UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K/A

Amendment No. 1

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

Date of report (date of earliest event reported):
October 31, 2013

EXTREME NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**000-25711**	**77-0430270**
(State or other jurisdiction of incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

145 Rio Robles
San Jose, California 95134
(Address of principal executive offices)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

This Amendment No. 1 on Form 8-K/A amends the Current Report on Form 8-K filed by Extreme Networks, Inc. ("Extreme") with the Securities and Exchange Commission on November 1, 2013 ("November 8-K") related to Extreme's acquisition of Enterasys Networks, Inc. ("Enterasys") to include: the consolidated financial statements of Enterasys as required under Item 9.01(a), the pro forma financial information as required under Item 9.01(b) and related exhibits under Item 9.01 (d). The information previously reported in the November 8-K is hereby incorporated by reference into this Form 8-K/A.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired

The audited consolidated financial statements of Enterasys as of and for the years ended September 30, 2013 and 2012, are attached hereto as Exhibit 99.1 and are incorporated by reference in their entirety herein. The audited consolidated financial statements of Enterasys as of and for the years ended September 30, 2012 and 2011, are attached hereto as Exhibit 99.2 and are incorporated by reference in their entirety herein.

(b) Unaudited Pro Forma Financial Information

The following unaudited pro forma condensed combined financial information required by Item 9.01(b) of Form 8-K is attached hereto as Exhibit 99.3 and is incorporated by reference in its entirety herein:

i. Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2013.

ii. Unaudited Pro Forma Condensed Combined Statement of Operations for the three months ended September 30, 2013.

iii. Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended June 30, 2013.

iv. Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

(d) Exhibits

Exhibit No.	Description
23.1	Consent of Independent Accounting Firm.
99.1	Audited Consolidated Financial Statements of Enterasys Networks, Inc. as of and for the Years Ended September 30, 2013 and 2012.
99.2	Audited Consolidated Financial Statements of Enterasys Networks, Inc. as of and for the Years Ended September 30, 2012 and 2011.
99.3	Unaudited Pro Forma Condensed Combined Financial Statements

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: January 13, 2014

EXTREME NETWORKS, INC.

By: /s/ JOHN KURTZWEIL
John Kurtzweil
Senior Vice President, Chief Financial Officer, and Chief Accounting Officer

EXHIBIT INDEX

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99.3	Unaudited Pro Forma Condensed Combined Financial Statements

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement Nos. 333-192507, 333-165268, 333-112831, 333-105767, 333-76798, 333-65636, 333-58634, 333-55644, 333-54278, 333-131705, and 333-83729 on Forms S-8 of our report dated December 24, 2013, relating to the consolidated financial statements of Enterasys Networks, Inc. as of and for the years ended September 30, 2013 and 2012 (which report expresses an unmodified opinion and includes an emphasis-of-matter paragraph relating to affiliated transactions) and our report dated October 28, 2013, relating to the consolidated financial statements of Enterasys Networks, Inc. as of and for the years ended September 30, 2012 and 2011 (which report expresses an unmodified opinion and includes an emphasis-of-matter paragraph relating to affiliated transactions) appearing in this Current Report on Form 8-K/A of Extreme Networks, Inc.

/s/ Deloitte & Touche LLP
Boston, Massachusetts
January 13, 2014

Enterasys Networks, Inc.

Consolidated Financial Statements as of and for the Years Ended September 30, 2013 and 2012, and Independent Auditors' Report

ENTERASYS NETWORKS, INC.

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INDEPENDENT AUDITORS' REPORT

To the Stockholder of
Enterasys Networks, Inc.
Salem, New Hampshire

We have audited the accompanying consolidated financial statements of Enterasys Networks, Inc. and subsidiaries (the "Company") which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1, 10 and 12, the consolidated financial statements include significant transactions with Enterprise Networks Holdings B.V. and its affiliates and are not necessarily indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company. Our opinion is not modified with respect to this matter.

Deloitte + Touche LLP

December 24, 2013

ENTERASYS NETWORKS, INC.

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2013 AND 2012
(In thousands, except share and per share data)

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 38,099	$ 23,266
Accounts receivable — net	32,741	36,243
Affiliate receivables	18,316	19,582
Inventories	23,271	17,719
Affiliate note receivable	31,022	31,111
Prepaid expenses and other current assets	7,192	8,053
Income tax receivable	189	243
Deferred income taxes	14,168	10,757
Total current assets	164,998	146,974
RESTRICTED CASH	637	962
PROPERTY AND EQUIPMENT — Net	15,964	13,165
GOODWILL	117,675	120,294
INTANGIBLE ASSETS — Net	9,275	17,296
DEFERRED INCOME TAXES	55,377	67,370
OTHER ASSETS	10,796	16,386
TOTAL ASSETS	$ 374,722	$ 382,447
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 20,194	$ 26,591
Affiliate payables	2,172	1,019
Accrued expenses	29,151	28,127
Deferred revenue	40,140	41,525
Customer advances	1,467	3,313
Affiliate debt	94,875	
Income taxes payable	139	449
Deferred income taxes	3,729	3,852
Total current liabilities	191,867	104,876
AFFILIATE DEBT		93,049

DEFERRED REVENUE	13,573	13,090
OTHER LIABILITIES	10,151	6,645
DEFERRED INCOME TAXES	25,922	29,071
Total liabilities	241,513	246,731
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Series A common stock, $0.001 par value — authorized, issued, and outstanding, 1,000 shares		
Additional paid-in capital	209,754	209,754
Accumulated deficit	(69,202)	(69,083)
Accumulated other comprehensive loss	(7,343)	(4,955)
Total stockholder's equity	133,209	135,716
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 374,722	$ 382,447

See notes to consolidated financial statements.

ENTERASYS NETWORKS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In thousands)

	2013	2012
REVENUE:		
Product	$ 249,942	$ 266,894
Service	82,957	84,360
Total revenue	332,899	351,254
COST OF REVENUE:		
Product	122,822	127,500
Service	32,835	33,390
Total cost of revenue	155,657	160,890
GROSS PROFIT	177,242	190,364
OPERATING EXPENSES:		
Research and development	60,074	58,393
Selling, general, and administrative	105,426	109,917
Amortization of intangible assets	8,021	9,756
Total operating expenses	173,521	178,066
INCOME FROM OPERATIONS	3,721	12,298
INTEREST EXPENSE	(8,638)	(8,801)
OTHER INCOME (EXPENSE) — Net	5,195	(2,062)
INCOME BEFORE INCOME TAXES	278	1,435
INCOME TAX (PROVISION) BENEFIT	(397)	700
NET (LOSS) INCOME	$ (119)	$ 2,135

See notes to consolidated financial statements.

ENTERASYS NETWORKS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In thousands)

	2013	2012
NET (LOSS) INCOME	$ (119)	$ 2,135
OTHER COMPREHENSIVE LOSS — Foreign currency translation adjustment	(2,388)	(1,937)
COMPREHENSIVE (LOSS) INCOME	$ (2,507)	$ 198

See notes to consolidated financial statements.

ENTERASYS NETWORKS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In thousands, except share data)

	Series A Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders' Equity
	Shares	Par Value				
BALANCE — October 1, 2011	1,000	$ —	$ 209,754	$ (71,218)	$ (3,018)	$ 135,518
Currency translation adjustment					(1,937)	(1,937)
Net income				2,135		2,135
BALANCE — September 30, 2012	1,000	—	209,754	(69,083)	(4,955)	135,716
Currency translation adjustment					(2,388)	(2,388)
Net loss				(119)		(119)
BALANCE — September 30, 2013	1,000	$	$ 209,754	$ (69,202)	$ (7,343)	$ 133,209

See notes to consolidated financial statements.

ENTERASYS NETWORKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (119)	$ 2,135
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	13,154	13,713
Provision for doubtful accounts	44	(85)
Unrealized loss on foreign currency transactions	103	916
Deferred income taxes	5,311	7,537
Changes in assets and liabilities:		
Accounts receivable	4,187	(6,947)
Affiliate receivables	18	(1,643)
Inventories	(6,335)	8,663
Prepaid expenses and other assets	6,825	(781)
Accounts payable and accrued expenses	(4,855)	(8,867)
Affiliate payables	1,153	(6,170)
Customer advances	(1,846)	1,749
Deferred revenue	(742)	(822)
Income taxes	(379)	796
Other liabilities	3,046	(2,547)

Net cash provided by operating activities	19,565	7,647
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,055)	(4,181)
Decrease in restricted cash	324	688
Net cash used in investing activities	(4,731)	(3,493)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on affiliate debt	2,180	
Issuance of affiliate note receivable	(17,824)	(32,000)
Payments received on affiliate note receivable	15,703	15,000
Net cash provided by (used in) financing activities	59	(17,000)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(60)	(46)
NET INCREASE (DECREASE) ON CASH AND CASH EQUIVALENTS	14,833	(12,892)
CASH AND CASH EQUIVALENTS — Beginning of year	23,266	36,158
CASH AND CASH EQUIVALENTS — End of year	$ 38,099	$ 23,266
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid — net	$ 1,647	$ 1,414
Interest paid — net	$ 4,681	$ 8,873
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
Noncash purchases of capital equipment	$ 3,789	$ 5,542
Interest paid by reduction in Affiliate note receivable	$ 2,211	$ 0

See notes to consolidated financial statements.

ENTERASYS NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

1. BASIS OF PRESENTATION AND BUSINESS

Business — Enterasys designs, develops, markets, and supports comprehensive network solutions architecture to address the network communication, management, and security requirements facing global enterprises. The Company believes its solutions offer customers the secure, high-capacity, and cost-effective network connectivity required to facilitate the exchange of information among employees, customers, suppliers, business partners, and other network users. The Company is focused on delivering networking solutions that include security features within the network architecture. Enterasys believes its solutions enable customers to meet their network software requirements for continuity, context, control, compliance, and consolidation through an architecture and management interface designed for ease of use. Enterasys' installed base of customers consist of commercial enterprises, governmental entities, health care, financial, educational, nonprofit institutions, and various other organizations.

Immaterial Correction of Prior Period Amounts — During 2013, the Company identified an error within the financing activities section of the 2012 consolidated statement of cash flows. Cash inflows from Borrowings on affiliate debt and cash outflows from the Repayment of affiliate debt were each inappropriately stated in the amount of approximately $8.9m. This amount represented payments of interest to the affiliate and not cash flows resulting from borrowings or repayments of principle. The Company has corrected the presentation error of the 2012 consolidated statement of cash flows within these consolidated financial statements. There was no impact to cash flows from financing activities during 2012 as a result of the correction.

Basis of Presentation — The consolidated financial statements include the accounts of Enterasys Networks, Inc., and its subsidiaries ("Enterasys" or the "Company"). On February 22, 2012, Gores ENT Holdings, Inc. ("Gores ENT"), was merged into Enterasys. Gores ENT was formed as a Delaware corporation on October 28, 2005. On March 1, 2006, Gores ENT acquired 100% of the outstanding common shares of Enterasys. On October 1, 2008, Siemens AG and the Gores Group LLC ("Gores") completed a joint venture (JV) transaction whereby Gores and Siemens AG acquired 51% and 49% interests, respectively. Upon formation of the JV, Gores formed Enterprise Networks Holdings B.V. ("JV Co"). JV Co formed Enterprise Networks Holdings, Inc. ("EN Holdings"), for the purpose of holding Gores ENT, SER Holdings and subsidiaries, Siemens Enterprise Communications, and Chantry Networks and subsidiary ("Chantry").

On September 12, 2013, EN Holdings entered into a stock purchase agreement to sell all of the issued and outstanding shares of the Company's common stock to Extreme Networks, Inc. for approximately $180 million, subject to certain adjustments defined in the agreement. On October 31, 2013, the Company was sold to Extreme Networks, Inc. for $182.2 million.

The consolidated financial statements include significant transactions with JV Co and its affiliates and are not necessarily indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company.

The consolidated financial statements include revenues and expense transactions with JV Co, including, but not limited to, sales of products and services, research and development services, employee benefits and incentives, and financing activities, including:

Revenue — For the years ended September 30, 2013 and 2012, the Company sold, to various companies within the JV Co, products of $28.6 million and $36.9 million and services of $5.5 million and $5.3 million, respectively. Companies within the JV Co are considered platinum partners and receive the same discounts as other third-party platinum customers.

Research and Development Costs — The Company reimburses Chantry for all research and development costs incurred on its behalf. Costs reimbursed totaled $10.8 million and $11.3 million for the years ended September 30, 2013 and 2012, respectively.

Self-Insured Medical Costs — The Company participates in a self-insured medical plan administered by Gores. Total costs associated with the medical plan were $6.1 million and $5.1 million for the years ended September 30, 2013 and 2012, respectively. These expenses were charged to selling, general, and administrative when incurred.

Workers' Compensation, Auto, and General Liability Insurance — Enterasys is the beneficiary of an umbrella insurance policy carried by JV Co. Costs associated with the insurance plans totaled $0.2 million and $0.1 million for the years ended September 30, 2013 and 2012, respectively. These expenses were charged to selling, general, and administrative when incurred.

Global Management Incentive Plan (GMIP) — The Company participates in the JV Co's GMIP. GMIP expenses recorded were $6.6 million and $2.6 million for the years ended September 30, 2013 and 2012, respectively. Costs were charged to the function from which the bonus was earned.

Interest Expense — The Company's debt is held by a 100%-owned subsidiary of JV Co. Enterasys recorded interest expense of $8.6 million and $8.8 million for the years ended September 30, 2013 and 2012, respectively.

Product Service and Support — The Company reimbursed an affiliate for costs associated with the service and support of product. Reimbursed costs totaled $0.1 million and $0.5 million for the years ended September 30, 2013 and 2012, respectively, and were recorded in the cost of revenue — service and selling, general, and administrative.

These transactions may not, however, reflect the expenses the Company would have incurred as an independent company for the years presented. Actual costs that may have been incurred if the Company had been a stand-alone company would depend on a number of factors, including the organizational structure; what functions were outsourced or performed by employees; and strategic decisions made in areas, such as information technology (IT) and infrastructure. The Company is unable to determine what such costs would have been had the Company been independent.

The accompanying consolidated financial statements have been prepared in U.S. dollars in accordance with the accounting principles generally accepted in the United States of America (GAAP or "generally accepted accounting principles").

Subsequent Events — The Company has evaluated subsequent events through December 24, 2013, the date on which the consolidated financial statements were available to be issued, noting no events requiring adjustment to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation — The consolidated financial statements include the accounts of Enterasys and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates and Judgments — The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and judgments relied upon in preparing these consolidated financial statements include revenue recognition for multiple-element arrangements, inventory valuations, warranty provisions, legal contingencies, and recoverability of Enterasys' net deferred tax assets and the related valuation allowances. Enterasys regularly assesses these estimates and records changes in estimates in the period in which they become known. Enterasys bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Risks and Uncertainties — The markets for the Company's products are characterized by rapid technological development, intense competition, and frequent new product introductions, all of which could affect the future realizability of the Company's assets.

