers than we do. For example, we have encountered, and expect to continue to encounter, many potential customers who are confident in and committed to the product offerings of our principal competitors. Accordingly, these potential customers may not consider or evaluate our products. When such potential customers have considered or evaluated our products, we have in the past lost, and expect in the future to lose, sales to some of these customers as large competitors have offered significant price discounts to secure these sales.

The pricing policies of our competitors impact the overall demand for our products and services. Some of our competitors are capable of operating at significant losses for extended periods of time, increasing pricing pressure on our products and services. If we do not maintain competitive pricing, the demand for our products and services, as well as our market share, may decline. From time to time, we may lower the prices of our products and services in response to competitive pressure. When this happens, if we are unable to reduce our component costs or improve operating efficiencies, our revenue and margins will be adversely affected.

We may not fully realize the anticipated positive impacts to future financial results from our restructuring efforts. We have undertaken restructuring efforts in the past to streamline operations and reduce operating expenses. Our ability to achieve the anticipated cost savings and other benefits from our restructuring efforts within expected time frames is subject to many estimates and assumptions, and may vary materially based on factors such as market conditions and the effect of our restructuring efforts on our work force. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. There can be no assurance that we will fully realize the anticipated positive impacts to future financial results from our current or future restructuring efforts. If our estimates and assumptions are incorrect or if other unforeseen events occur, we may not achieve the cost savings expected from such restructurings, and our business and results of operations could be adversely affected.

Industry consolidation may lead to stronger competition and may harm our operating results.

There has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. For example, some of our current and potential competitors for enterprise data center business have made acquisitions, or announced new strategic alliances, designed to position them with the ability to provide end-to-end technology solutions for the enterprise data center. Companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. This could lead to more variability in our operating results and could have a material adverse effect on our business, operating results, and financial condition.

Furthermore, particularly in the service provider market, rapid consolidation will lead to fewer customers, with the effect that loss of a major customer could have a material impact on results not anticipated in a customer marketplace composed of more numerous participants.

Our dependence on an OEM for a portion of our wireless products could harm our operating results.

We historically relied exclusively on Motorola for our wireless product offering. With the integration of Extreme Networks with Enterasys Networks, we have two lines of wireless products. We have issued our last purchase order



for manufacturing for the line of wireless products manufactured by Motorola. However, we will continue to rely on Motorola for several years for hardware and software support for projected new sales and our existing customer base. Should Motorola cease to timely or effectively honor these supply and support obligations, it may create financial liabilities for us that could have a material adverse effect on our business and operating results.

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We intend to invest in engineering, sales, service, marketing and manufacturing on a long term basis, and delays or inability to attain the expected benefits may result in unfavorable operating results.

While we intend to focus on managing our costs and expenses, over the long term, we also intend to invest in personnel and other resources related to our engineering, sales, service, marketing and manufacturing functions as we focus on our foundational priorities, such as leadership in our core products and solutions and architectures for business transformation. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits and the return on these investments may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected.

Our success is dependent on our ability to continually introduce new products and features that achieve broad market acceptance.

The network equipment market is characterized by rapid technological progress, frequent new product introductions, changes in customer requirements and evolving industry standards. If we do not regularly introduce new products in this dynamic environment, our product lines will become obsolete. These new products must be compatible and inter-operate with products and architectures offered by other vendors. We have and may in the future experience delays in product development and releases, and such delays have and could in the future adversely affect our ability to compete and our operating results.

When we announce new products or product enhancements or end of sale existing products that have the potential to replace or shorten the life cycle of our existing products, customers may defer or cancel orders for our existing products. These actions could have a material adverse effect on our operating results by unexpectedly decreasing sales, increasing inventory levels of older products and exposing us to greater risk of product obsolescence.

Even if we introduce new switching products, alternative technologies could achieve widespread market acceptance and displace the Ethernet technology on which we have based our product architecture. For example, developments in routers and routing software could significantly reduce demand for our products. As a result, we may not be able to achieve widespread market acceptance of our current or future products.

If we do not successfully anticipate technological shifts, market needs and opportunities, and develop products and product enhancements that meet those technological shifts, needs and opportunities, or if those products are not made available in a timely manner or do not gain market acceptance, we may not be able to compete effectively and our ability to generate revenues will suffer.

We cannot guarantee that we will be able to anticipate future technological shifts, market needs and opportunities or be able to develop new products or product enhancements to meet such technological shifts, needs or opportunities in a timely manner or at all. For example, the move from traditional network infrastructures towards SDN has been receiving considerable attention. In our view, it will take several years to see the full impact of SDN, and we believe the successful products and solutions in this market will combine hardware and software elements together. If we fail to anticipate market requirements or fail to develop and introduce new products or product enhancements to meet those needs in a timely manner, it could cause us to lose customers, and such failure could substantially decrease or delay market acceptance and sales of our present and future products, which would significantly harm our business, financial condition, and results of operations. Even if we are able to anticipate, develop, and commercially introduce new products and enhancements, there can be no assurance that new products or enhancements will achieve widespread market acceptance.

The global economic environment has and may continue to negatively impact our business and operating results. The challenges and uncertainty currently affecting global economic conditions may negatively impact our business and operating results in the following ways:

- customers may delay or cancel plans to purchase our products and services;
- customers may not be able to pay, or may delay payment of, the amounts that they owe us which may adversely affect our cash flow, the timing of our revenue recognition and the amount of revenue;
- increased pricing pressure may result from our competitors aggressively discounting their products;

• accurate budgeting and planning will be difficult due to low visibility into future sales;  
• forecasting customer demand will be more difficult, increasing the risk of either excess and obsolete inventory if our  
• forecast is too high or insufficient inventory to meet customer demand if our forecast is too low; and  
• our component suppliers and contract manufacturers have been negatively affected by the economy which may result  
• in product delays and changes in pricing and service levels.

If global economic conditions do not show continued improvement, we believe that we could experience material adverse impacts to our business and operating results.

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Claims of infringement by others may increase and the resolution of such claims may adversely affect our operating results.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patents, copyrights (including rights to “open source” software), and other intellectual property rights. Because of the existence of a large number of patents in the networking field, the secrecy of some pending patents and the issuance of new patents at a rapid pace, it is not possible to determine in advance if a product or component might infringe the patent rights of others. Because of the potential for courts awarding substantial damages, the lack of predictability of such awards, and the high legal costs associated with the defense of such patent infringement matters that would be expended to prove lack of infringement, it is not uncommon for companies in our industry to settle even potentially unmeritorious claims for very substantial amounts. Further, the entities with whom we have or could have disputes or discussions include entities with extensive patent portfolios and substantial financial assets. These entities are actively engaged in programs to generate substantial revenue from their patent portfolios and are seeking or may seek significant payments or royalties from us and others in our industry.

Litigation resulting from claims that we are infringing the proprietary rights of others has resulted and could in the future result in substantial costs and a diversion of resources, and could have a material adverse effect on our business, financial condition and results of operations. We have received notices from entities alleging that we may be infringing their patents, and we are currently parties to patent litigation as described under Part I, Item 3, Legal Proceedings. Without regard to the merits of these or any other claims, an adverse court order or a settlement could require us, among other actions, to:

- stop selling our products that incorporate the challenged intellectual property;
- obtain a royalty bearing license to sell or use the relevant technology, and that license may not be available on reasonable terms or available at all;
- pay damages; or
- redesign those products that use the disputed technology.

In addition, our products include so-called “open source” software. Open source software is typically licensed for use at no initial charge, but imposes on the user of the open source software certain requirements to license to others both the open source software as well as modifications to the open source software under certain circumstances. Our use of open source software subjects us to certain additional risks for the following reasons:

- open source license terms may be ambiguous and may result in unanticipated obligations regarding the licensing of our products and intellectual property;
- open source software cannot be protected under trade secret law;
- suppliers of open-source software do not provide the warranty, support and liability protections typically provided by vendors who offer proprietary software; and
- it may be difficult for us to accurately determine the developers of the open source code and whether the acquired software infringes third-party intellectual property rights.

We believe that even if we do not infringe the rights of others, we will incur significant expenses in the future due to defense of legal claims, disputes or licensing negotiations, though the amounts cannot be determined. These expenses may be material or otherwise adversely affect our operating results.

Our operating results may be negatively affected by defending or pursuing claims or lawsuits.

We have and may in the future pursue or be subject to claims or lawsuits in the normal course of our business. In addition to the intellectual property lawsuits described above, we are currently parties to other litigation as described in Part I, Item 3. Legal Proceedings. Regardless of the result, litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a lawsuit in which we are a defendant could result in a court order against us or payments to other parties that would have an adverse effect on our business, results of operations, or financial condition. Even if we are successful in prosecuting claims and lawsuits, we may not recover damages sufficient to cover our expenses incurred to manage, investigate and pursue the litigation. In addition, subject to certain limitations, we may be obligated to indemnify our current and former directors, officers and employees in certain lawsuits. We do not maintain adequate insurance coverage to cover all of our litigation costs and liabilities.

If we fail to protect our intellectual property, our business could suffer.

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. However, we cannot ensure that the actions we have taken will adequately protect our intellectual property rights or that other parties will not independently develop similar or competing products that do not infringe on our patents. We generally enter into confidentiality, invention assignment or license agreements with our employees, consultants and other third parties with whom we do business, and control access to and distribution of our intellectual property and other proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise misappropriate or use our products or technology, which would adversely affect our business.

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When our products contain undetected errors, we may incur significant unexpected expenses and could lose sales. Network products frequently contain undetected errors when new products or new versions or updates of existing products are released to the marketplace. In the past, we have experienced such errors in connection with new products and product updates. We have experienced component problems in prior years that caused us to incur higher than expected warranty, service costs and expenses, and other related operating expenses. In the future, we expect that, from time to time, such errors or component failures will be found in new or existing products after the commencement of commercial shipments. These problems may have a material adverse effect on our business by causing us to incur significant warranty, repair and replacement costs, diverting the attention of our engineering personnel from new product development efforts, delaying the recognition of revenue and causing significant customer relations problems. Further, if products are not accepted by customers due to such defects, and such returns exceed the amount we accrued for defective returns based on our historical experience, our operating results would be adversely affected.

Our products must successfully interoperate with products from other vendors. As a result, when problems occur in a network, it may be difficult to identify the sources of these problems. The occurrence of system errors, whether or not caused by our products, could result in the delay or loss of market acceptance of our products and any necessary revisions may cause us to incur significant expenses. The occurrence of any such problems would likely have a material adverse effect on our business, operating results and financial condition.

Our dependence on few manufacturers for our manufacturing requirements could harm our operating results. We primarily rely on our manufacturing partners; Alpha Networks, Inc. headquartered in Hsinchu, Taiwan, Flextronics, Inc. headquartered in Singapore, and select other partners to manufacture our products. We have experienced delays in product shipments from our manufacturing partners in the past, which in turn delayed product shipments to our customers. These or similar problems may arise in the future, such as delivery of products of inferior quality, delivery of insufficient quantity of products, or the interruption or discontinuance of operations of a manufacturer, any of which could have a material adverse effect on our business and operating results. In addition, any natural disaster or business interruption to our manufacturing partners could significantly disrupt our business. While we maintain strong relationships with our manufacturing partners, our agreements with these manufacturers are generally of limited duration and pricing, quality and volume commitments are negotiated on a recurring basis. The failure to maintain continuing agreements with our manufacturing partners could adversely affect our business. We intend to introduce new products and product enhancements, which will require that we rapidly achieve volume production by coordinating our efforts with those of our suppliers and contract manufacturers.

As part of our cost-reduction efforts, we will need to realize lower per unit product costs from our manufacturing partner by means of volume efficiencies and the utilization of manufacturing sites in lower-cost geographies. However, we cannot be certain when or if such price reductions will occur. The failure to obtain such price reductions would adversely affect our operating results.

