

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**Form 8-K/A**

---

**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 26, 2017**

---

**EXTREME NETWORKS, INC.**

(Exact name of registrant as specified in its charter)

---

**Delaware**  
(State or other jurisdiction  
of incorporation)

**000-25711**  
(Commission  
File No.)

**77-0430270**  
(I.R.S. Employer  
Identification No.)

**6480 Via Del Oro**  
**San Jose, California 95119**  
(Address of principal executive offices)

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

---

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company

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

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):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
- 
-

## Explanatory Note

On October 30, 2017, Extreme Networks, Inc. (“Extreme” or the “Company”), filed a Current Report on Form 8-K (the “8-K”) disclosing, among other things, that the Company had completed the purchase of the data center switching, routing and analytics business (“SRA Business”) of Brocade Communications Systems, Inc., a Delaware corporation (“Brocade”) pursuant to that certain Asset Purchase Agreement, dated as of October 3, 2017, by and between the Company and Brocade. The 8-K was amended on November 3, 2017 to revise the periods for which mandated financial statements will be required (the “8-K/A” and, together with the 8-K, the “Original 8-K”).

This amendment to the Original 8-K is being filed for the purpose of satisfying the Company’s undertaking to file the pro forma financial information required by Item 9.01 of Form 8-K, and this amendment should be read in conjunction with the Original 8-K. Except as set forth herein, no modifications have been made to information contained in the Original 8-K, and the Company has not updated any information contained therein to reflect events that have occurred since the dates of the Original 8-K.

### Item 9.01. Financial Statements and Exhibits.

#### (a) Financial Statements of Business Acquired.

The Statement of Assets Acquired and Liabilities Assumed as of October 27, 2017 (audited) of the SRA Business of Brocade with respect to the Company’s purchase of the SRA Business of Brocade is filed as Exhibit 99.2 to this report and is incorporated herein by reference.

The Statements of Net Revenues and Direct Expenses for the fiscal years ended October 29, 2016, October 31, 2015 and November 1, 2014 (audited) and for the nine-month periods ended July 29, 2017 and July 30, 2016, (unaudited), is filed as Exhibit 99.3 and Exhibit 99.4, respectively, to this report and is incorporated herein by reference.

#### (b) Pro Forma Financial Information.

Unaudited pro forma condensed combined financial information with respect to the Company’s purchase of the SRA Business of Brocade is filed as Exhibit 99.5 to this report and incorporated herein by reference.

#### (c) Exhibits.

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.1*	<a href="#"><u>Third Amendment to the Amended and Restated Credit Agreement, dated as of October 26, 2017, by and among the Company, as borrower, the several banks and other financial institutions or entities party thereto as lenders, and Silicon Valley Bank, as administrative agent and collateral agent.</u></a>
99.1*	<a href="#"><u>Press Release, dated October 30, 2017.</u></a>
99.2	<a href="#"><u>The Statement of Assets Acquired and Liabilities Assumed as of October 27, 2017 (audited) of the SRA Business of Brocade with respect to the Company’s purchase of the SRA Business of Brocade.</u></a>
99.3	<a href="#"><u>The Statements of Net Revenues and Direct Expenses for the fiscal years ended October 29, 2016, October 31, 2015 and November 1, 2014 (audited) of the SRA Business of Brocade with respect to the Company’s purchase of the SRA Business of Brocade.</u></a>
99.4	<a href="#"><u>The Statements of Net Revenues and Direct Expenses for the nine months ended July 29, 2017 and July 30, 2016, (unaudited) of the SRA Business of Brocade with respect to the Company’s purchase of the SRA Business of Brocade.</u></a>
99.5	<a href="#"><u>Unaudited pro forma condensed combined financial statements of the Company, which include a pro forma condensed combined balance sheet as of June 30, 2017 and pro forma condensed combined statements of operations for the year ended June 30, 2017 with respect to the Company’s purchase of the SRA Business of Brocade.</u></a>

99.6 [Consent of Independent Registered Public Accounting Firm.](#)

99.7 [Consent of Independent Registered Public Accounting Firm.](#)

\* Previously filed

---

**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 12, 2018

**EXTREME NETWORKS, INC.**

By: /s/ B. DREW DAVIES

**B. Drew Davies**

*Executive Vice President, Chief Financial Officer  
(Principal Accounting Officer)*

**EXTREME NETWORKS, INC.**  
**THE ACQUIRED SWITCHING, ROUTING, AND ANALYTICS BUSINESS**  
**STATEMENT OF ASSETS ACQUIRED AND LIABILITIES ASSUMED**  
**AS OF OCTOBER 27, 2017**

---

**EXTREME NETWORKS, INC.**

**THE ACQUIRED SWITCHING, ROUTING, AND ANALYTICS BUSINESS**

Index to statement of assets acquired and liabilities assumed

Independent Auditors' Report.....	3
Statement of Assets Acquired and Liabilities Assumed.....	4
Notes to Statement of Assets Acquired and Liabilities Assumed.....	5

---

The Board of Directors  
Extreme Networks, Inc.

We have audited the accompanying Statement of Assets Acquired and Liabilities Assumed of the Acquired Switching, Routing and Analytics business as of October 27, 2017 and the related notes (the Statement of Assets Acquired and Liabilities Assumed).

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the Statement of Assets Acquired and Liabilities Assumed in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Statement of Assets Acquired and Liabilities Assumed that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on the Statement of Assets Acquired and Liabilities Assumed based on our audit. We conducted our audit 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 Statement of Assets Acquired and Liabilities Assumed are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of Assets Acquired and Liabilities Assumed. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Statement of Assets Acquired and Liabilities Assumed, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement of Assets Acquired and Liabilities Assumed 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 entity'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 Statement of Assets Acquired and Liabilities Assumed.

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 Statement of Assets Acquired and Liabilities Assumed referred to above present fairly, in all material respects, the net assets acquired and liabilities assumed of SRA as of October 27, 2017 in accordance with U.S. generally accepted accounting principles.

**Emphasis of Matter**

We draw attention to Note 1 of the Statement of Assets Acquired and Liabilities Assumed, which describes that the accompanying Statement of Assets Acquired and Liabilities Assumed were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Form 8-K/A of Extreme Networks, Inc. and are not intended to be a complete presentation of the results of operations for SRA. Our opinion is not modified with respect to this matter.

/s/ KPMG, LLP

Raleigh, North Carolina  
January 12, 2018

## EXTREME NETWORKS, INC.

## THE ACQUIRED SWITCHING, ROUTING, AND ANALYTICS BUSINESS

## Statement of Assets Acquired and Liabilities Assumed

As of October 27, 2017

(in thousands)

<b>ASSETS ACQUIRED</b>		
Current Assets:		
Accounts receivable	\$	33,489
Inventories		19,713
Prepaid expenses and other current assets		988
Total current assets		54,190
Property, plant and equipment		29,200
Intangible assets		28,600
Goodwill		16,763
Other assets		4,734
<b>Total assets acquired</b>	<b>\$</b>	<b>133,487</b>
<b>LIABILITIES ASSUMED</b>		
Current liabilities:		
Accounts payable	\$	13,934
Accrued expenses and other liabilities		1,895
Deferred revenue		22,200
Total current liabilities		38,029
Deferred revenue		11,100
<b>Total liabilities assumed</b>	<b>\$</b>	<b>49,129</b>
<b>Net assets acquired</b>	<b>\$</b>	<b>84,358</b>

*See accompanying notes to statement of assets acquired and liabilities assumed*

## THE ACQUIRED SWITCHING, ROUTING, AND ANALYTICS BUSINESS

## Notes to Statement of Assets Acquired and Liabilities Assumed

As of October 27, 2017

**1. Description of Transaction and Basis of Presentation****(a) Description of Transaction**

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

On October 3, 2017, the Company entered into an Asset Purchase Agreement (“APA”) with Brocade Communications Systems, Inc. (“Brocade”) to acquire certain net assets (including customer contracts, workforce and product intellectual property) of Brocade’s switching, routing, and analytics (“SRA”) business for a purchase consideration of \$84.4 million. The acquisition was consummated on October 27, 2017. The assets acquired, and liabilities assumed and the employees managing and operating SRA represent a business as defined in Accounting Standard Codification (“ASC”) Topic 805, *Business Combinations*. Hereinafter the assets acquired, and liabilities assumed pursuant to the APA are referred to as the “acquired business”.

**(b) Basis of Presentation**

The accompanying statement of assets acquired and liabilities assumed was prepared for the purpose of providing information to comply with rules and regulations of the Securities and Exchange Commission (“SEC”) under Rule 3-05 of Regulation S-X for inclusion in an amendment to Form 8-K filed by the Company on October 30, 2017 and an amendment to Form 8-K/A filed by the Company on November 3, 2017, and are not intended to be a complete presentation of the financial statements of the acquired business and are not indicative of the financial position of the acquired business on a standalone basis.

The accompanying statement of assets acquired and liabilities assumed were prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States and were derived from the historical accounting records of Brocade and its subsidiaries that are subject to the APA, and the purchase price allocation of which represents the fair value of asset acquired and liabilities assumed as of the acquisition date. The Company has determined that it is impracticable to prepare full carve out financial statements of the acquired business in accordance with Regulation S-X for the following reasons:

- The acquired business was not previously managed by Brocade as a standalone business, but instead was a part of a fully integrated company.
- Audited financial statements of the acquired business have never been prepared because distinct and separate accounts necessary to present complete standalone balance sheets, statements of income, and cash flows were not been maintained.
- Working capital accounts, including cash, trade receivables, other current assets, fixed assets, accounts payable, and other current liabilities relating to the acquired business were not maintained separately, but were maintained only in aggregate at the Brocade corporate level with similar accounts of other Brocade businesses.
- Brocade did not maintained separate administrative support functions for the acquired business.
- Brocade managed cash using a centralized treasury function. Therefore, the acquired business did not have separate cash balances or separate statement of cash flows. Expenditures for purchases of inventory, payroll, and other operating expenses were funded by Brocade. Similarly, sales and associated accounts receivables and cash collections relating to the acquired business were billed and comingled with other sales made by Brocade, and as a result, are not always separately identifiable.

As a result of the foregoing, it is impracticable to prepare full financial statements as required by Regulation S-X. In addition, the preparation of statements of invested equity and cash flows was not practicable due to the integration of the acquired business into the total operations of Brocade. Therefore, this statement of assets acquired and liabilities assumed which represents the fair value of asset acquired and liabilities assumed as of the acquisition date was prepared to satisfy the financial statement requirements of Rule 3-05 of Regulation S-X in lieu of full financial statements. Pursuant to a letter dated May 10, 2017 from the staff of the Division of Corporate Finance (the "Division") of the SEC, the Division stated that it will not object to the Company's proposal to provide this statement of assets acquired and liabilities assumed in satisfaction of the requirements of Rule 3-05 of Regulation S-X.

Management believes that the assumptions underlying the allocation methods used in preparation of the abbreviated statement of assets acquired and liabilities assumed are reasonable.

## 2. Summary of Significant Accounting Policies

### (a) Use of Estimates

The preparation of the statement of assets acquired and liabilities assumed in conformity with GAAP requires management to make certain estimates and assumptions that affect the amounts reported therein. Several of these estimates and assumptions relate to matters that are inherently uncertain as they pertain to future events. Actual results may differ from these estimates under different assumptions or conditions.

### (b) Accounts Receivable

Accounts receivable were recorded at fair value on the date of acquisition. The Company subsequently assesses the need for an allowance for doubtful accounts. The acquired business performs on-going credit evaluations of its customers and generally does not require collateral from its customers.