Revenue Recognition — The Company's revenue is primarily derived from sales of networking products, which typically have both software and nonsoftware components that function together to deliver the products' essential functionality, professional services, software licenses, and maintenance and support services.

The Company recognizes revenue from sales when persuasive evidence of an arrangement exists, delivery has occurred, the sale price is fixed or determinable, and collectability of the related receivable is probable. In instances where the customer has specifically bargained for acceptance criteria, revenue is deferred until the acceptance has been achieved. When fees for products or services are not fixed and determinable, the Company defers the recording of receivables and revenue until such time as the fees become due or are collected.

The Company's arrangements typically include multiple elements, such as products, software licenses, maintenance and support services, and professional services. When the Company's sales arrangements contain multiple elements, the Company allocates the arrangement fee based upon the relative value of the stand-alone selling price for each element. The stand-alone selling price of each element is determined using a selling price hierarchy. Under the selling price hierarchy, the selling price for each deliverable is based on the Company's vendor-specific objective evidence (VSOE), which is determined by a substantial majority of the Company's historical stand-alone sales transactions for a product or service falling within a narrow range. If VSOE is not available due to a lack of stand-alone sales transactions or lack of pricing within a narrow range, then third-party evidence (TPE), as determined by the stand-alone pricing of competitive vendor products in similar markets, is used, if available. TPE typically is difficult to establish due to the Company's various product and service offerings containing a significant level of customization and differentiation and difficulty in obtaining reliable competitive stand-alone pricing information. When neither VSOE nor TPE is available, the Company determines its best estimate of stand-alone selling price (ESP) for a product or service and does so by considering several factors, including, but not limited to, the sales prices, sales channel, geography, gross margin objective, competitive product pricing, and product life cycle. In consideration of all relevant pricing factors, the Company applies management judgment to determine the Company's best estimate of

selling price. Generally, the stand-alone selling price of product and services is determined using VSOE and the stand-alone selling price of other unique deliverables is determined by using ESP. The Company limits the amount of revenue recognized for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations, or subject to customer-specific return or refund privileges.

For software license sales, the Company recognizes revenue in accordance with the accounting standards for software revenue recognition. These arrangements typically include multiple elements, such as the software license, professional services, and maintenance and support services. Revenue for software license arrangements is recognized utilizing the residual method whereby the arrangement fee is first allocated to any undelivered elements that are considered not essential to the functionality of the license based upon the VSOE for those elements and the remainder of the arrangement fee is recognized upon delivery of the license. If the Company does not have VSOE for each undelivered element, it defers all revenue on the entire arrangement until VSOE is established or until such elements are delivered, provided that all other revenue recognition criteria are met.

The Company sells its products to stocking distributors, nonstocking distributors, and value-added resellers that sell directly to end users. The majority of revenue is from a select group of stocking distributors with contractually agreed product rotation rights. The Company defers the revenue associated with all sales to its stocking distributors until the distributors sell the product, as evidenced by "sales-out" reports that the distributors provide. For product sales to nonstocking distributors and value-added resellers, the Company does not grant return privileges, except for defective products during the warranty period. Accordingly, the Company recognizes revenue upon shipment, provided that all other revenue recognition criteria are met.

Revenue from maintenance and support services is recognized ratably over the service period. Revenue from other professional services is typically recognized as the services are accepted by the customer, if all other revenue recognition criteria have been met.

Deferred revenue typically includes amounts associated with maintenance and support contracts or professional services. Deferred revenue expected to be recognized as revenue more than one year subsequent to the consolidated balance sheet date is reported within long-term liabilities in the consolidated balance sheets. The Company defers recognition of incremental direct costs, such as cost of goods and third-party installations, until recognition of the related revenue.

The Company excludes any taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction (i.e., sales, use, value added) from its revenue and costs. Reimbursement received for out-of-pocket expenses and shipping costs is recorded as revenue.

Cash and Cash Equivalents — Cash and cash equivalents consist of all highly liquid investments with a maturity at date of purchase of 90 days or less. Cash and cash equivalents are carried at cost, which approximates fair value.

Enterasys maintains its cash and cash equivalents in bank deposit accounts, which, at times may exceed federally insured limits. The Company has not experienced losses in such accounts. The Company believes that it is not exposed to any significant credit risk for cash.

Allowance for Doubtful Accounts — The Company estimates the collectability of its accounts receivable and the related amount of bad debts that may be incurred in the future. The allowance for doubtful accounts results from an analysis of specific customer accounts, historical experience, customer concentrations, credit ratings, and current economic trends.

Restricted Cash — The Company classifies as restricted cash all cash pledged as collateral to secure long-term obligations and all cash whose use is otherwise limited by contractual provisions. Restricted cash consists of state insurance requirements and various lease deposits.

Inventories — Inventories are reported at the lower of cost or market. Costs are measured at standard, which approximates actual cost on a first-in, first-out method. The Company records a provision for excess and obsolete raw materials and finished goods inventory using a reserve methodology based primarily on forecasts of future demand. Finished goods inventory includes customer evaluation units, as well as products shipped to stocking distributors where revenue is not recognized until the products are shipped to their customers. Service inventory represents inventory used by the Company as replacement parts for customers whom have purchased long-term service contracts. The Company records a provision for excess and obsolete service inventory based upon a review of estimated product service lives and usage estimates.

Property, Plant, and Equipment — Property and equipment is stated at cost, net of accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from two to five years. Leasehold improvements are amortized over the lesser of the lease term or its useful life. When an asset is sold or retired, the cost and related accumulated depreciation or amortization is eliminated, and the resulting gain or loss, if any, is recognized in income (loss) from operations in the consolidated statements of operations. The Company reviews property and equipment for impairment in the same manner as intangible assets discussed below.

Intangible Assets and Goodwill — Intangible assets are composed of intellectual property and customer relations, which are amortized over their estimated useful lives. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable based upon the estimated undiscounted cash flows.

Goodwill is recorded when the consideration for an acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired. Goodwill is not amortized, but instead is tested for impairment at least annually or if indicators of potential impairment exist by comparing the fair value of the Company's reporting unit to its carrying value. The Company estimates the fair value of its reporting unit using a discounted cash flow model or other valuation models, such as comparative transactions and market multiples. There was no impairment of goodwill recorded for the years ended September 30, 2013 and 2012.

Intangible assets with estimated lives and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of intangible assets with estimated lives and other long-lived assets is measured by a comparison of the carrying amount of an asset or asset group to future net undiscounted cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, the Company will recognize an impairment loss for the amount by which the carrying value of the asset or asset group exceeds the related estimated fair value. Estimated fair value is based on either discounted future operating cash flows or appraised values, depending on the nature of the asset. There were no impairments of intangible assets recorded for the years ended September 30, 2013 and 2012.

Financial Instruments — The Company's financial instruments include cash and cash equivalents, accounts receivable, affiliate accounts receivable, accounts payable, affiliate accounts payable, accrued expenses, and affiliate debt. Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts and notes receivable, accounts payable, accrued expenses, and short-term borrowings approximate fair value. The Company's affiliate debt carries a variable interest rate and the carrying value of the affiliate debt approximates fair value.

Financial instruments with remaining maturities of less than one year, or that are due within one year from the consolidated balance sheet date, are classified as current. Financial instruments with remaining maturities or that are payable more than one year from the consolidated balance sheet date are classified as noncurrent.

Concentrations of Credit Risk and Significant Customers — The Company grants credit to its customers during the normal course of business and generally requires no collateral from its customers. However, management routinely assesses the financial condition of its customers and, as a consequence, believes that its trade accounts receivable credit risk exposure is limited. As of September 30, 2013 and 2012, five customers account for 38% and 29% of the Company's total accounts receivable, respectively. During the years ended September 30, 2013 and 2012, five customers account for 64% and 68% of the Company's total revenue, respectively.

Enterasys has six major contract manufacturers. Failure to manage the activities of these manufacturers or any disruption in these relationships could result in the disruption in the supply of its products and in delays in the fulfillment of the Company's customer orders. During the years ended September 30, 2013 and 2012, purchases from the Company's top six vendors accounted for 94% and 95% of the Company's inventory purchases, respectively.

Research and Development Costs and Software Costs — Expenditures related to the development of new products, including significant improvements and refinements to existing products and the development of software are expensed as incurred. Software development costs are required to be capitalized beginning when the technological feasibility of a product has been established and ending when a product is available for general release to customers. The Company's process for developing software is essentially completed concurrent with the establishment of technological feasibility, accordingly, no costs have been capitalized to date.

Advertising Costs — Advertising expenditures are charged to expense as incurred. Advertising expenses for the years ended September 30, 2013 and 2012, was $3.1 million for each period presented.

Operating Segments — Enterasys operates in a single segment. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker in making decisions regarding resource allocation and assessing performance. To date, the chief operating decision maker has made such decisions and assessed performance at the company level as one segment. The Company's chief operating decision maker is its chief executive officer.

Income Taxes — Deferred tax assets and liabilities are recognized for the expected future consequences of events that have been reflected in the consolidated financial statements. Deferred tax assets and liabilities are determined based on the differences between the book and tax bases of assets and liabilities and operating loss carryforwards, using tax rates expected to be in effect for the years in which the differences are expected to reverse. Such differences arise primarily from depreciation, accruals and reserves, deferred revenue, tax credits, net operating loss carryforwards, and allowances for accounts receivable. Enterasys records valuation allowances to reduce deferred income tax assets to the amount

that is more likely than not to be realized. The Company has not provided for U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries, as the Company plans to permanently reinvest these amounts.

The domestic entities of the Company join in the filing of a consolidated U.S. federal return and certain state tax returns (where permitted) with related U.S. entities not included in these consolidated financial statements. Although the Company could not have used certain federal and state attributes on a stand-alone basis, other related U.S. entities within the consolidated U.S. federal return have been able to utilize these tax attributes. The Company uses the modified separate return approach whereby an entity may consider a tax attribute realized if it is used in a consolidated tax return even if it could not be realized on a stand-alone basis.

The Company determines whether it is more likely than not that a tax position will be sustained upon examination. If it is not more likely than not that a position will be sustained, no amount of the benefit attributable to the position is recognized. The tax benefit to be recognized of any tax position that meets the more-likely-than-not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon resolution of the contingency. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for income taxes.

Comprehensive Income — The Company presents comprehensive (loss) income in its consolidated statements of comprehensive (loss) income and is composed of net income and foreign currency translation adjustments. The foreign currency translation amounts are $(2.4) million and $(1.9) million for the years ended September 30, 2013 and 2012, respectively.

Foreign Currency Translation — For foreign subsidiaries where the functional currency is the local currency, assets and liabilities are translated into U.S. dollars at the current exchange rate on the consolidated balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during each period. Translation adjustments for these subsidiaries are included in accumulated other comprehensive loss.

For foreign subsidiaries where the functional currency is the U.S. dollar, monetary assets and liabilities are translated into U.S. dollars at the current exchange rate on the consolidated balance sheet date. Nonmonetary assets and liabilities are remeasured into U.S. dollars at historical exchange rates. Revenue and expense items are translated at average rates of exchange prevailing during each period.

Realized and unrealized foreign currency gains and losses arising from transactions denominated in currencies other than the subsidiary's functional currency are reflected in earnings with the exception of intercompany transactions considered to be of a long-term investment nature. Foreign currency transaction loss was $1.1 million and $2.5 million for the years ended September 30, 2013 and 2012, respectively.

Fair Value Measurements — Accounting standards define fair value, establish a framework for measuring fair value under generally accepted accounting principles, and enhance disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's assets that are measured at fair value on a recurring basis include cash equivalents that represent overnight deposits in the Federated Prime Obligations (ticker symbol POIXX) money market mutual fund. As of September 30, 2013 and 2012, the fair value was as follows (in thousands):

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of September 30, 2013**	**Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	$ 20,379	$ 20,379	$	$

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of September 30, 2012**	**Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	$ 12,522	$ 12,522	$ —	$ —

Loss Contingencies and Reserves

Loss Contingencies — The Company is subject to ongoing business risks arising in the ordinary course of business that affect the estimation process of the carrying value of assets, the recording of liabilities, and the possibility of various loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred or an asset has been impaired and the amount of loss can be reasonably estimated. The Company regularly evaluates current information available to determine whether such amounts should be adjusted and record changes in estimates in the years they become known.

Reserve for Product Warranty Costs — The Company extends a limited lifetime warranty (LLW) on certain fixed switching, access point and controllers, and K-series modular switching products within the portfolio.

The warranty period typically covers the sales life of the product, plus five years of service life once the product is announced as end-of-sales life (EOSL). For most products under a LLW, the sales life is anticipated to be three years, therefore, the initial accrual period spans eight years. This is adjusted, as necessary, if the sales life is extended.

The per unit accrual rate for LLW products is determined based upon forecasted unit shipments, EOSL schedule, estimated technical return rates, and transactional costs related to the return and repair process.

Accrual for Royalties — The Company accrues for royalties for technology that it licenses from vendors based on established royalty rates and usage.

Reserve for Litigation and Legal Fees — The Company is subject to various legal claims, including securities litigation. The Company reserves for legal contingencies and legal fees when it is probable that a loss has been incurred and the amounts are reasonably estimable.

3. ACCOUNTS RECEIVABLE — NET

Accounts receivable — net as of September 30, 2013 and 2012, consist of the following (in thousands):

	2013	2012
Accounts receivable — gross	$ 32,889	$ 36,341
Allowance for doubtful accounts	(148)	(98)
Accounts receivable — net	$ 32,741	$ 36,243

The Company does not recognize revenue on product shipments to certain stocking distributors until those distributors have sold the product to the end customer. As of September 30, 2013 and 2012, $6.4 million and $4.8 million, respectively, of product shipments had been billed and revenue had not been recognized, of which $1.5 million and $3.3 million, respectively, were paid and included in customer advances. The balance of $4.9 million and $1.5 million, respectively, were unpaid and are recorded as a contra account to gross accounts receivable.

4. INVENTORY

Inventory as of September 30, 2013 and 2012, consists of the following (in thousands):

	2013	2012
Raw materials	$ 814	$ 994
Evaluation units	697	741
Finished goods	21,760	15,984
Inventories	$ 23,271	$ 17,719

The Company records shipments to stocking distributors as a component of finished goods inventory. When the products are sold to end users, the associated cost of the inventory is recorded as a component of cost of revenue. As of September 30, 2013 and 2012, $1.3 million and $0.9 million, respectively, of the Company’s finished goods inventory was held by stocking distributors.

For the years ended September 30, 2013 and 2012, service inventory of $9.6 million and $14.4 million, respectively, have been classified as long-term and is a component of other assets.

5. PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2013 and 2012, consists of the following (in thousands):

	Useful Life	2013	2012
Computers and equipment	3 years	$ 21,389	$ 19,051
Software	3 years	5,929	5,755
Leasehold improvements	Lessor of lease term or useful life	11,479	2,643
Furniture and fixtures	5 years	1,896	580
Construction in progress		461	6,580
		41,154	34,609
Less accumulated depreciation		(25,190)	(21,444)
Property and equipment — net		$ 15,964	$ 13,165

The Company recorded depreciation expense related to property and equipment of $5.1 million and $3.9 million for the years ended September 30, 2013 and 2012, respectively.

The Company had no property or equipment under capital lease for any of the years presented.

6. INTANGIBLE ASSETS AND GOODWILL

A reconciliation of changes in the carrying amount of goodwill as of September 30, 2013 and 2012, is as follows (in thousands):

Balance — October 1, 2011	$	123,077
Effect of foreign currency rate changes		(2,783)
Balance — September 30, 2012		120,294
Effect of foreign currency rate changes		(2,619)
Balance — September 30, 2013	$	117,675

The Company has designated September 30 as the date of the annual goodwill impairment test. Based on the annual impairment test, there was no impairment of goodwill as of September 30, 2013 or 2012.

Gross amortizable intangible assets and the related accumulated amortization as of September 30, 2013 and 2012, respectively, are as follows (in thousands):

2013		Cost		Accumulated Amortization		Net Carrying Value	Weighted-Average Useful Life
Customer relations	$	42,407	$	(40,198)	$	2,209	8 years
Trademarks		26,160		(19,421)		6,739	11 years
Patents and technology		54,304		(53,977)		327	6 years
	$	122,871	$	(113,596)	$	9,275	

2012		Cost		Accumulated Amortization		Net Carrying Value	Weighted-Average Useful Life
Customer relations	$	42,407	$	(34,897)	$	7,510	8 years
Trademarks		26,160		(16,864)		9,296	11 years
Patents and technology		54,304		(53,814)		490	6 years
	$	122,871	$	(105,575)	$	17,296	

Amortization expense of the intangible assets was $8.0 million and $9.8 million for the years ended September 30, 2013 and 2012, respectively.

Expected future intangible asset amortization as of September 30, 2013, was as follows (in thousands):

September 30		
2014	$	4,929
2015		4,346
	$	9,275

7. ACCRUED EXPENSES

Accrued expenses as of September 30, 2013 and 2012, consist of the following (in thousands):

		2013		2012
Compensation and benefits	$	15,775	$	12,426
Royalties		1,440		1,638
Marketing development		1,143		1,251
IT and engineering		1,002		1,391
Legal		794		4,666
Other		8,997		6,755
	$	29,151	$	28,127

For the years ended September 30, 2013 and 2012, warranty reserves of $2.9 million and $2.5 million, respectively, have been classified as long term and are a component of other liabilities.

8. INCOME TAXES

Income before income taxes as of September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
U.S. loss	$ (13,611)	$ (9,057)
Foreign income	13,889	10,492
Total income before income taxes	$ 278	$ 1,435

The provision for (benefit from) income taxes for the years ended September 30, 2013 and 2012, consisted of the following (in thousands):

	2013	2012
Current:		
Federal	$ (6,131)	$ (9,323)
State	(39)	(42)
Foreign	1,328	1,121
Total current	(4,842)	(8,244)
Deferred:		
Federal	3,172	7,030
State	98	399
Foreign	1,969	115
Total deferred	5,239	7,544
Total income tax provision (benefit)	$ 397	$ (700)

The domestic entities of the Company join in the filing of a consolidated U.S. federal return and certain state tax returns (where permitted) with related U.S. entities not included in these consolidated financial statements. Although the Company could not have used certain federal and state attributes on a stand-alone basis, other related U.S. entities within the consolidated U.S. federal return have been able to utilize these tax attributes. The Company uses the modified separate return approach whereby an entity may consider a tax attribute realized if it is used in a consolidated tax return even if it could not be realized on a stand-alone basis.

Tax benefits realized on the utilization of net operating losses and other attributes by related entities of the U.S. federal consolidated returns are charged back to those related U.S. entities under a tax-sharing agreement. This is the primary driver for the current federal and state tax benefits being recorded. The offsetting entry for the current benefit recognized by the related U.S. entities is generally an affiliate receivable. The affiliate receivable for unpaid tax benefits was $2.1 million and $6.7 million for the years ended September 30, 2013 and 2012.

The difference between the provision for income taxes and income taxes computed using the U.S. federal income tax rate is primarily due to the benefit of federal tax credits, other expenses not deductible for income tax purposes, the change in the valuation allowance, foreign tax rate differentials, and state income taxes.

Significant components of the Company's deferred tax assets and liabilities as of September 30, 2013 and 2012, are as follows (in thousands):

	2013	2012
Deferred tax assets:		
Accounts receivable	$ 40	$ 11
Inventories	501	1,355
Deferred revenue	4,846	4,423
Other reserves and accruals	4,925	2,939
Amortization of acquired intangible assets	19,029	19,132
Domestic net operating loss carryforwards	5,687	11,776
Foreign net operating loss carryforwards	23,787	26,467
Tax credit carryforwards	13,048	8,892
Foreign deferred tax assets	2,494	3,748
Total deferred tax assets	74,357	78,743
Valuation allowance	(13,563)	(13,993)
Net deferred tax assets	$ 60,794	$ 64,750
Deferred tax liabilities:		
Foreign exchange	$ (3,405)	$ (4,704)
Depreciation	(552)	(148)
Tax deductible goodwill	(16,943)	(14,694)
Net deferred tax liabilities	$ (20,900)	$ (19,546)

Recorded as:				
Current deferred tax assets	$	14,168	$	10,757
Noncurrent deferred tax assets		55,377		67,370
Current deferred tax liabilities		(3,729)		(3,852)
Noncurrent deferred tax liabilities		(25,922)		(29,071)
	$	39,894	$	45,204

The Company has significant deferred tax assets primarily relating to net operating loss and tax credit carryforwards. The Company evaluates the realizability of its deferred tax assets and considers all evidence of realizability, both positive and negative, when making a determination of whether a valuation allowance is necessary. Based upon this assessment, the Company has provided valuation allowances of $13.6 million and $14.0 million for the years ended September 30, 2013 and 2012, respectively. The Company has determined that it is not more likely than not that these assets will be utilized in the future.

The Company's valuation allowance decreased by $0.4 million and increased by $1.4 million for the years ended September 30, 2013 and 2012, respectively. In determining the realizability of its federal, foreign, and state deferred tax assets, the Company has relied, in part, on forecast utilization based upon future operating results. Should there be a material difference between its forecasts and actual results in future periods, there could be a material change in the balance of deferred tax assets benefitted. The Company will continue to monitor its deferred tax position and operating results and will make changes to its valuation allowance as necessary to account for changes in facts in future periods.

The Company had gross operating loss carryforwards for federal, state, and foreign tax purposes of $12.5 million, $23.5 million, and $117.8 million, respectively. The Company had federal and state tax credit carryforwards of $4.9 million and $8.1 million, respectively, as of September 30, 2013. Federal net operating loss carryforwards of $12.5 million will expire 2029 through 2030; state net operating losses of $23.5 million will expire 2014 through 2033; most of the foreign net operating losses will not expire with the exception of the Japan net operating losses, which will begin to expire in 2014 if not utilized. Federal tax credits of $4.9 million will expire beginning in 2016, if not utilized, and state tax credits of $8.1 million will expire beginning in 2021, if not utilized.

The Company conducted an Internal Revenue Code Section 382 ("Sec. 382") analysis with respect to its net operating loss and credit carryforwards and determined that there was a change of control; therefore, net operating loss and credit carryforwards incurred before January 1, 2009, are limited by the provision of Sec. 382. The deferred tax asset being reflected for these loss and credit carryforwards takes into consideration any anticipated expiration of these benefits due to limitations under Sec. 382.

As of September 30, 2013, the Company intends to indefinitely reinvest the earnings of the foreign subsidiaries. The unremitted earnings at September 30, 2013, amounted to approximately $23.0 million. Taxes paid to foreign governments on those earnings may be used, in whole or in part, as credits against U.S. tax on any taxable distributions made from such earnings. It is not practicable to estimate the amount of unrecognized deferred U.S. taxes on these undistributed earnings.

As of September 30, 2013, the Company had no unrecognized tax benefits.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits as of September 30, 2013 and 2012, is as follows (in thousands):

		2013		2012
Balance — beginning of fiscal year	$	393	$	1,272
Reductions for tax positions of the current year		—		(253)
Reductions for tax positions of prior years		(393)		(626)
Total additions and reductions		(393)		(879)
Balance — end of fiscal year	$	—	$	393

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of tax expense in the consolidated statements of operations and none were recorded for the years ended September 30, 2013 and 2012.

In general, the Company's U.S. federal income tax returns, state income tax returns, and foreign income tax returns are subject to examination by tax authorities for fiscal years 2006 forward due to net operating losses.

9. COMMITMENTS AND CONTINGENCIES

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.

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 reasonably possible, 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, 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.

Described below are the material legal proceedings in which the Company is involved.

Intellectual Property Litigation

Extreme Networks and Brocade Communications Systems — On June 21, 2005, the Company filed a suit against Extreme Networks, Inc. ("Extreme"), and Foundry Networks, Inc. ("Foundry") in the U.S. District Court for the District of Massachusetts. Foundry was subsequently acquired by Brocade Communications Systems, Inc. ("Brocade").

On June 30, 2012 and December 31, 2012, the Company paid Extreme $0.6 million and $0.4 million, respectively, for court-awarded damages related to a suit filed by Extreme on April 20, 2007, against the Company in the U.S. District Court for the Western District of Wisconsin, Civil Action No. 07-C-0229-C.

On March 29, 2013, the Company and Extreme entered into a confidential settlement agreement ("Agreement"). The Agreement required a dismissal with prejudice of the Wisconsin and Massachusetts litigation, as well as cross covenants not to sue and survival of settlement rights for any acquiring party of the parties. Joint motions to dismiss were granted on April 13, 2013, and April 15, 2013, respectively. The Company received $1.8 million — net during 2013 as part of the agreement. All matters between the parties have now been resolved.

On April 19, 2013, the Company and Brocade entered into a confidential settlement agreement ("Foundry Agreement"). The Foundry Agreement required a dismissal with prejudice of the Massachusetts litigation, as well as cross standstill covenants and releases. A joint motion to dismiss was granted on May 1, 2013. The Company received $4 million — net during 2013 as part of the agreement. All matters between the parties have now been resolved.

Reefedge Networks — On September 17, 2012, Reefedge Networks, LLC filed a suit against the Company in the U.S. District Court for the District of Delaware, Civil Action No. 12-1147. The complaint alleged wrongful use, making, selling, and/or offering to sell products that infringe U.S. Patent Nos. 6,633.761; 6,975,864; and 7,197,308 and sought unspecified monetary damages. An answer has been filed, and discovery is being conducted. Given the preliminary nature of the claims, the Company is not able to assess the likelihood of a particular outcome.

Relay IP, Inc. — On May 8, 2013, Relay IP, Inc., filed a suit against the Company in the U.S. District Court for the District of Delaware, Civil Action No. 13-774. The complaint alleges infringement based on the Company's testing of its own equipment and inducing its customers to infringe U.S. Patent No. 5,331,637 and seeks unspecified monetary damages. An answer has been filed. Given the preliminary nature of the claims, the Company is not able to assess the likelihood of a particular outcome.

Other Matters

Brazil — The Company has been subject to an ongoing tax audit at one of its Brazilian entities by the state of Sao Paulo for the years 2002 through 2009. The audit assessments received are currently being investigated by management and outside counsels in order to successfully settle the legal proceedings. In June 2013, in order to bring partial resolution to these matters, the Company participated in an amnesty plan resulting in the payment of $4.7 million. The remaining open assessment is for $8.9 million. While the ultimate resolution of remaining matters is subject to many uncertainties, management expects that it will be able to prevail in these matters with no material impact to the Company's consolidated financial statements. Accordingly, no amounts were recorded in the consolidated financial statements for the remaining open assessment.

Indemnification Obligations — Subject to certain limitations, the Company may be obligated to indemnify its current and former directors and officers. These obligations arise under the terms of its certificate of incorporation, its bylaws, and Delaware law. The obligation to indemnify, where applicable, generally means that the Company is required to pay or reimburse and, in certain circumstances, the Company has paid or reimbursed, the individual's reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters. It is not possible to estimate the maximum potential amount under these indemnification agreements due to the limited history of these claims. The cost to defend the Company and the named individuals could have a material adverse effect on its consolidated financial position, results of operations, and cash. The Company had no outstanding indemnification claims as of September 30, 2013.

Product Warranty — A reconciliation of changes in the carrying amount of product warranty as of September 30, 2013 and 2012, is as follows (in thousands):

Balance — October 1, 2011	$	3,722
Additions		946
Release		(1,332)

Balance — September 30, 2012	3,336
Additions	807
Release	(441)
Balance — September 30, 2013	$ 3,702

The long-term portion of the product warrant accrual is a component of other liabilities and was $2.9 million and $2.5 million for the years ended September 30, 2013 and 2012, respectively. The short term portion is a component of Accrued expenses and was $0.8 million for each of the periods ended September 30, 2013 and 2012.

Other Commitments — The Company leases office facilities and various equipment under noncancelable operating leases expiring through the year 2023. Some of the leases provide for rent increases based on the Consumer Price Index and increases in real estate taxes. Rent expense associated with operating leases was $5.8 million and $5.1 million for the years ended September 30, 2013 and 2012, respectively.

In 2007, the Company renewed a lease agreement for its corporate headquarters in Andover, Massachusetts. As part of the agreement, the Company received $2.3 million in cash as a tenant allowance to be used for future leasehold improvements. The $2.3 million received was treated as part of the total lease commitment and is recorded as a long-term liability in the consolidated balance sheet. This balance was being amortized over the life of the lease agreement as a reduction to rent expense in selling, general, and administrative expense. In January 2012, the Company exercised an early termination clause. The required notification was delivered to the landlord and the Company incurred early termination fees of approximately $1.8 million that were paid in June 2012. The lease concluded in June 2013.

In January 2012, the Company entered into a lease agreement for its corporate headquarters in Salem, New Hampshire. As part of the agreement, the Company received $7.1 million in tenant allowance to be used for leasehold improvements or a reduction in rent and six months of free rent. As of September 30, 2013, the Company had utilized all of its tenant incentives for leasehold improvements. All leasehold incentives have been recorded as a long-term liability, less current portion in Accrued expenses, and are being amortized over the lease term as a reduction to rent expense in selling, general, and administrative expenses.

Total future minimum lease payments under all noncancelable operating leases that the Company has initial or remaining noncancelable lease terms as of September 30, 2013, are summarized as follows (in millions):

September 30	Lease Commitments
2014	$ 4.3
2015	2.9
2016	2.8
2017	2.6
Thereafter	14.6
Total noncancelable lease commitments	$ 27.2

At September 30, 2013, the Company had noncancelable purchase commitments of approximately $9.6 million, primarily with its contract manufacturers. The majority of these purchase commitments are expected to be paid in fiscal year 2014.

