

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D. C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2018

OR

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

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

Commission file number 000-25711

**EXTREME NETWORKS, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

[State or other jurisdiction  
of incorporation or organization]

**6480 Via Del Oro,  
San Jose, California**

[Address of principal executive office]

**77-0430270**

[I.R.S Employer  
Identification No.]

**95119**

[Zip Code]

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The number of shares of the Registrant's Common Stock, \$.001 par value, outstanding at January 24, 2019, was 116,759,619

**EXTREME NETWORKS, INC.**  
**FORM 10-Q**  
**QUARTERLY PERIOD ENDED**  
**December 31, 2018**

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**EXTREME NETWORKS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except per share amounts)  
(Unaudited)

	December 31, 2018	June 30, 2018
<b>ASSETS</b>		
Current assets:		
Cash	\$ 140,643	\$ 121,139
Accounts receivable, net of allowance for doubtful accounts of \$1,678 at December 31, 2018 and \$1,478 at June 30, 2018	144,909	212,423
Inventories	58,297	63,867
Prepaid expenses and other current assets	39,088	30,484
Total current assets	<u>382,937</u>	<u>427,913</u>
Property and equipment, net	74,499	78,519
Intangible assets, net	63,544	77,092
Goodwill	137,799	139,082
Other assets	53,170	47,642
Total assets	<u>\$ 711,949</u>	<u>\$ 770,248</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 9,009	\$ 9,007
Accounts payable	34,977	75,689
Accrued compensation and benefits	46,500	50,351
Accrued warranty	12,808	12,807
Deferred revenue	138,239	130,865
Other accrued liabilities	70,035	81,153
Total current liabilities	<u>311,568</u>	<u>359,872</u>
Deferred revenue, less current portion	47,854	43,660
Long-term debt, less current portion	174,246	188,749
Deferred income taxes	1,699	6,135
Other long-term liabilities	60,711	59,100
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Convertible preferred stock, \$.001 par value, issuable in series, 2,000 shares authorized; none issued	—	—
Common stock, \$.001 par value, 750,000 shares authorized; 119,089 and 116,124 shares issued, respectively; 116,723 and 116,124 shares outstanding, respectively	119	116
Additional paid-in-capital	962,924	942,397
Accumulated other comprehensive loss	(2,725)	(1,703)
Accumulated deficit	(829,447)	(828,078)
Treasury stock at cost: 2,366 and 0 shares, respectively	(15,000)	-
Total stockholders' equity	<u>115,871</u>	<u>112,732</u>
Total liabilities and stockholders' equity	<u>\$ 711,949</u>	<u>\$ 770,248</u>

See accompanying notes to condensed consolidated financial statements.

**EXTREME NETWORKS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
<b>Net revenues:</b>				
Product	\$ 189,567	\$ 174,850	\$ 367,287	\$ 339,624
Service	63,113	56,273	125,279	103,214
Total net revenues	<u>252,680</u>	<u>231,123</u>	<u>492,566</u>	<u>442,838</u>
<b>Cost of revenues:</b>				
Product	86,487	78,472	170,030	158,517
Service	24,894	23,665	49,166	42,954
Total cost of revenues	<u>111,381</u>	<u>102,137</u>	<u>219,196</u>	<u>201,471</u>
<b>Gross profit:</b>				
Product	103,080	96,378	197,257	181,107
Service	38,219	32,608	76,113	60,260
Total gross profit	<u>141,299</u>	<u>128,986</u>	<u>273,370</u>	<u>241,367</u>
<b>Operating expenses:</b>				
Research and development	52,204	45,907	103,445	80,192
Sales and marketing	68,342	65,659	135,924	121,220
General and administrative	13,886	11,669	26,657	23,854
Acquisition and integration costs, net of bargain purchase gain	67	34,115	2,613	38,359
Restructuring charges, net of reversals	474	—	1,282	—
Amortization of intangibles	1,575	2,746	3,716	4,360
Total operating expenses	<u>136,548</u>	<u>160,096</u>	<u>273,637</u>	<u>267,985</u>
Operating income (loss)	4,751	(31,110)	(267)	(26,618)
Interest income	643	717	1,037	1,364
Interest expense	(3,066)	(2,504)	(6,592)	(4,719)
Other (expense) income, net	(399)	(643)	88	2,484
Income (loss) before income taxes	1,929	(33,540)	(5,734)	(27,489)
(Benefit ) provision for income taxes	(5,270)	(1,617)	(3,868)	58
Net income (loss)	<u>\$ 7,199</u>	<u>\$ (31,923)</u>	<u>\$ (1,866)</u>	<u>\$ (27,547)</u>
<b>Basic and diluted net (loss) income per share:</b>				
Net income (loss) per share - basic	\$ 0.06	\$ (0.28)	\$ (0.02)	\$ (0.24)
Net income (loss) per share - diluted	\$ 0.06	\$ (0.28)	\$ (0.02)	\$ (0.24)
Shares used in per share calculation - basic	117,544	113,621	117,456	112,931
Shares used in per share calculation - diluted	119,544	113,621	117,456	112,931

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net income (loss)	\$ 7,199	\$ (31,923)	\$ (1,866)	\$ (27,547)
Other comprehensive income (loss), net of tax:				
Available for sale securities:				
Change in unrealized gains on available for sale securities	—	54	—	237
Net change in foreign currency translation adjustments	(28)	432	(525)	787
Other comprehensive income (loss), net of tax:	(28)	486	(525)	1,024
Total comprehensive income (loss)	<u>\$ 7,171</u>	<u>\$ (31,437)</u>	<u>\$ (2,391)</u>	<u>\$ (26,523)</u>

See accompanying notes to condensed consolidated financial statements.

**EXTREME NETWORKS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Six Months Ended	
	December 31, 2018	December 31, 2017
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,866)	\$ (27,547)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	13,476	8,093
Amortization of intangible assets	13,552	11,023
Provision for doubtful accounts	861	1,180
Stock-based compensation	15,525	11,828
Deferred income taxes	(6,516)	(2,135)
Unrealized/realized (gain) loss on equity investment	274	(3,757)
Realized gain on bargain purchase	—	(4,920)
Non-cash interest	1,532	510
Other non-cash items	(344)	1,308
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	66,568	(11,188)
Inventories	5,570	(449)
Prepaid expenses and other assets	(12,390)	1,188
Accounts payable	(40,050)	17,547
Accrued compensation and benefits	(3,851)	3,734
Deferred revenue	11,568	4,446
Other current and long-term liabilities	(2,298)	3,387
Net cash provided by operating activities	<u>61,611</u>	<u>14,248</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(11,140)	(13,309)
Business acquisitions	—	(97,581)
Proceeds from sale of investment	727	4,922
Net cash used in investing activities	<u>(10,413)</u>	<u>(105,968)</u>
<b>Cash flows from financing activities:</b>		
Borrowings under Term Loan	—	100,000
Repayments of debt	(14,750)	(8,686)
Loan fees on borrowings	(545)	(1,494)
Repurchase of stock	(15,000)	—
Proceeds from issuance of common stock, net of tax withholding	5,005	(1,536)
Capital lease financing	(183)	—
Contingent consideration obligations	(3,856)	—
Deferred payments on an acquisition	(2,000)	—
Net cash (used in) provided by financing activities	<u>(31,329)</u>	<u>88,284</u>
Foreign currency effect on cash	(365)	94
Net increase (decrease) in cash	<u>19,504</u>	<u>(3,342)</u>
<b>Cash and cash equivalents at beginning of period</b>	121,139	130,450
<b>Cash and cash equivalents at end of period</b>	<u>\$ 140,643</u>	<u>\$ 127,108</u>

See accompanying notes to the condensed consolidated financial statements.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**1. Description of Business and Basis of Presentation**

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

The unaudited condensed consolidated financial statements of Extreme included herein have been prepared under the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted under such rules and regulations. The condensed consolidated balance sheet at June 30, 2018 was derived from audited financial statements as of that date but does not include all disclosures required by generally accepted accounting principles for complete financial statements. These interim financial statements and notes should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

The unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations and cash flows for the interim periods presented and the financial condition of Extreme at December 31, 2018. The results of operations for the three and six months ended December 31, 2018 are not necessarily indicative of the results that may be expected for fiscal 2019 or any future periods.

*Fiscal Year*

The Company uses a fiscal calendar year ending on June 30. All references herein to “fiscal 2019” or “2019” represent the fiscal year ending June 30, 2019. All references herein to “fiscal 2018” or “2018” represent the fiscal year ended June 30, 2018.

*Principles of Consolidation*

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

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

*Accounting Estimates*

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

**2. Summary of Significant Accounting Policies**

For a description of significant accounting policies, see Note 3, Summary of Significant Accounting Policies, to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018. There have been no material changes to the Company’s significant accounting policies since the filing of the Annual Report on Form 10-K.

*Recently Adopted Accounting Pronouncements*

In January 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The guidance was adopted effective July 1, 2018 and the Company reclassified a \$0.5 million unrealized gain, net of tax, related to its available-for-sale investments from accumulated other comprehensive loss to accumulated deficit as a cumulative-effect adjustment in the accompanying condensed consolidated balance sheets. Future changes in fair value will be included in earnings in each period.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* to provide guidance on the classification of eight cash flow issues in order to reduce diversity in practice. The Company adopted the new guidance effective July 1, 2018. The amendments in this update have been applied on a retrospective transition method to each period presented. The adoption of this guidance did not have a material effect on the Company's presentation of cash flows.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory*, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Historically GAAP had prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold outside the consolidated group. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted ASU 2016-16 effective July 1, 2018 on a modified retrospective basis. The adoption of this guidance did not have a material effect on the Company's financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*, which amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Topic 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The Company adopted this guidance effective July 1, 2018, on a prospective basis. The adoption of this guidance did not have a material effect on the Company's financial statements.

#### *Recently Issued Accounting Pronouncements*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve-month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. Under Topic 842, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the statement of operations will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of Topic 842 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, Topic 842 is applied on the modified retrospective method through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures. The Company believes that Topic 842 will have a material impact on its financial position, as a result of recognizing right-of-use assets and lease liabilities on its consolidated balance sheets. In addition, in December 2018, the FASB issued ASU No. 2018-20, *Leases (Topic 842)*, which includes narrow-scope improvements for lessors to increase transparency and comparability about leasing transactions. The Company continues to evaluate the impact these new standards will have on its condensed consolidated statement of operations and statement of cash flows. This guidance will become effective for the Company beginning with its fiscal year 2020, beginning on July 1, 2019.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which is intended to allow companies to better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results by expanding and refining hedge accounting for both nonfinancial and financial risk components and aligning the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. In addition, in October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815)*, which amends Topic 815 to add the overnight index swap (OIS) rate based on the secured overnight financing rate as a fifth U.S. benchmark interest rate. These standards are effective for interim and annual reporting periods beginning after December 15, 2018. The Company is continuing to evaluate the accounting, transition and disclosure requirements of these standards, but does not believe it will have a material impact on the Company's financial statements upon adoption. This guidance is effective for the Company beginning with its fiscal year 2020, beginning on July 1, 2019.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*, this standard that allows the reclassification from AOCI to retained earnings for stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act ("Tax Reform Act"). The amount of the reclassification is the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances related to items remaining in AOCI. This standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The new standard is to be applied either in the period of adoption or retrospectively to each period (or periods) in which the effects of the change in the income tax rate in the Tax Reform Act are recognized. Management is currently evaluating implementation options and impact on the Company's financial statements and related disclosures. This guidance is effective for the Company beginning with its fiscal year 2020, beginning on July 1, 2019.



In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*, which removes, modifies and adds various disclosure requirements around the topic in order to clarify and improve the cost-benefit nature of disclosures. For example, disclosures around transfers between fair value hierarchy levels will be removed and further detail around changes in unrealized gains and losses for the period and unobservable inputs determining Level 3 fair value measurements will be added. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements. This guidance is effective for the Company beginning with its fiscal year 2021, beginning on July 1, 2020.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*, which aligns the requirements for capitalizing implementation costs incurred in a service contract hosting arrangement with those of developing or obtaining internal-use software. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements. This guidance is effective for the Company beginning with its fiscal year 2021, beginning on July 1, 2020.

### 3. Revenues

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

#### *Revenue Recognition*

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

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

On December 31, 2018, the Company had \$186.1 million of remaining performance obligations, which is comprised of deferred maintenance revenue and services not yet delivered. The Company expects to recognize approximately 48 percent of its remaining performance obligations as revenue in fiscal 2019, an additional 35 percent in fiscal 2020 and 17 percent of the balance thereafter.

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

Revenue recognized for the three months ended December 31, 2018 and 2017 that was included in the deferred revenue balance at the beginning of each period was \$59.9 million and \$36.9 million, respectively. Revenue recognized for the six months ended December 31, 2018 and 2017 that was included in the deferred revenue balance at the beginning of each period was \$88.8 million and \$52.9 million, respectively.

**Contract Costs.** The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. Management expects that commission fees paid to sales representative as a result of obtaining service contracts and contract renewals are recoverable and therefore the Company's capitalized balances in the amount of \$5.3 million and \$3.2 million at December 31, 2018 and 2017, respectively. Capitalized commission fees are amortized on a straight-line basis over the average period of service contracts of approximately three years, and are included in "Sales and marketing" in the accompanying condensed consolidated statements of operations. Amortization recognized during the three months ended December 31, 2018 and 2017, was \$0.7 million and \$0.5 million, respectively. Amortization recognized during the six months ended December 31, 2018 and 2017 was \$1.4 million and \$0.9 million, respectively. There was no impairment loss in relation to the costs capitalized.

**Estimated Variable Consideration.** There were no material changes in the current period to the estimated variable consideration for performance obligations which were satisfied or partially satisfied during previous periods.

