



## **Extreme Networks Hits Revenue Target: Beats EPS**

### **North America Product Revenue Increases 30% Sequentially from Q2**

SANTA CLARA, Calif., April 26, 2010 /PRNewswire via COMTEX News Network/ -- Extreme Networks, Inc. (Nasdaq: EXTR) today announced financial results for its 2010 fiscal third quarter ended March 28, 2010. For the quarter, net revenue was \$78.2 million, which was in line with Company guidance, and compares to revenue of \$79.4 million in the previous quarter and \$77.2 million in the third quarter of last year.

"Third quarter revenue reflected solid performance in North America, where product revenue increased 30% from the second quarter, reversing a historic pattern of sequential revenue declines as we executed to our target for the quarter," said Bob L. Corey, CFO and acting President & CEO of Extreme Networks. "We also posted positive net income and grew revenue-per-employee to the highest level since the fourth quarter of fiscal 2008.

"In addition, during the quarter we announced and began shipping the Summit X480 family of products for the data center, an additional set of modules for the BlackDiamond 8900 family, and a new release of the ExtremeXOS modular operating system. Also, our Direct Attach data center network solution and architecture was recently selected as a finalist for Best of Interop Awards, occurring at Interop in Las Vegas 2010. With our expanded portfolio of products, we expect to grow product revenue by an additional 8%-11% sequentially in our fourth quarter."

Third quarter non-GAAP operating income was \$4.7 million or 6.0 percent of net revenue, compared to \$4.3 million or 5.4 percent of net revenue in the previous quarter, and \$500,000 or 0.6 percent of net revenue in the third quarter of last year. Additionally, non-GAAP net income was \$5.5 million or \$0.06 per diluted share, compared to \$4.8 million or \$0.05 per diluted share in the previous quarter, and \$1.2 million or \$0.01 per diluted share in the third quarter of last year. Non-GAAP financial results exclude the impact of stock-based compensation and restructuring charges. A reconciliation of GAAP to non-GAAP financial measures is included in the accompanying financial tables.

Operating income on a GAAP basis for the third quarter was \$2.9 million, compared to an operating loss of \$1.9 million in the previous quarter and an operating loss of \$2.9 million for the third quarter of last year. Net income on a GAAP basis for the third quarter was \$3.7 million or \$0.04 per diluted share, which included a restructuring charge of \$0.4 million and a charge of approximately \$1.4 million related to stock based compensation. That compares to a net loss of \$1.4 million or \$0.02 per diluted share in the previous quarter, and a net loss of \$2.2 million or \$0.02 per diluted share in the third quarter of last year.

For the third quarter, net revenue in North America was \$32.6 million, revenue in EMEA was \$31.0 million, and revenue in APAC was \$14.6 million. That compares to revenue of \$27.5 million in North America, \$37.8 million in EMEA, and \$14.1 million in APAC in the previous quarter.

### **2010 Fiscal Fourth Quarter non-GAAP Financial Guidance**

For its 2010 fiscal fourth quarter ending June 27, 2010, the Company currently expects net revenue to be in a range of \$82-\$85 million; gross margin of 57%-59%; non-GAAP operating income of \$5.0-\$7.0 million; and non-GAAP net income of \$0.05-\$0.07 per diluted share.

### **Conference Call and Slide Presentation**

Extreme Networks will host a conference call to discuss these results today at 5:00 p.m. Eastern Time (2:00 p.m. Pacific Time). The conference call may be heard by dialing 1-877-303-9826 (international callers dial 1-224-357-2194). A 48-hour replay will be available following the call by dialing 1-800-642-1687 (international callers dial 1-706-645-9291); the replay passcode is 67170982. In addition, a live webcast and replay of the call will be available at <http://investor.extremenetworks.com>. PLEASE NOTE: throughout the conference call, the Company will refer to a slide presentation that will be posted in the Investor Relations section of the Company's website at <http://investor.extremenetworks.com>.

