EXTREME NETWORKS INC
Form 10-Q
February 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2015

OR

o 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

EXTREME NETWORKS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	77-0430270
[State or other jurisdiction of incorporation or organization]	[I.R.S Employer Identification No.]

145 Rio Robles,	
San Jose, California	95134
[Address of principal executive office]	[Zip Code]

Registrant's telephone number, including area code: (408) 579-2800

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 x No o

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 x No o

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of the Registrant's Common Stock, $.001 par value, outstanding at January 22, 2016, was 103,319,359

EXTREME NETWORKS, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED December 31, 2015

INDEX

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	December 31, 2015	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 85,865	$76,225
Accounts receivable, net of allowances of $6,464 at December 31, 2015 and $2,396 at June 30, 2015	73,110	92,737
Inventories	56,601	58,014
Deferred income taxes	705	760
Prepaid expenses and other current assets	9,925	10,258
Total current assets	226,206	237,994
Property and equipment, net	32,948	39,862
Intangible assets, net	35,138	52,132
Goodwill	70,877	70,877
Other assets	27,618	27,795
Total assets	$ 392,787	$428,660
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 14,625	$11,375
Accounts payable	25,536	40,135
Accrued compensation and benefits	28,995	25,195
Accrued warranty	10,415	8,676
Deferred revenue, net	75,548	76,551
Deferred distributors revenue, net of cost of sales to distributors	31,677	40,875
Other accrued liabilities	29,968	32,623
Total current liabilities	216,764	235,430
Deferred revenue, less current portion	21,505	23,231
Long-term debt, less current portion	47,375	55,500
Deferred income taxes	3,471	2,979
Other long-term liabilities	8,536	7,285
Commitments and contingencies (Note 8)		
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; 103,229,140 shares	103	100

issued and outstanding at December 31, 2015 and 100,284,106 shares issued and outstanding at June 30, 2015		
Additional paid-in-capital	876,225	865,282
Accumulated other comprehensive loss	(2,576)	(1,291)
Accumulated deficit	(778,616)	(759,856)
Total stockholders’ equity	95,136	104,235
Total liabilities and stockholders’ equity	$ 392,787	$428,660

See accompanying notes to condensed consolidated financial statements.

3

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2015	2014	2015	2014
Net revenues:				
Product	$105,355	$ 112,501	$196,736	$ 215,173
Service	33,950	34,707	67,150	68,309
Total net revenues	139,305	147,208	263,886	283,482
Cost of revenues:				
Product	57,103	60,496	104,037	114,521
Service	11,927	11,550	24,456	23,272
Total cost of revenues	69,030	72,046	128,493	137,793
Gross profit:				
Product	48,252	52,005	92,699	100,652
Service	22,023	23,157	42,694	45,037
Total gross profit	70,275	75,162	135,393	145,689
Operating expenses:				
Research and development	20,716	24,000	40,984	47,347
Sales and marketing	37,058	43,971	73,120	88,750
General and administrative	9,775	10,306	18,951	21,380
Acquisition and integration costs	807	3,500	1,145	7,558
Restructuring charge, net of reversals	3,031	—	8,634	—
Amortization of intangibles	4,251	4,467	8,718	8,934
Total operating expenses	75,638	86,244	151,552	173,969
Operating loss	(5,363)	(11,082)	(16,159)	(28,280)
Interest income	29	196	56	342
Interest expense	(809)	(825)	(1,635)	(1,661)
Other income (expense), net	112	(64)	1,079	(498)
Loss before income taxes	(6,031)	(11,775)	(16,659)	(30,097)
Provision for income taxes	1,203	1,330	2,101	2,338
Net loss	$(7,234)	$ (13,105)	$(18,760)	$ (32,435)
Basic and diluted net loss per share:				
Net loss per share - basic	$(0.07)	$ (0.13)	$(0.18)	$ (0.33)
Net loss per share - diluted	$(0.07)	$ (0.13)	$(0.18)	$ (0.33)
Shares used in per share calculation - basic	102,369	98,677	101,677	97,996
Shares used in per share calculation - diluted	102,369	98,677	101,677	97,996

See accompanying notes to condensed consolidated financial statements.

4

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2015	2014	2015	2014
Net loss:	$(7,234)	$ (13,105)	$(18,760)	$ (32,435)
Other comprehensive loss, net of tax:				
Available for sale securities:				
Change in unrealized gains (losses) on available for sale securities, net of taxes	—	32	—	(25)
Net change in unrealized gains (losses) on available for sale securities, net of taxes	—	32	—	(25)
Net change in foreign currency translation adjustments	(421)	(654)	(1,285)	(1,420)
Other comprehensive loss	(421)	(622)	(1,285)	(1,445)
Total comprehensive loss	$(7,655)	$ (13,727)	$(20,045)	$ (33,880)

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014
Cash flows from operating activities:		
Net loss	$(18,760)	$ (32,435)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	5,366	6,406
Amortization of intangible assets	16,994	17,997
Provision for doubtful accounts and allowance for sales returns	2,122	2,520
Stock-based compensation	8,616	9,563
Non-cash restructuring charges	3,220	—
Other non-cash charges	(275)	512
Changes in operating assets and liabilities, net		
Accounts receivable	15,180	28,624
Inventories	1,413	2,679
Prepaid expenses and other assets	277	(8)
Accounts payable	(14,628)	8,196
Accrued compensation and benefits	3,800	(4,202)
Deferred revenue	(2,729)	608
Deferred distributor revenue, net of cost of sales to distributors	(6,874)	(811)
Other current and long term liabilities	245	1,804
Net cash provided by operating activities	13,967	41,453
Cash flows from investing activities:		
Capital expenditures	(1,409)	(3,962)
Proceeds from maturities of investments and marketable securities	—	3,000
Proceeds from sales of investments and marketable securities	—	9,051
Purchases of intangible assets	—	(419)
Net cash (used in) provided by investing activities	(1,409)	7,670
Cash flows from financing activities:		
Borrowings under Revolving Facility	15,000	24,000
Repayment of debt	(19,875)	(56,438)
Proceeds from issuance of common stock	2,330	1,722
Net cash used in financing activities	(2,545)	(30,716)
Foreign currency effect on cash	(373)	(2,625)
Net increase in cash and cash equivalents	9,640	15,782

Cash and cash equivalents at beginning of period	76,225	73,190
Cash and cash equivalents at end of period	$85,865	$ 88,972

See accompanying notes to the condensed consolidated financial statements.

EXTREME NETWORKS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Extreme Networks, Inc. (“Extreme Networks” or the “Company”) is a leading provider of network infrastructure equipment and markets its products primarily to business, governmental, health care, service provider, and educational customers with a focus on large corporate enterprises and metropolitan service providers on a global basis. The Company conducts its sales and marketing activities on a worldwide basis through distributors, resellers and the Company’s field sales organization. Extreme Networks was incorporated in California in 1996 and reincorporated in Delaware in 1999.

The unaudited condensed consolidated financial statements of Extreme Networks included herein have been prepared under the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted under such rules and regulations. The condensed consolidated balance sheet at June 30, 2015 was derived from audited financial statements as of that date but does not include all disclosures required by generally accepted accounting principles for complete financial statements. These interim financial statements and notes should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2015.

The unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations and cash flows for the interim periods presented and the financial condition of Extreme Networks at December 31, 2015. The results of operations for the three and six months ended December 31, 2015 are not necessarily indicative of the results that may be expected for fiscal 2016 or any future periods.

Fiscal Year

The Company uses a fiscal calendar year ending on June 30. All references herein to "fiscal 2016" or "2016" represent the fiscal year ending June 30, 2016.

Principles of Consolidation

The consolidated financial statements include the accounts of Extreme Networks and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated.

Accounting Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are used for, but are not limited to, the accounting for the allowances for doubtful accounts and sales returns, determining the fair value of acquired assets and assumed liabilities, estimated selling prices, inventory valuation and purchase commitments, depreciation and amortization, impairment of long-lived assets including goodwill, warranty accruals, restructuring liabilities, measurement of share-based compensation costs and income taxes. Actual results could differ materially from these estimates.