#### Revenue by Category

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

	Three Months Ended					
	December 31, 2018			December 31, 2017		
	Distributor	Direct	Total	Distributor	Direct	Total
Americas:						
United States	\$ 44,141	\$ 55,326	\$ 99,467	\$ 56,269	\$ 54,559	\$ 110,828
Other	8,269	5,380	13,649	1,155	5,698	6,853
Total Americas	52,410	60,706	113,116	57,424	60,257	117,681
EMEA	79,876	32,773	112,649	55,956	33,624	89,580
APAC	4,767	22,148	26,915	5,131	18,731	23,862
Total net revenues	\$ 137,053	\$ 115,627	\$ 252,680	\$ 118,511	\$ 112,612	\$ 231,123

	Six Months Ended					
	December 31, 2018			December 31, 2017		
	Distributor	Direct	Total	Distributor	Direct	Total
Americas:						
United States	\$ 100,883	\$ 115,262	\$ 216,145	\$ 98,661	\$ 105,549	\$ 204,210
Other	12,762	10,904	23,666	15,491	12,093	27,584
Total Americas	113,645	126,166	239,811	114,152	117,642	231,794
EMEA	141,207	63,611	204,818	107,188	61,527	168,715
APAC:	7,116	40,821	47,937	8,395	33,934	42,329
Total net revenues	\$ 261,968	\$ 230,598	\$ 492,566	\$ 229,735	\$ 213,103	\$ 442,838

#### Customer Concentrations

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

The following table sets forth major customers accounting for 10% or more of the Company's net revenues:

	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Tech Data Corporation	22%	12%	19%	12%
Westcon Group Inc.	15%	14%	14%	15%
Jenne Corporation	12%	*	12%	10%

The following table sets forth major customers accounting for 10% or more of the Company's accounts receivable balance:

	December 31, 2018	June 30, 2018
Westcon Group Inc.	23%	*
Tech Data Corporation	22%	17%
Jenne Corporation	*	13%

\* Less than 10% of accounts receivable

#### 4. Business Combinations

##### Fiscal 2018 Acquisitions

###### *Data Center Business*

The Company completed its acquisition of the data center business (the "Data Center Business") of Brocade Communication Systems, Inc.'s ("Brocade") on October 27, 2017 (the "Data Center Closing Date"), pursuant to an Asset Purchase Agreement (the "Data Center Business APA") dated as of October 3, 2017, by and between the Company and Brocade for an aggregate purchase consideration of \$84.3 million. Under the terms and conditions of the Data Center Business APA, the Company acquired customers, employees, technology and other assets of the Data Center Business as well as assumed certain contracts and other liabilities of the Data Center Business.

The following table below summarizes the final allocation of the tangible and identifiable intangible assets acquired and liabilities assumed (in thousands):

	Final Allocation	
Accounts receivables	\$	33,488
Inventories		19,934
Prepaid expenses and other current assets		988
Property and equipment	(a)	20,220
Other assets		4,734
Accounts payable and accrued expenses		(16,494)
Deferred revenue		(33,025)
Net tangible assets acquired		29,845
Identifiable intangible assets		32,800
Goodwill	(a)	21,692
Total intangible assets acquired		54,492
Total net assets acquired	\$	84,337

(a) Includes an adjustment after the measurement period to record \$1.3 million of additional property and equipment acquired at an international location.

###### *Campus Fabric Business*

The Company completed its acquisition of Avaya Inc.'s ("Avaya") fabric-based secure networking solutions and network security solutions business (the "Campus Fabric Business") on July 14, 2017, (the "Campus Fabric Business Closing Date") pursuant to an Asset Purchase Agreement (the "Campus Fabric Business APA") dated March 7, 2017. Under the terms and conditions of the Campus Fabric Business APA, the Company acquired the customers, employees, technology and other assets of the Campus Fabric Business, as well as assumed certain contracts and other liabilities of the Campus Fabric Business, for total consideration of \$79.4 million.

The following table below summarizes the final allocation of the tangible and identifiable intangible assets acquired and liabilities assumed (in thousands):

	<b>Final Allocation</b>
Accounts receivables	\$ 19,527
Inventories	14,165
Prepaid expenses and other current assets	240
Property and equipment	5,406
Other assets	7,009
Accounts payable and accrued expenses	(31,670)
Deferred revenue	(8,994)
Other long-term liabilities	(5,849)
Net tangible assets acquired	(166)
Identifiable intangible assets	41,300
In-process research and development	2,400
Goodwill	35,892
Total intangible assets acquired	79,592
Total net assets acquired	\$ 79,426

#### *Capital Financing Business*

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

Net assets acquired included financing receivables of \$13.7 million, lease equipment of \$3.5 million and identifiable intangible assets of \$0.8 million, and the fair value of the contingent consideration was \$13.0 million. As the preliminary fair value of the net assets acquired exceeded the fair value of the purchase consideration, the Company recorded a bargain purchase gain of \$5.0 million.

#### ***Pro forma financial information***

The following unaudited pro forma results of operations are presented as though the acquisitions of the Data Center Business, CF Business and Campus Fabric Business had occurred as of the beginning of fiscal 2017 presented after giving effect to purchase accounting adjustments relating to inventories, deferred revenue, depreciation and amortization on acquired property and equipment and intangibles, acquisition costs, interest income and expense and related tax effects.

The pro forma results of operations are not necessarily indicative of the combined results that would have occurred had the acquisition been consummated as of the beginning of fiscal 2017, nor are they necessarily indicative of future operating results. The unaudited pro forma results do not include the impact of synergies, nor any potential impacts on current or future market conditions which could alter the unaudited pro forma results.

The unaudited pro forma financial information for the three and six months ended December 31, 2017, combines the historical results for Extreme for those periods, which include the results of the Data Center Business and CF Business subsequent to the acquisition date, with their historical results up to the acquisition date.

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

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

	Three Months Ended December 31, 2017	Six Months Ended December 31, 2017
Net revenues	\$ 252,532	\$ 537,040
Net income (loss)	\$ 1,152	\$ (7,622)
Net income (loss) per share - basic	\$ 0.01	\$ (0.07)
Net income (loss) per share - diluted	\$ 0.01	\$ (0.07)
Shares used in per share calculation - basic	113,621	112,931
Shares used in per share calculation - diluted	119,656	112,931

## 5. Balance Sheet Accounts

### *Cash and Marketable Securities*

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

	December 31, 2018	June 30, 2018
Cash	\$ 140,643	\$ 121,139
Marketable securities (consisting of available-for-sale securities)	428	1,459
Total cash and marketable securities	\$ 141,071	\$ 122,598

Marketable equity securities are recorded in "Prepaid expense and other current assets" in the accompanying condensed consolidated balance sheets as these securities are publicly-traded with readily determinable values. Marketable equity securities are classified as available-for-sale and reported at fair value with unrealized gains and losses included in "Other (expense) income, net" in the accompanying condensed consolidated statements of operations.

### *Inventories*

The Company values its inventory at lower of cost or net realizable value. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. The Company has established inventory allowances when conditions exist that suggest that inventory may be in excess of anticipated demand or is obsolete based upon assumptions about future demand. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. Any written down or obsolete inventory subsequently sold has not had a material impact on gross margin for any of the periods presented.

Inventories consist of the following (in thousands):

	December 31, 2018	June 30, 2018
Finished goods	\$ 44,179	\$ 49,393
Raw materials	14,118	14,474
Total Inventories	\$ 58,297	\$ 63,867

### *Property and Equipment, Net*

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

	December 31, 2018	June 30, 2018
Computers and equipment	\$ 70,121	\$ 60,677
Purchased software	22,968	21,389
Office equipment, furniture and fixtures	11,564	14,980
Leasehold improvements	51,167	50,070
Total property and equipment	155,820	147,116
Less: accumulated depreciation and amortization	(81,321)	(68,597)
Property and equipment, net	\$ 74,499	\$ 78,519

### Deferred Revenue

Deferred revenue represents amounts for (i) deferred maintenance and support revenue and (ii) other deferred revenue including professional services and training when the revenue recognition criteria have not been met.

### Guarantees and Product Warranties

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

The following table summarizes the activity related to the Company's product warranty liability during the three and six months ended December 31, 2018 and 2017 (in thousands):

	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Balance beginning of period	\$ 12,601	\$ 13,499	\$ 12,807	\$ 10,584
Warranties assumed due to acquisitions	—	526	—	3,682
New warranties issued	4,145	1,657	7,867	3,929
Warranty expenditures	(3,938)	(2,672)	(7,866)	(5,185)
Balance end of period	<u>\$ 12,808</u>	<u>\$ 13,010</u>	<u>\$ 12,808</u>	<u>\$ 13,010</u>

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

### Other long-term liabilities

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

	December 31, 2018	June 30, 2018
Acquisition related deferred payments, less current portion	\$ 11,442	\$ 13,251
Contingent consideration obligations, less current portion	4,095	4,898
Other contractual obligations, less current portion	29,647	31,200
Other	15,527	9,751
Total other long-term liabilities	<u>\$ 60,711</u>	<u>\$ 59,100</u>

### Concentrations

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

## 6. Fair Value Measurements

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

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

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

December 31, 2018	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments:				
Marketable securities	\$ 428	\$ —	\$ —	\$ 428
Total assets measured at fair value	\$ 428	\$ —	\$ —	\$ 428
<b>Liabilities</b>				
Acquisition-related contingent consideration obligations	\$ —	\$ —	\$ 8,649	\$ 8,649
Total liabilities measured at fair value	\$ —	\$ —	\$ 8,649	\$ 8,649
<b>June 30, 2018</b>				
<b>Assets</b>				
Investments:				
Marketable securities	\$ 1,459	\$ —	\$ —	\$ 1,459
Total assets measured at fair value	\$ 1,459	\$ —	\$ —	\$ 1,459
<b>Liabilities</b>				
Acquisition-related contingent consideration obligations	\$ —	\$ —	\$ 12,749	\$ 12,749
Total liabilities measured at fair value	\$ —	\$ —	\$ 12,749	\$ 12,749

### *Level 1 investments:*

The Company holds an investment in marketable equity securities which is classified as available-for-sale marketable securities at Level 1 as the investments have readily determinable fair value (see below, Level 3 investments). An unrealized holding gain on the investments of \$0.5 million as of June 30, 2018 was reclassified from accumulated other comprehensive loss to accumulated deficit on July 1, 2018 upon the adoption of ASU 2016-01 (see Note 3).

### *Level 2 assets and liabilities:*

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

The fair value of the borrowings under the Credit Agreement is estimated based on valuations provided by alternative pricing sources supported by observable inputs which is considered Level 2. Due to the short duration until maturity of the Credit Agreement, the fair value approximates the face amount of the Company's indebtedness of \$185.3 million and \$200.0 million as of December 31, 2018 and June 30, 2018, respectively.

### *Level 3 assets and liabilities:*

Certain of the Company's assets, including intangible assets and goodwill are measured at fair value on a non-recurring basis if impairment is indicated.

At June 30, 2018, the Company reflected a liability for contingent consideration related to a certain acquisition completed in fiscal 2018. The fair value measurement of the contingent consideration obligation is determined using Level 3 inputs. These fair value measurements represent Level 3 measurements as they are based on significant inputs not observable in the market. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. Accordingly, changes in assumptions could have a material impact on the amount of contingent consideration expense the Company records in any given period. Changes in the value of the contingent consideration obligations would be recorded in general and administrative expenses in the accompanying condensed consolidated statements of operations.

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

	<u>Six Months Ended</u>	
	<u>December 31,</u>	
	<u>2018</u>	
Beginning balance	\$	12,749
Payments		(4,222)
Accretion on discount		122
Ending balance	\$	<u>8,649</u>

There were no transfers of assets or liabilities between Level 2 and Level 3 during the three and six months ended December 31, 2018 or 2017. There were no impairments recorded for the three and six months ended December 31, 2018 or 2017.

## 7. Goodwill and Intangible Assets

The following table reflects the changes in the carrying amount of goodwill (in thousands):

	<u>December 31,</u>
	<u>2018</u>
Balance as of June 30, 2018	\$ 139,082
Changes due to additional property and equipment acquired (See Note 4)	(1,283)
Balance at end of period	<u>\$ 137,799</u>

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

	<u>Weighted Average</u> <u>Remaining Amortization</u> <u>Period</u>	<u>Gross Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net Carrying</u> <u>Amount</u>
<b>December 31, 2018</b>				
Developed technology	2.8 years	\$ 117,000	\$ 67,888	\$ 49,112
Customer relationships	2.5 years	51,639	42,522	9,117
Maintenance contracts	0.1 years	17,000	17,000	-
Trade names	2.9 years	9,100	4,871	4,229
License agreements	5.6 years	2,232	1,313	919
Other intangibles	1.1 years	1,382	1,215	167
Total intangibles, net		<u>\$ 198,353</u>	<u>\$ 134,809</u>	<u>\$ 63,544</u>

	<u>Weighted Average</u> <u>Remaining Amortization</u> <u>Period</u>	<u>Gross Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net Carrying</u> <u>Amount</u>
<b>June 30, 2018</b>				
Developed technology	3.3 years	\$ 117,000	\$ 58,299	\$ 58,701
Customer relationships	3.0 years	51,639	40,634	11,005
Maintenance contracts	0.3 years	17,000	15,866	1,134
Trade names	3.4 years	9,100	4,141	4,959
Backlogs	— years	1,800	1,800	—
License agreements	5.8 years	2,445	1,390	1,055
Other intangibles	1.6 years	1,382	1,144	238
Total intangibles, net		<u>\$ 200,366</u>	<u>\$ 123,274</u>	<u>\$ 77,092</u>



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

	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Amortization in "Cost of revenues: Product"	\$ 4,904	\$ 3,866	\$ 9,836	\$ 6,663
Amortization of intangibles in "Operations"	1,575	2,746	3,716	4,360
Total amortization	<u>\$ 6,479</u>	<u>\$ 6,612</u>	<u>\$ 13,552</u>	<u>\$ 11,023</u>

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

## 8. Debt

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

	December 31, 2018	June 30, 2018
Current portion of long-term debt:		
Term Loan	\$ 9,500	\$ 9,500
Less: unamortized debt issuance costs	(491)	(493)
Current portion of long-term debt	<u>\$ 9,009</u>	<u>\$ 9,007</u>
Long-term debt, less current portion:		
Term Loan	\$ 175,750	\$ 180,500
Revolving Facility	—	10,000
Less: unamortized debt issuance costs	(1,504)	(1,751)
Total long-term debt, less current portion	<u>174,246</u>	<u>188,749</u>
Total debt	<u>\$ 183,255</u>	<u>\$ 197,756</u>

On May 1, 2018, the Company entered into a Credit Agreement (the "Credit Agreement"), by and among the Company, as borrower, BMO Harris Bank N.A., as an issuing lender and swingline lender, Bank of Montreal, as administrative and collateral agent, and the financial institutions or entities that are a party thereto as lenders. The Credit Agreement provides for i) a \$40 million five-year revolving credit facility (the "New Revolving Facility") ii) a \$190 million five-year term loan (the "New Term Loan") and iii) an uncommitted additional incremental loan facility in the principal amount of up to \$100 million ("New Incremental Facility"). On May 1, 2018, the Company borrowed \$200 million under the Credit Agreement to pay off existing debt and for general corporate purposes.