Regulations related to disclosure requirements regarding conflict minerals may force us to incur additional compliance expenses, may make our supply chain more complex.

On August 22, 2012, as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted new disclosure regulations for public companies that manufacture products that contain certain minerals and their derivatives, namely tin, tantalum, tungsten or gold, known as conflict minerals, if these minerals are necessary to the functionality or production of the company's products. These regulations require issuers to report annually whether or not such minerals originate from the Democratic Republic of Congo ("DRC") and adjoining countries and in some cases to perform extensive due diligence on their supply chains for such minerals. The implementation of these new requirements could adversely affect the sourcing, availability and pricing of conflict minerals used in the manufacture of networking equipment, including our products. In addition, we may incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals used in our products. Since our supply chain is complex, the due diligence procedures that we implement may not enable us to ascertain the origins for these minerals or determine that these minerals are DRC conflict free, which may harm our reputation. We may also face difficulties in satisfying customers who may require that our products be certified as DRC conflict free, which could harm our relationships with these customers and lead

to a loss of revenue. These new requirements also could have the effect of limiting the pool of suppliers from which we source these minerals, and we may be unable to obtain conflict-free minerals at competitive prices, which could increase our costs and adversely affect our manufacturing operations and our profitability.

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We depend upon international sales for a significant portion of our revenue which imposes a number of risks on our business.

International sales constitute a significant portion of our net revenue. Our ability to grow will depend in part on the expansion of international sales. Our international sales primarily depend on the success of our resellers and distributors. The failure of these resellers and distributors to sell our products internationally would limit our ability to sustain and grow our revenue. There are a number of risks arising from our international business, including:

- longer accounts receivable collection cycles;
- difficulties in managing operations across disparate geographic areas;
- difficulties associated with enforcing agreements through foreign legal systems;
- higher credit risks requiring cash in advance or letters of credit;
- difficulties in safeguarding intellectual property;
- political and economic turbulence;
- terrorism, war or other armed conflict;
- natural disasters and epidemics;
- potential adverse tax consequences;
- compliance with regulatory requirements of foreign countries, including compliance with rapidly evolving environmental regulations;
- compliance with U.S. laws and regulations pertaining to the sale and distribution of products to customers in foreign countries, including export controls and the Foreign Corrupt Practices Act; and
- the payment of operating expenses in local currencies, which exposes us to risks of currency fluctuations.

Substantially all of our international sales are U.S. dollar-denominated. Future increases in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. In the future, we may elect to invoice some of our international customers in local currency, which would expose us to fluctuations in exchange rates between the U.S. dollar and the particular local currency. If we do so, we may decide to engage in hedging transactions to minimize the risk of such fluctuations.

We have entered into foreign exchange forward contracts to offset the impact of payment of operating expenses in local currencies to some of our operating foreign subsidiaries. However, if we are not successful in managing these foreign currency transactions, we could incur losses from these activities.

We must continue to develop and increase the productivity of our indirect distribution channels to increase net revenue and improve our operating results.

Our distribution strategy focuses primarily on developing and increasing the productivity of our indirect distribution channels. If we fail to develop and cultivate relationships with significant channel partners, or if these channel partners are not successful in their sales efforts, sales of our products may decrease and our operating results could suffer.

Many of our channel partners also sell products from other vendors that compete with our products. Our channel partners may not continue to market or sell our products effectively or to devote the resources necessary to provide us with effective sales, marketing and technical support. We may not be able to successfully manage our sales channels or enter into additional reseller and/or distribution agreements. Our failure to do any of these could limit our ability to grow or sustain revenue.

Our operating results for any given period have and will continue to depend to a significant extent on large orders from a relatively small number of channel partners and other customers. However, we do not have binding purchase commitments from any of them. A substantial reduction or delay in sales of our products to a significant reseller, distributor or other customer could harm our business, operating results and financial condition because our expense levels are based on our expectations as to future revenue and to a large extent are fixed in the short term. Under specified conditions, some third-party distributors are allowed to return products to us and unexpected returns could adversely affect our results.

The sales cycle for our products is long and we may incur substantial non-recoverable expenses or devote significant resources to sales that do not occur when anticipated.

Our products represent a significant strategic decision by a customer regarding its communications infrastructure. The decision by customers to purchase our products is often based on the results of a variety of internal procedures



associated with the evaluation, testing, implementation and acceptance of new technologies. Accordingly, the product evaluation process frequently results in a lengthy sales cycle, typically ranging from three months to longer than a year, and as a result, our ability to sell products is subject to a number of significant risks, including risks that:

- budgetary constraints and internal acceptance reviews by customers will result in the loss of potential sales;
- there may be substantial variation in the length of the sales cycle from customer to customer, making decisions on the expenditure of resources difficult to assess;

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we may incur substantial sales and marketing expenses and expend significant management time in an attempt to initiate or increase the sale of products to customers, but not succeed;  
if a sales forecast from a specific customer for a particular quarter is not achieved in that quarter, we may be unable to compensate for the shortfall, which could harm our operating results; and  
downward pricing pressures could occur during the lengthy sales cycle for our products.

Our revenues may decline as a result of changes in public funding of educational institutions.

A portion of our revenues comes from sales to both public and private K-12 educational institutions. Public schools receive funding from local tax revenue, and from state and federal governments through a variety of programs, many of which seek to assist schools located in underprivileged or rural areas. The funding for a portion of our sales to educational institutions comes from a federal funding program known as the E-Rate program. E-Rate is a program of the Federal Communications Commission that subsidizes the purchase of approved telecommunications, Internet access, and internal connection costs for eligible public educational institutions. The E-Rate program, its eligibility criteria, the timing and specific amount of federal funding actually available and which Wi-Fi infrastructure and product sectors will benefit, are uncertain and subject to final federal program approval and funding appropriation continues to be under review by the Federal Communications Commission and there can be no assurance that this program or its equivalent will continue, and as a result, our business may be harmed. Furthermore, if state or local funding of public education is significantly reduced because of legislative or policy changes or by reductions in tax revenues due to changing economic conditions, our sales to educational institutions may be negatively impacted by these changed conditions. Any reduction in spending on information technology systems by educational institutions would likely materially and adversely affect our business and results of operations. This is a specific example of the many factors which add additional uncertainty to our future revenue from our education end-customers.

To successfully manage our business or achieve our goals, we must attract, retain, train, motivate, develop and promote key employees, and failure to do so can harm us.

Our success depends to a significant degree upon the continued contributions of our key management, engineering, sales and marketing, service and operations personnel, many of whom would be difficult to replace. We do not have employment contracts with these individuals that mandate that they render services for any specific term, nor do we carry life insurance on any of our key personnel. We have experienced and may in the future experience significant turnover in our executive personnel. In addition, retention has generally become more difficult for us, in part because the exercise price of most of the stock options granted to many of our employees is above the market price. As a result, we experienced high levels of attrition. We believe our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, engineering, sales and marketing, service, finance and operations personnel. The market for these personnel is competitive, and we have had difficulty in hiring employees, particularly engineers, in the time-frame we desire.

Companies in the networking industry whose employees accept positions with competitors frequently claim that competitors have engaged in unfair hiring practices. We have from time to time been involved in claims like this with other companies and, although to date they have not resulted in material litigation, we do not know whether we will be involved in additional claims in the future. We could incur substantial costs in litigating any such claims, regardless of the merits.

Failure to successfully expand our sales and support teams or educate them in regard to technologies and our product families may harm our operating results.

The sale of our products and services requires a concerted effort that is frequently targeted at several levels within a prospective customer's organization. We may not be able to increase net revenue unless we expand our sales and support teams in order to address all of the customer requirements necessary to sell our products.

We cannot assure you that we will be able to successfully integrate employees into our company or to educate and train current and future employees in regard to rapidly evolving technologies and our product families. A failure to do

so may hurt our revenue growth and operating results.

Failure of our products to comply with evolving industry standards and complex government regulations may adversely impact our business.

If we do not comply with existing or evolving industry standards and government regulations, we may not be able to sell our products where these standards or regulations apply. The network equipment industry in which we compete is characterized by rapid changes in technology and customers' requirements and evolving industry standards. As a result, our success depends on:

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the timely adoption and market acceptance of industry standards, and timely resolution of conflicting U.S. and international industry standards; and  
our ability to influence the development of emerging industry standards and to introduce new and enhanced products that are compatible with such standards.

In the past, we have introduced new products that were not compatible with certain technological standards, and in the future, we may not be able to effectively address the compatibility and interoperability issues that arise as a result of technological changes and evolving industry standards.

Our products must also comply with various U.S. federal government regulations and standards defined by agencies such as the Federal Communications Commission, standards established by governmental authorities in various foreign countries and recommendations of the International Telecommunication Union. In some circumstances, we must obtain regulatory approvals or certificates of compliance before we can offer or distribute our products in certain jurisdictions or to certain customers. Complying with new regulations or obtaining certifications can be costly and disruptive to our business.

If we do not comply with existing or evolving industry standards or government regulations, we will not be able to sell our products where these standards or regulations apply, which may prevent us from sustaining our net revenue or achieving profitability.

If we do not adequately manage and evolve our financial reporting and managerial systems and processes, our ability to manage and grow our business may be harmed.

Our ability to successfully implement our business plan and comply with regulations requires an effective planning and management process. We need to continue improving our existing, and implement new, operational and financial systems, procedures and controls. We need to ensure that the businesses acquired are appropriately integrated in our financial systems. We integrated the financial and other key managerial systems of Enterasys with Extreme effective July 1, 2014, the first day of our fiscal 2015. Any delay in the implementation of, or disruption in the integration of acquired businesses, or delay and disruption in the transition to, new or enhanced systems, procedures or controls, could harm our ability to record and report financial and management information on a timely and accurate basis, or to forecast future results.

Changes in the effective tax rate including from the release of the valuation allowance recorded against our net U.S. deferred tax assets, or adverse outcomes resulting from examination of our income or other tax returns or change in ownership, could adversely affect our results.

Our future effective tax rates may be volatile or adversely affected by changes in our business or U.S. or foreign tax laws, including: the partial or full release of the valuation allowance recorded against our net U.S. deferred tax assets; expiration of or lapses in the research and development tax credit laws; transfer pricing adjustments; tax effects of stock-based compensation; or costs related to restructurings. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. Although we regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes, there is no assurance that such determinations by us are in fact adequate. Changes in our effective tax rates or amounts assessed upon examination of our tax returns may have a material, adverse impact on our cash flows and our financial condition.

Our future effective tax rate in particular could be adversely affected by a change in ownership pursuant to U.S. Internal Revenue Code Section 382. If a change in ownership occurs, it may limit our ability to utilize our net operating losses to offset our U.S. taxable income. If U.S. taxable income is greater than the change in ownership limitation, we will pay a higher rate of tax with respect to the amount of taxable income that exceeds the limitation. This could have a material adverse impact on our results of operations. On April 26, 2012, we adopted an Amended and Restated Rights Agreement to help protect our assets (the "Rights Agreement"). In general, this does not allow a stockholder to acquire more than 4.95% of our outstanding common stock without a waiver from our board of directors, who must take into account the relevant tax analysis relating to potential limitation of our net operating losses. The Rights Agreement is effective through May 31, 2015, subject to ratification by a majority of stockholders at our next annual stockholder meeting on November 12, 2014.

Compliance with laws, rules and regulations relating to corporate governance and public disclosure may result in additional expenses.

Federal securities laws, rules and regulations, as well as NASDAQ Stock Market rules and regulations, require companies to maintain extensive corporate governance measures, impose comprehensive reporting and disclosure requirements, set strict independence and financial expertise standards for audit and other committee members and impose civil and criminal penalties for companies and their Chief Executive Officers, Chief Financial Officers and directors for securities law violations. These laws, rules and regulations and the interpretation of these requirements are evolving, and we are making investments to evaluate current practices and to continue to achieve compliance, which investments may have a material impact on the Company's financial condition.