The Company predominantly uses the United States Dollar as its functional currency. The functional currency for certain of its foreign subsidiaries is the local currency. For those subsidiaries that operate in a local currency functional environment, all assets and liabilities are translated to United States Dollars at current month end rates of exchange; and revenue and expenses are translated using the monthly average rate.

Certain balances included in the condensed consolidated statements of cash flows related to restructuring liabilities for prior periods have been reclassified to conform to the current period presentation. In the condensed consolidated statement of cash flows, the changes in operating assets and liabilities for Other long-term liabilities includes the changes in restructuring liabilities and other accrued liabilities which were previously disclosed separately.

2. Summary of Significant Accounting Policies

For a description of significant accounting policies, see Note 3, Summary of Significant Accounting Policies, to the consolidated financial statements included in the Company's Annual report on Form 10-K for the fiscal year ended June 30, 2015. There have been no material changes to the Company's significant accounting policies since the filing of the Annual report on Form 10-K.

3. Recently Issued Accounting Pronouncements

For a description of recently issued accounting pronouncements, see Note 4, Recently Issued Accounting Pronouncements, to the consolidated financial statements included in the Company's Annual report on Form 10-K for the fiscal year ended June 30, 2015. The following are accounting pronouncements issued that may materially affect the Company's financial statements since the filing of the Annual report on Form 10-K.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 ("ASU 2015-17"), Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. To simplify the presentation of deferred income taxes, ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. The amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period and the amendments for ASU-2015-17 can be applied retrospectively or prospectively. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

4. Balance Sheet Accounts

Cash and Cash Equivalents

The following is a summary of cash and available-for-sale securities (in thousands):

	December 31, 2015	June 30, 2015
Cash	$ 81,096	$71,455
Cash equivalents	$ 4,769	$4,770
Total available-for-sale	$ 4,769	$4,770
Total cash, cash equivalents and available for sale securities	$ 85,865	$76,225

The Company considers highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Investments with original maturities of greater than three months, but less than one year at the balance sheet date are classified as short-term investments.

Inventory Valuation

The Company’s inventory balances as of December 31 and June 30, 2015 were $56.6 million and $58.0 million, respectively. The Company values its inventory at lower of cost or market. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. The Company has established inventory allowances primarily determined by the age of inventory or when conditions exist that suggest that inventory may be in excess of anticipated demand or is obsolete based upon assumptions about future demand. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. Any written down or obsolete inventory subsequently sold has not had a material impact on gross margin for any of the periods disclosed.

The following is a summary of our inventory by category (in thousands):

	December 31, 2015	June 30, 2015
Finished goods	$ 52,640	$ 55,301
Raw materials	3,961	2,713
Total Inventory	$ 56,601	$ 58,014

Property and Equipment, Net

Property and equipment consist of the following (in thousands):

	December 31, 2015	June 30, 2015
Computer equipment	$ 33,943	$ 32,753
Purchased software	5,671	5,425
Office equipment, furniture and fixtures	11,113	10,908
Leasehold improvements	20,682	24,293
Total property and equipment	71,409	73,379
Less: accumulated depreciation and amortization	(38,461)	(33,517)
Property and equipment, net	$ 32,948	$ 39,862

Intangibles

The following tables summarize the components of gross and net intangible asset balances (in thousands):

	Weighted Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2015				
Developed technology	0.65 years	$ 48,000	$ 36,194	$ 11,806
Customer relationships	0.75 years	37,000	26,722	10,278
Maintenance contracts	2.75 years	17,000	7,367	9,633
Trademarks	0.75 years	2,500	1,805	695
Order backlog	0.00 years	7,400	7,400	—
License agreements	9.90 years	3,596	1,494	2,102

Other intangibles	4.20 years	1,426	802	624
Total intangibles, net		$ 116,922	$ 81,784	$ 35,138

	Weighted Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
June 30, 2015				
Developed technology	1.20 years	$ 48,000	$ 28,194	$ 19,806
Customer relationships	1.30 years	37,000	20,556	16,444
Maintenance contracts	3.30 years	17,000	5,667	11,333
Trademarks	1.30 years	2,500	1,389	1,111
Order backlog	0.30 years	7,400	6,967	433
License agreements	10.20 years	10,924	8,620	2,304
Other intangibles	3.80 years	2,684	1,983	701
Total intangibles, net		$ 125,508	$ 73,376	$ 52,132

Amortization expense for the three months ended December 31, 2015 and 2014, was $8.1 million and $9.0 million, respectively. For the three months ended December 31, 2015 and 2014 amortization expense of $3.8 million and $4.5 million, respectively, is included in “Cost of revenues for products” on the condensed consolidated statements of operations. Amortization expense for the six months ended December 31, 2015 and 2014, was $17.0 million and $18.0 million, respectively. For the six months ended

December 31, 2015 and 2014 amortization expense of $8.3 million and $9.1 million, respectively, is included in "Cost of revenues for products" on the condensed consolidated statements of operations. The remainder of the amortization expense is included in "Amortization of intangibles" on the condensed consolidated statement of operations for all periods. The amortization expense that is recognized in "Cost of revenues for products" is comprised of amortization for developed technology, license agreements and other intangibles.

Other Accrued Liabilities

The following are the components of other accrued liabilities (in thousands):

	December 31, 2015	June 30, 2015
Accrued general and administrative costs	$ 4,383	$ 1,204
Restructuring	2,588	5,854
Other accrued liabilities	22,997	25,565
Total other accrued liabilities	$ 29,968	$ 32,623

Deferred Revenue, Net

Deferred revenue, net represents amounts for (i) deferred services revenue (support arrangements, professional services and training), and (ii) deferred product revenue net of the related cost of revenue when the revenue recognition criteria have not been met.

The following table summarizes deferred revenue, net (in thousands):

	December 31, 2015	June 30, 2015
Deferred services	$ 84,706	$ 87,441
Deferred product and other revenue	12,347	12,341
Total deferred revenue	97,053	99,782
Less: current portion	75,548	76,551
Non-current deferred revenue, net	$ 21,505	$ 23,231

The Company offers for sale to its customers, renewable support arrangements that range from one to five years. Deferred support revenue is included within deferred revenue, net within the services category above. The change in the Company's deferred support revenue balance in relation to these arrangements was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,

	2015	2014	2015	2014
Balance beginning of period	$85,255	$ 87,012	$87,441	$ 89,657
New support arrangements	29,773	35,517	56,819	64,056
Recognition of support revenue	(30,322)	(31,156)	(59,554)	(62,340)
Balance end of period	84,706	91,373	84,706	91,373
Less: current portion	63,201	67,433	63,201	67,433
Non-current deferred revenue	$21,505	$ 23,940	$21,505	$ 23,940

Deferred Distributors Revenue, Net of Cost of Sales to Distributors

The Company records revenue from its distributors on a sell-through basis, recording deferred revenue and deferred cost of sales associated with all sales transactions to its distributors in “Deferred distributors revenue, net of cost of sales to distributors” in the liability section of its condensed consolidated balance sheet. The amount shown as “Deferred distributors revenue, net of cost of sales to distributors” represents the deferred gross profit on sales to distributors based on contractual pricing.

The following table summarizes deferred distributors revenue, net of cost of sales to distributors (in thousands):

	December 31, 2015	June 30, 2015
Deferred distributors revenue	$ 41,653	$53,366
Deferred cost of sales to distributors	(9,976)	(12,491)
Deferred distributors revenue, net of cost of sales to distributors	$ 31,677	$40,875

Debt

The Company’s debt is comprised of the following:

	December 31, 2015	June 30, 2015
Current portion of long-term debt:		
Term Loan	$ 14,625	$11,375
Current portion of long-term debt	$ 14,625	$11,375
Long-term debt, less current portion:		
Term Loan	$ 37,375	$45,500
Revolving Facility	10,000	10,000
Total long-term debt, less current portion	47,375	55,500
Total debt	$ 62,000	$66,875

During fiscal 2015, the Company amended its credit agreement which provides for a five-year revolving credit facility for up to $50.0 million (the “Revolving Facility”) and a $65.0 million five-year term loan (the “Term Loan”) and together with the Revolving Facility the (“Senior Secured Credit Facilities, as amended”).