Borrowings under the Credit Agreement will bear interest, at the Company's election, as of May 1, 2018, at a rate per annum equal to LIBOR plus 1.50% to 2.75%, or the adjusted base rate plus 0.50% to 1.75%, based on the Company's consolidated leverage ratio. In addition, the Company is required to pay a commitment fee of between 0.25% and 0.40% quarterly (currently 0.35%) on the unused portion of the New Revolving Facility, also based on the Company's consolidated leverage ratio. Principal installments are payable on the New Term Loan in varying percentages quarterly starting September 30, 2018 and to the extent not previously paid, all outstanding balances are to be paid at maturity. The Credit Agreement is secured by substantially all of the Company's assets.

The Credit Agreement requires the Company to maintain certain minimum financial ratios at the end of each fiscal quarter. The Credit Agreement also includes covenants and restrictions that limit, among other things, the Company's ability to incur additional indebtedness, create liens upon any of its property, merge, consolidate or sell all or substantially all of its assets. The Credit Agreement also includes customary events of default which may result in acceleration of the outstanding balance.

Financing costs incurred in connection with obtaining long-term financing are deferred and amortized over the term of the Credit Agreement. Amortization of deferred financing costs included in "Interest expense" in the accompanying condensed consolidated statements of operations totaled \$0.2 million for each of the three months ended December 31, 2018 and 2017 and totaled \$0.3 million for each of the six months ended December 31, 2018 and 2017, respectively.

The Company had \$39.0 million of availability under the New Revolving Facility as of December 31, 2018. The Company had \$1.0 million of outstanding letters of credit as of December 31, 2018.

## 9. Commitments and Contingencies

### *Purchase Commitments*

The Company currently has arrangements with contract manufacturers and suppliers for the manufacture of its products. Those arrangements allow the contract manufacturers to procure long lead-time component inventory based upon a rolling production forecast provided by the Company. The Company is obligated to purchase long lead-time component inventory that its contract manufacturer procures in accordance with the Company's forecast, unless the Company gives notice of order cancellation outside of applicable component lead-times. As of December 31, 2018, the Company had commitments to purchase \$172.6 million of such inventory. As of December 31, 2018, the Company had commitments to purchase \$111.6 million of software and new product support services.

### *Legal Proceedings*

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

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

### *Brazilian Tax Assessment Matter*

On May 28, 2007, the Public Treasury Department of the State of Sao Paulo, Brazil (the "Tax Authority") assessed the Company's Brazilian subsidiary, Enterasys Networks do Brasil Ltda. ("Enterasys Brasil"), based on an alleged underpayment of taxes. The Tax Authority also charged interest and penalties with respect to the assessment (collectively, the "ICMS Tax Assessment"). The Tax Authority denied Enterasys Brasil the use of certain presumed tax credits granted by the State of Espirito Santo, Brazil under the terms of the FUNDAP program for the period from February 2003 to December 2004. The value of the disallowed presumed tax credits is BRL 3.4 million (USD \$0.8 million), excluding interest and penalties. All currency conversions in this Legal Proceedings section are as of December 31, 2018.

Unable to resolve the matter at the administrative level, on October 1, 2014, Enterasys Brasil filed a lawsuit in the 11th Public Treasury Court of the Sao Paulo State Court of Justice (Judiciary District of Sao Paulo) to overturn or reduce the ICMS Tax Assessment. As part of this lawsuit, Enterasys Brasil requested a stay of execution, so that no tax foreclosure could be filed and no guarantee would be required until the court issued its final ruling. On or about October 6, 2014, the court granted a preliminary injunction staying any execution on the assessment, but requiring that Enterasys Brasil deposit the assessed amount with the court. Enterasys Brasil appealed this ruling and, on or about January 28, 2015, the appellate court ruled that no cash deposit (or guarantee) was required. In a decision dated August 28, 2017, and published on October 3, 2017, the court validated the assessment and penalty imposed by the Tax Authority but ruled that the Tax Authority was charging an unlawfully high interest rate on the tax assessment and penalty amounts and ordered the interest rate reduced to the maximum Federal rate. The August 28, 2017 decision, were it to become final, would require Enterasys Brasil to pay a total of BRL 19.6 million (USD \$4.8 million), which includes penalties, court costs, attorneys' fees, and accrued interest as of December 31, 2018. The Company believes the ICMS Tax Assessment against Enterasys Brasil is without merit and has appealed the lower court's decision. The appellate court ruled that no cash deposit (or guarantee) is required during the pendency of the appeal.

Based on the currently available information, the Company believes the ultimate outcome of the ICMS Tax Assessment litigation will not have a material adverse effect on the Company's financial position or overall results of operations. However, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserted, there can be no assurance of a favorable outcome for Enterasys Brasil, which recorded an accrual of BRL 9.4 million (USD \$2.3 million) as of the date the Company acquired Enterasys Networks.

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

*In re Extreme Networks, Inc. Securities Litigation*

On October 23 and 29, 2015, punitive class action complaints alleging violations of securities laws were filed in the U.S. District Court for the Northern District of California against the Company and three of its former officers (Charles W. Berger, Kenneth B. Arola, and John T. Kurtzweil). Subsequently, the cases were consolidated (In re Extreme Networks, Inc. Securities Litigation, No. 3:15-CY-04883-BLF). Plaintiffs allege that defendants violated the securities laws by disseminating materially false and misleading statements and concealing material adverse facts regarding the Company's financial condition, business operations and growth prospects. Plaintiffs seek unspecified damages on behalf of a purported class of investors who purchased the Company's common stock from September 12, 2013 through April 9, 2015. On June 28, 2016, the Court appointed a lead plaintiff. On September 26, 2016, the lead plaintiff filed a consolidated complaint. On November 10, 2016, defendants filed a motion to dismiss, which the Court granted with leave to amend on April 27, 2017. On June 2, 2017, the lead plaintiff filed an amended complaint, which, on July 10, 2017, defendants again moved to dismiss. In a March 21, 2018 Order (the "March 2018 Order"), the Court granted in part and denied in part the defendants' motion. The March 2018 Order narrowed the scope of the case, but allowed certain claims to proceed. The parties have agreed to settle the litigation. On November 30, 2018, plaintiffs filed an unopposed motion for preliminary approval of the settlement, and on December 6, 2018, Extreme filed a statement of non-opposition. The motion presently is set for hearing on April 25, 2019.

On February 18, 2016, a shareholder derivative case was filed in the Superior Court of California, Santa Clara County (Shaffer v. Kispert et al., No. 16 CV 291726). The complaint names current and former officers and directors as defendants, and seeks recovery on behalf of the Company based on substantially the same allegations as the securities class action litigation described above. As a result of the March 2018 Order, the stipulated stay of the derivative litigation ended. The parties have agreed to settle the litigation. On November 26, 2018, plaintiff filed an unopposed motion for preliminary approval of the settlement, and on December 6, 2018, Extreme filed a statement of non-opposition. On January 18, 2019 the Court entered an order granting preliminary approval of the settlement and approving the notice to shareholders. The Court set the final approval hearing for May 3, 2019.

*XR Communications, LLC d/b/a Vivato Technologies v. Extreme Networks, Inc. Patent Infringement Suit*

On April 19, 2017, XR Communications, LLC ("XR") (d/b/a Vivato Technologies) filed a patent infringement lawsuit against the Company in the Central District of California (XR Communications, LLC, dba Vivato Technologies v. Extreme Networks, Inc., No. 2:17-cv-2953-AG). The operative Second Amended Complaint asserts infringement of U.S. Patent Nos. 7,062,296, 7,729,728, and 6,611,231 based on the Company's manufacture, use, sale, offer for sale, and/or importation into the United States of certain access points and routers supporting multi-user, multiple-input, multiple-output technology. XR seeks unspecified damages, on-going royalties, pre- and post-judgment interest, and attorneys' fees (but no injunction). In orders dated April 10 and May 22, 2018, the Court stayed the case pending a resolution by the Patent Trial and Appeal Board ("PTAB") of inter partes review (IPR) petitions filed by several defendants in other XR-related patent lawsuits challenging the validity of the asserted patents. The PTAB has now instituted IPR proceedings as to all three patents and all patent claims asserted in the litigation. Given the stay, the Court took off calendar all previously scheduled events (including a Markman hearing and potential trial date). During a status conference on October 22, 2018, the Court continued the stay and set a status conference for February 11, 2019. The Company believes the claims are without merit and intends to defend them vigorously.

*Orckit IP, LLC v. Extreme Networks, Inc., Extreme Networks Ireland Ltd., and Extreme Networks GmbH*

On February 1, 2018, Orckit IP, LLC (“Orckit”) filed a patent infringement lawsuit against the Company and its Irish and German subsidiaries in the District Court in Dusseldorf, Germany. The lawsuit alleges direct and indirect infringement of the German portion of European Patent EP 1 958 364 B1 based on the offer, distribution, use, possession and/or importation into Germany of certain network switches equipped with the ExtremeXOS operating system. Orckit is seeking injunctive relief, an accounting, and an unspecified declaration of liability for damages and costs of the lawsuit. On May 3, 2018, Extreme Networks GmbH filed a separate nullity action in the Federal Patent Court in Munich, seeking to invalidate the asserted patents, and on May 4, 2018, the defendants answered the complaint, denying any infringement and seeking a stay of the action pending the conclusion of the nullity action. The Company believes the claims are without merit and intends to defend them vigorously.

### ***Indemnification Obligations***

Subject to certain limitations, the Company may be obligated to indemnify its current and former directors, officers and employees. These obligations arise under the terms of its certificate of incorporation, its bylaws, applicable contracts, and applicable law. The obligation to indemnify, where applicable, generally means that the Company is required to pay or reimburse, and in certain circumstances the Company has paid or reimbursed, the individuals' reasonable legal expenses and possibly damages and other liabilities incurred in connection with certain legal matters. For example, the Company currently is paying or reimbursing legal expenses being incurred by certain current and former officers and directors in connection with the shareholder litigation described above. The Company also procures Directors and Officers insurance to help cover its defense and/or indemnification costs, although its ability to recover such costs through insurance is uncertain. While it is not possible to estimate the maximum potential amount that could be owed under these indemnification agreements due to the Company's limited history with prior indemnification claims, indemnification (including defense) costs could, in the future, have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. As of December 31, 2018, the Company has the outstanding indemnification claims described above.

## **10. Stockholders' Equity**

### ***Stockholders' Rights Agreement***

On April 26, 2012, the Company entered into an Amended and Restated Rights Agreement between the Company and Computershare Shareholder Services LLC as the rights agent (the “Restated Rights Plan”). The Restated Rights Plan governs the terms of each right (“Right”) that has been issued with respect to each share of common stock of Extreme Networks. Each Right initially represents the right to purchase one one-thousandth of a share of the Company's Preferred Stock. The Restated Rights Plan replaces in its entirety the Rights Agreement, dated as of April 27, 2001, as subsequently amended, between the Company and Mellon Investor Services LLC (the “Prior Rights Plan”).

The Company's Board of Directors (“the Board”) adopted the Restated Rights Plan to preserve the value of deferred tax assets, including net operating loss carry forwards of the Company, with respect to its ability to fully use its tax benefits to offset future income which may be limited if the Company experiences an “ownership change” for purposes of Section 382 of the Internal Revenue Code of 1986 as a result of ordinary buying and selling of its common stock. Following its review of the terms of the plan, the Board decided it was necessary and in the best interests of the Company and its stockholders to enter into the Restated Rights Plan. The Restated Rights Plan incorporates the Prior Rights Plan and the amendments thereto into a single agreement and extended the term of the Prior Rights Plan to April 30, 2013. Each year since 2013 the Board and stockholders have approved an amendment providing for a one-year extension of the term of the Restated Rights Plan. The Board unanimously approved an amendment to the Restated Rights Plan on May 9, 2018 to extend the Restated Rights Plan through May 31, 2019 which was ratified by the stockholders of the Company at the Company's annual shareholders meeting held on November 8, 2018.

### ***Employee Stock Purchase Plan***

Our Board of Directors unanimously approved an amendment to the 2014 Employee Stock Purchase Plan to increase the maximum number of shares that will be available for sale thereunder by 7,500,000 shares which was ratified by the stockholders of the Company at the annual meeting of stockholders held on November 8, 2018.

### ***Common Stock Repurchases***

On November 2, 2018, the Company announced that the Board had authorized management to repurchase up to \$60.0 million of the Company's common stock for two years from the date of authorization. Purchases may be made from time to time in the open market or in privately negotiated transactions. A maximum of \$35.0 million of the Company's common stock may be repurchased in any calendar year.

The following table summarizes the Company's shares repurchases under its stock repurchase program (in thousands, except per share amounts):

	<u>Three Months Ended</u> <u>December 31,</u> <u>2018</u>	<u>Six Months Ended</u> <u>December 31,</u> <u>2018</u>
Total number of shares repurchased	2,366	2,366
Average price paid per share	\$ 6.34	\$ 6.34
Dollar value of shares repurchased	<u>\$ 15,000</u>	<u>\$ 15,000</u>
Dollar value of shares that may yet be repurchased under program	<u>\$ 45,000</u>	<u>\$ 45,000</u>

## 11. Employee Benefit Plans

### *Shares reserved for issuance*

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

	<u>December 31,</u> <u>2018</u>	<u>June 30,</u> <u>2018</u>
2013 Equity Incentive Plan shares available for grant	7,558	9,957
Employee stock options and awards outstanding	11,577	12,060
2014 Employee Stock Purchase Plan	4,084	5,365
Total shares reserved for issuance	<u>23,219</u>	<u>27,382</u>

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Cost of product revenue	\$217	\$134	\$395	\$226
Cost of service revenue	677	296	1,022	429
Research and development	2,797	1,829	5,139	2,880
Sales and marketing	2,983	2,699	5,342	4,342
General and administrative	2,026	2,067	3,627	3,951
Total share-based compensation expense	<u>\$8,700</u>	<u>\$7,025</u>	<u>\$15,525</u>	<u>\$11,828</u>

During the three and six months ended December 31, 2018 or 2017, the Company did not capitalize any share-based compensation expense in inventory, as the amounts were immaterial.

### *Stock Awards*

Stock awards may be granted under the 2013 Equity Incentive Plan (the "2013 Plan") on terms approved by the Compensation Committee of the Board. Stock awards generally provide for the issuance of restricted stock units ("RSUs") including performance or market-based RSUs which vest over a fixed period of time or based upon the satisfaction of certain performance criteria. The Company uses the straight-line method for expense attribution, and beginning with fiscal 2017, the Company does not estimate forfeitures, but accounts for them as incurred.

