

---

---

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

---

**Form 10-K**

---

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended June 30, 2013

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from            to            .

Commission file number 000-25711

---

**Extreme Networks, Inc.**

(Exact name of Registrant as specified in its charter)

---

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

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

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

**95134**  
(Zip Code)

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

---

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common stock, \$.001 par value**

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$327.9 million as of December 31, 2012, the last business day of the Registrant's most recently completed second fiscal quarter, based upon the per share closing price of the Registrant's common stock as reported on The NASDAQ Global Market reported on such date. For purposes of this disclosure, shares of common stock held or controlled by executive officers and directors of the registrant and by persons who hold more than 5% of the outstanding shares of common stock have been treated as shares held by affiliates. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purpose.

94,250,174 shares of the Registrant's Common stock, \$.001 par value, were outstanding as of August 5, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2013 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

---

---

**EXTREME NETWORKS, INC.**  
**FORM 10-K**  
**INDEX**

	<b>Page</b>
<a href="#">Forward Looking Statements</a>	<a href="#">3</a>
<a href="#">PART I</a>	
Item 1. <a href="#">Business</a>	<a href="#">3</a>
Item 1A. <a href="#">Risk Factors</a>	<a href="#">12</a>
Item 1B. <a href="#">Unresolved Staff Comments</a>	<a href="#">22</a>
Item 2. <a href="#">Properties</a>	<a href="#">22</a>
Item 3. <a href="#">Legal Proceedings</a>	<a href="#">22</a>
Item 4. <a href="#">Mine Safety Disclosures</a>	<a href="#">22</a>
<a href="#">PART II</a>	
Item 5. <a href="#">Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	<a href="#">23</a>
Item 6. <a href="#">Selected Financial Data</a>	<a href="#">25</a>
Item 7. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">27</a>
Item 7A. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">38</a>
Item 8. <a href="#">Financial Statements and Supplementary Data</a>	<a href="#">40</a>
Item 9. <a href="#">Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</a>	<a href="#">70</a>
Item 9A. <a href="#">Controls and Procedures</a>	<a href="#">70</a>
Item 9B. <a href="#">Other Information</a>	<a href="#">71</a>
<a href="#">PART III</a>	
Item 10. <a href="#">Directors, Executive Officers and Corporate Governance</a>	<a href="#">72</a>
Item 11. <a href="#">Executive Compensation</a>	<a href="#">72</a>
Item 12. <a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	<a href="#">72</a>
Item 13. <a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	<a href="#">72</a>
Item 14. <a href="#">Principal Accountant Fees and Services</a>	<a href="#">72</a>
<a href="#">PART IV</a>	
Item 15. <a href="#">Exhibits and Financial Statement Schedules</a>	<a href="#">73</a>
<a href="#">SIGNATURES</a>	<a href="#">75</a>

## FORWARD LOOKING STATEMENTS

This annual report on Form 10-K, including the following sections, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, particularly, our expectations regarding results of operations, our ability to expand our market penetration, our ability to expand our distribution channels, customer acceptance of our products, our ability to meet the expectations of our customers, product demand and revenue, cash flows, product gross margins, our expectations to continue to develop new products and enhance existing products, our expectations regarding the amount of our research and development expenses, our expectations relating to our selling, general and administrative expenses, our efforts to achieve additional operating efficiencies and to review and improve our business systems and cost structure, our expectations to continue investing in technology, resources and infrastructure, our expectations concerning the availability of products from suppliers and contract manufacturers, anticipated product costs and sales prices, our expectations that we have sufficient capital to meet our requirements for at least the next twelve months, and our expectations regarding materials and inventory management. These forward-looking statements involve risks and uncertainties, and the cautionary statements set forth below and those contained in the section entitled "Risk Factors" identify important factors that could cause actual results to differ materially from those predicted in any such forward-looking statements. 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 this Form 10-K and other filings we have made with the Securities and Exchange Commission. More information about potential factors that could affect our business and financial results is set forth under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### PART I

#### Item 1. Business

##### Overview

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 services for enterprises, data centers, and service providers. Our customers include businesses, hospitals, hotels, universities, telecommunications companies and government agencies around the world. Since our founding in 1996, our vision has been a world enabled by a unified network based upon Ethernet that we believe simplifies each element and component of the network, and through simplification, provides services at a lower cost. As networks internal to businesses, between businesses and the Internet itself become more pervasive and critical to a wide variety of business and social communications, the volume and the demands of applications, data, users and devices on networks continue to increase. Our vision focuses on the design and delivery of easily deployable, highly scalable, secure and comprehensively managed networks which are reliable, fast, flexible and cost-effective. We primarily sell our products through an ecosystem of our channel partners who combine our Ethernet products with their offerings to create compelling information technology solutions for end user customers.

##### Industry Background

The networking industry has undergone significant changes in the last few years. With the mobilization of the workforce, the virtualization of the data center, and the demand for anywhere, anytime connectivity, across any device, Ethernet is the common technology across both enterprises and service providers. Extreme Networks' strategy, product portfolio, and research and development are aligned with the following trends:

- *Ethernet*. Through its scalability, adaptability, and cost-effectiveness, has solidified its role as the basis for both public and private networks. 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.
- *Mobile Workforce*. Employees expect high-quality and secure access to corporate resources in a Bring Your Own Device ("BYOD") world across a diversity of endpoints such as laptops, tablets, and smart phones, whether they are within the corporate firewall or on-the-go. Information technology ("IT") departments focus their investment decisions on this mobile workforce, taking a unified view of wireless access, the campus core, and the data center. Networking vendors offer end-to-end solutions that permit IT managers to meet employee expectations and to maximize IT return on investment.
- *The Cloud*. Data center architectures are influenced by the cloud and by the deployment of server virtualization. Enterprises have migrated 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, scaling from 10 Gigabits ("G") to 40G and even 100G, provides the infrastructure for both private and public clouds. In addition, there is

growing interest in Software Defined Network ("SDN") approaches that may include technologies such as OpenFlow, OpenStack, and CloudStack.

- *Public Network Evolution.* 3G and 4G mobile networks now provide the necessary capacity and reach to enable employees to be productive away from the office and away from fixed networks in a BYOD world. Mobile operators continue to invest in their next-generation networks, and Ethernet is the technology often used for their access networks, referred to as mobile backhaul.
- *Vendor Consolidation.* Consolidation of vendors within the Ethernet networking market and between adjacent markets (storage, security, wireless & voice applications) continues to gain momentum. We believe that the underpinning technology for all of these adjacent markets is Ethernet. As a result, we believe that there will be continued mergers between adjacent market vendors to enable them to deliver complete and broad solutions to customers.

## **The Extreme Networks Strategy**

With the proliferation of mobile users and their devices, within a campus or across continents, the challenges of operating and managing a network have changed in the BYOD world of today. IT has rapidly evolved from a world of fixed to a new world of mobility where everything - people, devices, machines, and applications - are in motion. IT now has to support end-users with smart phones, tablets, laptops and other wireless peripherals as well as their wired workstations. Users are beginning to define the services that IT must offer as they adopt (smart phones and) tablets and their applications, and work on the go. Users know what they need to be productive, and they expect the network to help them achieve productivity.

Extreme Networks Open Fabric architecture delivers mission critical networks designed for this new BYOD world, spanning high-performance data centers, the campus, and the mobile infrastructure. Customers deploying our technology can know what resources are using the network, what they are requesting and where they are located, and can provide customized access to approved resources and content. Our networks help enable granular visibility and control, higher performance and resource security.

Extreme Networks strategy is to offer sophisticated, open, and cost effective scalable networks, an alternative to single-sourced, highly proprietary networking equipment from other companies. Our commitment to open standards is manifested by demonstrated interoperability within both enterprise and service provider networks, and the active participation in key industry and standards associations.

Key elements of our strategy include:

- *Provide simple, easy-to-use, high-performance, cost-effective switching solutions.* We offer simple, easy-to-use, high performance and cost-effective switching solutions that meet the specific demands of the following customers:
  - Enterprises and cloud data centers use our products to deploy next generation virtualized and high-density server infrastructure solutions.
  - Enterprises, including large or medium sized businesses, universities, hospitals, hotels and government agencies, use our products for their campus access and backbone networks.
  - Mobile Operators deploy our products for mobile backhaul in support of mobile broadband.
- *Extend switching technology leadership.* Our technological leadership is based on innovative switching technology, the depth and focus of our market experience and the ExtremeXOS® operating system - the software that runs on all of our Ethernet switches. Our standardization on a single network operating system, a primary merchant silicon vendor, and single Original Design Manufacturer ("ODM") for our core products permit us to derive leverage from our engineering investment. We intend to invest our engineering resources to continue to create leading-edge technologies that will increase the performance and functionality of our products and as a direct result, the value of the Extreme Networks solution to our current and future customers. In addition, we look for maximum synergies from our engineering investment in our targeted verticals and when targeting new vertical market segments.
- *Expand market penetration by targeting high-growth verticals.* Within the campus, we focus on the mobile user, leveraging our automation capabilities and tracking wireless LAN growth. Our data center approach leverages our product portfolio to address the needs of managed hosting and cloud data center providers, while we deliver key components of mobile backhaul solutions to our network equipment partners. Within the campus we also target the high-growth physical security market, converging technologies such as IP video across a common Ethernet infrastructure in conjunction with our 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 our 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.
- *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-day-a-year real-time response support.

## Products

Our products offer a resilient, intelligent and sustainable foundation for IT. We build our products into vertical markets solutions for converged campus networks with user and device mobility, and for Data Center and Cloud administrators to virtualize their server and storage over a high-performance Ethernet infrastructure, and Service Providers to provide bandwidth and Service Level Agreements for Carrier Ethernet, 3G and 4G services.

- *Resilient.* Customers can choose to deploy redundant management and fabric modules, hot swappable line cards, multi-speed stacking across 100 Megabits ("M")/1G/10G/40G systems, redundant power supplies and fan trays delivering high hardware availability. These are supported by ExtremeXOS, our modular and fault-tolerant network operating system that spans our complete switching portfolio, unique in the industry. Technologies supported include a variety of layer-2 resiliency protocols including multi-switch Link Aggregation ("M-LAG"), Ethernet Automatic Protection Switching ("EAPS"), MPLS/VPLS for high service availability, and layer-3 IPv4 and IPv6 routing protocols for high network availability. EAPS is an example of Extreme Networks innovation and allows network managers to configure their network infrastructure so that critical network communications can be rerouted within 50 milliseconds in the event of a network outage in most topologies. This level of high-speed communications 'reroute' is targeted for mission critical and demanding applications, including voice and video and maintains service delivery in the event of network outage. We further offer a versatile and flexible Quality of Service ("QoS") solution that allows network operators to configure bandwidth for mission critical applications and in doing so control the overall experience and the service-level of the communication flows. We have deep experience with communication quality controls, starting with our introduction to the market of the first broad QoS controls for Ethernet to the recent Data Center Bridging ("DCB") protocols for 'lossless' Ethernet that enables traditional storage networks to converge over a common Ethernet infrastructure. Our mobile backhaul products also support sophisticated timing functionality including Synchronous Ethernet and RFC1588, as well as Time Division Multiplexing ("TDM") interfaces for the transport of T1/E1 traffic across an Ethernet infrastructure.
- *Intelligent.* Based on a resilient ExtremeXOS foundation, our customers can take advantage of user, machine and application visibility and control from the networks infrastructure. Universal Port automatically detects new devices such as IP phones that plug-in to the network and can assign appropriate power, server and other configurations. The Identity Management engine allows tracking of users based on their login id and host machine, and assigning them to roles based on guest, contractor, or employee privilege. In the Data Center and Cloud, ExtremeXOS Network Virtualization ("XNV") allows network administrators visibility into Virtual Machine ("VM") movement and having virtual port-profiles follow VMs as they move within and across network switches. CLEAR-Flow, our wire-speed security rules engine, helps detect and mitigate traffic anomalies, including denial of service attacks. This user, machine, virtual machine, and traffic intelligence helps our customers fulfill the productivity promise from the exploding growth of mobility and cloud applications. These customers are further able to simplify provisioning and operations by leveraging extensibility capabilities inherent in ExtremeXOS including the ability to create custom scripts, dynamically load application modules, or moving to a dynamic extensible Markup Language ("XML") from static SNMP based management. Our new Audio-Video Bridging ("AVB") capabilities add intelligence within the network to support the convergence of professional audio and video across Ethernet, while our SDN investments provide a foundation for enhanced automation and control.
- *Sustainable.* Our portfolio of switching hardware has been created with power consumption in mind. Our switches are designed to require less power to perform the network traffic switching function, and where Power over Ethernet

("PoE") solutions have been deployed within the customers' network, features within the Extreme XOS operating system can intelligently control the delivery of power to the attached devices. In addition to lower power consumption, the air flow on our Data Center switches is built to integrate well with hot-aisle-cool-aisle designs to help minimize cooling costs.

- *Vertical Market Solutions.* Our hardware and software offerings can be combined into complete solutions targeted at specific high-growth vertical markets. These include Open Fabric, our architecture for open and scalable next-generation data center deployments that offer investment protection and provide a path to SDN. Extreme Networks' All Ethernet Open Fabric is anchored by our BlackDiamond BDX switch, our Summit top-of-rack data center switches, RidgeLine management, and where required, products from technology partners. In the campus, our Intelligent Mobile Edge offering combines our Summit edge virtual chassis switches, our WLAN access point and controller portfolio, and our RidgeLine management platform offering user and device identity awareness.

Our product categories include:

- *Modular Ethernet switching systems.* Our Black Diamond® products deliver modular or chassis-based Ethernet connectivity solutions for enterprises, data centers and service providers. These products have a range of management and line cards that allow our customers to flexibly configure and re-purpose the systems to meet specific needs. The Black Diamond products in conjunction with our ExtremeXOS operating system and our centralized management software product provide the density, performance and reliability required to serve in environments with demanding applications. During the last year we announced the industry's highest capacity 100G interfaces for the BlackDiamond BDX.
- *Stackable Ethernet switching systems.* Our Summit® product family delivers Ethernet connectivity for the network edge, aggregation and core. Within the Summit family are products that offer a range of connection speeds (from 100 Megabit to 40 Gigabit), various physical presentations (copper and fiber) and options to deliver Power-over-Ethernet or unpowered standard Ethernet ports. As with the our Black Diamond products, the Summit products in conjunction with our ExtremeXOS operating system provide the features, performance and reliability required by our customers to deploy, operate and manage converged networking infrastructures. We have recently announced the Summit X430, the most cost-effective enterprise-grade switching platform in the industry.
- *Wireless Ethernet controllers and access points.* In addition to our wired Ethernet switch portfolio, we offer our SummitWM family of wireless network controllers and associated Altitude™ access points to enable the deployment of nomadic and mobile converged network applications. Our wireless access products offer both indoor and outdoor 802.11abgn access points.
- *Centralized Management software.* To provide a central configuration, status and alerting capability we offer our RidgeLine management software system. This system provides the ability to deploy, configure, monitor and support our complete range of switching technology to enable our customers to reduce the overall cost of network administration and operations. This software system can exist as a standalone management solution or it can operate as part of a larger infrastructure management environment, and includes features tailored to data center, campus, and service provider management. Our ExtremeXOS-based SDN capabilities connect to third party controllers and orchestration platforms. Specifically, we've integrated OpenFlow capability to communicate to controllers, while our OpenStack interface is designed to enable multi-tenant data center provisioning. Finally, our new Chalet capability is an embedded management interface, initially for control of PoE-based IP cameras, and later extending to other network applications.

## **Sales, Marketing and Distribution**

We conduct our sales and marketing activities on a worldwide basis through a distribution channel utilizing distributors, resellers and our field sales organization. We primarily sell our products through an ecosystem of channel partners who combine our Ethernet products with their offerings to create compelling information technology solutions for end-user customers. We utilize our field sales organization to support our channel partners and to sell direct to end-user customers, including some large global accounts.

*Strategic Relationships.* We have active strategic relationships with Barco NV, EMC, Ericsson Enterprise AB, Lenovo, PC HK Ltd., Motorola Inc., Nokia Siemens Networks and others where our products are qualified as part of an overall solution they market or they sell our products as part of an overall solution.

**Distributors.** We have established several key relationships with leading distributors in the electronics and computer networking industries. Each of our distributors primarily resells our products to resellers. The distributors enhance our ability to sell and provide support to resellers, who may benefit from the broad service and product fulfillment capabilities offered by these distributors. One distributor, Westcon Group, Inc., accounted for 16%, 19%, and 16% of our net revenue in fiscal years 2013, 2012 and 2011, respectively. Distributors are generally given the right to return a portion of inventory to us for the purpose of stock rotation, to claim rebates for competitive discounts and participate in various cooperative marketing programs to promote the sale of our products and services. We defer recognition of revenue on all sales to distributors who maintain inventory of our products until the distributors sell the product, as evidenced by monthly “sales-out” reports that the distributors provide to us, provided other revenue recognition criteria are met. (See “Revenue Recognition” in Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations.*)

**Resellers.** We rely on many resellers worldwide that sell directly to end-user customer. Our resellers include regional networking system resellers, resellers who focus on specific vertical markets, value added resellers, network integrators and wholesale resellers. We provide training and support to our resellers and our resellers generally provide the first level of contact to end-users of our products. Our relationships with resellers are on a non-exclusive basis. Our resellers are not given rights to return inventory and do not automatically participate in any cooperative marketing programs. We generally recognize product revenue from our reseller and end-user customers at the time of shipment, provided other revenue recognition criteria are met. When significant obligations or contingencies remain after products are delivered, such as installation or customer acceptance, revenue and related costs are deferred until such obligations or contingencies are satisfied. (See “Revenue Recognition” in Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations.*)

**Field Sales.** We have trained our field sales organization to support and develop leads for our resellers and to establish and maintain key accounts and strategic end-user customers. To support these objectives, our field sales force:

- assists end-user customers in finding solutions to complex network system and architecture problems;
- differentiates the features and capabilities of our products from competitive offerings;
- continually monitors and understands the evolving networking needs of enterprise and service provider customers;
- promotes our products and ensures direct contact with current and potential customers; and
- assists our resellers to drive to closure business opportunities.

As of June 30, 2013, our worldwide sales and marketing organization consisted of 262 employees, including vice presidents, directors, managers, sales representatives, and technical and administrative support personnel. We have domestic sales offices located in 5 states and international sales offices located in 25 countries.

#### Customers with 10% of net revenue or greater

The following table sets forth major customers accounting for 10% or more of our net revenue:

	Fiscal Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
Westcon Group Inc.	16%	19%	16%
Scansource, Inc.	12%	13%	14%
Tech Data Corporation	10%	*	11%
Ericsson AB	*	12%	11%

\* Less than 10% of revenue

#### International sales

International sales are an important portion of our business. In fiscal 2013, sales to customers outside of the United States accounted for 66% of our consolidated net revenue, compared to 67% in fiscal 2012 and 68% in fiscal 2011. These sales are conducted primarily through foreign-based distributors and resellers managed by our worldwide sales organization. In addition, we have direct sales to end-user customers, including large global accounts. The primary markets for sales outside of the United States are countries in Europe and Asia, as well as Canada, Mexico, Central America and South America. (See “Net Revenue” in Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations.*)



## Marketing

We continue to develop and execute on a number of marketing programs to support the sale and distribution of our products by communicating the value of our solutions to our existing and potential customers, our distribution channels and our resellers. Our marketing efforts include participation in industry tradeshows, conferences and seminars, publication of technical and educational articles in industry journals, frequent updates to our publicly available website, promotions, web-based training courses, advertising and public relations. We also submit our products for independent product testing and evaluation.