The Senior Secured Credit Facilities, as amended contains, among others, certain financial covenants that require the Company to maintain defined minimum financial ratios which may limit the Company’s availability to borrowings under the Revolving Facility. As of December 31, 2015, the Company had $32.2 million of availability under the Revolving Facility and is in compliance with its covenants.

The Company had $1.0 million of outstanding letters of credit as of December 31, 2015.

Guarantees and Product Warranties

Networking products may contain undetected hardware or software errors when new products or new versions or updates of existing products are released to the marketplace. In the past, we had experienced such errors in connection with products and product updates. The Company’s standard hardware warranty period is typically 12 months from the date of shipment to end-users and 90 days for software. For certain access products, the Company offers a limited lifetime hardware warranty commencing on the date of shipment from the Company and ending five (5) years following the Company's announcement of the end of sale of such product. Upon shipment of products to its customers, the Company estimates expenses for the cost to repair or replace products that may be returned under warranty and accrue a liability in cost of product revenue for this amount. The determination of the Company's warranty requirements is based on actual historical experience with the product or product family, estimates of repair and replacement costs and any product warranty problems that are identified after shipment. The Company estimates and adjusts these accruals at each balance sheet date in accordance with changes in these factors.

Upon issuance of a standard product warranty, the Company discloses and recognizes a liability for the obligations it assumes under the product warranty. The following table summarizes the activity related to the Company's product warranty liability during the three and six months ended December 31, 2015 and 2014:

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2015	2014	2015	2014
Balance beginning of period	$9,244	$ 7,889	$8,676	$ 7,551
New warranties issued	2,956	1,683	5,520	3,948
Warranty expenditures	(1,785)	(1,727)	(3,781)	(3,654)
Balance end of period	$10,415	$ 7,845	$10,415	$ 7,845

To facilitate sales of its products in the normal course of business, the Company indemnifies its resellers and end-user customers with respect to certain matters. The Company has agreed to hold the customer harmless against losses arising from a breach of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. It is not possible to estimate the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material impact on its operating results or financial position.

Advertising

Cooperative advertising expenses are recorded as marketing expenses to the extent that an advertising benefit separate from the revenue transaction can be identified and the cash paid does not exceed the fair value of that advertising benefit received. Cooperative advertising obligations with customers are accrued and the costs expensed at the time the related revenue is recognized. If the Company does not meet the criteria for recognizing such cooperative advertising obligations as marketing expense, the costs are recorded as a reduction of revenue. All other advertising costs are expensed as incurred. Advertising expenses for three and six months ended December 31, 2015 and 2014, were immaterial.

Concentrations

The Company may be subject to concentration of credit risk as a result of certain financial instruments consisting of accounts receivable and short-term investments. The Company does not invest an amount exceeding 10% of its combined cash or cash equivalents in the securities of any one obligor or maker, except for obligations of the United States government, obligations of United States government agencies and money market accounts.

The Company performs ongoing credit evaluations of its customers and generally does not require collateral in exchange for credit.

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

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2015	2014	2015	2014
Tech Data Corporation	19%	15%	16%	15%
Westcon Group Inc.	14%	13%	15%	13%
Jenne	12%	*	11%	*

* Less than 10% of net revenue

12

5. Fair Value Measurements

A three-tier fair value hierarchy is utilized to prioritize the inputs used in measuring fair value. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels are defined as follows:

- Level 1 Inputs - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs - quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument; and
- Level 3 Inputs - unobservable inputs reflecting the Company's own assumptions in measuring the asset or liability at fair value.

The Company did not hold any financial liabilities that required measurement at fair value on a recurring basis. The following table presents the Company’s fair value hierarchy for its financial assets measured at fair value on a recurring basis (in thousands):

December 31, 2015	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Investments:				
Money market funds	$4,769	$ —	$ —	$4,769
Total	$4,769	$ —	$ —	$4,769

June 30, 2015	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Investments:				
Money market funds	$4,770	$ —	$ —	$4,770
Total	$4,770	$ —	$ —	$4,770

Level 2 investments: the Company includes U.S. government and sovereign obligations, most government agency securities, investment-grade corporate bonds, and state, municipal and provincial obligations for which quoted prices are available as Level 2. There were no transfers of assets or liabilities between Level 1 and Level 2 for the periods presented.

The fair value of the borrowings under the Senior Secured Credit Facility, as amended is estimated based on valuations provided by alternative pricing sources supported by observable inputs which is considered Level 2. Due to the short duration until maturity of the credit facility, the fair value approximates the carrying amount of the Company’s total long-term indebtedness, including current portion of $62.0 million and $66.9 million as of December 31 and June 30, 2015, respectively.

Level 3 investments: The Company does not hold any level 3 investments.

Certain of the Company's assets, including intangible assets and goodwill are measured at fair value on a non-recurring basis if impairment is indicated. There were no impairments recorded for the three and six months ended December 31, 2015 or 2014.

6. Share-based Compensation

Shares reserved for issuance

As of December 31, 2015, the Company had reserved for issuance (in thousands):

	December 31, 2015	June 30, 2015
2014 Employee Stock Purchase Plan	11,000	12,000
Employee stock options and awards outstanding	12,485	15,273
Employee stock options and awards available for grant	4,768	5,450
Total shares reserved for issuance	28,253	32,723

Share-based compensation expense recognized in the condensed consolidated financial statements by line item caption is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2015	2014	2015	2014
Cost of product revenue	$277	$ 275	$572	$ 558
Cost of service revenue	277	272	644	563
Research and development	1,165	1,544	2,795	3,188
Sales and marketing	1,291	1,566	2,719	3,123
General and administrative	935	1,092	1,886	2,131
Total share-based compensation expense	$3,945	$ 4,749	$8,616	$ 9,563

During the three and six months ended December 31, 2015 and 2014, the Company did not capitalize any share-based compensation expense in inventory, as the amounts were immaterial.

Stock Awards

Stock awards may be granted under the 2013 Equity Incentive Plan (the "2013 Plan") on terms approved by the Compensation Committee of the Board of Directors. Stock awards generally provide for the issuance of restricted stock units (including performance or market-based restricted stock units) which vest over a fixed period.

The following table summarizes stock award activity for the six months ended December 31, 2015 (in thousands, except grant date fair value):

	Number of Shares (000's)	Weighted-Average Grant-Date Fair Value	Aggregate Fair Market Value ($000's)
Non-vested stock awards outstanding at June 30, 2015	4,597	$ 3.82	
Granted	2,889	$ 3.14	
Vested	(1,729)	$ 4.68	
Cancelled	(582)	$ 3.77	
Non-vested stock awards outstanding at December 31, 2015	5,175	$ 3.16	$ 21,113

The following table summarizes stock option activity under all plans for the six months ended December 31, 2015 (in thousands, except per share and contractual term):

	Weighted-Average	Weighted-Average	Aggregate

	Number of Shares (000's)	Exercise Price Per Share	Remaining Contractual Term (years)	Intrinsic Value (000's)
Options outstanding at June 30, 2015	10,604	$ 4.03	3.79	410
Granted	5	$ 3.79		
Exercised	(240)	$ 3.23		
Cancelled	(3,059)	$ 3.83		
Options outstanding at December 31, 2015	7,310	$ 4.13	4.32	$ 3,632
Exercisable at December 31, 2015	4,908	$ 4.14	3.39	$ 2,174
Vested and expected to vest at December 31, 2015	6,984	$ 4.12	4.25	$ 3,476

The weighted-average grant-date fair value of options granted during the three and six months ended December 31, 2015 was $1.59. The weighted-average grant-date fair value of options granted during the three and six months ended December 31, 2014 was $1.66 and $1.96, respectively.