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

	<u>Number of Shares</u>	<u>Weighted- Average</u> <u>Grant</u> <u>Date Fair Value</u>	<u>Aggregate</u> <u>Market Value</u>	<u>Fair</u>
Non-vested stock awards outstanding at June 30, 2018	7,764	\$8.60	\$61,804	
Granted	4,042	6.40		
Released	(2,271)	7.75		
Cancelled	(738)	8.66		
Non-vested stock awards outstanding at December 31, 2018	<u>8,797</u>	\$7.80	\$53,661	

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

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Options outstanding at June 30, 2018	2,193	\$3.88	2.90	\$8,996
Granted	852	6.40		
Exercised	(178)	3.56		
Cancelled	(87)	6.01		
Options outstanding at December 31, 2018	<u>2,780</u>	\$4.60	3.70	\$4,414
Vested and expected to vest at December 31, 2018	2,780	\$4.60	3.70	\$4,414
Exercisable at December 31, 2018	1,962	\$3.94	2.53	\$4,234

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

The fair value of each RSU grant with performance-based vesting criteria ("PSUs") under the 2013 Plan is estimated on the date of grant using the Monte-Carlo simulation model to determine the fair value and the derived service period of stock awards with market conditions, on the date of the grant.

During the second quarter of fiscal 2019, the Company approved the grant of 705,009 stock awards, including 357,142 stock awards to its Chief Financial Officer, and 347,867 stock awards to its other employees. During the first quarter of fiscal 2019, the Company approved the grant of 1,269,800 stock awards to its vice president level employees or above ("VPs"), which includes 278,000 stock awards to its Executive Officers. The Company also approved 2,067,074 stock awards to its other employees. Fifty percent (50%) of the stock awards granted to the VPs and the chief executive officer, were in the form of PSUs, with grant date fair values of \$6.40, and fifty percent (50%) of the stock awards granted were in the form of service-based RSUs. The RSUs vest from the original grant date as to one-third (1/3) on the one-year anniversary and one-twelfth (1/12) each quarter thereafter, subject to continued service to the Company. No PSUs were granted during the second quarter of fiscal 2018.

For the PSUs referenced in the preceding paragraph, they will be considered earned once the Company's combined earnings per share equals or exceeds \$0.20 over two consecutive quarters (the "FY19 Performance Threshold"). Upon satisfying the FY19 Performance Threshold, the PSUs shall vest with respect to the same number of RSUs that have vested which were granted on the same date and thereafter, shall vest on the same schedule as the RSUs, subject to continued service to the Company. If the FY19 Performance Threshold is not met by the third anniversary of the grant date the award is canceled. In addition, the FY19 Performance Threshold shall be deemed satisfied upon the closing of a Change in Control (within the meaning of the Company's 2013 Equity Incentive Plan) in the event the per share consideration received by the Company's stockholders equals or exceeds \$10.00 per share.

During the six months ended December 31, 2018, the Performance Thresholds were not achieved for fiscal 2018 or fiscal 2019.

During the first quarter of fiscal 2019, the Company granted 851,700 Performance Stock Options ("PSOs") to certain officers and executive vice presidents that will vest if the Company's stock price achieves a price hurdle of \$10.00 during the three-year performance period from August 29, 2018 through August 31, 2021. The price hurdle will be deemed to have been achieved if, at any time over the performance period, the Company's stock maintains a price of \$10.00 for 30 consecutive days. If the price hurdle is achieved, the PSOs will vest as follows:

If the price hurdle is met before or on August 31, 2019, one-third of the PSOs will vest on August 31, 2019 and the remainder will vest quarterly over two years.

If the price hurdle is met after August 31, 2019, a number of the PSOs will vest (ratably calculated based upon the time elapsed between August 31, 2018 and the date the hurdle is met) and the remainder will vest quarterly through August 31, 2021. The grant date fair value was \$2.62.

No PSUs were granted during the second quarter of fiscal 2019.

#### 2014 Employee Stock Purchase Plan

The fair value of each share purchase option under the Company's 2014 Employee Stock Purchase Plan ("ESPP") is estimated on the date of grant using the Black-Scholes-Merton option valuation model with the weighted average assumptions noted in the following table. The expected term of the ESPP represents the term of the offering period of each option. The risk-free rate is based upon the estimated life and on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on the historical volatility on the Company's stock.

There were no shares granted under the ESPP during the three months ended December 31, 2018 and 2017. There were 1,280,708 and 1,267,930 shares issued under the ESPP during the six months ended December 31, 2018 and 2017, respectively. The following assumptions were used to calculate the fair value of shares granted under the ESPP during the following periods:

	Employee Stock Purchase Plan	
	Six Months Ended	
	December 31, 2018	December 31, 2017
Expected life	0.5 years	0.5 years
Risk-free interest rate	2.20	% 1.15
Volatility	63	% 42
Dividend yield	—	% —

The weighted-average fair value of shares granted under the ESPP during the six months ended December 31, 2018 and 2017 was \$2.73 and \$2.41, respectively.

## 12. Information about Segments of Geographic Areas

The Company operates in one segment, the development and marketing of network infrastructure equipment. The Company conducts business globally and is managed geographically. Revenue is attributed to a geographical area based on the location of its customers. The Company operates in three geographical areas: Americas, which includes the United States, Canada, Mexico, Central America and South America; EMEA, which includes Europe, Russia, Middle East and Africa; and APAC which includes Asia Pacific, South Asia, India, Australia and Japan. The Company's chief operating decision maker, who is its CEO, reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance.

See Note 3 Net Revenues for the Company's revenues by geographic regions and channel based on the customer's ship-to location.

The Company's long-lived assets are attributed to the geographic regions as follows (in thousands):

	December 31, 2018	June 30, 2018
<b>Long-lived Assets</b>		
Americas	\$ 142,580	\$ 178,251
EMEA	36,384	15,106
APAC	12,249	9,896
Total long-lived assets	\$ 191,213	\$ 203,253

## 13. Foreign Exchange Forward Contracts

The Company uses derivative financial instruments to manage exposures to foreign currency. The Company's objective for holding derivatives is to use the most effective methods to minimize the impact of these exposures. The Company does not enter into derivatives for speculative or trading purposes. The fair value of the Company's derivatives in a gain position are recorded in "Prepaid expenses and other current assets" and derivatives in a loss position are recorded in "Other accrued liabilities" in the accompanying condensed consolidated balance sheets. Changes in the fair value of derivatives are recorded in "Other income (expense), net" in the accompanying condensed consolidated statements of operations. The Company enters into foreign exchange forward contracts to mitigate the effect of gains and losses generated by foreign currency transactions related to certain operating expenses and re-measurement of certain assets and liabilities denominated in foreign currencies. These derivatives do not qualify as hedges.

As of December 31, 2018, the Company did not have any forward foreign currency contracts. As of December 31, 2017 forward foreign currency contracts had a notional principal amount of \$1.5 million and an immaterial unrealized gain. These contracts typically have maturities of less than 90 days. Changes in the fair value of these foreign exchange forward contracts are offset largely by re-measurement of the underlying assets and liabilities.

Foreign currency transactions losses from operations was less than \$0.1 million and \$0.6 million for the three months ended December 31, 2018 and 2017, respectively. Foreign currency transactions gains and losses from operations was a gain of \$0.2 million and a loss of \$1.1 million for the six months ended December 31, 2018 and 2017, respectively.

#### 14. Restructuring Charges, net of reversals

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

The Company recorded \$0.5 million and \$1.3 million of restructuring charges, net of reversals during the three and six months ended December 31, 2018, respectively, associated with a reduction-in-force in the fourth quarter of fiscal 2018 and additional excess facilities obligations.

Cash payments of \$4.7 million were paid during the first six months of fiscal 2019. The balance of the severance and benefits obligations are expected to be paid by the end of fiscal 2019. The excess facilities obligations will continue through fiscal year 2023.

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

	Excess Facilities	Severance Benefits	Total
Balance as of June 30, 2018	\$ 1,797	\$ 4,658	\$ 6,455
Period charges	104	1,524	1,628
Period reversals	—	(346)	(346)
Period payments	(101)	(4,569)	(4,670)
Balance as of December 31, 2018	<u>\$ 1,800</u>	<u>\$ 1,267</u>	<u>\$ 3,067</u>
Less: current portion included in Other accrued liabilities			1,830
Restructuring accrual included in Other long-term liabilities			<u>\$ 1,237</u>

#### 15. Income Taxes

For the three months ended December 31, 2018 and 2017, the Company recorded an income tax benefit of \$5.3 million and \$1.6 million, respectively. For the six months ended December 31, 2018 and 2017, the Company recorded a tax benefit of \$3.9 million and a tax provision of \$0.1 million, respectively.

The income tax provisions for the three months ended December 31, 2018 and 2017, consisted of (1) taxes on the income of the Company’s foreign subsidiaries, (2) tax expense associated with the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisition of Enterasys Networks, Inc., the WLAN Business, the Campus Fabric Business the Data Center Business, (3) foreign withholding taxes and (4) state taxes in jurisdictions where the Company has no available state Net Operating Losses (“NOLs”).

The tax provision for the three months ended December 31, 2018, is offset by a tax benefit of \$2.6 million resulting from the release of a valuation allowance for the Company’s Australian NOLs given consistent and sufficient profitability following the recent acquisitions as well as a tax benefit of \$4.7 million for the release of valuation allowance given changes introduced by recently enacted U.S. tax legislation as discussed below. This legislation changed the U.S. NOL rules to afford an indefinite carryforward period for NOLs generated in tax years beginning after December 31, 2017. In evaluating the realizability of Deferred Tax Assets (“DTAs”), historically the Company was unable to consider the Deferred Tax Liability (“DTL”) related to amortizable goodwill as a source of future income for reversing deductible differences with fixed lives. The change to the NOL rules creates an indefinite lived DTA and as such the indefinite lived DTL related to goodwill can now be viewed as a source of income for the newly created indefinite lived DTA. These two indefinite lived items can now be netted in determining the amount of valuation allowance needed.

The tax provision for the three months ended December 31, 2017, is offset by a tax benefit of \$2.5 million resulting from the reduction of the U.S. Federal tax rate from 35% to 21% applied to the Company’s deferred tax liability related to amortizable goodwill as required by the U.S. tax legislation discussed below. The income tax provisions for both fiscal years were calculated based on the actual results of operations for the three months ended December 31, 2018 and 2017, respectively and therefore may not reflect the annual effective tax rate.



The income tax benefit and provision for the six months ended December 31, 2018 and 2017, respectively consisted primarily of taxes on the income of the Company's foreign subsidiaries as well as tax expense associated with the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisition of Enterasys Networks, Inc., the WLAN Business, the Campus Fabric Business and the Data Center Business. The income tax provision for the six months ended December 31, 2018 was offset by the two valuation allowance releases referenced above. The income tax provision for the six months ended December 31, 2017 is offset by a tax benefit of \$2.5 million resulting from U.S. tax legislation which reduced the corporate federal tax rate from 35% to 21%. As a result of this change, the Company recognized a tax benefit associated with the revaluation of the Company's deferred tax liability related to amortizable goodwill to reflect the lower statutory tax rate.

On December 22, 2017, the President of the United States signed and enacted into law H.R. 1, the Tax Cuts and Jobs Act ("TCJA"), which, except for certain provisions, is effective for the Company's fiscal year ended 2019. As a fiscal year taxpayer, the Company was not subject to the majority of the tax law provisions until the first quarter of fiscal year 2019; however, there were certain significant items of impact that were recognized in fiscal year 2018, the year the TCJA was enacted.

The TCJA's primary change is a reduction in the U.S. Federal statutory corporate tax rate from 35% to 21%. As a result, the Company recognized a tax benefit in the amount of \$2.5 million in the second quarter of fiscal 2018 due to the revaluation of the Company's deferred tax liability related to amortizable goodwill to reflect the lower statutory rate. Because the U.S. deferred tax assets are offset by a full valuation allowance, the reduction in deferred tax assets for the lower rate was fully offset by a corresponding reduction in valuation allowance resulting in no additional tax provision.

The TCJA moves the U.S. from a global taxation regime to a modified territorial regime. Under the territorial regime, the company's foreign earnings will generally not be subject to tax in the US. As part of transitioning to this new regime, U.S. companies were required to pay tax on historical earnings generated offshore that have not been repatriated to the U.S. ("Transition Tax"). The Company has determined there was no incremental tax provision related to the Transition Tax given the Company's ability to utilize existing tax attributes to offset the impact of the deemed repatriation.

The TCJA makes broad and complex changes to the U.S. tax code, and in certain instances, lacks clarity and is subject to interpretation until additional U.S. Treasury guidance is issued. Certain guidance has been released during the second quarter of the Company's Fiscal year ended June 30, 2019 and has been incorporated into the Company's related computations. On December 22, 2017, the SEC issued guidance under Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* ("SAB 118"), which allows registrants to record provisional amounts during a one year "measurement period" similar to that used when accounting for business combinations. However, the measurement period was deemed to have ended earlier when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed. SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with law prior to the enactment of the TCJA. The measurement period ended in the Company's fiscal quarter ended December 31, 2018 and the Company has finalized all related adjustments.

Amounts recorded pursuant to Tax Reform and the provisions of SAB 118 relate to the reduction in the U.S. federal tax rate to 21 percent, which resulted in the Company reporting an income tax benefit of \$2.5 million in the fiscal year ended June 30, 2018 to remeasure deferred tax liabilities associated with indefinitely lived intangible assets that will reverse at the new 21% rate. Absent this deferred tax liability, the Company has historically been in a net deferred tax asset position that is offset by a full valuation allowance. The Transition Tax introduced by TCJA has been calculated to be zero for the Company given existing tax attributes that were utilized to offset the calculated liability. As discussed below, during the quarter ended December 31, 2018 the Company completed its evaluation of whether to treat global intangible low-taxed income (“GILTI”) as a component of tax expense in the period in which it is incurred or as a component of deferred income taxes. In conjunction with this determination and the completion of schedule the reversal of deferred tax assets and liabilities the Company has reduced the valuation allowance level by \$4.7 million to reflect the introduction of an indefinite carryforward period for NOLs expected to be generated in tax years beginning after December 31, 2017 once deferred tax assets reverse. With respect to provisions of the TCJA effective for the Company’s fiscal year ended 2019, the Company anticipates several new provisions will impact tax provisions in future periods including limitations on the deductibility of interest expense and certain executive compensation, a minimum tax on certain foreign earnings (i.e., GILTI). The GILTI provisions require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary’s tangible assets. Based on initial assessment and interpretation of the new provision, the Company expects that it will be subject to incremental U.S. tax on GILTI income beginning in fiscal 2019. The Company has elected to account for GILTI tax as a component of tax expense in the period in which it is incurred. The Base Erosion and Anti-Abuse Tax (“BEAT”) provisions in the Tax Reform Act eliminate the deduction of certain base-erosion payments made to related foreign corporations and impose a minimum tax if greater than regular tax. There is a reasonable amount of uncertainty surrounding the interpretation of this new provision, however, based on initial assessment and a reasonable interpretation of the new provision, the Company expects that it will not be subject to the incremental U.S. tax on BEAT income beginning in fiscal 2019, due to a realignment of the Company’s international structure.