## Backlog

Our products are often sold on the basis of standard purchase orders that are cancelable prior to shipment without significant penalties. In addition, purchase orders are subject to changes in quantities of products and delivery schedules in order to reflect changes in customer requirements and manufacturing capacity. Our business is characterized by seasonal variability in demand and short lead-time orders and delivery schedules. Actual shipments depend on the then-current capacity of our contract manufacturers and the availability of materials and components from our vendors. Although we believe that the orders included in the backlog are firm, all orders are subject to possible rescheduling by customers, cancellations by customers which we may elect to allow without penalty to customer, and further pricing adjustments on orders from distributors. Therefore, we do not believe that our backlog, as of any particular date is necessarily indicative of actual revenue for any future period.

Our product backlog at June 30, 2013, the last day of our 2013 fiscal year, net of anticipated back end rebates for distributor sales, was approximately \$16.4 million, compared with product backlog of approximately \$10.6 million at June 30, 2012, the last day of our 2012 fiscal year.

## Seasonality

Like many of our competitors, we historically have experienced seasonal fluctuations in customer spending patterns, which generally adversely affect our first and third fiscal quarters. This pattern should not be relied upon or be considered indicative of our future performance, however, as it has varied in the past.

## Customer Service and Support

Our customers seek high reliability and maximum uptime for their networks. To that extent, we provide the following service offerings:

- *Support services for end-users, resellers and distributors.* We meet the service requirements of our customers and channel partners through our Technical Assistance Centers, or TACs, located in Research Triangle Park ("RTP"), North Carolina; and Chennai, India. Our TAC engineers and technicians assist in diagnosing and troubleshooting technical issues regarding customer networks. Development engineers work with the TACs to resolve product functionality issues specific to each customer.
- *Professional services.* We provide consultative services to improve customer productivity in all phases of the network lifecycle – planning, design, implementation, operations and optimization management. Our network architects develop and execute customized hardware deployment plans to meet individualized network strategies. These activities may include the management and coordination of the design and network configuration, resource planning, staging, logistics, migration and deployment. We also provide customized training and operational best practices manuals to assist customers in the transition and sustenance of their networks.
- *Education.* Our classes cover a wide range of topics such as installation, configuration, operation, management and optimization – providing customers with the necessary knowledge and experience to successfully deploy and manage our products in various networking environments. Classes may be scheduled and available at numerous locations worldwide. We deliver training using our staff, on-line training classes and authorized training partners. In addition, we make much of our training materials accessible free-of-charge on our internet site for customers and partners to use in self-education. We believe this approach enhances the market's ability to learn and understand the broad array of advantages of our products.

## **Long-Lived Assets**

See Note 2 of our Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for more information regarding our long-lived assets.

## **Manufacturing**

We outsource the majority of our manufacturing and supply chain management operations as part of our strategy to maintain global manufacturing capabilities and to reduce our costs. We conduct quality assurance, manufacturing engineering, document control and test development at engineering facilities in San Jose, California, RTP, North Carolina and Chennai, India. This approach enables us to reduce fixed costs and to flexibly respond to changes in market demand. Our end-to-end supply chain, including our three engineering facilities at San Jose, RTP and Chennai are all ISO 9001 certified.

We use Alpha Networks, Inc. headquartered in Hsinchu, Taiwan to design and build some of our products. Alpha Networks is a global networking Original Design Manufacturer ("ODM") leader with core competencies in areas such as Ethernet, LAN/MAN, Wireless, Broadband and VoIP. Alpha Networks, Inc.'s manufacturing processes and procedures are ISO 9001 certified.

Our wireless products are supplied under an Original Equipment Manufacturer ("OEM") supply agreement with Symbol Technologies, Inc., a subsidiary of Motorola, Inc. ("Motorola"). Motorola rebrands and customizes the wireless products for us to resell to customers. Motorola's manufacturing processes and procedures are ISO 9001 certified. Motorola has made ongoing supply and support commitments during the term of the agreement and is required to provide support for a defined period of time after any termination of the agreement.

These manufacturers utilize automated testing equipment to perform product testing and burn-in with specified tests. Together we rely upon comprehensive inspection testing and statistical process controls to assure the quality and reliability of our products.

We use our forecast of expected demand to determine our material requirements. Lead times for materials and components vary significantly, and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. We order most of our materials and components on an indirect basis through our contract manufacturer. Purchase commitments with our manufacturers/ODM/OEM's are generally on a purchase order basis.

## **Research and Development**

The success of our products to date is due in large part to our focus on research and development. We believe that continued success in the marketplace will depend on our ability to develop new and enhanced products employing leading-edge technology. Accordingly, we are undertaking development efforts with an emphasis on increasing the reliability, performance and features of our family of products, and designing innovative products to reduce the overall network operating costs of customers.

Our product development activities focus on solving the needs of enterprises, data centers, and service providers. Current activities include the continuing development of our innovative switching technology aimed at extending the capabilities of our products. Our ongoing research activities cover a broad range of areas, including, in particular, 40G and 100G Ethernet, routing, timing and resiliency protocols, open standards interfaces, software defined networks, network security, identity management, data center fabrics, and wireless networking.

We continue to enhance the functionality of our ExtremeXOS modular operating system which has been designed to provide high reliability and availability. This allows us to leverage a common operating system across different hardware and network chipsets.

As of June 30, 2013, our research and development organization consisted of 191 employees. Research and development efforts are conducted in several locations, including San Jose, California; Raleigh, North Carolina; and Chennai, India. Our research and development expenses in fiscal years 2013, 2012 and 2011 were \$40.5 million, \$45.6 million and \$49.3 million, respectively.

## **Intellectual Property**

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. As of June 30, 2013, we have 146 issued patents in the United States and 71 patents outside of the United States. The expiration dates of our issued patents in the United States range from 2017 to approximately 2030. Although we have patent applications pending, there can be no assurance that patents will be issued from pending applications or that claims allowed on any future patents will be sufficiently broad to protect our technology. With respect to trademarks, we have a number of pending and registered trademarks in the United States and abroad.

We enter into confidentiality or license agreements with our employees, consultants and corporate partners, and control access to, and distribution of, our software, documentation and other proprietary information. In addition, we provide our software

products to end-user customers primarily under “shrink-wrap” license agreements. These agreements are not negotiated with or signed by the licensee, and thus these agreements may not be enforceable in some jurisdictions. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

## Competition

The market for network switches, which is part of the broader market for networking equipment, is extremely competitive and characterized by rapid technological progress, frequent new product introductions, changes in customer requirements and evolving industry standards. We believe the principal competitive factors in the network switching market are:

- expertise and familiarity with network protocols, network switching and network management;
- product performance, features, functionality and reliability;
- price/performance characteristics;
- timeliness of new product introductions;
- adoption of emerging industry standards;
- customer service and support;
- size and scope of distribution network;
- brand name;
- breadth of product offering;
- access to customers; and
- size of installed customer base.

We believe that we compete with our competitors with respect to many of the foregoing factors. However, the market for network switching solutions is dominated by a few large companies, particularly Brocade Communications Systems, Inc., Cisco Systems, Inc., Hewlett-Packard Company, Huawei, and Juniper Networks Inc. Most of these competitors have longer operating histories, greater name recognition, larger customer bases, broader product lines and substantially greater financial, technical, sales, marketing and other resources.

## Environmental Matters

We are subject to various environmental and other regulations governing product safety, materials usage, packaging and other environmental impacts in the United States and in various countries where our products are manufactured and sold. To date, compliance with federal, state, local, and foreign laws enacted for the protection of the environment has had no material effect on our capital expenditures, earnings, or competitive position.

We are committed to energy efficiency in our product lines. For example, some of our products consume less power than offerings from our major competitors under normal operations. Accordingly, we believe this is an area that affords us a competitive advantage for our products in the marketplace. We maintain compliance with various regulations related to the environment, including the Waste Electrical and Electronic Equipment and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment regulations adopted by the European Union. To date, our compliance efforts with various U.S. and foreign regulations related to the environment has not had a material effect on our operating results.

## Employees

As of June 30, 2013, we employed 625 people, including 262 in sales and marketing, 191 in research and development, 76 in operations, 49 in customer support and service, and 47 in finance and administration. We have never had a work stoppage and no U.S. personnel are represented under collective bargaining agreements. We consider our employee relations to be good.

We believe that our future success depends on our continued ability to attract, integrate, retain, train and motivate highly qualified personnel, and upon the continued service of our senior management and key personnel. None of our executive officers or key employees is bound by an employment agreement which mandates that the employee render services for any specific term. The market for qualified personnel is competitive.

## Organization

We were incorporated in California in May 1996 and reincorporated in Delaware in March 1999. Our corporate headquarters are located at 145 Rio Robles, San Jose, CA 95134 and our telephone number is (408) 579-2800. We electronically file our annual

reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 with the Securities Exchange Commission. The public can obtain copies of our SEC filings from our website found at [www.extremenetworks.com](http://www.extremenetworks.com) free of charge, or on the Securities Exchange Commission's website at [www.sec.gov](http://www.sec.gov). The public may also read or copy any materials we file with the Securities Exchange Commission at the Securities Exchange Commission's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities Exchange Commission at 1-800-SEC-0330.

Our corporate governance guidelines, the charters of our audit committee, our compensation committee and our nominating and corporate governance committee and our code of conduct policy (including code of ethics provisions that apply to our principal executive officer, principal financial officer, controller and senior financial officers) are available on our website at [www.extremenetworks.com](http://www.extremenetworks.com) under "Corporate Governance." These items are also available to any stockholder who requests them by calling (408) 579-2800.

### Executive Officers of the Registrant

The following table sets forth information regarding our executive officers as of August 29, 2013:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Charles Berger	59	President and Chief Executive Officer
John Kurtzweil	57	Senior Vice President and Chief Financial Officer
Edward Carney	59	Executive Vice President, Products and Customer Success
Nancy Shemwell	57	Executive Vice President, Global Sales
Allison Amadia	46	Vice President and General Counsel

*Charles Berger.* Mr. Berger has served as our President and Chief Executive Officer since April 2013. Prior to Extreme Networks, Mr. Berger served as President and Chief Executive Officer and as Chairman of ParAccel, Inc. from August 2010 until its sale to Actian Corporation in April 2013. From June 2010 through August 2010, Mr. Berger served as the Interim Chief Executive Officer of Official Payments Holdings, Inc. (NASDAQ: OPAY), for which he has served as a Director since 2002. From April 2006 through December 2009, Mr. Berger served as Chief Executive Officer, and from December 2001, the Chairman of the board of directors, of DVDPlay, Inc. prior to its acquisition by NCR Corporation. From March 2003 through September 2005, when it merged with Scansoft, Inc., Mr. Berger served as President, Chief Executive Officer, and as a Director of Nuance Communications, Inc. Mr. Berger also serves on the board of directors and as trustee for the United States Naval Memorial and is a trustee and member of the investment committee for Bucknell University. Mr. Berger received his B.S. in Business Administration from Bucknell University and his MBA, cum laude, from the University of Santa Clara.

*John Kurtzweil.* Mr. Kurtzweil has served as our Senior Vice President, Chief Financial Officer, since June 2012. Mr. Kurtzweil was also appointed as the Principal Accounting Officer in November 2012. Prior to Extreme Networks, from 2006 to 2012, Mr. Kurtzweil served as Executive Vice President, Finance and as Chief Financial Officer and Treasurer of Cree, Inc. Prior to Cree, Mr. Kurtzweil was Senior Vice President and Chief Financial Officer at Cirrus Logic, Inc. from 2004-2006. Mr. Kurtzweil, who is a certified public accountant and certified management accountant, earned an MBA from the University of St. Thomas, and a B.A. in Accounting from Arizona State University.

*Edward Carney.* Mr. Carney has served as our Executive Vice President, Products and Customer Success since July 2013. Prior to Extreme Networks, Mr. Carney spent 15 years in general management at Cisco Systems, including as Vice President of Cisco's Networked Solutions Integration Test Engineering (NSITE) laboratory and was the senior executive for its RTP site. Prior to Cisco, Mr. Carney spent 15 years at IBM where he directed engineering for the IBM Global Network. Mr. Carney serves on the board of directors and is past chairman for the Food Bank of Central and Eastern North Carolina. Mr. Carney holds a B.S. in General Engineering from the United States Military Academy at West Point, NY.

*Nancy Shemwell.* Ms. Shemwell has served as our Executive Vice President of Global Sales since September 2012. Prior to Extreme Networks, Ms. Shemwell was an independent consultant to technology companies. Previously, Ms. Shemwell was President and Chief Executive Officer for Multi-Link, Inc. from 2009 to 2011. Prior to Multi-Link, Ms. Shemwell was Executive Vice President, Global Sales & Service at Symmetricom, Inc., from 2004 to 2008. Ms. Shemwell was with Nortel Networks for 16 years in various sales and marketing leadership roles, having held the titles of President, Micom Communications Corporation (a Nortel data subsidiary), Vice President Business Segments, and Vice President Sales and Marketing for Wiltel (Nortel's largest distributor). Ms. Shemwell currently serves on the board of directors for the North Texas Regional Center for Innovation and Commercialization, VoodooVox, Inc. and is an associate board member for Southern Methodist University's (SMU) Cox School of Business. Ms. Shemwell holds an M.S. in management from American Technological University and a B.B.A. from Baylor University.

*Allison Amadia.* Ms. Amadia has served as our Vice President, General Counsel and Secretary since July 2013. Prior to Extreme Networks, Ms. Amadia represented numerous public and private technology companies as an independent legal consultant. In addition, Ms. Amadia held executive and director legal positions while with Voxeo Corporation, Crystal Decisions (formerly Seagate Software), VeriFone Inc. (a wholly owned subsidiary of HP), and Novell Inc. Prior to that, Ms. Amadia represented Silicon Valley companies as business counsel with Morrison & Foerster. Ms. Amadia received a JD from the University of Pennsylvania, where she graduated cum laude. Ms. Amadia received her BA in Political Science from the University of California at Davis. She also completed elective courses in Corporate Finance and Management at the Wharton School of Business.

#### **Item 1A. Risk Factors**

The following is a list of risks and uncertainties which may have a material and adverse effect on our business, financial condition or results of operations. The risks and uncertainties set out below are not the only risks and uncertainties we face, and some are endemic to the networking industry.

#### **We cannot assure you that we will be profitable in the future because a number of factors could negatively affect our financial results.**

We have a limited history of profitability and have reported losses in some of our prior fiscal years. In addition, in years when we reported profits, we were not profitable in each quarter during those years. We anticipate continuing to incur significant sales and marketing, product development and general and administrative expenses. Any delay in generating or recognizing revenue could result in a loss for a quarter or full year. Even if we are profitable, our operating results may fall below our expectations and those of our investors, which could cause the price of our stock to fall.

We may experience challenges or delays in generating or recognizing revenue for a number of reasons and our revenue and operating results have varied significantly in the past and may vary significantly in the future due to a number of factors, including, but not limited to, the following:

- we are dependent upon obtaining orders during a quarter and shipping those orders in the same quarter to achieve our revenue objectives;
- decreases in the prices of the products that we sell;
- the mix of products sold and the mix of distribution channels through which products are sold;
- acceptance provisions in customer contracts;
- our ability to deliver installation or inspection services by the end of the quarter;
- changes in general and/or specific economic conditions in the networking industry;
- seasonal fluctuations in demand for our products and services;
- a disproportionate percentage of our sales occurring in the last month of the quarter;
- our ability to ship products by the end of a quarter;
- reduced visibility into the implementation cycles for our products and our customers' spending plans;
- our ability to forecast demand for our products, which in the case of lower-than-expected sales, may result in excess or obsolete inventory in addition to non-cancelable purchase commitments for component parts;
- sales to the telecommunications service provider market, which represent a significant source of large product orders, are especially volatile and difficult to forecast;
- product returns or the cancellation or rescheduling of orders;
- announcements and new product introductions by our competitors;
- our ability to develop and support relationships with enterprise customers, service providers and other potential large customers;
- our ability to achieve targeted cost reductions;
- fluctuations in warranty or other service expenses actually incurred;
- our ability to obtain sufficient supplies of sole- or limited-source components for our products on a timely basis;
- increases in the price of the components that we purchase.

Due to the foregoing factors, period-to-period comparisons of our operating results should not be relied upon as an indicator of our future performance.

**We purchase several key components for products from single or limited sources and could lose sales if these suppliers fail to meet our needs.**

We currently purchase several key components used in the manufacture of our products from single or limited sources and are dependent upon supply from these sources to meet our needs. Certain components such as tantalum capacitors, SRAM, DRAM, and printed circuit boards, have been in the past, and may in the future be, in short supply. We have encountered, and are likely in the future to encounter, shortages and delays in obtaining these or other components, and this could have a material adverse effect on our ability to meet customer orders. Our principal sole-source components include:

- ASICs;
- Merchant silicon;
- microprocessors;
- programmable integrated circuits;
- selected other integrated circuits;
- custom power supplies; and
- custom-tooled sheet metal.

Our principal limited-source components include:

- flash memory;
- DRAMs and SRAMs;
- printed circuit boards; and
- CAMs.

We use our forecast of expected demand to determine our material requirements. Lead times for materials and components we order vary significantly, and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. If forecasts exceed orders, we may have excess and/or obsolete inventory, which could have a material adverse effect on our operating results and financial condition. If orders exceed forecasts, we may have inadequate supplies of certain materials and components, which could have a material adverse effect on our ability to meet customer delivery requirements and to recognize revenue.

Generally, we do not have agreements fixing long-term prices or minimum volume requirements from suppliers. From time to time we have experienced shortages and allocations of certain components, resulting in delays in filling orders. Qualifying new suppliers to compensate for such shortages may be time-consuming and costly, and may increase the likelihood of errors in design or production. In addition, during the development of our products, we have experienced delays in the prototyping of our chipsets, which in turn has led to delays in product introductions. Similar delays may occur in the future. Furthermore, the performance of the components as incorporated in our products may not meet the quality requirements of our customers.

**Intense competition in the market for networking equipment could prevent us from increasing revenue and maintaining profitability.**

The market for network switching solutions is intensely competitive and dominated primarily by Brocade Communications Systems, Inc., Cisco Systems Inc., Dell, Hewlett-Packard Company, Huawei, and Juniper Networks, Inc. Most of our competitors have longer operating histories, greater name recognition, larger customer bases, broader product lines and substantially greater financial, technical, sales, marketing and other resources. As a result, these competitors are able to devote greater resources to the development, promotion, sale and support of their products. In addition, they have larger distribution channels, stronger brand names, access to more customers, a larger installed customer base and a greater ability to make attractive offers to channel partners and customers than we do. For example, we have encountered, and expect to continue to encounter, many potential customers who are confident in and committed to the product offerings of our principal competitors. Accordingly, these potential customers may not consider or evaluate our products. When such potential customers have considered or evaluated our products, we have in the past lost, and expect in the future to lose, sales to some of these customers as large competitors have offered significant price discounts to secure these sales.

