

EXTREME NETWORKS INC  
Form 10-Q  
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-25711

EXTREME NETWORKS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE  
[State or other jurisdiction

of incorporation or organization]

77-0430270  
[I.R.S Employer

Identification No.]

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6480 Via Del Oro,

San Jose, California

95119

[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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" and "an emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the Registrant's Common Stock, \$.001 par value, outstanding at May 4, 2018, was 115,892,565

EXTREME NETWORKS, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED 2018

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## EXTREME NETWORKS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	March 31, 2018	June 30, 2017 (As adjusted)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 103,177	\$ 130,450
Accounts receivable, net of allowance for doubtful accounts of \$1,796 at March 31, 2018 and \$1,190 at June 30, 2017	188,408	93,115
Inventories	77,756	47,410
Prepaid expenses and other current assets	26,659	27,867
Total current assets	396,000	298,842
Property and equipment, net	86,487	30,240
Intangible assets, net	85,406	25,337
Goodwill	129,244	80,216
Other assets	43,348	25,065
Total assets	\$ 740,485	\$ 459,700
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 24,720	\$ 12,280
Accounts payable	90,800	31,587
Accrued compensation and benefits	40,591	42,662
Accrued warranty	12,812	10,584
Deferred revenue	117,741	79,048
Other accrued liabilities	77,042	37,044
Total current liabilities	363,706	213,205
Deferred revenue, less current portion	38,828	25,293
Long-term debt, less current portion	153,958	80,422
Deferred income taxes	5,628	6,576
Other long-term liabilities	65,440	8,526
Commitments and contingencies (Note 9)		
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; 115,752,827 shares	116	111
issued and outstanding at March 31, 2018 and 110,924,508 shares issued and		

outstanding at June 30, 2017		
Additional paid-in-capital	935,726	909,155
Accumulated other comprehensive loss	(471 )	(2,302 )
Accumulated deficit	(822,446)	(781,286)
Total stockholders' equity	112,925	125,678
Total liabilities and stockholders' equity	\$740,485	\$459,700

See accompanying notes to condensed consolidated financial statements.

## EXTREME NETWORKS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017 (As adjusted)	2018	2017 (As adjusted)
Net revenues:				
Product	\$203,527	\$111,321	\$543,151	\$319,469
Service	58,477	37,875	161,691	108,708
Total net revenues	262,004	149,196	704,842	428,177
Cost of revenues:				
Product	94,485	52,275	253,002	159,151
Service	24,536	14,117	67,490	40,684
Total cost of revenues	119,021	66,392	320,492	199,835
Gross profit:				
Product	109,042	59,046	290,149	160,318
Service	33,941	23,758	94,201	68,024
Total gross profit	142,983	82,804	384,350	228,342
Operating expenses:				
Research and development	50,920	24,691	131,112	67,003
Sales and marketing	72,240	38,790	193,460	116,674
General and administrative	11,707	9,612	35,561	27,296
Acquisition and integration costs, net of bargain purchase gain	9,316	3,418	47,675	9,908
Restructuring and related charges, net of reversals	4,920	7,719	4,920	9,572
Amortization of intangibles	2,101	1,193	6,461	7,510
Total operating expenses	151,204	85,423	419,189	237,963
Operating loss	(8,221 )	(2,619 )	(34,839 )	(9,621 )
Interest income	740	236	2,104	374
Interest expense	(4,044 )	(1,177 )	(8,763 )	(3,000 )
Other income (expense), net	(359 )	(251 )	2,125	551
Loss before income taxes	(11,884 )	(3,811 )	(39,373 )	(11,696 )
Provision for income taxes	1,729	1,166	1,787	3,252
Net loss	\$(13,613 )	\$(4,977 )	\$(41,160 )	\$(14,948 )
Basic and diluted net loss per share:				
Net loss per share - basic	\$(0.12 )	\$(0.05 )	\$(0.36 )	\$(0.14 )
Net loss per share - diluted	\$(0.12 )	\$(0.05 )	\$(0.36 )	\$(0.14 )
Shares used in per share calculation - basic	115,059	109,213	113,641	107,531
Shares used in per share calculation - diluted	115,059	109,213	113,641	107,531

See accompanying notes to condensed consolidated financial statements.



EXTREME NETWORKS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended March 31, March 31,		Nine Months Ended March 31, March 31,	
	2018	2017 (As adjusted)	2018	2017 (As adjusted)
Net loss:	\$(13,613)	\$ (4,977 )	\$(41,160)	\$ (14,948 )
Other comprehensive income (loss), net of tax:				
Available for sale securities:				
Change in unrealized gains on available for sale securities	503	—	740	—
Net change in foreign currency translation adjustments	304	749	1,091	(225 )
Other comprehensive income (loss), net of tax:	807	749	1,831	(225 )
Total comprehensive loss	\$(12,806)	\$ (4,228 )	\$(39,329)	\$ (15,173 )

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	March 31,	March 31,
	2018	2017 (As adjusted)
Cash flows from operating activities:		
Net loss	\$(41,160 )	\$(14,948 )
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	15,417	7,716
Amortization of intangible assets	17,771	13,781
Provision for doubtful accounts	1,566	21
Stock-based compensation	19,646	9,328
Deferred income taxes	(1,900 )	1,507
Non-cash restructuring and related charges	—	2,578
Realized gain on sale of non-marketable equity investment	(3,757 )	—
Realized gain on bargain purchase	(5,030 )	—
Other non-cash items	2,441	457
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	(45,376 )	7,232
Inventories	5,122	4,724
Prepaid expenses and other assets	(3,711 )	8,031
Accounts payable	28,912	4,907
Accrued compensation and benefits	(4,779 )	(1,322 )
Deferred revenue	10,365	(6,245 )
Other current and long-term liabilities	2,743	6,194
Net cash (used in) provided by operating activities	(1,730 )	43,961
Cash flows from investing activities:		
Capital expenditures	(21,999 )	(7,832 )
Business acquisitions	(97,581 )	(51,088 )
Proceeds from sale of non-marketable equity investment	4,922	—
Deposit related to an acquisition	—	(10,239 )
Net cash used in investing activities	(114,658 )	(69,159 )
Cash flows from financing activities:		
Borrowings under Term Loan	100,000	48,250
Repayments of debt	(13,278 )	(7,775 )
Loan fees on borrowings	(1,494 )	(1,327 )
Proceeds from issuance of common stock, net of tax withholding	4,657	9,180
Payments of contingent consideration	(671 )	—

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Net cash provided by financing activities	89,214	48,328
Foreign currency effect on cash	(99 )	28
Net (decrease) increase in cash and cash equivalents	(27,273 )	23,158
Cash and cash equivalents at beginning of period	130,450	94,122
Cash and cash equivalents at end of period	\$103,177	\$117,280
Non-cash investing activities:		
Unpaid capital expenditures	\$12,608	\$963

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., together with its subsidiaries (collectively referred to as “Extreme” or the “Company”), is a leader in providing software-driven networking solutions for enterprise customers. The Company conducts its sales and marketing activities on a worldwide basis through distributors, resellers and the Company’s field sales organization. Extreme was incorporated in California in 1996 and reincorporated in Delaware in 1999.

The unaudited condensed consolidated financial statements of Extreme 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, 2017 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, 2017.

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 at March 31, 2018. The results of operations for the three and nine months ended March 31, 2018 are not necessarily indicative of the results that may be expected for fiscal 2018 or any future periods.

Effective July 1, 2017, the Company adopted the requirements of Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). All amounts and disclosures set forth in this Form 10-Q have been updated to comply with the new standards, as indicated by the “as adjusted” footnote.

Fiscal Year

The Company uses a fiscal calendar year ending on June 30. All references herein to “fiscal 2018” or “2018” represent the fiscal year ending June 30, 2018. All references herein to “fiscal 2017” or “2017” represent the fiscal year ended June 30, 2017.

Principles of Consolidation

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

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.

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, measurements of contingent consideration and income taxes. Actual results could differ from these estimates.

## 2. Business Combinations

The Company completed three acquisitions during the nine months ended March 31, 2018. The acquisitions have been accounted for using the acquisition method of accounting. The purchase price has been allocated on a preliminary basis to tangible and identifiable intangible assets acquired and liabilities assumed. The fair value of working capital related items, such as other current assets and accrued liabilities, approximated their book values at the date of acquisition. Inventories were valued at fair value using the net realizable value approach. The fair value of property and equipment was determined using a cost approach. The fair value of the acquired deferred revenue was estimated using the cost build-up approach. The cost build-up approach determines fair

value using estimates of the costs required to provide the contracted deliverables plus an assumed profit. The total costs including the assumed profit were adjusted to present value using a discount rate considered appropriate. The resulting fair value approximates the amount that the Company would be required to pay to a third party to assume the obligation. Valuations of the intangible assets were valued using income approaches based on management projections, which we consider to be Level 3 inputs. The Company also continues to analyze the tax implications of the acquisition of the intangible assets which may ultimately impact the overall level of goodwill associated with the acquisition.