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Our headquarters and some significant supporting businesses are located in northern California and other areas subject to natural disasters that could disrupt our operations and harm our business.

Our corporate headquarters are located in Silicon Valley in Northern California. Historically, this region as well as our R&D centers in North Carolina and New Hampshire have been vulnerable to natural disasters and other risks, such as earthquakes, fires, floods and tropical storms, which at times have disrupted the local economy and posed physical risks to our property. We have contract manufacturers located in Taiwan where similar natural disasters and other risks may disrupt the local economy and pose physical risks to our property and the property of our contract manufacturer.

In addition, the continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the economies of the U.S. and other countries. If such disruptions result in delays or cancellations of customer orders for our products, our business and operating results will suffer.

We currently do not have redundant, multiple site capacity in the event of a natural disaster, terrorist act or other catastrophic event. In the event of such an occurrence, our business would suffer.

Our stock price has been volatile in the past and our stock price may significantly fluctuate in the future.

In the past, our common stock price has fluctuated significantly. This could continue as we or our competitors announce new products, our results or those of our customers or competition fluctuate, conditions in the networking or semiconductor industry change, or when investors, change their sentiment toward stocks in the networking technology sector.

In addition, fluctuations in our stock price and our price-to-earnings multiple may make our stock attractive to momentum, hedge or day-trading investors who often shift funds into and out of stock rapidly, exacerbating price fluctuations in either direction, particularly when viewed on a quarterly basis.

Provisions in our charter documents and Delaware law and our adoption of a stockholder rights plan may delay or prevent an acquisition of Extreme, which could decrease the value of our Common Stock.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. In addition, our Board of Directors has the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer. Although we believe these provisions of our certificate of incorporation and bylaws and Delaware law will provide for an opportunity to receive a higher bid by requiring potential acquirers to negotiate with our Board of Directors, these provisions apply even if the offer may be considered beneficial by some of our stockholders.

Our Rights Agreement provides that if a single stockholder (or group) acquires more than 4.95% of our outstanding common stock without a waiver from our Board of Directors, each holder of one share of our common stock (other than the stockholder or group who acquired in excess of 4.95% of our common stock) may purchase a fractional share of our preferred stock that would result in substantial dilution to the triggering stockholder or group. Accordingly, although this plan is designed to prevent any limitation on the utilization of our net operating losses by avoiding issues raised under Section 382 of the U.S. Internal Revenue Code, the Rights Agreement could also serve as a deterrent to stockholders wishing to effect a change of control.

We rely on the availability of third-party licenses

Some of our products are designed to include software or other intellectual property, including open source software, licensed from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of these products. There can be no assurance that the necessary licenses would be available on acceptable terms, if at all. The inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could have a material adverse effect on our business, operating results, and financial condition. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a nonexclusive basis could limit our ability to protect our proprietary rights in our products. Further, the failure to comply with the terms of any license, including free open source software, may result

in our inability to continue to use such license. Our inability to maintain or re-license any third-party licenses required in our products or our inability to obtain third-party licenses necessary to develop new products and product enhancements, could require us, if possible, to develop substitute technology or obtain substitute technology of lower quality or performance standards or at a greater cost, any of which could delay or prevent product shipment and harm our business, financial condition, and results of operations.

System security risks, data protection breaches, and cyber-attacks could compromise our proprietary information, disrupt our internal operations and harm public perception of our products, which could adversely affect our business.

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In the ordinary course of business, we store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners on our networks. The secure maintenance of this information is critical to our operations and business strategy. Increasingly, companies, including Extreme Networks, are subject to a wide variety of attacks on their networks on an ongoing basis. Despite our security measures, Extreme Networks' information technology and infrastructure may be vulnerable to penetration or attacks by computer programmers and hackers, or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products, and the information stored on our networks could be accessed, publicly disclosed, lost or stolen, which could subject us to liability to our customers, suppliers, business partners and others, and cause us reputational and financial harm. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of our networks.

If an actual or perceived breach of network security occurs in our network or in the network of a customer of our networking products, regardless of whether the breach is attributable to our products, the market perception of the effectiveness of our products could be harmed. In addition, the economic costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software systems and security vulnerabilities could be significant and may be difficult to anticipate or measure. Because the techniques used by computer programmers and hackers, many of whom are highly sophisticated and well-funded, to access or sabotage networks change frequently and generally are not recognized until after they are used, we may be unable to anticipate or immediately detect these techniques. This could impede our sales, manufacturing, distribution or other critical functions, which could adversely affect our business.

Market conditions and changes in the industry could lead to discontinuation of our products or businesses resulting in asset impairments

In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses. Any decision to limit investment in or dispose of or otherwise exit businesses may result in the recording of special charges, such as inventory and technology-related write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or claims from third parties who were resellers or users of discontinued products. Our estimates with respect to the useful life or ultimate recoverability of our carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Although in certain instances, our supply agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed, our loss contingencies may include liabilities for contracts that we cannot cancel with contract manufacturers and suppliers. Further, our estimates relating to the liabilities for excess facilities are affected by changes in real estate market conditions.

If our products do not effectively inter-operate with our customers' networks and result in cancellations and delays of installations our business could be harmed.

Our products are designed to interface with our customers' existing networks, each of which have different specifications and utilize multiple protocol standards and products from other vendors. Many of our customers' networks contain multiple generations of products that have been added over time as these networks have grown and evolved. Our products must inter-operate with many or all of the products within these networks as well as future products in order to meet our customers' requirements. If we find errors in the existing software or defects in the hardware used in our customers' networks, we may need to modify our software or hardware to fix or overcome these errors so that our products will inter-operate and scale with the existing software and hardware, which could be costly and could negatively affect our business, financial condition, and results of operations. In addition, if our products do not inter-operate with those of our customers' networks, demand for our products could be adversely affected or orders for our products could be cancelled. This could hurt our operating results, damage our reputation, and seriously harm our business and prospects.



Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal administrative, sales, and marketing facilities are located in San Jose, California. We started leasing our current headquarters in June 2013. We also lease office space and executive suites in various other geographic locations domestically and internationally for research & development, sales and service personnel and administration. Our aggregate lease expense for fiscal 2014 was approximately \$10.2 million.

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At June 30, 2014, the significant facilities that we leased were as follows:

Location	Use	Size (in square feet)
San Jose, California	Principal administrative, sales and marketing facilities	57,600
Research Triangle Park, North Carolina	Research and development, sales and administrative offices	85,400
Salem, New Hampshire	Research and development, sales and marketing and administrative offices	197,300

Item 3. Legal Proceedings

The information set forth under the heading “Legal Proceedings” in Note 5, Commitments and Contingencies and Leases, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not Applicable

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Common Stock Market Prices and Dividends

Our common stock trades on the NASDAQ Global Market and commenced trading on NASDAQ on April 9, 1999 under the symbol "EXTR." The following table sets forth the high and low sales prices as reported by NASDAQ. Such prices represent prices between dealers, do not include retail mark-ups, mark-downs or commissions and may not represent actual transactions.

Stock Prices	High	Low
Fiscal year ended June 30, 2014:		
First quarter	\$5.22	\$3.51
Second quarter	\$7.18	\$5.11
Third quarter	\$7.82	\$5.39
Fourth quarter	\$6.10	\$3.55
Fiscal year ended June 30, 2013:		
First quarter	\$3.63	\$2.95
Second quarter	\$3.78	\$3.22
Third quarter	\$3.80	\$3.37
Fourth quarter	\$3.62	\$3.00

As of August 5, 2014, there were 227 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. We have never declared or paid cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future.

We currently have authority granted by our Board of Directors to repurchase up to \$75 million in common stock over a three year period starting October 1, 2012. As of June 30, 2014, we have repurchased 4.1 million shares of common stock at a total cost of \$14.5 million.

Certain information regarding our equity compensation plan(s) as required by Part II is incorporated by reference from our definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for our 2014 Annual Meeting of Stockholders not later than 120 days after the end of the fiscal year covered by this report.

**STOCK PRICE PERFORMANCE GRAPH**

Set forth below is a stock price performance graph comparing the annual percentage change in the cumulative total return on our common stock with the cumulative total returns of the CRSP Total Return Index for The NASDAQ Stock Market (U.S. companies) and the NASDAQ Computer Manufacturers Securities for the period commencing June 28, 2009 and ending on June 30, 2014. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of our common stock.

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Comparison of Five-Year Cumulative Total Returns  
Performance Graph for Extreme Networks, Inc.

Prepared by CRSP ([www.crsp.uchicago.edu](http://www.crsp.uchicago.edu)), Center for Research in Security Prices, Booth School of Business, The University of Chicago. Used with permission. All rights reserved.

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## Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data for each of the fiscal years ended June 30, 2014, June 30, 2013, June 30, 2012, July 3, 2011 and June 27, 2010 derived from audited financial statements. These tables should be reviewed in conjunction with the Consolidated Financial Statements in Item 8 and related Notes, as well as Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Historical results may not be indicative of future results.

	Year Ended				
	June 30, 2014 <sup>(1)</sup>	June 30, 2013 <sup>(2)</sup>	June 30, 2012 <sup>(3)</sup>	July 3, 2011 <sup>(4)</sup>	June 27, 2010 <sup>(5)</sup>
	(In thousands, except per share amounts)				
<b>Consolidated Statements of Operations Data:</b>					
Net revenues	\$519,554	\$299,343	\$322,722	\$334,428	\$309,354
Operating income (loss)	\$(50,232 )	\$10,852	\$13,909	\$3,114	\$(1,424 )
Net income	\$(57,310 )	\$9,673	\$15,872	\$2,713	\$227
Net income per share – basic	\$(0.60 )	\$0.10	\$0.17	\$0.03	\$—
Net income per share – diluted	\$(0.60 )	\$0.10	\$0.17	\$0.03	\$—
Shares used in per share calculation – basic	95,515	93,954	93,451	91,423	89,281
Shares used in per share calculation – diluted	95,515	95,044	94,490	92,795	89,477
	As of				
	June 30, 2014	June 30, 2013	June 30, 2012	July 3, 2011	June 27, 2010
	(In thousands)				
<b>Consolidated Balance Sheets Data:</b>					
Cash and cash equivalents, short-term investments and marketable securities	\$105,882	\$205,613	\$153,515	\$146,977	\$135,359
Inventories	\$57,109	\$16,167	\$26,609	\$21,583	\$21,842
Total assets	\$526,432	\$311,424	\$284,590	\$270,973	\$262,885
Deferred revenue, net	\$97,677	\$41,454	\$39,328	\$36,973	\$37,185
Total debt	\$121,563	\$—	\$—	\$—	\$—
Other long-term liabilities	\$8,595	\$1,507	\$643	\$2,474	\$3,665
Common stock and capital in excess of par value	\$845,364	\$821,425	\$970,743	\$963,697	\$956,922
Accumulated deficit	\$(688,213)	\$(630,903)	\$(640,576)	\$(656,448)	\$(659,161)

(1) Fiscal 2014 net income includes acquisition and integration costs of \$25.7 million, amortization of intangibles of \$16.7 million and a restructuring charge, net of reversal of \$0.5 million.

(2) Fiscal 2013 net income includes gain on sale of facilities of \$11.5 million, restructuring charge, net of reversal of \$6.8 million and a charge for litigation settlement, net of \$2.0 million.

(3) Fiscal 2012 net income includes restructuring charge, net of reversal of \$1.6 million and litigation settlement gain of \$0.1 million and \$1.9 million cumulative translation adjustments gain from Japan subsidiary liquidation.

(4) Fiscal 2011 net income includes restructuring charge of \$3.8 million and litigation settlement gain of \$4.2 million.