The pricing policies of our competitors impact the overall demand for our products and services. Some of our competitors are capable of operating at significant losses for extended periods of time, increasing pricing pressure on our products and services. If we do not maintain competitive pricing, the demand for our products and services, as well as our market share, may decline. From time to time, we may lower the prices of our products and services in response to competitive pressure. When this happens,

if we are unable to reduce our component costs or improve operating efficiencies, our revenue and margins will be adversely affected.

**We may engage in future acquisitions that dilute the ownership interests of our stockholders, cause us to incur debt and assume contingent liabilities.**

As part of our business strategy, we review acquisition and strategic investment prospects that we believe would complement our current product offerings, augment our market coverage or enhance our technical capabilities, or otherwise offer growth opportunities. In the event of any future acquisitions, we could:

- issue equity securities which would dilute current stockholders' percentage ownership;
- incur substantial debt;
- assume contingent liabilities; or
- expend significant cash.

These actions could have a material adverse effect on our operating results or the price of our common stock. Moreover, even if we do obtain benefits in the form of increased sales and earnings, these benefits may be recognized much later than the time when the expenses associated with an acquisition are incurred. This is particularly relevant in cases where it would be necessary to integrate new types of technology into our existing portfolio and new types of products may be targeted for potential customers with which we do not have pre-existing relationships. Acquisitions and investment activities also entail numerous risks, including:

- difficulties in the assimilation of acquired operations, technologies and/or products;
- unanticipated costs associated with the acquisition or investment transaction;
- the diversion of management's attention from other business concerns;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience;
- the potential loss of key employees of acquired organizations; and
- substantial charges for the amortization of certain purchased intangible assets, deferred stock compensation or similar items.

We may not be able to successfully integrate any businesses, products, technologies, or personnel that we might acquire in the future, and our failure to do so could have a material adverse effect on our business, operating results and financial condition.

**We may not fully realize the anticipated positive impacts to future financial results from our restructuring efforts.**

We recently undertook restructuring efforts to streamline operations and reduce operating expenses. Our ability to achieve the anticipated cost savings and other benefits from our restructuring efforts within expected time frames is subject to many estimates and assumptions, and may vary materially based on factors such as market conditions and the effect of our restructuring efforts on our work force. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. There can be no assurance that we will fully realize the anticipated positive impacts to future financial results from our current or future restructuring efforts. If our estimates and assumptions are incorrect or if other unforeseen events occur, we may not achieve the cost savings expected from such restructurings, and our business and results of operations could be adversely affected.

**Industry consolidation may lead to stronger competition and may harm our operating results.**

There has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. For example, some of our current and potential competitors for enterprise data center business have made acquisitions, or announced new strategic alliances, designed to position them with the ability to provide end-to-end technology solutions for the enterprise data center. Companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. This could lead to more variability in our operating results and could have a material adverse effect on our business, operating results, and financial condition. Furthermore, particularly in the service provider market, rapid consolidation will lead to fewer customers, with the effect that loss of a major customer could have a material impact on results not anticipated in a customer marketplace composed of more numerous participants.



**We intend to invest in engineering, sales, service, marketing and manufacturing on a long term basis, and delays or inability to attain the expected benefits may result in unfavorable operating results.**

While we intend to focus on managing our costs and expenses, over the long term, we also intend to invest in personnel and other resources related to our engineering, sales, service, marketing and manufacturing functions as we focus on our foundational priorities, such as leadership in our core products and solutions and architectures for business transformation. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits and the return on these investments may be lower, or may develop more slowly, than we expect. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected.

**We expect the average selling prices of our products to decrease, which may reduce gross margin and/or revenue.**

The network equipment industry has traditionally experienced an erosion of average selling prices due to a number of factors, including competitive pricing pressures, promotional pricing and technological progress. We anticipate that the average selling prices of our products will decrease in the future in response to competitive pricing pressures, excess inventories, increased sales discounts and new product introductions by us or our competitors. We may experience decreases in future operating results due to the erosion of our average selling prices. To maintain our gross margin, we must develop and introduce on a timely basis new products and product enhancements and continually reduce our product costs. Our failure to do so would likely cause our revenue and gross margin to decline.

**Our success is dependent on our ability to continually introduce new products and features that achieve broad market acceptance.**

The network equipment market is characterized by rapid technological progress, frequent new product introductions, changes in customer requirements and evolving industry standards. If we do not regularly introduce new products in this dynamic environment, our product lines will become obsolete. These new products must be compatible and inter-operate with products and architectures offered by other vendors. We have and may in the future experience delays in product development and releases, and such delays have and could in the future adversely affect our ability to compete and our operating results.

When we announce new products or product enhancements or end of sale existing products that have the potential to replace or shorten the life cycle of our existing products, customers may defer or cancel orders for our existing products. These actions could have a material adverse effect on our operating results by unexpectedly decreasing sales, increasing inventory levels of older products and exposing us to greater risk of product obsolescence.

Even if we introduce new switching products, alternative technologies could achieve widespread market acceptance and displace the Ethernet technology on which we have based our product architecture. For example, developments in routers and routing software could significantly reduce demand for our products. As a result, we may not be able to achieve widespread market acceptance of our current or future products.

**The unfavorable economic environment has and may continue to negatively impact our business and operating results.**

The challenges and uncertainty currently affecting global economic conditions may negatively impact our business and operating results in the following ways:

- customers may delay or cancel plans to purchase our products and services;
- customers may not be able to pay, or may delay payment of, the amounts that they owe us which may adversely affect our cash flow, the timing of our revenue recognition and the amount of revenue;
- increased pricing pressure may result from our competitors aggressively discounting their products;
- accurate budgeting and planning will be difficult due to low visibility into future sales;
- forecasting customer demand will be more difficult, increasing the risk of either excess and obsolete inventory if our forecast is too high or insufficient inventory to meet customer demand if our forecast is too low; and
- our component suppliers and contract manufacturers have been negatively affected by the economy which may result in product delays and changes in pricing and service levels.

If global economic conditions do not show continued improvement, we believe that we could experience material adverse impacts to our business and operating results.



**Claims of infringement by others may increase and the resolution of such claims may adversely affect our operating results.**

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patents, copyrights (including rights to “open source” software), and other intellectual property rights. Because of the existence of a large number of patents in the networking field, the secrecy of some pending patents and the issuance of new patents at a rapid pace, it is not possible to determine in advance if a product or component might infringe the patent rights of others. Because of the potential for courts awarding substantial damages and the lack of predictability of such awards, it is not uncommon for companies in our industry to settle even potentially unmeritorious claims for very substantial amounts. Further, the entities with whom we have or could have disputes or discussions include entities with extensive patent portfolios and substantial financial assets. These entities are actively engaged in programs to generate substantial revenue from their patent portfolios and are seeking or may seek significant payments or royalties from us and others in our industry.

Litigation resulting from claims that we are infringing the proprietary rights of others has resulted and could in the future result in substantial costs and a diversion of resources, and could have a material adverse effect on our business, financial condition and results of operations. We have received notices from entities alleging that we may be infringing their patents, and we are currently parties to patent litigation as described under Part I, Item 3, Legal Proceedings. Without regard to the merits of these or any other claims, an adverse court order or a settlement could require us, among other actions, to:

- stop selling our products that incorporate the challenged intellectual property;
- obtain a royalty bearing license to sell or use the relevant technology, and that license may not be available on reasonable terms or available at all;
- pay damages; or
- redesign those products that use the disputed technology.

In addition, our products include so-called “open source” software. Open source software is typically licensed for use at no initial charge, but imposes on the user of the open source software certain requirements to license to others both the open source software as well as modifications to the open source software. Our use of open source software subjects us to certain additional risks for the following reasons:

- open source license terms may be ambiguous and may result in unanticipated obligations regarding our products;
- open source software cannot be protected under trade secret law;
- suppliers of open-source software do not provide the warranty, support and liability protections typically provided by vendors who offer proprietary software; and
- it may be difficult for us to accurately determine the developers of the open source code and whether the acquired software infringes third-party intellectual property rights.

We believe that even if we do not infringe the rights of others, we will incur significant expenses in the future due to disputes or licensing negotiations, though the amounts cannot be determined. These expenses may be material or otherwise adversely affect our operating results.

**Our operating results may be negatively affected by defending or pursuing claims or lawsuits.**

We have and may in the future pursue or be subject to claims or lawsuits in the normal course of our business. In addition to the intellectual property lawsuits described above, we are currently parties to securities and contract litigation as described in Part I, Item 3. Legal Proceedings. Regardless of the result, litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a lawsuit in which we are a defendant could result in a court order against us or payments to other parties that would have an adverse effect on our business, results of operations, or financial condition. Even if we are successful in prosecuting claims and lawsuits, we may not recover damages sufficient to cover our expenses incurred to manage, investigate and pursue the litigation. In addition, subject to certain limitations, we may be obligated to indemnify our current and former directors, officers and employees in certain lawsuits. We do not maintain insurance coverage which will cover all of our litigation costs and liabilities.

**If we fail to protect our intellectual property, our business could suffer.**

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. However, we cannot ensure that the actions we have taken will adequately protect our intellectual property rights or that other parties will not independently develop similar or competing products that do not infringe on our patents. We generally enter into confidentiality or license agreements with our employees, consultants and corporate partners, and control access to and distribution of our intellectual property and other proprietary information. Despite our efforts to protect our

proprietary rights, unauthorized parties may attempt to copy or otherwise misappropriate or use our products or technology, which would adversely affect our business.

**When our products contain undetected errors, we may incur significant unexpected expenses and could lose sales.**

Network products frequently contain undetected errors when new products or new versions or updates of existing products are released to the marketplace. In the past, we have experienced such errors in connection with new products and product updates. We have experienced component problems in prior years that caused us to incur higher than expected warranty, service costs and expenses, and other related operating expenses. In the future, we expect that, from time to time, such errors or component failures will be found in new or existing products after the commencement of commercial shipments. These problems may have a material adverse effect on our business by causing us to incur significant warranty, repair and replacement costs, diverting the attention of our engineering personnel from new product development efforts, delaying the recognition of revenue and causing significant customer relations problems. Further, if products are not accepted by customers due to such defects, and such returns exceed the amount we accrued for defective returns based on our historical experience, our operating results would be adversely affected.

Our products must successfully interoperate with products from other vendors. As a result, when problems occur in a network, it may be difficult to identify the sources of these problems. The occurrence of system errors, whether or not caused by our products, could result in the delay or loss of market acceptance of our products and any necessary revisions may cause us to incur significant expenses. The occurrence of any such problems would likely have a material adverse effect on our business, operating results and financial condition.

**Our dependence on one manufacturer for our manufacturing requirements could harm our operating results.**

We primarily rely on one manufacturing partner, Alpha Networks, Inc. headquartered in Hsinchu, Taiwan, to manufacture our products. We have experienced delays in product shipments from our manufacturing partner in the past, which in turn delayed product shipments to our customers. These or similar problems may arise in the future, such as delivery of products of inferior quality, delivery of insufficient quantity of products, or the interruption or discontinuance of operations of a manufacturer, any of which could have a material adverse effect on our business and operating results. In addition, any natural disaster or business interruption to our manufacturing partner could significantly disrupt our business. While we maintain strong relationships with our manufacturing partner, our agreements with this manufacturer are generally of limited duration and pricing, quality and volume commitments are negotiated on a recurring basis. The failure to maintain continuing agreements with our manufacturing partner could adversely affect our business. We intend to introduce new products and product enhancements, which will require that we rapidly achieve volume production by coordinating our efforts with those of our suppliers and contract manufacturer.

As part of our cost-reduction efforts, we will need to realize lower per unit product costs from our manufacturing partner by means of volume efficiencies and the utilization of manufacturing sites in lower-cost geographies. However, we cannot be certain when or if such price reductions will occur. The failure to obtain such price reductions would adversely affect our gross margins and operating results.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 Section 1502 (the “Dodd-Frank Act”) requires certain public companies to disclose whether certain minerals, commonly known as “conflict minerals,” are necessary to the functionality or production of a product manufactured by those companies and if those minerals originated in the Democratic Republic of the Congo (DRC) or an adjoining country. It may be possible that conflict minerals may be part of the supply chain in the electronics industry and contained in our products. To comply with the Dodd-Frank Act, as determined by the U.S. Securities and Exchange Commission, we will be required to perform due diligence and disclose whether or not our products contain such minerals and from which countries and source (smelter) the minerals were obtained. The implementation of these requirements by government regulators and our partners and/or customers could adversely affect the sourcing, availability, and pricing of minerals used in the manufacture of certain components used in our products. In addition, we will incur additional costs to comply with the disclosure requirements for conflict minerals, including costs related to determining the source of any of the relevant minerals and metals used in our products. As a result, our business and financial results could be harmed.

**Our dependence on an OEM for all of our wireless products could harm our operating results.**

We rely on Motorola to provide our wireless products. If we experience delays in product shipments from our OEM or if they experience delays from their suppliers, which in turn delays product shipments to our customers, our financial results could be negatively impacted. Problems such as delivery of products of inferior quality, delivery of insufficient quantity of products, or the interruption or discontinuance of operations of our OEM, may arise in the future, any of which could have a material adverse effect on our business and operating results.

**We depend upon international sales for a significant portion of our revenue which imposes a number of risks on our business.**

International sales constitute a significant portion of our net revenue. Our ability to grow will depend in part on the expansion of international sales. Our international sales primarily depend on the success of our resellers and distributors. The failure of these resellers and distributors to sell our products internationally would limit our ability to sustain and grow our revenue. There are a number of risks arising from our international business, including:

- longer accounts receivable collection cycles;
- difficulties in managing operations across disparate geographic areas;
- difficulties associated with enforcing agreements through foreign legal systems;
- higher credit risks requiring cash in advance or letters of credit;
- difficulties in safeguarding intellectual property;
- political and economic turbulence;
- terrorism, war or other armed conflict;
- natural disasters and epidemics;
- potential adverse tax consequences;
- compliance with regulatory requirements of foreign countries, including compliance with rapidly evolving environmental regulations;
- compliance with U.S. laws and regulations pertaining to the sale and distribution of products to customers in foreign countries, including export controls and the Foreign Corrupt Practices Act; and
- the payment of operating expenses in local currencies, which exposes us to risks of currency fluctuations.

All of our international sales are U.S. dollar-denominated. Future increases in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. In the future, we may elect to invoice some of our international customers in local currency, which would expose us to fluctuations in exchange rates between the U.S. dollar and the particular local currency. If we do so, we may decide to engage in hedging transactions to minimize the risk of such fluctuations.

We have entered into foreign exchange forward contracts to offset the impact of payment of operating expenses in local currencies to some of our operating foreign subsidiaries. However, if we are not successful in managing these foreign currency transactions, we could incur losses from these activities.

**We must continue to develop and increase the productivity of our indirect distribution channels to increase net revenue and improve our operating results.**

Our distribution strategy focuses primarily on developing and increasing the productivity of our indirect distribution channels. If we fail to develop and cultivate relationships with significant channel partners, or if these channel partners are not successful in their sales efforts, sales of our products may decrease and our operating results could suffer. Many of our channel partners also sell products from other vendors that compete with our products. Our channel partners may not continue to market or sell our products effectively or to devote the resources necessary to provide us with effective sales, marketing and technical support. We may not be able to successfully manage our sales channels or enter into additional reseller and/or distribution agreements. Our failure to do any of these could limit our ability to grow or sustain revenue.

Our operating results for any given period have and will continue to depend to a significant extent on large orders from a relatively small number of channel partners and other customers. However, we do not have binding purchase commitments from any of them. A substantial reduction or delay in sales of our products to a significant reseller, distributor or other customer could harm our business, operating results and financial condition because our expense levels are based on our expectations as to future revenue and to a large extent are fixed in the short term. Under specified conditions, some third-party distributors are allowed to return products to us and unexpected returns could adversely affect our results.

**The sales cycle for our products is long and we may incur substantial non-recoverable expenses or devote significant resources to sales that do not occur when anticipated.**

Our products represent a significant strategic decision by a customer regarding its communications infrastructure. The decision by customers to purchase our products is often based on the results of a variety of internal procedures associated with the evaluation, testing, implementation and acceptance of new technologies. Accordingly, the product evaluation process frequently

results in a lengthy sales cycle, typically ranging from three months to longer than a year, and as a result, our ability to sell products is subject to a number of significant risks, including risks that:

- budgetary constraints and internal acceptance reviews by customers will result in the loss of potential sales;
- there may be substantial variation in the length of the sales cycle from customer to customer, making decisions on the expenditure of resources difficult to assess;
- we may incur substantial sales and marketing expenses and expend significant management time in an attempt to initiate or increase the sale of products to customers, but not succeed;
- if a sales forecast from a specific customer for a particular quarter is not achieved in that quarter, we may be unable to compensate for the shortfall, which could harm our operating results; and
- downward pricing pressures could occur during the lengthy sales cycle for our products.

**To successfully manage our business or achieve our goals, we must attract, retain, train, motivate, develop and promote key employees, and failure to do so can harm us.**

Our success depends to a significant degree upon the continued contributions of our key management, engineering, sales and marketing, service and operations personnel, many of whom would be difficult to replace. We do not have employment contracts with these individuals that mandate that they render services for any specific term, nor do we carry life insurance on any of our key personnel. We have experienced and may in the future experience significant turnover in our executive personnel. In addition, retention has generally become more difficult for us, in part because the exercise price of most of the stock options granted to many of our employees is below the market price. As a result, we experienced high levels of attrition. We believe our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, engineering, sales and marketing, service, finance and operations personnel. The market for these personnel is competitive, and we have had difficulty in hiring employees, particularly engineers, in the time-frame we desire.

Companies in the networking industry whose employees accept positions with competitors frequently claim that competitors have engaged in unfair hiring practices. We have from time to time been involved in claims like this with other companies and, although to date they have not resulted in material litigation, we do not know whether we will be involved in additional claims in the future. We could incur substantial costs in litigating any such claims, regardless of the merits.

**Failure to successfully expand our sales and support teams or educate them in regard to technologies and our product families may harm our operating results.**

The sale of our products and services requires a concerted effort that is frequently targeted at several levels within a prospective customer's organization. We may not be able to increase net revenue unless we expand our sales and support teams in order to address all of the customer requirements necessary to sell our products.

We cannot assure you that we will be able to successfully integrate employees into our company or to educate current and future employees in regard to rapidly evolving technologies and our product families. A failure to do so may hurt our revenue growth and operating results.