The final purchase price allocation for all assets acquired and liabilities assumed is pending the finalization of valuations as additional information is gathered surrounding events that existed as of the acquisition date, which may result in an adjustment to the preliminary purchase price allocation. Also, additional information which existed as of the acquisition dates, but was unknown to the Company at that time, may become known to the Company during the remainder of the measurement period (up to one year from the acquisition dates), and may result in a change in the purchase price allocation. While management believes that its preliminary estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired and liabilities assumed, and the resulting amount of goodwill. Results of operations of the acquired entities are included in the Company's operations beginning with the closing date of each acquisition.

#### Fiscal 2018 Acquisitions

##### Data Center Business

The Company completed its acquisition of the data center business (the "Data Center Business") of Brocade Communication Systems, Inc.'s ("Brocade") on October 27, 2017 (the "Data Center Closing Date"), pursuant to an Asset Purchase Agreement (the "Data Center Business APA") dated as of October 3, 2017, by and between the Company and Brocade. Under the terms and conditions of the Data Center Business APA, the Company acquired customers, employees, technology and other assets of the Data Center Business as well as assumed certain contracts and other liabilities of the Data Center Business.

The fair value of consideration transferred on the Data Center Business Closing Date includes:

- upfront cash closing payment equal to \$23.0 million,
- deferred payments of \$1.0 million per quarter for the next twenty full fiscal quarters of the Company following the acquisition date discounted to their present value,
- contingent consideration in the form of quarterly earnout payments equal to 50% of the profits of the Data Center Business for the five-year period commencing at the end of the first full fiscal quarter of the Company following the acquisition of the Data Center Business discounted to their present value,
- an amount payable due to the excess working capital acquired over the target working capital agreed upon in the Data Center Business APA, and,
- portion of the fair value of replacement stock awards granted to employees assumed from Brocade for which their services were provided prior to the Data Center Business Closing Date.

The components of aggregate estimated purchase consideration are as follows (in thousands):

	October 27,
Estimated purchase consideration	2017
Cash paid to sellers at closing	\$23,000
Deferred payments	18,430

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Contingent consideration	34,100
Working capital adjustment	6,534
Replacement of stock-based awards	2,273
Aggregate estimated purchase consideration	\$84,337

The following table below summarizes the preliminary allocation as of March 31, 2018 of the tangible and identifiable intangible assets acquired and liabilities assumed (in thousands):

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	Preliminary Allocation as of December 31, 2017	Change during three months ended March 31, 2018	Preliminary Allocation as of March 31, 2018
Accounts receivables	\$ 33,488	\$—	\$ 33,488
Inventories	19,973	(39 ) (a)	19,934
Prepaid expenses and other current assets	988	—	988
Property and equipment	29,160	—	29,160
Other assets	4,734	—	4,734
Accounts payable and accrued expenses	(15,850 )	113 (b)	(15,737 )
Deferred revenue	(33,519 )	494 (c)	(33,025 )
Net tangible assets acquired	38,974	568	39,542
Identifiable intangible assets	28,600	3,600 (d)	32,200
Goodwill	16,763	(4,168 )	12,595
Total intangible assets acquired	45,363	(568 )	44,795
Total net assets acquired	\$ 84,337	\$—	\$ 84,337

The changes during the period in the table above include: a) additional information regarding the existence of inventories and unpaid invoices as of the acquisition date, b) additional information on unpaid invoices as of the acquisition date, c) an adjustment of the fair value of deferred maintenance revenue and d) revised fair value based on adjustments to discount rate used in the models for usefulness of identifiable intangible assets.

The following table presents details of the identifiable intangible assets acquired as part of the acquisition (dollars in thousands):

	Estimated Useful Life	Amount
Intangible Assets	(in years)	
Developed technology	2 - 5	\$25,400
Customer relationships	5	5,400
Trade names	4	1,400
Total identifiable intangible assets		\$32,200

The amortization for the developed technology is recorded in “Cost of revenues” for product and the amortization for the remaining intangibles is recorded in “Amortization of intangibles” in the accompanying condensed consolidated statements of operations. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of the Data Center Business. The Company anticipates both the goodwill and intangible assets to be fully deductible for income tax purposes.

The results of operations of the Data Center Business are included with those of the Company beginning October 28, 2017. The Data Center Business revenue for the nine months ended March 31, 2018 was \$90.2 million and has been incorporated into the revenue of the Company. The associated expenses of the Data Center Business have been incorporated with the results of operations of the Company as a product line and, therefore, stand-alone operating results are not available. In the three and nine months ended March 31, 2018 the Company incurred \$5.0 million and \$38.8 million, respectively, of acquisition and integration related expenses associated with the acquisition of the Data Center Business, including a \$25.0 million consent fee paid to terminate a previous asset purchase agreement entered into by the Company to purchase the Data Center Business from Broadcom Corporation, in anticipation of Broadcom’s



proposed acquisition of Brocade. The fee was paid to allow the Company to buy the Data Center Business directly from Brocade. Such acquisition-related costs are included in “Acquisition and integration costs, net of bargain purchase gain” in the accompanying condensed consolidated statements of operations. The costs, which the Company expensed as incurred, consist primarily of professional fees to financial and legal advisors and IT consultants.

#### Campus Fabric Business

The Company completed its acquisition of Avaya Inc.’s (“Avaya”) fabric-based secure networking solutions and network security solutions business (the “Campus Fabric Business”) on July 14, 2017, (the “Campus Fabric Business Closing Date”) pursuant to an Asset Purchase Agreement (the “Campus Fabric Business APA”) dated March 7, 2017. Under the terms and conditions of the Campus Fabric Business APA, the Company acquired the customers, employees, technology and other assets of the Campus Fabric Business, as well as assumed certain contracts and other liabilities of the Campus Fabric Business, for total provisional consideration of \$79.8 million, calculated as \$100.0 million, less adjustments set forth in the Campus Fabric Business APA related to net working capital, deferred revenue, certain assumed lease obligations and certain assumed pension obligations for transferring employees of the Campus Fabric Business. Pursuant to certain ancillary agreements, Avaya will also provide the Company with transition services for a period of time following the Campus Fabric Business Closing Date.

The following table below summarizes the preliminary allocation as of March 31, 2018 of the tangible and identifiable intangible assets acquired and liabilities assumed (in thousands):

	Preliminary Allocation as of December 31, 2017	Change during three months ended March 31, 2018	Preliminary Allocation as of March 31, 2018
Accounts receivables	\$ 18,295	\$417 (a)	\$ 18,712
Inventories	15,545	—	15,545
Prepaid expenses and other current assets	673	(24) (b)	649
Property and equipment	3,768	1,638 (c)	5,406
Other assets	5,311	(517) (d)	4,794
Accounts payable and accrued expenses	(31,919)	(395) (c)	(32,314)
Deferred revenue	(10,051)	1,057 (e)	(8,994)
Other long-term liabilities	(5,205)	—	(5,205)
Net tangible assets acquired	(3,583)	2,176	(1,407)
Identifiable intangible assets	46,900	(4,700) (f)	42,200
In-process research and development	2,500	100 (f)	2,600
Goodwill	34,009	2,424	36,433
Total intangible assets acquired	83,409	(2,176)	81,233
Total net assets acquired	\$ 79,826	\$—	\$ 79,826

The changes during the period in the table above include: a) additional information on accounts receivable as of the acquisition date, b) additional information on prepaid expenses as of the acquisition date, c) update on preliminary estimate of the fair value of property and equipment which led to an increase, d) an adjustment of the fair value of deferred maintenance revenue and associated deferred cost of revenue, e) additional information on unpaid invoices as of the acquisition date, and f) revised fair value based on revisions to estimated useful life of identifiable intangible assets and in-process research and development acquired.