### (c) Inventories

Inventories consisting of raw materials and finished goods, and were recorded at fair value on the date of acquisition. The components of inventory are as follows (in thousands):

Raw material	\$	15,313
Finished goods		4,400
<b>Total</b>	<b>\$</b>	<b>19,713</b>

### (d) Property, Plant and Equipment

Property, plant and equipment are recorded at fair value on the date of acquisition. The table below indicates the estimated fair value of the property, plant and equipment acquired and the respective fair values (in thousands, except years):

	Fair Value	Useful life (In years)
Software	\$ 800	2
Manufacturing and laboratory equipment	22,100	2 - 4
Prototypes	6,300	3
<b>Total</b>	<b>\$ 29,200</b>	

### (e) Goodwill and Intangible Assets

Goodwill represents excess of purchase price of the acquired business over the acquisition date fair value of the net assets acquired. Acquired intangible assets, which are initially recorded at fair value on the date of acquisition, include developed technology, customer relationships and trade name. The fair value of intangible assets is based on management's preliminary valuation as of the acquisition date of October 27, 2017. Estimated useful lives are based on the time periods during which the intangibles are expected to result in incremental cash flows. The preliminary valuation was done using methodologies and assumptions discussed below:

- *Developed technology:* The intangible assets reflect the estimated value of SRA business' existing technology. The preliminary fair value of existing technology of \$21.8 million was determined using the income approach. The income approach explicitly recognizes that the fair value of an asset is premised upon the expected receipt of future economic benefits such as earnings and cash inflows based on current sales projections and estimated direct costs for each product. Indications of value are developed by discounting these benefits to their present worth at a discount rate that reflects the current return requirements of the market participants. The fair value of existing technology was capitalized as of the acquisition date and subsequently will be amortized over the estimated remaining life of the products ranging from 2 to 5 years.
- *Customer relationships:* Customer relationships reflect the estimated value of the existing relationships with SRA business' current customers. The preliminary fair value of the customer relationships of \$5.4 million was determined using the income approach. The Company will amortize the customer relationships over an estimated life of 5 years.
- *Trade names:* The intangible assets reflect the estimated value of the use of the trade names under which SRA business sold its networking products. The preliminary fair value of the trade names of \$1.4 million was determined using the relief from royalty approach. Under the relief from royalty method, the value of the subject assets is estimated by determining the royalties the Company is relieved from paying because the Company owns the assets. The Company will amortize the trade names using the straight-line method over an estimated life of 4 years.

The table below indicates the preliminary fair value of the intangible assets acquired (in thousands, except years):

	<b>Fair Value</b>	<b>Useful life (In years)</b>
Developed technology	\$ 21,800	2 - 5
Customer relationships	5,400	5
Trade names	1,400	4
<b>Total</b>	<b>\$ 28,600</b>	

**(f) Accounts Payable, Accrued Expenses and Other liabilities**

Accounts payable, accrued expenses and other liabilities are recorded at fair value on the date of acquisition. Accrued expenses and other liabilities were comprised of the following (in thousands):

Accrued compensation and benefits	\$ 762
Warranty liability	526
Other accrued liabilities	607
<b>Total</b>	<b>\$ 1,895</b>

**(g) Deferred Revenue**

Deferred revenue recorded on the date of acquisition represents the fair value, using the cost build-up approach, of unsatisfied performance obligations on service contracts with customers for which payments were received prior to the date of acquisition.

**(h) Fair Value Measurements**

The assets acquired and liabilities assumed of the acquired business have been recorded at fair value in accordance with ASC 820, *Fair Value Measurement*. ASC 820 defines fair value as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires three levels of hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy level assigned to each asset and liability is based on the assessment of the transparency and reliability of inputs used in the valuation of such items based on the lowest level of input that is significant to fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active

markets for identical assets or liabilities (level 1 measurements) and lowest priority to unobservable inputs (level 3 measurements).

Assets acquired and liabilities assumed measured and reported at fair value are classified in one of the following categories based on inputs:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active and financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The fair value of accounts receivable, prepaid expenses, other current assets, other assets, accounts payable and accrued expenses approximated their carrying value at the date of acquisition. Inventories, property, plant and equipment, intangible assets, deferred revenue and contingent consideration were valued using Level 3 inputs.

### 3. Preliminary Purchase Price Allocation

The statement of assets acquired and liabilities assumed is presented on the basis of the Company's preliminary purchase price allocation. The Company accounts for business combinations under the acquisition method of accounting, which requires recognition separately from goodwill, the assets acquired and liabilities assumed at their acquisition date fair values. The provisional 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 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 (up to one year from the acquisition date), and may result in a change in the purchase price allocation. While management believes that its preliminary estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired and liabilities assumed, and the resulting amount of goodwill.

The fair value of estimated consideration transferred to Brocade includes:

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

The components of aggregate estimated purchase consideration of \$84.4 million are as follows (in thousands):

	October 27, 2017
<b>Estimated purchase consideration</b>	
Cash paid to sellers at closing	\$ 23,000
Deferred payments	18,430
Earnout	34,100
Working capital adjustment	6,555
Replacement of stock-based awards	2,273
<b>Aggregate estimated purchase consideration</b>	<b>\$ 84,358</b>

The fair value of working capital related items, such as accounts receivables, other current assets, accounts payable and accrued liabilities, approximated their book values at the date of acquisition. Inventories were valued at

fair value using the net realizable value approach. The fair value of property, plant and equipment was determined using a cost approach. The fair value of the acquired deferred revenue was estimated using the cost build-up approach. The cost build-up approach determines fair value using estimates of the costs required to provide the contracted deliverables plus an assumed profit. The total costs including the assumed profit were adjusted to present value using a discount rate considered appropriate. The resulting fair value approximates the amount that the Company would be required to pay a third party to assume the obligation. Valuations of the intangible assets were valued using income approaches based on projections provided by management, which the Company considers to be Level 3 inputs. The Company also continues to analyze the tax implications of the acquisition of the intangible assets which may ultimately impact the overall level of goodwill associated with the acquisition.

**(4) Subsequent Events**

Management has evaluated subsequent events through January 12, 2018, the date the statement of assets acquired and liabilities assumed were available to be issued. No additional subsequent events were identified requiring additional recognition or disclosure in the accompanying statement of assets acquired and liabilities assumed.



**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Statements of Net Revenues and Direct Expenses

October 29, 2016, October 31, 2015, and November 1, 2014

(With Independent Auditors' Report Thereon)

---

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**  
(A Business of Brocade Communications Systems, Inc.)

**Table of Contents**

	<b>Page</b>
<a href="#">Independent Auditors' Report</a>	1
<a href="#">Statements of Net Revenues and Direct Expenses</a>	3
<a href="#">Notes to Statements of Net Revenues and Direct Expenses</a>	4

---



KPMG LLP  
Suite 1400  
55 Second Street  
San Francisco, CA 94105

## Independent Auditors' Report

The Board of Directors  
Brocade Communications Systems, Inc.:

We have audited the accompanying Statements of Net Revenues and Direct Expenses of the Switching, Routing, and Analytics business of Brocade (a business of Brocade Communications Systems, Inc. (Brocade)) (SRA) acquired by Extreme Networks, Inc., (Extreme Networks) for the years ended October 29, 2016, October 31, 2015, and November 1, 2014, and the related notes (the Statements of Net Revenues and Direct Expenses).

### Management's Responsibility for the Statements of Net Revenues and Direct Expenses

Management of Brocade is responsible for the preparation and fair presentation of the Statements of Net Revenues and Direct Expenses in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statements of Net Revenues and Direct Expenses that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on the Statements of Net Revenues and Direct Expenses 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 Statements of Net Revenues and Direct Expenses are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements of Net Revenues and Direct Expenses. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Statements of Net Revenues and Direct Expenses, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 Statements of Net Revenues and Direct Expenses.

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 Statements of Net Revenues and Direct Expenses referred to above present fairly, in all material respects, the net revenues and direct expenses of SRA for the years ended October 29, 2016, October 31, 2015, and November 1, 2014, in accordance with U.S. generally accepted accounting principles.

### Emphasis of Matter

We draw attention to Note 1 to the Statements of Net Revenues and Direct Expenses, which describes

---

that the accompanying Statements of Net Revenues and Direct Expenses were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Form 8-K/A of Extreme Networks and are not intended to be a complete presentation of the results of operations of SRA. Our opinion is not modified with respect to this matter.

KPMG LLP

San Francisco, California  
November 15, 2017

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Statements of Net Revenues and Direct Expenses

Fiscal years ended October 29, 2016, October 31, 2015, and November 1, 2014

(In thousands)

	<b>October 29, 2016</b>	<b>October 31, 2015</b>	<b>November 1, 2014</b>
Net revenues:			
Product	\$ 279,172	333,727	282,643
Service	86,920	80,435	66,938
Total net revenues	366,092	414,162	349,581
Direct expenses:			
Cost of product revenue	139,145	160,601	136,188
Cost of service revenue	28,694	25,148	25,578
Research and development	145,968	148,433	157,281
Sales and marketing	178,987	193,758	179,755
General and administrative	3,373	4,262	2,796
Total direct expenses	496,167	532,202	501,598
Excess of direct expenses over net revenues	\$ (130,075)	(118,040)	(152,017)

See accompanying notes to statements of net revenues and direct expenses.

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

October 29, 2016, October 31, 2015, and November 1, 2014

**(1) Description of Transaction and Basis of Presentation**

**(a) Description of Transaction**

Brocade Communications Systems, Inc. (Brocade) is a publicly traded U.S. corporation based in San Jose, California. Brocade's Internet Protocol (IP) Networking segment manufactures, markets, and distributes a variety of networking products designed to connect users over private and public networks, including local area, metro, and within and across global data centers to customers worldwide. One networking product subset of the IP segment is Brocade's switching, routing, and analytics business (SRA). SRA serves customers across the United States and internationally (primarily Western Europe and Asia Pacific). SRA cultivates business in a number of key customer markets such as the data center, service provider, and enterprise segments, including the public sector. Customers in these market segments represented a significant part of SRA. SRA offers its networking products through a multipath distribution strategy, including distributors, resellers, Brocade's direct sales force, and original equipment manufacturers (OEM).

On October 3, 2017, Brocade entered into an Asset Purchase Agreement (the Purchase Agreement) to sell certain dedicated net assets (including customer contracts and product intellectual property) of SRA to Extreme Networks, Inc. (Extreme Networks) for consideration of \$23 million at closing, \$20 million of deferred payments and potential performance payments to Brocade, to be paid over a five-year term.

**(b) Basis of Presentation**

SRA's fiscal year is a 52- or 53-week period ending on the last Saturday in October or the first Saturday in November, respectively. As is customary for companies that use the 52/53-week convention, every fifth year is a 53-week year. Fiscal year 2016 is a 52-week fiscal year, fiscal year 2015 was a 52-week fiscal year, and fiscal year 2014 was a 53-week fiscal year.

The accompanying statements of net revenues and direct expenses, were prepared for the purpose of providing Extreme Networks historical information to comply with the rules and regulations of the Securities and Exchange Commission (SEC) under Rule 3-05 of Regulation S-X, and are not intended to be a complete presentation of the financial statements of SRA and are not necessarily indicative of the financial position or results of operations of SRA on a stand-alone basis.

The accompanying statements of net revenues and direct expenses were prepared in accordance with U.S. generally accepted accounting principles (GAAP) and were derived from the historical accounting records of Brocade. Brocade management determined that it is impracticable to prepare full carve out financial statements for SRA in accordance with Regulation S-X for the following reasons:

- SRA has not been previously managed by Brocade as a stand-alone business, but instead was part of a fully integrated company.
- Audited financial statements of SRA have never been prepared because distinct and separate accounts necessary to present complete stand-alone balance sheets, statements of income, and cash flows have not been maintained.

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**  
(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

October 29, 2016, October 31, 2015, and November 1, 2014

- Working capital accounts, including cash, trade accounts receivable, other current assets, fixed assets, accounts payable, and other current accrued liabilities relating to SRA have not been maintained separately, but have been maintained only in the aggregate at the Brocade corporate level with similar accounts of other Brocade businesses.
- Brocade has not maintained separate administrative support functions for SRA.
- Brocade manages cash using a centralized treasury function. Therefore, SRA does not have separate cash balances or separate statements of cash flows. Expenditures for purchases of inventory, payroll, and other operating expenses are funded by Brocade. Similarly, sales and the associated accounts receivables and cash collections relating to SRA are billed and comingled with other sales made by Brocade and, as a result, are not always separately identifiable.

As a result of the foregoing, it is impracticable to prepare full financial statements as required by Regulation S-X. In addition, the preparation of statements of invested equity and cash flows was not practicable due to the integration of SRA into the total operations of Brocade. The statements of net revenues and direct expenses represent the business subject to the sale under the Purchase Agreement, and have been derived from the financial statements and accounting records of Brocade and its subsidiaries that are subject to the Purchase Agreement.

The accompanying statements of net revenues and direct expenses reflect revenues generated by sales of those networking products that are a part of SRA (SRA Products), and services related thereto. Direct Expenses consist of costs for product and service revenues, research and development, sales and marketing and general and administrative expenses specifically identified and related to the manufacture, production, servicing and sales of SRA Products and the operation of SRA. SRA utilizes the services of IP and Brocade for certain functions, such as sales and marketing, information technology, finance and accounting, and corporate-wide employee benefit programs. The cost of these services has been allocated using a proportional cost allocation method to SRA and included in the statements of net revenues and direct expenses. Management believes that the assumptions underlying the allocations in the statements of net revenues and direct expenses are a reasonable reflection of SRA's utilization of these services.