**Failure of our products to comply with evolving industry standards and complex government regulations may adversely impact our business.**

If we do not comply with existing or evolving industry standards and government regulations, we may not be able to sell our products where these standards or regulations apply. The network equipment industry in which we compete is characterized by rapid changes in technology and customers' requirements and evolving industry standards. As a result, our success depends on:

- the timely adoption and market acceptance of industry standards, and timely resolution of conflicting U.S. and international industry standards; and
- our ability to influence the development of emerging industry standards and to introduce new and enhanced products that are compatible with such standards.

In the past, we have introduced new products that were not compatible with certain technological standards, and in the future, we may not be able to effectively address the compatibility and interoperability issues that arise as a result of technological changes and evolving industry standards.

Our products must also comply with various U.S. federal government regulations and standards defined by agencies such as the Federal Communications Commission, standards established by governmental authorities in various foreign countries and

recommendations of the International Telecommunication Union. In some circumstances, we must obtain regulatory approvals or certificates of compliance before we can offer or distribute our products in certain jurisdictions or to certain customers. Complying with new regulations or obtaining certifications can be costly and disruptive to our business.

If we do not comply with existing or evolving industry standards or government regulations, we will not be able to sell our products where these standards or regulations apply, which may prevent us from sustaining our net revenue or achieving profitability.

**Changes in the effective tax rate including from the release of the valuation allowance recorded against our net U.S. deferred tax assets, or adverse outcomes resulting from examination of our income or other tax returns or change in ownership, could adversely affect our results.**

Our future effective tax rates may be volatile or adversely affected by changes in our business or U.S. or foreign tax laws, including: the partial or full release of the valuation allowance recorded against our net U.S. deferred tax assets; expiration of or lapses in the research and development tax credit laws; transfer pricing adjustments; tax effects of stock-based compensation; or costs related to restructurings. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. Although we regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes, there is no assurance that such determinations by us are in fact adequate. Changes in our effective tax rates or amounts assessed upon examination of our tax returns may have a material, adverse impact on our cash flows and our financial condition.

Our future effective tax rate in particular could be adversely affected by a change in ownership pursuant to U.S. Internal Revenue Code Section 382. If a change in ownership occurs, it may limit our ability to utilize our net operating losses to offset our U.S. taxable income. If U.S. taxable income is greater than the change in ownership limitation, we will pay a higher rate of tax with respect to the amount of taxable income that exceeds the limitation. This could have a material adverse impact on our results of operations. On April 26, 2012, we adopted an Amended and Restated Rights Agreement to help protect our assets (the "Rights Agreement"). In general, this does not allow a stockholder to acquire more than 4.95% of our outstanding common stock without a waiver from our board of directors, who must take into account the relevant tax analysis relating to potential limitation of our net operating losses. The Rights Agreement is effective through April 30, 2014.

**If we do not adequately manage and evolve our financial reporting and managerial systems and processes, our ability to manage and grow our business may be harmed.**

Our ability to successfully implement our business plan and comply with regulations requires an effective planning and management process. We need to continue improving our existing, and implement new, operational and financial systems, procedures and controls. Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures or controls, could harm our ability to record and report financial and management information on a timely and accurate basis, or to forecast future results.

**Compliance with laws, rules and regulations relating to corporate governance and public disclosure may result in additional expenses.**

Federal securities laws, rules and regulations, as well as NASDAQ rules and regulations, require companies to maintain extensive corporate governance measures, impose comprehensive reporting and disclosure requirements, set strict independence and financial expertise standards for audit and other committee members and impose civil and criminal penalties for companies and their Chief Executive Officers, Chief Financial Officers and directors for securities law violations. These laws, rules and regulations and the interpretation of these requirements are evolving, and we are making investments to evaluate current practices and to continue to achieve compliance.

**Our headquarters and some significant supporting businesses are located in northern California and other areas subject to natural disasters that could disrupt our operations and harm our business.**

Our corporate headquarters are located in Silicon Valley in Northern California. Historically, this region as well as our R&D center in North Carolina has been vulnerable to natural disasters and other risks, such as earthquakes, fires, floods and tropical storms, which at times have disrupted the local economy and posed physical risks to our property. We have contract manufacturers located in Taiwan where similar natural disasters and other risks may disrupt the local economy and pose physical risks to our property and the property of our contract manufacturer.

In addition, the continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the economies of the U.S. and other countries. If such disruptions result in delays or cancellations of customer orders for our products, our business and operating results will suffer.

We currently do not have redundant, multiple site capacity in the event of a natural disaster, terrorist act or other catastrophic event. In the event of such an occurrence, our business would suffer.

**Our stock price has been volatile in the past and our stock price may significantly fluctuate in the future.**

In the past, our common stock price has fluctuated significantly. This could continue as we or our competitors announce new products, our results or those of our customers or competition fluctuate, conditions in the networking or semiconductor industry change, or when investors, change their sentiment toward stocks in the networking technology sector.

In addition, fluctuations in our stock price and our price-to-earnings multiple may make our stock attractive to momentum, hedge or day-trading investors who often shift funds into and out of stock rapidly, exacerbating price fluctuations in either direction, particularly when viewed on a quarterly basis.

**Provisions in our charter documents and Delaware law and our adoption of a stockholder rights plan may delay or prevent an acquisition of Extreme, which could decrease the value of our Common Stock.**

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. In addition, our Board of Directors has the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer. Although we believe these provisions of our certificate of incorporation and bylaws and Delaware law will provide for an opportunity to receive a higher bid by requiring potential acquirers to negotiate with our Board of Directors, these provisions apply even if the offer may be considered beneficial by some of our stockholders.

Our Rights Agreement provides that if a single stockholder (or group) acquires more than 4.95% of our outstanding common stock without a waiver from our Board of Directors, each holder of one share of our common stock (other than the stockholder or group who acquired in excess of 4.95% of our common stock) may purchase a fractional share of our preferred stock that would result in substantial dilution to the triggering stockholder or group. Accordingly, although this plan is designed to prevent any limitation on the utilization of our net operating losses by avoiding issues raised under Section 382 of the U.S. Internal Revenue Code, the Rights Agreement could also serve as a deterrent to stockholders wishing to effect a change of control.

**We rely on the availability of third-party licenses**

Some of our products are designed to include software or other intellectual property licensed from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of these products. There can be no assurance that the necessary licenses would be available on acceptable terms, if at all. The inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could have a material adverse effect on our business, operating results, and financial condition. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a nonexclusive basis could limit our ability to protect our proprietary rights in our products.

**Market conditions and changes in the industry could lead to discontinuation of our products or businesses resulting in asset impairments**

In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of, or otherwise exiting businesses. Any decision to limit investment in or dispose of or otherwise exit businesses may result in the recording of special charges, such as inventory and technology-related write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or claims from third parties who were resellers or users of discontinued products. Our estimates with respect to the useful life or ultimate recoverability of our carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Although in certain instances, our supply agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to firm orders being placed, our loss contingencies may include liabilities for contracts that we cannot cancel with contract manufacturers and suppliers. Further, our estimates relating to the liabilities for excess facilities are affected by changes in real estate market conditions.

**If our products do not effectively inter-operate with our customers' networks and result in cancellations and delays of installations our business could be harmed.**

Our products are designed to interface with our customers' existing networks, each of which have different specifications and utilize multiple protocol standards and products from other vendors. Many of our customers' networks contain multiple generations of products that have been added over time as these networks have grown and evolved. Our products must inter-operate with many or all of the products within these networks as well as future products in order to meet our customers' requirements. If we find errors in the existing software or defects in the hardware used in our customers' networks, we may need to modify our software or hardware to fix or overcome these errors so that our products will inter-operate and scale with the

existing software and hardware, which could be costly and could negatively affect our business, financial condition, and results of operations. In addition, if our products do not inter-operate with those of our customers' networks, demand for our products could be adversely affected or orders for our products could be cancelled. This could hurt our operating results, damage our reputation, and seriously harm our business and prospects.

**System security risks, data protection breaches, and cyber-attacks could compromise our proprietary information, disrupt our internal operations and harm public perception of our products, which could adversely affect our business.**

In the ordinary course of business, we store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners on our networks. The secure maintenance of this information is critical to our operations and business strategy. Increasingly, companies, including Extreme Networks, are subject to a wide variety of attacks on their networks on an ongoing basis. Despite our security measures, Extreme Networks' information technology and infrastructure may be vulnerable to penetration or attacks by computer programmers and hackers, or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products, and the information stored on our networks could be accessed, publicly disclosed, lost or stolen, which could subject us to liability to our customers, suppliers, business partners and others, and cause us reputational and financial harm. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of our networks.

If an actual or perceived breach of network security occurs in our network or in the network of a customer of our networking products, regardless of whether the breach is attributable to our products, the market perception of the effectiveness of our products could be harmed. In addition, the economic costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software systems and security vulnerabilities could be significant and may be difficult to anticipate or measure. Because the techniques used by computer programmers and hackers, many of whom are highly sophisticated and well-funded, to access or sabotage networks change frequently and generally are not recognized until after they are used, we may be unable to anticipate or immediately detect these techniques. This could impede our sales, manufacturing, distribution or other critical functions, which could adversely affect our business.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our principal administrative, sales, and marketing facilities are located in San Jose, California. We started leasing our current headquarters in June 2013. We also lease office space and executive suites in various other geographic locations domestically and internationally for research & development, sales and service personnel and administration. Our aggregate lease expense for fiscal 2013 was approximately \$5.9 million.

On September 11, 2012, we completed the sale of our former headquarters and accompanying 16 acres of land in Santa Clara, California for net cash proceeds of approximately \$44.7 million. On September 12, 2012, we entered into an agreement with the buyer, whereby we leased three of the four buildings, comprising of the campus, under a cancellable lease arrangement expiring on January 31, 2013 for one building and on August 31, 2014 for the remaining two buildings. The lease was terminable by us upon 30 days' notice at any time before the lease expiration date. We terminated the lease on June 30, 2013.

**Item 3. Legal Proceedings**

The information set forth under the heading "Legal Proceedings" in Note 3, *Commitments and Contingencies and Leases*, in Notes to Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, is incorporated herein by reference.

**Item 4. Mine Safety Disclosures**

Not Applicable



## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Common Stock Market Prices and Dividends

Our common stock trades on the NASDAQ Global Market and commenced trading on NASDAQ on April 9, 1999 under the symbol "EXTR." The following table sets forth the high and low sales prices as reported by NASDAQ. Such prices represent prices between dealers, do not include retail mark-ups, mark-downs or commissions and may not represent actual transactions.

<u>Stock Prices</u>	<u>High</u>	<u>Low</u>
Fiscal year ended June 30, 2013:		
First quarter	\$ 3.63	\$ 2.95
Second quarter	\$ 3.78	\$ 3.22
Third quarter	\$ 3.80	\$ 3.37
Fourth quarter	\$ 3.62	\$ 3.00
Fiscal year ended June 30, 2012:		
First quarter	\$ 3.60	\$ 2.53
Second quarter	\$ 3.15	\$ 2.46
Third quarter	\$ 3.96	\$ 2.95
Fourth quarter	\$ 4.32	\$ 3.36

As of August 5, 2013, there were 239 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. We have never declared or paid cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future.

Below is a summary of stock repurchases for the three months ended June 30, 2013. See Note 6 of our Notes to Consolidated Statements of Income for information regarding our stock repurchase program.

<u>Period</u>	<u>Shares Repurchased</u>	<u>Average Price Per Share</u>	<u>Total Number of Shares Purchased as part of Publicly Announced Plan</u>	<u>Approximate Dollar Value that may Yet Be Purchased Under the Plan <sup>(1)</sup></u>
	(in thousands, except average price per share)			
<b>Beginning Purchase Authority</b>				64,027
<b>4/1/2013 - 4/30/2013</b>				
Shares repurchased	—	—	—	—
<b>5/1/2013 - 5/31/2013</b>				
Shares repurchased	1,000	3.50	1,000	(3,502)
<b>6/1/2013 - 6/30/2013</b>				
Shares repurchased	—	—	—	—
<b>Total</b>	<u>1,000</u>		<u>1,000</u>	<u>60,525</u>

<sup>(1)</sup> We currently have authority granted by our Board of Directors to repurchase up to \$75 million in common stock over a three year period starting October 1, 2012.

Certain information regarding our equity compensation plan(s) as required by Part II is incorporated by reference from our definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for our 2013 Annual Meeting of Stockholders not later than 120 days after the end of the fiscal year covered by this report.

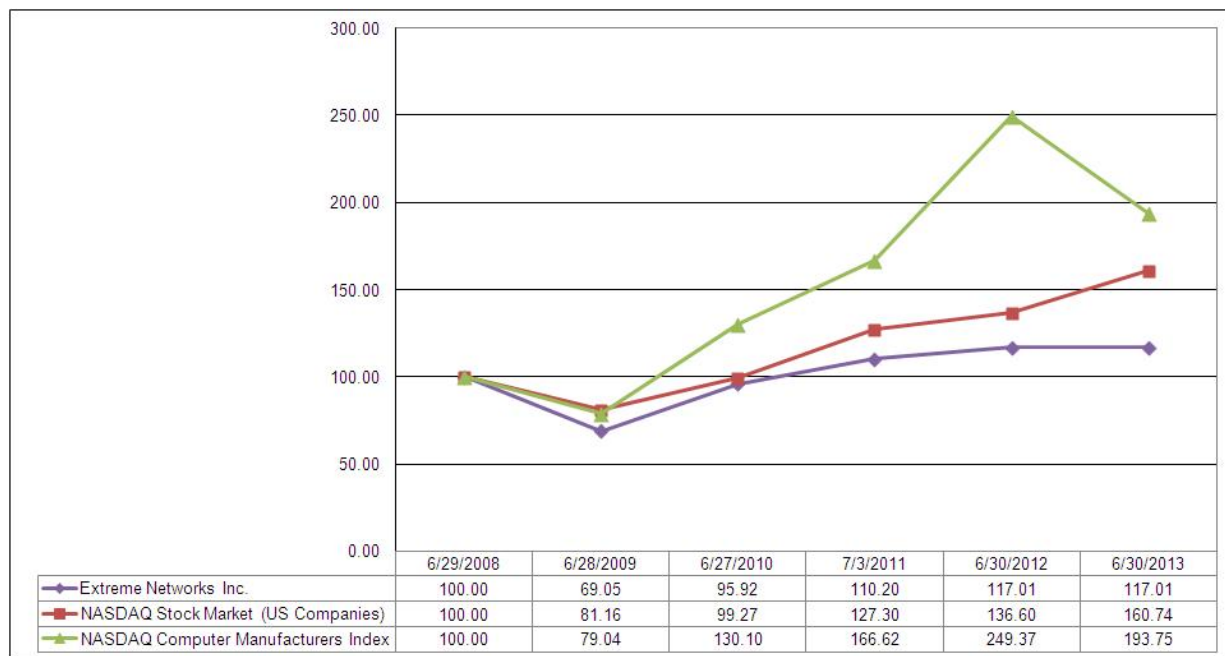


**STOCK PRICE PERFORMANCE GRAPH**

Set forth below is a stock price performance graph comparing the annual percentage change in the cumulative total return on our common stock with the cumulative total returns of the CRSP Total Return Index for The NASDAQ Stock Market (U.S. companies) and the NASDAQ Computer Manufacturers Securities for the period commencing June 29, 2008 and ending on June 30, 2013. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of our common stock.

**Comparison of Five-Year Cumulative Total Returns**

Performance Graph for Extreme Networks, Inc.



Prepared by CRSP ([www.crsp.uchicago.edu](http://www.crsp.uchicago.edu)), Center for Research in Security Prices, Booth School of Business, The University of Chicago. Used with permission. All rights reserved.

**Item 6. Selected Financial Data**

The following table sets forth selected consolidated financial data for each of the fiscal years ended June 30, 2013, June 30, 2012, July 3, 2011, June 27, 2010 and June 28, 2009 derived from audited financial statements. These tables should be reviewed in conjunction with the Consolidated Financial Statements in Item 8 and related Notes, as well as Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Historical results may not be indicative of future results.

	Year Ended				
	June 30, 2013 <sup>(1)</sup>	June 30, 2012 <sup>(2)</sup>	July 3, 2011 <sup>(3)</sup>	June 27, 2010 <sup>(4)</sup>	June 28, 2009 <sup>(5)</sup>
(In thousands, except per share amounts)					
<b>Consolidated Statements of Operations Data:</b>					
Net revenues	\$ 299,343	\$ 322,722	\$ 334,428	\$ 309,354	\$ 335,559
Operating income (loss)	\$ 10,852	\$ 13,909	\$ 3,114	\$ (1,424)	\$ 2,061
Net income	\$ 9,673	\$ 15,872	\$ 2,713	\$ 227	\$ 2,815
Net income per share – basic	\$ 0.10	\$ 0.17	\$ 0.03	\$ —	\$ 0.03
Net income per share – diluted	\$ 0.10	\$ 0.17	\$ 0.03	\$ —	\$ 0.03
Shares used in per share calculation – basic	93,954	93,451	91,423	89,281	94,225
Shares used in per share calculation – diluted	95,044	94,490	92,795	89,477	94,284
As of					
	June 30, 2013	June 30, 2012	July 3, 2011	June 27, 2010	June 28, 2009
(In thousands)					
<b>Consolidated Balance Sheets Data:</b>					
Cash and cash equivalents, short-term investments and marketable securities	\$ 205,613	\$ 153,515	\$ 146,977	\$ 135,359	\$ 130,440
Inventories	\$ 16,167	\$ 26,609	\$ 21,583	\$ 21,842	\$ 12,380
Total assets	\$ 311,424	\$ 284,590	\$ 270,973	\$ 262,885	\$ 243,013
Deferred revenue, net	\$ 41,454	\$ 39,328	\$ 36,973	\$ 37,185	\$ 37,483
Other long-term liabilities	\$ 1,507	\$ 643	\$ 2,474	\$ 3,665	\$ 4,675
Common stock and capital in excess of par value	\$ 821,425	\$ 970,743	\$ 963,697	\$ 956,922	\$ 949,241
Accumulated deficit	\$ (630,903)	\$ (640,576)	\$ (656,448)	\$ (659,161)	\$ (659,388)

- (1) Fiscal 2013 net income includes gain on sale of facilities of \$11.5 million, restructuring charge, net of reversal of \$6.8 million and a charge for litigation settlement, net of \$2.0 million.
- (2) Fiscal 2012 net income includes restructuring charge, net of reversal of \$1.6 million and litigation settlement gain of \$0.1 million and \$1.9 million cumulative translation adjustments gain from Japan subsidiary liquidation.
- (3) Fiscal 2011 net income includes restructuring charge of \$3.8 million and litigation settlement gain of \$4.2 million.
- (4) Fiscal 2010 net income includes restructuring charge of \$4.2 million and litigation settlement charge of \$1.0 million.
- (5) Fiscal 2009 net income includes restructuring charge of \$2.2 million.