At September 30, 2013, the Company had commitments of approximately $8.1 million related to various royalty and license agreements. The Company expects to make payments of $4.6 million in fiscal year 2014, $1.5 million in fiscal year 2015, $0.7 million in fiscal year 2016, $0.7 million in fiscal year 2017 and $0.6 million in fiscal year 2016.

10. DEBT

The Company's long-term debt as of September 30, 2013 and 2012, by borrowing entity is summarized as follows (in thousands):

	2013	2012
Second-lien term loan:		
Enterasys	$ 38,871	$ 37,989
Enterasys Networks Distribution Limited	15,088	15,088
Total	53,959	53,077
Mezzanine loan:		
Enterasys	40,916	39,972
Total	40,916	39,972
Less: current portion	(94,875)	
Total long-term debt	$	$ 93,049

Second-Lien Term Loan — The Company's second-lien term loan is provided by an affiliate and is due on February 10, 2016. The interest rate is the 3-month London InterBank Offered Rate (LIBOR) plus the LIBOR rate margin, totaling 9.3% and 9.4% at September 30, 2013 and 2012, respectively.

Beginning fiscal year 2012, interest was due and payable quarterly. Prior to fiscal year 2012, unpaid interest was added to the loan principal and payable on the maturity date. There are no debt covenants the Company is required to comply with. The Company classified the debt as current for the year ended September 30, 2013, as it was paid off in October 2013, prior to the acquisition of the Company by Extreme Networks, Inc.

Mezzanine Loan — The Company's mezzanine loan is also provided by an affiliate. This loan is due February 10, 2016, and its interest rate is the 3-month LIBOR rate plus the LIBOR rate margin, totaling 9.4% and 9.6% at September 30, 2013 and 2012, respectively. Beginning fiscal year 2012, interest was due and payable quarterly. Prior to fiscal year 2012, unpaid interest was added to the loan principal and payable on the maturity date. There are no debt covenants the Company is required to comply with. The Company classified the debt as current for the year ended September 30, 2013, as it was paid off in October 2013, prior to the acquisition of the Company by Extreme Networks, Inc.

Interest paid to the affiliate as of September 30, 2013 and 2012, totaled $6.9 million and $8.9 million, respectively, for the above-mentioned loans.

11. EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution savings plan under Section 401(k) of the Internal Revenue Code. This plan covers all employees in the United States, who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pretax basis, subject to legal limitations. The 401(k) plan provides for matching contributions on the part of the Company equal to 50% of employee contributions up to $1,000 per year. The Company's matching contributions to the 401(k) plan totaled $0.4 million for each of the years ended September 30, 2013 and 2012.

12. RELATED-PARTY TRANSACTIONS

The Company, being a wholly owned subsidiary of the JV Co, has several related-party transactions as follows:

Affiliate Receivables — The Company had $18.3 million and $19.6 million at September 30, 2013 and 2012, respectively, in receivables from various affiliated companies within the JV Co. The balances represent sales of product and services and receivables due from an affiliate due to sharing of tax attributes.

Affiliate Notes Receivable — The Company had $31.0 million and $31.1 million at September 30, 2013 and 2012, respectively, of notes receivable from an affiliate. The maturity date is September 30, 2014, and the note bears an average interest rate of 0.4%. Interest income recorded was $0.1 million for each of the years ended September 30, 2013 and 2012.

Intangible Assets — Net — In October 2010, the Company acquired wireless technology from an affiliate within the JV Co for $0.8 million. The net carrying value was $0.3 million and $0.5 million for the years ended September 30, 2013 and 2012, respectively.

Affiliate Payables — The Company had $2.2 million and $1.0 million at September 30, 2013 and 2012, respectively, in payables to various affiliates. The balances represent reimbursed costs related to contract research and development activities.

Affiliate Debt — All debt of the Company is held with Funding GmbH, an entity within the JV Co. The details of affiliate debt are described in Note 10 above.

Deferred Revenue — The Company sells maintenance contracts to various entities within the JV Co. Maintenance contracts are recognized ratably over the contract life. For the years ended September 30, 2013 and 2012, deferred short-term revenue was $1.6 million and $2.1 million and deferred long-term revenue was $0.7 million and $1.3 million, respectively.

Other Income (Expense) — The Company has pledged all of its U.S.-based assets and acts as a guarantor for certain bonds payable held by the JV Co. As guarantor, the Company receives a quarterly guarantee fee.

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Enterasys Networks, Inc.

Consolidated Financial Statements as of and for the Years Ended September 30, 2012 and 2011, and Independent Auditors' Report

ENTERASYS NETWORKS, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Enterasys Networks, Inc.
Salem, New Hampshire

We have audited the accompanying consolidated financial statements of Enterasys Networks, Inc. and subsidiaries (the "Company") which comprise the consolidated balance sheets as of September 30, 2012, and 2011, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2012, and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1, 10 and 12, the consolidated financial statements include significant transactions with Enterprise Networks Holdings B.V. and its affiliates and are not necessarily indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company. Our opinion is not modified with respect to this matter.

Deloitte + Touche LLP

October 28, 2013

ENTERASYS NETWORKS, INC.

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2012 AND 2011
(In thousands, except share and per share data)

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 23,266	$ 36,158
Accounts receivable — net	36,243	31,180
Affiliate receivables	19,582	18,280
Inventories	17,719	25,749
Affiliate note receivable	31,111	14,000
Prepaid expenses and other current assets	8,053	8,245
Income tax receivable	243	248
Deferred income taxes	10,757	13,845
Total current assets	146,974	147,705
RESTRICTED CASH	962	1,650
PROPERTY AND EQUIPMENT — Net	13,165	6,930
GOODWILL	120,294	123,077
INTANGIBLE ASSETS — Net	17,296	27,052
DEFERRED INCOME TAXES	67,370	70,603
OTHER ASSETS	16,386	17,068
TOTAL ASSETS	$ 382,447	$ 394,085
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 26,591	$ 30,957
Affiliate payables	1,019	8,392
Accrued expenses	28,127	32,853
Deferred revenue	41,525	40,228
Customer advances	3,313	1,573
Income taxes payable	449	857
Deferred income taxes	3,852	4,228
Total current liabilities	104,876	119,088
AFFILIATE DEBT	93,049	93,049
DEFERRED REVENUE	13,090	13,997

OTHER LIABILITIES	6,645	5,049
DEFERRED INCOME TAXES	29,071	27,384
Total liabilities	246,731	258,567
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Series A common stock, $0.001 par value — authorized, issued, and outstanding, 1,000 shares		
Additional paid-in capital	209,754	209,754
Accumulated deficit	(69,083)	(71,218)
Accumulated other comprehensive loss	(4,955)	(3,018)
Total stockholder's equity	135,716	135,518
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 382,447	$ 394,085

See notes to consolidated financial statements.

ENTERASYS NETWORKS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands)

	2012	2011
REVENUE:		
Product	$ 266,894	$ 257,782
Service	84,360	81,727
Total revenue	351,254	339,509
COST OF REVENUE:		
Product	127,500	127,603
Service	33,390	31,454
Total cost of revenue	160,890	159,057
GROSS PROFIT	190,364	180,452
OPERATING EXPENSES:		
Research and development	58,393	59,640
Selling, general, and administrative	109,917	104,918
Amortization of intangible assets	9,756	14,269
Total operating expenses	178,066	178,827
INCOME FROM OPERATIONS	12,298	1,625
INTEREST EXPENSE	(8,801)	(14,692)
OTHER (EXPENSE) INCOME — Net	(2,062)	2,252
INCOME (LOSS) BEFORE INCOME TAXES	1,435	(10,815)
INCOME TAX BENEFIT	700	2,167
NET INCOME (LOSS)	$ 2,135	$ (8,648)

See notes to consolidated financial statements.

ENTERASYS NETWORKS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

(In thousands)

	2012	2011
NET INCOME (LOSS)	$ 2,135	$ (8,648)
OTHER COMPREHENSIVE LOSS:		
Foreign currency translation adjustment	(1,937)	(3,896)
COMPREHENSIVE INCOME (LOSS)	$ 198	$ (12,544)

See notes to consolidated financial statements.

ENTERASYS NETWORKS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands, except share data)

	Series A Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders' Equity
	Shares	Par Value				
BALANCE — October 1, 2010	1,000	$ —	$ 149,364	$ (62,570)	$ 878	$ 87,672
Distribution of Enterasys Canada to Gores ENT			(4,610)			(4,610)
Contribution from Gores ENT to Enterasys			65,000			65,000
Currency translation adjustment					(3,896)	(3,896)
Net loss				(8,648)		(8,648)
BALANCE — September 30, 2011	1,000	—	209,754	(71,218)	(3,018)	135,518
Currency translation adjustment					(1,937)	(1,937)
Net income				2,135		2,135
BALANCE — September 30, 2012	1,000	$ —	$ 209,754	$ (69,083)	$ (4,955)	$ 135,716

See notes to consolidated financial statements.

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(In thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 2,135	$ (8,648)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,713	18,311
Provision for doubtful accounts	(85)	137
Miscellaneous realized gains (losses)	20	(207)
Unrealized loss on foreign currency transactions	896	486
Deferred income taxes	7,537	5,487
Amortization of debt discount		894
Changes in assets and liabilities:		
Accounts receivable	(6,947)	5,628
Affiliate receivables	(1,643)	225
Inventories	8,663	(13,343)
Prepaid expenses and other assets	(781)	5,097
Accounts payable and accrued expenses	(8,867)	(13,115)
Affiliate payables	(6,170)	7,432
Customer advances	1,749	(1,603)
Deferred revenue	(822)	572
Income taxes	796	556

Other liabilities	(2,547)	2,723
Net cash provided by operating activities	7,647	10,632
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(4,181)	(2,027)
Acquisition of intellectual property		(817)
Distribution of Enterasys Canada to Gores ENT		(940)
Decrease in restricted cash	688	480
Net cash used in investing activities	(3,493)	(3,304)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from revolver		82,508
Repayments on revolver		(82,508)
Repayment of Wells Fargo debt		(10,000)
Borrowings on affiliate debt	8,873	25,331
Repayment of affiliate debt	(8,873)	(5,000)
Issuance of affiliate note receivable	(32,000)	(14,000)
Payments received on affiliate note receivable	15,000	
Net cash used in financing activities	(17,000)	(3,669)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(46)	39
NET (DECREASE) INCREASE. ON CASH AND CASH EQUIVALENTS	(12,892)	3,698
CASH AND CASH EQUIVALENTS — Beginning of year	36,158	32,460
CASH AND CASH EQUIVALENTS — End of year	$ 23,266	$ 36,158
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid — net	$ 1,414	$ 2,104
Interest paid — net	$ 8,873	$ —
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
Noncash purchases of capital equipment	$ 5,542	$ 1,054
Equity contribution of receivables from parent	$ —	$ 58,216
Contribution to affiliate	$ —	$ (3,670)

See notes to consolidated financial statements.

ENTERASYS NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

1. BASIS OF PRESENTATION AND BUSINESS

Basis of Presentation — The consolidated financial statements include the accounts of Enterasys Networks, Inc., and its subsidiaries ("Enterasys" or the "Company"). On February 22, 2012, Gores ENT Holdings, Inc. ("Gores ENT"), was merged into Enterasys. Gores ENT was formed as a Delaware corporation on October 28, 2005. On March 1, 2006, Gores ENT acquired 100% of the outstanding common shares of Enterasys. On October 1, 2008, Siemens AG and the Gores Group LLC ("Gores") completed a joint venture (JV) transaction whereby Gores and Siemens AG acquired 51% and 49% interests, respectively. Upon formation of the JV, Gores formed Enterprise Networks Holdings B.V. ("JV Co"). JV Co formed Enterprise Networks Holdings, Inc. ("EN Holdings"), for the purpose of holding Gores ENT, SER Holdings and subsidiaries, Siemens Enterprise Communications, and Chantry Networks and subsidiary ("Chantry").

On September 12, 2013, EN Holdings entered into a stock purchase agreement to sell all of the issued and outstanding shares of the Company's common stock to an unrelated entity for approximately $180 million, subject to certain adjustments defined in the agreement. The closing of the sale is subject to customary closing and other conditions and is expected to close on or about October 31, 2013.

The consolidated financial statements include significant transactions with JV Co and its affiliates and are not necessarily indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company.

The consolidated financial statements include revenues and expense transactions with JV Co, including, but not limited to, sales of products and services, research and development services, employee benefits and incentives, and financing activities, including:

Revenue — For the years ended September 30, 2012 and 2011, the Company sold, to various companies within the JV Co, products of $36.9 million and $37.5 million and services of $5.3 million and $4.5 million, respectively. Companies within the JV Co are considered platinum partners and receive the same discounts as other third-party platinum customers.

Research and Development Costs — The Company reimburses Chantry for all research and development costs incurred on its behalf. Total costs reimbursed totaled $11.3 million and $11.6 million for the years ended September 30, 2012 and 2011, respectively.

Self-Insured Medical Costs — The Company participates in a self-insured medical plan administered by Gores. Total costs associated with the medical plan were $5.1 million and $7.5 million for the years ended September 30, 2012 and 2011, respectively. These expenses were charged to selling, general, and administrative when incurred.

Workers' Compensation, Auto, and General Liability Insurance — Enterasys is the beneficiary of an umbrella insurance policy carried by JV Co. Costs associated with the insurance plans totaled $0.1 million and $0.2 million for the years ended September 30, 2012 and 2011, respectively. These expenses were charged to selling, general, and administrative when incurred.

Global Management Incentive Plan (GMIP) — The Company participates in the JV Co's GMIP. GMIP expenses recorded were $2.6 million and $6.6 million for the years ended September 30, 2012 and 2011, respectively. Costs were charged to the function from which the bonus was earned.

Interest Expense — The Company's debt is held by a 100%-owned subsidiary of JV Co. Enterasys recorded interest expense of $8.8 million and $14.7 million for the years ended September 30, 2012 and 2011, respectively.

Product Service and Support — The Company reimbursed an affiliate for costs associated with the service and support of product. Reimbursed costs totaled $0.5 million and $0.5 million for the years ended September 30, 2012 and 2011, respectively, and were recorded in the cost of revenue — service and selling, general, and administrative.

These transactions may not, however, reflect the expense the Company would have incurred as an independent company for the years presented. Actual costs that may have been incurred if the Company had been a stand-alone company would depend on a number of factors, including the organizational structure; what functions were outsourced or performed by employees; and strategic decisions made in areas, such as information technology (IT) and infrastructure. The Company is unable to determine what such costs would have been had the Company been independent.

The accompanying consolidated financial statements have been prepared in U.S. dollars in accordance with the accounting principles generally accepted in the United States of America (GAAP or "generally accepted accounting principles").