In the three months ended September 30, 2018, the Company adopted ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset at the time the transfer occurs. Historically, GAAP has prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset had been sold outside the consolidated group. Effective as of July 1, 2018, the Company adopted ASU 2016-16 on a modified retrospective basis which requires an adjustment of the cumulative-effect of the adoption to retained earnings. However, the adjustment was immaterial to the financial statements and no such adjustment was necessary. As a result of adoption, the income tax consequences of future intra-entity transfer of assets will be recognized in earnings in each period rather than be deferred until the assets leave the consolidated group. In the three months ended September 30, 2018, the Company recognized a deferred tax asset relating to a transfer of certain assets from the US parent company to its wholly-owned Irish subsidiary of \$3.7 million, which was fully offset by the establishment of a valuation allowance resulting in no impact to Company’s statement of operations.

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

The acquisition of Enterasys in October 2013 included a U.S. parent company as well as its wholly-owned foreign subsidiaries. The Company elected to treat this stock acquisition as an asset purchase by filing the required election forms under IRC Sec 338(h)(10). In addition, the Company completed asset purchases of the WLAN Business, the Campus Fabric Business and the Data Center Business in October 2016, July 2017 and October 2017, respectively. The Company has estimated the value of the intangible assets from these transactions and is amortizing the amounts over 15 years for tax purposes. During the three and six months ended December 31, 2018, the Company deducted \$1.8 million and \$4.1 million of tax amortization expense respectively, for each period related to capitalized goodwill resulting from these acquisitions. As of December 31, 2018, the Company recorded a deferred tax liability of \$6.4 million related to this goodwill amortization which now can be partially considered a future source of taxable income in evaluating the need for a valuation allowance against its deferred tax assets.

The Company had \$17.5 million of unrecognized tax benefits as of December 31, 2018. The future impact of the unrecognized tax benefit of \$17.5 million, if recognized, would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. The Company does not anticipate any events to occur during the next twelve months that would reduce the unrealized tax benefit as currently stated in the Company's balance sheet.

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

In general, the Company's U.S. federal income tax returns are subject to examination by tax authorities for fiscal years 2001 forward due to net operating losses and the Company's state income tax returns are subject to examination for fiscal years 2000 forward due to net operating losses. The Company recently settled an examination by the state of North Carolina for fiscal years ended 2014, 2015 and 2016. The settlement resulted in an immaterial payment to the state to close all three years.

## 16. Net Loss Per Share

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

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

	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net loss	\$ 7,199	\$ (31,923)	\$ (1,866)	\$ (27,547)
Weighted-average shares used in per share calculation - basic	117,544	113,621	117,456	112,931
Effect of potentially dilutive shares:				
Options to purchase common stock	657	—	—	—
Restricted stock units	1,129	—	—	—
Employee Stock Purchase Plan shares	214	—	—	—
Weighted-average shares used in per share calculation - diluted	119,544	113,621	117,456	112,931
Net income (loss) per share - basic	\$ 0.06	\$ (0.28)	\$ (0.02)	\$ (0.24)
Net income (loss) per share - diluted	\$ 0.06	\$ (0.28)	\$ (0.02)	\$ (0.24)

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

	Three Months Ended		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Options to purchase common stock	781	2,622	543	2,781
Restricted stock units	6,341	7,950	1,369	7,162
Employee Stock Purchase Plan shares	1,286	834	1,286	906
Total shares excluded	8,408	11,406	3,198	10,849

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

*This quarterly report on Form 10-Q, including the following sections, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including in particular, our expectations regarding market demands, customer requirements and the general economic environment, future results of operations, and other statements that include words such as “may,” “will,” “should,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue” and similar expressions. These forward-looking statements involve risks and uncertainties. We caution investors that actual results may differ materially from those projected in the forward-looking statements as a result of certain risk factors identified in the section entitled “Risk Factors” in this Quarterly Report on Form 10-Q for the second quarter ended December 31, 2018, our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, and other filings we have made with the Securities and Exchange Commission. These risk factors, include, but are not limited to: fluctuations in demand for our products and services; a highly competitive business environment for network switching equipment; our effectiveness in controlling expenses; the possibility that we might experience delays in the development or introduction of new technology and products; customer response to our new technology and products; fluctuations in the global economy; risks related to pending or future litigation; a dependency on third parties for certain components and for the manufacturing of our products and our ability to receive the anticipated benefits of acquired businesses.*

### Business Overview

The following discussion is based upon our consolidated financial statements included elsewhere in this Report, which have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). In the course of operating our business, we routinely make decisions as to the timing of the payment of invoices, the collection of receivables, the manufacturing and shipment of products, the fulfillment of orders, the purchase of supplies, and the building of inventory and service parts, among other matters. Each of these decisions has some impact on the financial results for any given period. In making these decisions, we consider various factors including contractual obligations, customer satisfaction, competition, internal and external financial targets and expectations, and financial planning objectives. For further information about our critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” section included in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Extreme Networks, Inc., together with its subsidiaries (collectively referred to as “Extreme” and as “we”, “us” and “our”) is a leading provider of network infrastructure equipment and software and offers related maintenance contracts for extended warranty and maintenance to our enterprise, data center and service provider customers. We were incorporated in California in May 1996 and reincorporated in Delaware in March 1999. Our corporate headquarters are located in San Jose, California. We derive substantially all of our revenue from the sale of our networking equipment and related maintenance contracts.

Extreme is a leader in providing software-driven networking solutions for enterprise customers. Providing a combined end-to-end solution from the data center to the access point, Extreme designs, develops and manufactures wired and wireless network infrastructure equipment and develops the software for network management, policy, analytics, security and access controls. We strive to help our customers and partners Connect Beyond the Network by building world-class software and network infrastructure solutions that solve the wide range of problems faced by IT departments.

Enterprise network administrators from the data center to the access layer need to respond to the rapid digital transformational trends of cloud, mobility, big data, social business and the ever-present need for network security. Accelerators such as Internet of Things (“IoT”), artificial intelligence (“AI”), bring your own device (“BYOD”), machine learning, cognitive computing, and robotics add complexity to challenge the capabilities of traditional networks. Technology advances have a profound effect across the entire enterprise network placing unprecedented demands on network administrators to enhance management capabilities, scalability, programmability, agility, and analytics of the enterprise networks they manage.

A trend affecting the Enterprise Network Equipment market is the continued adoption of the cloud-managed enterprise WLAN in the enterprise market. Hybrid cloud is a cloud computing environment which uses a mix of on-premises, private cloud and third-party, public cloud services with orchestration between the two platforms.

We believe that understanding the following key developments is helpful to an understanding of our operating results for the fiscal quarter ended December 31, 2018.

To facilitate the readers understanding, the following is a list of common terms in our industry used in the discussion of our business:

- **Access:** Network access is the closest point of entry to a network whether it is a wireless access point, Ethernet connection, or Wi-Fi device.

- **Access Point:** A wireless access point, or more generally just access point (“AP”), is a networking hardware device that allows a Wi-Fi device to connect to a wired network. (Source: Industry term)
- **Aggregation:** In computer networking, the term aggregation applies to various methods of combining (aggregating) multiple network connections in parallel in order to increase throughput beyond what a single connection could sustain, and to provide redundancy in case one of the links should fail.
- **Artificial Intelligence:** Artificial Intelligence (“AI”) is a set of technologies that enable computers to simulate the cognitive knowledge-processing capabilities of humans. Because it is artificial, the objective of most work in AI is to *augment* the capabilities of humans, not to replace them. Just as computers in general are applied to the tedious and repetitive tasks that humans find tedious, AI-based solutions can deal with often large (“Big Data”) volumes of digitally-encoded information dispassionately, unemotionally, rapidly, and, depending upon the parameters of a specific application and implementation, accurately. In network administration, AI can be applied to dealing with the “more-variables-than-equations nature” of radio frequency settings in even very- large-scale Wi-Fi installations. The goal is to achieve optimal network-wide performance more accurately and at lower cost than would be possible with humans alone.
- **Campus Network:** A campus network, or campus area network, or corporate area network (“CAN”) is a computer network made up of an interconnection of local area networks (“LANs”) within a limited geographical area, such as a college campus, company campus, hospital, hotel, convention center or sports venue.
- **CloudStack:** CloudStack is an open source cloud computing software for creating, managing, and deploying infrastructure cloud services. It uses existing hypervisors such as KVM, VMware ESXi and XenServer/XCP for virtualization.
- **Core:** A core network, or network core, is the central part of a telecommunications network that provides various services to customers who are connected by the access network.
- **Data Center:** A data center is a facility used to house computer systems and associated components, such as telecommunications and storage systems. It generally includes redundant or backup power supplies, redundant data communications connections, environmental controls (e.g. air conditioning, fire suppression) and various security devices.
- **Data Center Fabric technologies:** Also known as IP Fabric, is the basic topology of how a network is laid out and connected to switch traffic on a data or circuit-switched network.
- **Edge:** An edge device is a device which provides an entry point into enterprise or service provider core networks. Examples include routers, routing switches, integrated access devices (“IADs”), multiplexers, and a variety of metropolitan area network (“MAN”) and wide area network (“WAN”) access devices.
- **Fabric Attach:** Extreme’s Fabric Attach (“FA”) fundamentally introduces autonomic/automatic attachment to network services for end users IoT devices to a network infrastructure. Fabric Attach and Fabric Connect are key building blocks of the Extreme Fabric architecture.
- **Fabric Connect:** Fabric Connect is an extended implementation of the IEEE/IEFT standards for Shortest Path Bridging (“SPB”). It offers a full-service network virtualization technology that combines the best of Ethernet and the best of IP using a single network protocol instead of the multiple required for competitive solutions.
- **Flipped Classroom:** Flipped classroom is an instructional strategy and a type of blended learning that reverses the traditional learning environment by delivering instructional content, often online, outside of the classroom.
- **Internet Protocol:** Internet Protocol (“IP”) is the principal set (or communications protocol) of digital message formats and rules for exchanging messages between computers across a single network or a series of interconnected networks, using the Internet Protocol Suite (often referred to as TCP/IP)
- **Layer 3 Data Center Interconnect;** A Data Center Interconnect (“DCI”) refers to the networking of two or more different data centers to achieve business or IT objectives. This interconnectivity between separate data centers enables them to work together, share resources and/or pass workloads between one another. A Layer 3 DCI refers to interconnection made through layer 3 of the commonly-referenced multilayered communication model, Open Systems Interconnection (“OSI”).
- **Machine Learning:** Machine Learning (“ML”) is a set of technologies, and itself a branch of AI, that enables computers to simulate human learning, with learning defined here as the ability to change behavior and/or essential capabilities (again, simulated as a digital process on a computer) in response to new information suitably encoded for consumption by the algorithms implementing ML. In other words, ML enables AI-based processes to “learn” from past behaviors and consequently to improve future results, in much the same way as experiential education benefits humans.

- **Network Automation:** Network Automation (“NA”) is a methodology in which software automatically configures, provisions, manages and tests network devices. It is used by enterprises and service providers to improve efficiency and reduce human error and operating expenses.
- **OpenStack:** OpenStack software controls large pools of compute, storage, and networking resources throughout a datacenter, managed through a dashboard or via the OpenStack API. OpenStack works with popular enterprise and open source technologies making it ideal for heterogeneous infrastructure. (Source: OpenStack.org)
- **Single Pane of Glass:** Single pane of glass is a term used to describe a management display console that integrates all parts of a computer infrastructure.
- **Stackstorm:** A platform for integration and automation across services and tools. It ties existing infrastructure and application environment to automate that environment. It has a particular focus on taking actions in response to events.
- **Wi-Fi:** Wireless Access points using Radio Frequency and protocols to allow computers, smartphones, or other devices to connect to the Internet or communicate with one another wirelessly within an area.
- **Workflow Composer:** Extreme’s event-driven automation tool that allows for customizable workflows and automation to drive provisioning, configuration, and troubleshooting actions in a multi-vendor environment

## Industry Background

Enterprises are adopting new IT delivery models and applications that require fundamental network alterations and enhancements spanning from device access point to the network core. AI and ML technologies have the potential to vastly improve the network experience. When AI and ML are used in conjunction with an NA technology, administrators can make significant advances in productivity, availability, accessibility, manageability, security and speed of their network infrastructure. These emerging technologies are driving administrators to a mindset of change toward agile processes that allow a versatile workforce to improve the rate of innovation of the enterprise safely, securely and with confidence.

AI, ML and NA have increased the relevance and importance of the network in the enterprise. Traditional network offerings are not well-suited to fulfill enterprise expectations for rapid delivery of new services, more flexible business models, real-time response and massive scalability.

The networking industry appears to be invigorated by this wave of technological change:

- **Ethernet (wired and wireless) has solidified its role in both public and private networks through its scalability, adaptability and cost-effectiveness.** At the same time, the enterprises and service providers expect the technology to follow a price-performance curve that mandates continued innovation by Ethernet vendors.
- **The mobile workforce continues to proliferate.** Employees expect high-quality and secure access to corporate resources in a BYOD world across a diversity of endpoints such as laptops, tablets, smart phones and wearables, whether they are within the corporate firewall or on-the-go. With ExtremeManagement, IT departments focus their investment decisions on this mobile workforce, taking a unified view of wireless access, from the campus core and the data center. Extreme offers end-to-end solutions that permit IT managers to meet employee expectations and to maximize IT return on investment.
- **Verticals such as retail, finance, healthcare, education, manufacturing, government and hospitality (which includes sports and entertainment venues) are connecting with their customers and guests beyond the network.** These enterprises are investing in guest and location technologies that connect with their customers via their mobile devices over their WLAN. This allows them to obtain rich analytics for contextual marketing, which in turn, enables them to deliver a personalized brand experience. ExtremeGuest and ExtremeLocation have been built on cloud-based technology for simple implementation and fast release to market to better provide necessary insights into guest demographics and location-based analytics.
- **The Internet of Things.** The Internet of Things is having dramatic effects on network infrastructure in healthcare, education, manufacturing, government and retail as more “smart” devices are entering the networks. These devices pose opportunities as well as threats to the network.
- **Growing usage of the cloud.** Enterprises have migrated increasing numbers of applications and services to either private clouds or public clouds offered by third parties. In either case, the network infrastructure must adapt to this new dynamic environment. Intelligence and automation are key if enterprises are to derive maximum benefit from their cloud deployments. Ethernet speeds, scaling from 10 Gigabits per second ("G") to 100G, provide the infrastructure for both private and public clouds. In addition, there is growing interest in SDN approaches that may include technologies such as OpenFlow, OpenStack, and CloudStack for increased network agility.