The weighted-average fair value of shares granted under the Company's 2014 ESPP during the six months ended December 31, 2015, was $1.97. The weighted-average fair value of shares granted under the Company's 1999 ESPP during the three and six months ended December 31, 2014, was $1.17 and $1.33, respectively.

The Company uses the straight-line method for expense attribution, and the Company estimates forfeitures and only recognizes expense for those shares expected to vest. The Company’s estimated forfeiture rate for fiscal 2016 is based on the Company’s historical forfeiture experience and is 13% for non-executives and 19% for executives.

The fair value of each stock option grant under the Company's 2013 Plan and 2005 Equity Incentive Plan is estimated on the date of grant using the Black-Scholes-Merton option valuation model with the weighted average assumptions noted in the following table. The Company uses the Monte-Carlo simulation model to determine the fair value and the derived service period of stock awards with market conditions, on the date of the grant. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The risk-free rate is based upon the estimated life of the option and is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on a blended rate of the implied volatilities from traded options on the Company’s stock and historical volatility on the Company’s stock.

The fair value of each share purchase option under the Company's 2014 ESPP and 1999 ESPP is estimated on the date of grant using the Black-Scholes-Merton option valuation model with the weighted average assumptions noted in the following table. The expected term of the 2014 ESPP and the 1999 ESPP represents the term of the offering period of each option. The risk-free rate is based upon the estimated life and is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on a blended rate of the implied volatilities from traded options and historical volatility on the Company’s stock.

	Stock Option Plan		Employee Stock Purchase Plan		Stock Option Plan		Employee Stock Purchase Plan	
	Three Months Ended		Three Months Ended		Six Months Ended		Six Months Ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Expected life	4.0 years	4.8 years	—	0.25 years	4.0 years	4.7 years	1.25 years	0.25 years
Risk-free interest rate	1.78 %	1.67 %	— %	0.03 %	1.78 %	1.61 %	0.29 %	0.02 %
Volatility	52 %	54 %	— %	63 %	52 %	54 %	58 %	57 %
Dividend yield	— %	— %	— %	— %	— %	— %	— %	— %

7. Restructuring Charges

As of December 31, 2015, restructuring liabilities were $4.7 million and consisted of obligations for severance benefits, contract termination and other expenses. The short-term restructuring liability is recorded in "Other accrued liabilities" and the long-term restructuring liability is recorded in "Other long-term liabilities" in the condensed consolidated balance sheets. During the three and six months ended December 31, 2015, the Company recorded restructuring charges of $3.0 million and $8.6 million, respectively. Included in the restructuring charges were offsets for future sub-leasing income. The Company has estimated the sub-lease income based on its existing leases agreement, as well the real estate market conditions at the respective locations. The Company also factored into its estimate the time for a sub-lease tenant to enter into an agreement and complete any improvements. The Company will reevaluate any sub-lease income on a regular basis and adjust the accrual as necessary if and when facts should change.

Fiscal 2015 Restructuring

During the fourth quarter of fiscal 2015, we reduced costs through targeted restructuring activities intended to reduce operating costs and realign our organization in the current competitive environment. We initiated a plan to reduce our worldwide headcount by more than 225 employees, primarily in sales and marketing, as well as research and development, consolidate specific global administrative functions, and shift certain operating costs to lower cost regions, among other actions.

Phase Two

During the first half of fiscal 2016, we continued our initiative to realign our operations with a second phase by abandoning excess facilities, primarily in San Jose, California; Salem, New Hampshire; Research Triangle Park, North Carolina and Shannon, Ireland. The abandoned facilities represented approximately 29% of the floor space at these locations and included general office and warehouse space. There may be additional abandonments of excess facilities in future periods as we further align our organization to our business and operational needs.

During the first quarter fiscal of 2016, in conjunction with the exiting of facilities noted above, the Company recorded restructuring charges of $5.6 million including $5.4 million for excess facility charges and adjustments to service benefits of $0.2 million. Excess facilities charges included $4.1 million of accrued lease costs pertaining to the estimated future obligations for non-cancelable lease payments for excess facilities and accelerated depreciation of leasehold improvements in the amount of $1.3 million. This charge is reflected in "Restructuring charge, net of reversals" in the condensed consolidated statements of operations.

During the second quarter fiscal of 2016, in conjunction with the exiting of the facilities noted above, the Company incurred restructuring charges of $3.0 million including $2.9 million in excess facilities charges related to amending its lease in North Carolina, thereby reducing it floor space by 36%, and adjustments to severance benefits of $0.2 million. Excess facilities charges included accelerated depreciation of leasehold improvements in the amount of $1.9 million and contract termination charges and professional fees of $1.0 million. This charge is reflected in "Restructuring charge, net of reversals" in the condensed consolidated statements of operations.

As of December 31, 2015, the Company had restructuring liabilities of $4.7 million. The severance benefits accrual is expected to be paid by the end of the third quarter of fiscal 2016. The excess facilities accrual payments will continue through fiscal year 2023, due to the length of the agreements.

Restructuring liabilities consist of (in thousands):

	Excess Facilities	Severance Benefits	Other	Total
Balance as of June 30, 2015	$ —	$ 5,737	$ 117	$ 5,854
Period charges	5,409	321	178	5,908
Period reversals	—	(235)	(70)	(305)
Non cash adjustments	(1,344)	—	—	(1,344)
Period payments	(42)	(4,207)	(125)	(4,374)
Balance as of September 30, 2015	4,023	1,616	100	5,739
Period charges	2,874	347	53	3,274
Period reversals	(14)	(209)	(20)	(243)
Non cash adjustments	(1,876)	—	—	(1,876)
Period payments	(653)	(1,365)	(133)	(2,151)
Balance as of December 31, 2015	$ 4,354	$ 389	$ —	$ 4,743
Less: current portion recorded in Other accrued liabilities				(2,588)
Restructuring accrual included in Other long-term liabilities				$ 2,155

8. Commitments and Contingencies

Purchase Commitments

The Company currently has arrangements with contract manufacturers and suppliers for the manufacture of its products. The arrangements allow them to procure long lead-time component inventory based upon a rolling production forecast provided by the Company. The Company is obligated to purchase long lead-time component inventory that its contract manufacturer procures in accordance with the Company's forecast, unless the Company gives notice of order cancellation outside of applicable component lead-times. As of December 31, 2015, the Company had non-cancelable commitments to purchase $64.3 million of such inventory.

Legal Proceedings

The Company may from time to time be party to litigation arising in the course of its business, including, without limitation, allegations relating to commercial transactions, business relationships or intellectual property rights. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources. Litigation in general and intellectual property and securities litigation in particular, can be expensive and disruptive to normal business operations. Moreover, the results of legal proceedings are difficult to predict.

In accordance with applicable accounting guidance, the Company records accruals for certain of its outstanding legal proceedings, investigations or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. The Company evaluates, at least on a quarterly basis, developments in legal proceedings, investigations or claims that could affect the amount of any accrual, as well as any developments that would result in a loss contingency to become both probable and reasonably estimable. When a loss contingency is not both probable and reasonably estimable, the Company does not record a loss accrual. However, if the loss (or an additional loss in excess of any prior accrual) is at least a reasonable possibility and material, then the Company would disclose an estimate of the possible loss or range of loss, if such estimate can be made, or disclose that an estimate cannot be made. The assessment whether a loss is probable or a reasonable possibility, and whether the loss or a range of loss is estimable, involves a series of complex judgments about future events. Even if a loss is reasonably possible, the Company may not be able to estimate a range of possible loss, particularly where (i) the damages sought are substantial or indeterminate, (ii) the proceedings are in the early stages, or (iii) the matters involve novel or unsettled legal theories or a large number of parties. In such cases, there is considerable uncertainty regarding the ultimate resolution of such matters, including the amount of any possible loss, fine or penalty. Accordingly, for current proceedings, except as noted below, the Company is currently unable to estimate any reasonably possible loss or range of possible loss. However, an adverse resolution of one or more of such matters could have a material adverse effect on the Company's results of operations in a particular quarter or fiscal year.