Subsequent Events — The Company has evaluated subsequent events through October 28, 2013, the date on which the consolidated financial statements were available to be issued, noting no events requiring adjustment to the consolidated financial statements. The Company has included disclosures in Note 9 regarding the settlement or partial settlement of certain legal proceedings during fiscal 2013.

Business — Enterasys designs, develops, markets, and supports comprehensive network solutions architecture to address the network communication, management, and security requirements facing global enterprises. The Company believes its solutions offer customers the secure, high-capacity, and cost-effective network connectivity required to facilitate the exchange of information among employees, customers, suppliers, business partners, and other network users. The Company is focused on delivering networking solutions that include security features within the network architecture. Enterasys believes its solutions enable customers to meet their network software requirements for continuity, context, control, compliance, and consolidation through an architecture and management interface designed for ease of use. Enterasys' installed base of customers consist of commercial enterprises, governmental entities, health care, financial, educational, nonprofit institutions, and various other organizations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation — The consolidated financial statements include the accounts of Enterasys and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates and Judgments — The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and judgments relied upon in preparing these consolidated financial statements

include revenue recognition for multiple-element arrangements, inventory valuations, warranty provisions, legal contingencies, and recoverability of Enterasys' net deferred tax assets and the related valuation allowances. Enterasys regularly assesses these estimates and records changes in estimates in the period in which they become known. Enterasys bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Risks and Uncertainties — The markets for the Company's products are characterized by rapid technological development, intense competition, and frequent new product introductions, all of which could affect the future realizability of the Company's assets.

Revenue Recognition — The Company's revenue is primarily derived from sales of networking products, which typically have both software and nonsoftware components that function together to deliver the products' essential functionality, professional services, software licenses, and maintenance and support services.

The Company recognizes revenue from sales when persuasive evidence of an arrangement exists, delivery has occurred, the sale price is fixed or determinable, and collectibility of the related receivable is probable. In instances where the customer has specifically bargained for acceptance criteria, revenue is deferred until the acceptance has been achieved. When fees for products or services are not fixed and determinable, the Company defers the recording of receivables and revenue until such time as the fees become due or are collected.

The Company's arrangements typically include multiple elements, such as products, software licenses, maintenance and support services, and professional services. When the Company's sales arrangements contain multiple elements, the Company allocates the arrangement fee based upon the relative value of the stand-alone selling price for each element. The stand-alone selling price of each element is determined using a selling price hierarchy. Under the selling price hierarchy, the selling price for each deliverable is based on the Company's vendor-specific objective evidence (VSOE), which is determined by a substantial majority of the Company's historical stand-alone sales transactions for a product or service falling within a narrow range. If VSOE is not available due to a lack of stand-alone sales transactions or lack of pricing within a narrow range, then third-party evidence (TPE), as determined by the stand-alone pricing of competitive vendor products in similar markets, is used, if available. TPE typically is difficult to establish due to the Company's various product and service offerings containing a significant level of customization and differentiation and difficulty in obtaining reliable competitive stand-alone pricing information. When neither VSOE nor TPE is available, the Company determines its best estimate of stand-alone selling price (ESP) for a product or service and does so by considering several factors, including, but not limited to, the sales prices, sales channel, geography, gross margin objective, competitive product pricing, and product life cycle. In consideration of all relevant pricing factors, the Company applies management judgment to determine the Company's best estimate of selling price. Generally, the stand-alone selling price of product and services is determined using VSOE and the stand-alone selling price of other unique deliverables is determined by using ESP. The Company limits the amount of revenue recognized for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations, or subject to customer-specific return or refund privileges.

For software license sales, the Company recognizes revenue in accordance with the accounting standards for software revenue recognition. These arrangements typically include multiple elements, such as the software license, professional services, and maintenance and support services. Revenue for software license arrangements is recognized utilizing the residual method whereby the arrangement fee is first allocated to any undelivered elements that are considered not essential to the functionality of the

license based upon the VSOE for those elements and the remainder of the arrangement fee is recognized upon delivery of the license. If the Company does not have VSOE for each undelivered element, it defers all revenue on the entire arrangement until VSOE is established or until such elements are delivered, provided that all other revenue recognition criteria are met.

The Company sells its products to stocking distributors, nonstocking distributors, and value-added resellers that sell directly to end users. The majority of revenue is from a select group of stocking distributors with contractually agreed product rotation rights. The Company defers the revenue associated with all sales to its stocking distributors until the distributors sell the product, as evidenced by "sales-out" reports that the distributors provide. For product sales to nonstocking distributors and value-added resellers, the Company does not grant return privileges, except for defective products during the warranty period. Accordingly, the Company recognizes revenue upon shipment, provided that all other revenue recognition criteria are met.

Revenue from maintenance and support services is recognized ratably over the service period. Revenue from other professional services is typically recognized as the services are accepted by the customer, if all other revenue recognition criteria have been met.

Deferred revenue typically includes amounts associated with maintenance and support contracts or professional services. Deferred revenue expected to be recognized as revenue more than one year subsequent to the consolidated balance sheet date is reported within long-term liabilities in the consolidated balance sheets. The Company defers recognition of incremental direct costs, such as cost of goods and third-party installations, until recognition of the related revenue.

The Company excludes any taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction (i.e., sales, use, value added) from its revenue and costs. Reimbursement received for out-of-pocket expenses and shipping costs is recorded as revenue.

Cash and Cash Equivalents — Cash and cash equivalents consist of all highly liquid investments with a maturity at date of purchase of 90 days or less. Cash and cash equivalents are carried at cost, which approximates fair value.

Enterasys maintains its cash and cash equivalents in bank deposit accounts, which, at times may exceed federally insured limits. The Company has not experienced losses in such accounts. The Company believes that it is not exposed to any significant credit risk for cash.

Allowance for Doubtful Accounts — The Company estimates the collectibility of its accounts receivable and the related amount of bad debts that may be incurred in the future. The allowance for doubtful accounts results from an analysis of specific customer accounts, historical experience, customer concentrations, credit ratings, and current economic trends.

Restricted Cash — The Company classifies as restricted cash all cash pledged as collateral to secure long-term obligations and all cash whose use is otherwise limited by contractual provisions. Restricted cash consists of litigation bonds, state insurance requirements, and various lease deposits.

Inventories — Inventories are reported at the lower of cost or market. Costs are measured at standard, which approximates actual cost on a first-in, first-out method. The Company records a provision for excess and obsolete raw materials and finished goods inventory using a reserve methodology based primarily on forecasts of future demand. Finished goods inventory includes customer evaluation units, as well as products shipped to stocking distributors where revenue is not recognized until the products are shipped to their customers. Service inventory represents inventory used by the Company as replacement

parts for customers whom have purchased long-term service contracts. The Company records a provision for excess and obsolete service inventory based upon a review of estimated product service lives and usage estimates.

Property, Plant, and Equipment — Property and equipment is stated at cost, net of accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from two to five years. Leasehold improvements are amortized over the lesser of the lease term or its useful life. When an asset is sold or retired, the cost and related accumulated depreciation or amortization is eliminated, and the resulting gain or loss, if any, is recognized in income (loss) from operations in the consolidated statements of operations. The Company reviews property and equipment for impairment in the same manner as intangible assets discussed below.

Intangible Assets and Goodwill — Intangible assets are composed of intellectual property and customer relations, which is amortized over its estimated useful life. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable based upon the estimated undiscounted cash flows.

Goodwill is recorded when the consideration for an acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired. Goodwill is not amortized, but instead is tested for impairment at least annually or if indicators of potential impairment exist by comparing the fair value of the Company's reporting unit to its carrying value. The Company estimates the fair value of its reporting unit using a discounted cash flow model or other valuation models, such as comparative transactions and market multiples. There was no impairment of goodwill recorded for the years ended September 30, 2012 and 2011.

Intangible assets with estimated lives and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of intangible assets with estimated lives and other long-lived assets is measured by a comparison of the carrying amount of an asset or asset group to future net undiscounted cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, the Company will recognize an impairment loss for the amount by which the carrying value of the asset or asset group exceeds the related estimated fair value. Estimated fair value is based on either discounted future operating cash flows or appraised values, depending on the nature of the asset. There were no impairments of intangible assets recorded for the years ended September 30, 2012 and 2011.

Financial Instruments — The Company's financial instruments include cash and cash equivalents, accounts receivable, affiliate accounts receivable, accounts payable, affiliate accounts payable, accrued expenses, and affiliate debt. Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts and notes receivable, accounts payable, accrued expenses, and short-term borrowings approximate fair value. The Company's affiliate debt carries a variable interest rate and the carrying value of the affiliate debt approximates fair value.

Financial instruments with remaining maturities or that are due within one year from the consolidated balance sheet date are classified as current. Financial instruments with remaining maturities or that are payable more than one year from the consolidated balance sheet date are classified as noncurrent.

Concentrations of Credit Risk and Significant Customers — The Company grants credit to its customers during the normal course of business and generally requires no collateral from its customers. However, management routinely assesses the financial condition of its customers and, as a consequence,

believes that its trade accounts receivable credit risk exposure is limited. As of September 30, 2012 and 2011, five customers account for 29% and 48% of the Company's total accounts receivable, respectively. During the years ended September 30, 2012 and 2011, five customers account for 68% and 64% of the Company's total revenue, respectively.

Enterasys has six major contract manufacturers. Failure to manage the activities of these manufacturers or any disruption in these relationships could result in the disruption in the supply of its products and in delays in the fulfillment of the Company's customer orders. During the years ended September 30, 2012 and 2011, purchases from the Company's top six vendors accounted for 95% and 92% of the Company's inventory purchases, respectively.

Research and Development Costs and Software Costs — Expenditures related to the development of new products, including significant improvements and refinements to existing products and the development of software are expensed as incurred. Software development costs are required to be capitalized beginning when the technological feasibility of a product has been established and ending when a product is available for general release to customers. The Company's process for developing software is essentially completed concurrent with the establishment of technological feasibility, accordingly, no costs have been capitalized to date.

Advertising Costs — Advertising expenditures are charged to expense as incurred. Advertising expenses for the years ended September 30, 2012 and 2011, were $3.1 million and $1.5 million, respectively.

Operating Segments — Enterasys operates in a single segment. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker in making decisions regarding resource allocation and assessing performance. To date, the chief operating decision maker has made such decisions and assessed performance at the company level as one segment. The Company's chief operating decision maker is its chief executive officer.

Income Taxes — Deferred tax assets and liabilities are recognized for the expected future consequences of events that have been reflected in the consolidated financial statements. Deferred tax assets and liabilities are determined based on the differences between the book and tax bases of assets and liabilities and operating loss carryforwards, using tax rates expected to be in effect for the years in which the differences are expected to reverse. Such differences arise primarily from depreciation, accruals and reserves, deferred revenue, tax credits, net operating loss carryforwards, and allowances for accounts receivable. Enterasys records valuation allowances to reduce deferred income tax assets to the amount that is more likely than not to be realized. The Company has not provided for U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries, as the Company plans to permanently reinvest these amounts.

The domestic entities join in the filing of a consolidated U.S. federal and certain state tax return with related U.S. entities. Tax benefits realized on the utilization by related members of the companies' net operating loss carryforwards and other attributes are charged back to those members. This is the primary driver for the current federal and state tax benefits being recorded. The Company uses the benefits for loss method in determining the amount due from these related members.

The Company determines whether it is more likely than not that a tax position will be sustained upon examination. If it is not more likely than not that a position will be sustained, no amount of the benefit attributable to the position is recognized. The tax benefit to be recognized of any tax position that meets the more-likely-than-not recognition threshold is calculated as the largest amount that is more than 50%

likely of being realized upon resolution of the contingency. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for income taxes.

Comprehensive Income — The Company presents comprehensive income (loss) in its consolidated statements of comprehensive income (loss) and is composed of net income (loss) and foreign currency translation adjustments. The foreign currency translation amounts are $(1.9) million and $(3.9) million for the years ended September 30, 2012 and 2011, respectively.

Foreign Currency Translation — For foreign subsidiaries where the functional currency is the local currency, assets and liabilities are translated into U.S. dollars at the current exchange rate on the consolidated balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during each period. Translation adjustments for these subsidiaries are included in accumulated other comprehensive income (loss).

For foreign subsidiaries where the functional currency is the U.S. dollar, monetary assets and liabilities are translated into U.S. dollars at the current exchange rate on the consolidated balance sheet date. Nonmonetary assets and liabilities are remeasured into U.S. dollars at historical exchange rates. Revenue and expense items are translated at average rates of exchange prevailing during each period.

Realized and unrealized foreign currency gains and losses arising from transactions denominated in currencies other than the subsidiary's functional currency are reflected in earnings with the exception of intercompany transactions considered to be of a long-term investment nature. Foreign currency transaction (loss) gain was $(2.5) million and $1.8 million for the years ended September 30, 2012 and 2011, respectively.

Fair Value Measurements — Accounting standards define fair value, establish a framework for measuring fair value under generally accepted accounting principles, and enhance disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's assets that are measured at fair value on a recurring basis include cash equivalents that represent deposits in overnight U.S. Treasury money market mutual funds. As of September 30, 2012 and 2011, the fair value was as follows (in thousands):

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of September 30, 2012**	**Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	$ 12,522	$ 12,522	$ —	$ —

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of September 30, 2011**	**Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	$ 26,164	$ 26,164	$ —	$ —

Loss Contingencies and Reserves:

Loss Contingencies — The Company is subject to ongoing business risks arising in the ordinary course of business that affect the estimation process of the carrying value of assets, the recording of liabilities, and the possibility of various loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred or an asset has been impaired and the amount of loss can be reasonably estimated. The Company regularly evaluates current information available to determine whether such amounts should be adjusted and record changes in estimates in the years they become known.

Reserve for Product Warranty Costs — The Company extends a limited lifetime warranty (LLW) on certain fixed switching, access point and controllers, and K-series modular switching products within the portfolio.

The warranty period typically covers the sales life of the product, plus five years of service life once the product is announced as end-of-sales life (EOSL). For most products under a LLW, the sales life is anticipated to be three years, therefore, the initial accrual period spans eight years. This is adjusted, as necessary, if the sales life is extended.

The per unit accrual rate for LLW products is determined based upon forecasted unit shipments, EOSL schedule, estimated technical return rates, and transactional costs related to the return and repair process.

Accrual for Royalties — The Company accrues for royalties for technology that it licenses from vendors based on established royalty rates and usage.

Reserve for Litigation and Legal Fees — The Company is subject to various legal claims, including securities litigation. The Company reserves for legal contingencies and legal fees when it is probable that a loss has been incurred and the amounts are reasonably estimable.