- **Vendor consolidation is expected to continue.** Consolidation of vendors within the enterprise network equipment market and between adjacent markets (storage, security, wireless & voice software and applications) continues to gain momentum. Further, we believe customers are demanding more end-to-end, integrated networking solutions. To address this demand, we acquired the WLAN Business of Zebra in October 2016, the Campus Fabric Business from Avaya in July 2017, and the Data Center Business from Brocade in October 2017.

Our strategy, product portfolio and research and development are closely aligned with what we have identified as the following trends in our industry:

- **The software segment of the worldwide enterprise network equipment market has continued to evolve and demands for improvements in Network Management will continue.**
  - *We announced our Extreme Management Console in Fiscal 2017. This innovative software helps IT network administrators to navigate the unprecedented demands caused by the surge of IoT devices and technology.*
- **Enterprise adoption of the cloud and open-source options are disrupting traditional license and maintenance business models.**
  - *We announced cloud offerings in April 2016 and enhanced those offerings in 2017. Extreme began participation in the OpenSwitch program in May 2016 and now participates in the StackStorm community with the acquisition from Brocade in November 2017.*
- **Enterprise adoption of new financing solutions allows for increased flexibility, limited investment and zero long-term commitments. These offerings are changing the traditional CAPEX model to (OPEX) models using financing purchases over time are disrupting traditional sell-in business models.**
  - *We announced Extreme Capital Solutions in April 2018. The offering includes subscription, capital leasing and usage business models that provide flexibility for partners and customers.*
- **Growth of wireless devices continues to outpace hardwire switch growth.**
  - *We announced our 802.11ac Wave 2 wireless offering in late 2015 and plans to continue to advance our wireless portfolio of indoor and outdoor access points, supported by the January 2019, announcement of our Wi-Fi 6 (802.11ax) portfolio of access points.*

### The Extreme Strategy

We are focused on delivering end-to-end IP networking solutions for today's enterprise environments. From wireless and wired access technologies, through the campus, core and into the datacenter, Extreme is developing solutions to deliver outstanding business outcomes for our customers. Leveraging a unified management approach, both on premise and in the cloud, we continue to accelerate adoption and delivery of new technologies in support of emerging trends in enterprise networking.

In fiscal 2017, we completed the acquisition of the WLAN Business from Zebra. In fiscal 2018, we completed the acquisitions of the Campus Fabric Business from Avaya and the Data Center Business from Brocade. These acquisitions support our growth strategy to lead the enterprise network equipment market with end-to-end software-driven solutions for enterprise customers from the data center to the wireless edge. After the closing of the acquisitions of the Campus Fabric Business and Data Center Business, Extreme immediately became a networking industry leader with more than 30,000 customers. As a network switching leader in enterprise, datacenter and cloud, after closing of the Campus Fabric Business, we combine and extend our world-class products and technologies to provide customers with some of the most advanced, high performance and open solutions in the market as well as a superb overall customer experience. The combination of Extreme, the Campus Fabric Business and the Data Center Business is significant in that it brings together distinct strengths addressing the key areas of the network, from unified wired and wireless edge, to the enterprise core, to the data center and cloud to offer a complete, unified portfolio of software-driven network access solutions.

#### **Provider of high quality, software-driven, secure networking solutions and the industry's #1 customer support organization**

- Only multi-vendor network management with "single pane of glass".
- Delivering new releases of next generation portfolio organically and through acquisition.

**Key elements of our strategy include:**

- **Focus on being nimble and responsive to customers and partners, we call this “Customer-Driven Networking™.”** We work with our customers to deliver software-driven solutions from the enterprise edge to the cloud that are agile, adaptive, and secure to enable digital transformation for our customers. We help our customers move beyond just “keeping the lights on”, so they can think strategically and innovate. By allowing customers to access critical decision-making intelligence, we are able reduce their daily tactical work, so they can spend their time on learning and understanding how to innovate their business with IT.
- **Enable a common fabric to simplify and automate the network.** With the acquisition of the Campus Fabric Business, Extreme now has access to field driven Campus and Data Center Fabric technologies. Fabric technologies virtualize the network infrastructure (decoupling network services from physical connectivity) which enables network services to be turned up faster, with lower likelihood of error. They make the underlying network much easier to design, implement, manage and troubleshoot.
- **Software-driven networking services-led solutions.** Our software-driven solutions provide visibility, control and strategic intelligence from the Edge to the Data Center, across networks and applications. Our solutions include wired switching, wireless switching, wireless access points and controllers. We offer a suite of products that are tightly integrated with access control, network and application analytics as well as network management. All can be managed, assessed and controlled from one single pane of glass.
- **Offer customers choice – cloud or on premise.** We leverage cloud where it makes sense for our customers and provide on premise solutions where customers need it. Our hybrid approach gives our customers options to adapt the technology to their business. At the same time, all of our solutions have visibility, control and strategic information built in, all tightly integrated with one single pane of glass. Our customers can understand what’s going on across the network and applications in real time – who, when, and what is connected to the network, which is critical for BYOD and IoT.
- **Enable IoT without additional IT resources.** In a recent IoT IT infrastructure survey, enterprise IT decision makers across industry verticals indicated their preference to opt for their existing wireless connectivity infrastructure to support IoT devices. These preferences will place unprecedented demand on network administrators to enhance management capabilities, scalability and programmability of the enterprise networks they manage without additional IT resources. Extreme introduced the Defender for IoT in mid-2018, to address the growing concern of connected things, providing centralized visibility and management and enable IT to analyze traffic flows and pinpoint anomalies. The solution works with the Extreme Fabric Connect solution or over third-party networks to protect IoT devices and is ideal for healthcare environments.
- **Provide a strong value proposition for our customers.** Our cloud-managed wired and wireless networking solutions that provide additional choice and flexibility with on or off premise network, device and application management coupled with our award-winning services and support provide a strong value proposition to the following customers and applications:
  - Enterprises and private cloud data centers use our products to deploy automated next-generation virtualized and high-density infrastructure solutions.
  - Enterprises and organizations in education, healthcare, manufacturing, hospitality, transportation and logistics and government agencies use our solutions for their mobile campus and backbone networks.
  - Enterprises, universities, healthcare and hospitality organizations use our solutions to enable better visibility and control of their data processing and analytics requirements.
- **Provide high-quality customer service and support.** We seek to enhance customer satisfaction and build customer loyalty through high-quality service and support. This includes a wide range of standard support programs that provide the level of service our customers require, from standard business hours to global 24-hour-a-day, 365-days-a-year real-time response support.
- **Extend switching and routing technology leadership.** Our technological leadership is based on innovative switching, routing and wireless products, the depth and focus of our market experience and our operating systems - the software that runs on all of our hardware platforms. Our products reduce operating expenses for our customers and enable a more flexible and dynamic network environment that will help them meet the upcoming demands of IoT, mobile, and cloud, etc. Furthermore, our network operating systems, our primary merchant silicon vendor, and select manufacturing partners permit us to leverage our engineering investment. We have invested in engineering resources to create leading-edge technologies to increase the performance and functionality of our products, and as a direct result, the value of our solution to our current and future customers. We look for maximum synergies from our engineering investment in our targeted verticals.



- **Expand Wi-Fi technology leadership.** Wireless is today's network access method of choice and every business must deal with scale, density and BYOD challenges. The increase in demand being seen today, fueled by more users with multiple devices, increases the expectation that everything will just work. The network edge landscape is changing as the explosion of mobile devices increases the demand for mobile, transparent and always-on wired to wireless edge services. This new "unified access layer" requires distributed intelligent components to ensure that access control and resiliency of business services are available across the entire infrastructure and manageable from a single console. Our unified access layer portfolio provides intelligence for the wired/wireless edge
- **Continue to deliver unified management and a common fabric across the wired/wireless environment from the Data Center to the mobile Edge.** Our rich set of integrated management capabilities provides centralized visibility and highly efficient anytime, anywhere control of enterprise wired and wireless network resources.
- **Offer a superior quality of experience.** Our network-powered application analytics provide actionable business insight by capturing and analyzing context-based data about the network and applications to deliver meaningful intelligence about applications, users, locations and devices. With an easy to comprehend dashboard, our applications help businesses to turn their network into a strategic business asset that helps executives make faster and more effective decisions.

Data can be mined to show how applications are being used enabling a better understanding of user behavior on the network, identifying the level of user engagement and assuring business application delivery to optimize the user experience. Application adoption can be tracked to determine the return on investment associated with new application deployment.

Visibility into network and application performance enables our customers to pinpoint and resolve performance bottlenecks in the infrastructure whether they are caused by the network, application or server. This saves both time and money for the business and ensures critical applications are running at the best possible performance.

- **Software-driven networking solutions for the enterprise.** We are a software-driven networking solution company focused on the enterprise. We focus our R&D team and our sales teams to execute against a refined set of requirements for optimized return on investment, faster innovation, and clearer focus on mega trends and changes in the industry. As a software-driven networking company, we offer solutions for the entire enterprise network, the data center, the campus, the core and the WLAN.
- **Expand market penetration by targeting high-growth market segments.** Within the Campus, we focus on the mobile user and connected devices, leveraging our automation capabilities and tracking WLAN growth. Our Data Center approach leverages our product portfolio to address the needs of public and private Cloud Data Center providers. Within the Campus we also target the high-growth physical security market, converging technologies such as Internet Protocol ("IP") video across a common Ethernet infrastructure in conjunction with technology partners.
- **Leverage and expand multiple distribution channels.** We distribute our products through select distributors, a large number of resellers and system-integrators worldwide, and several large strategic partners. We maintain a field sales force to support our channel partners and to sell directly to certain strategic accounts. As an independent Ethernet switch vendor, we seek to provide products that, when combined with the offerings of our channel partners, create compelling solutions for end-user customers.
- **Maintain and extend our strategic relationships.** We have established strategic relationships with a number of industry-leading vendors to both provide increased and enhanced routes to market, but also to collaboratively develop unique solutions.

## Key Financial Metrics

During the second quarter of fiscal 2019, we reflected the following results:

- Net revenues of \$252.7 million compared to \$231.1 million in the second quarter of fiscal 2018.
- Product revenue of \$189.6 million compared to \$174.9 million in the second quarter of fiscal 2018.
- Service revenue of \$63.1 million compared to \$56.3 million in the second quarter of fiscal 2018.
- Total gross margin of 55.9% of net revenues compared to 55.8% of net revenues in the second quarter of fiscal 2018.
- Operating income of \$4.8 million compared to an operating loss of \$31.1 million in the second quarter of fiscal 2018.
- Net income of \$7.2 million compared to a net loss of \$31.9 million in the second quarter of fiscal 2018.

During the first six months of fiscal 2019, we reflected the following results:

- Cash flow provided by operating activities of \$61.6 million compared to \$14.2 million in the six months ended December 31, 2017. Cash, cash equivalents and marketable securities of \$141.1 million compared to \$122.6 million as of June 30, 2018.

### Net Revenues

The following table presents net product and service revenue for the periods presented (dollars in thousands):

	Three Months Ended				Six Months Ended				
	December 31, 2018	December 31, 2017	\$ Change	% Change	December 31, 2018	December 31, 2017	\$ Change	% Change	
<b>Net Revenues:</b>									
Product	\$ 189,567	\$ 174,850	\$ 14,717	8.4%	\$ 367,287	\$ 339,624	\$ 27,663	8.1%	
<i>Percentage of net revenue</i>	75.0%	75.7%			74.6%	76.7%			
Service	63,113	56,273	6,840	12.2%	125,279	103,214	22,065	21.4%	
<i>Percentage of net revenue</i>	25.0%	24.3%			25.4%	23.3%			
Total net revenues	<u>\$ 252,680</u>	<u>\$ 231,123</u>	<u>\$ 21,557</u>	9.3%	<u>\$ 492,566</u>	<u>\$ 442,838</u>	<u>\$ 49,728</u>	11.2%	

Product revenue increased \$14.7 million or 8.4% for the three months ended December 31, 2018 and increased \$27.7 million or 8.1% for the six months ended December 31, 2018 as compared to the corresponding periods of fiscal 2018. The increase in product revenues for both periods of fiscal 2019 were attributable to a full period of sales of the Data Center Business and increased sales in EMEA.

Service revenue increased \$6.8 million, or 12.2% for the three months ended December 31, 2018 and increased \$22.1 million or 21.4% as compared to the corresponding periods of fiscal 2018. The increase in service revenue was driven primarily by a higher number of maintenance contracts related to the Data Center Business acquisition.

The following table presents the product and service, gross profit and the respective gross profit percentages for the periods presented (dollars in thousands):

	Three Months Ended				Six Months Ended				
	December 31, 2018	December 31, 2017	\$ Change	% Change	December 31, 2018	December 31, 2017	\$ Change	% Change	
<b>Gross profit:</b>									
Product	\$ 103,080	\$ 96,378	\$ 6,702	7.0%	\$ 197,257	\$ 181,107	\$ 16,150	8.9%	
<i>Percentage of product revenue</i>	54.4%	55.1%			53.7%	53.3%			
Service	38,219	32,608	5,611	17.2%	76,113	60,260	15,853	26.3%	
<i>Percentage of service revenue</i>	60.6%	57.9%			60.8%	58.4%			
Total gross profit	<u>\$ 141,299</u>	<u>\$ 128,986</u>	<u>\$ 12,313</u>	9.5%	<u>\$ 273,370</u>	<u>\$ 241,367</u>	<u>\$ 32,003</u>	13.3%	
<i>Percentage of net revenues</i>	55.9%	55.8%			55.5%	54.5%			

Product gross profit increased \$6.7 million or 7.0% for the three months ended December 31, 2018 as compared to the corresponding period in fiscal 2018. Increases in product gross profit were primarily due to higher revenue levels and higher intangible amortization expenses of \$1.0 million. These increases were partially reduced by increased distribution costs of \$2.9 million, warranty charges of \$2.7 million and additional operations costs of \$1.5 million mainly driven by higher personnel costs due to additional headcount.