The statements of net revenues and direct expenses exclude costs that are not directly related to SRA, including certain Brocade corporate overhead expenses, interest income and expense, and income taxes.

In accordance with the Purchase Agreement, certain financing receivables held by Brocade as part of its Brocade Capital Services (BCS) offerings, related to sales of SRA Products where product title passes to the customer and BCS finances the purchase, will not transfer to Extreme Networks. Net revenues from sales of SRA Products for which BCS provided financing are included in the statements of net revenues and direct expenses. In addition, in accordance with the Purchase Agreement, certain customer arrangements provided to customers through Brocade Networking Services (BNS) offerings, representing subscription arrangements for SRA Products whereby Brocade retains title to equipment and customers pay for use of the equipment over a period of time (BNS Arrangements), will not transfer to Extreme Networks. As a result, Brocade will retain title to the equipment subject to the BNS Arrangements and will continue to receive payments from customers for the remaining contractual term. Historical net revenues related to the BNS subscription agreements that will not convey to Extreme were \$7.4 million, \$4.4 million, and \$2.4 million for the fiscal years October 29, 2016, October 31, 2015, and November 1, 2014, respectively, and are included in the accompanying statements of net revenues and direct expenses.

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

October 29, 2016, October 31, 2015, and November 1, 2014

Brocade will not have exclusivity in creating similar BCS and BNS arrangements subsequent to the expiry of the product financing and BNS Arrangements.

**(2) Summary of Significant Accounting Policies**

**(a) Use of Estimates**

The preparation of the statements of net revenues and direct expenses in conformity with GAAP requires management to make certain estimates and assumptions that affect the amounts reported therein. Estimates are used for, but not limited to revenue recognition, sales allowances, including discounts, returns and programs, provision for bad debt, stock-based compensation, useful lives, inventory valuation, and purchase commitments. Actual results may differ from these estimates under different assumptions or conditions.

**(b) Concentrations**

*Customer.* For each of the fiscal years ended October 29, 2016, October 31, 2015, and November 1, 2014, two customers accounted for a combined total of 22% (Tech Data Corporation with 12% and Avnet, Inc. with 10%), 21% (Tech Data Corporation with 11% and Avnet, Inc. with 10%), and 30% (Tech Data Corporation with 19% and Avnet, Inc. with 11%) of total net revenues, respectively.

*Geographic.* The relative percentages of net revenues by geography were as follows:

	Fiscal year ended		
	October 29, 2016	October 31, 2015	November 1, 2014
Domestic	62%	64%	68%
International	38%	36%	32%

International revenues primarily consist of sales to customers in Western Europe and the Asia Pacific region.

**(c) Revenue Recognition**

*Product revenue.* Substantially all of SRA's products are integrated with software that is essential to the functionality of the equipment. Additionally, SRA provides unspecified software upgrades and enhancements related to the equipment through its maintenance contracts for most of its products.

Product revenue is generally recognized when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- The fee is fixed or determinable; and
- Collectability is reasonably assured.

OEM and direct customers are not granted specific rights of return; however, SRA may permit returns of product from customers if such product is returned in a timely manner and in good condition. In addition, certain of SRA's contracts with OEM and direct customers include sales programs, which entitle the customers to discounted pricing on future purchases if agreed upon volume targets are met.

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

October 29, 2016, October 31, 2015, and November 1, 2014

SRA reduces OEM and direct customer revenue for estimated sales returns at the time of shipment and for sales programs at the later of revenue recognition or communication of the commitment for sales incentives. Sales return allowances are estimated based on historical sales returns. Sales programs are estimated based on approved sales programs versus claims under such sales programs, current trends, and SRA's expectations regarding future activity.

For newly introduced products, many of SRA's large OEM customers require a product qualification period during which SRA's products are tested and approved by the OEM customers for sale to their customers. Revenue recognition and related cost are deferred for shipments to new OEM customers and for shipments of newly introduced products to existing OEM customers until satisfactory evidence of completion of the product qualification has been received from the OEM customer.

Distributors are granted rights of stock rotation, which are limited to a contractually specified percentage of the distributor's aggregate purchase volume. These stock rotation rights are subject to expiration 180 days from the time of product shipment by SRA to the distributor. Distributor sales are also subject to sales program incentives and to deal-specific rebates that are payable to distributors upon sale of the related product by the distributor to an ultimate customer. Prior to the fourth quarter of the fiscal year ended October 29, 2016, SRA had not yet developed a historical dataset sufficient to allow for reliable estimation of distributor rebates contemporaneously with the shipment of product to the distributor. For this reason, the ultimate price of distributor sales was not deemed determinable until the period in which the distributor's sale to the ultimate customer took place. Accordingly, revenue from sales to SRA's distributor customers was recognized in the same period in which the product was actually sold by the distributor (sell-through).

Brocade initiated a project to enhance the capture of distributor point of sale (POS) data in fiscal year 2014. This project resulted in Brocade being able to associate specific rebates reflected in the distributor POS data to specific sales quotes maintained in Brocade's quoting system. Therefore, beginning in the fourth quarter of the fiscal year ended October 29, 2016, the historical distributor rebates and matching sales reflected in Brocade's historical dataset grew to reach approximately two years. Since the distributors must claim rebates within 180 days from their receipt of the related product, two years was deemed sufficient for purposes of making reliable estimates of ultimate rebate claims. Accordingly, beginning in the fourth quarter of the fiscal year ended October 29, 2016, revenue from sales to distributor customers is recognized upon shipment to the distributor (sell-in) and is reduced by allowances for rebates, sales program incentives, and stock rotations, which are all estimated by a process using both historical experience and expectations of future outcomes based on facts and circumstances available contemporaneously at the date of estimation.

The impact of this change in estimate attributable to SRA Products is included in the accompanying statements of net revenues and direct expenses. As a result of this change from a sell-through method to a sell-in method for distributor sales, SRA revenues totaling \$2.0 million that would have otherwise been deferred on a sell-through basis at October 29, 2016, were recognized on a sell-in basis during the fourth quarter of the year then ended. In addition, the related SRA costs of product revenue totaling \$0.6 million that would have been similarly deferred were also recognized in the fourth quarter of the year ended October 29, 2016. Amounts applicable to SRA noted above were allocated to the business based on SRA's revenue relative to total Brocade revenues during the fourth quarter of the fiscal year ended October 29, 2016.

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

October 29, 2016, October 31, 2015, and November 1, 2014

*Multiple-element arrangements.* SRA's multiple-element product offerings include networking hardware with embedded software products and support, which are considered separate units of accounting. For certain of SRA's products, software and nonsoftware components function together to deliver the tangible products' essential functionality.

SRA allocates revenue to each element in a multiple-element arrangement based upon their relative selling price. When applying the relative selling price method, SRA determines the selling price for each deliverable using vendor-specific objective evidence (VSOE) of selling price, if it exists, or

third-party evidence (TPE) of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, SRA uses its best estimate of selling price for that deliverable. Revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for each element.

SRA determines VSOE based on its normal pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, SRA requires that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range. For post contract customer support (PCS), SRA considers stated renewal rates in determining VSOE.

In most instances, SRA is not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to SRA infrequently selling each element separately, not pricing products within a narrow range, or only having a limited sales history. When VSOE cannot be established, SRA attempts to establish the selling price for each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, SRA's go-to-market strategy differs from that of its peers and its offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, SRA is unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, SRA is typically unable to determine TPE.

When SRA is unable to establish selling price using VSOE or TPE, SRA uses best estimated selling price (BESP) in its allocation of the arrangement consideration. The objective of BESP is to determine the price at which SRA would transact a sale if the product or service were sold on a stand-alone basis. BESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings. SRA determines BESP for a product by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. The determination of BESP is made through consultation with and formal approval by SRA's management, taking into consideration the go-to-market strategy.

SRA regularly reviews VSOE, TPE, and BESP, as well as the establishment and updates of these estimates. There was no material impact on revenues during the fiscal year ended October 29, 2016, October 31, 2015, and November 1, 2014, nor does SRA expect a material impact in the near term from changes in VSOE, TPE, or BESP.

*Services revenue.* Services revenue consists of professional services and maintenance arrangements, including PCS, software as a service (SaaS), and other professional services. PCS services are offered under renewable, annual fee-based contracts or as part of multiple-element arrangements, and typically include telephone support, upgrades and enhancements to SRA's operating system software, software updates on an "if and when available" basis, advance

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

October 29, 2016, October 31, 2015, and November 1, 2014

replacement for various defective devices, and components including power supplies, fans, switches, access points and controllers, telephone and internet access to technical support personnel, and other hardware support. Revenue related to PCS elements is deferred and recognized ratably over the contractual period. PCS contracts are typically one to five years in length. Professional services are offered under hourly or fixed fee-based contracts. Professional services revenue is typically recognized as services are performed.

**(d) Stock-Based Compensation Expense**

Certain SRA employees participate in Brocade's stock-based compensation plans. Brocade accounts for employee equity awards under the fair value method. Accordingly, Brocade measures stock-based compensation at the grant date based on the fair value of the award. The fair values of stock options and the employee stock purchase plan (ESPP) are estimated using the Black-Scholes option pricing model. Estimated compensation cost relating to time-based restricted stock units (RSUs) granted prior to the initial declaration of a quarterly cash dividend on May 22, 2014, is based on the fair value of Brocade's common stock on the date of grant because Brocade did not historically pay cash dividends on its common stock. For time-based RSUs granted on or subsequent to May 22, 2014, the fair value of RSUs is measured based on the grant-date share price, less the present value of expected dividends during the vesting period, discounted at a risk-free interest rate. Brocade records

stock-based compensation expense over the 24-month offering period in connection with shares issued under its ESPP. The compensation expense for stock-based awards is reduced by an estimate for forfeitures and is recognized over the vesting period of the award under a graded vesting method, except for RSUs granted by Brocade, which is recognized over the expected term of the award under a straight-line vesting method.

Stock-based compensation expense associated with SRA employees participating in Brocade stock-based compensation plans is reflected in the statements of net revenues and direct expenses as follows:

	Fiscal year ended		
	October 29, 2016	October 31, 2015	November 1, 2014
	(In thousands)		
Cost of product revenue	\$ 3,363	2,945	3,188
Cost of service revenue	1,047	710	755
Research and development	7,140	5,893	7,814
Sales and marketing	14,071	11,917	9,879
General and administrative	2,150	2,011	1,980
Total stock-based compensation	\$ 27,771	23,476	23,616

**Research and Development Expenses**

Research and development (R&D) expenses consist primarily of compensation and related expenses for personnel engaged in engineering and R&D activities, fees paid to consultants and outside service providers, engineering expenses, which primarily consist of nonrecurring engineering charges and prototyping expenses related to the design, development, testing, and enhancement of our products, depreciation related to engineering and test equipment, and allocated expenses related to legal, IT, facilities, and other shared functions.

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

October 29, 2016, October 31, 2015, and November 1, 2014

**(e) Sales and Marketing Expenses**

Sales and marketing expenses consist primarily of salaries, commissions, and related expenses for personnel engaged in sales and marketing functions, costs associated with promotional and marketing programs, travel and entertainment expenses, and allocated expenses related to legal, IT, facilities, and other shared functions.

**(f) Depreciation Expense**

Depreciation is computed using the straight-line method over the estimated useful lives of assets. An estimated useful life of three years is used for computer equipment and four to seven years is used for software based on the nature of the software purchased. Estimated useful lives of up to four years are used for engineering and other equipment, seven years for furniture and 39 years for buildings, with a range of 10 to 30 years for some components of the buildings.

Depreciation expense is reflected in the statements of net revenues and direct expenses as follows:

	Fiscal year ended		
	October 29, 2016	October 31, 2015	November 1, 2014
	(In thousands)		
Cost of product revenue	\$ 1,087	688	891
Cost of services revenue	796	645	566
Research and development	15,900	16,930	18,629
Sales and marketing	2,806	2,046	1,153
General and administrative	418	266	116
Total depreciation	<u>\$ 21,007</u>	<u>20,575</u>	<u>21,355</u>

**(g) New Accounting Pronouncements or Updates Recently Adopted**

During the periods of the accompanying statements of net revenues and direct expenses, there are no new standard implementations by Brocade that were applicable to SRA. Discussion related to any new accounting pronouncements not yet adopted is not included, as the related implementation will be dependent on Extreme Networks' accounting policies and conclusions.

**(3) Related Parties and Relationship with Brocade**

*Relationship with Brocade*

Brocade provides the following services to SRA.