The following table presents details of the identifiable intangible assets acquired as part of the acquisition (dollars in thousands):

	Estimated Useful Life	Amount
Intangible Assets	(in years)	
Developed technology	2 - 4	\$32,700
Customer relationships	4	5,100
Trade names	4 - 5	2,600
Backlog	1	1,800
Total identifiable intangible assets		\$42,200

The amortization for the developed technology is recorded in "Cost of revenues" for product and the amortization for the remaining intangibles is recorded in "Amortization of intangibles" in the accompanying condensed consolidated statement of operations. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of the Campus Fabric Business. The Company anticipates both the goodwill and intangible assets to be fully deductible for income tax purposes.

The Company also acquired an indefinite lived asset of \$2.6 million which represents the fair value of in-process research and development activities. During the three months ended March 31, 2018, the related research and development efforts were completed and the Company reclassified the in-process research and development of \$2.6 million to developed technology and began recognizing amortization expense over its estimated useful life.

The results of operations of the Campus Fabric Business are included in the accompanying condensed consolidated results of operations beginning July 14, 2017. The Campus Fabric Business revenue for the nine months ended March 31, 2018 was \$127.7 million and has been incorporated into the revenue of the Company. The associated expenses of the Campus Fabric Business have been incorporated with the results of operations of the Company as a product line and, therefore, stand-alone operating results are not available. In the three and nine months ended March 31, 2018, the Company incurred \$4.4 million and \$13.9 million, respectively, of acquisition and integration related expenses associated with the acquisition of the Campus Fabric Business. Such acquisition-related costs are included in “Acquisition and integration costs, net of bargain purchase gain” in the accompanying condensed consolidated statements of operations. The costs, which the Company expensed as incurred, consist primarily of professional fees to financial and legal advisors and IT consultants and companies.

#### Capital Financing Business

On December 1, 2017, Company completed its acquisition of a capital financing business (the “CF Business”), pursuant to a Bill of Sale and Assignment and Assumption Agreement (the “Assumption Agreement”) between the Company and Broadcom. Under the terms and conditions of the Assumption Agreement, the Company acquired customers, employees, contracts and lease equipment of the CF Business equal to the earn out payments to Broadcom of 90% of acquired financing receivables to be collected commencing at the closing date.

Net assets acquired included financing receivables of \$13.7 million, lease equipment of \$3.5 million and identifiable intangible assets of \$0.8 million, and the fair value of the contingent consideration was \$13.0 million. As the preliminary fair value of the net assets acquired exceeded the fair value of the purchase consideration, the Company recorded a bargain purchase gain of \$5.0 million which is included in “Acquisition and integration costs, net of bargain purchase gain” in the accompanying condensed consolidated statements of operations. Acquisition and integration related expenses associated with the acquisition of the CF Business were immaterial.

#### Fiscal 2017 Acquisition

On October 28, 2016, the Company completed its acquisition of the wireless local area network business (“WLAN Business”) from Zebra Technologies Corporation. Under the terms of the WLAN Asset Purchase Agreement, the Company acquired customers, employees, technology and other assets as well as assumed certain contracts and other liabilities of the WLAN Business, for a net cash consideration to \$49.5 million. The following table below summarizes the final allocation of the tangible and identifiable intangible assets acquired and liabilities assumed (in thousands):

	Final Allocation as of October 28, 2016
Accounts receivables, net	\$ 14,636
Inventories	13,593
Other current assets	808
Property and equipment	3,159
Other assets	7,634
Deferred revenue	(14,159 )
Other liabilities	(7,201 )
Total tangible assets acquired and liabilities assumed	18,470
Identifiable intangible assets	20,300
In-process research and development	1,400
Goodwill	9,339
Total intangible assets acquired	31,039
Total net assets acquired	\$ 49,509

#### Pro forma financial information

The following unaudited pro forma results of operations are presented as though the acquisitions of the Data Center Business, CF Business, Campus Fabric Business and WLAN Businesses had occurred as of the beginning of the earliest period presented after giving effect to purchase accounting adjustments relating to inventories, deferred revenue, depreciation and amortization on acquired property and equipment and intangibles, acquisition costs, interest income and expense and related tax effects.

The pro forma results of operations are not necessarily indicative of the combined results that would have occurred had the acquisition been consummated as of the earliest period presented, nor are they necessarily indicative of future

operating results. The unaudited pro forma results do not include the impact of synergies, nor any potential impacts on current or future market conditions which could alter the unaudited pro forma results.

The unaudited pro forma financial information for the three and nine months ended March 31, 2018, combines the results for Extreme for the three and nine months ended March 31, 2018, which include the results of the Data Center Business, CF Business and Campus Fabric Business subsequent to their acquisition dates and their historical results up to the acquisition date.

The unaudited pro forma financial information for the three and nine months ended March 31, 2017, combines the historical results for Extreme for those periods, as adjusted for the adoption of Topic 606, with the historical results of the Data Center Business, CF Business and Campus Fabric Business for the three and nine months ended March 31, 2017, as well as the historical results of the WLAN Business prior to the WLAN Business acquisition date.

Pro forma results of operations from the Data Center Business, CF Business, Campus Fabric Business and WLAN Business acquisitions included in the pro forma results of operations for the three and nine months ended March 31, 2017 have not been adjusted for the adoption of Topic 606 because the Company determined that it is impractical to estimate the impact of the adoption.

The following table summarizes the unaudited pro forma financial information (in thousands, except per share amounts):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017 (As adjusted)	2018	2017 (As adjusted)
Net revenues	\$262,004	\$267,176	\$799,044	\$911,611
Net loss	\$(13,613 )	\$(40,235 )	\$(21,235 )	\$(136,207 )
Net loss per share - basic	\$(0.12 )	\$(0.37 )	\$(0.19 )	\$(1.27 )
Net loss per share - diluted	\$(0.12 )	\$(0.37 )	\$(0.19 )	\$(1.27 )
Shares used in per share calculation - basic	115,059	109,213	113,641	107,531
Shares used in per share calculation - diluted	115,059	109,213	113,641	107,531

### 3. 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, 2017. Except for the following policies, there have been no material changes to the Company's significant accounting policies since the filing of the Annual Report on Form 10-K.

#### Revenue Recognition

The Company accounts for revenue in accordance with Topic 606, Revenue from Contracts with Customers, which the Company adopted on July 1, 2017, using the retrospective method. The Company derives the majority of its revenue from sales of its networking equipment, with the remaining revenue generated from service fees relating to maintenance contracts, professional services, and training for its products. The Company sells its products and maintenance contracts direct to customers and to partners in two distribution channels, or tiers. The first tier consists of a limited number of independent distributors that stock its products and sell primarily to resellers. The second tier of the distribution channel consists of a non-stocking distributors and value-added resellers that sell directly to end-users. Products and services may be sold separately or in bundled packages.

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. For each contract, the Company considers the promise to transfer products and services, each of which are distinct, to be the identified performance obligations. In determining the transaction price the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled.

For all of the Company's sales and distribution channels, revenue is recognized when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs at shipment for product sales. Revenue from maintenance contracts is recognized over time as the Company's performance obligations are satisfied. This is typically the contractual service period, which ranges from one to three

years. For product sales to value-added resellers of the Company, non-stocking distributors and end-user customers, the Company generally does not grant return privileges, except for defective products during the warranty period, nor does the Company grant pricing credits. Sales incentives and other programs that the Company may make available to these customers are considered to be a form of variable consideration and the Company maintains estimated accruals and allowances using the expected value method. There were no material changes in the current period to the estimated transaction price for performance obligations which were satisfied or partially satisfied during previous periods.

Sales to stocking distributors are made under terms allowing certain price adjustments and limited rights of return (known as “stock rotation”) of the Company’s products held in their inventory. Revenue from sales to distributors is recognized upon the transfer of control to the distributor. Frequently, distributors need to sell at a price lower than the contractual distribution price in order to win business, and submit rebate requests for Company pre-approval prior to selling the product through at the discounted price. At the time the distributor invoices its customer or soon thereafter, the distributor submits a rebate claim to the Company to adjust the distributor’s cost from the contractual price to the pre-approved lower price. After the Company verifies that the claim was pre-approved, a credit memo is issued to the distributor for the rebate claim. In determining the transaction price, the Company considers these rebate adjustments to be variable consideration. Such price adjustments are estimated using the expected value method based on an analysis of actual claims, at the distributor level over a period of time considered adequate to account for current pricing and business trends. Stock rotation rights grant the distributor the ability to return certain specified amounts of inventory. Stock rotation

adjustments are an additional form of variable consideration and are also estimated using the expected value method based on historical return rates. There were no material changes in the current period to the estimated variable consideration for performance obligations which were satisfied or partially satisfied during previous periods.