Product gross profit increased \$16.2 million or 8.9% for the six months ended December 31, 2018 as compared to the corresponding period in fiscal 2018. Increases in product gross profit were primarily due to higher revenue levels and to a lesser extent, lower production costs. These increases were offset by higher distribution costs of \$6.2 million, amortization of developed technology intangibles due to the acquisition of the Campus Fabric and Data Center Businesses of \$3.2 million warranty charges of \$4.5 million and additional operations costs of \$3.2 million mainly driven by higher personnel costs due to additional headcount.

Service gross profit increased \$5.6 million and \$15.9 million or 17.2% and 26.3% for the three and six months ended December 31, 2018, respectively, as compared to the corresponding periods in fiscal 2018. The increases were primarily due to a higher number of maintenance contracts related to the acquisition of the Data Center Business, partially offset by higher service material costs and personnel costs due to increased headcount to support acquired contracts.

## Operating Expenses

The following table presents operating expenses for the periods presented (dollars in thousands):

	Three Months Ended				Six Months Ended			
	December 31, 2018	December 31, 2017	\$ Change	% Change	December 31, 2018	December 31, 2017	\$ Change	% Change
Research and development	\$ 52,204	\$ 45,907	\$ 6,297	13.7%	\$ 103,445	\$ 80,192	\$ 23,253	29.0%
Sales and marketing	68,342	65,659	2,683	4.1%	135,924	121,220	14,704	12.1%
General and administrative	13,886	11,669	2,217	19.0%	26,657	23,854	2,803	11.8%
Acquisition and integration costs, net of bargain purchase gain	67	34,115	(34,048)	(99.8)%	2,613	38,359	(35,746)	(93.2)%
Restructuring charges, net of reversals	474	—	474	N/A	1,282	—	1,282	N/A
Amortization of intangibles	1,575	2,746	(1,171)	(42.6)%	3,716	4,360	(644)	(14.8)%
Total operating expenses	<u>\$ 136,548</u>	<u>\$ 160,096</u>	<u>\$ (23,548)</u>	<u>(14.7)%</u>	<u>\$ 273,637</u>	<u>\$ 267,985</u>	<u>\$ 5,652</u>	<u>2.1%</u>

### Research and Development Expenses

Research and development expenses consist primarily of personnel costs (which consists of compensation, benefits and stock-based compensation), consultant fees and prototype expenses related to the design, development, and testing of our products.

Research and development expenses increased by \$6.3 million or 13.7% for the three months ended December 31, 2018 as compared to the corresponding period of fiscal 2018. The increase in research and development expenses was due to higher personnel costs of \$2.9 million due to increased headcount related to the acquisition of the Data Center Business, \$1.7 million in increased facility and information technology costs, \$1.2 million in increased supplies and equipment costs and \$3.6 million in increased software royalty costs. The quarterly expenses were partially offset by a \$3.1 million reduction in contractor and professional fees.

Research and development expenses increased by \$23.3 million or 29.0% for the six months ended December 31, 2018, as compared to the corresponding period of fiscal 2018. The increase in research and development expenses was due to higher personnel costs of \$10.6 million due to increased headcount related to the acquisition of the Data Center Business, \$4.1 million in increased facility and information technology costs, \$2.2 million in increased supplies and equipment costs and \$6.8 million in increased software royalty costs, which was partially offset by a \$0.4 million reduction in contractor and professional fees.

### Sales and Marketing Expenses

Sales and marketing expenses consist primarily of personnel costs (which consists of compensation, benefits and stock-based compensation), as well as trade shows and promotional expenses.

Sales and marketing expenses increased by \$2.7 million or 4.1% for the three months ended December 31, 2018, as compared to the corresponding period of fiscal 2018, primarily as a result of the acquisition of the Data Center Business. The increase consisted of higher personnel costs of \$2.0 million and \$1.0 million in increased software, supplies and equipment costs, partially offset by a \$0.3 million reduction in travel, marketing, meeting and conference costs.

Sales and marketing expenses increased by \$14.7 million or 12.1% for the six months ended December 31, 2018, as compared to the corresponding period of fiscal 2018, primarily as a result of the acquisition of the Data Center Business. The increase consisted of higher personnel costs of \$12.1 million, \$2.0 million in increased software, supplies and equipment costs, \$0.3 million in increased travel, marketing, meeting and conference costs and \$0.3 million in increased facility and information technology costs.

### General and Administrative Expenses

General and administrative expense consists primarily of personnel costs (which consists of compensation, benefits and stock-based compensation), legal and professional service costs, travel and facilities and information technology costs.

General and administrative expenses increased by \$2.2 million or 19.0% for the three months ended December 31, 2018, as compared to the corresponding period of fiscal 2018, primarily due to \$1.7 million in higher personnel costs, \$0.6 million in professional fees and \$0.4 million in higher facility and information technology costs. This was partially offset by a \$0.3 million reduction in the bad debt provision and a \$0.2 million reduction in other costs.

General and administrative expenses increased by \$2.8 million or 11.8% for six months ended December 31, 2018, as compared to the corresponding period of fiscal 2018, primarily due to \$2.4 million in higher personnel costs and \$0.7 million in higher facility and information technology costs, partially offset by a \$0.3 million reduction in the bad debt provision.

### **Acquisition and Integration Costs, Net of Bargain Purchase Gain**

During the three and six months ended December 31, 2018, we incurred \$0.1 million and \$2.6 million, respectively, of operating integration costs related to the acquisitions of the Campus Fabric and Data Center Businesses.

For the three months ended December 31, 2017, we incurred \$4.6 million of acquisition and \$1.9 million of integration costs related to the acquisition of the Campus Fabric Business and \$30.3 million of acquisition and \$2.2 million of integration costs related to the acquisition of the Data Center Business. The Data Center Business acquisition costs included a \$25.0 million consent fee paid to Broadcom, to terminate a previous asset purchase agreement entered into by us to purchase the Data Center Business from Broadcom, in anticipation of Broadcom's acquisition of Brocade. The fee was paid to Broadcom to allow us to buy the Data Center Business directly from Brocade. Included in Acquisition and integration costs is a gain on bargain purchase of \$4.9 million related to the acquisition of the capital financing business ("CF Business").

For the six months ended December 31, 2017, we incurred \$5.9 million of acquisition and \$3.4 million of integration costs related to the acquisition of the Campus Fabric Business and \$31.6 million of acquisition and \$2.2 million of integration costs related to the acquisition of the Data Center Business. We also recorded a gain on bargain purchase of \$4.9 million related to the acquisition of the CF Business.

### **Restructuring Charges, Net of Reversals**

For the three and six months ended December 31, 2018, we recorded restructuring charges of \$0.5 million and \$1.3 million, respectively, associated with a reduction-in-force in the fourth quarter of fiscal 2018 and additional excess facility charges.

### **Amortization of Intangibles**

During the three months ended December 31, 2018 and 2017, we recorded \$1.6 million and \$2.7 million, respectively, of amortization expense as operating expenses and in the accompanying condensed consolidated statements of operations. The decrease was mainly due to amortization related to the acquired intangibles from the Enterasys acquisition becoming fully amortized.

During the six months ended December 31, 2018 and 2017, we recorded \$3.7 million and \$4.4 million, respectively, of amortization expense as operating expenses in the accompanying condensed consolidated statements of operations. The decrease was mainly due to amortization related to the acquired intangibles from the Enterasys acquisition becoming fully amortized.

### **Interest Expense**

During the three months ended December 31, 2018 and 2017, we recorded \$3.1 million and \$2.5 million, respectively, in interest expense. The increase in interest expense was due to higher outstanding loan balances and other charges on our Credit Agreement as compared to the corresponding period of fiscal 2018, as well as additional imputed interest charges associated with various long-term contracts.

During the six months ended December 31, 2018 and 2017, we recorded \$6.6 million and \$4.7 million, respectively, in interest expense. The increase in interest expense was due to higher outstanding loan balances and other charges on of our Credit Agreement as compared to the corresponding period of fiscal 2018, as well as additional imputed interest charges associated with various long-term contracts.

### **Other Income (Expense), Net**

During the three months ended December 31, 2018 and 2017, we recorded an expense of \$0.4 million and \$0.6 million, respectively, in other income (expense), net. The expense for the three months ended December 31, 2018 was primarily due to losses on equity investments. The expense for the three months ended December 31, 2017 was primarily due to foreign exchange gains and losses from the revaluation of certain assets and liabilities denominated in foreign currencies into U.S. Dollars.

During the six months ended December 31, 2018 and 2017, we recorded income of \$0.1 million and \$2.5 million, respectively, in other income (expense), net. For fiscal 2019, the income was primarily due to foreign exchange gains and losses from the revaluation of certain assets and liabilities denominated in foreign currencies into U.S. Dollars partially offset by losses on equity investments. For fiscal 2018, other income (expense), net was primarily driven by a gain of \$3.8 million related to the sale of a non-marketable equity investment, partially offset by foreign exchange losses.

## Provision for Income Taxes

For the three months ended December 31, 2018 and 2017, we recorded an income tax benefit of \$5.3 million and \$1.6 million, respectively. The three month periods ended December 31, 2018 and 2017 tax benefits included a provisions for income taxes for the following items: 1) taxes on the income of our foreign subsidiaries, 2) tax expense associated with the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisition of Enterasys Networks, Inc., the WLAN, Campus Fabric and Data Center Businesses, 3) foreign withholding taxes, and 4) state taxes in jurisdictions where we do not have state net operating loss (NOL) carryforwards available. The tax provision for the three months ended December 31, 2018 was offset by a tax benefit of \$2.6 million resulting from the release of a valuation allowance for our Australian subsidiary's NOLs given that entity's consistent and sufficient profitability following recent acquisitions. Additionally, we recorded a tax benefit of \$4.7 million for the release of valuation allowances due to changes introduced by US tax legislation signed in December 2017 as discussed below. This legislation changed the US NOL rules to afford an indefinite carryforward period for NOLs generated in tax years beginning after December 31, 2017. In evaluating the realizability of Deferred Tax Assets ("DTAs"), historically the Company was unable to consider the Deferred Tax Liability ("DTL") related to amortizable goodwill as a source of future income for reversing deductible differences with fixed lives. The change to the NOL rules creates an indefinite lived DTA and as such the indefinite lived DTL related to goodwill can now be viewed as a source of income for the newly created indefinite lived DTA. These two indefinite lived items can now be netted in determining the amount of valuation allowance needed.

For the three months ended December 31, 2017, we recorded a tax provision for the various items as outlined above in the amount of \$0.9 million, offset by a tax benefit of \$2.5 million resulting from U.S. tax legislation which reduced the corporate federal tax rate from 35% to 21%. As a result of this change, we recognized a tax benefit associated with the revaluation of our deferred tax liability related to amortizable goodwill to reflect the lower statutory tax rate.

For the six months ended December 31, 2018 and 2017 we recorded a tax benefit of \$3.9 million and a tax provision of \$0.1 million, respectively, which consisted primarily of tax provisions on the income of our foreign subsidiaries as well as tax expense associated with the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisitions of Enterasys Networks, Inc., the WLAN, Campus Fabric and Data Center Businesses. The income tax provision for the six months ended December 31, 2018 and 2017, were offset by the valuation allowance releases and revaluation of our deferred tax liability related to the amortizable goodwill referenced above.

On December 22, 2017, the President of the United States signed and enacted into law H.R. 1, the Tax Cuts and Jobs Act ("TCJA"), which, except for certain provisions, was effective for tax years beginning on or after January 1, 2018. As a fiscal year taxpayer, we were not subject to the majority of the tax law provisions until fiscal year 2019; however, there were certain significant items of impact that were recognized in fiscal year 2018. Because a change in tax law is accounted for in the period of enactment, the effects of the TCJA, a tax benefit of \$2.5 million, was reflected in the second quarter of fiscal 2018. An additional impact has been reflected in the second quarter of fiscal year 2019 in the amount of \$4.7 million relating to a valuation allowance release in conjunction with the finalization of evaluating the impacts of the TCJA change pursuant to SAB 118. See Note 15 to the condensed consolidated financial statements which includes a detailed discussion of the various provisions of the new U.S. tax legislation.

### *Critical Accounting Policies and Estimates*

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

As discussed in Part II, Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" of our Annual Report on Form 10-K for the year ended June 30, 2018, we consider the following accounting policies to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements:

- *Revenue Recognition*
- *Business Combinations*
- *Inventory Valuation and Purchase Commitments*

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

## New Accounting Pronouncements

See Note 2 of the accompanying condensed consolidated financial statements for a full description of new accounting pronouncements, including the respective expected dates of adoption and effects on results of operations and financial condition.

## Liquidity and Capital Resources

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

	December 31, 2018	June 30, 2018
Cash	\$ 140,643	\$ 121,139
Marketable securities	428	1,459
Total cash and marketable securities	<u>\$ 141,071</u>	<u>\$ 122,598</u>
Working capital	\$ 71,369	\$ 68,041

As of December 31, 2018, our principal sources of liquidity consisted of cash, cash equivalents and marketable securities of \$141.1 million, accounts receivable, net of \$144.9 million and availability of borrowings from our five-year New Revolving Facility of \$39.0 million. Our principal uses of cash include the purchase of finished goods inventory from our contract manufacturers, payroll and other operating expenses related to the development and marketing of our products, purchases of property and equipment, stock repurchase program and repayments of debt and related interest. We believe that our \$141.1 million of cash and marketable securities at December 31, 2018 and the availability of borrowings from the New Revolving Facility will be sufficient to fund our principal uses of cash for at least the next 12 months.

On November 2, 2018, our Board of Directors announced that it had authorized management to repurchase up to \$60.0 million of its common stock for two years from the date of authorization, of which \$15.0 million was used for repurchases in the second quarter of fiscal 2019. Purchases may be made from time to time in the open market or in privately negotiated transactions. The manner, timing and amount of any future purchases will be determined by the Company's management based on their evaluation of market conditions, stock price, Extreme's ongoing determination that it is the best use of available cash and other factors. The repurchase program does not obligate Extreme to acquire any common stock, may be suspended or terminated at any time without prior notice and will be subject to regulatory considerations. During the three months ended December 31, 2018, we repurchased 2.4 million shares at an aggregate cost of \$15.0 million.