**Cost of Product Revenue** – Brocade's integrated product supply chain organization oversees production of the SRA Products. Cost of revenues – product includes the cost of production including direct material, labor, and overhead as well as an allocation of overhead from the integrated product supply chain organization related to sales to SRA customers. The amounts allocated are based on a proportional cost allocation methodology utilizing a driver appropriate to the respective component of the integrated product supply chain costs. Primary drivers used for such allocations include proportion of direct costs and net revenues. Total overhead allocations included in cost of revenues – product were \$30.3 million, \$34.8 million, and \$32.9 million for the fiscal years ended October 29, 2016, October 31, 2015, and November 1, 2014, respectively.

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

October 29, 2016, October 31, 2015, and November 1, 2014

**Cost of Service Revenue** – Brocade centrally manages services activity related to all of its product lines through its Global Services organization (Global Services). Global Services employees provide all maintenance and other support services related to SRA Products. As a result of the centralized nature of Global Services operations, the cost of such services and related Global Services overhead has been determined by allocating a portion of the overall Global Services organization cost to SRA. The amounts allocated, which constitute all of the cost of revenues – service in the statements of net revenues and direct expenses, are based on a proportional cost allocation methodology utilizing a driver appropriate to the component of Global Services costs. Primary drivers used include relative service request volume, relative task volume, and relative SRA services revenues.

**Sales and Marketing** – Brocade manages sales and marketing services on a centralized basis, performing selling, marketing and other advertising activities for all Brocade product and service offerings, including SRA. Costs of these services have been determined by allocating a portion of the overall Brocade sales and marketing cost for these services to SRA. The amounts allocated are based on a proportional cost allocation methodology, primarily utilizing relative net revenues as the driver. Total sales and marketing costs allocated to SRA were \$165.1 million, \$180.0 million, and \$169.1 million for the fiscal years ended October 29, 2016, October 31, 2015, and November 1, 2014, respectively.

**Research and Development** – Brocade manages research and development activities on a centralized basis, utilizing a pool of resources to complete activities related to all of Brocade's product offerings. As a result of research and development time and resource tracking by project, a majority of costs related to SRA research and development activities included in the statements of net revenues and direct expenses are specifically identified as SRA activities. However, the cost of certain support functions related to research and development activities is allocated to SRA based on a proportional cost allocation methodology, primarily utilizing relative direct R&D costs as the driver. Total research and development costs allocated to SRA were \$53.3 million, \$54.7 million, and \$59.0 million for the fiscal years ended October 29, 2016, October 31, 2015, and November 1, 2014, respectively.

**General and Administrative Expense Allocations** – SRA utilizes services of Brocade for certain general and administrative functions through its use of the product supply chain, Global Services, sales and marketing and research and development centralized operational functions. These services include information technology, finance and accounting, and human resources. The cost for these services is included within the overhead cost portion of cost allocations from each respective centralized function, as described above. The amounts included as a cost of the centralized functions and allocated to SRA are based upon a proportional cost allocation methodology utilizing a driver appropriate to the service provided. Drivers used include net sales, headcount, and relative direct costs for respective financial statement line items.

General and administrative expenses reflected as such on the statements of net revenues and direct expenses represent general and administrative expenses directly attributable to SRA.

**(4) Subsequent Events**

Management has evaluated subsequent events through November 15, 2017, the date the statements of net revenues and direct expenses were available to be issued. No additional subsequent events were identified requiring additional recognition or disclosure in the accompanying statements of net revenues and direct expenses.



**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Statements of Net Revenues and Direct Expenses

For the nine-month periods ended July 29, 2017 and July 30, 2016 (Unaudited)

---

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**  
(A Business of Brocade Communications Systems, Inc.)

**Table of Contents**

	<b>Page</b>
<a href="#">Statements of Net Revenues and Direct Expenses for The Nine-month Periods Ended July 29, 2017 and July 30, 2016 (Unaudited)</a>	1
<a href="#">Notes to Statements of Net Revenues and Direct Expenses (Unaudited)</a>	2

---

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Statements of Net Revenues and Direct Expenses

For the nine-month periods ended July 29, 2017 and July 30, 2016

(Unaudited)

(In thousands)

	<u>July 29, 2017</u>	<u>July 30, 2016</u>
Net revenues:		
Product	\$ 129,745	204,675
Service	62,934	65,727
Total net revenues	<u>192,679</u>	<u>270,402</u>
Direct expenses:		
Cost of product revenue	80,457	102,742
Cost of service revenue	24,479	21,082
Research and development	103,162	109,307
Sales and marketing	79,982	138,709
General and administrative	2,733	2,449
Total direct expenses	<u>290,813</u>	<u>374,289</u>
Excess of direct expenses over net revenues	<u>\$ (98,134)</u>	<u>(103,887)</u>

See accompanying notes to statements of net revenues and direct expenses.

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

For the nine-month periods ended July 29, 2017 and July 30, 2016  
(Unaudited)

**(1) Description of Transaction and Basis of Presentation**

**(a) Description of Transaction**

Brocade Communications Systems, Inc. (Brocade) is a publicly traded U.S. corporation based in San Jose, California. Brocade's Internet Protocol (IP) Networking segment manufactures, markets, and distributes a variety of networking products designed to connect users over private and public networks, including local area, metro, and within and across global data centers to customers worldwide. One networking product subset of the IP segment is Brocade's switching, routing, and analytics business (SRA). SRA serves customers across the United States and internationally (primarily Western Europe and Asia Pacific). SRA cultivates business in a number of key customer markets such as the data center, service provider, and enterprise segments, including the public sector. Customers in these market segments represented a significant part of SRA. SRA offers its networking products through a multipath distribution strategy, including distributors, resellers, Brocade's direct sales force, and original equipment manufacturers (OEM).

On October 3, 2017, Brocade entered into an Asset Purchase Agreement (the Purchase Agreement) to sell certain dedicated net assets (including customer contracts and product intellectual property) of SRA to Extreme Networks, Inc. (Extreme Networks) for consideration of \$23 million at closing, \$20 million of deferred payments and potential performance payments to Brocade, to be paid over a five-year term.

**(b) Basis of Presentation**

SRA's fiscal year is a 52-or 53-week period ending on the last Saturday in October or the first Saturday in November, respectively. As is customary for companies that use the 52/53-week convention, every fifth year is a 53-week year. Fiscal year 2016 is a 52-week fiscal year, fiscal year 2015 was a 52-week fiscal year, and fiscal year 2014 was a 53-week fiscal year.

The accompanying unaudited statements of net revenues and direct expenses were prepared for the purpose of providing Extreme Networks historical information to comply with the rules and regulations of the Securities and Exchange Commission (SEC) under Rule 3-05 of Regulation S-X, and are not intended to be a complete presentation of the financial statements of SRA and are not necessarily indicative of the financial position or results of operations of SRA on a stand-alone basis.

The accompanying unaudited statements of net revenues and direct expenses were prepared in accordance with U.S. generally accepted accounting principles (GAAP) and were derived from the historical accounting records of Brocade. Brocade management determined that it is impracticable to prepare full carve out financial statements for SRA in accordance with Regulation S-X for the following reasons:

- SRA has not been previously managed by Brocade as a stand-alone business, but instead was part of a fully integrated company.
- Audited financial statements of SRA have never been prepared because distinct and separate accounts necessary to present complete stand-alone balance sheets, statements of income, and cash flows have not been maintained.

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

For the nine-month periods ended July 29, 2017 and July 30, 2016  
(Unaudited)

- Working capital accounts, including cash, trade accounts receivable, other current assets, fixed assets, accounts payable, and other current accrued liabilities relating to SRA have not been maintained separately, but have been maintained only in the aggregate at the Brocade corporate level with similar accounts of other Brocade businesses.
- Brocade has not maintained separate administrative support functions for SRA.
- Brocade manages cash using a centralized treasury function. Therefore, SRA does not have separate cash balances nor separate statements of cash flows. Expenditures for purchases of inventory, payroll, and other operating expenses are funded by Brocade. Similarly, sales and the associated accounts receivables and cash collections relating to SRA are billed and comingled with other sales made by Brocade and, as a result, are not always separately identifiable.

As a result of the foregoing, it is impracticable to prepare full financial statements as required by Regulation S-X. In addition, the preparation of statements of invested equity and cash flows was not practicable due to the integration of SRA into the total operations of Brocade. The unaudited statements of net revenues and direct expenses represent the business subject to the sale under the Purchase Agreement, and have been derived from the financial statements and accounting records of Brocade and its subsidiaries that are subject to the Purchase Agreement.

The accompanying unaudited statements of net revenues and direct expenses reflect revenues generated by sales of those networking products that are a part of SRA (SRA Products), and services related thereto. Direct Expenses consist of costs for product and service revenues, research and development, sales and marketing and general and administrative expenses specifically identified and related to the manufacture, production, servicing and sales of SRA Products and the operation of SRA. SRA utilizes the services of IP and Brocade for certain functions, such as sales and marketing, information technology, finance and accounting, and corporate-wide employee benefit programs. The cost of these services has been allocated using a proportional cost allocation method to SRA and included in the unaudited statements of net revenues and direct expenses. Management believes that the assumptions underlying the allocations in the unaudited statements of net revenues and direct expenses are a reasonable reflection of SRA's utilization of these services.

The unaudited statements of net revenues and direct expenses exclude costs that are not directly related to SRA, including certain Brocade corporate overhead expenses, interest income and expense, and income taxes.

In accordance with the Purchase Agreement, certain financing receivables held by Brocade as part of its Brocade Capital Services (BCS) offerings, related to sales of SRA Products where product title passes to the customer and BCS finances the purchase, will not transfer to Extreme Networks. Net revenues from sales of SRA Products for which BCS provided financing are included in the unaudited statements of net revenues and direct expenses. In addition, in accordance with the Purchase Agreement, certain customer arrangements provided to customers through Brocade Networking Services (BNS) offerings, representing subscription arrangements for SRA Products whereby Brocade retains title to equipment and customers pay for use of the

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

For the nine-month periods ended July 29, 2017 and July 30, 2016  
(Unaudited)

equipment over a period of time (BNS Arrangements), will not transfer to Extreme Networks. As a result, Brocade will retain title to the equipment subject to the BNS Arrangements and will continue to receive payments from customers for the remaining contractual term. Historical net revenues related to the BNS subscription agreements that will not convey to Extreme were \$8.1million and \$5.4 million for the nine months ended July 29, 2017 and July 30, 2016, respectively, and are included in the accompanying unaudited statements of net revenues and direct expenses.

Brocade will not have exclusivity in creating similar BCS and BNS arrangements subsequent to the expiry of the product financing and BNS Arrangements.

**(2) Summary of Significant Accounting Policies**

**(a) Use of Estimates**

The preparation of the unaudited statements of net revenues and direct expenses in conformity with GAAP requires management to make certain estimates and assumptions that affect the amounts reported therein. Estimates are used for, but not limited to revenue recognition, sales allowances, including discounts, returns and programs, provision for bad debt, stock-based compensation, useful lives, inventory valuation, and purchase commitments. Actual results may differ from these estimates under different assumptions or conditions.

**(b) Concentrations**

*Customer.* For the nine months ended July 29, 2017, one customer, Arrow Electronics, accounted for a total of 13% of total net revenues; for the nine months ended July 30, 2016, two customers (Avnet, Inc. with 11%, and Tech Data Corporation with 11%) accounted for 22% of total net revenues.

*Geographic.* The relative percentages of net revenues by geography were as follows:

	Nine months ended	
	July 29, 2017	July 30, 2016
Domestic	64%	62%
International	36%	38%

International revenues primarily consist of sales to customers in Western Europe and the Asia Pacific region.

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

For the nine-month periods ended July 29, 2017 and July 30, 2016  
(Unaudited)

**(c) Revenue Recognition**

*Product revenue.* Substantially all of SRA's products are integrated with software that is essential to the functionality of the equipment. Additionally, SRA provides unspecified software upgrades and enhancements related to the equipment through its maintenance contracts for most of its products. Product revenue is generally recognized when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- The fee is fixed or determinable; and
- Collectability is reasonably assured.

OEM and direct customers are not granted specific rights of return; however, SRA may permit returns of product from customers if such product is returned in a timely manner and in good condition. In addition, certain of SRA's contracts with OEM and direct customers include sales programs, which entitle the customers to discounted pricing on future purchases if agreed upon volume targets are met.

SRA reduces OEM and direct customer revenue for estimated sales returns at the time of shipment and for sales programs at the later of revenue recognition or communication of the commitment for sales incentives. Sales return allowances are estimated based on historical sales returns. Sales programs are estimated based on approved sales programs versus claims under such sales programs, current trends, and SRA's expectations regarding future activity.