3. ACCOUNTS RECEIVABLE — NET

Accounts receivable — net as of September 30, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Accounts receivable — gross	$ 36,341	$ 31,426
Allowance for doubtful accounts	(98)	(246)
Accounts receivable — net	$ 36,243	$ 31,180

The Company does not recognize revenue on product shipments to certain stocking distributors until those distributors have sold the product to the end customer. As of September 30, 2012 and 2011, $4.8 million and $5.5 million, respectively, of product shipments had been billed and revenue had not been recognized, of which $3.3 million and $1.6 million, respectively, were paid and included in customer advances. The balance of $1.5 million and $3.9 million, respectively, were unpaid and are recorded as a contra account to gross accounts receivable.

4. INVENTORY

Inventory as of September 30, 2012 and 2011, consists of the following (in thousands):

	2012	2011
Raw materials	$ 994	$ 1,436
Evaluation units	741	726
Finished goods	15,984	23,587
Inventories	$ 17,719	$ 25,749

The Company records shipments to stocking distributors as a component of finished goods inventory. When the products are sold to end users, the associated cost of the inventory is recorded as a component of cost of revenue. As of September 30, 2012 and 2011, $0.9 million and $1.1 million, respectively, of the Company's finished goods inventory was held by stocking distributors.

For the years ended September 30, 2012 and 2011, service inventory of $14.4 million and $15.4 million, respectively, have been classified as long-term and is a component of other assets.

5. PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2012 and 2011, consists of the following (in thousands):

	Useful Life	2012	2011
Computers and equipment	3 years	$ 19,051	$ 18,878
Software	3 years	5,755	7,400
Leasehold improvements	Lessor of lease term or useful life	2,643	2,520
Furniture and fixtures	5 years	580	607
Construction in progress		6,580	744
		34,609	30,149
Less accumulated depreciation		(21,444)	(23,219)
Property and equipment — net		$ 13,165	$ 6,930

The Company recorded depreciation expense related to property and equipment of $3.9 million and $4 million for the years ended September 30, 2012 and 2011, respectively.

The Company had no property or equipment under capital lease for any of the years presented.

6. INTANGIBLE ASSETS AND GOODWILL

A reconciliation of changes in the carrying amount of goodwill as of September 30, 2012 and 2011, is as follows (in thousands):

Balance — October 1, 2010	$	125,209
Effect of foreign currency rate changes		(2,132)
Balance — September 30, 2011		123,077
Effect of foreign currency rate changes		(2,783)
Balance — September 30, 2012	$	120,294

The Company has designated September 30 as the date of the annual goodwill impairment test. Based on the annual impairment test, there was no impairment of goodwill as of September 30, 2012 or 2011.

Gross amortizable intangible assets and the related accumulated amortization as of September 30, 2012 and 2011, respectively, are as follows (in thousands):

2012		Cost		Accumulated Amortization		Net Carrying Value	Weighted-Average Useful Life
Customer relations	$	42,407	$	(34,897)	$	7,510	8 years
Trademarks		26,160		(16,864)		9,296	11 years
Patents and technology		54,304		(53,814)		490	6 years
	$	122,871	$	(105,575)	$	17,296	

2011		Cost		Accumulated Amortization		Net Carrying Value	Weighted-Average Useful Life
Customer relations	$	42,407	$	(29,597)	$	12,810	8 years
Trademarks		26,160		(14,307)		11,853	11 years
Patents and technology		54,304		(51,915)		2,389	6 years
	$	122,871	$	(95,819)	$	27,052	

Amortization expense of the intangible assets was $9.8 million and $14.3 million for the years ended September 30, 2012 and 2011, respectively.

Expected future intangible asset amortization as of September 30, 2012, was as follows (in thousands):

Years Ending September 30		
2013	$	8,021
2014		4,929
2015		4,346
	$	17,296

7. ACCRUED EXPENSES

Accrued expenses as of September 30, 2012 and 2011, consist of the following (in thousands):

		2012		2011
Compensation and benefits	$	12,426	$	17,967
Royalties		1,638		1,668
Marketing development		1,251		1,384
IT and engineering		1,391		1,752
Legal		4,666		2,186
Other		6,755		7,896
	$	28,127	$	32,853

For the years ended September 30, 2012 and 2011, warranty reserves of $2.5 million and $2.8 million, respectively, have been classified as long term and are a component of other liabilities.

8. INCOME TAXES

Income (loss) before income taxes as of September 30, 2012 and 2011, is as follows (in thousands):

	2012	2011
U.S. loss	$ (9,057)	$ (20,584)
Foreign income	10,492	9,769
Total loss before income taxes	$ 1,435	$ (10,815)

The provision for (benefit from) income taxes for the years ended December 30, 2012 and 2011, consisted of the following (in thousands):

	2012	2011
Current:		
Federal	$ (9,323)	$ (8,891)
State	(42)	(318)
Foreign	1,121	2,170
Total current	(8,244)	(7,039)
Deferred:		
Federal	7,030	3,010
State	399	(171)
Foreign	115	2,033
Total deferred	7,544	4,872
Total income tax benefit	$ (700)	$ (2,167)

The domestic entities of the Company join in the filing of a consolidated U.S. federal return and certain state tax returns (where permitted) with related U.S. entities not included in these consolidated financial statements. Although the Company could not have used certain federal and state attributes on a stand-alone basis, other related U.S. entities within the consolidated U.S. federal return have been able to utilize these tax attributes. The Company uses the modified separate return approach whereby an entity may consider a tax attribute realized if it is used in a consolidated tax return even if it could not be realized on a stand-alone basis.

Tax benefits realized on the utilization of net operating losses and other attributes by related entities of the U.S. federal consolidated returns are charged back to those related U.S. entities under a tax-sharing agreement. This is the primary driver for the current federal and state tax benefits being recorded. The offsetting entry for the current benefit recognized by the related U.S. entities is generally an affiliate receivable. The affiliate receivable for unpaid tax benefits was $6.7 million and $10.7 million for the years ended September 30, 2012 and 2011.

The difference between the provision for income taxes and income taxes computed using the U.S. federal income tax rate is primarily due to the benefit of federal tax credits, other expenses not deductible for income tax purposes, the change in the valuation allowance, foreign tax rate differentials, and state income taxes.

Significant components of the Company's deferred tax assets and liabilities as of September 30, 2012 and 2011, are as follows (in thousands):

	2012	2011
Deferred tax assets:		
Accounts receivable	$ 11	$ 50
Inventories	1,355	1,095
Deferred revenue	4,423	4,899
Property, plant, and equipment		908
Other reserves and accruals	2,939	4,669
Amortization of acquired intangible assets	19,132	18,593
Domestic net operating loss carryforwards	11,776	17,166
Foreign net operating loss carryforwards	26,467	28,743
Tax credit carryforwards	8,892	4,766
Foreign deferred tax assets	3,748	2,993
Total deferred tax assets	78,743	83,882

Valuation allowance		(13,993)		(12,561)
Net deferred tax assets	$	64,750	$	71,321
Deferred tax liabilities:				
Foreign exchange	$	(4,704)	$	(6,040)
Tax deductible goodwill		(14,842)		(12,445)
Net deferred tax liabilities	$	(19,546)	$	(18,485)
Recorded as:				
Current deferred tax assets	$	10,757	$	13,845
Noncurrent deferred tax assets		67,370		70,603
Current deferred tax liabilities		(3,852)		(4,228)
Noncurrent deferred tax liabilities		(29,071)		(27,384)
	$	45,204	$	52,836

The Company has significant deferred tax assets primarily relating to net operating loss and tax credit carryforwards. The Company evaluates the realizability of its deferred tax assets and considers all evidence of realizability, both positive and negative, when making a determination of whether a valuation allowance is necessary. Based upon this assessment, the Company has provided valuation allowances of $14.0 million and $12.6 million for the years ended September 30, 2012 and 2011, respectively. The Company has determined that it is not more likely than not that these assets will be utilized in the future.

The Company's valuation allowance increased by $1.4 million and decreased by $3.5 million for the years ended September 30, 2012 and 2011, respectively. In determining the realizability of its federal,

foreign, and state deferred tax assets, the Company has relied, in part, on forecast utilization based upon future operating results. Should there be a material difference between its forecasts and actual results in future periods, there could be a material change in the balance of deferred tax assets benefitted. The Company will continue to monitor its deferred tax position and operating results and will make changes to its valuation allowance as necessary to account for changes in facts in future periods.

As of September 30, 2012, the Company had gross operating loss carryforwards for federal, state, and foreign tax purposes of $29.8 million, $25.7 million, and $136.3 million, respectively. The Company had federal and state tax credit carryforwards of $1.0 million and $7.9 million, respectively, as of September 30, 2012. Federal net operating loss carryforwards of $29.8 million will expire 2029 through 2030; state net operating losses of $25.7 million will expire 2013 through 2032; most of the foreign net operating losses will not expire with the exception of the Japan net operating losses, which will begin to expire in 2013 if not utilized. Federal tax credits of $1.0 million will expire beginning in 2016, if not utilized, and state tax credits of $7.9 million will expire beginning in 2013, if not utilized.

As of September 30, 2012, the Company conducted an Internal Revenue Code Section 382 ("Sec. 382") analysis with respect to its net operating loss and credit carryforwards and determined that there was a change of control; therefore, net operating loss and credit carryforwards incurred before January 1, 2009, are limited by the provision of Sec. 382. The deferred tax asset being reflected for these loss and credit carryforwards takes into consideration any anticipated expiration of these benefits due to limitations under Sec. 382.

As of September 30, 2012, the Company intends to indefinitely reinvest the earnings of the foreign subsidiaries. The unremitted earnings at September 30, 2012, amounted to approximately $24.8 million. Taxes paid to foreign governments on those earnings may be used, in whole or in part, as credits against U.S. tax on any taxable distributions made from such earnings. It is not practicable to estimate the amount of unrecognized deferred U.S. taxes on these undistributed earnings.

As of September 30, 2012, the Company had $0.4 million of unrecognized tax benefits. If fully recognized in the future, $0.4 million would impact the effective tax rate, and $0.4 million would result in adjustments to deferred tax assets. It is reasonably possible that the amount of unrealized tax benefit will not decrease during the next 12 months.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits as of September 30, 2012 and 2011, is as follows (in thousands):

		2012		2011
Balance — beginning of fiscal year	$	1,272	$	1,160
(Reductions) additions for tax positions of the current year		(253)		112
Reductions for tax positions of prior years for — settlement during the period		(626)		
Total additions and reductions		(879)		112
Balance — end of fiscal year	$	393	$	1,272

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of tax expense in the consolidated statements of operations and none were recorded for the years ended September 30, 2012 and 2011.

In general, the Company's U.S. federal income tax returns, state income tax returns, and foreign income tax returns are subject to examination by tax authorities for fiscal years 2006 forward due to net operating losses.

9. COMMITMENTS AND CONTINGENCIES

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 reasonably possible, 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, 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.

Described below are the material legal proceedings in which the Company is involved.

Intellectual Property Litigation

Extreme Networks and Brocade Communications Systems — On June 21, 2005, the Company filed a suit against Extreme Networks, Inc. ("Extreme"), and Foundry Networks, Inc. ("Foundry"). in the U.S. District Court for the District of Massachusetts. Foundry was subsequently acquired by Brocade Communications Systems, Inc. ("Brocade").

On June 30, 2012 and December 31, 2012, the Company paid Extreme $0.6 million and $0.4 million, respectively, for court-awarded damages related to a suit filed by Extreme on April 20, 2007, against the Company in the U.S. District Court for the Western District of Wisconsin, Civil Action No. 07-C-0229-C.

On March 29, 2013, the Company and Extreme entered into a confidential settlement agreement ("Agreement"). The Agreement required a dismissal with prejudice of the Wisconsin and Massachusetts litigation, as well as cross covenants not to sue and survival of settlement rights for any acquiring party of the parties. Joint motions to dismiss were granted on April 13, 2013, and April 15, 2013, respectively.

The Company received $1.8 million — net during 2013 as part of the agreement. All matters between the parties have now been resolved.

On April 19, 2013, the Company and Brocade entered into a confidential settlement agreement ("Foundry Agreement"). The Foundry Agreement required a dismissal with prejudice of the Massachusetts litigation, as well as cross standstill covenants and releases. A joint motion to dismiss was granted on May 1, 2013. The Company received $4 million — net during 2013 as part of the agreement. All matters between the parties have now been resolved.

Reefedge Networks — On September 17, 2012, Reefedge Networks, LLC filed a suit against the Company in the U.S. District Court for the District of Delaware, Civil Action No. 12-1147. The complaint alleged wrongful use, making, selling, and/or offering to sell products that infringe U.S. Patent Nos. 6,633.761; 6,975,864; and 7,197,308 and sought unspecified monetary damages. An answer has been filed. Given the preliminary nature of the claims, the Company is not able to assess the likelihood of a particular outcome.

Relay IP, Inc. — On May 8, 2013, Relay IP, Inc., filed a suit against the Company in the U.S. District Court for the District of Delaware, Civil Action No. 13-774. The complaint alleges infringement based on the Company's testing of its own equipment and inducing its customers to infringe U.S. Patent No. 5,331,637 and seeks unspecified monetary damages. An answer has been filed. Given the preliminary nature of the claims, the Company is not able to assess the likelihood of a particular outcome.

Other Matters

Brazil — The Company has been subject to an ongoing tax audit at one of its Brazilian entities by the state of Sao Paulo for the years 2002 through 2009. The audit assessments received are currently being investigated by management and outside counsels in order to successfully settle the legal proceedings. In June 2013, in order to bring partial resolution to these matters, the Company participated in an amnesty plan resulting in the payment of $4.7 million. The remaining open assessment is for $8.5 million. While the ultimate resolution of remaining matters is subject to many uncertainties, management expects that it will be able to prevail in these matters with no material impact to the Company's consolidated financial statements. Accordingly, no amounts were recorded in the consolidated financial statements for the remaining open assessment.

Indemnification Obligations — Subject to certain limitations, the Company may be obligated to indemnify its current and former directors and officers. These obligations arise under the terms of its certificate of incorporation, its bylaws, and Delaware law. The obligation to indemnify, where applicable, generally means that the Company is required to pay or reimburse and, in certain circumstances, the Company has paid or reimbursed, the individual's reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters. It is not possible to estimate the maximum potential amount under these indemnification agreements due to the limited history of these claims. The cost to defend the Company and the named individuals could have a material adverse effect on its consolidated financial position, results of operations, and cash. The Company had no outstanding indemnification claims as of September 30, 2012.

Product Warranty — A reconciliation of changes in the carrying amount of product warranty as of September 30, 2012 and 2011, is as follows (in thousands):

Balance — October 1, 2010	$	3,993
Additions		713
Release		(984)
Balance — September 30, 2011		3,722
Additions		946
Release		(1,332)
Balance — September 30, 2012	$	3,336

The long-term portion of the product warrant accrual is a component of other liabilities and was $2.5 million and $2.8 million for the years ended September 30, 2012 and 2011, respectively. The short term portion is a component of Accrued expenses and was $0.8 million and $0.9 million for the periods ended September 30, 2012 and 2011, respectively.