(5) Fiscal 2010 net income includes restructuring charge of \$4.2 million and litigation settlement charge of \$1.0 million.

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## Quarterly Financial Data (Unaudited)

Quarterly results for the years ended June 30, 2014 and 2013 follow:

	June 30, 2014(1)	March 31, 2014(2)	December 31, 2013(3)	September 30, 2013(4)
	(In thousands, except per share amounts)			
Net revenues	\$155,293	\$141,762	\$146,583	\$75,916
Gross profit	\$82,922	\$70,855	\$69,845	\$43,707
Net income (loss)	\$(16,231 )	\$(25,058 )	\$(15,986 )	\$(35 )
Net income (loss) per share – basic	\$(0.17 )	\$(0.26 )	\$(0.17 )	\$—
Net income (loss) per share – diluted	\$(0.17 )	\$(0.26 )	\$(0.17 )	\$—
	June 30, 2013(5)	March 31, 2013(6)	December 31, 2012(7)	September 30, 2012(8)
	(In thousands, except per share amounts)			
Net revenues	\$79,462	\$68,203	\$75,551	\$76,127
Gross profit	\$43,975	\$37,937	\$40,739	\$39,975
Net income (loss)	\$3,184	\$(2,220 )	\$(4,206 )	\$12,915
Net income (loss) per share – basic	\$0.03	\$(0.02 )	\$(0.04 )	\$0.14
Net income (loss) per share – diluted	\$0.03	\$(0.02 )	\$(0.04 )	\$0.14

- (1) Net loss and net loss per share include the effect of acquisition and integration costs of \$6.9 million and amortization of intangibles of \$5.3 million.
- (2) Net loss and net loss per share include the effect of acquisition and integration costs of \$6.4 million, amortization of intangibles of \$7.7 million and litigation settlement income of \$0.1 million.
- (3) Net loss and net loss per share include the effect of acquisition and integration costs of \$8.7 million, amortization of intangibles of \$3.8 million and a restructuring charge of \$0.4 million.
- (4) Net loss and net loss per share include the effect of acquisition costs of \$3.7 million and a restructuring charge of \$75,000.
- (5) Net income and net income per share include the effect of restructuring charge of \$0.6 million.
- (6) Net loss and net loss per share include the effect of restructuring charge of \$1.1 million, litigation settlement of \$2.5 million.
- (7) Net loss and net loss per share include the effect of restructuring charge of \$5.2 million and litigation settlement received of \$0.4 million.
- (8) Net income and net income per share include the effect of restructuring reversal of \$10,000 and gain on sale of facilities of \$11.5 million.

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

We develop and sell network infrastructure equipment and offer related services contracts for extended warranty and maintenance to our enterprise, data center and service provider customers. Substantially all of our revenue is derived from the sale of our networking equipment and related service contracts.

We believe that understanding the following key developments is helpful to an understanding of our operating results for the fiscal year ended June 30, 2014.

We are a leading provider of network infrastructure equipment and services for enterprises, data centers, and service providers. We were incorporated in California in May 1996 and reincorporated in Delaware in March 1999. Our corporate

headquarters are located in San Jose, California. We develop and sell network infrastructure equipment to our enterprise, data center and telecommunications service provider customers.

On October 31, 2013 (the "Acquisition Date"), we completed the acquisition of Enterasys Networks, Inc. ("Enterasys"), a privately held provider of wired and wireless network infrastructure and security solutions, for \$180.0 million, net of cash acquired, whereby Enterasys became our wholly-owned subsidiary. The combined entity immediately became a networking industry leader with more than 12,000 customers. As a combined Company, we believe we will set the standard for the networking industry with a strategic focus on three principles:

**Highly scaled and differentiated products and solutions:** Our combined product portfolio spans data center networking, switching and routing, Software-Defined Networking (SDN), wired and wireless LAN access, network management with analytics and integrated security features. This broader solutions portfolio can be leveraged to better serve existing and new customers. We will continue to enhance and support the product roadmaps of both companies going forward to protect the investments of customers and avoid any disruption to their businesses. We intend to increase research and development to accelerate our vision for high-performance, modular, open networking.

**Leading customer service and support:** We are working to augment our current outsourced support model by integrating Enterasys' in-sourced expertise, building on Enterasys' award-winning heritage and strong commitment to exceptional customer experience. The Company's expanded global network of channel partners and distributors will benefit from expanded services and support capabilities.

**Strong Channels and Strategic Partners:** Our focus is to leverage the capabilities of the combined Company and expand existing partnerships with Ericsson and the developing partnership with Lenovo as well as continue to add new strategic partnerships in the future. Additionally, we will increase our focus on partnering with distributors and channel partners globally. The goal is to develop and enhance relationships that grow revenue and profits for the Company and our alliance and channel partners. At the same time, we are investing in infrastructure to make doing business with the Company easier and more efficient.

Also, on October 31, 2013, the Company entered into a \$125 million senior secured credit facilities agreement consisting of a \$65 million term loan facility ("Term Loan") and a revolving credit facility of \$60 million ("Revolving Facility"). Both facilities mature on October 31, 2018. The Company drew \$35 million of the \$60 million Revolving Facility on the acquisition date and used the proceeds from the Term Loan to pay a portion of the purchase price in the acquisition of all of the issued and outstanding capital stock of Enterasys.

**Impact of the Global Economic Developments**

We believe that the slow economic recovery in the United States, Asia and Europe, and other challenges affecting global economic conditions placed significant limitations on our financial performance. We operate in three regions: Americas, which includes the United States, Canada, Mexico, Central America and South America; EMEA, which

includes Europe, Middle East, and Africa; and APAC which includes Asia Pacific, South Asia, Japan and Australia. Sales in APAC and some European countries were most impacted as a result of the soft global economy. We believe that conservative purchasing patterns and delays or cancellation of IT infrastructure plans in the face of continued uncertainty regarding the global economy, may continue to negatively impact overall demand for networking solutions, including Ethernet equipment.

We have taken, and plan to continue to take, other steps to manage our business in the current economic environment. For example, we have managed from time to time our contingent work force, consolidation of office locations, reduced travel and other discretionary spending, realigned our product portfolio and organization to grow revenue and operating income, and controlled all hiring activities.



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### Increasing Demand for Bandwidth

We believe that the continued increase in demand for bandwidth will over time drive future demand for high performance Ethernet solutions. Wide-spread adoption of electronic communications in all aspects of our lives, proliferation of next generation converged mobile devices and deployment of triple-play services to residences and businesses alike, continues to generate demand for greater network performance across broader geographic locations. In parallel to these transformational forces within society and the community at large, the accelerating adoption of internet and intranet “cloud” solutions within business enterprises is enabling organizations to offer greater business scalability to improve efficiency and through more effective operations, improve profitability. In order to realize the benefits of these developments, customers require additional bandwidth and high performance from their network infrastructure at affordable prices. We are seeing the initial indications that the Ethernet segment of the networking equipment market will return to growth as enterprise, data center and carrier customers continue to recognize the performance and operating cost benefits of Ethernet technology.

### Expanding Product Portfolio

We believe that continued success in our marketplace is dependent upon a variety of factors that includes, but is not limited to, our ability to design, develop and distribute new and enhanced products employing leading-edge technology. Over the past few years, we further extended our product portfolio through continued evolutions of our BlackDiamond BDX8, a highly-scalable core switch for IT and cloud data centers, the Summit family of stackable switches for the intelligent edge, the S-series flow-based switching for campus and data center, the identiFi Wi-Fi product portfolio with both indoor and outdoor 802.11a/b/g/n/ac access points, the E4G Cell Site Router family for mobile backhaul, and a revamp of our software and network management solutions that include: NetSight for centralized network management and NAC/Mobile-IAM that provides BYOD management and network access control solution for wired and wireless LAN and VPN users. During fiscal 2014, we also introduced key software functionality that will drive differentiation. New software and hardware introductions during the current year included a Summit X770 switch supporting industry's highest density performing top of rack switching, Purview - a network-powered application analytics and optimization solution, identiFi 38xx WiFi Access Points supporting 802.11ac, SDN 2.0 - an open, standards-based (based on OpenDaylight) and comprehensive SDN solution, 100GbE support for the BDX8 and NetSight 6.0 a consolidated management across the expanded portfolio.

### Industry Developments

The market for network infrastructure equipment is highly competitive and dominated by a few large companies. The current economic climate has further driven consolidation of vendors within the Ethernet networking market and with vendors from adjacent markets, including storage, security, wireless and voice applications. We believe that the underpinning technology for all of these adjacent markets is Ethernet. As a result, independent Ethernet switch vendors are being acquired or merged with larger, adjacent market vendors to enable them to deliver complete and broad solutions. As an independent Ethernet switch vendor, we must provide products that, when combined with the products of our large strategic partners, create compelling solutions for end-user customers. Our acquisition of Enterasys gives us a larger market share and presence and an opportunity to create complementary solutions for our customers. Our approach is to focus on the intelligence and automation layer that spans our hardware products and that facilitates end-to-end solutions, as opposed to positioning Extreme Networks as a low-cost-vendor with point products. Lower overall market growth has also created an environment of declining margins due to increased competition between the remaining vendors in this space. During the last year, overall Ethernet port counts have grown, while industry revenues have decreased, signaling a decline in average selling price per port. Our product life cycle and operational cost reduction efforts are therefore even more critical for margin preservation.

### Amendment to Rights Agreement

On November 27, 2012, our Board of Directors adopted an Amended and Restated Rights Agreement between the Company and Computershare Shareholder Services LLC as the rights agent (the “Restated Rights Plan”). The Restated Rights Plan governs the terms of each right (“Right”) that has been issued with respect to each share of Common Stock of Extreme Networks. Each Right initially represents the right to purchase one one-thousandth of a share of our Series

A Preferred Stock. The Restated Rights Plan replaces in its entirety the Rights Agreement, dated as of April 27, 2001, as amended on June 30, 2010; April 26, 2011, between us and Mellon Investor services LLC (the "Prior Rights Plan"). The Board reviewed the necessity of the provisions of the Prior Rights Plan. The Prior Rights Plan was adopted to preserve the value of our deferred tax assets, including our net operating loss carry forwards, with respect to our ability to fully use its tax benefits to offset future income which may be limited if we experience an "ownership change" for purposes of Section 382 of the Internal Revenue Code of 1986 as a result of ordinary buying and selling of our common stock. Following its review, the Board decided it was necessary and in the best interests of us and our stockholders to enter into the Restated Rights Plan. The Restated Rights Plan incorporates the Prior Rights Plan and the amendments thereto into a single agreement and extended the term of the Prior Rights Plan to April 30, 2013. Our stockholders voted to extend the term of the Restated Rights Plan from April 30, 2013

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to April 30, 2014 at our 2012 Annual Meeting of Stockholders, and the Restated Rights Plan was amended effective April 30, 2013 to reflect the extension of the term. The Board of Directors unanimously approved an amendment to the Rights Plan effective April 30, 2014 to extend the Rights Plan through May 31, 2015, subject to ratification by a majority of the stockholders at the next annual meeting, expected to be held on November 12, 2014.

## Results of Operations

Our operations and financial performance have been affected by the economic factors described above and our acquisition of Enterasys, and during fiscal 2014, we achieved the following results:

Net revenue of \$519.6 million, an increase of 73.6% from fiscal 2013 net revenue of \$299.3 million.

Product revenue of \$411.8 million, an increase of 71.6% from fiscal 2013 product revenue of \$240.0 million.

Service revenue of \$107.8 million, an increase of 81.5% from fiscal 2013 service revenue of \$59.4 million.

Total gross margin of 51.5% of net revenue in fiscal 2014, compared to 54.3% in fiscal 2013.