### **Non-GAAP Financial Measures**

Extreme Networks provides all financial information required in accordance with generally accepted accounting principles (GAAP). To supplement our consolidated financial statements presented in accordance with GAAP, we are also providing with this press release non-GAAP net income/(loss), non-GAAP operating income/(loss) and non-GAAP earnings/(loss) per diluted share. In preparing our non-GAAP information, we have excluded, where applicable, the impact of restructuring charges and

share-based compensation. We believe that excluding these charges provides both management and investors with additional insight into our current operations, the trends affecting the Company and the Company's marketplace performance. In particular, management finds it useful to exclude these charges in order to more readily correlate the Company's operating activities with the Company's ability to generate cash from operations. Accordingly, management uses these non-GAAP measures, along with the comparable GAAP information, in evaluating our historical performance and in planning our future business activities. Please note that our non-GAAP measures may be different than those used by other companies. The additional non-GAAP financial information we present should be considered in conjunction with, and not as a substitute for, our financial information presented in accordance with GAAP. We have provided a non-GAAP reconciliation of the Condensed Consolidated Statement of Operations for the periods presented in this release, which are adjusted to exclude restructuring charges and share-based compensation expense for these periods. These measures should only be used to evaluate the Company's results of operations in conjunction with the corresponding GAAP measures for comparable financial information and understanding of the Company's ongoing performance as a business. Extreme Networks uses both GAAP and non-GAAP measures to evaluate and manage its operations.

## Extreme Networks, Inc.

Extreme Networks provides converged Ethernet network infrastructure that support data, voice and video for enterprises and service providers. The company's network solutions feature high performance, high availability and scalable switching solutions that enable organizations to address real-world communications challenges and opportunities. Operating in more than 50 countries, Extreme Networks provides wired and wireless secure LANs, data center infrastructure and Service Provider Ethernet transport solutions that are complemented by global, 24x7 service and support. For more information, visit: <http://www.extremenetworks.com>

Extreme Networks is either a trademark or registered trademark of Extreme Networks, Inc. in the United States and/or other countries.

This announcement contains forward-looking statements that involve risks and uncertainties, including statements regarding the Company's expectations regarding financial performance and product introduction. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors, including, but not limited to: a challenging macro-economic environment both in the United States and overseas; fluctuations in demand for the Company's products and services; a highly competitive business environment for network switching equipment; the Company's effectiveness in controlling expenses, the possibility that the Company might experience delays in the development of new technology and products; customer response to its new technology and products; the timing of any recovery in the global economy; risks related to pending or future litigation, and a dependency on third parties for certain components and for the manufacturing of the Company's products. The Company undertakes no obligation to update the forward-looking information in this release. More information about potential factors that could affect the Company's business and financial results is included in its filings with the Securities and Exchange Commission, including, without limitation, under the captions: "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Risk Factors," which are on file with the Securities and Exchange Commission."

### EXTREME NETWORKS, INC.

#### CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

|   | March 28,<br>2010<br>---- | June 28,<br>2009<br>---- |
|---|---------------------------|--------------------------|
|   | (unaudited)               | (1)                      |
| ASSETS  |                           |                          |
| Current assets:                                   |                           |                          |
| Cash and cash equivalents                         | \$40,362                  | \$46,195                 |
| Short-term investments                            | 63,197                    | 8,976                    |
| Accounts receivable, net                          | 36,598                    | 37,616                   |
| Inventories, net                                  | 23,638                    | 12,380                   |
| Deferred income taxes                             | 347                       | 244                      |
| Prepaid expenses and other current assets,<br>net | 3,072<br>-----            | 4,368<br>-----           |
| Total current assets                              | 167,214                   | 109,779                  |

|                             |           |           |
|-----------------------------|-----------|-----------|
| Property and equipment, net | 43,457    | 44,229    |
| Marketable securities       | 24,358    | 72,231    |
| Other assets, net           | 15,333    | 13,736    |
|                             | -----     | -----     |
| Total assets                | \$250,362 | \$239,975 |
|                             | =====     | =====     |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

|  |          |          |
|--|----------|----------|
| Accounts payable                                       | \$18,853 | \$12,771 |
| Accrued compensation and benefits                      | 11,941   | 12,320   |
| Restructuring liabilities                              | 3,242    | 3,559    |
| Accrued warranty                                       | 3,326    | 3,170    |
| Deferred revenue, net                                  | 30,697   | 30,058   |
| Deferred revenue, net of cost of sales to distributors | 14,465   | 9,821    |
| Other accrued liabilities                              | 14,228   | 14,666   |
|  | -----    | -----    |
| Total current liabilities                              | 96,752   | 86,365   |

|   |       |       |
|---|-------|-------|
| Restructuring liabilities, less current portion | 1,035 | 3,519 |
| Deferred revenue, less current portion          | 6,922 | 7,425 |
| Deferred income taxes                           | 713   | 564   |
| Other long-term liabilities                     | 435   | 592   |