For newly introduced products, many of SRA's large OEM customers require a product qualification period during which SRA's products are tested and approved by the OEM customers for sale to their customers. Revenue recognition and related cost are deferred for shipments to new OEM customers and for shipments of newly introduced products to existing OEM customers until satisfactory evidence of completion of the product qualification has been received from the OEM customer.

Distributors are granted rights of stock rotation, which are limited to a contractually specified percentage of the distributor's aggregate purchase volume. These stock rotation rights are subject to expiration 180 days from the time of product shipment by SRA to the distributor. Distributor sales are also subject to sales program incentives and to deal-specific rebates that are payable to distributors upon sale of the related product by the distributor to an ultimate customer. Prior to the fourth quarter of the fiscal year ended October 29, 2016, SRA had not yet developed a historical dataset sufficient to allow for reliable estimation of distributor rebates contemporaneously with the shipment of product to the distributor. For this reason, the ultimate price of distributor sales was not deemed determinable until the period in which the distributor's sale to the ultimate customer took place. Accordingly, revenue from sales to SRA's distributor customers was recognized in the same period in which the product was actually sold by the distributor (sell-through).

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

For the nine-month periods ended July 29, 2017 and July 30, 2016  
(Unaudited)

Brocade initiated a project to enhance the capture of distributor point of sale (POS) data in fiscal year 2014. This project resulted in Brocade being able to associate specific rebates reflected in the distributor POS data to specific sales quotes maintained in Brocade's quoting system. Therefore, beginning in the fourth quarter of the fiscal year ended October 29, 2016, the historical distributor rebates and matching sales reflected in Brocade's historical dataset grew to reach approximately two years. Since the distributors must claim rebates within 180 days from their receipt of the related product, two years was deemed sufficient for purposes of making reliable estimates of ultimate rebate claims. Accordingly, beginning in the fourth quarter of the fiscal year ended October 29, 2016, revenue from sales to distributor customers is recognized upon shipment to the distributor (sell-in) and is reduced by allowances for rebates, sales program incentives, and stock rotations, which are all estimated by a process using both historical experience and expectations of future outcomes based on facts and circumstances available contemporaneously at the date of estimation.

The impact of this change in estimate attributable to SRA Products is included in the accompanying unaudited statements of net revenues and direct expenses. As a result of this change from a sell-through method to a sell-in method for distributor sales, SRA revenues totaling \$0.7 million that would have otherwise been deferred on a sell-through basis at July 29, 2017, were recognized on a sell-in basis during the nine-month periods then ended. In addition, the related SRA costs of product revenue totaling \$0.2 million that would have been similarly deferred were also recognized in the nine months ended July 29, 2017. Amounts applicable to SRA noted above were allocated to the business based on SRA's revenue relative to total Brocade revenues during the nine month period ended July 29, 2017.

*Multiple-element arrangements.* SRA's multiple-element product offerings include networking hardware with embedded software products and support, which are considered separate units of accounting. For certain of SRA's products, software and nonsoftware components function together to deliver the tangible products' essential functionality.

SRA allocates revenue to each element in a multiple-element arrangement based upon their relative selling price. When applying the relative selling price method, SRA determines the selling price for each deliverable using vendor-specific objective evidence (VSOE) of selling price, if it exists, or third-party evidence (TPE) of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, SRA uses its best estimate of selling price for that deliverable. Revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for each element.

SRA determines VSOE based on its normal pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, SRA requires that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range. For post contract customer support (PCS), SRA considers stated renewal rates in determining VSOE.

In most instances, SRA is not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to SRA infrequently selling each element separately, not pricing products within a narrow range, or only having a limited sales history. When VSOE cannot

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

For the nine-month periods ended July 29, 2017 and July 30, 2016  
(Unaudited)

be established, SRA attempts to establish the selling price for each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, SRA's go-to-market strategy differs from that of its peers and its offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, SRA is unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, SRA is typically unable to determine TPE.

When SRA is unable to establish selling price using VSOE or TPE, SRA uses best estimated selling price (BESP) in its allocation of the arrangement consideration. The objective of BESP is to determine the price at which SRA would transact a sale if the product or service were sold on a stand-alone basis. BESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings.

SRA determines BESP for a product by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. The determination of BESP is made through consultation with and formal approval by SRA's management, taking into consideration the go-to-market strategy.

SRA regularly reviews VSOE, TPE, and BESP, as well as the establishment and updates of these estimates. There was no material impact on revenues during the nine months ended July 29, 2017 or July 30, 2016, nor does SRA expect a material impact in the near term from changes in VSOE, TPE, or BESP.

*Services revenue.* Services revenue consists of professional services and maintenance arrangements, including PCS, software as a service (SaaS), and other professional services. PCS services are offered under renewable, annual fee-based contracts or as part of multiple-element arrangements, and typically include telephone support, upgrades and enhancements to SRA's operating system software, software updates on an "if and when available" basis, advance replacement for various defective devices, and components including power supplies, fans, switches, access points and controllers, telephone and internet access to technical support personnel, and other hardware support. Revenue related to PCS elements is deferred and recognized ratably over the contractual period. PCS contracts are typically one to five years in length. Professional services are offered under hourly or fixed fee-based contracts. Professional services revenue is typically recognized as services are performed.

**(d) Stock-Based Compensation Expense**

Certain SRA employees participate in Brocade stock-based compensation plans. Brocade accounts for employee equity awards under the fair value method. Accordingly, Brocade measures stock-based compensation at the grant date based on the fair value of the award. The fair values of stock options and the employee stock purchase plan (ESPP) are estimated using the Black-Scholes option pricing model. Estimated compensation cost relating to time-based restricted stock units (RSUs) granted prior to the initial declaration of a quarterly cash dividend on May 22, 2014, is based on the fair value of Brocade's common stock on the date of grant because Brocade did not historically pay cash dividends on its common stock. For time-based

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

For the nine-month periods ended July 29, 2017 and July 30, 2016  
(Unaudited)

RSUs granted on or subsequent to May 22, 2014, the fair value of RSUs is measured based on the grant-date share price, less the present value of expected dividends during the vesting period, discounted at a risk-free interest rate. Brocade records stock-based compensation expense over the 24-month offering period in connection with shares issued under its ESPP. The compensation expense for stock-based awards is reduced by an estimate for forfeitures and is recognized over the vesting period of the award under a graded vesting method, except for RSUs granted by Brocade, which is recognized over the expected term of the award under a straight-line vesting method.

Stock-based compensation expense associated with SRA employees participating in Brocade stock-based compensation plans is reflected in the unaudited statements of net revenues and direct expenses as follows:

	Nine months ended	
	July 29, 2017	July 30, 2016
	(In thousands)	
Cost of product revenue	\$ 1,936	2,416
Cost of service revenue	934	783
Research and development	5,659	5,033
Sales and marketing	5,628	10,538
General and administrative	1,498	1,462
Total stock-based compensation	\$ 15,655	20,232

(i) *Research and Development Expenses*

Research and development (R&D) expenses consist primarily of compensation and related expenses for personnel engaged in engineering and R&D activities, fees paid to consultants and outside service providers, engineering expenses, which primarily consist of nonrecurring engineering charges and prototyping expenses related to the design, development, testing, and enhancement of our products, depreciation related to engineering and test equipment, and allocated expenses related to legal, IT, facilities, and other shared functions.

(ii) *Sales and Marketing Expenses*

Sales and marketing expenses consist primarily of salaries, commissions, and related expenses for personnel engaged in sales and marketing functions, costs associated with promotional and marketing programs, travel and entertainment expenses, and allocated expenses related to legal, IT, facilities, and other shared functions.

(iii) *Depreciation Expense*

Depreciation is computed using the straight-line method over the estimated useful lives of assets. An estimated useful life of three years is used for computer equipment and four to seven years is used for software based on the nature of the software purchased. Estimated useful lives of up to four years are used for engineering and other equipment, seven years for furniture and 39 years for buildings, with a range of 10 to 30 years for some components of the buildings.

**THE SWITCHING, ROUTING, AND ANALYTICS  
BUSINESS OF BROCADE**

(A Business of Brocade Communications Systems, Inc.)

Notes to Statements of Net Revenues and Direct Expenses

For the nine-month periods ended July 29, 2017 and July 30, 2016  
(Unaudited)

Depreciation expense is reflected in the unaudited statements of net revenues and direct expenses as follows:

	Nine months ended	
	July 29, 2017	July 30, 2016
	(In thousands)	
Cost of product revenue	\$ 922	806
Cost of service revenue	682	586
Research and development	9,932	12,089
Sales and marketing	1,678	2,141
General and administrative	211	330
Total depreciation	\$ 13,425	15,952

(i) *New Accounting Pronouncements or Updates Recently Adopted*

During the periods of the unaudited accompanying statements of net revenues and direct expenses, there are no new standard implementations by Brocade that were applicable to SRA. Discussion related to any new accounting pronouncements not yet adopted is not included, as the related implementation will be dependent on Extreme Networks' accounting policies and conclusions.

**(3) Related Parties and Relationship with Brocade**

***Relationship with Brocade***

Brocade provides the following services to SRA.

**Cost of Product Revenue** – Brocade's integrated product supply chain organization oversees production of the SRA Products. Cost of revenues – product includes the cost of production including direct material, labor, and overhead as well as an allocation of overhead from the integrated product supply chain organization related to sales to SRA customers. The amounts allocated are based on a proportional cost allocation methodology utilizing a driver appropriate to the respective component of the integrated product supply chain costs. Primary drivers used for such allocations include proportion of direct costs and net revenues. Total overhead allocations included in cost of revenues – product were \$19.1 million and \$22.8 million for the nine months ended July 29, 2017 and July 30, 2016, respectively.

**Cost of Service Revenue** – Brocade centrally manages services activity related to all of its product lines through its Global Services organization (Global Services). Global Services employees provide all maintenance and other support services related to SRA Products. As a result of the centralized nature of Global Services operations, the cost of such services and related Global Services overhead has been determined by allocating a portion of the overall Global Services organization cost to SRA. The amounts allocated, which constitute all of the cost of revenues – service in the unaudited statements of net revenues and direct expenses, are based on a proportional cost allocation methodology utilizing a driver appropriate to the component of Global Services costs. Primary drivers used include relative service request volume, relative task volume, and relative SRA services revenues.

**Sales and Marketing** –Brocade manages sales and marketing services on a centralized basis, performing selling, marketing and other advertising activities for all Brocade product and service offerings, including SRA. Costs of these services have been determined by allocating a portion of the overall Brocade sales and marketing cost for these services to SRA. The amounts allocated are based on a proportional cost allocation methodology, primarily utilizing relative net revenues as the driver. Total sales and marketing costs allocated to SRA were \$70.4 million and \$127.8 million for the nine months ended July 29, 2017 and July 30, 2016, respectively.

**Research and Development** – Brocade manages research and development activities on a centralized basis, utilizing a pool of resources to complete activities related to all of Brocades product offerings. As a result of research and development time and resource tracking by project, a majority of costs related to SRA research and development activities included in the unaudited statements of net revenues and direct expenses are specifically identified as SRA activities. However, the cost of certain support functions related to research and development activities is allocated to SRA based on a proportional cost allocation methodology, primarily utilizing relative direct R&D costs as the driver. Total research and development costs allocated to SRA were \$35.6 million and \$40.3 million for the nine months ended July 29, 2017 and July 30, 2016, respectively.

**General and Administrative Expense Allocations** – SRA utilizes services of Brocade for certain general and administrative functions through its use of the product supply chain, Global Services, sales and marketing, and research and development centralized operational functions. These services include information technology, finance and accounting, and human resources. The cost for these services is included within the overhead cost portion of cost allocations from each respective centralized function, as described above. The amounts included as a cost of the centralized functions and allocated to SRA are based upon a proportional cost allocation methodology utilizing a driver appropriate to the service provided. Drivers used include net sales, headcount, and relative direct costs for respective financial statement line items.

General and administrative expenses reflected as such on the unaudited statements of net revenues and direct expenses represent general and administrative expenses directly attributable to SRA.

#### **(4) Subsequent Events**

Management has evaluated subsequent events through November 15, 2017, the date the unaudited statements of net revenues and direct expenses were available to be issued. No additional subsequent events were identified requiring additional recognition or disclosure in the accompanying unaudited statements of net revenues and direct expenses.

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The following unaudited pro forma condensed combined financial information represents the pro forma effects of multiple transactions, each of which are described in the following paragraphs.