Operating loss of \$50.2 million (including acquisition and integration costs of \$25.7 million, amortization of intangibles of \$16.7 million, restructuring charges of \$0.5 million, and \$0.1 million of litigation settlement income), a decrease from operating income of \$10.9 million in fiscal 2013.

Net loss was \$57.3 million in fiscal 2014, a decrease from net income of \$9.7 million in fiscal 2013.

Cash flow used in operating activities was \$26.8 million, compared to cash flow provided by operating activities of \$32.2 million in fiscal 2013, a decrease of \$59.1 million. Cash and cash equivalents, short-term investments and marketable securities were \$105.9 million as of June 30, 2014, a decrease of \$99.7 million from fiscal 2013.

## Net Revenue

The following table presents net product and service revenue for the fiscal years 2014, 2013 and 2012 (dollars in thousands):

	Year Ended				Year Ended			
	June 30, 2014	June 30, 2013	\$ Change	% Change	June 30, 2013	June 30, 2012	\$ Change	% Change
Net Revenue:								
Product	\$411,761	\$239,955	\$171,806	71.6 %	\$239,955	\$261,873	\$(21,918)	(8.4) %
Percentage of net revenue	79.3 %	80.2 %			80.2 %	81.2 %		
Service	107,793	59,388	48,405	81.5 %	59,388	60,849	(1,461)	(2.4) %
Percentage of net revenue	20.7 %	19.8 %			19.8 %	18.9 %		
Total net revenue	\$519,554	\$299,343	\$220,211	73.6 %	\$299,343	\$322,722	\$(23,379)	(7.2) %

Product revenue increased in fiscal 2014 as compared to fiscal 2013 primarily due to significant increase in the number of customers and products sold due to our acquisition of Enterasys in the second quarter of fiscal 2014. This resulted in a significant increase in our product revenue in all regions.

Product revenue decreased in fiscal 2013 as compared to fiscal 2012 primarily due to weaker than expected demand from our public sector and enterprise customers in the United States and we continued to experience weak demand from our public sector and strategic customers and distributors in the EMEA region attributable to the persistent macroeconomic challenges in Western Europe.

Service revenue increased in fiscal 2014 as compared to fiscal 2013 primarily due to an increase in service maintenance contracts and professional service and training revenues due to our acquisition of Enterasys in the second quarter of fiscal 2014.

Service revenue decreased in fiscal 2013 as compared to fiscal 2012 reflecting slight decrease in the levels of service contract renewals.



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As noted previously, we operate in three regions: Americas, which includes the United States, Canada, Mexico, Central America and South America; EMEA, which includes Europe, Russia, Middle East, and Africa; and APAC which includes Asia Pacific, South Asia, Japan and Australia. The following table presents the total net revenue geographically for the fiscal years 2014, 2013 and 2012 (dollars in thousands):

Net Revenue	Year Ended				Year Ended			
	June 30, 2014	June 30, 2013	\$ Change	% Change	June 30, 2013	June 30, 2012	\$ Change	% Change
Americas:								
United States	\$211,734	\$101,790	\$109,944	108.0 %	\$101,790	\$106,110	\$(4,320 )	(4.1 )%
Other	45,790	33,584	12,206	36.3 %	33,584	34,970	(1,386 )	(4.0 )%
Total Americas	257,524	135,374	122,150	90.2 %	135,374	141,080	(5,706 )	(4.0 )%
Percentage of net revenue	49.6	% 45.2	%		45.2	% 43.7	%	
EMEA	202,555	112,812	89,743	79.6 %	112,812	128,093	(15,281 )	(11.9 )%
Percentage of net revenue	39.0	% 37.7	%		37.7	% 39.7	%	
APAC	59,475	51,157	8,318	16.3 %	51,157	53,549	(2,392 )	(4.5 )%
Percentage of net revenue	11.4	% 17.1	%		17.1	% 16.6	%	
Total net revenues	\$519,554	\$299,343	\$220,211	73.6 %	\$299,343	\$322,722	\$(23,379)	(7.2 )%

Revenue increased in all regions in 2014 as compared to fiscal 2013 primarily due increased customers and service contracts from the acquisition of Enterasys in the second quarter of fiscal 2014.

Revenue in the EMEA decreased in 2013 as compared to fiscal 2012 primarily due to macroeconomic challenges which affected the demand from customers in those regions. Revenue in the Americas and APAC decreased slightly as compared to fiscal 2012.

We rely upon multiple channels of distribution, including distributors, direct resellers, OEM, and direct sales.

Revenue through our distributor channel was 44% of total product revenue in fiscal 2014, 43% of total product revenue in fiscal 2013, and 42% in fiscal 2012.

The level of sales to any one customer, including a distributor, may vary from period to period.

**Cost of Revenue and Gross Profit**

The following table presents the gross profit on product and service revenue and the gross profit percentage of net revenue for the fiscal years 2014, 2013 and 2012 (dollars in thousands):

Gross profit:	Year Ended				Year Ended			
	June 30, 2014	June 30, 2013	\$ Change	% Change	June 30, 2013	June 30, 2012	\$ Change	% Change
Product	\$198,088	\$124,093	\$73,995	59.6 %	\$124,093	\$141,646	\$(17,553 )	(12.4 )%
Percentage of product revenue	48.1	% 51.7	%		51.7	% 54.1	%	
Service	69,241	38,533	30,708	79.7 %	38,533	38,201	332	0.9 %
Percentage of service revenue	64.2	% 64.9	%		64.9	% 62.8	%	
Total gross profit	\$267,329	\$162,626	\$104,703	64.4 %	\$162,626	\$179,847	\$(17,221 )	(9.6 )%
Percentage of net revenue	51.5	% 54.3	%		54.3	% 55.7	%	

Cost of product revenue includes costs of materials, amounts paid to third-party contract manufacturers, costs related to warranty obligations, charges for excess and obsolete inventory, amortization of developed technology intangibles, royalties under

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technology license agreements, and internal costs associated with manufacturing overhead, including management, manufacturing engineering, quality assurance, development of test plans, and document control. We outsource substantially all of our manufacturing and supply chain management operations, and we conduct quality assurance, manufacturing engineering, document control and distribution at our facilities in San Jose, California, Salem, New Hampshire, China, and Taiwan.

Product gross margin in fiscal 2014 decreased as compared to fiscal 2013 primarily due to a \$11.1 million charge related to the utilization of the net increase in cost basis of the inventory acquired in connection with the purchase of Enterasys, \$11.0 million for the amortization of developed technology intangibles from the acquisition of Enterasys during the second quarter of fiscal 2014 and increased stock compensation expenses offset by higher economic benefits realized in our manufacturing costs as compared to fiscal 2013.

Product gross margin in fiscal 2013 decreased as compared to fiscal 2012 due to lower product revenue and an increase in charges for excess and obsolete inventory offset by economic benefits realized in our manufacturing costs. Our cost of service revenue consists primarily of labor, overhead, repair and freight costs and the cost of spares used in providing support under customer service contracts.

Service gross margin in fiscal 2014 increased as compared to fiscal 2013 primarily due to increased service revenue as a result of acquisition of Enterasys and cost reduction initiatives offset by higher personnel, overhead and travel cost as a result of our acquisition of Enterasys during the second quarter of fiscal 2014.

Service gross profit in fiscal 2013 increased as compared to fiscal 2012 primarily due to lower labor costs from our cost reduction initiatives.

Operating Expenses

The following table presents operating expenses and operating income (dollars in thousands):

	Year Ended				Year Ended				
	June 30, 2014	June 30, 2013	\$ Change	% Change	June 30, 2013	June 30, 2012	\$ Change	% Change	
Research and development	\$77,146	\$40,521	\$36,625	90.4	% \$40,521	\$45,640	\$(5,119)	(11.2)	)%
Sales and marketing	156,666	87,202	69,464	79.7	% 87,202	90,167	(2,965)	(3.3)	)%
General and administrative	40,912	26,725	14,187	53.1	% 26,725	28,658	(1,933)	(6.7)	)%
Acquisition and integration costs	25,716	—	25,716	100.0	% —	—	—	—	%
Restructuring charge, net of reversals	510	6,836	(6,326)	(92.5)	% 6,836	1,594	5,242	328.9	%
Amortization of intangibles	16,711	—	16,711	100.0	% —	—	—	—	%
Litigation settlement (income)/loss	(100)	) 2,029	(2,129)	(104.9)	% 2,029	(121)	) 2,150	(1,776.9)	)%
Gain on sale of campus	—	(11,539)	) 11,539	(100.0)	% (11,539)	—	(11,539)	) 100.0	%
Total operating expenses	\$317,561	\$151,774	\$165,787	109.2	% \$151,774	\$165,938	\$(14,164)	(8.5)	)%
Operating (loss) income	\$(50,232)	) \$10,852	\$(61,084)	(562.9)	% \$10,852	\$13,909	\$(3,057)	(22.0)	)%

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The following table highlights our operating expenses and operating income as a percentage of net revenues:

	Year Ended			
	June 30, 2014	June 30, 2013	June 30, 2012	
Research and development	14.8	% 13.5	% 14.1	%
Sales and marketing	30.2	% 29.1	% 27.9	%
General and administrative	7.9	% 8.9	% 8.9	%
Acquisition and integration costs	5.0	% —	% —	%
Restructuring charge, net of reversals	0.1	% 2.3	% 0.5	%
Amortization of intangibles	3.2	% —	% —	%
Litigation settlement (income)/loss	—	% 0.7	% —	%
Gain on sale of campus	—	% (3.9)	% —	%
Total operating expenses	61.1	% 50.6	% 51.4	%
Operating (loss) income	(9.7)	)% 3.6	% 4.3	%

**Research and Development Expenses**

Research and development expenses consist primarily of salaries and related personnel expenses, consultant fees and prototype expenses related to the design, development, and testing of our products. Research and development expenses increased in fiscal 2014 as compared to fiscal 2013 primarily due to increased personnel and occupancy costs as a result of our acquisition of Enterasys in the second quarter of fiscal 2014.

Research and development expenses decreased in fiscal 2013 as compared to fiscal 2012 primarily due to lower spending on engineering projects due to differences in timing and pattern of planned engineering project spending as compared to fiscal 2012.

**Sales and Marketing Expenses**

Sales and marketing expenses consist of salaries, commissions and related expenses for personnel engaged in marketing and sales functions, as well as trade shows and promotional expenses. Sales and marketing expenses increased in fiscal 2014 as compared to fiscal 2013 primarily due to increased personnel costs as well as additional spending on additional sales and marketing programs, as a result of our acquisition of Enterasys in the second quarter of fiscal 2014.

Sales and marketing expenses decreased in fiscal 2013 as compared to fiscal 2012 primarily due to lower commissions and reduced personnel costs resulting from lower revenue levels and a reduction in headcount during the year.

**General and Administrative Expenses**

General and administrative expenses increased in fiscal 2014 as compared to fiscal 2013 primarily due to higher personnel and travel costs and higher occupancy costs as a result of our acquisition of Enterasys in the second quarter of fiscal 2014.

General and administrative expenses decreased in fiscal 2013 as compared to fiscal 2012 primarily due to cost reduction initiatives realized as part of the restructuring plan offset by CEO transition expenses of \$2.1 million.

**Acquisition and Integration Costs**

As a result of our acquisition of Enterasys, we incurred \$25.7 million of acquisition and integration costs in fiscal 2014. Of the total \$25.7 million expense for fiscal 2014, \$19.7 million expense related to integration costs and the remaining \$6.0 million expense related to acquisition costs. The Company expects to incur integration costs for the next two years at a lower rate.

**Amortization of Intangibles**

During fiscal 2014, we recorded \$16.7 million of amortization expenses primarily for certain intangibles related to the acquisition of Enterasys.

**Restructuring Charge, Net of Reversal**

During fiscal 2014, 2013 and 2012, we recorded restructuring charges, net of reversals, of \$0.5 million, \$6.8 million, and \$1.6 million, respectively.