**Quarterly Financial Data (Unaudited)**

Quarterly results for the years ended June 30, 2013 and 2012 follow:

	June 30, 2013(1)	March 31, 2013(2)	December 31, 2012(3)	September 30, 2012(4)
(In thousands, except per share amounts)				
Net revenues	\$ 79,462	\$ 68,203	\$ 75,551	\$ 76,127
Gross profit	\$ 43,975	\$ 37,937	\$ 40,739	\$ 39,975
Net income (loss)	\$ 3,184	\$ (2,220)	\$ (4,206)	\$ 12,915
Net income (loss) per share – basic	\$ 0.03	\$ (0.02)	\$ (0.04)	\$ 0.14
Net income (loss) per share – diluted	\$ 0.03	\$ (0.02)	\$ (0.04)	\$ 0.14
	June 30, 2012(5)	April 1, 2012(6)	January 1, 2012(7)	October 2, 2011(8)
(In thousands, except per share amounts)				
Net revenues	\$ 87,649	\$ 73,368	\$ 82,812	\$ 78,894
Gross profit	\$ 48,833	\$ 41,211	\$ 46,268	\$ 43,536
Net income	\$ 7,812	\$ 2,372	\$ 4,107	\$ 1,583
Net income per share – basic	\$ 0.08	\$ 0.03	\$ 0.04	\$ 0.02
Net income per share – diluted	\$ 0.08	\$ 0.03	\$ 0.04	\$ 0.02

- (1) Net income and net income per share include the effect of restructuring charge of \$0.6 million.
- (2) Net loss and net loss per share include the effect of restructuring charge of \$1.1 million, litigation settlement of \$2.5 million.
- (3) Net loss and net loss per share include the effect of restructuring charge of \$5.2 million and litigation settlement received of \$0.4 million.
- (4) Net income and net income per share include the effect of restructuring reversal of \$10,000 and gain on sale of facilities of \$11.5 million.
- (5) Net income and net income per share include the effect of restructuring charge of \$0.2 million and litigation settlement of \$0.1 million.
- (6) Net income and net income per share include the effect of restructuring reversal of \$35,000.
- (7) Net income and net income per share include the effect of restructuring charge of \$0.4 million.
- (8) Net income and net income per share include the effect of restructuring charge of \$1.0 million

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Business Overview**

We develop and sell network infrastructure equipment and offer related services contracts for extended warranty and maintenance to our enterprise, data center and service provider customers. Substantially all of our revenue is derived from the sale of our networking equipment and related service contracts.

We believe that understanding the following key developments is helpful to an understanding of our operating results for the fiscal year ended June 30, 2013.

#### *Impact of the Global Economic Developments*

We believe that the credit market crisis, slow economic recovery in the United States and Europe, and other challenges affecting global economic conditions placed significant limitations on our financial performance. We operate in three regions: Americas, which includes the United States, Canada, Mexico, Central America and South America; EMEA, which includes Europe, Middle East, and Africa; and APAC which includes Asia Pacific, South Asia, Japan and Australia. Sales in the APAC and some European countries were most impacted as a result of the soft global economy. We believe that conservative purchasing patterns and delays or cancellation of IT infrastructure plans in the face of continued uncertainty regarding the global economy, may continue to negatively impact overall demand for networking solutions, including Ethernet equipment.

We have taken, and plan to continue to take, other steps to manage our business in the current economic environment. For example, we have managed from time to time our contingent work force, reduced travel and other discretionary spending, realigned our product portfolio and organization to grow revenue and operating income, and controlled all hiring activities.

#### *Increasing Demand for Bandwidth*

We believe that the continued increase in demand for bandwidth will over time drive future demand for high performance Ethernet solutions. Widespread adoption of electronic communications in all aspects of our lives, proliferation of next generation converged mobile devices and deployment of triple-play services to residences and businesses alike, continues to generate demand for greater network performance across broader geographic locations. In parallel to these transformational forces within society and the community at large, the accelerating adoption of internet and intranet "cloud" solutions within business enterprises is enabling organizations to offer greater business scalability to improve efficiency and through more effective operations, improve profitability. In order to realize the benefits of these developments, customers require additional bandwidth and high performance from their network infrastructure at affordable prices. We are seeing the initial indications that the Ethernet segment of the networking equipment market will return to growth as enterprise, data center and carrier customers continue to recognize the performance and operating cost benefits of Ethernet technology.

#### *Expanding Product Portfolio*

We believe that continued success in our marketplace is dependent upon a variety of factors that includes, but is not limited to, our ability to design, develop and distribute new and enhanced products employing leading-edge technology. Over the past few years, we further extended our Ethernet product portfolio through continued evolutions of our BlackDiamond BD-X, a highly-scalable core switch for IT and cloud data centers, the Summit X440 for the intelligent edge, the Summit X670 for data center top-of-rack deployments, the E4G Cell Site Router family for mobile backhaul, as well as introducing a revamp of our RidgeLine network management platform. We also introduced the Summit X430, further extending our ExtremeXOS technology into more cost-conscious environments. During fiscal 2013 we also introduced key software functionality that will drive differentiation. This included support for OpenFlow and OpenStack as part of our SDN strategy, automation of IP cameras for physical security, and Audio-Video Bridging, a breakthrough set of technologies for professional audio and video.

#### *Industry Developments*

The market for network infrastructure equipment is highly competitive and dominated by a few large companies. The current economic climate has further driven consolidation of vendors within the Ethernet networking market and with vendors from adjacent markets, including storage, security, wireless and voice applications. We believe that the underpinning technology for all of these adjacent markets is Ethernet. As a result, independent Ethernet switch vendors are being acquired or merged with larger, adjacent market vendors to enable them to deliver complete and broad solutions. As an independent Ethernet switch vendor, we must provide products that, when combined with the products of our large strategic partners, create compelling solutions for end-user customers. Our approach is to focus on the intelligence and automation layer that spans our hardware products and that facilitates end-to-end solutions, as opposed to positioning Extreme Networks as a low-cost-vendor with point products. Lower overall market growth has also created an environment of declining margins due to increased competition between the remaining vendors in this space. During the last year, overall Ethernet port counts have grown, while industry revenues have decreased,

signaling a decline in average selling price. Our product life cycle and operational cost reduction efforts are therefore even more critical for margin preservation.

#### *Amendment to Rights Agreement*

On November 27, 2012, our Board of Directors adopted an Amended and Restated Rights Agreement between Extreme Networks 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 Series A Preferred Stock of Extreme Networks. The Restated Rights Plan replaces in its entirety the Rights Agreement, dated as of April 27, 2001, as amended on June 30, 2010; April 26, 2011, between Extreme Networks and Mellon Investor services LLC (the "Prior Rights Plan").

The Board reviewed the necessity of the provision of the Prior Rights Plan adopted to preserve the value of Extreme Networks' deferred tax assets, including its net operating loss carry forwards, with respect to its ability to fully use its tax benefits to offset future income may be limited if it 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 Extreme Networks' common stock. Following its review, the Board decided it was necessary and in the best interests of Extreme Networks 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. Our stockholders voted to extend the term of the Restated Rights Plan from April 30, 2013 to April 30, 2014 at our 2012 Annual Meeting of Stockholders, and the Restated Rights Plan was amended effective April 30, 2013 to reflect the extension of the term.

#### **Results of Operations**

Effective June 30, 2012, we changed our fiscal period to coincide with calendar month-end. Previously, we used a fiscal 52/53 week manufacturing calendar year. Accordingly, the fiscal year ended June 30, 2012 has 52 weeks compared to 53 weeks in 2011.

Our operations and financial performance have been affected by the economic factors described above, and during fiscal 2013, we achieved the following results:

- Net revenue of \$299.3 million, a decrease of 7.2% from fiscal 2012 net revenue of \$322.7 million.
- Product revenue of \$240.0 million, a decrease of 8.4% from fiscal 2012 product revenue of \$261.9 million.
- Service revenue of \$59.4 million, a decrease of 2.4% from fiscal 2012 service revenue of \$60.8 million.
- Total gross margin of 54.3% of net revenue in fiscal 2013, compared to 55.7% in fiscal 2012.
- Operating income of \$10.9 million (including gain on sale of campus of \$11.5 million, restructuring charges of \$6.8 million, and \$2.0 million of litigation settlement charges and associated legal expenses), a decrease from operating income of \$13.9 million in fiscal 2012.
- Net income was \$9.7 million in fiscal 2013, a decrease from net income of \$15.9 million in fiscal 2012.
- Cash flow provided by operating activities was \$32.2 million, compared to cash flow provided by operating activities of \$13.8 million in fiscal 2012, an increase of \$18.4 million. Cash and cash equivalents, short-term investments and marketable securities were \$205.6 million as of June 30, 2013, an increase of \$52.1 million from fiscal 2012 primarily due to cash provided by operating and investing activities including the sale of buildings and land offset by cash used for repurchase of common stock.

## Net Revenue

The following table presents net product and service revenue for the fiscal years 2013, 2012 and 2011 (dollars in thousands):

	Year Ended				Year Ended			
	June 30, 2013	June 30, 2012	\$ Change	% Change	June 30, 2012	July 3, 2011	\$ Change	% Change
<b>Net Revenue:</b>								
Product	\$ 239,955	\$ 261,873	\$ (21,918)	(8.4)%	\$ 261,873	\$ 274,388	\$ (12,515)	(4.6)%
<i>Percentage of net revenue</i>	80.2%	81.2%			81.2%	82.1%		
Service	59,388	60,849	(1,461)	(2.4)%	60,849	60,040	809	1.3 %
<i>Percentage of net revenue</i>	19.8%	18.9%			18.9%	18.0%		
Total net revenue	\$ 299,343	\$ 322,722	\$ (23,379)	(7.2)%	\$ 322,722	\$ 334,428	\$ (11,706)	(3.5)%

Product revenue decreased in fiscal 2013 as compared to fiscal 2012 primarily due to weaker than expected demand from our public sector and enterprise customers in the United States and we continued to experience weak demand from our public sector and strategic customers and distributors in the EMEA region attributable to the persistent macroeconomic challenges in Western Europe.

Product revenue decreased in fiscal 2012 as compared to fiscal 2011 primarily due to increased pricing pressure on our products and lower volumes. The decreases were also a result of elimination of certain products and product mix shift.

Service revenue decreased in fiscal 2013 as compared to fiscal 2012 reflecting slight decrease in the levels of service contract renewals.

Service revenue increased in fiscal 2012 as compared to fiscal 2011 resulting from a significant one time renewal contract for a single customer and maintenance contract extensions.

As noted previously, we operate in three regions: 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, Japan and Australia. Prior to fiscal 2012, South America was included as part of EMEA. The following table presents the total net revenue geographically for the fiscal years 2013, 2012 and 2011 (dollars in thousands):

Net Revenue	Year Ended				Year Ended			
	June 30, 2013	June 30, 2012	\$ Change	% Change	June 30, 2012	July 3, 2011	\$ Change	% Change
<b>Americas:</b>								
United States	\$ 101,790	\$ 106,110	\$ (4,320)	(4.1)%	\$ 106,110	\$ 103,087	\$ 3,023	2.9 %
Other	33,584	34,970	(1,386)	(4.0)%	34,970	30,487	4,483	14.7 %
Total Americas	135,374	141,080	(5,706)	(4.0)%	141,080	133,574	7,506	5.6 %
<i>Percentage of net revenue</i>	45.2%	43.7%			43.7%	39.9%		
EMEA	112,812	128,093	(15,281)	(11.9)%	128,093	134,730	(6,637)	(4.9)%
<i>Percentage of net revenue</i>	37.7%	39.7%			39.7%	40.3%		
APAC	51,157	53,549	(2,392)	(4.5)%	53,549	66,124	(12,575)	(19.0)%
<i>Percentage of net revenue</i>	17.1%	16.6%			16.6%	19.8%		
Total net revenues	\$ 299,343	\$ 322,722	\$ (23,379)	(7.2)%	\$ 322,722	\$ 334,428	\$ (11,706)	(3.5)%

Revenue in the EMEA decreased in 2013 as compared to fiscal 2012 primarily due to macroeconomic challenges which affected the demand from customers in those regions. Revenue in the Americas and APAC decreased slightly as compared to fiscal 2012.

Revenue in the Americas increased in 2012 as compared to fiscal 2011 primarily due to sales to several large customers. Revenue in EMEA decreased in fiscal 2012 as compared to fiscal 2011 due to slow economic recovery in Europe. Revenue in APAC also decreased in fiscal 2012 as compared to fiscal 2011 due to weaker sales in India, Korea, Hong Kong and Japan and organizational changes made in 2012.

We rely upon multiple channels of distribution, including distributors, direct resellers, OEM, and direct sales. Revenue through our distributor channel was 43% of total product revenue in fiscal 2013, 42% of total product revenue in fiscal 2012, and 52% in fiscal 2011. The decrease in distributor channel revenue from fiscal 2011 was due to a shift in sales from distributors to our OEMs and direct resellers.

The level of sales to any one customer, including a distributor, may vary from period to period.

### Cost of Revenue and Gross Profit

The following table presents the gross profit on product and service revenue and the gross profit percentage of net revenue for the fiscal years 2013, 2012 and 2011 (dollars in thousands):

	Year Ended				Year Ended			
	June 30, 2013	June 30, 2012	\$ Change	% Change	June 30, 2012	July 3, 2011	\$ Change	% Change
Gross profit:								
Product	\$ 124,093	\$ 141,646	\$ (17,553)	(12.4)%	\$ 141,646	\$ 144,832	\$ (3,186)	(2.2)%
<i>Percentage of product revenue</i>	51.7%	54.1%			54.1%	52.8%		
Service	38,533	38,201	332	0.9 %	38,201	35,129	3,072	8.7 %
<i>Percentage of service revenue</i>	64.9%	62.8%			62.8%	58.5%		
Total gross profit	\$ 162,626	\$ 179,847	\$ (17,221)	(9.6)%	\$ 179,847	\$ 179,961	\$ (114)	(0.1)%
<i>Percentage of net revenue</i>	54.3%	55.7%			55.7%	53.8%		

Cost of product revenue includes costs of materials, amounts paid to third-party contract manufacturers, costs related to warranty obligations, charges for excess and obsolete inventory, royalties under technology license agreements, and internal costs associated with manufacturing overhead, including management, manufacturing engineering, quality assurance, development of test plans, and document control. We outsource substantially all of our manufacturing and supply chain management operations, and we conduct quality assurance, manufacturing engineering, document control and distribution at our facilities in San Jose, California, China, and Taiwan. Accordingly, a significant portion of our cost of product revenue consists of payments to our primary contract manufacturer, Alpha Networks, located in Hsinchu, Taiwan. In addition, we OEM our wireless product line from Motorola.

Product gross profit in fiscal 2013 decreased as compared to fiscal 2012 due to lower product revenue and an increase in charges for excess and obsolete inventory offset by economic benefits realized in our manufacturing costs.

Product gross profit in fiscal 2012 decreased as compared to fiscal 2011 due to lower sales offset by lower material cost, costs associated with inventory write-down charges, and a decrease in inbound freight costs due to our new Hong Kong distribution center which is located closer to our contract manufacturer Alpha Networks.

Our cost of service revenue consists primarily of labor, overhead, repair and freight costs and the cost of spares used in providing support under customer service contracts.

Service gross profit in fiscal 2013 increased as compared to fiscal 2012 primarily due to lower labor costs from our cost reduction initiatives.

Service gross profit in fiscal 2012 increased as compared to fiscal 2011 primarily due to lower return material authorization shipments for legacy chassis products, mix change from higher repair cost chassis products to lower repair cost stackable products.

## Operating Expenses

The following table presents operating expenses and operating income (dollars in thousands):

	Year Ended				Year Ended			
	June 30, 2013	June 30, 2012	\$ Change	% Change	June 30, 2012	July 3, 2011	\$ Change	% Change
Research and development	\$ 40,521	\$ 45,640	\$ (5,119)	(11.2)%	\$ 45,640	\$ 49,330	\$ (3,690)	(7.5)%
Sales and marketing	87,202	90,167	(2,965)	(3.3)%	90,167	103,277	(13,110)	(12.7)%
General and administrative	26,725	28,658	(1,933)	(6.7)%	28,658	24,683	3,975	16.1 %
Restructuring charge, net of reversals	6,836	1,594	5,242	328.9 %	1,594	3,806	(2,212)	(58.1)%
Litigation settlement (gain)/loss	2,029	(121)	2,150	(1,776.9)%	(121)	(4,249)	4,128	(97.2)%
Gain on sale of campus	(11,539)	—	(11,539)	100.0 %	—	—	—	— %
Total operating expenses	\$ 151,774	\$ 165,938	\$ (14,164)	(8.5)%	\$ 165,938	\$ 176,847	\$ (10,909)	(6.2)%
Operating income	\$ 10,852	\$ 13,909	\$ (3,057)	(22.0)%	\$ 13,909	\$ 3,114	\$ 10,795	346.7 %

The following table highlights our operating expenses and operating income as a percentage of net revenues:

	Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
Research and development	13.5 %	14.1 %	14.8 %
Sales and marketing	29.1 %	27.9 %	30.9 %
General and administrative	8.9 %	8.9 %	7.4 %
Restructuring charge, net of reversals	2.3 %	0.5 %	1.1 %
Litigation settlement (gain)/loss	0.7 %	— %	(1.3)%
Gain on sale of campus	(3.9)%	— %	— %
Total operating expenses	50.6 %	51.4 %	52.9 %
Operating income	3.6 %	4.3 %	0.9 %

## Research and Development Expenses

Research and development expenses consist primarily of salaries and related personnel expenses, consultant fees and prototype expenses related to the design, development, and testing of our products. Research and development expenses decreased in fiscal 2013 as compared to fiscal 2012 primarily due to lower spending on engineering projects due to differences in timing and pattern of planned engineering project spending as compared to fiscal 2012.

Research and development expenses decreased in fiscal 2012 as compared to fiscal 2011 primarily due to \$3.5 million less in salaries and benefits expense due to a reduction in headcount and a transfer of resources to lower cost regions and \$0.9 million less in small equipment expenses due to better utilization of existing test equipment, offset by \$0.6 million increase in professional fees related to new product launches.

## Sales and Marketing Expenses

Sales and marketing expenses consist of salaries, commissions and related expenses for personnel engaged in marketing and sales functions, as well as trade shows and promotional expenses. Sales and marketing expenses decreased in fiscal 2013 as compared to fiscal 2012 primarily due to lower commissions and reduced personnel costs resulting from lower revenue levels and a reduction in headcount during the year.

Sales and marketing expenses decreased in fiscal 2012 as compared to fiscal 2011 primarily due to \$4.5 million reduction in salaries and benefits, \$3.5 million reduction in commissions due to lower revenue, \$1.7 million less professional fees due to utilization of in-house services, and \$1.4 million lesser travel expenses resulting from the reduction in headcount at the beginning of fiscal 2012.



## **General and Administrative Expenses**

General and administrative expenses decreased in fiscal 2013 as compared to fiscal 2012 primarily due to cost reduction initiatives realized as part of the restructuring plan offset by CEO transition expenses of \$2.1 million.

General and administrative expenses increased in fiscal 2012 as compared to fiscal 2011 primarily due to increased legal expense of \$2.0 million, increased contract labor expense for accounting and finance of \$1.0 million, increased stock based compensation expense of \$0.8 million, increased international accounting fees of \$0.8 million offset by lower salaries and benefits expense of \$0.8 million due to fewer headcount.