**Performance Obligations.** A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Certain of the Company's contracts have multiple performance obligations, as the promise to transfer individual goods or services is separately identifiable from other promises in the contracts and, therefore, is distinct. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation based on its relative standalone selling price. The stand-alone selling prices are determined based on the prices at which the Company separately sells these products. For items that are not sold separately, the Company estimates the stand-alone selling prices using the best estimated selling price approach.

The Company's performance obligations are satisfied at a point in time or over time as work progresses. Substantially all of the Company's product sales revenues as reflected on the condensed consolidated statements of operations for the three and nine months ended March 31, 2018 and 2017 are recognized at a point in time. Substantially all of the Company's service revenue is recognized over time. For revenue recognized over time, the Company uses an input measure, days elapsed, to measure progress.

On March 31, 2018, the Company had \$156.6 million of remaining performance obligations, which is comprised of deferred maintenance revenue and services not yet delivered. The Company expects to recognize approximately 33 percent of its remaining performance obligations as revenue in fiscal 2018, an additional 48 percent in fiscal 2019 and 19 percent of the balance thereafter.

**Contract Balances.** The timing of revenue recognition, billings and cash collections results in billed accounts receivable and deferred revenue in the consolidated balance sheet. Services provided under renewable support arrangements of the Company are billed in accordance with agreed-upon contractual terms, which are typically at periodic intervals (e.g., quarterly or annually). The Company sometimes receives payments from its customers in advance of services being provided, resulting in deferred revenues. These liabilities are reported on the consolidated balance sheet on a contract-by-contract basis at the end of each reporting period.

Revenue recognized for the nine months ended March 31, 2018 and 2017, that was included in the deferred revenue balance at the beginning of each period was \$66.7 million and \$61.4 million, respectively. Revenue recognized for the three months ended March 31, 2018 and 2017 that was included in the deferred revenue balance at the beginning of each period was \$50.6 million and \$31.3 million, respectively.

**Contract Costs.** The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. Management expects that commission fees paid to sales representative as a result of obtaining service contracts and contract renewals are recoverable and therefore the Company capitalized them as contract costs in the amount of \$3.1 million and \$2.5 million at March 31, 2018 and June 30, 2017, respectively. Capitalized commission fees are amortized on a straight-line basis over the average period of service contracts of approximately three years, and are included in "Sales and marketing" in the accompanying condensed consolidated statements of operations. Amortization recognized during the three months ended March 31, 2018 and 2017, was \$0.5 million and \$0.4 million, respectively. Amortization recognized during the nine months ended March 31, 2018 and 2017 was \$1.4 million and \$1.1 million, respectively. There was no impairment loss in relation to the costs capitalized.



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Revenue by Category: The following table sets forth the Company's revenue disaggregated by sales channel and geographic region based on the customer's ship-to locations (in thousands, unaudited):

	Three Months Ended March 31,			March 31,		
	2018			2017 (As adjusted)		
	Distributor	Direct	Total	Distributor	Direct	Total
<b>Americas:</b>						
United States	\$76,392	\$56,929	\$133,321	\$31,972	\$47,367	\$79,339
Other	4,288	6,165	10,453	1,559	1,901	3,460
Total Americas	80,680	63,094	143,774	33,531	49,268	82,799
EMEA:	58,668	36,120	94,788	32,090	20,136	52,226
APAC:	3,085	20,357	23,442	2,399	11,772	14,171
Total net revenues	\$142,433	\$119,571	\$262,004	\$68,020	\$81,176	\$149,196

	Nine Months Ended			March 31,		
	March 31,			March 31,		
	2018			2017		
				(As adjusted)		
	Distributor	Direct	Total	Distributor	Direct	Total
<b>Americas:</b>						
United States	\$ 181,415	\$ 160,484	\$ 341,899	\$ 98,026	\$ 112,592	\$ 210,618
Other	13,417	20,252	33,669	5,779	14,772	20,551
Total Americas	194,832	180,736	375,568	103,805	127,364	231,169
<b>EMEA:</b>	165,856	97,647	263,503	99,459	61,026	160,485
<b>APAC:</b>	11,480	54,291	65,771	5,464	31,059	36,523
<b>Total net revenues</b>	<b>\$ 372,168</b>	<b>\$ 332,674</b>	<b>\$ 704,842</b>	<b>\$ 208,728</b>	<b>\$ 219,449</b>	<b>\$ 428,177</b>

## Business Combinations

The Company applies the acquisition method of accounting for business combinations. Under this method of accounting, all assets acquired and liabilities assumed are recorded at their respective fair values at the date of the completion of the transaction. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, intangibles and other asset lives, among other items. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Market participants are assumed to be buyers and sellers in the principal (most advantageous) market for the asset or liability. Additionally, fair value measurements for an asset assume the highest and best use of that asset by market participants. As a result, we may have been required to value the acquired assets at fair value measures that do not reflect its intended use of those assets. Use of different estimates and judgments could yield different results.

Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. If the fair value of net assets acquired exceeds the fair value of purchase price, a gain on bargain purchase is recognized in the statements of operations. Although we believe the assumptions and estimates we have made are reasonable and appropriate, they are based in part on historical experience and information that may be obtained from the management of the acquired company and are inherently uncertain. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

## 4. Recent Accounting Pronouncements

### Recently Issued Accounting Pronouncements

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting which amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an

entity would be required to apply modification accounting under Topic 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The guidance is effective prospectively for fiscal years beginning after December 15, 2017, and interim periods within that reporting period. Early adoption is permitted, including adoption in any interim period. The Company does not expect the adoption of this guidance to have a material effect on its financial statements. This guidance will be effective for the Company beginning with its fiscal year 2019.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments to provide guidance on the classification of eight cash flow issues in order to reduce diversity in practice. The new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within that reporting period. The amendments in this update should be applied using a retrospective transition method to each period presented. If impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company does not expect the adoption of this guidance to have a material effect on its presentation of cash flows. This guidance will be effective for the Company beginning with its fiscal year 2019.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The Company does not expect ASU 2016-01 will have a material effect on its consolidated financial statements and footnote disclosures. This guidance will become effective for the Company beginning with its fiscal year 2019.

In August 2017, the Financial Accounting Standards Board (“FASB”) issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities which is intended to allow companies to better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results by expanding and refining hedge accounting for both nonfinancial and financial risk components and aligning the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The guidance is effective for fiscal years beginning after December 15, 2018. The Company is evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption. This guidance is effective for the Company beginning with its fiscal year 2020.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) which requires the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve-month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. Under Topic 842, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the statement of operations will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of Topic 842 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, Topic 842 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures. This guidance will become effective for the Company beginning with its fiscal year 2020.

#### Recently Adopted Accounting Pronouncements

##### Revenues Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. Under Topic 606, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services. In addition, Topic 606 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted Topic 606 on July 1, 2017, using the full retrospective method. This adoption primarily affected the Company’s accounting for distributor and resellers revenues from a primarily “sell-through” model, where revenue is recognized upon the sale from the distribution channel to the end customer, to the “sell-in” method where revenue is recognized upon transfer of control to its customers, including distributors. Under the sell-in method, the Company is required to make estimates at the time of shipment to its distributors of variable consideration as well as estimated returns under stock rotation rights granted to the distributors. Additionally, the Company capitalizes contract acquisition costs such as commissions paid for maintenance services contracts in excess of one year. Following the adoption of Topic 606, the revenue recognition for the Company’s other sales arrangements remained materially consistent with our historical practice.

Upon adoption of Topic 606, we applied the standard's practical expedients that allows a) an entity to use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods, b) that permits the omission of prior-period information about our performance obligations, and c) that allows the Company to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations.

See the tables at the end of this note for the effects of the adoption of Topic 606 on our condensed consolidated financial statements as of June 30, 2017, and for the three and nine months ended March 31, 2018 and 2017. See Note 3. "Summary of Significant Accounting Policies" to our condensed consolidated financial statements for further discussion of the effects of the adoption of Topic 606 on our significant accounting policies.