Commitments and contingencies -

Stockholders' equity:

|  |           |           |
|--|-----------|-----------|
| Convertible preferred stock, \$.001 par value, issuable in series, 2,000,000 shares authorized; none issued  | -         | -         |
| Common stock, \$.001 par value, 750,000,000 shares authorized; 129,328,008 issued at March 28, 2010 (128,425,140 June 28, 2009) and capital in excess of par value | 129       | 128       |
| Treasury stock, 39,625,305 shares at March 28, 2010 and June 28, 2009  | (149,666) | (149,666) |
| Additional paid-in-capital   | 954,937   | 949,113   |
| Accumulated other comprehensive income   | 1,677     | 1,323     |
| Accumulated deficit  | (662,572) | (659,388) |
|  | -----     | -----     |
| Total stockholders' equity   | 144,505   | 141,510   |
|  | -----     | -----     |
| Total liabilities and stockholders' equity   | \$250,362 | \$239,975 |
|  | =====     | =====     |

(1) The information in this column is derived from the Company's consolidated balance sheet included in the Company's Annual Report on Form 10-K for the year ended June 28, 2009.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share amounts)  
(unaudited)

Three Months Ended                      Nine Months Ended

|   | March             |             | March             |                   |
|---|-------------------|-------------|-------------------|-------------------|
|   | March 28,<br>2010 | 29,<br>2009 | March 28,<br>2010 | March 29,<br>2009 |
| Net revenues:                           |                   |             |                   |                   |
| Product                                 | \$63,197          | \$62,017    | \$178,425         | \$208,946         |
| Service                                 | 15,000            | 15,185      | 45,478            | 45,330            |
| Total net revenues                      | 78,197            | 77,202      | 223,903           | 254,276           |
| Cost of revenues:                       |                   |             |                   |                   |
| Product                                 | 26,689            | 26,142      | 77,606            | 87,686            |
| Service                                 | 6,169             | 6,642       | 18,417            | 22,049            |
| Total cost of revenues                  | 32,858            | 32,784      | 96,023            | 109,735           |
| Gross profit:                           |                   |             |                   |                   |
| Product                                 | 36,508            | 35,875      | 100,819           | 121,260           |
| Service                                 | 8,831             | 8,543       | 27,061            | 23,281            |
| Total gross profit                      | 45,339            | 44,418      | 127,880           | 144,541           |
| Operating expenses:                     |                   |             |                   |                   |
| Sales and marketing                     | 24,634            | 24,293      | 70,789            | 75,926            |
| Research and development                | 11,277            | 13,928      | 37,309            | 44,457            |
| General and administrative              | 6,135             | 6,967       | 19,890            | 22,818            |
| Restructuring, net                      | 371               | 2,092       | 4,004             | 2,092             |
| Total operating expenses                | 42,417            | 47,280      | 131,992           | 145,293           |
| Operating income (loss)                 | 2,922             | (2,862)     | (4,112)           | (752)             |
| Interest income                         | 408               | 672         | 1,118             | 2,965             |
| Interest expense                        | (29)              | (23)        | (98)              | (92)              |
| Other income / (expense), net           | 160               | 411         | (135)             | 1,727             |
| Income (loss) before income taxes       | 3,461             | (1,802)     | (3,227)           | 3,848             |
| Provision for income taxes              | (215)             | 371         | (42)              | 1,917             |
| Net Income (Loss)                       | \$3,676           | \$(2,173)   | \$(3,185)         | \$1,931           |
| Basic and diluted net income per share: |                   |             |                   |                   |
| Net income (loss) per share -basic      | 0.04              | (0.02)      | (0.04)            | 0.02              |
| Net income (loss) per share -diluted    | 0.04              | (0.02)      | (0.04)            | 0.02              |
| Shares used in per share calculation -  |                   |             |                   |                   |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| basic  | 89,448 | 88,553 | 89,117 | 96,066 |
| Shares used in per<br>share calculation -<br>diluted | 89,696 | 88,553 | 89,117 | 96,139 |

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(unaudited)