Brazilian Tax Assessment Matters

Certain Brazilian tax authorities have made tax assessments against our Brazilian subsidiary, Enterasys Networks do Brazil Ltda., based on an alleged underpayment of taxes. The tax authorities are also seeking interest and penalties with respect to such claims (collectively, the “ICMS Tax Assessments”). The State of Sao Paolo, Brazil denied Enterasys Networks do Brazil Ltda. the use of certain tax credits granted by the State of Espirito Santo, Brazil under the terms of the FUNDAP program for the tax years of 2002 through 2009. The Company’s application to resolve the ICMS Tax Assessments at the administrative level of the Sao Paolo Tax Department under the amnesty relief program (Reference No 3.056.963-1) was denied in March, 2014, by the Sao Paolo Tax Administration. The value of the ICMS tax credits that were disallowed by the Sao Paolo Tax Administration is BR 3.4 million (US $0.9 million), plus interest and penalties BR 16.6 million (US $4.3 million). Possible court fees are estimated to be BR 4.0 million (US $1.0 million). On January 10, 2014, the Company filed a lawsuit to overturn or reduce the ICMS Assessments, which lawsuit remains on-going. As part of this lawsuit, the Company made a request for a stay of execution, so that no tax foreclosure can be filed until a final ruling is made and no guarantee needs to be presented. On or about October 6, 2014, the preliminary injunction was granted with regard to the stay of execution, and in response to an appeal on the guarantee requirement, the appellant court further ruled on or about January 28, 2015 that no cash deposit (or guarantee) need be made by the Company.

On or about June 18, 2014, the State of San Paolo notified Enterasys Networks do Brazil Ltda. that it intends to audit the records of such entity for tax years 2012 and 2013. In addition, the Company received a similar notice in December 2015 with respect to an audit by the State of San Paolo of tax years 2011-2014. The audits are expected to cover the same or very similar issues as the ICMS Tax Assessments for tax years 2002-2009, however, the Company changed their ICMS procedures effective May 2009 and a similar tax assessment is not anticipated. The Company has provided the requested information for these tax years to the Brazilian tax authorities, but has received no further response from the Brazilian tax authorities.

Based on the currently available information, the Company believes the ultimate outcome of the above audits and assessments will not have a material adverse effect on the Company's financial position or overall results of operations. The Company believes that the ICMS Tax Assessments against our Brazilian subsidiary are without merit and we are defending the claims vigorously. While the Company believes there is no legal basis for the alleged liability, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserted, we are unable to determine the likelihood of an unfavorable outcome against our Brazilian subsidiary and estimate the potential tax liability related to the ICMS Tax Assessments, if any, may be up to BR23.4 million (US $6.0 million). We do not expect a final judicial determination for several years. The Company believes BR 9.4 million (US $2.4 million) is the best estimate within the range and has recorded an accrual as of the Acquisition Date of Enterasys as such matter relates to the period before the acquisition.

The Company made a demand on April 11, 2014 for a defense from, and indemnification by, the former equity holder of Enterasys Networks (“Seller”) of the ICMS Tax Assessments. Seller agreed to assume the defense of the ICMS Tax Assessments on May 20, 2014. In addition, through the settlement of the Unify Indemnification Suit on June 18, 2015, Seller has agreed to continue to defend the Company with respect to the ICMS Tax Assessments and to indemnify the Company for losses related thereto subject to certain conditions. In addition, the Seller has agreed to indemnify the Company in connection with tax assessments up to a specified cap related to the 2012 and 2013 tax years subject to certain conditions. These conditions include the offsetting of foreign income tax benefits realized by the Company in the connection with the acquisition of Enterasys. Based upon current projections of the foreign income tax benefits to be realized, the Company does not anticipate that any amounts under the indemnification will be due from Seller in connection with either the ICMS Tax Assessments or any potential tax assessments for tax years 2012 and 2013.

In re Extreme Networks, Inc. Securities Litigation

On October 23 and 29, 2015, complaints were filed for violations of securities laws in the U.S. District Court for the Northern District of California against the Company and three of its current or former officers (Charles W. Berger, Kenneth B. Arola, and John T. Kurtzweil). Subsequently, the cases were consolidated. Plaintiffs allege that defendants violated the securities laws by disseminating materially false and misleading statements and concealing material adverse facts regarding Extreme Networks' current financial condition and growth prospects. Plaintiffs seek damages of an unspecified amount on behalf of a purported class of investors who purchased the Company's common stock from November 4, 2013 through April 9, 2015. Motions for appointment of lead plaintiff have been filed, and are scheduled to be heard on May 5, 2016. The Company believes the claims are without merit and intends to vigorously defend the claims.

Indemnification Obligations

Subject to certain limitations, the Company may be obligated to indemnify its current and former directors, officers and employees. These obligations arise under the terms of its certificate of incorporation, its bylaws, applicable contracts, and Delaware and California law. The obligation to indemnify, where applicable, generally means that the Company is required to pay or reimburse, and in certain circumstances the Company has paid or reimbursed, the individuals' reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters. It is not possible to estimate the maximum potential amount under these indemnification agreements due to the limited history of these claims. The cost to defend the Company and the named individuals could have a material adverse effect on its consolidated financial position, results of operations and cash flows in the future. Recovery of such costs under its director and officers’ insurance coverage is uncertain. As of December 31, 2015, the Company had no outstanding indemnification claims.

9. Income Taxes

For the three and six months ended December 31, 2015, the Company recorded an income tax provision of $1.2 million and $2.1 million, respectively. For the three and six months ended December 31, 2014, the Company recorded an income tax provision of $1.3 million and $2.3 million, respectively.

The income tax provisions for the three and six months ended December 31, 2015 and 2014, consisted primarily of taxes on the income of our foreign subsidiaries as well as tax expense associated with the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisition of Enterasys Networks, Inc. The income tax provisions for both fiscal years were calculated based on the actual results of operations for the three and six months ended December 31, 2015 and 2014, and therefore may not reflect the annual effective tax rate.

The Company has provided a full valuation allowance against all of its U.S. federal and state deferred tax assets as well as the deferred tax assets in Australia, Brazil, Japan and Singapore. A valuation allowance is determined by assessing both negative and positive evidence to determine whether it is “more likely than not” that the deferred tax assets are recoverable; such assessment is required on a jurisdiction by jurisdiction basis. The Company's inconsistent earnings in recent periods, including a cumulative loss over the last three years, coupled with its difficulty in forecasting future revenue trends as well as the cyclical nature of its business represent sufficient negative evidence to require a full valuation allowance against its U.S. federal and state net deferred tax assets as well as the above mentioned foreign jurisdictions. This valuation allowance will be evaluated periodically and can be reversed partially or in whole if business results and the economic environment have sufficiently improved to support realization of some or all of the Company's deferred tax assets.

During 2015, Congress passed legislation that would make the R&D Tax Credit permanent and on December 18, 2015, President Obama signed the Protecting Americans from Tax Hikes (“PATH”) Act of 2015, which includes a provision making permanent the R&D tax credit under Section 41 of the Code. This credit previously expired on December 31, 2014. The Company’s balance sheet at December 31, 2015, reflects this retroactive reinstatement of the credit to January 1, 2015 offset in full by a valuation allowance.

The acquisition of Enterasys included a U.S. parent company as well as its wholly-owned domestic and foreign subsidiaries. The Company has elected to treat this stock acquisition as an asset purchase by filing the required election forms under IRC Sec 338(h)(10). The Company has estimated the value of the intangible assets from this transaction and is amortizing the amount over 15 years for tax purposes. During the three and six months ended

December 31, 2015, the Company deducted $1.1 million and $2.2 million of tax amortization expense, respectively related to capitalized goodwill. As of December 31, 2015, the Company recorded a deferred tax liability of $3.6 million related to this amortization which is not considered a future source of taxable income in evaluating the need for a valuation allowance against our deferred tax assets.