***The SRA Business Acquisition***

On October 27, 2017 (the “Brocade Closing”), Extreme Networks, Inc., (the “Company” or “Extreme”) acquired the data center switching, routing and analytics business (the “SRA Business”) of Brocade Communication Systems, Inc., (“Brocade”), pursuant to an Asset Purchase Agreement (the “Brocade APA”) dated as of October 3, 2017, by and between the Company and Brocade. Under the terms and conditions of the Brocade APA, the Company acquired customers, employees, technology and other assets of the SRA Business, as well as assumed certain contracts and other liabilities of the SRA Business. Hereinafter, this transaction is referred to as the “SRA Business Acquisition”.

Upon the Brocade Closing, the Company made an upfront closing cash payment equal to \$23.0 million (inclusive of \$13.0 million representing target working capital, which was subject to a post-closing true-up adjustment based on the final determined amount of working capital). The Company funded the upfront closing cash payment through a draw an additional \$19.95 million, net of costs, under its Amended and Restated Credit Facility (the “Credit Facility”) on October 26, 2017, and cash on-hand.

Further, under the Brocade APA, the Company agreed to pay Brocade: (i) deferred payments aggregating \$20.0 million to be paid in installments of \$1.0 million per quarter for the twenty full fiscal quarters of the Company following the Brocade Closing, plus (ii) quarterly earnout payments equal to 50% of the profits of the SRA Business for the five-year period commencing at the end of the first full fiscal quarter of the Company following the Brocade Closing.

The Company expects to incur approximately \$27.6 million of acquisition related costs, including a \$25.0 million consent fee paid to Broadcom Corporation (“Broadcom”), to terminate a previous asset purchase agreement entered into by the Company to purchase the SRA Business from Broadcom, in anticipation of Broadcom’s acquisition of Brocade. The fee was paid to Broadcom to allow the Company to buy the SRA Business directly from Brocade. This estimate does not include financing fees related to debt financing, which is estimated to be approximately \$0.05 million. The acquisition costs expected to be incurred after June 30, 2017 are reflected as an adjustment to the unaudited pro forma condensed combined balance sheet and any such costs incurred by the Company during the twelve-month period ended June 30, 2017 have been removed from the unaudited pro forma condensed combined statements of operations for the year ended June 30, 2017 due to the non-recurring nature of such expenses.

***The Avaya Networking Acquisition***

On July 14, 2017 (the “Avaya Closing”), the Company acquired the net assets of Avaya Inc.’s (“Avaya”) fabric-based secure networking solutions and network security solutions business unit (“Avaya Networking”) pursuant to an Asset Purchase Agreement (the “Avaya APA”) dated as of March 7, 2017. Hereinafter, this transaction is referred to as the “Avaya Networking Acquisition”.

Under the terms of the Avaya APA, the consideration to be paid by Extreme to Avaya was calculated by taking a) \$100.0 million, b) plus or minus a working capital adjustment relative to an agreed upon target as of the consummation of the Avaya Networking Acquisition and c) minus assumed facility lease obligations, d) minus assumed pension obligations and, e) minus an adjustment by which the deferred revenue cost amount exceeds an agreed upon target as of the consummation of the Avaya Networking Acquisition for preliminary net consideration of \$79.8 million.

On July 14, 2017, the effective date of the Avaya APA, the Company amended its Credit Facility and among other things, the amended Credit Facility increased the amount of the available borrowing under the Credit Facility from \$140.5 million to \$243.7 million. On July 14, 2017, the Company borrowed an additional \$80.0 million under the Credit Facility which was used to fund the purchase of Avaya Networking.

The Company expects to incur approximately \$3.8 million of costs in relation to the Avaya Networking acquisition. This estimate does not include financing fees related to debt financing, which is estimated to be approximately \$1.2 million, which has been presented as a reduction from the gross proceeds. The acquisition costs expected to be incurred after June 30, 2017 are reflected as an adjustment to the unaudited pro forma condensed combined balance sheet and any such costs incurred by the Company during the twelve-month period ended June 30, 2017 have been removed from the unaudited pro forma condensed combined statements of operations for the year ended June 30, 2017 due to the non-recurring nature of such expenses.

### **Basis for historical Information**

The unaudited pro forma condensed combined balance sheet as of June 30, 2017 gives effect to the SRA Business and Avaya Networking acquisitions as if the transactions were consummated on June 30, 2017, and includes all adjustments which give effect to events that are directly attributable to the transactions and that are factually supportable. The unaudited pro forma condensed combined statement of operations for the year ended June 30, 2017 assumes that the SRA Business and Avaya Networking acquisitions were consummated on July 1, 2016 including all adjustments which give effect to events that are directly attributable to the acquisitions, expected to have a continuing impact and that are factually supportable.

Extreme's historical financial information for the year ended June 30, 2017 is derived from the Company's Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on September 13, 2017.

The SRA Business and Avaya Networking have never operated as stand-alone businesses, divisions or subsidiaries and neither Brocade nor Avaya have ever maintained the distinct and separate accounts necessary to prepare full carve out financial statements for the SRA Business or Avaya Networking, respectively. The historical operations of the acquired businesses were comingled across all lines of business of Brocade or Avaya, as applicable. Due to the nature of the comingled operations, the assets acquired, and liabilities assumed of the SRA Business and Avaya Networking were a function of the legal assignment of assets and liabilities agreed upon by all parties at a date in time and do not represent all assets and liabilities used in operating the acquired businesses. Additionally, Brocade's and Avaya's historical corporate overhead costs, including marketing, sales and general and administrative services were shared services that were not directly related to a specific line of business. Accordingly, the Company determined that it was impractical to prepare full carve out financial statements for the SRA Business or Avaya Networking. As such, the Company used special purpose abbreviated financial statements pursuant to Rule 3-13 of Regulation S-X. The historical abbreviated financial statements of the SRA Business and Avaya Networking include assets acquired and liabilities assumed presented on the acquisition method basis of accounting as of the deemed acquisition date and revenues, direct costs and operating expenses directly attributable to the SRA Business and Avaya Networking and exclude certain corporate overhead, foreign currency translation gains and losses, interest expense and income taxes.

The historical financial information for the SRA Business for the year ended June 30, 2017 is derived from the SRA Business's unaudited special purpose statement of net revenues and direct expenses for the nine-month period ended July 29, 2017 and unaudited statement of net revenues and direct expenses for the three-month period ended October 29, 2016. The historical financial information for the SRA Business as of June 30, 2017 is derived from the unaudited statement of assets acquired and liabilities assumed prepared as of the acquisition date of October 27, 2017.

The historical financial information for Avaya Networking for the year ended June 30, 2017 is derived by adding data from Avaya Networking's six-month unaudited special purpose interim combined statement of revenues and direct expenses for the six-month period ended March 31, 2017, and unaudited statement of net revenues and direct expenses for the six-month period ended September 30, 2016. The historical financial information for Avaya Networking as of June 30, 2017 is derived from the unaudited statement of assets acquired and liabilities assumed prepared as of the acquisition date of July 14, 2017.

The unaudited pro forma condensed combined financial information should be read in conjunction with:

- the accompanying notes to the unaudited pro forma condensed combined financial information;
- the separate historical audited consolidated financial statements of Extreme as of and for the year ended June 30, 2017 included in Extreme's Annual Report on Form 10-K filed with the SEC on September 13, 2017;
- the SRA Business statements of net revenues and direct expenses for the fiscal years ended October 29, 2016, October 31, 2015 and November 1, 2014 (audited) and for the nine-month periods ended July 29, 2017 and July 30, 2016 (unaudited), included in Extreme's Current Report on Form 8-K/A filed with the SEC on January 12, 2018 and incorporated herein this Form 8-K/A;
- the SRA Business statement of assets acquired and liabilities assumed prepared on a fair value basis as of October 27, 2017, included in Extreme's Current Report on Form 8-K/A filed with the SEC on January 12, 2018 and incorporated herein this Form 8-K/A
- the Avaya Networking special purpose combined statements of revenues and direct expenses for the fiscal years ended September 30, 2016 and 2015, (audited) and for the 6-month periods ended March 31, 2017 and 2016, (unaudited), included in Extreme's Current Report on Form 8-K filed with the SEC on July 18, 2017 and incorporated herein this Form 8-K/A.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting in accordance with the business combination accounting guidance as provided in Accounting Standards Codification 805, Business Combinations, with Extreme treated as the accounting acquirer. The Company has

not completed a full, detailed valuation analysis necessary to determine the fair values of identifiable assets acquired and liabilities assumed in the acquisitions. However, a preliminary valuation analysis was performed as of October 27, 2017 and July 14, 2017, the respective dates on which the SRA Business Acquisition and Avaya Networking Acquisition, are deemed to have occurred, solely for purposes of preparing the unaudited pro forma condensed combined balance sheet, related to its intangible assets, inventories, property and equipment, deferred revenue, deferred and contingent consideration payable to Brocade. Accordingly, the unaudited pro forma condensed combined financial information include only preliminary estimates. Additional valuation procedures are expected to be performed with increases or decreases in the fair value of the assets acquired or liabilities assumed until the purchase price allocation is finalized. The amounts of assets acquired and liabilities assumed in the acquisition accounting will be based on their respective fair values and may differ significantly from these preliminary estimates.

The unaudited pro forma condensed combined financial information is provided for informational purposes only and is not necessarily indicative of the operating results that would have occurred if the SRA Business Acquisition and the Avaya Networking Acquisition had been completed as of the dates set forth above, nor is it indicative of the future results of the combined company. The unaudited pro forma condensed combined financial information does not purport to project the future operating results or financial position of the combined company following the SRA Business Acquisition and the Avaya Networking Acquisition. The unaudited pro forma condensed combined statements of operations do not reflect any revenue or cost savings from synergies that may be achieved with respect to the combined companies, or the impact of non-recurring items, including synergies, directly related to the SRA Business Acquisition and the Avaya Networking Acquisition.

**Unaudited Pro Forma Condensed Combined Balance Sheet**  
**As of June 30, 2017**  
(in thousands)

	Historical Extreme	Historical Networking	Avaya Networking Acquisition	Pro forma Adjustments for Avaya Networking Acquisition		Pro forma, as adjusted for Avaya Networking Acquisition	Historical SRA Business	Pro forma Adjustments for SRA Business Acquisition		Pro Forma Combined
<b>ASSETS</b>										
Current assets:										
Cash and cash equivalents	\$ 130,450	\$ —	\$ 8,885	3(a)	\$ 139,335	\$ —	\$ (3,055)	4(a)	\$ 136,280	
Accounts receivable, net	120,770	18,112	—		138,882	33,489	—		172,371	
Inventories	45,880	13,345	3,260	3(b)	62,485	29,771	(10,058)	4(b)	82,198	
Prepaid expenses and other current assets	27,867	673	351	3(a)	18,691	988	—		19,679	
			(10,200)	3(c)						
Total current assets	324,967	32,130	2,296		359,393	64,248	(13,113)		410,528	
Property and equipment, net	30,240	11,510	(7,742)	3(d)	34,008	24,439	4,761	4(c)	63,208	
Intangible assets, net	25,337	18,900	(18,900)	3(m)	71,637	—	28,600	4(d)	100,237	
			46,300	3(e)						
Goodwill	80,216	9,800	(9,800)	3(m)	118,554	—	16,763	4(e)	135,317	
			38,338	3(f)						
Other assets	22,586	2,568	—		25,154	4,734	—		29,888	
Total assets	<u>\$ 483,346</u>	<u>\$ 74,908</u>	<u>\$ 50,492</u>		<u>\$ 608,746</u>	<u>\$ 93,421</u>	<u>\$ 37,011</u>		<u>\$ 739,178</u>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>										
Current liabilities:										
Current portion of long-term debt	\$ 12,280	\$ —	\$ 7,633	3(a)	\$ 19,913	\$ —	\$ 2,000	4(a)	\$ 21,913	
Accounts payable	31,587	10,285	—		41,872	13,934	—		55,806	
Accrued compensation and benefits	42,662	1,508	—		44,170	762	—		44,932	
Warranty liability	10,007	3,156	—		13,163	526	—		13,689	
Deferred revenue, net	79,048	13,697	(4,936)	3(g)	87,809	36,144	(13,944)	4(f)	110,009	
Deferred distributors revenue, net of cost of sales to distributors	43,525	—	—		43,525	—	—		43,525	
Other accrued liabilities	36,713	2,926	4,795	3(h)	53,755	437	6,555	4(g)	97,806	
			7,805	3(i)			27,582	4(h)		
			1,516	3(j)			5,400	4(i)		
							3,907	4(j)		
							170	4(l)		
Total current liabilities	255,822	31,572	16,813		304,207	51,803	31,670		387,680	
Deferred revenue, less current portion	25,293	2,517	(1,064)	3(g)	26,746	14,552	(3,452)	4(f)	37,846	
Long-term debt, less current portion	80,422	—	71,229	3(a)	151,651	—	18,000	4(a)	169,651	
Deferred income tax liabilities	6,576	—	—		6,576	—	—		6,576	
Other non-current liabilities	8,526	644	5,205	3(h)	14,375	—	28,700	4(i)	57,598	
							14,523	4(j)		
Total liabilities	376,639	34,733	92,183		503,555	66,355	89,441		659,351	
Shareholders' equity:										
Common stock	111	—	—		111	—	—		111	
Additional paid-in capital	909,155	—	—		909,155	—	2,273	4(k)	911,428	
Accumulated other comprehensive loss	(2,302)	—	—		(2,302)	—	—		(2,302)	
Accumulated deficit	(800,257)	—	(1,516)	3(j)	(801,773)	—	(27,582)	4(h)	(829,410)	
							(55)	4(a)		
Total shareholders' equity	106,707	—	(1,516)		105,191	—	(25,364)		79,827	
Total liabilities and shareholders' equity	<u>\$ 483,346</u>	<u>\$ 34,733</u>	<u>\$ 90,667</u>		<u>\$ 608,746</u>	<u>\$ 66,355</u>	<u>\$ 64,077</u>		<u>\$ 739,178</u>	

See accompanying notes to the unaudited pro forma condensed combined financial information.