Other Commitments — The Company leases office facilities and various equipment under noncancelable operating leases expiring through the year 2023. Some of the leases provide for rent increases based on the Consumer Price Index and increases in real estate taxes. Rent expense associated with operating leases — net of sublease income, was $5.1 million and $5.2 million for the years ended September 30, 2012 and 2011, respectively.

In 2007, the Company renewed a lease agreement for its corporate headquarters in Andover, Massachusetts. As part of the agreement, the Company received $2.3 million in cash as a tenant allowance to be used for future leasehold improvements. The $2.3 million received is treated as part of the total lease commitment and is recorded as a long-term liability in the consolidated balance sheet. This balance is being amortized over the life of the lease agreement as a reduction to rent expense in selling, general, and administrative expense. In January 2012, the Company exercised an early termination clause. The required notification was delivered to the landlord and the Company incurred early termination fees of approximately $1.8 million that were paid in June 2012. The lease concluded in June 2013.

In January 2012, the Company entered into a lease agreement for its corporate headquarters in Salem, New Hampshire. As part of the agreement, the Company received $7.1 million in tenant incentives to be used for leasehold improvements or a reduction in rent and six months of free rent. As of September 30, 2012, the Company had utilized $4.1 million of its tenant incentives for leasehold improvements with a corresponding amount recorded as deferred rent within other liabilities in the consolidated balance sheet. Subsequently, the Company utilized the full incentive of $7.1 million for leasehold improvements. All leasehold incentives have been recorded as a long-term liability, less current portion, and are being amortized over the lease term as a reduction to rent expense in selling, general, and administrative expenses.

Total future minimum lease payments under all noncancelable operating leases that the Company has initial or remaining noncancelable lease terms as of September 30, 2012, are summarized as follows (in millions):

Years Ending September 30		Noncancelable Lease Commitments
2013	$	5.1
2014		3.7
2015		2.7
2016		2.8
Thereafter		17.1
Total noncancelable lease commitments	$	31.4

At September 30, 2012, Salem, New Hampshire, the Company had noncancelable purchase commitments of approximately $8.8 million, primarily with its contract manufacturers. The majority of these purchase commitments are expected to be paid in fiscal year 2013.

At September 30, 2012, the Company had commitments of approximately $6.9 million related to various royalty and license agreements. The Company expects to make payments of $4.3 million in fiscal year 2013, $1.9 million in fiscal year 2014, and $0.7 million in fiscal year 2015.

10. DEBT

The Company's long-term debt as of September 30, 2012 and 2011, by borrowing entity is summarized as follows (in thousands):

	2012	2011
Second-lien term loan:		

Enterasys	$	37,989	$	37,989
Enterasys Networks Distribution Limited		15,088		15,088
Total		53,077		53,077
Mezzanine loan:				
Gores ENT				39,972
Enterasys		39,972		
Total		39,972		39,972
Total long-term debt	$	93,049	$	93,049

Second-Lien Term Loan — The Company's second-lien term loan is provided by an affiliate and is due on February 10, 2016. The interest rate is the 3-month London InterBank Offered Rate (LIBOR), plus the LIBOR rate margin, totaling 9.4% at September 30, 2012 and 2011. Beginning fiscal year 2012, interest was due and payable quarterly. Prior to fiscal year 2012, unpaid interest was added to the loan principal and payable on the maturity date. There are no debt covenants the Company is required to comply with.

Mezzanine Loan — The Company's mezzanine loan is also provided by an affiliate and belonged to Gores ENT prior to the merger with Enterasys in 2012. This loan is due February 10, 2016, and its interest rate is the 3-month LIBOR rate, plus the LIBOR rate margin, totaling 9.6% at September 30, 2012 and 2011. Beginning fiscal year 2012, interest was due and payable quarterly. Prior to fiscal year 2012, unpaid interest was added to the loan principal and payable on the maturity date. There are no debt covenants the Company is required to comply with.

Interest paid to the affiliate as of September 30, 2012, totaled $8.9 million for the above-mentioned loans, there was no interest paid in fiscal year 2011.

11. EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution savings plan under Section 401(k) of the Internal Revenue Code. This plan covers all employees in the United States, who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pretax basis, subject to legal limitations. The 401(k) plan provides for matching contributions on the part of the Company equal to 50% of employee contributions up to $1,000 per year. The Company's matching contributions to the 401(k) plan totaled $0.4 million and $0.4 million, respectively, for the years ended September 30, 2012 and 2011.

12. RELATED-PARTY TRANSACTIONS

The Company, being a wholly owned subsidiary of the JV Co, has several related-party transactions as follows:

Affiliate Receivables — The Company had $19.6 million and $18.3 million at September 30, 2012 and 2011, respectively, in receivables from various affiliated companies within the JV Co. The balances represent sales of product and services.

Affiliate Notes Receivable — The Company had $31.1 million and $14.0 million at September 30, 2012 and 2011, respectively, of notes receivable from an affiliate. The maturity date is September 30, 2013, and the note bears an interest rate of 0.6%. Interest income recorded in 2012 was $0.1 million and none was recorded in 2011.

Intangible Assets — Net — In October 2010, the Company acquired wireless technology from an affiliate within the JV Co for $0.8 million. The net carrying value was $0.5 million and $0.7 million for the years ended September 30, 2012 and 2011, respectively.

Affiliate Payables — The Company had $1.0 million and $8.4 million at September 30, 2012 and 2011, respectively, in payables to various affiliates. The balances represent reimbursed costs related to contract research and development activities.

Affiliate Debt — All debt of the Company is held with Funding GmbH, an entity within the JV Co. The details of affiliate debt are described in Note 10 above.

Deferred Revenue — The Company sells maintenance contracts to various entities within the JV Co. Maintenance contracts are recognized ratably over the contract life. For the years ended September 30, 2012 and 2011, deferred short-term revenue was $2.1 million and $2.2 million and deferred long-term revenue was $1.3 million and $1.6 million, respectively.

Other Income (Expense) — The Company has pledged all of its U.S.-based assets and acts as a guarantor for certain bonds payable held by the JV Co. As guarantor, the Company receives a quarterly guarantee fee.

On October 1, 2010, the Company contributed one of its wholly owned subsidiaries, Enterasys Networks of Canada Limited ("Enterasys Canada"), to participate in an amalgamation for the JV Co. The sole purpose of the amalgamation was to reduce the overall Canadian footprint for the JV Co. The net book value of the contributed entity was $4.6 million as of October 1, 2010, including cash of $0.9 million. These transactions were treated as a reorganization of entities under common control and recorded at the net book value at the date of the transaction. The loss on the transaction is included as a reduction of additional paid-in capital.

During the year ended September 30, 2011, the Company received a capital contribution amounting to $65.0 million from its direct parent of which $6.8 million was cash. The capital contribution was affected by a reduction in affiliate debt with Funding GmbH in order to reduce outstanding interest and principal of $33.4 million and $31.6 million for the year ended December 30, 2012 and 2011, respectively.

* * * * * *

Exhibit 99.3

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined balance sheet as of September 30, 2013 and the unaudited pro forma condensed combined statements of income (loss) for the three months ended September 30, 2013 and for the fiscal year ended June 30, 2013 are based on the historical financial statements of Extreme Networks, Inc.(“Extreme” or the “Company”), and Enterasys Networks, Inc. (“Enterasys”) after giving effect to Extreme’s acquisition of Enterasys using the acquisition method of accounting and borrowing pursuant to the term loan and revolving credit facility to finance the Enterasys acquisition, and after applying the assumptions, reclassifications and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements.

Extreme and Enterasys have different fiscal year ends. Accordingly, the unaudited pro forma condensed combined balance sheet as of September 30, 2013 combines Extreme’s historical unaudited condensed consolidated balance sheet as of September 30, 2013 and Enterasys’ historical audited consolidated balance sheet as of September 30, 2013 and is presented as if the acquisition of Enterasys had occurred on September 30, 2013 and includes all adjustments that give effect to events that are directly attributable to the acquisition of Enterasys and that are factually supportable. The unaudited pro forma condensed combined statement of income (loss) for the three months ended September 30, 2013 combines the unaudited historical results of Extreme for the three months ended September 30, 2013 and the unaudited historical results of Enterasys for the three months ended September 30, 2013. The unaudited pro forma condensed combined statement of income (loss) for the fiscal year ended June 30, 2013 combines the audited historical results of Extreme for the year ended June 30, 2013 and the audited historical results of Enterasys for the year ended September 30, 2013. The unaudited pro forma condensed combined statements of income (loss) are presented as if the acquisition had occurred on July 1, 2012 and include adjustments that give effect to events that are directly attributable to the acquisition of Enterasys, expected to have a continuing impact and that are factually supportable.

The unaudited pro forma condensed combined financial statements are based on the estimates and assumptions set forth in the notes to such statements, which are preliminary and have been made solely for purposes of developing such pro forma information. The unaudited pro forma condensed combined financial statements are not intended to represent or be indicative of the results that would have been achieved had the acquisition been consummated and the borrowings pursuant to the term loan and revolving credit facility been completed as of the date indicated or that may be achieved in the future.

The acquisition has been accounted for using the acquisition method of accounting. The estimated purchase price has been allocated on a preliminary basis to tangible and intangible assets acquired and liabilities assumed. The final purchase price allocation is pending the finalization of appraisal valuations, which may result in an adjustment to the preliminary purchase price allocation. Also, additional information which existed as of the acquisition date but was unknown to the Company at that time, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date, 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.

The unaudited pro forma condensed combined financial statements do not include the realization of future cost savings or synergies or the effects of any future restructuring activities that pertain to Extreme’s operations. These future restructuring expenses may be material and may include costs for severance, costs for vacating facilities and costs to exit or terminate other duplicative activities. Future restructuring expenses will be recorded in the period that these expenses become probable and can be estimated or are incurred.

These unaudited pro forma condensed combined financial statements should be read in conjunction with Extreme’s historical consolidated financial statements and notes thereto contained in Extreme’s Annual Report on Form 10-K for its fiscal year ended June 30, 2013 and Quarterly Report on Form 10-Q for its three months ended September 30, 2013 and Enterasys’ historical consolidated financial statements and notes thereto contained herein for its fiscal year ended September 30, 2013 and 2012, which is included as Exhibit 99.1 and for its fiscal year ended September 30, 2012 and 2011, which is included as Exhibit 99.2 to this Form 8-K/A.

EXTREME NETWORKS, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEETS
As of September 30, 2013

(In thousands, except per share amounts)

	Historical				
	September 30, 2013 Extreme	September 30, 2013 Enterasys	Pro Forma Adjustments		Pro Forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$ 103,008	$ 38,099	$ (38,099)	A	$ 103,008
Short-term investments	96,427	—	(80,000)	B	16,427
Accounts receivable, net	39,297	32,741	6,764	C,F	78,802
Affiliate receivables	—	18,316	(18,316)	D	—
Inventories, net	30,389	23,271	10,751	C,F	64,411
Affiliate note receivable	—	31,022	(31,022)	D	—
Deferred income taxes	408	14,168	(13,712)	C,M	864
Prepaid expenses and other current assets, net	11,712	7,381	154	C	19,247
Total current assets	281,241	164,998	(163,480)		282,759
Restricted cash	—	637	—		637
Property and equipment, net	25,807	15,964	7,158	C	48,929
Goodwill	—	117,675	(60,060)	C	57,615

Intangible assets	3,957	9,275	102,625	**C**	115,857
Deferred income taxes	—	55,377	(55,282)	**C,M**	95
Other assets, net	7,965	10,796	(5,096)	**C**	13,665
Total assets	$ 318,970	$ 374,722	$ (174,135)		$ 519,557
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$ 28,451	$ 20,194	$ —		$ 48,645
Affiliate payables	—	2,172	(2,172)	**D**	—
Accrued compensation and benefits	12,957	15,775	—		28,732
Restructuring liabilities	572	—	—		572
Accrued warranty	3,440	—	841	**F**	4,281
Short term debt	—	—	3,250	**E**	3,250
Deferred revenue, net	32,080	40,140	(11,900)	**C,F**	60,320
Deferred revenue, net of cost of sales to distributors	18,600	—	3,473	**F**	22,073
Other accrued liabilities	15,114	18,711	(2,849)	**C,F,M**	30,976
Affiliate debt	—	94,875	(94,875)	**D**	—
Total current liabilities	111,214	191,867	(104,232)		198,849
Long term debt	—	—	96,750	**E**	96,750
Deferred revenue, less current portion	8,156	13,573	(1,765)	**C**	19,964
Deferred income taxes	—	25,922	(24,390)	**C,M**	1,532
Other long-term liabilities	6,582	10,151	(7,289)	**C**	9,444
Commitments and contingencies					
Stockholders' equity:					
Convertible preferred stock, $.001 par value	—	—	—		—
Common stock, $.001 par value	94	—	—		94
Additional paid-in-capital	824,705	209,754	(209,754)	**G**	824,705
Accumulated other comprehensive income (loss)	(843)	(7,343)	7,343	**G**	(843)
Accumulated deficit	(630,938)	(69,202)	69,202	**G**	(630,938)
Total stockholders' equity	193,018	133,209	(133,209)		193,018
Total liabilities and stockholders' equity	$ 318,970	$ 374,722	$ (174,135)		$ 519,557

EXTREME NETWORKS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Three Months Ended September 30, 2013
(In thousands, except per share amounts)

	Historical Three Months Ended September 30, 2013 Extreme	September 30, 2013 Enterasys	Pro Forma Adjustments		Pro Forma Combined
Net revenues:					
Product	$ 61,045	$ 66,267	$ —		$ 127,312
Service	14,871	21,220	—		36,091
Total net revenues	75,916	87,487	—		163,403
Cost of revenues:					
Product	27,516	31,615	4,149	**H,I**	63,280
Service	4,693	7,399	188	**H,I**	12,280
Total cost of revenues	32,209	39,014	4,337		75,560
Gross profit:					
Product	33,529	34,652	(4,149)		64,032
Service	10,178	13,821	(188)		23,811
Total gross margin	43,707	48,473	(4,337)		87,843
Operating expenses:					
Research and development	9,937	14,376	732	**H,I**	25,045
Sales and marketing	22,694	21,115	995	**H,I**	44,804
General and administrative	6,934	3,917	(12)	**H,I**	10,839
Acquisition-related expenses	3,695	2,343	(6,038)	**J**	—
Restructuring charges	75	—	—		75
Amortization of purchased intangibles	—	2,005	3,662	**H**	5,667
Total operating expenses	43,335	43,756	(661)		86,430
Operating income	372	4,717	(3,676)		1,413
Interest income	275	—	(154)	**L**	121
Interest expense	—	(2,161)	1,341	**K,D**	(820)
Other (expense)/ income, net	(255)	80	—		(175)