## **Restructuring Charge, Net of Reversal**

During fiscal 2013, 2012 and 2011, we recorded restructuring charges of \$6.8 million, \$1.6 million, and \$3.8 million, respectively.

### *Fiscal 2013 Restructuring*

During the second quarter of fiscal 2013, we further reduced costs through targeted restructuring activities intended to reduce operating costs and realign our organization in the current competitive environment. As part of our restructuring efforts in the second quarter, we initiated a plan to reduce our worldwide headcount by 13%, consolidate specific global administrative functions, and shift certain operating costs to lower cost regions, among other actions. As of June 30, 2013, we had restructuring liabilities of \$1.1 million related to the fiscal 2013 restructuring, which we anticipate paying by the end of the first quarter of fiscal 2014. We anticipate incurring additional restructuring charges of approximately \$0.3 million through the end of the first quarter of fiscal 2014.

### *Fiscal 2012 Restructuring*

During fiscal 2012, we incurred total charges of \$2.2 million, including \$1.8 million related to severance, \$0.1 million of contract termination fees, and \$0.2 million other charges. A portion of this restructuring activity was related to the liquidation of our Japan subsidiary with a cost of \$0.5 million at June 30, 2012. We substantially liquidated the subsidiary in Japan in the fourth quarter of fiscal 2012, as part of our broad restructuring effort. We disposed of the remaining immaterial assets and liabilities and completed the liquidation process during fiscal 2013. There were no outstanding liabilities related to the fiscal 2012 restructuring as of June 30, 2013.

### *Fiscal 2011 Restructuring*

During fiscal 2011, we commenced a strategy to focus on growing revenue in specific market verticals and on improving operational effectiveness. As part of the strategy, we reduced headcount and incurred total restructuring charges of \$4.2 million, of which \$1.0 million and \$3.2 million were recognized in the third and fourth quarter of fiscal 2011, respectively. During the fourth quarter of fiscal 2011, the lease term for the excess leased facilities ended. We recognized a restructuring reversal of \$0.4 million related to the true up of operating and rent expenses in fiscal 2012. As of June 30, 2013, we had restructuring liabilities of \$0.4 million remaining related to the fiscal 2011 restructuring, which we anticipate paying during fiscal 2014.

## **Litigation Settlement**

During the third quarter of fiscal 2013, we recognized a litigation charge of \$2.5 million related to a settlement agreement with Enterasys Networks.

During the fourth quarter of fiscal 2012, from a judgment related to our lawsuit with Enterasys Networks for patent infringement, we received \$0.6 million from Enterasys including a first trial damage award of \$0.2 million, reimbursement of legal costs from the first trial of \$0.4 million, and interest.

## **Gain on Sale of Campus**

During fiscal 2013, we completed the sale of our corporate campus and accompanying 16 acres of land in Santa Clara, California for net cash proceeds of approximately \$44.7 million of which approximately \$2.0 million was received in fiscal 2012. We realized a gain of approximately \$11.5 million in connection with this transaction, yet recorded a tax loss of approximately \$24.6 million.

## **Interest Income**

Interest income was \$1.1 million in fiscal 2013, \$1.2 million in fiscal 2012 and \$1.3 million in fiscal 2011, representing a decrease of \$0.1 million in fiscal 2013 from fiscal 2012, and a decrease of \$0.1 million in fiscal 2012 from fiscal 2011. The

decrease in interest income in fiscal 2013 from fiscal 2012 was due to a decrease in the average interest yield from 0.95% in fiscal 2012 to 0.54% in fiscal 2013. The decrease in interest income in fiscal 2012 from fiscal 2011 was due to a decrease in the average interest yield from 1.2% in fiscal 2011 to 0.95% in fiscal 2012.

### **Interest Expense**

We had immaterial interest expense for fiscal 2013. Interest expense was \$0.1 million for both fiscal year 2012 and 2011. Interest expense in fiscal 2012 and fiscal 2011 were primarily related to interest amortization of technology agreements.

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

Other income (expense) net was expense of \$0.6 million in fiscal 2013, income of \$2.0 million in fiscal 2012 and expense of \$0.6 million in fiscal 2011. Other expense in fiscal 2013 was primarily due to the revaluation of certain assets and liabilities denominated in foreign currencies into U.S. dollars.

Other income in fiscal 2012 was primarily comprised of \$1.9 million in foreign currency translation gains that were reclassified from other comprehensive income (loss) due to the substantial liquidation of our Japan subsidiary.

Other expense in fiscal 2011 was primarily comprised of foreign currency losses of \$0.6 million due to a weaker U.S. dollar.

### **Provision for Income Taxes**

We recorded an income tax provision of \$1.7 million for fiscal 2013. The effective tax rate in fiscal 2013 was 14.8% which differs from the federal statutory tax rate of 35% due primarily to the tax impact of income from foreign operations and the change in valuation allowance. We recorded an income tax provision of \$1.7 million for fiscal 2013 due to profits in our foreign subsidiaries, change in U.S. valuation allowance, state taxes, foreign withholding taxes and the release of foreign tax reserves due to a lapse in the statute of limitations on the positions.

The income tax provision of \$1.2 million and \$1.0 million for fiscal 2012 and 2011, respectively, were recorded for taxes due on income generated in U.S. federal, certain states and foreign tax jurisdictions. The effective tax rate was 7.0% for fiscal 2012 which differs from the federal statutory tax rate of 35% due primarily to the tax impact of income from foreign operations and the change in valuation allowance.

### **Critical Accounting Policies and Estimates**

Our significant accounting policies are more fully described in Note 2 of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period reported. By their nature, these estimates, assumptions and judgments are subject to an inherent degree of uncertainty. We base our estimates, assumptions and judgments on historical experience, market trends and other factors that are believed to be reasonable under the circumstances. Estimates, assumptions and judgments are reviewed on an ongoing basis and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results may differ from these estimates under different assumptions or conditions. We believe the critical accounting policies stated below, among others, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

#### *Share-based Payments*

We use the Black-Scholes option-pricing model to determine the fair value of option awards other than performance-based option awards, and share purchase options under our Employee Stock Purchase Plan ("ESPP") on the date of grant with the weighted average assumptions. We use the Monte-Carlo simulation model to determine the fair value and the derived service period of performance-based option awards, with market conditions, on the date of grant. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The expected term of purchase options under our ESPP represents the contractual life of the ESPP purchase period. The risk-free rate based upon the estimated life of the option and ESPP award is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on both the implied volatilities from traded options on our stock and historical volatility on our stock. We do not currently pay cash dividends on our common stock and do not anticipate doing so in the foreseeable future. Accordingly, our expected dividend yield is zero. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. In fiscal 2013, our estimated forfeiture rates based on historical forfeiture experiences are 3% for executives and 9% for non-executive employees. We use the straight-line method for expense attribution, and we only recognize expense for those shares expected to vest.

## Revenue Recognition

We derive the majority of our revenue from sales of our networking equipment, with the remaining revenue generated from service fees relating to maintenance service contracts, professional services, and training for our products. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price of the product is fixed or determinable, and the collection of the sales proceeds is reasonably assured. In instances where any of the criteria for revenue recognition are not met, we defer revenue until all criteria have been met.

Product revenue from our value-added resellers, non-stocking distributors and end-user customers is recognized at the time of shipment, provided that all of the foregoing revenue recognition requirements have been satisfied. We generally do not grant return privileges, except for defective products during the warranty period, nor do we grant pricing credits. Accordingly, we recognize revenue upon transfer of title and risk of loss to the customer, which is generally upon shipment. We maintain estimated accruals and allowances for sales incentives and other programs that we may make available to our partners, based on historical experience or applicable contractual terms. Shipping costs are included in cost of product revenues. Sales taxes collected from customers are excluded from revenues.

We also sell our products to distributors that stock inventory and sell to resellers. We defer recognition of revenue on all sales to our stocking distributors until the distributors have sold the products, as evidenced by sales data that the distributors provide to us. We grant stocking distributors certain price protection rights and the right to return a portion of unsold inventory for the purpose of stock rotation. The distributor-related deferred revenue and receivables are adjusted at the time of the stock rotation return or price reduction. We also provide stocking distributors with credits for changes in selling prices based on competitive conditions, and provide funding for our distributors and their resellers to perform marketing development activities. We maintain estimated accruals and allowances for these exposures based upon our contractual obligations. Our marketing development channel programs do not meet the criteria for recognizing the costs as marketing expenses and therefore these costs are accrued as a reduction to revenue in the same period that the products are sold.

Revenue from service contracts is deferred and recognized ratably over the contractual service period, which is typically from one to two years. Professional service revenue is recognized upon delivery or completion of performance.

Our networking products are tangible products that contain software and non-software components that function together to deliver the tangible product's essential functionality. Our sales arrangements may contain multiple deliverables comprised of our tangible products, standalone software licenses, and service offerings depending on the distribution sales channel through which the products are sold and the requirements of our customers. We recognize revenue for our multiple deliverable arrangements in accordance with the accounting standard for multiple deliverable revenue arrangements, which provides guidance on whether multiple deliverables exist, how deliverables in an arrangement should be separated, and how consideration should be allocated. The industry-specific software revenue recognition guidance does not apply to the sales of our tangible products. Software revenue guidance is applied to sales of our standalone software products, including software upgrades and software that is not essential to the functionality of the hardware with which it is sold.

Pursuant to the guidance of the accounting standard for multiple-deliverable revenue arrangements, we allocate the total arrangement consideration to each separable element of an arrangement based on the relative selling price of each element. We determine the standalone selling price for each element based on a selling price hierarchy. Under the selling price hierarchy, the selling price for each deliverable is based on our vendor-specific objective evidence of selling price ("VSOE"), which is determined by a substantial majority of our historical standalone sales transactions for a product or service falling within a reasonable range. If VSOE is not available due to a lack of standalone sales transactions or lack of pricing within a narrow range, then third party evidence ("TPE"), as determined by the standalone pricing of competitive vendor products in similar markets, is used. TPE typically is difficult to establish due to the proprietary differences of competitive products and difficulty in obtaining reliable competitive standalone pricing information. When neither VSOE nor TPE is available, we determine the best estimate of standalone selling price ("ESP") for a product or service by considering several factors including, but not limited to, the 12-month historical median sales price, sales channels, geography, gross margin consistency, competitive product pricing, and product life cycle. In consideration of all relevant pricing factors, we apply management judgment to determine the best estimate of selling price through consultation with and formal approval by our management for all products and services for which neither VSOE nor TPE is available. Generally, the standalone selling price of services is determined using VSOE and the standalone selling price of all other deliverables is determined by using ESP. We regularly review VSOE, TPE and ESP for all of our products and services and maintain internal controls over the establishment and updates of these estimates.

Pursuant to the software revenue recognition accounting standard, we continue to recognize revenue for software using the residual method for our sales of standalone software products, including optional software upgrades, and other software that is not essential to the functionality of the hardware with which it is sold. After allocation of the relative selling price to each element of the multiple deliverable arrangement, we recognize revenue in accordance with our policies for product, software, and service revenue recognition.

Our total deferred product revenue from customers other than distributors was \$3.1 million and \$2.2 million as of June 30, 2013 and June 30, 2012, respectively. Our total deferred revenue for services, primarily from service contracts, was \$38.7 million as of June 30, 2013 and \$37.7 million as of June 30, 2012. Service contracts typically range from one to two years. Shipping costs are included in cost of product revenues.

We provide an allowance for sales returns based on our historical returns, analysis of credit memo data and our return policies. The allowance for sales returns was \$0.8 million and \$1.3 million as of June 30, 2013 and June 30, 2012, respectively, for estimated future returns that were recorded as a reduction of our accounts receivable. If the historical data that we use to calculate the estimated sales returns and allowances does not properly reflect future levels of product returns, these estimates will be revised, thus resulting in an impact on future net revenue. We estimate and adjust this allowance at each balance sheet date.

#### *Inventory Valuation*

Our inventory balance was \$16.2 million as of June 30, 2013, compared with \$26.6 million as of June 30, 2012. We value our inventory at lower of cost or market. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. We provide inventory allowances based on excess and obsolete inventories determined primarily by the age of inventory. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. Any written down or obsolete inventory subsequently sold has not had a material impact on gross margin for any of the periods disclosed. Inventory write-downs charged to cost of product revenue were \$0.8 million in fiscal 2013, \$1.1 million in fiscal 2012 and \$2.2 million in fiscal 2011.

#### *Long Lived Assets*

Long-lived assets include property and equipment, intangible assets, and service inventory which we hold to support customers who have purchased service contracts with a hardware replacement element. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or asset groups may not be recoverable. If such facts and circumstances exist, we assess the recoverability of the long-lived assets by comparing the projected un-discounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets.

#### *Accrued Warranty*

Networking products may contain undetected hardware or software errors when new products or new versions or updates of existing products are released to the marketplace. In the past, we had experienced such errors in connection with products and product updates. Our standard hardware warranty period is typically 12 months from the date of shipment to end-users and 90 days for software. For certain access products, we offer a limited lifetime hardware warranty commencing on the date of shipment from us and ending five years following the our announcement of the end of sale of such product. Upon shipment of products to our customers, including both end-users and channel partners, we estimate expenses for the cost to repair or replace products that may be returned under warranty and accrue a liability through charges to cost of product revenue for this amount.

Our accrued warranty balance was \$3.3 million and \$2.9 million as of June 30, 2013 and June 30, 2012, respectively. The determination of our warranty requirements is based on our 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. We estimate and adjust this accrual at each balance sheet date in accordance with changes in these factors.

The cost of new warranties issued that was charged to cost of product revenue was \$4.3 million in fiscal 2013, \$3.1 million in fiscal 2012, and \$2.4 million in fiscal 2011.

#### *Accounts Receivable and Allowance for Doubtful Accounts*

Our accounts receivable balance, net of allowance for doubtful accounts, was \$47.6 million and \$41.2 million as of June 30, 2013 and June 30, 2012, respectively. The allowance for doubtful accounts for trade accounts receivable was \$0.5 million and \$0.4 million as of June 30, 2013 and June 30, 2012, respectively. We continually monitor and evaluate the collectability of our trade receivables based on a combination of factors. We record specific allowances for bad debts in general and administrative expense when we become aware of a specific customer's inability to meet its financial obligation to us, such as in the case of bankruptcy filings or deterioration of financial position. Estimates are used in determining our allowances for all other customers based on factors such as current trends in the length of time the receivables are past due and historical collection experience. We mitigate some collection risk by requiring most of our customers in the Asia-Pacific region, excluding Japan and Australia, to pay cash in advance or secure letters of credit when placing an order with us. Our provision for doubtful accounts was an expense of \$0.3 million in fiscal 2013, expense of \$0.1 million in fiscal 2012 and benefit of \$9,000 in fiscal 2011.

### *Deferred Tax Asset Valuation Allowance*

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Significant management judgment is required in determining our valuation allowance recorded against our net deferred tax assets. We make an assessment of the likelihood that our net deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not believed to be likely, a valuation allowance is established. In fiscal 2013, the valuation allowance increased by \$1.4 million to \$142.0 million, and in fiscal 2012, the valuation allowance decreased by \$9.9 million to \$140.6 million. We have not provided a valuation allowance against any of our non-U.S. deferred tax assets.

The valuation allowance requires an assessment of both negative and positive evidence when determining the need for a valuation allowance. Evidence, such as operating results during the most recent three-year period was given more weight than our expectations of future profitability, which are inherently uncertain. Our inconsistent history of earnings during those periods coupled with difficulties in forecasting more than one quarter in advance as well as the cyclical nature of our industry represent sufficient negative evidence to require a full valuation allowance against our U.S. federal and state net deferred tax assets. This valuation allowance will be evaluated periodically and can be reversed partially or totally if business results have sufficiently improved to support realization of our deferred tax assets.

### *Accounting for Uncertainty in Income Taxes*

We had unrecognized tax benefits of \$10.9 million as of June 30, 2013. If fully recognized in the future, \$0.3 million would impact our effective tax rate, and \$10.6 million would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. It is reasonably possible that the amount of unrealized tax benefit could decrease by approximately \$0.1 million during the next twelve months due to the expiration of the statute of limitations in certain foreign jurisdictions. During the year ended June 30, 2013, we performed a study on our research and development credits documenting the historic credits as prescribed by Internal Revenue Service. As a result of this study we adjusted our available federal and state research credits as well as the amount of these credits that would be unrecognized tax benefits. The credits classified as unrecognized tax benefits decreased by approximately \$15.0 million as a result of this study.

### *Legal Contingencies*

We are currently involved in various claims and legal proceedings, including negotiations regarding potential licenses from third parties who have notified us that they believe our products may infringe certain patents. Periodically, we review the status of each significant matter, whether litigation or licensing negotiation, and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be estimated, we accrue a liability for the estimated loss. Because of uncertainties related to these matters, accruals, if any, are based only on the most current and dependable information available at any given time. As additional information becomes available, we may reassess the potential liability from pending claims and litigation and the probability of claims being successfully asserted against us. As a result, we may revise our estimates related to these pending claims and litigation. Such revisions in the estimates of the potential liabilities could have a material impact on our consolidated results of operations, financial position and cash flows in the future. For further detail, see Note 3 of Notes to Consolidated Financial Statements.

### *Impact of Recently Issued Accounting Standards*

In February 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2013-02, Topic 350 - Comprehensive Income ("ASU 2013-02"), which amends Topic 220 for the reporting of reclassifications out of accumulated other comprehensive income to the respective line items in net income. ASU 2013-02 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2012. We intend to adopt this standard in the first quarter of 2014 and do not expect the adoption will have a material impact on our consolidated results of operations or financial condition.

In July 2013, the FASB issued ASU No. 2013-11, Topic 740 - Income Taxes ("ASU 2013-11"), which provides guidance to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We intend to adopt this standard in the first quarter of fiscal 2015 and do not expect the adoption will have an impact on our consolidated financial statements.

**Liquidity and Capital Resources**

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

	June 30, 2013	June 30, 2012
Cash and cash equivalent	\$ 95,803	\$ 54,596
Short-term investments	43,034	23,358
Marketable securities	66,776	75,561
Total cash and investments	\$ 205,613	\$ 153,515
Working capital	\$ 96,279	\$ 72,361

Cash and cash equivalents increased by \$41.2 million primarily due to cash provided by operating activities of \$32.2 million, cash provided by investing activities of \$16.5 million offset by cash used in financing activities of \$7.4 million. Refer to further discussions below under *Key Components of Cash Flows and Liquidity*.

Short-term investments increased by \$19.7 million and Long Term Marketable Securities decreased by \$8.8 million. The primary increase in Cash and Cash Equivalents is attributable to the \$42.7 million sale of our Santa Clara campus. The changes among our Short Term Investments and Marketable Securities was the result of our efforts to manage our various investments so as to fund operations and share repurchases. Refer to further discussions below under *Item 7A. Quantitative and Qualitative Disclosures About Market Risk*.

The increase in working capital of \$23.9 million was primarily due to higher cash and cash equivalents and short term investments offset by higher accounts payables and decrease in the assets held for sale classified as current assets.