## Adjustments to Previously Reported Financial Statements from the Adoption of Accounting Pronouncements

The following table presents the effect of the adoption of Topic 606 on our condensed consolidated balance sheet (unaudited) as of June 30, 2017, (in thousands):

	As of June 30, 2017		
	As Reported	Adjustment	As Adjusted
Accounts receivable, net	\$ 120,770	\$ (27,655 )	\$ 93,115
Inventories	45,880	1,530	47,410
Total current assets	324,967	(26,125 )	298,842
Other assets	22,586	2,479	25,065
Total assets	483,346	(23,646 )	459,700
Accrued warranty	10,007	577	10,584
Other accrued liabilities	36,713	331	37,044
Deferred distributors revenue, net of cost of sales to distributors	43,525	(43,525 )	—
Total current liabilities	255,822	(42,617 )	213,205
Accumulated deficit	(800,257)	18,971	(781,286)
Total stockholders' equity	106,707	18,971	125,678
Total liabilities and stockholders' equity	\$ 483,346	\$ (23,646 )	\$ 459,700

The following tables present the effect of the adoption of Topic 606 on our condensed consolidated statements of operations (unaudited) for the three and nine months ended March 31, 2017 (in thousands, except per share amounts):

	Three Months Ended March 31, 2017		
	As Reported	Adjustment	As Adjusted
Net revenues			
Product	\$ 110,789	\$ 532	\$ 111,321
Service	37,875	—	37,875
Total net revenues	148,664	532	149,196
Cost of revenues			
Product	52,401	(126 )	52,275
Service	14,117	—	14,117
Total cost of revenues	66,518	(126 )	66,392
Gross profit			
Product	58,388	658	59,046
Service	23,758	—	23,758
Total Gross profit	82,146	658	82,804
Sales and marketing expenses	38,759	31	38,790
Operating loss	(3,246 )	627	(2,619 )
Net loss before tax	(4,438 )	627	(3,811 )

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Net loss	\$ (5,604 )	\$ 627	\$ (4,977 )
Basic and diluted net loss per share			
Net loss per share - basic	\$ (0.05 )		\$ (0.05 )
Net loss per share - diluted	\$ (0.05 )		\$ (0.05 )
Shares used in per share calculation - basic	109,213		109,213
Shares used in per share calculation - diluted	109,213		109,213

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	Nine Months Ended March 31, 2017		
	As Reported	Adjustment	As Adjusted
<b>Net revenues</b>			
Product	\$ 310,709	\$ 8,760	\$ 319,469
Service	108,708	—	108,708
Total net revenues	419,417	8,760	428,177
<b>Cost of revenues</b>			
Product	155,987	3,164	159,151
Service	40,684	—	40,684
Total cost of revenues	196,671	3,164	199,835
<b>Gross profit</b>			
Product	154,722	5,596	160,318
Service	68,024	—	68,024
Total Gross profit	222,746	5,596	228,342
Sales and marketing expenses	116,824	(150 )	116,674
Operating loss	(15,367 )	5,746	(9,621 )
Net loss before tax	(17,442 )	5,746	(11,696 )
Net loss	\$(20,694 )	\$ 5,746	\$(14,948 )
<b>Basic and diluted net loss per share</b>			
Net loss per share - basic	\$(0.19 )		\$(0.14 )
Net loss per share - diluted	\$(0.19 )		\$(0.14 )
Shares used in per share calculation - basic	107,531		107,531
Shares used in per share calculation - diluted	107,531		107,531

The following tables present the effect of the adoption of Topic 606 on our condensed consolidated statement of cash flows (unaudited) for the nine months ended March 31, 2017 (in thousands):

	Nine Months Ended March 31, 2017		
	As Reported	Adjustment	As Adjusted
<b>Cash flows from operating activities</b>			
Net loss	\$(20,694 )	\$ 5,746	\$(14,948 )
<b>Changes in operating assets and liabilities, net</b>			
Accounts receivable	(5,926 )	13,158	7,232
Inventories	6,344	(1,620 )	4,724
Prepaid expenses and other assets	8,181	(150 )	8,031
Deferred distributors revenue, net of cost of sales to distributors	17,441	(17,441 )	—
Other current and long-term liabilities	5,887	307	6,194
Net cash provided by operating activities	43,961	—	43,961
Cash flows from investing activities	(69,159 )	—	(69,159 )



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Cash flows from financing activities	48,328	—	48,328
Foreign currency effect on cash	28	—	28
Net increase in cash and cash equivalents	\$23,158	\$ —	\$23,158

## 5. Balance Sheet Accounts

## Cash, Cash Equivalents and Marketable Securities

The following is a summary of cash, cash equivalents and marketable securities (in thousands):

	March 31, June 30,	
	2018	2017
Cash	\$98,677	\$126,159
Cash equivalents	4,500	4,291
Total cash and cash equivalents	103,177	130,450
Marketable securities (consisting of available-for-sale securities)	2,091	—
Total cash, cash equivalents and marketable securities	\$105,268	\$130,450

The Company considers highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Marketable securities are recorded in “Prepaid expense and other current assets” in the accompanying condensed consolidated balance sheet as these are publicly-traded equity securities. Marketable securities are classified as available-for-sale and reported at fair value with unrealized gains and losses included in “Accumulated other comprehensive loss” in the accompanying condensed consolidated balance sheets.

## Inventories

The Company values its inventory at lower of cost or net realizable value. 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 demand 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.

Inventories consist of the following (in thousands):

	March 31, June 30,	
	2018	2017 (As Adjusted)
Finished goods	\$ 63,306	\$ 46,620
Raw materials	14,450	790
Total Inventories	\$ 77,756	\$ 47,410

## Property and Equipment, Net

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

March 31, June 30,

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	2018	2017
Computers and equipment	\$ 69,712	\$34,716
Purchased software	16,908	11,785
Office equipment, furniture and fixtures	18,143	10,852
Leasehold improvements	47,039	23,046
Total property and equipment	151,802	80,399
Less: accumulated depreciation and amortization	(65,315 )	(50,159)
Property and equipment, net	\$ 86,487	\$ 30,240

## Intangibles

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

	Weighted Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>March 31, 2018</b>				
Developed technology	3.8 years	\$ 117,500	\$ 52,860	\$ 64,640
Customer relationships	3.7 years	51,639	39,577	12,062
Maintenance contracts	0.6 years	17,000	15,016	1,984
Trade names	3.7 years	9,100	3,776	5,324
Backlogs	— years	1,800	1,800	—
License agreements	5.9 years	2,445	1,323	1,122
Other intangibles	1.9 years	1,382	1,108	274
<b>Total intangibles, net</b>		<b>\$ 200,866</b>	<b>\$ 115,460</b>	<b>\$ 85,406</b>

	Weighted Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>June 30, 2017</b>				
Developed technology	5.3 years	\$ 55,400	\$ 42,689	\$ 12,711
Customer relationships	3.3 years	40,300	37,567	2,733
Maintenance contracts	1.3 years	17,000	12,467	4,533
Trade names	4.3 years	5,100	2,846	2,254
License agreements	6.4 years	2,445	1,120	1,325
Other intangibles	2.7 years	1,382	1,001	381
<b>Total intangibles, net with finite lives</b>		<b>121,627</b>	<b>97,690</b>	<b>23,937</b>
In-process research and development, with indefinite life		1,400	—	1,400
<b>Total intangibles, net</b>		<b>\$ 123,027</b>	<b>\$ 97,690</b>	<b>\$ 25,337</b>

During the three months ended September 30, 2017, in-process research and development of \$1.4 million included in the above table was reclassified to developed technology upon completion of the project and is being amortized over its estimated useful life.

The amortization expense of intangibles for the periods presented is summarized below (in thousands):

	Three Months Ended		Nine Months Ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Amortization in “Cost of revenues: Product”	\$4,647	\$ 995	\$11,310	\$ 6,271
Amortization of intangibles	2,101	1,193	6,461	7,510
<b>Total amortization</b>	<b>\$6,748</b>	<b>\$ 2,188</b>	<b>\$17,771</b>	<b>\$ 13,781</b>

The amortization expense that is recognized in “Cost of revenues: Product” is comprised of amortization for developed technology, license agreements and other intangibles.

## Goodwill

The following table summarizes goodwill for the periods presented (in thousands):

	March 31,
	2018
Balance as of June 30, 2017	\$ 80,216
Additions due to acquisitions	49,028
Balance at end of period	\$ 129,244

During the nine months ended March 31, 2018, the Company completed acquisitions of the Campus Fabric Business and the Data Center Business, resulting in an additional goodwill of \$36.4 million and \$12.6 million, respectively. See Note 2 for additional information related to the acquisitions.

## Deferred Revenue

The Company offers for sale to its customers, renewable support arrangements that range from one to five years as well as professional and training services, which results in deferred revenue.