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Fiscal 2013 Restructuring

During the second quarter of fiscal 2013, we reduced costs through targeted restructuring activities intended to reduce operating costs and realign our organization in the current competitive environment. As part of our restructuring efforts in the second quarter of fiscal 2013, we initiated a plan to reduce our worldwide headcount by 13%, consolidate specific global administrative functions, and shift certain operating costs to lower cost regions, among other actions. We have substantially expensed all costs associated with this initiative. As of June 30, 2014, we had restructuring liabilities of \$0.3 million related to the fiscal 2013 restructuring, which we anticipate paying by the end of fiscal 2015.

Fiscal 2012 Restructuring

During fiscal 2012, we incurred total charges of \$2.2 million, including \$1.8 million related to severance, \$0.1 million of contract termination fees, and \$0.2 million other charges. A portion of this restructuring activity was related to the liquidation of our Japan subsidiary with a cost of \$0.5 million at June 30, 2012. We substantially liquidated the subsidiary in Japan in the fourth quarter of fiscal 2012, as part of our broad restructuring effort. We disposed of the remaining immaterial assets and liabilities and completed the liquidation process during fiscal 2013. There were no outstanding liabilities related to the fiscal 2012 restructuring as of June 30, 2014.

Fiscal 2011 Restructuring

During fiscal 2011, we commenced a strategy to focus on growing revenue in specific market verticals and on improving operational effectiveness. As of June 30, 2013, we had restructuring liabilities of \$0.4 million remaining related to the fiscal 2011 restructuring, which we paid during fiscal 2014.

Litigation Settlement (Income) Expense

During the third quarter of fiscal 2014, the Company received \$0.1 million from the settlement of a property lease litigation matter.

During the third quarter of fiscal 2013, we recognized a litigation charge of \$2.5 million related to a settlement agreement entered into with Enterasys Networks prior to the acquisition.

During the fourth quarter of fiscal 2012, from a judgment related to our lawsuit with Enterasys Networks for patent infringement, we received \$0.6 million from Enterasys including a first trial damage award of \$0.2 million, reimbursement of legal costs from the first trial of \$0.4 million, and interest.

Gain on Sale of Campus

During fiscal 2013, we completed the sale of our corporate campus and accompanying 16 acres of land in Santa Clara, California for net cash proceeds of approximately \$44.7 million of which approximately \$2.0 million was received in fiscal 2012. We realized a gain of approximately \$11.5 million in connection with this transaction, yet recorded a tax loss of approximately \$24.6 million.

Interest Income

Interest income was \$0.8 million in fiscal 2014, \$1.1 million in fiscal 2013 and \$1.2 million in fiscal 2012, representing a decrease of \$0.3 million in fiscal 2014 from fiscal 2013, and a decrease of \$0.1 million in fiscal 2013 from fiscal 2012. The decrease in interest income in fiscal 2014 from fiscal 2013 was due to a decrease in the investment balance to fund a portion of the acquisition of Enterasys. The decrease in interest income in fiscal 2013 from fiscal 2012 was due to a decrease in the average interest yield from 0.95% in fiscal 2012 to 0.54% in fiscal 2013.

Interest Expense

We had \$2.1 million interest expense for fiscal 2014. Interest expense was immaterial for both fiscal years 2013 and 2012. Interest expense in fiscal 2014 primarily related to the Credit Facility that the Company entered into on October 31, 2013 to fund the acquisition of Enterasys.

Interest expense in fiscal 2013 and fiscal 2012 were primarily related to interest amortization of technology agreements.

Other (Expense) Income, net

Other (expense) income net was expense of \$1.6 million in fiscal 2014, expense of \$0.6 million in fiscal 2013 and income of \$2.0 million in fiscal 2012. Other expense in fiscal 2014 was primarily due to the revaluation of certain assets and liabilities denominated in foreign currencies into U.S. dollars.



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Other expense in fiscal 2013 was primarily due to the revaluation of certain assets and liabilities denominated in foreign currencies into U.S. dollars.

Other income in fiscal 2012 was primarily comprised of \$1.9 million in foreign currency translation gains that were reclassified from other comprehensive income (loss) due to the substantial liquidation of our Japan subsidiary.

### Provision for Income Taxes

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our effective tax rate differs from the U.S. federal statutory rate of 35% primarily due to the impact of state taxes, foreign operations which are generally taxed at lower statutory rates and the full valuation of our deferred tax assets in the U.S. and certain foreign jurisdictions. For the fiscal years ended June 30, 2014, 2013 and 2012, we recorded income tax provisions of \$4.2 million, \$1.7 million and \$1.2 million respectively. The effective tax rates for fiscal years ended June 30, 2014, 2013 and 2012 were 7.9%, 14.8% and 7.0% respectively.

For the fiscal years ended June 30, 2014, 2013 and 2012 the vast majority of our tax provision relates to taxes on our foreign operations as well as state taxes due to the full valuation allowance on our U.S. and certain foreign deferred tax assets. In the fiscal year ended June 30, 2014, a portion of our provision resulted from the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisition of Enterasys Networks, Inc.

For a full reconciliation of our effective tax rate to the U.S. federal statutory rate of 35% and for further explanation of our provision for income taxes, see Note 9 to the consolidated financial statements.

### Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in Note 3 of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period reported. By their nature, these estimates, assumptions and judgments are subject to an inherent degree of uncertainty. We base our estimates, assumptions and judgments on historical experience, market trends and other factors that are believed to be reasonable under the circumstances. Estimates, assumptions and judgments are reviewed on an ongoing basis and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results may differ from these estimates under different assumptions or conditions. We believe the critical accounting policies stated below, among others, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### Revenue Recognition

We derive the majority of our revenue from sales of our networking equipment, with the remaining revenue generated from service fees relating to maintenance service contracts, professional services, and training for our products. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price of the product is fixed or determinable, and the collection of the sales proceeds is reasonably assured. In instances where any of the criteria for revenue recognition are not met, we defer revenue until all criteria have been met.

Product revenue from our value-added resellers, non-stocking distributors and end-user customers is recognized at the time of shipment, provided that all of the foregoing revenue recognition requirements have been satisfied. We generally do not grant return privileges, except for defective products during the warranty period, nor do we grant pricing credits. Accordingly, we recognize revenue upon transfer of title and risk of loss to the customer, which is generally upon shipment. We maintain estimated accruals and allowances for sales incentives and other programs that we may make available to our partners, based on historical experience or applicable contractual terms. Shipping costs are included in cost of product revenues. Sales taxes collected from customers are excluded from revenues.

We also sell our products to distributors that stock inventory and sell to resellers. We defer recognition of revenue on all sales to our stocking distributors until the distributors have sold the products, as evidenced by sales data that the distributors provide to us. We grant stocking distributors certain price protection rights and the right to return a portion of unsold inventory for the purpose of stock rotation. The distributor-related deferred revenue and receivables are adjusted at the time of the stock rotation return or price reduction. We also provide stocking distributors with credits

for changes in selling prices based on competitive conditions, and provide funding for our distributors and their resellers to perform marketing development activities. We maintain estimated accruals and allowances for these exposures based upon our contractual obligations. Our marketing development channel programs do not meet the criteria for recognizing the costs as marketing expenses and therefore these costs are accrued as a reduction to revenue in the same period that the products are sold.

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Revenue from service contracts is deferred and recognized ratably over the contractual service period, which is typically from one to two years. Professional service revenue is recognized upon delivery or completion of performance.

Our networking products are tangible products that contain software and non-software components that function together to deliver the tangible product's essential functionality. Our sales arrangements may contain multiple deliverables comprised of our tangible products, standalone software licenses, and service offerings depending on the distribution sales channel through which the products are sold and the requirements of our customers. We recognize revenue for our multiple deliverable arrangements in accordance with the accounting standard for multiple deliverable revenue arrangements, which provides guidance on whether multiple deliverables exist, how deliverables in an arrangement should be separated, and how consideration should be allocated. The industry-specific software revenue recognition guidance does not apply to the sales of our tangible products. Software revenue guidance is applied to sales of our standalone software products, including software upgrades and software that is not essential to the functionality of the hardware with which it is sold.

Pursuant to the guidance of the accounting standard for multiple-deliverable revenue arrangements, we allocate the total arrangement consideration to each separable element of an arrangement based on the relative selling price of each element. We determine the standalone selling price for each element based on a selling price hierarchy. Under the selling price hierarchy, the selling price for each deliverable is based on our vendor-specific objective evidence of selling price ("VSOE"), which is determined by a substantial majority of our historical standalone sales transactions for a product or service falling within a reasonable range. If VSOE is not available due to a lack of standalone sales transactions or lack of pricing within a narrow range, then third party evidence ("TPE"), as determined by the standalone pricing of competitive vendor products in similar markets, is used. TPE typically is difficult to establish due to the proprietary differences of competitive products and difficulty in obtaining reliable competitive standalone pricing information. When neither VSOE nor TPE is available, we determine the best estimate of standalone selling price ("ESP") for a product or service by considering several factors including, but not limited to, the 12-month historical median sales price, sales channels, geography, gross margin consistency, competitive product pricing, and product life cycle. In consideration of all relevant pricing factors, we apply management judgment to determine the best estimate of selling price through consultation with and formal approval by our management for all products and services for which neither VSOE nor TPE is available. Generally, the standalone selling price of services is determined using VSOE and the standalone selling price of all other deliverables is determined by using ESP. We regularly review VSOE, TPE and ESP for all of our products and services and maintain internal controls over the establishment and updates of these estimates.

Pursuant to the software revenue recognition accounting standard, we continue to recognize revenue for software using the residual method for our sales of standalone software products and other software that is not essential to the functionality of the hardware with which it is sold. After allocation of the relative selling price to each element of the multiple deliverable arrangement, we recognize revenue in accordance with our policies for product, software, and service revenue recognition.

Our total deferred product revenue from customers other than distributors was \$4.1 million and \$3.1 million as of June 30, 2014 and June 30, 2013, respectively. Our total deferred revenue for services, primarily from service contracts, was \$97.7 million as of June 30, 2014 and \$38.7 million as of June 30, 2013. Service contracts typically range from one to two years. Shipping costs are included in cost of product revenues.

We provide an allowance for sales returns based on our historical returns, analysis of credit memo data and our return policies. The allowance for sales returns was \$2.7 million and \$0.8 million as of June 30, 2014 and June 30, 2013, respectively, for estimated future returns that were recorded as a reduction of our accounts receivable. If the historical data that we use to calculate the estimated sales returns and allowances does not properly reflect future levels of product returns, these estimates will be revised, thus resulting in an impact on future net revenue. We estimate and adjust this allowance at each balance sheet date.

## Business Combinations

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, assumed equity awards, as well as to in-process research and development based upon their estimated fair values at the acquisition date. The purchase price allocation process requires management's judgment and often involves the use of significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, deferred revenue obligations and equity assumed.

Although we believe the assumptions and estimates we have made are reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Examples of critical estimates in valuing certain of intangible assets we have acquired or may acquire in future include but are not limited to assumptions with respect to future cash inflows and outflows, discount rates, intangibles and other asset lives, expected costs to develop the in-process research and development into commercially viable products, among other items.

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In connection with the purchase price allocations for our acquisitions, we estimate the fair value of inventory using the comparative sales method. The fair value of the inventory utilizing the comparative sales method is estimated using the selling price, less sales costs, marketing costs and profit on these costs. The operating profit margins are based on the historical margins.

In connection with the purchase price allocations for our acquisitions, we estimate the fair value of deferred revenue using the cost build-up approach. The cost build-up approach determines the fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The estimated costs to fulfill the obligations are based on historical costs and benchmarking analysis.

Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

### Goodwill

Goodwill is assessed for impairment annually during the fourth quarter of the fiscal year (April 1) or more frequently when an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value. We have determined that we have one reporting unit. To test goodwill for impairment, we first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, we then perform the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Under the two-step goodwill impairment test, we in the first step, compare the estimated fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value, no impairment loss is recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount, if any, of the impairment is then measured in the second step in which we determine the implied value of goodwill based on the allocation of the estimated fair value determined in the initial step to all assets and liabilities of the reporting unit.

We completed our annual goodwill impairment test in the fourth quarter of fiscal 2014 and determined there was no impairment as the fair value of the reporting unit exceeded its carrying value.

### Share-based Payments

We use the Black-Scholes option-pricing model to determine the fair value of option awards other than performance-based option awards, options assumed as part of the Enterasys acquisition, and share purchase options under our Employee Stock Purchase Plan ("ESPP") on the date of grant with the weighted average assumptions. We use the Monte-Carlo simulation model to determine the fair value and the derived service period of performance-based option awards, with market conditions, on the date of grant. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The expected term of purchase options under our ESPP represents the contractual life of the ESPP purchase period. The risk-free rate based upon the estimated life of the option and ESPP award is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on both the implied volatilities from traded options on our stock and historical volatility on our stock. We do not currently pay cash dividends on our common stock and do not anticipate doing so in the foreseeable future. Accordingly, our expected dividend yield is zero. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. In fiscal 2014, our estimated forfeiture rates based on historical forfeiture experiences are 14% for executives and 12% for non-executive employees. We use the straight-line method for expense attribution, and we only recognize expense for those shares expected to vest.

### Income Taxes

#### Deferred Tax Asset Valuation Allowance

We use the asset and liability method of accounting for income taxes provided under the authoritative guidance for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax



consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss carryforwards and credit carryforwards, if it is more likely than not that the tax benefits will be realized. To the extent a deferred tax asset cannot be recognized under the preceding criteria, valuation allowances are established. Significant management judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available positive and negative evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies.

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In the fiscal year ended June 30, 2014, the global valuation allowance increased by \$30.5 million to \$172.5 million and in the fiscal year ended June 30, 2013, the global valuation allowance increased by \$1.4 million to \$142.0 million. The global valuation allowance is comprised primarily of a U.S. allowance, however, valuation allowances have also been provided against deferred tax assets in Australia, Brazil, Japan and Singapore. Our assessment of the available evidence in determining the need for valuation allowances placed greater weight on historical operating results rather than our expectations of future profitability, which is inherently uncertain. Our inconsistent history of earnings during those periods coupled with difficulties in forecasting more than one quarter in advance as well as the cyclical nature of our industry represent sufficient negative evidence to require a full valuation allowance against our U.S. federal and state net deferred tax assets. This valuation allowance will be evaluated periodically and can be reversed partially or totally if business results sufficiently improved to support realization of the deferred tax assets.

Accounting for Uncertainty in Income Taxes

Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent the final tax outcome of these matters is different than the amount recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate as well as the related interest and penalties.

We had unrecognized tax benefits of \$11.6 million as of June 30, 2014. If fully recognized in the future, \$0.2 million would impact our effective tax rate, and \$11.0 million would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. It is reasonably possible that the amount of unrecognized tax benefit could decrease by approximately \$0.2 million during the next twelve months due to the expiration of the statute of limitations in certain foreign jurisdictions. During the fiscal year ended June 30, 2013, we performed a study of our U.S. research and development credits documenting the historic credits as prescribed by Internal Revenue Service rules. As a result of this study we adjusted our available federal and state research credits as well as the amount of these credits that representing uncertain tax positions. The credits classified as uncertain tax positions decreased by approximately \$15.0 million as a result of this study.

Impact of Recently Issued Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-11, Income Taxes (Topic 740)-Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). This ASU provides guidance regarding the presentation in the statement of financial position of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryforward exists. The ASU generally provides that an entity's unrecognized tax benefit, or a portion of its unrecognized tax benefit, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. The Company intends to adopt this standard prospectively in the first quarter of its fiscal year ending June 30, 2015. The Company does not believe this updated standard will have a material impact on its consolidated financial statements.

In May 2014, the FASB, jointly with the International Accounting Standards Board, issued Accounting Standard Update No. 2014-09 (Topic 606) - Revenue from Contracts with Customers ("ASU 2014-09"). This ASU's core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying this new guidance to contracts within its scope, an entity will: (1) identify the contract(s) with a customer, (2) identify the performance obligation in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, this new guidance will require significantly expanded disclosures about revenue recognition. ASU 2014-09 is effective for annual reporting periods (including interim reporting periods within those annual periods) beginning after December 15, 2016. Early application is not permitted. Entities have the

option of using either a full retrospective or a modified retrospective approach to adopt this ASU. The Company is currently evaluating the potential effect on its consolidated financial position, results of operations and cash flows from adoption of this standard.

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## Liquidity and Capital Resources

The following summarizes information regarding our cash, investments, and working capital (in thousands):

	June 30, 2014	June 30, 2013
Cash and cash equivalent	\$73,190	\$95,803
Short-term investments	32,692	43,034
Marketable securities	—	66,776
Total cash and investments	\$105,882	\$205,613
Working capital	\$56,548	\$96,279

As of June 30, 2014, our principal sources of liquidity consisted of cash, cash equivalents and investments of \$105.9 million, net accounts receivable of \$124.7 million and \$0.9 million of letters of credit and borrowings from the Revolving Facility under which the Company had \$0.1 million of availability at June 30, 2014. Our principal uses of cash will include repayments of debt and related interest, purchase of finished goods inventory from our contract manufacturers, payroll, restructuring expenses and other operating expenses related to the development, marketing of our products, purchases of property and equipment and repurchases of our common stock. We believe that our \$105.9 million of cash and cash equivalents and investments at June 30, 2014 along with the availability of borrowings from the Revolving Facility will be sufficient to fund our principal uses of cash for at least the next 12 months including the repayment of the additional borrowings of \$24 million from the Revolving Facility as of the filing date of this report.

Our Credit Agreement contains financial covenants that require us to maintain a minimum Consolidated Fixed Charge Coverage Ratio and Consolidated Quick Ratio and a maximum a Consolidated Leverage Ratio and several other covenants and restrictions that limit our ability to incur additional indebtedness, create liens upon any of our property, merge, consolidate or sell all or substantially all of our assets, etc.

The Credit Agreement also includes customary events of default, including failure to pay principal, interest or fees when due, failure to comply with covenants, if any representation or warranty made by us is false or misleading in any material respect, certain insolvency or receivership events affecting Extreme and its subsidiaries, the occurrence of certain material judgments, the occurrence of certain ERISA events, the invalidity of the loan documents or a change in control of our Company. The amounts outstanding under the Credit Agreement may be accelerated upon certain events of default. We believe we are in compliance and expect to remain in compliance with our Credit Agreement covenants and they are not expected to impact our liquidity or capital resources.

## Key Components of Cash Flows and Liquidity

A summary of the sources and uses of cash and cash equivalents is as follows (in thousands):

	Year Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
Net cash (used in) provided by operating activities	\$(26,843 )	\$32,237	\$13,813
Net cash (used in ) provided by investing activities	\$(126,189 )	\$16,480	\$(10,410 )
Net cash provided by (used in) financing activities	\$129,580	\$(7,391 )	\$2,393
Foreign currency effect on cash	\$839	\$(119 )	\$(1,172 )
Net (decrease) increase in cash and cash equivalents	\$(22,613 )	\$41,207	\$4,624

Cash and cash equivalents, short-term investments and marketable securities were \$105.9 million at June 30, 2014, representing a decrease of \$99.7 million from \$205.6 million at June 30, 2013. Cash and cash equivalents primarily decreased due to cash used in operations of \$26.8 million and cash used in investing activities of \$126.2 million offset by cash provided by financing activities of \$129.6 million and foreign currency impact of \$0.8 million.

Cash used in operating activities was \$26.8 million compared to cash provided by operating activities of \$32.2 million in fiscal 2013, a decrease of \$59.1 million during the year ended June 30, 2014. The current year's net loss of 57.3 million was primarily offset by non-cash expenses such as amortization of intangibles, stock-based compensation, and depreciation. Post-

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acquisition increases in accounts receivables, inventory, accounts payable and deferred revenue were the primary factors contributing to the cash used in operating activities for the year ended June 30, 2014.

Cash flow used in investing activities was \$126.2 million primarily from \$180.0 million proceeds used for acquisition of Enterasys, capital expenditures of \$22.4 million and purchases of investments of \$9.0 million. Such decreases were offset by proceeds from maturities of investments and marketable securities of \$28.7 million and sales of investments and marketable securities of \$56.6 million.

Cash flow provided by financing activities was \$129.6 million resulting from issuance of Term Loan of \$65 million and a draw on the Revolving Facility of \$35 million used for the acquisition of Enterasys, an additional draw of \$24 million on the Revolving Facility for working capital requirements, and \$8.0 million proceeds from the exercise of stock options and purchases of shares of our common stock under the ESPP, net of taxes paid on vested and released stock awards.

**Contractual Obligations**

The following summarizes our contractual obligations at June 30, 2014, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than Five Years
Contractual Obligations:					
Debt obligations	\$121,563	\$29,688	\$29,250	\$62,625	\$—
Interest on debt obligations	8,813	2,588	4,377	1,848	—
Non-cancelable inventory purchase commitments	64,651	64,651	—	—	—
Non-cancelable operating lease obligations	58,109	9,093	14,456	13,805	20,755
Other liabilities	5,470	2,818	2,491	161	—
Total contractual cash obligations	\$258,606	\$108,838	\$50,574	\$78,439	\$20,755

Non-cancelable inventory purchase commitments represent the purchase of long lead-time component inventory that our contract manufacturers procure in accordance with our forecast. Inventory purchase commitments were \$64.7 million as of June 30, 2014, an increase of \$14.6 million from \$50.1 million as of June 30, 2013.

Non-cancelable operating lease obligations represent base rents and operating expense obligations to landlords for facilities we occupy at various locations.

Other liabilities include the Company's commitments towards debt related fees and specific arrangements other than inventory.

The amounts in the table above exclude \$0.2 million of income tax liabilities related to uncertain tax positions as we are unable to reasonably estimate the timing of settlement.

We did not have any material commitments for capital expenditures as of June 30, 2014.

**Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of June 30, 2014.

**Capital Resources and Financial Condition**

As of June 30, 2014, in addition to \$73.2 million in cash and cash equivalents, we had \$32.7 million invested in short-term investments for total cash and cash equivalents and short-term investments of \$105.9 million.

We believe that our current cash and cash equivalents and short-term investments and cash available from future operations will enable us to meet our working capital requirements for at least the next 12 months.



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## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

## Interest Rate Sensitivity

The primary objective of our investment activities is to preserve principal while at the same time maximize the income we receive from our investments without significantly increasing risk. Some of the securities that we have invested in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, other non-government debt securities and money market funds. The valuation of our investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact its valuation include changes to credit ratings of the securities, discount rates and ongoing strength and quality of market credit and liquidity.

If the current market conditions deteriorate further, or the anticipated recovery in market values does not occur, we may be required to record impairment charges in future quarters.

The following table presents the amounts of our cash equivalents, short-term investments and marketable securities that are subject to market risk by range of expected maturity and weighted-average interest rates as of June 30, 2014 and June 30, 2013. This table does not include money market funds because those funds are generally not subject to market risk.