|   | Nine Months Ended |                   |
|---|-------------------|-------------------|
|   | March 28,<br>2010 | March 29,<br>2009 |
|   | ----              | ----              |
| Cash flows provided by (used in)  |                   |                   |
| operating activities:   |                   |                   |
| Net (loss) income   | \$(3,185)         | \$1,931           |
| Adjustments to reconcile net (loss)                                     |                   |                   |
| income to net cash  |                   |                   |
| provided by operating activities:                                       |                   |                   |
| Depreciation and amortization   | 4,304             | 4,200             |
| Loss /(gain) on value of option to<br>put securities                    | 516               | (4,616)           |
| Mark to market, trading (gain) /<br>loss on trading securities          | (516)             | 4,616             |
| Provision for doubtful accounts   | -                 | 232               |
| Provision for excess and obsolete<br>inventory                          | 1,373             | 838               |
| Deferred income taxes   | 48                | 124               |
| Loss on retirement of assets  | 78                | 94                |
| Stock-based compensation  | 4,571             | 2,630             |
| Restructuring, net  | 4,004             | 2,092             |
| Changes in operating assets and<br>liabilities, net                     |                   |                   |
| Accounts receivable   | 1,017             | 17,304            |
| Inventories   | (12,626)          | (9,651)           |
| Prepaid expenses and other assets                                       | (303)             | (83)              |
| Accounts payable  | 6,082             | (1,506)           |
| Accrued compensation and benefits                                       | (378)             | (7,323)           |
| Restructuring liabilities   | (6,677)           | (2,693)           |
| Accrued warranty  | 157               | (1,630)           |
| Deferred revenue, net   | 136               | (515)             |
| Deferred revenue, net of cost of<br>sales to distributors               | 4,644             | (1,693)           |
| Other accrued liabilities   | (189)             | (8,350)           |
|   | -----             | -----             |
| Net cash provided by (used in)  |                   |                   |
| operating activities  | 3,056             | (3,999)           |
|   | -----             | -----             |
| Cash flows (used in) provided by  |                   |                   |
| investing activities:   |                   |                   |
| Capital expenditures  | (3,610)           | (4,150)           |
| Purchases of investments  | (41,103)          | (33,645)          |
| Proceeds from maturities of<br>investments and marketable<br>securities | 22,551            | 28,164            |

|  |          |           |
|--|----------|-----------|
| Proceeds from sales of investments and marketable securities | 12,150   | 81,354    |
| Net cash (used in) provided by investing activities          | (10,012) | 71,723    |
|  | -----    | -----     |
| Cash flows provided by (used in) financing activities:       |          |           |
| Proceeds from issuance of common stock                       | 1,123    | 1,864     |
| Repurchase of common stock, including expenses               | -        | (101,363) |
|  |          | -----     |
| Net cash provided by (used in) financing activities          | 1,123    | (99,499)  |
|  | -----    | -----     |
| Net decrease in cash and cash equivalents                    | (5,833)  | (31,775)  |
|  | -----    | =====     |
| Cash and cash equivalents at beginning of period             | 46,195   | 70,370    |
| Cash and cash equivalents at end of period                   | \$40,362 | \$38,595  |
|  | =====    | =====     |

EXTREME NETWORKS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
GAAP TO NON-GAAP RECONCILIATION  
(In thousands, except per share amounts)  
(Unaudited)

|                                  | Three Months Ended |                | Nine Months Ended |                |
|----------------------------------|--------------------|----------------|-------------------|----------------|
|                                  | March 28, 2010     | March 29, 2009 | March 28, 2010    | March 29, 2009 |
|                                  | ----               | ----           | ----              | ----           |
| Net income (loss) -GAAP Basis    | \$3,676            | \$(2,173)      | \$(3,185)         | \$1,931        |
|                                  | =====              | =====          | =====             | =====          |
| Non-GAAP adjustments             |                    |                |                   |                |
| Stock-based compensation expense | \$1,408            | \$1,237        | \$4,575           | \$2,627        |
| Restructuring, net               | \$371              | 2,092          | \$4,004           | \$2,092        |
|                                  | ----               | ----           | -----             | -----          |
|                                  | \$1,779            | \$3,329        | \$8,579           | \$4,719        |
|                                  | -----              | -----          | -----             | -----          |
| Net income - Non-GAAP Basis      | \$5,455            | \$1,156        | \$5,394           | \$6,650        |
|                                  | =====              | =====          | =====             | =====          |
| Non-GAAP adjustments             |                    |                |                   |                |
| Cost of product revenue          | \$124              | \$96           | \$347             | \$105          |
| Cost of service revenue          | 140                | 79             | 361               | 173            |
| Sales and marketing              | 413                | 420            | 1,392             | 923            |
| Research and development         | 338                | 387            | 1,324             | 848            |

|                            |         |         |         |         |
|----------------------------|---------|---------|---------|---------|
| General and administrative | 393     | 255     | 1,151   | 578     |
| Restructuring, net         | 371     | 2,092   | 4,004   | 2,092   |
| Total non-GAAP adjustments | \$1,779 | \$3,329 | \$8,579 | \$4,719 |
|                            | =====   | =====   | =====   | =====   |

SOURCE Extreme Networks, Inc.

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