## Debt

The Company's debt is comprised of the following (in thousands):

	March 31, June 30,	
	2018	2017
Current portion of long-term debt:		
Term Loan	\$ 25,260	\$ 12,444
Less: unamortized debt issuance costs	(540 )	(164 )
Current portion of long-term debt	\$ 24,720	\$ 12,280
Long-term debt, less current portion:		
Term Loan	\$ 145,173	\$ 71,268
Revolver	10,000	10,000
Less: unamortized debt issuance costs	(1,215 )	(846 )
Total long-term debt, less current portion	153,958	80,422
Total debt	\$ 178,678	\$ 92,702

In connection with the closing of Campus Fabric Business discussed in Note 2, the Company entered into the Second Amendment to the Amended and Restated Credit Agreement ("Second Amendment"), which amended the Amended and Restated Credit Agreement, dated as of October 28, 2016 (the "Credit Facility"), by and among the Company, as borrower, Silicon Valley Bank, as administrative agent and collateral agent, and lenders. Among other things, the Second Amendment (i) increased the amount of the available borrowing under the Credit Facility from \$140.5 million to \$243.7 million, composed of (a) the five-year term loan ("Term Loan") in a principal amount of up to \$183.7 million and (b) the five-year revolving credit facility ("Revolver") in a principal amount of up to \$60.0 million, (ii) extends the maturity date under the existing Term Loan and the termination date under the existing Revolver, (iii) provides for an uncommitted additional incremental loan facility in the principal amount of up to \$50.0 million ("Incremental Facility"), and (iv) joins certain additional banks, financial institutions and institutional lenders as lenders pursuant to the terms of the Credit Facility. On July 14, 2017, the Company borrowed \$80.0 million under the Term Loan which was used to fund the purchase of Campus Fabric Business.

In connection with the closing of the acquisition of the Data Center Business discussed in Note 2, the Company entered into the Third Amendment to the Credit Facility (the "Third Amendment") on October 26, 2017. Among other things, the Third Amendment (i) amends the negative covenant governing dispositions to increase the general dispositions basket for the fiscal year of the Company ending June 30, 2018, and (ii) amends certain definitions and provisions to update certain references to the Data Center Business Purchase Agreement (as defined above). On the Data Center Business Closing Date, the Company borrowed \$20.0 million on the Term Loan to partially fund the acquisition of the Data Center Business.

Borrowings under the Term Loan bear interest, at our option, at a rate equal to either the LIBOR rate (subject to a 0.0% LIBOR floor), plus an applicable margin (currently 3.25% per annum based on a stated consolidated leverage ratio) or the adjusted base rate, plus an applicable margin (currently 1.25% per annum based on the Company's consolidated leverage ratio). Borrowings under the Revolver bear interest, at the Company's option, at a rate equal to either the LIBOR rate (subject to a 0.0% LIBOR floor), plus an applicable margin (currently 3.25% per annum based

on a stated consolidated leverage ratio) or the adjusted base rate, plus an applicable margin (currently 1.25% per annum based on a stated consolidated leverage ratio). The Revolver has a commitment fee payable on the undrawn amount ranging from 0.375% to 0.50% per annum based upon a stated consolidated leverage ratio.

The Company had \$1.2 million of outstanding letters of credit and \$48.8 million of availability under the Revolver as of March 31, 2018.

On May 1, 2018, the Company terminated the Credit Facility.

On May 1, 2018, the Company entered into a Credit Agreement (the “New Credit Agreement”), by and among the Company, as borrower, BMO Harris Bank N.A., as an issuing lender and swingline lender, Bank of Montreal, as administrative and collateral agent, and the financial institutions or entities that are a party thereto as lenders. The New Credit Agreement provides for a \$40 million five-year revolving credit facility (the “New Revolver”) and a \$190 million five-year term loan (the “New Term Loan” and together with the New Revolver, the “New Senior Secured Credit Facilities”). On May 1, 2018, the Company borrowed \$200 million under the New Senior Secured Credit Facilities in order to pay off existing debt and for general corporate purposes.

See Note 14 (Subsequent Events) to the condensed consolidated financial statements for more information on the New Credit Agreement.

#### 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. 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 nine months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31, March 31,		Nine Months Ended March 31, March 31,	
	2018	2017 (As adjusted)	2018	2017 (As adjusted)
Balance beginning of period	\$ 13,010	\$ 10,790	\$ 10,584	\$ 9,998
Warranties assumed due to acquisitions	—	—	3,682	2,034
New warranties issued	2,872	1,893	6,801	3,997
Warranty expenditures	(3,070 )	(2,080 )	(8,255 )	(5,426 )
Balance end of period	\$ 12,812	\$ 10,603	\$ 12,812	\$ 10,603

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. 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.

#### Other long-term liabilities

The following is a summary of long-term liabilities (in thousands):

	March 31,	June 30,
	2018	2017



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Acquisition related deferred payments, less current portion	\$ 14,147	\$ —
Acquisition-related contingent consideration obligations, less current portion	33,256	—
Other	18,037	8,526
Total other long-term liabilities	\$ 65,440	\$ 8,526

Advertising

All advertising costs are expensed as incurred. Advertising expenses for three and nine months ended March 31, 2018 and 2017, 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 marketable securities. 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 revenues:

	Three Months Ended March 31, 2018	Nine Months Ended March 31, 2018
	2017 (As adjusted)	2017 (As adjusted)
Westcon Group Inc.	14% 10%	14% 11%
Tech Data Corporation	14% 13%	13% 15%
Jenne Corporation	13% 14%	11% 14%

The following customers account for more than 10% of the Company's accounts receivable outstanding as of March 31, 2018, Tech Data 18% and Westcon Group 14%

#### 6. 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 following table presents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis (in thousands):

March 31, 2018	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments:				
Money market funds	\$4,500	\$ —	\$—	\$4,500
Marketable securities	2,091	—	—	2,091
<b>Total assets measured at fair value</b>	<b>\$6,591</b>	<b>\$ —</b>	<b>\$—</b>	<b>\$6,591</b>
<b>Liabilities</b>				
Acquisition-related contingent consideration obligations	\$—	\$ —	\$46,526	\$46,526
<b>Total liabilities measured at fair value</b>	<b>\$—</b>	<b>\$ —</b>	<b>\$46,526</b>	<b>\$46,526</b>

June 30, 2017	Level 1	Level 2	Level 3	Total
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Assets				
Investments:				
Money market funds	\$4,291	\$ —	\$—	\$4,291
Investment in non-marketable equity	—	—	3,000	3,000
Total assets measured at fair value	\$4,291	\$ —	\$3,000	\$7,291

## Level 1 investments:

The Company holds investments in equity securities acquired from the sale of an investment in non-marketable equity securities during the first quarter of fiscal 2018, which is classified as available-for-sale marketable securities at Level 1 as the investments have readily determinable fair value (see below, Level 3 investments). An unrealized holding gain on the investments was \$0.7 million as of March 31, 2018.

## Level 2 assets and liabilities:

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 Credit Facility 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 face amount of the Company's indebtedness of \$178.7 million and \$93.7 million as of March 31, 2018 and June 30, 2017, respectively. Such differences are immaterial for all periods presented.

## Level 3 assets and liabilities:

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.

As of June 30, 2017, the Company reflected its non-marketable equity investment as Level 3 in the fair value hierarchy as it is based on unobservable inputs that market participants would use in pricing this asset due to the absence of recent comparable market transactions and inherent lack of liquidity. During fiscal 2015, the Company purchased a \$3.0 million equity interest in a company that operated in the enterprise software platform industry. The Company did not enter into any other transactions with the investee during fiscal 2017 or the first quarter of fiscal 2018. During the three months ended September 30, 2017, the investee was acquired by a third party. The Company received \$6.8 million as consideration for its equity interest in the investee, including \$5.4 million in cash and 65,937 shares of the third party's publicly-traded common stock with a market value of \$1.4 million. During the first quarter of fiscal 2018, the Company received \$5.8 million of the consideration, consisting of \$4.9 million in cash and 41,685 shares with a market value of \$0.9 million. The remainder of the consideration consisting of \$0.5 million of cash and \$0.5 million of shares will remain in escrow for a period of 18 months from the date of sales for general representations and warranties. A gain of \$3.8 million related to this sale was recorded in "Other income (expense), net" in the accompanying condensed consolidated statement of operations for the nine months ended March 31, 2018. The 41,685 shares received and 23,252 shares held in escrow as of March 31, 2018 were considered Level 1 investments as these have readily determinable fair value and quoted prices in active markets.