On May 1, 2018, we entered into a Credit Agreement (the "Credit Agreement"), BMO Harris Bank N.A., as an issuing lender and swingline lender, Bank of Montreal, as administrative and collateral agent, and the financial institutions or entities that are a party thereto as lenders. The Credit Agreement provides for i) a \$40 million five-year revolving credit facility (the "New Revolving Facility"), ii) a \$190 million five-year term loan (the "New Term Loan") and, iii) an uncommitted additional incremental loan facility in the principal amount of up to \$100 million ("New Incremental Facility"). On May 1, 2018, we borrowed \$200 million under the Credit Agreement.

Borrowings under the Credit Agreement will bear interest, at our election, as of May 1, 2018, at a rate per annum equal to LIBOR plus 1.50% to 2.75%, or the adjusted base rate plus 0.50% to 1.75%, based on our consolidated leverage ratio. In addition, we are required to pay a commitment fee of between 0.25% and 0.40% quarterly (currently 0.35%) on the unused portion of the New Revolving Facility, also based on our consolidated leverage ratio. Principal installments are payable on the New Term Loan in varying percentages quarterly starting September 30, 2018 and to the extent not previously paid, all outstanding balances are to be paid at maturity. The obligations under the Credit Agreement is secured by substantially all of our assets.

Financial covenants under the Credit Agreement require us to maintain a minimum consolidated fixed charge and consolidated leverage ratio at the end of each fiscal quarter through maturity. The Credit Agreement also includes covenants and restrictions that limit, among other things, our ability to incur additional indebtedness, create liens upon any of our property, merge, consolidate or sell all or substantially all of our assets. The Credit Agreement also includes customary events of default which may result in acceleration of the outstanding balance. At December 31, 2018, we were in compliance with the covenants of the Credit Agreement.

### Key Components of Cash Flows and Liquidity

A summary of the sources and uses of cash and cash equivalents is as follows (in thousands):

	Six Months Ended	
	December 31, 2018	December 31, 2017
Net cash provided by operating activities	\$ 61,611	\$ 14,248
Net cash used in investing activities	(10,413)	(105,968)
Net cash (used in) provided by financing activities	(31,329)	88,284
Foreign currency effect on cash	(365)	94
Net increase (decrease) in cash	<u>\$ 19,504</u>	<u>\$ (3,342)</u>

#### *Net Cash Provided by Operating Activities*

Cash flows provided by operations in the six months ended December 31, 2018 were \$61.6 million, including our net loss of \$1.9 million and non-cash expenses of \$38.4 million for items such as amortization of intangibles, stock-based compensation, depreciation, deferred income taxes and imputed interest. Other sources of cash for the current quarter included a decrease in accounts receivables, inventories and increases in deferred revenues. This was partially offset by decreases in accounts payable, accrued compensation and other current and long-term liabilities, and increases in prepaid expenses and other current assets.

Cash flows provided by operations in the six months ended December 31, 2017 were \$14.2 million, including net loss of \$27.5 million and non-cash expenses of \$23.1 million for items such as amortization of intangibles, stock-based compensation, depreciation, deferred income taxes, gain on bargain purchase and gain on sale of non-marketable equity investment as well as increases in accounts payable, accrued compensation, deferred revenue and other current and long-term liabilities and a decrease in prepaid expenses and other assets. This was partially offset by increases in accounts receivable and inventories.

#### *Net Cash Used in Investing Activities*

Cash flows used in investing activities in the six months ended December 31, 2018 were \$10.4 million which consisted of purchases of property and equipment of \$11.1 million partially offset by proceeds of \$0.7 million related to the sale of investments.

Cash flows used in investing activities in the six months ended December 31, 2017 were \$106.0 million which consisted of expenditures for acquisitions of \$97.6 million consisting of \$69.6 million for the acquisition of the Campus Fabric Business and \$29.5 million for the acquisition of the Data Center Business, less receipt of \$1.6 million as final settlement of a working capital adjustment related to the WLAN Business acquisition, purchases of property and equipment of \$13.3 million and proceeds of \$4.9 million related to the sale of non-marketable equity investment.

#### *Net Cash (Used in) Provided by Financing Activities*

Cash flows used in financing activities in the six months ended December 31, 2018 were \$31.3 million consisting of repayments of debt totaling \$14.8 million, contingent consideration of \$3.9 million, and \$2.0 million for deferred payments on acquisitions. This was partially offset by \$5.0 million of proceeds from the issuance of shares of our common stock under our Employee Stock Purchase Plan ("ESPP"), the exercise of stock options and net of taxes paid on vested and released stock awards.

Cash flows used in financing activities for the period also included repurchasing of our common shares valued at \$15.0 million during the six months ended December 31, 2018, in accordance with our approved share repurchase plan. The share repurchases were executed through open market purchases, and future share repurchases may be completed through the combination of individually negotiated transactions, accelerated share buyback, and/or open market purchases. As of December 31, 2018, we have \$45.0 million available under our share repurchase plan. Our Credit Facility does not contain any restrictions on the amount of borrowings that can be used to make share repurchases, as long as we are in compliance with our financial and non-financial covenants.

Cash flows provided by financing activities in the six months ended December 31, 2017 were \$88.3 million, including new borrowings of \$100.0 million to fund our acquisitions of the Campus Fabric Business and the Data Center Business, \$5.6 million proceeds from issuance of shares of our common stock under our 2014 Employee Stock Purchase Plan and the exercise of stock options less \$7.1 million of taxes paid on vested and released stock awards, partially offset by repayments of debt totaling \$8.7 million and \$1.5 million of loan fees incurred in connection with the Second Amendment of our Credit Facility.

#### *Foreign Currency Effect on Cash*

Foreign currency effect on cash decreased in the six months ended December 31, 2018 and 2017, primarily due to changes in foreign currency exchange rates between the U.S. Dollar and particularly the Brazilian Real, Indian Rupee and the EURO.

### Contractual Obligations

The following summarizes our contractual obligations as of December 31, 2018, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 years</u>	<u>3-5 years</u>
<b>Contractual Obligations:</b>				
Debt obligations	\$ 185,250	\$ 9,500	\$ 26,125	\$ 149,625
Interest on debt obligations	32,142	9,192	16,720	6,230
Inventory purchase commitments	172,597	172,597	—	—
Contractual commitments	111,625	29,375	47,000	35,250
Non-cancellable operating lease obligations	95,939	19,160	34,895	41,884
Deferred payments for an acquisition	17,000	4,000	8,000	5,000
Contingent consideration for an acquisition	8,649	4,068	4,581	—
Other liabilities	485	137	273	75
<b>Total contractual cash obligations</b>	<u>\$ 623,687</u>	<u>\$ 248,029</u>	<u>\$ 137,594</u>	<u>\$ 238,064</u>

The contractual obligations referenced above are more specifically defined as follows:

Debt obligations relate to amounts owed under our Credit Agreement.

Inventory purchase commitments represent the purchase of long lead-time component inventory that our contract manufacturers procure in accordance with our forecast. We expect to honor the inventory purchase commitments within the next 12 months.

Contractual commitments to suppliers for future services.

Non-cancelable operating lease obligations represent base rents and operating expense obligations to landlords for facilities we occupy at various locations.

Deferred payments for the acquisition of the Data Center Business represent a \$1.0 million per quarter.

Contingent consideration for the Capital Financing Business acquisition, at fair value. Actual payments could be different.

Other liabilities include our commitments towards debt related fees and specific arrangements other than inventory.

The amounts in the table above exclude immaterial income tax liabilities related to uncertain tax positions as we are unable to reasonably estimate the timing of settlement.

We did not have any material commitments for capital expenditures as of December 31, 2018.

### Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2018.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

### Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our financial investments and debt. We usually invest our cash in investments with short maturities or with frequent interest reset terms. Accordingly, our interest income fluctuates with short-term market conditions. As of December 31, 2018, we did not have any financial investments that were exposed to interest rate risk.

### Debt

At certain points in time we are exposed to the impact of interest rate fluctuations, primarily in the form of variable rate borrowings from our credit facility.



At certain points in time we are exposed to the impact of interest rate fluctuations, primarily in the form of variable rate borrowings from our Credit Agreement. Our debt and Credit Agreement are described in the Note 8. Debt, of our Notes to the Consolidated Financial Statements in our annual report on Form 10-K. At December 31, 2018, we had \$185.3 million of debt outstanding, all of which was from our Credit Agreement. Through the quarter ended December 31, 2018, the average daily outstanding amount was \$187.6 million with a high of \$187.6 million and a low of \$185.3 million.

The following table presents hypothetical changes in interest expense for the quarter ended December 31, 2018, on outstanding Credit Agreement borrowings as of December 31, 2018, that are sensitive to changes in interest rates (in thousands):

Change in interest expense given a decrease in interest rate of X bps*		Average daily outstanding debt	Change in interest expense given an increase in interest rate of X bps	
(100 bps)	(50 bps)		100 bps	50 bps
\$ (463)	\$ (232)	\$ 187,599	\$ 463	\$ 232

\* Underlying interest rate was 4.65% during the quarter.

#### Exchange Rate Sensitivity

A majority of our sales and expenses are denominated in United States Dollars. While we conduct some sales transactions and incur certain operating expenses in foreign currencies and expect to continue to do so, we do not anticipate that foreign exchange gains or losses will be significant, in part because of our foreign exchange risk management process discussed below.

#### Foreign Exchange Forward Contracts

We record all derivatives on the balance sheet at fair value. Changes in the fair value of derivatives are recognized in earnings as Other expense, net. From time to time, we enter into foreign exchange forward contracts to mitigate the effect of gains and losses generated by the foreign currency forecast transactions related to certain operating expenses and re-measurement of certain assets and liabilities denominated in foreign currencies. These derivatives do not qualify as hedges. Changes in the fair value of these foreign exchange forward contracts are offset largely by re-measurement of the underlying assets and liabilities. At December 31, 2018, we did not have any forward foreign currency contracts outstanding.

Foreign currency transaction gains and losses from operations was an immaterial loss and a loss of \$0.6 million for the three months ended December 31, 2018 and 2017, respectively. Foreign currency transaction gains and losses from operations was a gain of \$0.2 million and a loss of \$1.1 million for the six months ended December 31, 2018 and 2017, respectively.

#### Item 4. Controls and Procedures

##### *Evaluation of Disclosure Controls and Procedures*

Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 as amended, such as this Report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our CEO and CFO, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Report. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report.

##### *Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting (as defined in Rules 13a – 15(f) and 15(d) – 15(f) during the December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### *Inherent Limitations on Effectiveness of Controls*

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Our controls and procedures are designed to provide reasonable assurance that our control system's objective will be met and our CEO and CFO have concluded that our disclosure controls and procedures are effective at the reasonable assurance level. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within Extreme Networks have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events. Projections of any evaluation of the effectiveness of controls in future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Notwithstanding these limitations, our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Our CEO and CFO have concluded that our disclosure controls and procedures are, in fact, effective at the "reasonable assurance" level.

## PART II. Other Information

### Item 1. Legal Proceedings

For information regarding litigation matters required by this item, refer to Part I, Item 3, Legal Proceedings of our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, and Note 9 to our Notes to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report which are incorporated herein by reference.

### Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2018 and in Part II, Item 1A, "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock. There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended June 30, 2018 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered equity securities during the three months ended December 31, 2018.

The following table provides stock repurchase activity during the three months ended December 31, 2018 (in thousands, except per share amounts).

	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares That May yet Be Purchased Under the Plans or Programs</u>
Original Purchase Authority <sup>(1)</sup>				\$ 60,000
October 1, 2018 - October 31, 2018	—	\$ -	—	—
November 1, 2018 - November 30, 2018	2,366	6.34	2,366	15,000
December 1, 2018 - December 31, 2018	—	—	—	—
Total	<u>2,366</u>	<u>\$ 6.34</u>	<u>2,366</u>	<u>\$ 45,000</u>

<sup>(1)</sup> On November 2, 2018, we announced that our Board of Directors had authorized management to repurchase up to \$60.0 million of our common stock for two years from the date of authorization. Purchases may be made from time to time in the open market or in privately negotiated transactions. A maximum of \$35.0 million of our common stock may be repurchased in any calendar year.

### Item 3. Defaults Upon Senior Securities - Not applicable

### Item 4. Mine Safety Disclosure - Not Applicable

### Item 5. Other Information – Not Applicable

**Item 6. Exhibits**

(a) Exhibits:

Exhibit Number	Description of Document	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Number	
10.1*	<a href="#">Offer Letter, executed November 15, 2018, between Extreme Networks, Inc. and Remi Thomas.</a>	8-K	11/20/2018	10.1	
31.1	<a href="#">Section 302 Certification of Chief Executive Officer.</a>				X
31.2	<a href="#">Section 302 Certification of Chief Financial Officer.</a>				X
32.1**	<a href="#">Section 906 Certification of Chief Executive Officer.</a>				X
32.2**	<a href="#">Section 906 Certification of Chief Financial Officer.</a>				X
101.INS	XBRL Instance Document.				X
101.SCH	XBRL Taxonomy Extension Schema Document.				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				X

\* Indicates management or board of directors contract or compensatory plan or arrangement.

\*\* Furnished herewith. Exhibits 32.1 and 32.2 are being furnished and shall not be deemed to be “filed” for purposes of section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, nor shall such exhibits be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as otherwise specifically stated in such filing.

**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 thereunto duly authorized.

EXTREME NETWORKS, INC.  
(Registrant)

/s/ REMI THOMAS

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

January 30, 2019

SECTION 302 CERTIFICATION OF EDWARD B. MEYERCORD III  
AS CHIEF EXECUTIVE OFFICER

I, Edward B. Meyercord III, certify that:

1. I have reviewed this Form 10-Q of Extreme Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 30, 2019

/s/ EDWARD B. MEYERCORD III  
Edward B. Meyercord III  
President and Chief Executive Officer

SECTION 302 CERTIFICATION OF REMI THOMAS  
AS CHIEF FINANCIAL OFFICER

I, Remi Thomas, certify that:

1. I have reviewed this Form 10-Q of Extreme Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 30, 2019

/s/ REMI THOMAS

Remi Thomas

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

CERTIFICATION OF EDWARD B. MEYERCORD III AS CHIEF EXECUTIVE OFFICER, PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Extreme Networks, Inc. on Form 10-Q for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date specified below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 30, 2019

/s/ EDWARD B. MEYERCORD III

Edward B. Meyercord III  
President and Chief Executive Officer



CERTIFICATION OF REMI THOMAS AS CHIEF FINANCIAL OFFICER, PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Extreme Networks, Inc. on Form 10-Q for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date specified below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 30, 2019

/s/ REMI THOMAS

Remi Thomas

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