The Company had $11.5 million of unrecognized tax benefits as of December 31, 2015. The future impact of the unrecognized tax benefit of $11.5 million, if recognized, would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. The Company does not anticipate any events to occur during the next twelve months that would reduce the unrealized tax benefit as currently stated in the Company’s balance sheet.

The Company’s policy is to accrue interest and penalties related to the underpayment of income taxes as a component of tax expense in the condensed consolidated statements of operations.

In general, the Company's U.S. federal income tax returns are subject to examination by tax authorities for fiscal years 2001 forward due to net operating losses and the Company's state income tax returns are subject to examination for fiscal years 2003 forward due to net operating losses.

10. Net Loss Per Share

Basic earnings per share is calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Dilutive earnings per share is calculated by dividing net earnings by the weighted average number of common shares used in the basic earnings per share calculation plus the dilutive effect of shares subject to repurchase, options, warrants and unvested restricted stock units.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Net loss	$(7,234)	$ (13,105)	$(18,760)	$ (32,435)
Weighted-average shares used in per share calculation - basic and diluted	102,369	98,677	101,677	97,996
Net loss per share - basic and diluted	$(0.07)	$ (0.13)	$(0.18)	$ (0.33)

The following securities were excluded from the computation of diluted net loss per share of common stock for the periods presented as their effect would have been anti-dilutive (in thousands):

	December 31, 2015	December 31, 2014
Options to purchase common stock	5,280	9,203
Restricted stock units	1,895	1,369
Employee Stock Purchase Plan shares	449	563

11. Foreign Exchange Forward Contracts

The Company from time to time enters 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. Changes in the fair value of these foreign exchange forward contracts are offset largely by re-measurement of the underlying assets and liabilities. At December 31, 2015, we did not have any forward foreign currency contracts.

Foreign currency transaction gains and losses from operations was a gain of $0.2 million and $1.3 million for the three and six months ended December 31, 2015, respectively. Foreign currency transaction gains and losses from operations was a gain of less than $0.1 million and a loss of $0.3 million for the three and six months ended December 31, 2014, respectively.

12. Disclosure about Segments of an Enterprise and Geographic Areas

The Company operates in one segment, the development and marketing of network infrastructure equipment. The Company conducts business globally and is managed geographically. Revenue is attributed to a geographical area based on the location of its customers. The Company operates in three geographical areas: 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, India, Australia and Japan.

The Company attributes revenues to geographic regions primarily based on the customer's ship-to location. Information regarding geographic areas is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
Net Revenues:	2015	2014	2015	2014
Americas:				
United States	$58,749	$ 58,160	$115,093	$ 116,648
Other	7,743	12,576	13,585	19,917
Total Americas	66,492	70,736	128,678	136,565
EMEA	60,102	62,574	111,128	116,509
APAC	12,711	13,898	24,080	30,408
Total net revenues	$139,305	$ 147,208	$263,886	$ 283,482

	December 31,	June 30,
Long Lived Assets:	2015	2015
Americas	$ 72,674	$87,071
EMEA	20,498	29,610
APAC	2,532	3,108
Total long lived assets	$ 95,704	$119,789

20

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q, 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 market demands, customer requirements and the general economic environment, future results of operations, and other statements that include words such as "may," "will," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," " "potential," "continue" and similar expressions. These forward-looking statements involve risks and uncertainties. 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 the section entitled "Risk Factors" in this Quarterly Report on Form 10-Q for the second quarter of fiscal 2016, our Annual Report on Form 10-K for the fiscal year ended June 30, 2015, and other filings we have made with the Securities and Exchange Commission. These risk factors, include, but are not limited to: fluctuations in demand for our products and services; a highly competitive business environment for network switching equipment; our effectiveness in controlling expenses; the possibility that we might experience delays in the development or introduction of new technology and products; customer response to our new technology and products; the timing of any recovery in the global economy; risks related to pending or future litigation; a dependency on third parties for certain components and for the manufacturing of our products; and our ability to receive the anticipated benefits of the acquisition of Enterasys.

Business Overview

We believe that understanding the following key developments is helpful to an understanding of our operating results for the fiscal quarter ended December 31, 2015.

We are a leading provider of network infrastructure equipment and offer related services contracts for extended warranty and maintenance to our enterprise, data center and service provider customers. We are a networking industry leader with more than 20,000 customers. We were incorporated in California in May 1996, and reincorporated in Delaware in March 1999. Our corporate headquarters are located in San Jose, California. Substantially all of our revenue is derived from the sale of our networking equipment and related service contracts.

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 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, 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.

Impact of the Global Economic Developments

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 have continued to be 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. Additionally, the continuation of the strong U.S. Dollar compared to most other currency, particularly on a year over year basis, has contributed to the conservative purchasing trends in many international locations.

21

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.

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. New software and hardware introductions during fiscal 2015 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 ourselves 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.

Results of Operations

During the second quarter of fiscal 2016, we achieved the following results:

- Net revenues of $139.3 million compared to $147.2 million in the second quarter of fiscal 2015.
- Product revenues of $105.4 million compared to $112.5 million in the second quarter of fiscal 2015.
- Service revenues of $34.0 million compared to $34.7 million in the second quarter of fiscal 2015.
- Total gross margin of 50% of net revenues compared to 51% of net revenues in the second quarter of fiscal 2015.
- Operating loss of $5.4 million compared to $11.1 million in the second quarter of fiscal 2015.
- Net loss of $7.2 million compared to $13.1 million in the second quarter of fiscal 2015.
- Cash flow provided by operating activities of $14.0 million in the six months ended December 31, 2015 compared to cash flow provided by operating activities of $41.5 million in the six months ended December 31, 2014.
- Cash and cash equivalents of $85.9 million as of December 31, 2015 compared to $76.2 million as of June 30, 2015.

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, India, and Australia.

The following table presents the total net revenue geographically for the three and six months ended December 31, 2015 and 2014 (dollars in thousands):

	Three Months Ended				Six Months Ended			
	December 31,	December 31,	$	%	December 31,	December 31,	$	%
Net Revenues	2015	2014	Change	Change	2015	2014	Change	Change
Americas:								
United States	$58,749	$ 58,160	$589	1.0 %	$115,093	$ 116,648	$(1,555)	(1.3)%
Other	7,743	12,576	(4,833)	(38.4)%	13,585	19,917	(6,332)	(31.8)%
Total Americas	66,492	70,736	(4,244)	(6.0)%	128,678	136,565	(7,887)	(5.8)%
Percentage of net revenue	47.7 %	48.1 %			48.8 %	48.2 %		
EMEA	60,102	62,574	(2,472)	(4.0)%	111,128	116,509	(5,381)	(4.6)%
Percentage of net revenue	43.1 %	42.5 %			42.1 %	41.1 %		
APAC	12,711	13,898	(1,187)	(8.5)%	24,080	30,408	(6,328)	(20.8)%
Percentage of net revenue	9.1 %	9.4 %			9.1 %	10.7 %		
Total net revenues	$139,305	$ 147,208	$(7,903)	(5.4)%	$263,886	$ 283,482	$(19,596)	(6.9)%

Net Revenues

The following table presents net product and service revenue for the three and six months ended December 31, 2015 and 2014 (dollars in thousands):

	Three Months Ended				Six Months Ended			
	December 31,	December 31,	$	%	December 31,	December 31,	$	%
	2015	2014	Change	Change	2015	2014	Change	Change
Net Revenues:								
Product	$105,355	$ 112,501	$(7,146)	(6.4)%	$196,736	$ 215,173	$(18,437)	(8.6)%
Percentage of net revenue	75.6 %	76.4 %			74.6 %	75.9 %		
Service	33,950	34,707	(757)	(2.2)%	67,150	68,309	(1,159)	(1.7)%
Percentage of net revenue	24.4 %	23.6 %			25.4 %	24.1 %		
Total net revenues	$139,305	$ 147,208	$(7,903)	(5.4)%	$263,886	$ 283,482	$(19,596)	(6.9)%

Product revenue decreased by $6.0 million or 5.3% and decreased $17.3 million or 8.0% for the three and six-month periods ended December 31, 2015, respectively, as compared to the corresponding periods of fiscal 2015. The decline in product revenues was due to the continuing strong U.S. Dollar and increased price competition.