Income before income taxes	392	2,636	(2,489)		539
Provision for income taxes	427	1,252	(591)	**M**	1,088
Net income (loss)	$ (35)	$ 1,384	$ (1,898)		$ (549)
Basic and diluted net income (loss) per share:					
Net income (loss) per share - basic	$ —				$ (0.01)
Net income (loss) per share - diluted	$ —				$ (0.01)
Shares used in per share calculation - basic	94,062				95,197
Shares used in per share calculation - diluted	94,062				95,197

EXTREME NETWORKS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Year Ended June 30, 2013
(In thousands, except per share amounts)

	Historical Year Ended				
	June 30, 2013 Extreme	**September 30, 2013 Enterasys**	**Pro Forma Adjustments**		**Pro Forma Combined**
Net revenues:					
Product	$ 239,955	$ 249,942	$ —		$ 489,897
Service	59,388	82,957	—		142,345
Total net revenues	299,343	332,899	—		632,242
Cost of revenues:					
Product	115,862	122,822	16,522	**H,I**	255,206
Service	20,855	32,835	707	**H,I**	54,397
Total cost of revenues	136,717	155,657	17,229		309,603
Gross profit:					
Product	124,093	127,120	(16,522)		234,691
Service	38,533	50,122	(707)		87,948
Total gross margin	162,626	177,242	(17,229)		322,639
Operating expenses:					
Research and development	40,521	60,074	3,030	**H,I**	103,625
Sales and marketing	87,202	85,493	3,953	**H,I**	176,648
General and administrative	28,754	17,590	293	**H,I**	46,637
Restructuring charges	6,836	—	—		6,836
Gain on sale of facilities	(11,539)	—	—		(11,539)
Acquisition-related expenses	—	2,343	(2,343)	**J**	—
Amortization of purchased intangibles	—	8,021	14,646	**H**	22,667
Total operating expenses	151,774	173,521	19,579		344,874
Operating income (loss)	10,852	3,721	(36,808)		(22,235)
Interest income	1,070	—	(616)	**L**	454
Interest expense	—	(8,638)	5,787	**K,D**	(2,851)
Other (expense)/ income, net	(571)	5,195	—		4,624
Income (loss) before income taxes	11,351	278	(31,637)		(20,008)
Provision for income taxes	1,678	397	2,414	**M**	4,489
Net income (loss)	$ 9,673	$ (119)	$ (34,051)		$ (24,497)
Basic and diluted net income (loss) per share:					
Net income (loss) per share - basic	$ 0.10				$ (0.26)
Net income (loss) per share - diluted	$ 0.10				$ (0.26)
Shares used in per share calculation - basic	93,954				93,954
Shares used in per share calculation - diluted	95,044				93,954

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Description of the Transaction

On October 31, 2013 (the “Acquisition Date”), Extreme Networks, Inc. (“Extreme ” or “the Company”) completed the acquisition of Enterasys Networks, Inc. (“Enterasys”), a privately held provider of wired and wireless network infrastructure and security solutions, for $180 million in cash. Also, on October 31, 2013, the Company entered into a $125 million senior secured credit facilities agreement consisting of a $65 million term loan facility (“Term Loan”) and a revolving credit facility of $60 million (“Revolving Facility”). Both facilities mature on October 31, 2018. The proceeds from the Term Loan were used to pay a portion of the purchase price in the acquisition of all of the issued and outstanding capital stock of Enterasys. The company also drew $35 million of the $60 million Revolving Facility to pay a portion of the purchase price in the acquisition of all of the issued and outstanding capital stock of Enterasys.

2. Preliminary Purchase Price

On October 31, 2013, Extreme completed its acquisition of Enterasys such that Enterasys became a wholly owned subsidiary of Extreme. Cash of $180 million was paid at the Acquisition Date with remaining amounts, if any, to be based on working capital adjustments as defined in the agreement. These adjustments have not been finalized as of the date of this filing.

3. Preliminary Purchase Price Allocation

The estimated purchase price has been allocated to Enterasys' estimated tangible and identifiable intangible assets acquired and liabilities assumed on a preliminary basis as follows (in thousands):

Estimated purchase price		$	180,000
Current assets	73,000		
Property and equipment	23,100		
Identifiable intangible assets	108,900		
In-process research and development	3,000		
Deferred tax assets	17,700		
Other assets	6,900		
Goodwill	35,700		
Current liabilities	(73,700)		
Other long term liabilities	(14,600)		
Net assets acquired		$	180,000

For the purposes of the pro forma financial statements, the estimated purchase price stated above has been allocated based on the preliminary estimates of the fair value of the assets acquired and liabilities assumed as of the balance sheet date presented. The final purchase price allocation will be based on the estimated fair values at the acquisition date and could vary significantly from the pro forma amounts.

The $108.9 million of acquired identifiable intangibles have a weighted-average useful life of approximately three years. The definite-lived intangible assets include developed technology of $45 million (3-year weighted average useful life), customer relationships of $37 million (3-year weighted average useful life), maintenance contracts of $17 million (5-year weighted average useful life), Trademarks of $2.5 million (3-year weighted average useful life), and order backlog of $7.4 million (1.5-year useful life). 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 purchased intangibles" on the condensed consolidated statement of operations.

The Company also has an indefinite lived asset of $3 million which represents the fair value of in process research and development activities. Once the related research and development efforts are completed, the Company will determine whether the asset will continue to be an indefinite lived asset or it has become a finite lived asset and apply the appropriate accounting accordingly.

4. Pro Forma Adjustments

The pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

A. Per the Stock Purchase Agreement signed by Extreme and Enterasys, Extreme did not acquire any cash as part of the acquisition. Pro forma adjustments have been made to eliminate the cash and cash equivalents held by Enterasys as of the date of balance sheet presented.

B. To record the decrease in short term investments liquidated to pay for the acquisition of Enterasys as follows:

(in thousands)		
Proceeds from Term Loan	$	65,000
Draw from Revolving Facility		35,000
Purchase consideration paid		(180,000)
Adjustments to short term investments	$	(80,000)

C. The pro forma adjustments reflect the preliminary purchase accounting fair value estimates for the net assets to be acquired and liabilities assumed. This is an estimate based on preliminary purchase price allocation which is subject to final allocation upon completion of the valuation process.

(in thousands)		
Increase in accounts receivables	$	148
Increase in inventories		12,446
Decrease in current deferred income tax assets		(13,712)
Increase in prepaid and other current assets, net		154
Increase in property and equipment, net		7,158
Decrease in non-current deferred income tax assets		(55,282)
Decrease in non-current other assets, net		(5,096)
Decrease in current deferred revenue		(13,348)

Decrease in other accrued liabilities		(2,008)
Decrease in non-current deferred revenue		(1,765)
Decrease in non-current deferred income tax liabilities		(24,390)
Decrease in other long-term liabilities		(7,289)

Intangibles		
Identifiable intangibles from Enterasys acquisition	$	108,900
In-process research and development from Enterasys acquisition		3,000
Remove historical Enterasys intangibles		(9,275)
	$	102,625

Goodwill		
Goodwill from Enterasys acquisition	$	57,615
Remove historical Enterasys Goodwill		(117,675)
	$	(60,060)

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

D. Enterasys was formerly a wholly owned subsidiary of Enterprise Networks Holdings B.V. (JV Co.) which was in turn formed by a joint venture transaction between Siemens AG and Gores Group LLC. Historical Enterasys financial statements include significant related party transactions with JV Co. which have been eliminated as the Company will have no affiliation with the former owners. The pro forma adjustments reflect the elimination of such related party transactions from the historical financial statements including affiliate receivables, affiliate notes receivable, affiliate payables, affiliate debt and related interest expense.

E. On October 31, 2013, Extreme entered into $125 million senior secured credit facilities agreement consisting of a $65 million Term Loan and a $60 million Revolving Facility. Both facilities mature on October 31, 2018. Beginning on December 31, 2013, the Term Loan shall be repaid in consecutive quarterly installments in amounts as set forth by the credit facilities agreement. The draws on the Revolving Facility shall be repaid on the maturity date if not repaid before that date. The proceeds of the Term Loan were used to pay a portion of the purchase price in the acquisition of Enterasys. The Company also drew $35 million of the $60 million Revolving Facility to pay a portion of the purchase price in the acquisition of all of the issued and outstanding capital stock of Enterasys. The pro forma adjustments reflect the incurrence of debt.

F. The following reclassification adjustments have been made to conform Enterasys' historical amounts to Extreme's presentation. The adjustments primarily relate to separately identifying current accrued warranty, reclassifying deferred costs from inventory to deferred revenue, net and deferred revenue, net of cost of sales to distributors and reclassifying deferred revenue balances out of accounts receivables and inventory to deferred revenue, net and deferred revenue, net of cost of sales to distributors.

(in thousands)		
Reclassification of current accrued warranty		
Increase in accrued warranty	$	841
Decrease in other accrued liabilities		(841)
Reclassification of deferred cost to deferred revenue		
Decrease in inventories, net	$	(1,498)
Decrease in deferred revenue, net		(196)
Decrease in deferred revenue, net of cost of sales to distributors		(1,302)
Reclassification between accounts receivables, inventory, deferred revenue, net and deferred revenue, net of cost of sales to distributors		
Increase in accounts receivables	$	6,616
Decrease in inventories, net		(197)
Increase in deferred revenue, net		1,644
Increase in deferred revenue, net of cost of sales to distributors		4,775

G. Pro forma adjustments reflect the elimination of historical Enterasys' equity.

H. The pro forma adjustments to depreciation and amortization reflect the net effect of the removal of the historical depreciation and amortization expense for the Enterasys assets and the addition of the new depreciation and amortization expense for property and equipment and finite-lived intangible assets acquired in the Enterasys acquisition, based on the preliminary values assigned to these assets. The following table summarizes the pro forma adjustments to depreciation and amortization:

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(in thousands)	**Three months ended September 30, 2013**			**Year ended June 30, 2013**		
	Record Extreme's new depreciation	**Removing Enterasys' historical depreciation**	**Net**	**Record Extreme's new depreciation**	**Removing Enterasys' historical depreciation**	**Net**

	and amortization	and amortization		and amortization	and amortization	
Cost of revenues						
Product	$ 4,127	$ (91)	$ 4,036	$ 16,543	$ (475)	$ 16,068
Services	71	(76)	(5)	247	(313)	(66)
Research and development	291	(394)	(103)	1,163	(1,471)	(308)
Sales and Marketing	37	(40)	(3)	147	(186)	(39)
General and administrative	531	(757)	(226)	2,126	(2,689)	(563)
Amortization of purchased intangibles	5,667	(2,005)	3,662	22,667	(8,021)	14,646

I. Pro forma adjustment to record the estimated stock-based compensation expense, net of estimated forfeitures, related to the unearned portion of Enterasys stock options and restricted stock units assumed in connection with the acquisition using the straight-line amortization method over the remaining vesting periods. The estimated value of the stock options and restricted stock units assumed and converted related to the pre-combination period was immaterial and was excluded from the preliminary purchase price.

(in thousands)	Three months ended September 30, 2013	Year ended June 30, 2013
Cost of revenues		
Product	$ 113	$ 454
Services	193	773
Research and development	835	3,338
Sales and Marketing	998	3,992
General and administrative	214	856
	$ 2,353	$ 9,413

J. Pro forma adjustment to reflect the removal of transaction costs that were incurred by Extreme and Enterasys during the three months ended September 30, 2013. These costs have been excluded since they are considered to non-recurring.

K. The pro forma adjustments to interest expense reflect the removal of Enterasys' historical interest expense and the addition of interest expense resulting from the new borrowings undertaken to partially finance the acquisition. Interest expense is calculated using the actual interest rates for the periods presented.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

L. The pro forma adjustments for the assumed reduction in interest income due to reduced cash and cash equivalent balances as a result of the cash consideration issued as part of the acquisition.

(in thousands)	Three months ended September 30, 2013	Year ended June 30, 2013
Reduction in interest income based on $80 million cash used at an effective weighted-average interest rate of 0.77% for both the three months ended September 30, 2013 and the year ended June 30, 2013, respectively.	$ 154	$ 616

The effective weighted average interest rate was determined based on the actual interest recognized by the Company in its historical financial statements for the periods presented.

M. The pro forma adjustments to deferred tax assets/(liabilities) and income tax expense, as summarized below, are due to the impact on the historical balances and provision for income taxes to reflect the establishment of a valuation allowance on the Enterasys' deferred tax assets in the Unites States as well as a partial valuation allowance on its deferred tax assets in Brazil. As a result of the transaction, a tax sharing arrangement within the prior U.S. consolidated group was eliminated, therefore a valuation allowance in the U.S. is required as the realizability of the deferred tax assets does not meet the more likely than not threshold as the tax sharing agreement provided the majority of the positive evidence required to establish the deferred tax assets in the U.S. The establishment of the partial valuation allowance in Brazil is due to management's assessment that as result of the transaction the business operating model of Enterasys Brazil does not support the realizability of all of the net deferred tax assets of the entity therefore only a portion of the deferred tax assets met the more likely than not threshold.

The impact of the other pro-forma adjustments to income before tax are estimated to be primarily in taxing jurisdictions where the effective tax rate is zero, therefore no pro forma adjustments to the income tax provision has been made for these items.

(in thousands)	
Decrease in current deferred income tax assets	$ (13,712)
Decrease in non-current deferred income tax assets	(55,282)
Decrease in current deferred income tax liabilities	(1,515)
Decrease in non-current deferred income tax liabilities	(24,390)

	Three months ended September 30, 2013	Year ended June 30, 2013
Provision for income taxes	$ (591)	$ 2,414

5. Pro Forma Net Income per Share

The pro forma basic and diluted net income (loss) per share amounts presented in the unaudited pro forma condensed combined statements of operations are based upon the weighted average number of Extreme common shares outstanding and are adjusted for additional stock awards assumed from Enterasys stock award plans pursuant to treasury stock method as if those awards had been assumed and converted as they stood at the acquisition date as of the beginning of each period presented without consideration for any subsequent award activity such as grants, exercises and cancellations for the unaudited pro forma condensed combined statements of operations for the periods presented. The proforma adjustment to basic shares reflects the estimated shares from the release of the restricted stock units based on the vesting terms of the grants. The proforma adjustments to the diluted shares reflect the adjustment to the basic shares as well as the exclusion of the diluted impact of Extreme's outstanding stock options and restricted stock awards as the pro forma adjustments result change Extreme's

income position in a combined loss position.

	Weighted-Average Common Shares Outstanding	
(in thousands)	**Three months ended September 30, 2013**	**Year ended June 30, 2013**
Basic weighted average common shares outstanding, as reported	94,062	93,954
Impact of Enterasys restricted stock awards assumed and vesting during the period	1,135	—
	95,197	93,954
Diluted weighted-average common shares outstanding, as reported	94,062	95,044
Impact of Enterasys restricted stock awards assumed and vesting during the period	1,135	—
Exclusion of dilutive effect of Extreme unvested stock options and restricted stock awards due to change to loss position	—	(1,090)
	95,197	93,954