**Unaudited Pro Forma Condensed Combined Statement of Operations**  
**For the twelve months ended June 30, 2017**  
(in thousands, except per share amounts)

	Historical Extreme	Historical Avaya Networking	Pro forma Adjustments for Avaya Networking Acquisition		Pro forma, as adjusted for Avaya Networking Acquisition	Historical SRA Business	Pro forma Adjustments for SRA Business Acquisition		Pro Forma Combined
<b>Net Revenues:</b>									
Product	\$ 451,459	\$ 208,900	\$ (2,148)	3(k)	\$ 658,211	\$ 204,242	\$ —		\$ 862,453
Service	146,659	47,100	(4,936)	3(g)	188,823	84,127	(13,944)	4(f)	248,888
							(10,118)	4(m)	
<b>Total net revenues</b>	<b>598,118</b>	<b>256,000</b>	<b>(7,084)</b>		<b>847,034</b>	<b>288,369</b>	<b>(24,062)</b>		<b>1,111,341</b>
<b>Cost of revenues:</b>									
Product	217,727	117,500	3,260	3(b)	347,285	116,860	(10,058)	4(b)	457,681
			(252)	3(d)			4,470	4(n)	
			9,050	3(l)			79	4(c)	
							(955)	4(o)	
Service	55,906	15,900	—		71,806	32,091	59	4(c)	100,651
							(396)	4(o)	
							(2,909)	4(m)	
<b>Total cost of revenues</b>	<b>273,633</b>	<b>133,400</b>	<b>12,058</b>		<b>419,091</b>	<b>148,951</b>	<b>(9,710)</b>		<b>558,332</b>
<b>Gross profit:</b>									
Product	233,732	91,400	(14,206)		310,926	87,382	6,464		404,772
Service	90,753	31,200	(4,936)		117,017	52,036	(20,816)		148,237
<b>Total gross profit</b>	<b>324,485</b>	<b>122,600</b>	<b>(19,142)</b>		<b>427,943</b>	<b>139,418</b>	<b>(14,352)</b>		<b>553,009</b>
<b>Operating expenses:</b>									
Research and development	93,724	43,900	(2,905)	3(d)	134,719	139,823	907	4(c)	272,876
							(2,573)	4(o)	
Sales and marketing	162,927	68,300	(3,300)	3(m)	225,759	120,260	155	4(c)	343,140
			(421)	3(d)			(3,034)	4(o)	
			(1,747)	3(n)					
General and administrative	37,864	—	—		37,864	3,657	19	4(c)	40,816
							(724)	4(o)	
Acquisition and integration costs	13,105	—	(2,257)	3(o)	10,848	—	(2,158)	4(p)	8,690
Restructuring charges, net	8,896	—	1,747	3(n)	10,643	—	—		10,643
Amortization of intangibles	8,702	4,400	(4,400)	3(m)	10,244	—	1,430	4(n)	11,674
			1,542	3(l)					
<b>Total operating expenses</b>	<b>325,218</b>	<b>116,600</b>	<b>(11,741)</b>		<b>430,077</b>	<b>263,740</b>	<b>(5,978)</b>		<b>687,839</b>
Operating loss	(733)	6,000	(7,401)		(2,134)	(124,322)	(8,374)		(134,830)
Interest income	689	—	—		689	—	—		689
Interest expense	(4,086)	—	(3,844)	3(p)	(8,063)	—	(878)	4(q)	(9,462)
			(133)	3(q)			(521)	4(j)	
Other expense, net	(47)	—	—		(47)	—	—		(47)
Loss before income taxes	(4,177)	6,000	(11,378)		(9,555)	(124,322)	(9,773)		(143,650)
Provision for income taxes	4,340	—	—		4,340	—	—		4,340
<b>Net loss</b>	<b>\$ (8,517)</b>	<b>\$ 6,000</b>	<b>\$ (11,378)</b>		<b>\$ (13,895)</b>	<b>\$ (124,322)</b>	<b>\$ (9,773)</b>		<b>\$ (147,990)</b>
<b>Net loss per share:</b>									
Basic	\$ (0.08)				\$ (0.13)				\$ (1.37)
Diluted	\$ (0.08)				\$ (0.13)				\$ (1.37)
<b>Weighted-average common shares used in computing net loss per share:</b>									
Basic	108,273		—	3(r)	108,273		—	4(r)	108,273
Diluted	108,273		—	3(r)	108,273		—	4(r)	108,273

See accompanying notes to the unaudited pro forma condensed combined financial information.

**NOTES TO UNAUDITED PRO FORMA CONDENSED  
COMBINED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The following unaudited pro forma condensed combined financial information presents the pro forma effects of the following transactions:

- The SRA Business Acquisition; and
- The Avaya Networking Acquisition

The unaudited pro forma condensed combined financial information is prepared in accordance with U.S. generally accepted accounting principles and pursuant to the rules and regulations of Regulation S-X. The historical financial information has been adjusted to give effect to transactions that are (i) directly attributable to the SRA Business Acquisition and the Avaya Networking Acquisition, (ii) factually supportable and (iii) with respect to the unaudited pro forma condensed combined statement of operations, expected to have a continuing impact on the operating results of the combined company.

The SRA Business and Avaya Networking have never operated as stand-alone businesses, divisions or subsidiaries and neither Brocade nor Avaya have ever maintained the distinct and separate accounts necessary to prepare full carve out financial statements for the SRA Business or Avaya Networking, respectively. The historical operations of the acquired businesses were comingled across all lines of business of Brocade and Avaya. Due to the nature of the comingled operations, the assets acquired, and liabilities assumed of the SRA Business and Avaya Networking were a function of the legal assignment of assets and liabilities agreed upon by all parties at a date in time and do not represent all assets and liabilities used in operating the acquired businesses. Additionally, Brocade's and Avaya's historical corporate overhead costs, including marketing, sales and general and administrative services were shared services that were not directly related to a specific line of business. Accordingly, the Company determined that it was impractical to prepare full carve out financial statements for the SRA Business and Avaya Networking. As such, the Company used special purpose abbreviated financial statements pursuant to Rule 3-13 of Regulation S-X. The historical abbreviated financial statements of the SRA Business and Avaya Networking include assets acquired and liabilities assumed presented on the acquisition method basis of accounting as of the deemed acquisition date and revenues, direct costs and operating expenses directly attributable to the SRA Business and Avaya Networking and exclude certain corporate overhead, foreign currency translation gains and losses, interest expense and income taxes.

Upon the Brocade Closing, the Company made an upfront closing cash payment equal to \$23.0 million (inclusive of \$13.0 million representing target working capital, which was subject to a post-closing true-up adjustment based on the final determined amount of working capital). The Company funded the upfront closing cash payment through a draw an additional \$19.95 million, net of costs, under its Amended and Restated Credit Facility (the "Credit Facility") on October 26, 2017, and cash on-hand. The unaudited pro forma condensed combined balance sheet on June 30, 2017 and the unaudited pro forma condensed combined statements of operations for each of the twelve-month ended June 30, 2017 are presented as if the Credit Facility had been amended and the additional borrowing of \$19.95 million had occurred on the respective consummation dates as noted above.

The unaudited pro forma condensed combined balance sheet as of June 30, 2017 gives effect to the SRA Business Acquisition and the Avaya Networking Acquisition as if the transactions occurred on June 30, 2017. The unaudited pro forma condensed combined balance sheet as of June 30, 2017 combines the Company's audited consolidated balance sheet as of June 30, 2017 with Avaya Networking's unaudited statement of assets acquired and liabilities assumed as of July 14, 2017 and SRA Business's statement of assets acquired and liabilities assumed as of October 27, 2017. The unaudited pro forma condensed combined statement of operations for the year ended June 30, 2017 gives effect to the SRA Business Acquisition and the Avaya Networking Acquisition as if the transactions occurred on July 1, 2016. The unaudited pro forma condensed combined statement of operations for the year ended June 30, 2017 combines the Company's historical financial information for the year ended June 30, 2017 with financial data from the SRA Business's unaudited special purpose combined statements of net revenue and direct expenses for the nine-month period ending July 29, 2017 and unaudited combined statements of net revenue and direct expenses for the three-month period ending October 29, 2016, and adding data from Avaya Networking's six-month unaudited special purpose interim combined statement of revenues and direct expenses for the six months ended March 31, 2017, and unaudited statement of net revenues and direct expenses for the six-month period ended September 30, 2016.

**2. Estimated Purchase Consideration and Preliminary Purchase Price Allocation**

**(i) The SRA Business Acquisition**

*Estimated Purchase Consideration*

The fair value of consideration transferred on the Brocade Closing date includes:

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

The components of aggregate estimated purchase consideration of \$84.4 million are as follows (in thousands):

<b>Estimated purchase consideration</b>	<b>October 27, 2017</b>
Cash paid to sellers at closing	\$ 23,000
Deferred payments	18,430
Earnout	34,100
Working capital adjustment	6,555
Replacement of stock-based awards	2,273
<b>Aggregate estimated purchase consideration</b>	<b>\$ 84,358</b>

*Preliminary Purchase Price Allocation*

Under the acquisition method of accounting, the identifiable assets acquired, and liabilities assumed of the SRA Business are recorded at the acquisition date fair values and added to those of the Company. The pro forma adjustments are preliminary and based on estimates of the fair value and useful lives of the assets acquired and liabilities assumed as of June 30, 2017 and have been prepared to illustrate the estimated effect of the SRA Business Acquisition. The allocation is dependent upon certain valuation and other studies that have not yet been completed. Accordingly, the pro forma purchase price allocation is subject to further adjustment as additional information becomes available and as additional analyses and final valuations are completed. There can be no assurances that these additional analyses and final valuations will not result in significant changes to the estimates of fair value set forth below.

The following table sets forth a preliminary allocation of the purchase consideration to the identifiable tangible and intangible assets acquired and liabilities assumed of the SRA Business as of October 27, 2017, with the excess recorded as goodwill (in thousands):

	<b>Preliminary Allocation as of October 27, 2017</b>
Accounts receivables	\$ 33,489
Inventories	19,713
Prepaid expenses and other current assets	988
Property and equipment	29,200
Other assets	4,734
Accounts payable and accrued expenses	(15,829)
Deferred revenue	(33,300)
<b>Net tangible assets acquired</b>	<b>38,995</b>
Identifiable intangible assets	28,600
Goodwill	16,763
<b>Total intangible assets acquired</b>	<b>45,363</b>
<b>Total net assets acquired</b>	<b>\$ 84,358</b>

Preliminary identifiable intangible assets in the pro forma financial statements consist of anticipated intangibles derived from developed technology, customer relationships, and trade names. All intangible assets have definite lives. The amortization related to these definite lived intangible assets is reflected as a pro forma adjustment, as further described in Note 4. The identifiable intangible asset's estimated fair value and related amortization estimates are preliminary and are based on management's estimates after consideration of similar transactions. As discussed above, the amount that will ultimately be allocated to identifiable intangible assets and liabilities, and the related amount of amortization, may differ materially from this preliminary allocation.

Goodwill represents the excess of the estimated purchase consideration over the fair value of the net assets acquired. Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually, absent any indicators of impairment.

The final determination of the purchase price allocation of the SRA Business Acquisition may change materially based on the receipt of more detailed information that was unknown to the Company at the time of the preliminary purchase price allocation and may become known to the Company during the remainder of the measurement period (up to one year from the acquisition date). Therefore, the actual allocations may differ from the pro forma adjustments presented.