Service revenue decreased $1.1 million or 3.1% in the second quarter of fiscal 2016, compared to the corresponding period of fiscal 2015. Customer service revenue declined $1.5 million due to lower maintenance revenues partially offset by lower purchase accounting charges related to deferred service revenues of $0.4 million in second quarter of fiscal 2016 as compared to $0.8 million in the second quarter of fiscal 2015.

Service revenue decreased $1.5 million or 2.2% in the six months ended December 31, 2015, compared to the corresponding period of fiscal 2015. Customer service revenue declined $2.3 million due to lower maintenance revenues partially offset by lower purchase accounting charges related to deferred service revenues of $0.8 million in the first half of fiscal 2016 as compared to $1.6 million in the first half of fiscal 2015.

The following table presents the product and service revenue gross profit and the respective gross profit percentages for the three and six months ended December 31, 2015 and 2014 (dollars in thousands):

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	$ Change	% Change	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014	$ Change	% Change
Gross profit:								
Product	$48,252	$52,005	$(3,753)	(7.2)%	$92,699	$100,652	$(7,953)	(7.9)%
Percentage of product revenue	45.8 %	46.2 %			47.1 %	46.8 %		
Service	22,023	23,157	(1,134)	(4.9)%	42,694	45,037	(2,343)	(5.2)%
Percentage of service revenue	64.9 %	66.7 %			63.6 %	65.9 %		
Total gross profit	$70,275	$75,162	$(4,887)	(6.5)%	$135,393	$145,689	$(10,296)	(7.1)%
Percentage of net revenue	50.4 %	51.1 %			51.3 %	51.4 %		

Product gross profit decreased $2.6 million or 5.0% in the second quarter of fiscal 2016 as compared to the corresponding period in fiscal 2015. Gross profit was impacted during the second quarter of fiscal 2016 by a decrease in product revenue of $6.0 million and higher excess inventory charges of $1.0 million and warranty charges of $1.3 million as compared to the corresponding period of fiscal 2015 offset by lower overhead costs of $0.6 million due in part to the reduction in force ("RIF") during the fourth quarter of fiscal 2015, lower royalties on older products which have been discontinued of $0.7 million and distribution expenses of $0.7 million.

Product gross profit decreased $6.8 million or 6.7% in the six months ended December 31, 2015 as compared to the corresponding period in fiscal 2015. Gross profit was impacted during the second quarter of fiscal 2016 by a decrease in product revenue of $17.3 million and higher excess inventory charges of $0.7 million and warranty charges of $1.4 million as compared to the corresponding period of fiscal 2015 offset by lower overhead costs of $1.3 million due in part to the RIF during the fourth quarter of fiscal 2015, lower royalties of $1.4 million on older products which have been discontinued and distribution expenses of $0.5 million.

Service gross profit decreased $1.5 million or 6.4% to $21.7 million in the second quarter of fiscal 2016 from $23.2 million in the second quarter of fiscal 2015. The decrease was due to lower service revenues of $1.1 million and higher professional fees of $0.4 million to service maintenance contracts as compared to the second quarter of fiscal 2015.

Service gross profit decreased $2.7 million or 6.0% to $42.3 million for the six months ended December 31, 2015 from $45.0 million. The decrease was due to lower service revenues of $1.5 million and excess inventory charges of $1.2 million for the first six months of fiscal 2016.

Operating Expenses

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

	Three Months Ended December 31,	Three Months Ended December 31,	$	%	Six Months Ended December 31,	Six Months Ended December 31,	$	%

	2015	2014	Change	Change	2015	2014	Change	Change
Research and development	$20,716	$ 24,000	$(3,284)	(13.7)%	$40,984	$ 47,347	$(6,363)	(13.4)%
Sales and marketing	37,058	43,971	(6,913)	(15.7)%	73,120	88,750	(15,630)	(17.6)%
General and administrative	9,775	10,306	(531)	(5.2)%	18,951	21,380	(2,429)	(11.4)%
Acquisition and integration costs	807	3,500	(2,693)	(76.9)%	1,145	7,558	(6,413)	(84.9)%
Restructuring charge, net of reversals	3,031	—	3,031	100.0 %	8,634	—	8,634	100.0 %
Amortization of intangibles	4,251	4,467	(216)	(4.8)%	8,718	8,934	(216)	(2.4)%
Total operating expenses	$75,638	$ 86,244	$(10,606)	(12.3)%	$151,552	$ 173,969	$(22,417)	(12.9)%
Operating loss	$(5,363)	$ (11,082)	$5,719	51.6 %	$(16,159)	$ (28,280)	$12,121	42.9 %

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.

24

Research and development expenses decreased by $3.3 million, or 13.7% for the three months ended December 31, 2015 as compared to the corresponding periods of fiscal 2015. The decreases in research and development expenses were due to lower personnel costs of $2.0 million primarily driven by the RIF during the fourth quarter of fiscal 2015 and reduced software tools and maintenance of $0.5 million.

Research and development expenses decreased by $6.4 million, or 13.4% for the six months ended December 31, 2015 as compared to the corresponding period of fiscal 2015. The decreases in research and development expenses were due to lower personnel costs of $4.3 million primarily driven by the RIF during the fourth quarter of fiscal 2015, reduced software tools and maintenance of $1.0 million.

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 decreased by $6.9 million, or 15.7% for the three months ended December 31, 2015 as compared to the corresponding periods of fiscal 2015. The decreases in sales and marketing expenses were primarily due to lower personnel costs (which includes benefits and stock based compensation) of $6.5 million as a result of the RIF during the fourth quarter of fiscal 2015.

Sales and marketing expenses decreased by $15.6 million, or 17.6% for the six months ended December 31, 2015 as compared to the corresponding period of fiscal 2015. The decreases in sales and marketing expenses were primarily due to lower personnel costs of $12.3 million as a result of the RIF during the fourth quarter of fiscal 2015 and a corresponding reduction of $2.3 million in travel and entertainment related expense.

General and Administrative Expenses

General and administrative expense consists primarily of personnel costs, legal and professional service costs, share-based compensation, travel and facilities and information technology costs.

General and administrative expenses decreased by $0.5 million, or 5.2% for the three months ended December 31, 2015 as compared to the corresponding period of fiscal 2015. The decrease in general and administrative expenses was due to lower personnel costs of $0.7 million as a result of the RIF during the fourth quarter of fiscal 2015, partially offset by higher bad debt expense of $0.2 million.

General and administrative expenses decreased by $2.4 million, or 11.4% for the six months ended December 31, 2015 as compared to the corresponding period of fiscal 2015. The decrease in general and administrative expenses was due to lower personnel costs (which includes benefits and stock based compensation) of $0.3 million as a result of the RIF during the fourth quarter of fiscal 2015 and professional services of $1.2 million.

Acquisition and Integration Costs

Acquisition and integration costs include those costs that we have incurred only as result of the acquisition of Enterasys and related subsequent integration of the two companies. We expect that any future integration costs will be immaterial.

During the three months ended December 31, 2015 and 2014, we recorded $0.8 million and $3.5 million, respectively of integration costs primarily for IT and sales integration costs.

During the six months ended December 31, 2015 and 2014, we recorded $1.1 million and $7.6 million, respectively of integration costs primarily for IT, warehouse, and sales integration and severance costs.

Restructuring Charges

During the three and six months ended December 31, 2015, we recorded $3.0 million and $8.6 million in restructuring charges, respectively, primarily for excess facilities, net of future sub-lease income. There were no restructuring charges during the corresponding periods in fiscal 2015. During the first half of fiscal 2016, we continued our initiative begun in the fourth quarter of fiscal 2015 to realign our operations by abandoning excess facilities, primarily in San Jose California; Salem, New Hampshire; Research Triangle Park, North Carolina and Shannon, Ireland. The abandoned facilities represented approximately 29% of our original space, and included general office and warehouse space. There may be additional activities in abandonments of excess facilities in future periods as we further align our organization to our business and operational needs.