During the quarter ended December 31, 2017, the Company recorded a liability for contingent consideration related to its acquisitions of the Data Center Business and the CF Business (see Note 2 for additional information related to the acquisitions). The fair value measurement of the contingent consideration obligations is determined using Level 3 inputs. The fair value of contingent consideration obligations is based on a discounted cash flow model. These fair value measurements represent Level 3 measurements as they are based on significant inputs not observable in the market. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. Accordingly, changes in assumptions could have a material impact on the amount of contingent consideration expense the Company records in any given period. Changes in the value of the contingent consideration obligations would be recorded in general and administrative expenses in the accompanying condensed consolidated statements of operations.

The change in the acquisition-related contingent consideration obligations is as follows (in thousands):

Three	Nine
Months	Months

	Ended March 31,	Ended March 31,
	2018	2018
Beginning balance	\$ 47,030	\$ —
Initial fair value measurements	—	47,030
Payments	(671 )	(671 )
Accretion on discount	1,401	1,401
Change in fair value	(1,234 )	(1,234 )
Ending balance	\$ 46,526	\$ 46,526

There were no transfers of assets or liabilities between Level 2 and Level 3 during the first nine months of fiscal year 2018 or 2017. There were no impairments recorded for the first nine months of fiscal 2018 or 2017.

## 7.Share-based Compensation

Shares reserved for issuance

The Company had reserved for issuance for the periods noted (in thousands):

	March 31, June 30,	
	2018	2017
2014 Employee Stock Purchase Plan	5,365	7,785
Employee stock options and awards outstanding	10,405	9,726
2013 Equity Incentive Plan shares available for grant	11,944	7,629
Total shares reserved for issuance	27,714	25,140

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

	Three Months Ended		Nine Months Ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Cost of product revenue	\$ 163	\$ 73	\$ 389	\$ 262
Cost of service revenue	354	56	783	475
Research and development	2,367	625	5,247	2,593
Sales and marketing	2,735	809	7,077	3,129
General and administrative	2,199	911	6,150	2,869
Total share-based compensation expense	\$ 7,818	\$ 2,474	\$ 19,646	\$ 9,328

During the nine months ended March 31, 2018 or 2017, 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 (“RSUs”) including performance or market-based RSUs which vest over a fixed period of time or based upon the satisfaction of certain performance criteria. The Company uses the straight-line method for expense attribution, and beginning with fiscal 2017, the Company does not estimate forfeitures, but accounts for them as incurred.

The following table summarizes stock award activity for the nine months ended March 31, 2018 (in thousands, except grant date fair value):

	Number of Shares	Weighted-Average Grant Date Fair Value	Aggregate Fair Market Value
Non-vested stock awards outstanding at June 30, 2017	6,664	\$ 4.66	\$ 61,440
Granted	4,335	11.26	

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Vested	(2,488 )	3.75		
Cancelled	(374 )	7.23		
Non-vested stock awards outstanding at March 31, 2018	8,137	\$ 8.34		\$ 90,084

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The following table summarizes stock option activity for the nine months ended March 31, 2018 (in thousands, except per share and contractual term):

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Options outstanding at June 30, 2017	3,062	\$ 4.06	4.19	\$ 15,868
Exercised	(779 )	4.56		
Cancelled	(15 )	4.25		
Options outstanding at March 31, 2018	2,268	\$ 3.89	3.11	\$ 16,283
Vested and expected to vest at March 31, 2018	2,268	\$ 3.89	3.11	\$ 16,283
Exercisable at March 31, 2018	1,961	\$ 4.10	2.95	\$ 13,670

The fair value of each stock option grant under the 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 the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on the historical volatility on the Company's stock.

The fair value of each RSUs grant with performance-based vesting criteria ("PSUs") under the 2013 Plan is estimated on the date of grant using 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.

During the first quarter of fiscal 2018, the Company approved the grant of 1,154,014 stock awards to its vice president level employees or above ("VPs"), including 560,344 stock awards to its Executive Officers, and 939,925 stock awards to its other employees. Fifty percent (50%) of the stock awards granted to the VPs, except the chief executive officer, were in the form of PSUs, with grant date fair values of \$10.90, and fifty percent (50%) of the stock awards granted were in the form of service-based RSUs. The Company's chief executive officer received sixty percent (60%) of his stock award grant in the form of PSUs, while forty percent (40%) of this award were in the form of RSUs, with a grant date fair value of \$10.90. The RSUs vest from the original grant date as to one-third (1/3) on the one-year anniversary and one-twelfth (1/12) each quarter thereafter, subject to continued service to the Company. No PSUs were granted during the second quarter of fiscal 2018.

For the PSUs referenced in the preceding paragraph, they will be considered earned once the Company's combined earnings per share equals or exceeds \$0.32 for two consecutive quarters (the "FY18 Performance Threshold"). Upon satisfying the FY18 Performance Threshold, the PSUs shall vest with respect to the same number of RSUs that have vested which were granted on the same date and thereafter, shall vest on the same schedule as the RSUs, subject to continued service to the Company. If the FY18 Performance Threshold is not met by the third anniversary of the grant date the award is canceled. In addition, the FY18 Performance Threshold shall be deemed satisfied upon the closing of a Change in Control (within the meaning of the Company's 2013 Equity Incentive Plan) in the event the per share consideration received by the Company's stockholders equals or exceeds \$16.00 per share.

During the three and nine months ended March 31, 2018, none of the PSU grants referenced above achieved their FY18 Performance Threshold.

During the third quarter of fiscal 2018, the Company approved the grant of 100,000 stock awards with market-based vesting criteria to certain VPs with grant date fair values ranging from \$10.61 to \$12.19 determined by using the



Monte-Carlo simulation model.

During the first quarter of fiscal 2017, the Company approved the grant of 1,505,120 stock awards to its VPs, including 680,000 stock awards to its Executive Officers, and 1,053,300 stock awards to other Company employees. Fifty percent (50%) of the stock awards granted to the VPs were in the form of PSUs, with grant date fair values ranging from \$3.02 to \$3.09, and fifty percent (50%) of the stock awards granted were in the form of RSUs. The RSUs vest from the original grant date as to one-third (1/3) on the one-year anniversary and one-twelfth (1/12) each quarter thereafter, subject to continued service to the Company. No PSUs were granted during the second quarter of fiscal 2017.

The PSUs were considered earned once the Company's stock price equaled or exceeded \$5.00 per share for 30 consecutive trading days after January 1, 2017 (the "FY17 Performance Threshold"). Once the FY17 Performance Threshold goal was attained the PSUs began to vest on the same schedule as the RSUs that were granted at the same time, subject to continued service to the Company.

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During the quarter ended March 31, 2017, all of the PSU grants referenced above achieved their FY17 Performance Threshold and as such, began vesting and will be released on the schedule as noted, subject to continued service to the Company.

The fair value of each share purchase option under the Company's 2014 Employee Stock Purchase Plan ("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 ESPP represents the term of the offering period of each option. The risk-free rate is based upon the estimated life and on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on the historical volatility on the Company's stock.

There were 1,151,759 and 1,114,707 shares issued under the ESPP during the three months ended March 31, 2018 and 2017, respectively. There were 2,419,689 and 2,218,306 shares issued under the ESPP during the nine months ended March 31, 2018 and 2017, respectively. The following assumptions were used to calculate the fair value of shares granted under the ESPP during the following periods:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Expected life	0.5 years	0.5 years	0.5 years	0.5 years
Risk-free interest rate	1.15 %	0.40 %	1.64 %	1.50 %
Volatility	42 %	37 %	42 %	40%–37%
Dividend yield	— %	— %	— %	— %

The weighted-average fair value of shares granted under the ESPP during the three months ended March 31, 2018 and 2017 was \$4.00 and \$1.34, respectively. The weighted-average fair value of shares granted under the ESPP during the nine months ended March 31, 2018 and 2017 was \$3.26 and \$1.24, respectively.

## 8. Restructuring Charges

### 2018 Restructuring

In the third quarter of fiscal 2018, the Company announced and began executing a reduction-in-force (the "2018 Restructuring") to re-align the Company's resources as a result of the Company's recent acquisitions of the Campus Fabric Business and the Data Center Business. The Company recorded \$4.9 million related to employee severance and benefits expenses during the three months ended March 31, 2018.