*Key Components of Cash Flows and Liquidity*

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

	Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
Net cash provided by operating activities	\$ 32,237	\$ 13,813	\$ 16,777
Net cash provided by (used in) investing activities	\$ 16,480	\$ (10,410)	\$ (22,079)
Net cash (used in) provided by financing activities	\$ (7,391)	\$ 2,393	\$ 2,530
Foreign currency effect on cash	\$ (119)	\$ (1,172)	\$ 800
Net increase (decrease) in cash and cash equivalents	\$ 41,207	\$ 4,624	\$ (1,972)

Cash and cash equivalents, short-term investments and marketable securities were \$205.6 million at June 30, 2013, representing an increase of \$52.1 million from \$153.5 million at June 30, 2012. This increase was primarily due to cash provided by operations of \$32.2 million and cash provided by investing activities of \$16.5 million offset by cash used in financing activities of \$7.4 million and foreign currency impact of 0.1 million.

Cash provided by operating activities was \$32.2 million, an increase of \$18.4 million compared to cash provided by operating activities of \$13.8 million in fiscal 2012. Accounts receivable, net, increased to \$47.6 million at June 30, 2013 from \$41.2 million at June 30, 2012. Days sales outstanding in receivables increased to 54 days at June 30, 2013 from 42 days at June 30, 2012. The increase in accounts receivable and days sales outstanding were primarily due to increased billings during the fourth quarter of 2013 resulting in a higher receivables balance. Inventories decreased to \$16.2 million at June 30, 2013 from \$26.6 million at June 30, 2012 due to the timing of inventory receipts because of which we had lower inventory on hand. Accounts payable increased to \$27.2 million at June 30, 2013 from \$19.4 million at June 30, 2012 due to timing of payments.

Deferred revenue, net increased to \$41.5 million at June 30, 2013 from \$39.3 million at June 30, 2012. This increase was a result of higher sales of service maintenance agreements.

Cash flow provided by investing activities was \$16.5 million. Proceeds of \$42.7 million from the sale of buildings and land in Santa Clara, California, proceeds from maturities of investments and marketable securities of \$16.4 million and sales of investments and marketable securities of \$28.5 million were offset by capital expenditures of \$12.7 million and purchases of investments of \$57.7 million.

Cash flow used in financing activities was \$2.4 million resulting from \$14.5 million used to repurchase shares of our common stock, offset by \$7.1 million of proceeds from the exercise of stock options and purchases of shares of our common stock under the ESPP, net of taxes paid on vested and released stock awards.

#### *Contractual Obligations*

The following summarizes our contractual obligations at June 30, 2013, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than Five Years
<b>Contractual Obligations:</b>					
Non-cancelable inventory purchase commitments	\$ 50,050	\$ 50,050	\$ —	\$ —	\$ —
Non-cancelable operating lease obligations	39,573	6,180	9,657	8,621	15,115
Total contractual cash obligations	<u>\$ 89,623</u>	<u>\$ 56,230</u>	<u>\$ 9,657</u>	<u>\$ 8,621</u>	<u>\$ 15,115</u>

Non-cancelable inventory purchase commitments represent the purchase of long lead-time component inventory that our contract manufacturers procure in accordance with our forecast. Inventory purchase commitments were \$50.1 million as of June 30, 2013, an increase of \$11.3 million from \$38.8 million as of June 30, 2012.

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

The amounts in the table above exclude \$0.3 million of 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 June 30, 2013. Other non-cancelable purchase commitments represent OEM and technology agreements.

#### *Off-Balance Sheet Arrangements*

We did not have any off-balance sheet arrangements as of June 30, 2013.

#### *Capital Resources and Financial Condition*

As of June 30, 2013, in addition to \$95.8 million in cash and cash equivalents, we had \$43.0 million invested in short-term investments and \$66.8 million invested in long-term marketable investments for total cash and cash equivalents, short-term investments and marketable securities of \$205.6 million.

We believe that our current cash and cash equivalents, short-term investments, marketable securities and cash available from future operations will enable us to meet our working capital requirements for at least the next 12 months.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

#### **Interest Rate Sensitivity**

The primary objective of our investment activities is to preserve principal while at the same time maximize the income we receive from our investments without significantly increasing risk. Some of the securities that we have invested in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, other non-government debt securities and money market funds.

The valuation of our investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact its valuation include changes to credit ratings of the securities, discount rates and ongoing strength and quality of market credit and liquidity.

If the current market conditions deteriorate further, or the anticipated recovery in market values does not occur, we may be required to record impairment charges in future quarters.



The following table presents the amounts of our cash equivalents, short-term investments and marketable securities that are subject to market risk by range of expected maturity and weighted-average interest rates as of June 30, 2013 and June 30, 2012. This table does not include money market funds because those funds are generally not subject to market risk.

	Maturing in				Fair Value
	Three months or less	Three months to one year	Greater than one year	Total	
(In thousands)					
<b>June 30, 2013</b>					
Included in short-term investments	\$ 13,190	\$ 29,844	—	\$ 43,034	\$ 43,034
Weighted average interest rate	0.91%	0.59%	—		
Included in marketable securities	—	—	\$ 66,776	\$ 66,776	\$ 66,776
Weighted average interest rate	—	—	0.77%		

	Maturing in				Fair Value
	Three months or less	Three months to one year	Greater than one year	Total	
(In thousands)					
<b>June 30, 2012</b>					
Included in short-term investments	—	\$ 23,358	—	\$ 23,358	\$ 23,358
Weighted average interest rate	—	0.99%	—		
Included in marketable securities	—	—	\$ 75,561	\$ 75,561	\$ 75,561
Weighted average interest rate	—	—	0.75%		

The following tables present hypothetical changes in fair value of the financial instruments held at June 30, 2013 that are sensitive to changes in interest rates:

Unrealized gain given a decrease in interest rate of X bps		Fair value as of June 30, 2013 (In thousands)	Unrealized loss given an increase in interest rate of X bps	
(100 bps)	(50 bps)		100 bps	50 bps
\$1,553	\$772	\$164,095	\$(992)	\$(500)

### Exchange Rate Sensitivity

Currently, substantially all of our sales and the majority of our expenses are denominated in United States dollars and, as a result, we have experienced no significant foreign exchange gains and losses to date. 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 Income (Expense). We enter into foreign exchange forward contracts to mitigate the effect of gains and losses generated by the foreign currency forecasted 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. At June 30, 2013, these forward foreign currency contracts had a notional principal amount of \$7.7 million and an immaterial unrealized gain on foreign exchange contracts. These contracts have maturities of less than 60 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 transaction gains and losses from operations were a loss of \$0.9 million in fiscal 2013, a gain of \$2.5 million in fiscal 2012 and a loss of \$0.6 million in fiscal 2011.



**Item 8. Financial Statements and Supplementary Data**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF EXTREME NETWORKS, INC.**

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">41</a>
<a href="#">Consolidated Balance Sheets</a>	<a href="#">42</a>
<a href="#">Consolidated Statements of Income</a>	<a href="#">43</a>
<a href="#">Consolidated Statements of Comprehensive Income</a>	<a href="#">44</a>
<a href="#">Consolidated Statements of Stockholders' Equity</a>	<a href="#">45</a>
<a href="#">Consolidated Statements of Cash Flows</a>	<a href="#">46</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">48</a>

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Extreme Networks, Inc.:

We have audited the accompanying consolidated balance sheets of Extreme Networks, Inc. and subsidiaries (the Company) as of June 30, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended June 30, 2013. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule listed in the Index at Item 15(a). We, also have audited the Company's internal control over financial reporting as of June 30, 2013, based on criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting* at Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Extreme Networks, Inc. and subsidiaries as of June 30, 2013 and 2012, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended June 30, 2013, in conformity with U.S. generally accepted accounting principles, and the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, Extreme Networks, Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2013, based on criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Santa Clara, California  
August 29, 2013

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

	June 30, 2013	June 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 95,803	\$ 54,596
Short-term investments	43,034	23,358
Accounts receivable, net of allowances of \$1,252 at June 30, 2013 and \$1,646 at June 30, 2012	47,642	41,166
Inventories	16,167	26,609
Deferred income taxes	386	644
Prepaid expenses and other current assets	5,749	5,655
Assets held for sale	—	17,081
Total current assets	208,781	169,109
Property and equipment, net	23,644	25,180
Marketable securities	66,776	75,561
Intangible assets, net	4,243	5,106
Other assets, net	7,980	9,634
Total assets	\$ 311,424	\$ 284,590
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 27,163	\$ 19,437
Accrued compensation and benefits	13,503	13,409
Restructuring liabilities	1,466	463
Accrued warranty	3,296	2,871
Deferred revenue, net	33,184	31,769
Deferred distributors revenue, net of cost of sales to distributors	17,388	15,319
Other accrued liabilities	16,502	13,480
Total current liabilities	112,502	96,748
Deferred revenue, less current portion	8,270	7,559
Other long-term liabilities	1,507	643
Commitments and contingencies (Note 3)	—	—
Stockholders' equity:		
Convertible preferred stock, \$.001 par value, issuable in series, 2,000,000 shares authorized; none issued	—	—
Common stock, \$.001 par value, 750,000,000 shares authorized; 93,626,150 shares issued and outstanding, respectively, at June 30, 2013 and 133,965,455 and 94,333,619 shares issued and outstanding, respectively, at June 30, 2012	94	134
Treasury stock, zero and 39,631,836 shares at June 30, 2013 and June 30, 2012, respectively	—	(149,666)
Additional paid-in-capital	821,331	970,609
Accumulated other comprehensive income	(1,377)	(861)
Accumulated deficit	(630,903)	(640,576)
Total stockholders' equity	189,145	179,640
Total liabilities and stockholders' equity	\$ 311,424	\$ 284,590

See accompanying notes to consolidated financial statements.

**EXTREME NETWORKS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except per share amounts)

	Fiscal Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
Net revenues:			
Product	\$ 239,955	\$ 261,873	\$ 274,388
Service	59,388	60,849	60,040
Total net revenues	<u>299,343</u>	<u>322,722</u>	<u>334,428</u>
Cost of revenues:			
Product	115,862	120,227	129,556
Service	20,855	22,648	24,911
Total cost of revenues	<u>136,717</u>	<u>142,875</u>	<u>154,467</u>
Gross profit:			
Product	124,093	141,646	144,832
Service	38,533	38,201	35,129
Total gross profit	<u>162,626</u>	<u>179,847</u>	<u>179,961</u>
Operating expenses:			
Research and development	40,521	45,640	49,330
Sales and marketing	87,202	90,167	103,277
General and administrative	26,725	28,658	24,683
Restructuring charge, net of reversals	6,836	1,594	3,806
Litigation settlement (gain)/loss	2,029	(121)	(4,249)
Gain on sale of campus	(11,539)	—	—
Total operating expenses	<u>151,774</u>	<u>165,938</u>	<u>176,847</u>
Operating income	10,852	13,909	3,114
Interest income	1,070	1,239	1,304
Interest expense	—	(75)	(132)
Other income (expense), net	(571)	1,995	(574)
Income before income taxes	11,351	17,068	3,712
Provision for income taxes	1,678	1,196	999
Net income	<u>\$ 9,673</u>	<u>\$ 15,872</u>	<u>\$ 2,713</u>
Basic and diluted net income per share:			
Net income per share – basic	\$ 0.10	\$ 0.17	\$ 0.03
Net income per share – diluted	\$ 0.10	\$ 0.17	\$ 0.03
Shares used in per share calculation – basic	93,954	93,451	91,423
Shares used in per share calculation – diluted	95,044	94,490	92,795

See accompanying notes to consolidated financial statements.

**EXTREME NETWORKS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(In thousands)**

	Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
Net income:	\$ 9,673	\$ 15,872	\$ 2,713
Other comprehensive income, net of tax:			
Change in unrealized (loss) gain on investment	(327)	(196)	109
Change in net foreign currency translation adjustment	(189)	(4,368)	2,494
Other comprehensive income (loss)	(516)	(4,564)	2,603
Total comprehensive income	<u>\$ 9,157</u>	<u>\$ 11,308</u>	<u>\$ 5,316</u>

See accompanying notes to consolidated financial statements.

**EXTREME NETWORKS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands)

	Common Stock		Treasury Stock		Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
<b>Balances at June 27, 2010</b>	<b>129,828</b>	<b>\$ 130</b>	<b>(39,625)</b>	<b>\$ (149,666)</b>	<b>\$ 956,792</b>	<b>\$ 1,100</b>	<b>\$ (659,161)</b>	<b>\$ 149,195</b>
Net income	—	—	—	—	—	—	2,713	2,713
Other comprehensive income, net	—	—	—	—	—	2,603	—	2,603
Exercise of options to purchase common stock	606	2	—	—	1,523	—	—	1,525
Issuance of common stock under employee stock purchase plan	677	2	—	—	1,742	—	—	1,744
Issuance of restricted stock, net of repurchases	1,036	(2)	—	—	(1,737)	—	—	(1,739)
Share-based payments	—	—	—	—	5,245	—	—	5,245
<b>Balances at July 3, 2011</b>	<b>132,147</b>	<b>\$ 132</b>	<b>(39,625)</b>	<b>\$ (149,666)</b>	<b>\$ 963,565</b>	<b>\$ 3,703</b>	<b>\$ (656,448)</b>	<b>\$ 161,286</b>
Net income	—	—	—	—	—	—	15,872	15,872
Other comprehensive loss, net	—	—	—	—	—	(4,564)	—	(4,564)
Exercise of options to purchase common stock	437	—	—	—	978	—	—	978
Issuance of common stock under employee stock purchase plan	570	—	—	—	1,632	—	—	1,632
Issuance of restricted stock, net of repurchases	811	2	—	—	(1,219)	—	—	(1,217)
Repurchase of common stock	—	—	(7)	—	(1)	—	—	(1)
Share-based payments	—	—	—	—	5,654	—	—	5,654
<b>Balances at June 30, 2012</b>	<b>133,965</b>	<b>\$ 134</b>	<b>(39,632)</b>	<b>\$ (149,666)</b>	<b>\$ 970,609</b>	<b>\$ (861)</b>	<b>\$ (640,576)</b>	<b>179,640</b>
Net income	—	—	—	—	—	—	9,673	9,673
Other comprehensive loss, net	—	—	—	—	—	(516)	—	(516)
Exercise of options to purchase common stock	2,045	2	—	—	6,137	—	—	6,139
Issuance of common stock under employee stock purchase plan	605	1	—	—	1,699	—	—	1,700
Issuance of restricted stock, net of repurchases	712	1	—	—	(751)	—	—	(750)
Repurchase of common stock	(4,069)	(4)	—	—	(14,475)	—	—	(14,479)
Share-based payments	—	—	—	—	7,738	—	—	7,738
Retirement of treasury shares	(39,632)	(40)	39,632	149,666	(149,626)	—	—	—
<b>Balances at June 30, 2013</b>	<b>93,626</b>	<b>\$ 94</b>	<b>—</b>	<b>\$ —</b>	<b>821,331</b>	<b>\$ (1,377)</b>	<b>\$ (630,903)</b>	<b>\$ 189,145</b>

See accompanying notes to consolidated financial statements.

**EXTREME NETWORKS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
<b>Cash flows from operating activities:</b>			
Net income	\$ 9,673	\$ 15,872	\$ 2,713
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease in accrued investment income	1,600	2,786	2,900
Depreciation and amortization	4,543	5,348	6,811
Amortization of intangible assets	1,488	1,818	2,080
Change in value / loss on value of UBS option to put securities	—	—	2,429
Auction rate securities mark to market, trading (gain)	—	—	(2,429)
Provision for (recovery of) doubtful accounts	(173)	127	(9)
Deferred income taxes	(35)	37	(928)
Loss on retirement of assets	—	103	582
Stock-based compensation	7,353	6,189	5,248
Gain on disposition of long lived assets, net	(11,285)	—	—
Foreign exchange gain on dissolution of entity	—	(1,887)	—
Unrealized gain/(loss) on foreign exchange transactions	291	(904)	(714)
Changes in operating assets and liabilities, net			
Accounts receivable	(6,304)	(7,603)	8,376
Inventories	10,442	(5,026)	255
Prepaid expenses and other assets	1,877	5,289	(8,581)
Accounts payable	7,726	3,918	(3,453)
Accrued compensation and benefits	95	(850)	(2,581)
Restructuring liabilities	1,003	(2,696)	(213)
Accrued warranty	425	231	(529)
Deferred revenue, net	2,127	2,355	(212)
Deferred revenue, net of cost of sales to distributors	2,069	(1,233)	(1,793)
Other accrued liabilities	(1,542)	(9,232)	8,103
Other long-term liabilities	864	(829)	(1,278)
Net cash provided by operating activities	32,237	13,813	16,777
<b>Cash flows provided by (used in) investing activities:</b>			
Capital expenditures	(12,737)	(5,237)	(5,697)
Purchases of investments	(57,712)	(75,851)	(111,798)
Proceeds from maturities of investments and marketable securities	16,367	30,295	33,600
Proceeds from sales of investments and marketable securities	28,528	40,658	61,816
Purchases of intangible assets	(625)	(275)	—
Proceeds from sales of facilities	42,659	—	—
Net cash provided by (used in) investing activities	16,480	(10,410)	(22,079)
<b>Cash flows provided by (used in) financing activities:</b>			
Proceeds from issuance of common stock	7,084	1,392	1,530
Repurchase of common stock	(14,475)	—	—
Deposit received from sale of building	—	1,001	1,000
Net cash provided by (used in) financing activities	(7,391)	2,393	2,530
Foreign currency effect on cash	(119)	(1,172)	800

Net increase (decrease) in cash and cash equivalents	41,207	4,624	(1,972)
<b>Cash and cash equivalents at beginning of period</b>	54,596	49,972	51,944
<b>Cash and cash equivalents at end of period</b>	<u>\$ 95,803</u>	<u>\$ 54,596</u>	<u>\$ 49,972</u>
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid	\$ —	\$ 75	\$ 132
Cash paid for income taxes, net	\$ 1,534	\$ 2,615	\$ 1,759
<b>Non-cash investing activities:</b>			
Unpaid capital expenditures	\$ 7,001	\$ 562	\$ —

See accompanying notes to the consolidated financial statements.



**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business**

Extreme Networks, Inc. (“Extreme Networks” or “the Company”) is a leading provider of network infrastructure equipment and markets its products primarily to business, governmental, health care, service provider, and educational customers with a focus on large corporate enterprises and metropolitan service providers on a global basis. The Company conducts its sales and marketing activities on a worldwide basis through distributors, resellers and the Company’s field sales organization. Extreme Networks was incorporated in California in 1996 and reincorporated in Delaware in 1999.

**2. Basis of Presentation and Summary of Significant Accounting Policies***Fiscal Year*

Effective June 30, 2012, the Company changed their fiscal period to coincide with calendar month-end. Previously, the Company used a fiscal 52/53 week manufacturing calendar year. Accordingly, the fiscal years ended June 30, 2013 and 2012 had 52 weeks compared to 53 weeks in 2011. All references herein to “fiscal 2013” or “2013” represent the fiscal year ended June 30, 2013.