During the second quarter of fiscal 2016, in conjunction with the exiting of the facilities noted above, we incurred $2.9 million in charges related to amending our facility lease in North Carolina and $0.2 million of adjustments to severance benefits. Excess facilities charges included the acceleration of depreciation of leasehold improvements in the amount of $1.9 million, and contract termination charges and professional fees of $1.0 million.

During the six months ended December 31, 2015, in conjunction with the exiting of the facilities noted above, we incurred $8.3 million in excess facilities charges and $0.4 million of adjustments to severance benefits. Excess facilities charges included $4.1 million of accrued lease costs pertaining to the estimated future obligations for non-cancelable lease payments for excess facilities, acceleration of depreciation of leasehold improvements of $3.2 million and contract termination charges and professional fees of $1.0 million.

Amortization of Intangibles

During the three months ended December 31, 2015 and 2014, we recorded $4.3 million and $4.5 million, respectively of amortization expense recorded in operating expenses in the condensed consolidated statements of operations.

During the six months ended December 31, 2015 and 2014, we recorded $8.7 million and $8.9 million, respectively of amortization expense recorded in operating expenses in the condensed consolidated statements of operations.

Interest Expense

During the three and six months ended December 31, 2015 and 2014 we recorded $0.8 million, $1.6 million, $0.8 million and $1.6 million respectively in interest expense.

Other Income (Expense), Net

During the three months ended December 31, 2015 and 2014 we recorded $0.1 million of gains and $0.1 million of losses, respectively, in other income (expense), net. The increase was primarily due to foreign exchange gains from the revaluation of certain assets and liabilities denominated in foreign currencies into U.S. Dollars.

During the six months ended December 31, 2015 and 2014 we recorded $1.1 million of gains and $0.5 million of losses, respectively, in other income (expense), net. The increase was primarily due to foreign exchange gains from the revaluation of certain assets and liabilities denominated in foreign currencies into U.S. Dollars.

Provision for Income Taxes

For the three months ended December 31, 2015 and 2014, we recorded an income tax provision of $1.2 million and $1.3 million, respectively. For the six months ended December 31, 2015 and 2014, we recorded an income tax provision of $2.1 million and $2.3 million, respectively.

The income tax provisions for the three and six months ended December 31, 2015 and 2014 consisted primarily of taxes on the income of our foreign subsidiaries as well as tax expense associated with the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisition of Enterasys.

Critical Accounting Policies and Estimates

Our unaudited condensed consolidated financial statements and the related notes included elsewhere in this report are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many instances, we could have reasonably used different accounting estimates, and in other instances changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by our management. On an ongoing basis, we evaluate our estimates and assumptions. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

As discussed in Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended June 30, 2015 , we consider the following accounting policies to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements:

- Revenue Recognition
- Goodwill
- Share-based Payments
- Restructuring Charges

There have been no changes to our critical accounting policies since the filing of our last Annual Report on Form 10-K.

New Accounting Pronouncements

See Note 3 of the accompanying condensed consolidated financial statements for a full description of new accounting pronouncements, including the respective expected dates of adoption and effects on results of operations and financial condition.

Liquidity and Capital Resources

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

	December 31, 2015	June 30, 2015
Cash and cash equivalent	$ 85,865	$76,225
Total cash and investments	$ 85,865	$76,225
Working capital	$ 9,442	$2,564

As of December 31, 2015, our principal sources of liquidity consisted of cash and cash equivalents of $85.9 million, accounts receivable, net of $73.1 million and availability of borrowings from the Revolving Facility of $32.2 million. 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 and purchases of property and equipment. We believe that our $85.9 million of cash and cash equivalents at December 31, 2015, cash flows from operations 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.

The Senior Secured Credit Facilities, as amended, contain financial covenants that require us to maintain a minimum Consolidated Fixed Charge Coverage Ratio and Consolidated Quick Ratio and a maximum Consolidated Leverage Ratio and other financial and non-financial 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 Senior Secured Credit Facilities, as amended, also include 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 Senior Secured Credit Facilities, as amended, may be accelerated upon certain events of default. At December 31, 2015, we are in compliance and expect to remain in compliance with the covenants of the Senior Secured Credit Facilities, as amended, 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):

	Six Months Ended	
	December 31,	December 31,
	2015	2014
Net cash provided by operating activities	$13,967	$ 41,453
Net cash (used in) provided by investing activities	(1,409)	7,670
Net cash used in financing activities	(2,545)	(30,716)
Foreign currency effect on cash	(373)	(2,625)
Net increase in cash and cash equivalents	$9,640	$ 15,782

Net Cash Provided By Operating Activities

Cash flows provided by operations in the six months ended December 31, 2015 was $14.0 million and was generated from non-cash expenses of $36.0 million such as amortization of intangibles, stock-based compensation expense and depreciation as well as decreases in accounts receivables and was partially offset by the current period's net loss of $18.8 million along with increases in inventories and decreases in accounts payable, accrued compensation and deferred revenues.

Cash flows provided by operations in the six months ending December 31, 2014 was $41.5 million. The prior year's net loss of $32.4 million was primarily offset by non-cash expenses of $37.0 million such as amortization of intangibles, stock-based compensation expense and depreciation. Accounts receivables decreased due to lower revenue during the quarter combined with higher collections. Inventories decreased due to the timing of inventory receipts to bring inventory levels in line with the near term demand. Such increases in cash inflows were offset by decreases in accounts payables primarily due to the timing of payments.

Net Cash (Used In) Provided By Investing Activities

Cash flows used in investing activities in the six months ended December 31, 2015 was $1.4 million and was comprised of purchases of property and equipment.

Cash flows provided by investing activities in the six months ending December 31, 2014 was $7.7 million and was comprised of proceeds of $12.1 million from the maturities and sales of investments offset by $4.0 million of purchases of property and equipment.

Net Cash Used In Financing Activities

Cash flows used in financing activities in the six months ended December 31, 2015 was $2.5 million which was comprised of $2.3 million proceeds from the issuance of shares of our common stock under the ESPP and the exercise of stock options, net of taxes paid on vested and released stock awards, offset by a net repayment of debt of $4.9 million.

Cash flows used in financing activities in the six months ending December 31, 2014 was $30.7 million which was comprised of a $24.0 million draw on the Revolving Facility, $1.7 million of proceeds from the exercise of stock options and issuance of shares of our common stock under the ESPP, net of taxes paid on vested and released stock awards, offset by $56.4 million of cash used for repayment of debt.

Foreign currency effect on cash

Foreign currency effect on cash increased in the six months ended December 31, 2015, primarily due to changes in foreign currency exchange rates between US Dollar and particularly the Brazilian Real, British Pound, Indian Rupee and the EURO.

Contractual Obligations

The following summarizes our contractual obligations at six months ended December 31, 2015, 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 5 years
Contractual Obligations:					
Debt obligations	$62,000	$ 14,625	$47,375	$—	$—
Interest on debt obligations	4,184	2,073	2,111	—	—
Non-cancellable inventory purchase commitments	64,284	64,284	—	—	—
Non-cancellable operating lease obligations	58,324	9,795	16,408	11,658	20,463
Other liabilities	5,056	4,698	358	—	—
Total contractual cash obligations	$193,848	$ 95,475	$66,252	$11,658	$ 20,463

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 $64.3 million as of six months ended December 31, 2015. We expect to honor the inventory purchase commitments within the next 12 months.

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 immaterial 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 December 31, 2015.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

The following table presents the amounts of our cash equivalents that are subject to market risk by range of expected maturity and weighted-average interest rates as of December 31, 2015 (dollars in thousands).

	Maturing in				
	Three months or less	Three months to one year	Greater than one year	Total	Fair Value
	(In thousands)				
December 31, 2015					
Included in cash equivalents	$4,769	$ —	$ —	$4,769	$