### 2017 Restructuring

The Company recorded restructuring charges, net of \$7.7 million and \$9.6 million for the three and nine months ended March 31, 2017, respectively. Pursuant with the WLAN Business acquisition from Zebra, the Company assumed a

facility lease located at and transferred its headquarters to 6480 Via del Oro, San Jose, California. The Company consolidated its existing workforce from the Company's previous headquarters location on Rio Robles Drive in San Jose, California, with employees assumed from Zebra at the Via del Oro site and exited the Rio Robles site on January 31, 2017. Due to the Company's cease use of the Rio Robles facility and abandonment of all leasehold improvements, it accelerated the amortization of the remaining leasehold improvements balance for this site over the shortened service period such that the leasehold improvements were fully amortized on the cease-use date. The Company recorded accelerated amortization expense for the three and nine months ended March 31, 2017 of \$0.9 million and \$2.6 million respectively, and it is reflected in "Restructuring and related charges, net of reversals" in the condensed consolidated statements of operations.

The Company entered into an agreement to sublease its Rio Robles California site during the third quarter of fiscal 2017. The sublease is for the remaining duration of the Company's lease. The sublease resulted in adjustments to the prior estimates for the amount of sublease payments, timing of sublease activities and real estate commissions associated with the sublease. The net adjustments resulted in a charge of \$1.5 million during the third quarter of fiscal 2017. Previously, in the second quarter of fiscal 2017, the Company had modified its estimated future obligations for non-cancelable lease payments and related future sub-leasing income and recorded charges of \$0.1 million. The excess facilities payments will continue through fiscal year 2023, due to the length of the lease agreements.

In conjunction with the above noted actions, the Company announced a reduction-in-force during the quarter ended March 31, 2017 affecting 90 employees. The Company recorded \$5.3 million in severance and benefits charges during the period.

Restructuring liabilities consisted of obligations pertaining to the estimated future obligations for non-cancelable lease payments, as well as severance and benefits obligations. The restructuring liabilities are recorded in “Other accrued liabilities” and “Other long-term liabilities” in the accompanying condensed consolidated balance sheets.

Total restructuring and related liabilities consist of (in thousands):

	Excess Facilities	Severance Benefits	Other	Total
Balance as of June 30, 2017	\$ 2,184	\$ 1,853	\$ 85	\$4,122
Period charges	—	4,920	—	4,920
Period payments	(516 )	(4,198 )	(73 )	(4,787)
Balance as of March 31, 2018	\$ 1,668	\$ 2,575	\$ 12	\$4,255
Less: current portion included in Other accrued liabilities				2,920
Restructuring accrual included in Other long-term liabilities				\$1,335

## 9. Commitments and Contingencies

### Purchase Commitments

The Company currently has arrangements with contract manufacturers and suppliers for the manufacture of its products. Those arrangements allow the contract manufactures 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 March 31, 2018, the Company had non-cancelable commitments to purchase \$151.5 million of such inventory. As of March 31, 2018 the Company had non-cancelable software and maintenance support commitments to purchase \$17.5 million of software and support services.

### 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 Matter

On May 28, 2007, the Public Treasury Department of the State of Sao Paulo, Brazil (the "Tax Authority") assessed our Brazilian subsidiary, Enterasys Networks do Brasil Ltda. ("Enterasys Brasil"), based on an alleged underpayment of taxes. The Tax Authority also charged interest and penalties with respect to the assessment (collectively, the "ICMS Tax Assessment"). The Tax Authority denied Enterasys Brasil the use of certain presumed tax credits granted by the State of Espirito Santo, Brazil under the terms of the FUNDAP program for the period from February 2003 to December 2004. The value of the disallowed presumed tax credits is BRL 3.4 million (approximately U.S. \$1.0 million), excluding interest and penalties. All currency conversions in this Legal Proceedings section are as of March 31, 2018.

Unable to resolve the matter at the administrative level, on October 1, 2014, Enterasys Brasil filed a lawsuit in the 11th Public Treasury Court of the Sao Paulo State Court of Justice (Judiciary District of Sao Paulo) to overturn or reduce the ICMS Tax Assessment. As part of this lawsuit, Enterasys Brasil requested a stay of execution, so that no tax foreclosure could be filed and no guarantee would be required until the court issued its final ruling. On or about October 6, 2014, the court granted a preliminary injunction staying any execution on the assessment, but requiring that Enterasys Brasil deposit the assessed amount with the court. Enterasys Brasil appealed this ruling and, on or about January 28, 2015, the appellate court ruled that no cash deposit (or guarantee) was required. In a decision dated August 28, 2017, and published on October 3, 2017, the court validated the assessment and penalty imposed by the Tax Authority, but ruled that the Tax Authority was charging an unlawfully high interest rate on the tax assessment and penalty amounts, and ordered the interest rate reduced to the maximum Federal rate. The August 28, 2017 decision, were it to become final, would require Enterasys Brasil to pay a total of BRL 16.8 million (approximately U.S. \$5.1 million), which includes penalties, court costs, attorneys' fees, and accrued interest as of March 31, 2018. The Company believes the ICMS Tax Assessment against Enterasys Brasil is without merit, and has appealed the lower court's decision. The appellate court ruled that no cash deposit (or guarantee) is required during the pendency of the appeal.

Based on the currently available information, the Company believes the ultimate outcome of the ICMS Tax Assessment litigation will not have a material adverse effect on the Company's financial position or overall results of operations. However, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserted, there can be no assurance of a favorable outcome for Enterasys Brasil, which recorded an accrual of BRL 9.4 million (approximately U.S. \$2.8 million) as of the date the Company acquired Enterasys Networks.

The Company made a demand on April 11, 2014 for a defense from, and indemnification by, the former equity holder of Enterasys Networks, Inc. ("Seller") in connection with the ICMS Tax Assessment. Seller agreed to assume the defense of the ICMS Tax Assessment on May 20, 2014. In addition, through the settlement of an indemnification-related lawsuit with the Seller on June 18, 2015, Seller agreed to continue to defend the Company with respect to the ICMS Tax Assessment and to indemnify the Company for losses related thereto subject to certain conditions. These conditions include the offsetting of foreign income tax benefits realized by the Company in connection with the acquisition of Enterasys. Based upon current projections of the foreign income tax benefits to be realized, and the potential liability in the event of an adverse final judgment in the ICMS Tax Assessment litigation, the Company does not presently anticipate that any amounts under the indemnification will be due from the Seller in connection with the ICMS Tax Assessment.

#### In re Extreme Networks, Inc. Securities Litigation

On October 23 and 29, 2015, punitive class action complaints alleging violations of securities laws were filed in the U.S. District Court for the Northern District of California against the Company and three of its former officers (Charles W. Berger, Kenneth B. Arola, and John T. Kurtzweil). Subsequently, the cases were consolidated (In re Extreme Networks, Inc. Securities Litigation, No. 3:15-CY-04883-BLF). Plaintiffs allege that defendants violated the securities laws by disseminating materially false and misleading statements and concealing material adverse facts regarding the Company's financial condition, business operations and growth prospects. Plaintiffs seek unspecified damages on behalf of a purported class of investors who purchased the Company's common stock from September 12, 2013 through April 9, 2015. On June 28, 2016, the Court appointed a lead plaintiff. On September 26, 2016, the lead plaintiff filed a consolidated complaint. On November 10, 2016, defendants filed a motion to dismiss, which the Court granted with leave to amend on April 27, 2017. On June 2, 2017, the lead plaintiff filed an amended complaint, which, on July 10, 2017, defendants again moved to dismiss. In a March 21, 2018 Order (the "March 2018 Order"), the Court granted in part and denied in part the defendants' motion. The March 2018 Order narrowed the scope of the case, but allowed certain claims to proceed. The Company believes plaintiffs' claims are without merit, and intends to

defend them vigorously.

On February 18, 2016, a shareholder derivative case was filed in the Superior Court of California, Santa Clara County (Shaffer v. Kispert et al., No. 16 CV 291726). The complaint names current and former officers and directors as defendants, and seeks recovery on behalf of the Company based on substantially the same allegations as the securities class action litigation described above. As a result of the March 2018 Order, the stipulated stay of the derivative litigation now has ended.

XR Communications, LLC d/b/a Vivato Technologies, LLC v. Extreme Networks, Inc.

On April 19, 2017, XR Communications, LLC (“XR”) (d/b/a Vivato Technologies) filed a patent infringement lawsuit against the Company in the Central District of California (XR Communications, LLC, dba Vivato Technologies v. Extreme Networks, Inc., No. 2:17-cv-2953-AG). The operative Second Amended Complaint asserts infringement of U.S. Patent Nos. 7,062,296, 7,729,728, and 6,611,231 based on the Company’s manufacture, use, sale, offer for sale, and/or importation into the United States of certain access points and routers supporting multi-user, multiple-input, multiple-output technology. XR seeks unspecified damages, on-going royalties, pre- and post-judgment interest, and attorneys’ fees (but no injunction). &nbsp;