	Maturing in			Total	Fair Value
	Three months or less	Three months to one year	Greater than one year		
	(In thousands)				
June 30, 2014					
Included in short-term investments	\$567	\$23,598	\$9,094	\$33,259	\$33,259
Weighted average interest rate	0.01	% 0.91	% 0.72	%	

	Maturing in			Total	Fair Value
	Three months or less	Three months to one year	Greater than one year		
	(In thousands)				
June 30, 2013					
Included in short-term investments	\$13,190	\$29,844	—	\$43,034	\$43,034
Weighted average interest rate	0.91	% 0.59	% —		
Included in marketable securities	—	—	\$66,776	\$66,776	\$66,776
Weighted average interest rate	—	—	0.77	%	

The following tables present hypothetical changes in fair value of the financial instruments held at June 30, 2014 that are sensitive to changes in interest rates:

Unrealized gain given a decrease in interest rate of X bps (100 bps)                      (50 bps) (In thousands)	Fair value as of June 30, 2014	Unrealized loss given an increase in interest rate of X bps	
		100 bps	50 bps
\$282	\$33,259	\$(277)	\$(139)





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Debt

At certain points in time we are exposed to the impact of interest rate fluctuations, primarily in the form of variable rate borrowings from our Credit Facility that we entered into on October 31, 2013. Our debt and credit facility is fully described in the Note 3 of our Notes to the Consolidated Financial Statements. At June 30, 2014 we had \$121,563 of debt outstanding all of which was from the company's credit facility. Since the initial draw and through the end of our fiscal year, the average daily outstanding amount was \$100,463 with a low of \$98,375 and a high of \$122,375. The fair value of the debt outstanding at June 30, 2014 was \$121,259. If there were an increase in the interest rates of 0.5% and 1.0% the annualized increase in interest expense on the June 30, 2014 outstanding balance would be \$608 and \$1,215 respectively. Conversely if there was a decrease in interest rates of 0.5% and 1.0% the annualized interest rate on the outstanding balance at June 30, 2014 would decrease by \$608 and \$1,215 respectively.

Exchange Rate Sensitivity

Currently, majority of all of our sales and our expenses are denominated in United States dollars and, as a result, we have experienced no significant foreign exchange gains and losses to date. While we conduct sales transactions and incur certain operating expenses in foreign currencies and expect to continue to do so, we do not anticipate that foreign exchange gains or losses will be significant, in part because of our foreign exchange risk management process discussed below.

Foreign Exchange Forward Contracts

We record all derivatives on the balance sheet at fair value. Changes in the fair value of derivatives are recognized in earnings as Other Income (Expense). We enter into foreign exchange forward contracts to mitigate the effect of gains and losses generated by the foreign currency forecasted transactions related to certain operating expenses and re-measurement of certain assets and liabilities denominated in foreign currencies. These derivatives do not qualify as hedges. At June 30, 2014, these forward foreign currency contracts had a notional principal amount of \$7.6 million and an immaterial unrealized gain on foreign exchange contracts. These contracts have maturities of less than 60 days. Changes in the fair value of these foreign exchange forward contracts are offset largely by re-measurement of the underlying assets and liabilities.

Foreign currency transaction gains and losses from operations were a loss of \$1.5 million in fiscal 2014, a loss of \$0.9 million in fiscal 2013 and a gain of \$2.5 million in fiscal 2012.

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Report of Independent Registered Public Accounting Firm  
The Board of Directors and Stockholders  
Extreme Networks, Incorporated:

We have audited the accompanying consolidated balance sheets of Extreme Networks, Inc. and subsidiaries (the Company) as of June 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive (loss) / income, stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2014. We also have audited the Company's internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company acquired Enterasys Networks, Inc. on October 31, 2013, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2014, Enterasys Networks, Inc.'s internal control over financial reporting associated with total assets of \$143.9 million and net revenues of \$227.7 million included in the consolidated financial statements of the Company as of and for the year ended June 30, 2014. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Enterasys Networks Inc.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Extreme Networks, Inc. and subsidiaries as of June 30, 2014 and 2013, and the results of its

operations and its cash flows for each of the years in the three-year period ended June 30, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Extreme Networks, Incorporated maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/KPMG LLP

Santa Clara, California

September 15, 2014

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## EXTREME NETWORKS, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	June 30, 2014	June 30, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$73,190	\$95,803
Short-term investments	32,692	43,034
Accounts receivable, net of allowances of \$3,618 at June 30, 2014 and \$1,252 at June 30, 2013	124,664	47,642
Inventories	57,109	16,167
Deferred income taxes	1,058	386
Prepaid expenses and other current assets	14,143	5,749
Total current assets	302,856	208,781
Property and equipment, net	46,554	23,644
Marketable securities	—	66,776
Intangible assets, net	87,459	4,243
Goodwill	70,877	—
Other assets, net	18,686	7,980
Total assets	\$526,432	\$311,424
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$29,688	\$—
Accounts payable	37,308	27,163
Accrued compensation and benefits	26,677	13,503
Restructuring liabilities	322	1,466
Accrued warranty	7,551	3,296
Deferred revenue, net	74,735	33,184
Deferred distributors revenue, net of cost of sales to distributors	31,992	17,388
Other accrued liabilities	38,035	16,502
Total current liabilities	246,308	112,502
Deferred revenue, less current portion	22,942	8,270
Long-term debt, less current portion	91,875	—
Other long-term liabilities	8,595	1,507
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Convertible preferred stock, \$.001 par value, issuable in series, 2,000,000 shares authorized; none issued	—	—
Common stock, \$.001 par value, 750,000,000 shares authorized; 96,980,214 shares issued and outstanding at June 30, 2014 and 93,626,150 shares issued and outstanding at June 30, 2013	97	94
Additional paid-in-capital	845,267	821,331
Accumulated other comprehensive income	(439	) (1,377 )
Accumulated deficit	(688,213	) (630,903 )
Total stockholders' equity	156,712	189,145
Total liabilities and stockholders' equity	\$526,432	\$311,424
See accompanying notes to consolidated financial statements.		



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EXTREME NETWORKS, INC.  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (In thousands, except per share amounts)

	Fiscal Year Ended			
	June 30, 2014	June 30, 2013	June 30, 2012	
Net revenues:				
Product	\$411,761	\$239,955	\$261,873	
Service	107,793	59,388	60,849	
Total net revenues	519,554	299,343	322,722	
Cost of revenues:				
Product	213,673	115,862	120,227	
Service	38,552	20,855	22,648	
Total cost of revenues	252,225	136,717	142,875	
Gross profit:				
Product	198,088	124,093	141,646	
Service	69,241	38,533	38,201	
Total gross profit	267,329	162,626	179,847	
Operating expenses:				
Research and development	77,146	40,521	45,640	
Sales and marketing	156,666	87,202	90,167	
General and administrative	40,912	26,725	28,658	
Acquisition and integration costs	25,716	—	—	
Restructuring charge, net of reversals	510	6,836	1,594	
Amortization of intangibles	16,711	—	—	
Litigation settlement (income) expense	(100	) 2,029	(121	)
Gain on sale of facilities	—	(11,539	) —	)
Total operating expenses	317,561	151,774	165,938	
Operating (loss) income	(50,232	) 10,852	13,909	
Interest income	751	1,070	1,239	
Interest expense	(2,085	) —	(75	)
Other (expense) income, net	(1,555	) (571	) 1,995	
(Loss) Income before income taxes	(53,121	) 11,351	17,068	
Provision for income taxes	4,189	1,678	1,196	
Net (loss) income	\$(57,310	) \$9,673	\$15,872	
Basic and diluted net (loss) income per share:				
Net (loss) income per share – basic	\$(0.60	) \$0.10	\$0.17	
Net (loss) income per share – diluted	\$(0.60	) \$0.10	\$0.17	
Shares used in per share calculation – basic	95,515	93,954	93,451	
Shares used in per share calculation – diluted	95,515	95,044	94,490	
See accompanying notes to consolidated financial statements.				



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EXTREME NETWORKS, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/ INCOME  
 (In thousands)

	Year Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
Net (loss) income:	\$(57,310	) \$9,673	\$15,872
Other comprehensive income, net of tax:			
Available for sale securities:			
Change in unrealized gain (loss) on available for sale securities, net of taxes	136	(327	) (196
Reclassification of adjustment for realized net gains on available for sale securities included in net income (loss)	158	—	—
Net change in unrealized gain (loss) on available for sale securities, net of taxes	294	(327	) (196
Net change in net foreign currency translation adjustment	644	(189	) (4,368
Other comprehensive income (loss)	938	(516	) (4,564
Total comprehensive (loss) income	\$(56,372	) \$9,157	\$11,308
See accompanying notes to consolidated financial statements.			

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EXTREME NETWORKS, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(In thousands)

	Common Stock		Treasury Stock		Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balances at July 3, 2011	132,147	\$ 132	(39,625)	\$(149,666)	\$ 963,565	\$ 3,703	\$(656,448)	\$ 161,286
Net income	—	—	—	—	—	—	15,872	15,872
Other comprehensive loss, net	—	—	—	—	—	(4,564)	—	(4,564)
Exercise of options to purchase common stock	437	—	—	—	978	—	—	978
Issuance of common stock under employee stock purchase plan	570	—	—	—	1,632	—	—	1,632
Issuance of restricted stock, net of repurchases	811	2	—	—	(1,219)	—	—	(1,217)
Repurchase of common stock	—	—	(7)	—	(1)	—	—	(1)
Share-based payments	—	—	—	—	5,654	—	—	5,654
Balances at June 30, 2012	133,965	\$ 134	(39,632)	\$(149,666)	\$ 970,609	\$(861)	\$(640,576)	\$ 179,640
Net income	—	—	—	—	—	—	9,673	9,673
Other comprehensive loss, net	—	—	—	—	—	(516)	—	(516)
Exercise of options to purchase common stock	2,045	2	—	—	6,137	—	—	6,139
Issuance of common stock under employee stock purchase plan	605	1	—	—	1,699	—	—	1,700
Issuance of restricted stock, net of repurchases	712	1	—	—	(751)	—	—	(750)
Repurchase of common stock	(4,069)	(4)	—	—	(14,475)	—	—	(14,479)
Share-based payments	—	—	—	—	7,738	—	—	7,738
Retirement of treasury shares	(39,632)	(40)	39,632	149,666	(149,626)	—	—	—
Balances at June 30, 2013	93,626	\$ 94	—	\$—	\$ 821,331	\$(1,377)	\$(630,903)	189,145
Net loss	—	—	—	—	—	—	(57,310)	(57,310)
	—	—	—	—	—	938	—	938

Other comprehensive income, net								
Exercise of options to purchase common stock	1,791	2	—	—	6,436	—	—	6,438
Issuance of common stock under employee stock purchase plan	762	—	—	—	3,166	—	—	3,166
Issuance of restricted stock, net of repurchases	801	1	—	—	(1,588 )	—	—	(1,587 )
Share-based payments			—	—	15,922	—	—	15,922
Balances at June 30, 2014	96,980	\$ 97	—	\$—	\$ 845,267	\$ (439 )	\$ (688,213 )	\$ 156,712

See accompanying notes to consolidated financial statements.

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EXTREME NETWORKS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	Year Ended			
	June 30, 2014	June 30, 2013	June 30, 2012	
Cash flows from operating activities:				
Net (loss) income	\$(57,310	) \$9,673	\$15,872	
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Decrease in accrued investment income	923	1,600	2,786	
Depreciation	10,628	4,543	5,348	
Amortization of intangible assets	28,771	1,488	1,818	
Provision for (recovery of) doubtful accounts and allowance for sales returns	2,366	(173	) 127	
Deferred income taxes	(61	) (35	) 37	
Loss on retirement of assets	2,226	—	103	
Stock-based compensation	15,922	7,353	6,189	
Gain on disposition of long lived assets, net	—	(11,285	) —	
Foreign exchange gain on dissolution of entity	—	—	(1,887	)
Non-cash interest expense	173	—	—	
Unrealized gain/(loss) on foreign exchange transactions	405	291	(904	)
Changes in operating assets and liabilities, net				
Accounts receivable	(56,116	) (6,304	) (7,603	)