The preliminary valuation is based on certain estimates and assumptions as discussed below:

*Inventories:* Inventories acquired include raw materials and finished goods. The fair value of finished goods has been determined based on the estimated selling price, net of selling costs and a margin on the selling costs. The fair value of raw materials has been estimated to equal their replacement cost.

*Deferred revenues:* Deferred revenue acquired primarily represents amounts for deferred service contracts and deferred product revenues which have not yet fully met revenue recognition criteria. The fair value of the acquired deferred revenue was estimated using the cost build-up approach.

*Property and equipment:* SRA Business's property and equipment primarily consists of test equipment, software and prototypes. The fair value of the assets was determined using the current replacement cost method.

*Identifiable intangible assets:* Identifiable intangible assets acquired include developed technology, customer relationships, and trade names. The fair value of intangible assets is based on management's preliminary valuation as if the acquisition occurred on the acquisition date of October 27, 2017. Estimated useful lives (where relevant for the purposes of these unaudited pro forma financial statements) are based on the time periods during which the intangibles are expected to result in incremental cash flows.

- *Developed technology:* The intangible assets reflect the estimated value of the SRA Business's existing technology. The preliminary fair value of existing technology of \$21.8 million was determined using the income approach. The income approach explicitly recognizes that the fair value of an asset is premised upon the expected receipt of future economic benefits such as earnings and cash inflows based on current sales projections and estimated direct costs for each product. Indications of value are developed by discounting these benefits to their present worth at a discount rate that reflects the current return requirements of the market participants. The fair value of existing technology was capitalized as of the acquisition date and subsequently will be amortized over the estimated remaining life of the products ranging from 2 to 5 years.
- *Customer relationships:* Customer relationships reflect the estimated value of the existing relationships with SRA Business's current customers. The preliminary fair value of the customer relationships of \$5.4 million was determined using the income approach. The Company will amortize the customer relationships over an estimated life of 5 years.
- *Trade names:* The intangible assets reflect the estimated value of the use of the trade names under which the SRA business sold its networking products. The preliminary fair value of the trade names of \$1.4 million was determined using the relief from royalty approach. Under the relief from royalty method, the value of the subject assets is estimated by determining the royalties the Company is relieved from paying because the Company owns the assets. The Company will amortize the trade names using the straight-line method over an estimated life of 4 years.

*Other assets and liabilities:* The fair value of working capital related items, such as receivables, payables, other current assets and accrued liabilities, approximated their book values at the date of acquisition.

## **(ii) The Avaya Networking Acquisition**

### *Estimated Purchase Consideration*

The fair value of estimated purchase consideration of \$79.8 million is calculated as \$100.0 million, less adjustments set forth in the Avaya APA related to net working capital, deferred revenue, certain assumed lease obligations and certain assumed pension obligations for transferred employees of Avaya Networking.

### *Preliminary Purchase Price Allocation*

The transaction has been accounted for using the acquisition method of accounting. The provisional 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 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 (up to one year from the acquisition date), and may result in a change in the purchase price allocation. While management believes that its preliminary estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired and liabilities assumed, and the resulting amount of goodwill.

Preliminary identifiable intangible assets and liabilities acquired include existing technology, customer relationships, trade names, backlog and in-process research and development. The amortization related to these definite lived intangible assets is reflected as a pro forma adjustment, as further described in Note 3. The identifiable intangible asset's estimated fair value and related amortization estimates are preliminary and are based on management's estimates after consideration of similar transactions. As discussed above, the amount that will ultimately be allocated to identifiable intangible assets and liabilities, and the related amount of amortization, may differ materially from this preliminary allocation.

The following table below summarizes the preliminary allocation as of July 14, 2017 of the tangible and identifiable intangible assets acquired and liabilities assumed (in thousands):

	Preliminary Allocation as of July 14, 2017	
Accounts receivables	\$	18,112
Inventories		16,605
Prepaid expenses and other current assets		673
Property and equipment		3,768
Other assets		2,568
Accounts payable and accrued expenses		(31,119)
Deferred revenue		(10,214)
Other non-current liabilities		(5,205)
Net tangible assets acquired		(4,812)
Identifiable intangible assets		44,000
In-process research and development		2,300
Goodwill		38,338
Total intangible assets acquired		84,638
<b>Total net assets acquired</b>	<b>\$</b>	<b>79,826</b>

### 3. Pro Forma Adjustments (Avaya Networking Acquisition)

Pro forma adjustments are necessary to reflect the Avaya Networking Acquisition's estimated consideration and to adjust amounts related to the tangible and intangible assets and liabilities of Avaya Networking to reflect the preliminary estimate of their fair values and the impact on the statement of operations as if Extreme and Avaya Networking had been combined during the periods presented. The pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

- a. To record additional borrowing, net of payments made, by Extreme to fund the Avaya Networking Acquisition.
- b. To reflect the estimated fair value of the Avaya Networking inventory acquired and resulting recognition of the additional cost of products.
- c. To apply deposits made by Extreme to Avaya in March 2017 to the purchase consideration.
- d. To record the additional depreciation related to the fair value adjustment recorded on the acquisition date assuming the Avaya Networking Acquisition closed on July 1, 2016.
- e. To record estimated fair value of the Avaya Networking identifiable intangible assets acquired. The table below indicates the estimated fair value of each of the intangibles identified and the approximate useful life of each (in thousands, except years). For purposes of valuing the intangible assets, the income approach was primarily used. The relief from royalty method was used to value the trade names and cost replacement approach and income approach was used to value customer relationships.

	Fair value	Useful life (in years)
Developed technology	\$ 34,800	2 - 6
In-process research and development	2,300	N/A
Trademarks	2,400	4 - 7
Customer relationships	5,300	5
Backlog	1,500	1
<b>Total</b>	<b>\$ 46,300</b>	

- f. To record goodwill related to the Avaya Networking Acquisition.
- g. To record the fair value of deferred maintenance revenue and the periodic amortization.
- h. To record the fair value of unfavorable facilities lease obligations.
- i. To accrue contract liabilities related to certain research and development activities.
- j. To record Extreme's estimated transaction costs incurred after June 30, 2017 in relation to the Avaya Networking Acquisition. These estimated transaction costs are included in accumulated deficit and accrued liabilities as of June 30, 2017, as the transaction costs are assumed to have been incurred prior to closing of the Avaya Networking Acquisition on June 30, 2017.
- k. To adjust revenue consistent with Extreme's revenue recognition policy.
- l. To record amortization of newly acquired intangible assets.
- m. To eliminate Avaya Networking's existing intangible assets and goodwill prior to acquisition and the historical intangible asset amortization expense of Avaya Networking.
- n. To reclassify the Avaya Networking restructuring expense consistent with the Extreme presentation.
- o. To eliminate non-recurring acquisition costs for the Avaya Networking Acquisition included in the historical combined statement of operation for the twelve months ended June 30, 2017.
- p. To adjust interest expense related to the increased debt in connection with the Avaya Networking Acquisition. The increase in interest expense was determined by applying the average interest rate to the assumed incremental outstanding debt balance.
- q. To record interest expense associated with the present value of assumed lease obligation.
- r. No additional shares were issued in connection with the Avaya Networking Acquisition.

#### 4. Pro Forma Adjustments (SRA Business Acquisition)

Pro forma adjustments are necessary to reflect the SRA Business Acquisition's estimated consideration and to adjust amounts related to the tangible and intangible assets and liabilities of the SRA Business to reflect the preliminary estimate of their fair values and the impact on the statement of operations as if Extreme and SRA Business had been combined during the periods presented. The pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

- a. To record additional borrowing of \$19.95 million, net of costs, by Extreme to fund the SRA Business Acquisition and payment of upfront closing cash consideration of \$23.0 million upon the Brocade Closing.
- b. To reflect the estimated fair value of the SRA Business's inventory acquired the resulting effect of reduction of inventory to fair value to "Cost of the revenues – Products". Of the total fair value inventory, as of the Brocade Closing, only \$4.4 million pertains to finished goods and the balance relates to raw materials.
- c. To record an increase in property and equipment and related depreciation as a result of the property and equipment recorded at fair value upon the Brocade Closing.
- d. To record the estimated fair value of the SRA Business identifiable intangible assets acquired. The table below indicates the estimated fair value of each of the intangibles identified and the approximate useful life of each (in thousands, except years). For purposes of valuing the intangible assets, the income approach was primarily used. The relief from royalty method was used to value the trade names.

	Fair Value	Useful life (In years)
Developed technology	\$ 21,800	2 - 5
Customer relationships	5,400	5
Trade names	1,400	4
<b>Total</b>	<b>\$ 28,600</b>	

- e. To record goodwill related to the SRA Business Acquisition.
- f. To record fair value of deferred revenue related to unsatisfied performance obligations on service contracts with customer and the effect of the reduction to fair value on periodic amortization.
- g. To record purchase consideration payable to Brocade as a result of working capital acquired exceeding the agreed upon target working capital.
- h. To record Extreme's estimated transaction costs incurred after June 30, 2017 in relation to the SRA Business Acquisition. These estimated transaction costs are included in accumulated deficit and accrued liabilities as of June 30, 2017, as the transaction costs are assumed to have been incurred prior to closing of the SRA Business Acquisition on June 30, 2017.
- i. To record the fair value of contingent consideration payable to Brocade.
- j. To record the fair value of deferred consideration payable to Brocade and the associated interest cost to reflect the accretion to the amount payable to Brocade.
- k. To record the fair value of the portion of the replacement equity awards granted by the Company in connection with the SRA Business Acquisition for which services were provided prior to the Brocade Closing.
- l. To record an increase to other accrued liabilities for an unrecorded liability related to purchase commitments of the SRA Business as of the Brocade Closing.
- m. To adjust historical revenues and cost of revenues related to certain subscription based customer arrangements of Brocade's leasing business that do not transfer to the Company as a part of the SRA Business Acquisition and which are included in the historical financial information.
- n. To record amortization of acquired intangible assets on a straight-line basis. Amortization expense of \$5.3 million relating to developed technology has been recorded in "Cost of revenues – Product" and \$1.4 million related to other acquired intangible assets has been recorded in "Amortization of intangibles". Historical amortization of intangibles of \$0.8 million has been eliminated from "Cost of revenues – Product".
- o. To record the adjustment for removal of historical stock-based compensation related to certain old equity awards that were replaced by the Company pursuant to the Brocade APA and to record stock-based compensation for the replacement awards issued to the transferred employees.
- p. To eliminate non-recurring acquisition costs for the SRA Business Acquisition included in the historical combined statement of operation for the twelve months ended June 30, 2017.
- q. To record interest expense related to the increased debt in connection with the SRA Business Acquisition.
- r. No additional shares were issued in connection with the SRA Business Acquisition.

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors  
Extreme Networks, Inc.

We consent to the incorporation by reference in the registration statements (No. 333-192507, 333-165268, 333-112831, 333-105767, 333-76798, 333-65636, 333-58634, 333-55644, 333-131705, 333-201456, 333-83729, 333-215648 and 333-221876) on Form S-8 of Extreme Networks, Inc. of our report dated January 12, 2018, with respect to the Statement of Assets Acquired and Liabilities Assumed of the Acquired Switching, Routing and Analytics Business as of October 27, 2017, which report appears in the Form 8-K/A of Extreme Networks dated January 12, 2018.

Our report dated January 12, 2018 contains an emphasis of matter describing that the basis of presentation of the statements of assets acquired and liabilities assumed was for the purposes of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the financial position of the acquired switching, routing and analytics business.

/s/ KPMG LLP

Raleigh, North Carolina  
January 12, 2018

**Consent of Independent Auditors**

We consent to the incorporation by reference in the registration statements (Nos. 333-192507, 333-165268, 333-112831, 333-105767, 333-76798, 333-65636, 333-58634, 333-55644, 333-131705, 333-201456, 333-83729, 333-215648 and 333-221876) on Form S-8 of Extreme Networks, Inc. of our report dated November 15, 2017, with respect to the Statements of Net Revenues and Direct Expenses of the Switching, Routing and Analytics business of Brocade (“SRA”) (a business of Brocade Communications Systems, Inc. acquired by Extreme Networks, Inc.) for the years ended October 29, 2016, October 31, 2015 and November 1, 2014, which report appears in the Form 8-K/A of Extreme Networks, Inc. dated January 12, 2018.

Our report dated November 15, 2017 contains an emphasis of matter describing that the basis of presentation of the Statements of Net Revenues and Direct Expenses was for the purposes of complying with the rules and regulations of the Securities and Exchange Commission and are not intended to be a complete presentation of the results of operations of SRA.

/s/ KPMG LLP

San Francisco, California  
January 12, 2018