*Principles of Consolidation*

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

The Company uses the U.S. dollar predominately 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 rates of exchange; and revenue and expenses are translated using average rates.

*Accounting Estimates*

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are used for, but are not limited to, the accounting for the allowances for doubtful accounts and sales returns, estimated selling prices, inventory valuation, depreciation and amortization, impairment of long-lived assets, warranty accruals, restructuring liabilities, measurement of share-based compensation costs and income taxes. Actual results could differ materially from these estimates.

*Reclassification*

Certain immaterial prior year amounts have been reclassified to conform to current year presentation in the Consolidated Statements of Cash Flows.

*Revenue Recognition*

The Company’s revenue is primarily derived from sales of networking products, which are tangible products containing software and non-software components that function together to deliver the tangible product’s essential functionality. In addition to tangible products, the Company’s sales arrangements may include other deliverables such as standalone software licenses, or service offerings. For multiple deliverable arrangements, the Company recognizes revenue in accordance with the accounting standard for multiple deliverable revenue arrangements, which provides guidance on whether multiple deliverables exist, how deliverables in an arrangement should be separated, and how consideration should be allocated. Software revenue recognition guidance is applied to the sales of the Company’s standalone software products, including software upgrades and software that is not essential to the functionality of the hardware with which it is sold.

Pursuant to the guidance of the accounting standard for multiple deliverable revenue arrangements, when the Company’s sales arrangements contain multiple elements, such as products, software licenses, maintenance agreements, or professional services, the Company determines the standalone selling price for each element based on a selling price hierarchy. The application of the multiple deliverable revenue accounting standard does not change the units of accounting for the Company’s multiple element arrangements. Under the selling price hierarchy, the selling price for each deliverable is based on the Company’s vendor-specific objective evidence (“VSOE”), which is determined by a substantial majority of the Company’s historical standalone sales transactions for a product or service falling within a narrow range. If VSOE is not available due to a lack of standalone sales transactions or lack of pricing within a narrow range, then third party evidence (“TPE”), as determined by the standalone pricing of competitive vendor products in similar markets, is used, if available. TPE typically is difficult to establish due to the proprietary

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

differences of competitive products and difficulty in obtaining reliable competitive standalone pricing information. When neither VSOE nor TPE is available, the Company determines its best estimate of standalone selling price (“ESP”) for a product or service and does so by considering several factors including, but not limited to, the 12-month historical median sales price, sales channel, geography, gross margin objective, competitive product pricing, and product life cycle. In consideration of all relevant pricing factors, the Company applies management judgment to determine the Company's best estimate of selling price through consultation with and formal approval by the Company's management for all products and services for which neither VSOE nor TPE is available. Generally the standalone selling price of services is determined using VSOE and the standalone selling price of other deliverables is determined by using ESP. The Company regularly reviews VSOE, TPE and ESP for all of its products and services and maintains internal controls over the establishment and updates of these estimates.

Pursuant to the software revenue recognition accounting standard, the Company continues to recognize revenue for software using the residual method for its sale of standalone software products, including optional software upgrades and other software that is not essential to the functionality of the hardware with which it is sold. After allocation of the relative selling price to each element of the arrangement, the Company recognizes revenue in accordance with the Company's policies for product, software, and service revenue recognition.

The Company derives the majority of its revenue from sales of its networking equipment, with the remaining revenue generated from service fees relating to maintenance service contracts, professional services, and training for its products. The Company generally recognizes product revenue from its value-added resellers, non-stocking distributors and end-user customers at the time of shipment, provided that persuasive evidence of an arrangement exists, delivery has occurred, the price of the product is fixed or determinable, and collection of the sales proceeds is reasonably assured. In instances where the criteria for revenue recognition are not met, revenue is deferred until all criteria have been met. The Company's total deferred product revenue from customers other than distributors was \$3.1 million and \$2.2 million as of June 30, 2013 and June 30, 2012, respectively. The Company's total deferred revenue for services, primarily from service contracts, was \$38.7 million as of June 30, 2013 and \$37.7 million as of June 30, 2012. Shipping costs are included in cost of product revenues. Sales taxes collected from customers are excluded from revenues.

The Company sells its products and maintenance service contracts 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 Company defers recognition of revenue on all sales to its stocking distributors until the distributors sell the product, as evidenced by “sales-out” reports that the distributors provide. The Company grants these distributors the right to return a portion of unsold inventory for the purpose of stock rotation and certain price protection rights. The distributor-related deferred revenue and receivables are adjusted at the time of the stock rotation return or price reduction. The Company also provides distributors with credits for changes in selling prices based on competitive conditions, and allows distributors to participate in cooperative marketing programs. The Company maintains estimated accruals and allowances for these exposures based upon the Company's historical experience. In connection with cooperative advertising programs, the Company does not meet the criteria for recognizing the expenses as marketing expenses and accordingly, the costs are recorded as a reduction to revenue in the same period that the related revenue is recorded.

The second tier of the distribution channel consists of a non-stocking distributors and value-added resellers that sell directly to end-users. For product sales to non-stocking distributors and value-added resellers, the Company does not grant return privileges, except for defective products during the warranty period, nor does the Company grant pricing credits. Accordingly, the Company recognizes revenue upon transfer of title and risk of loss or damage, generally upon shipment. The Company reduces product revenue for cooperative marketing activities and certain price protection rights that may occur under contractual arrangements with its resellers.

The Company provides an allowance for sales returns based on its historical returns, analysis of credit memo data and its return policies. The allowance for sales returns was \$0.8 million and \$1.3 million as of June 30, 2013 and June 30, 2012, respectively, for estimated future returns that were recorded as a reduction of our accounts receivable. If the historical data that the Company uses to calculate the estimated sales returns and allowances does not properly reflect future levels of product returns, these estimates will be revised, thus resulting in an impact on future net revenue. The Company estimates and adjusts this allowance at each balance sheet date.

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Cash Equivalents, Short-Term Investments and Marketable Securities*

*Summary of Cash and Available-for-Sale Securities (in thousands)*

	June 30	
	2013	2012
Cash	\$ 41,518	\$ 18,455
Cash equivalents	\$ 54,285	\$ 36,141
Short-term investments	43,034	23,358
Marketable securities	66,776	75,561
Total available-for-sale	<u>\$ 164,095</u>	<u>\$ 135,060</u>
Total cash and available for sale securities	<u>\$ 205,613</u>	<u>\$ 153,515</u>

*Available-for-Sale Securities*

The following is a summary of available-for-sale securities (in thousands):

	Amortized Cost	Fair Value	Unrealized Holding Gains	Unrealized Holding Losses
June 30, 2013				
Money market funds	\$ 54,285	\$ 54,285	\$ —	\$ —
U.S. corporate debt securities	110,078	109,810	126	(394)
	<u>\$ 164,363</u>	<u>\$ 164,095</u>	<u>\$ 126</u>	<u>\$ (394)</u>
Classified as:				
Cash equivalents	\$ 54,285	\$ 54,285	\$ —	\$ —
Short-term investments	42,994	43,034	44	(4)
Marketable securities	67,084	66,776	82	(390)
	<u>\$ 164,363</u>	<u>\$ 164,095</u>	<u>\$ 126</u>	<u>\$ (394)</u>
June 30, 2012				
Money market funds	\$ 36,141	\$ 36,141	\$ —	\$ —
U.S. corporate debt securities	84,882	84,949	148	(81)
U.S. government agency securities	11,241	11,234	3	(10)
U.S. municipal bonds	2,738	2,736	—	(2)
	<u>\$ 135,002</u>	<u>\$ 135,060</u>	<u>\$ 151</u>	<u>\$ (93)</u>
Classified as:				
Cash equivalents	\$ 36,141	\$ 36,141	\$ —	\$ —
Short-term investments	23,311	23,358	48	(1)
Marketable securities	75,550	75,561	103	(92)
	<u>\$ 135,002</u>	<u>\$ 135,060</u>	<u>\$ 151</u>	<u>\$ (93)</u>

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The amortized cost and estimated fair value of available-for-sale investments in debt securities at June 30, 2013, by contractual maturity, were as follows (in thousands):

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 42,994	\$ 43,034
Due in 1-2 years	33,516	33,540
Due in 2-5 years	33,568	33,236
Total investments in available for sale debt securities	<u>\$ 110,078</u>	<u>\$ 109,810</u>

The Company considers highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Investments with maturities of greater than three months, but less than one year at the balance sheet date are classified as Short Term Investments. Investments with maturities of greater than one year at balance sheet date are classified as Marketable Securities. Except for direct obligations of the United States government, securities issued by agencies of the United States government, and money market funds, the Company diversifies its investments by limiting its holdings with any individual issuer.

Investments include available-for-sale investment-grade debt securities that the Company carries at fair value. The Company accumulates unrealized gains and losses on the Company's available-for-sale debt securities, net of tax, in accumulated other comprehensive income in the stockholders' equity section of its balance sheets. Such an unrealized gain or loss does not reduce net income for the applicable accounting period. If the fair value of an available-for-sale debt instrument is less than its amortized cost basis, an other-than-temporary impairment is triggered in circumstances where (1) the Company intends to sell the instrument, (2) it is more likely than not that the Company will be required to sell the instrument before recovery of its amortized cost basis, or (3) the Company does not expect to recover the entire amortized cost basis of the instrument (that is, a credit loss exists). If the Company intends to sell or it is more likely than not that the Company will be required to sell the available-for-sale debt instrument before recovery of its amortized cost basis, the Company recognizes an other-than-temporary impairment in earnings equal to the entire difference between the debt instruments' amortized cost basis and its fair value. For available-for-sale debt instruments that are considered other-than-temporarily impaired due to the existence of a credit loss, if the Company does not intend to sell and it is not more likely than not that the Company will be required to sell the instrument before recovery of its remaining amortized cost basis (amortized cost basis less any current-period credit loss), the Company separates the amount of the impairment into the amount that is credit related and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the debt instrument's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the debt instrument's fair value and the present value of future expected cash flows is due to factors that are not credit related and is recognized in other comprehensive income.

The following table presents the Company's investments' gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2013						
U.S. corporate debt securities	\$ 60,782	\$ (390)	\$ 1,048	\$ (4)	\$ 61,830	\$ (394)
	<u>\$ 60,782</u>	<u>\$ (390)</u>	<u>\$ 1,048</u>	<u>\$ (4)</u>	<u>\$ 61,830</u>	<u>\$ (394)</u>

The Company determines the basis of the cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings using the specific identification method. Realized gains or losses recognized on the sale of investments were not significant for fiscal 2013, 2012 or fiscal 2011. As of June 30, 2013, there were thirty-four out of sixty investment securities that had unrealized losses. The unrealized gains / (losses) on the Company's investments were caused by interest rate fluctuations. Substantially all of the Company's available-for-sale investments are investment grade government and corporate debt securities that have maturities of less than three years. The Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost.

#### *Fair Value of Financial Instruments*

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, available-for-sale securities, trading securities and foreign currency derivatives. Fair value is measured based on a fair value hierarchy following three levels of inputs, of which the first two are considered observable and the last unobservable:

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

- Level 1 Quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the Company's fair value hierarchy for its financial assets measured at fair value on a recurring basis:

June 30, 2013	Level 1	Level 2	Level 3	Total
(In thousands)				
<b>Assets</b>				
Investments:				
Money market funds	\$ 54,285	\$ —	\$ —	\$ 54,285
Corporate notes/bonds	—	109,810	—	109,810
Foreign currency forward contracts	—	21	—	21
<b>Total</b>	<b>\$ 54,285</b>	<b>\$ 109,831</b>	<b>\$ —</b>	<b>\$ 164,116</b>
June 30, 2012	Level 1	Level 2	Level 3	Total
(In thousands)				
<b>Assets</b>				
Investments:				
Municipal bonds	\$ —	\$ 2,736	\$ —	\$ 2,736
Federal agency notes	—	11,234	—	11,234
Money market funds	36,141	—	—	36,141
Corporate notes/bonds	—	84,949	—	84,949
Foreign currency forward contracts	—	179	—	179
<b>Total</b>	<b>\$ 36,141</b>	<b>\$ 99,098</b>	<b>\$ —</b>	<b>\$ 135,239</b>

Level 2 investment valuations are based on inputs such as quoted market prices of similar instruments, dealer quotations or valuations provided by alternative pricing sources supported by observable inputs. These generally include U.S. government and sovereign obligations, most government agency securities, investment-grade corporate bonds, and state, municipal and provincial obligations. As of June 30, 2013 and June 30, 2012, the Company had no assets or liabilities classified within Level 3. There were no transfers of assets or liabilities between Level 1 and Level 2 during the fiscal 2013.

#### Concentrations

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

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

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table sets forth major customers accounting for 10% or more of our net revenue:

	Fiscal Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
Westcon Group Inc.	16%	19%	16%
Scansource, Inc.	12%	13%	14%
Tech Data Corporation	10%	*	11%
Ericsson AB	*	12%	11%

\* Less than 10% of revenue

The following table sets forth major customers accounting for 10% or more of our accounts receivable balance.

	June 30, 2013	June 30, 2012
Ericsson AB	*	21%
Westcon Group Inc.	25%	16%

\* Less than 10% of accounts receivable

#### *Accounts Receivable and Allowance for Doubtful Accounts*

Accounts receivable are recorded at the invoiced amount and do not bear interest. Substantially all receivables were trade receivables as of June 30, 2013 and June 30, 2012.

The Company continually monitors and evaluates the collectability of its trade receivables based on a combination of factors. The Company records specific allowances for bad debts in general and administrative expense when the Company becomes aware of a specific customer's inability to meet its financial obligation to it, such as in the case of bankruptcy filings or deterioration of financial position. The Company writes-off receivables to the allowance after all collection efforts are exhausted. Estimates are used in determining the Company's allowances for all other customers based on factors such as current trends in the length of time the receivables are past due and historical collection experience. The Company mitigates some collection risk by requiring most of its customers in the Asia-Pacific region, excluding Japan, to pay cash in advance or secure letters of credit when placing an order with it.

#### *Inventories*

Inventory is stated at the lower of cost or market. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. The Company reduces the carrying value of inventory to net realizable value based on excess and obsolete inventories which are primarily determined by age of inventory and future demand forecasts. 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 profit for any of the periods disclosed.

#### *Assets Held for Sale*

On September 23, 2010, the Company entered into an Option Agreement with Trumark Companies LLC ("Trumark"), under which the Company granted Trumark an option (the "Option") to purchase half of its former corporate headquarters campus in Santa Clara, California (the "First Property"), at a price of \$24.0 million. Trumark subsequently assigned its rights under the Option to Extreme Depot LLC. On January 25, 2012 the Company entered into a new option with Extreme Depot to purchase the remaining portion of the Company's former corporate campus (the "Second Property"). Under the agreements, Extreme Depot had until December 18, 2012 to exercise the options to purchase the First Property and the Second Property. In January 2012, the Company classified the First Property as "assets held for sale" on the consolidated balance sheet at a net book value of \$17.1 million, which was the lesser of the fair value (less cost to sell) or carrying amount of the assets, and ceased recognizing depreciation expense on the assets. The Second Property was included as part of the Property and Equipment, classified as 'assets held for use', due to certain unresolved contingencies.

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Following the exercise of the options, on September 11, 2012, the Company completed the sale of the First Property and the Second Property for net cash proceeds of approximately \$44.7 million. On September 12, 2012, the Company entered into an agreement with the buyer, whereby the Company leased three of the four buildings, comprising the campus, under a cancellable lease arrangement expiring on January 31, 2013 for one building and on August 31, 2014 for the remaining two buildings. The lease was terminable by the Company upon 30 days-notice at any time before the lease expiration date. The Company terminated the lease for all three buildings on June 30, 2013.

*Long-Lived Assets*

Long-lived assets include (a) property and equipment, (b) intangible assets, and (c) other assets. Property and equipment, and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or asset groups may not be recoverable. If such facts and circumstances exist, the Company assesses the recoverability of these assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets. The Company reduces the carrying value of service inventory to net realizable value based on expected quantities needed to satisfy contractual service requirements of customers.

*(a) Property and Equipment, Net*

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, with the exception of land, which is not depreciated. Estimated useful lives of 25 years are used for buildings. Estimated useful lives of three to four years are used for computer equipment and software. Estimated useful lives of five to seven years are used for office equipment, furniture and fixtures. Depreciation and amortization of leasehold improvements is computed using the lesser of the useful life or lease terms (ranging from two to ten years). Property and equipment consist of the following (in thousands):

	June 30, 2013	June 30, 2012
Computer equipment	\$ 29,400	\$ 42,771
Land	—	10,300
Buildings and improvements	—	9,581
Purchased software	3,699	11,961
Office equipment, furniture and fixtures	1,506	3,201
Leasehold improvements	11,344	5,467
	<u>45,949</u>	<u>83,281</u>
Less: accumulated depreciation and amortization	(22,305)	(58,101)
Property and equipment, net	<u>\$ 23,644</u>	<u>\$ 25,180</u>

*(b) Intangible Assets*

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

	Weighted Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>June 30, 2013</b>				
Patents	6.7 years	\$ 1,800	\$ 846	\$ 954
License Agreements	10.3 years	10,447	7,407	3,040
Other Intangibles	2.3 years	659	410	249
		<u>\$ 12,906</u>	<u>\$ 8,663</u>	<u>\$ 4,243</u>

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	Weighted Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
June 30, 2012				
Patents	7.4 years	\$ 1,800	\$ 669	\$ 1,131
License Agreements	9.3 years	10,158	6,231	3,927
Other Intangibles	0.3 years	324	276	48
		<u>\$ 12,282</u>	<u>\$ 7,176</u>	<u>\$ 5,106</u>

Amortization expense was \$1.5 million, \$1.8 million, and \$2.1 million in fiscal 2013, 2012, and 2011, respectively. Amortization expense expected to be recorded for each of the next five years is as follows (in thousands):

For the fiscal year ending:

2014	\$ 988
2015	622
2016	447
2017	368
2018	282
Thereafter	1,536
Total	<u>\$ 4,243</u>

*(c) Other Assets*

Other assets primarily consists of service inventory and long term deposits. The Company holds service inventory to support customers who have purchased long term service contracts with a hardware replacement element. The Company held service inventory, net of \$6.3 million and \$8.0 million as of June 30, 2013 and June 30, 2012, respectively.

*Deferred Revenue, Net*

Deferred revenue, net represents amounts for (i) deferred services revenue (support arrangements, professional services and training), and (ii) deferred product revenue net of the related cost of revenue where the revenue recognition criteria have not been met related to sales by the Company to its resellers or directly to its end-customers. Product revenue includes shipments to end-users and value-add resellers. The Company offers renewable support arrangements, including extended warranty contracts, to its customers that range generally from one to five years. The change in the Company's deferred revenue balance in relation to these arrangements was as follows (in thousands):

	Year Ended	
	June 30, 2013	June 30, 2012
Deferred product and other revenue, net	\$ 3,451	\$ 1,867
Deferred services revenue, net		
Balance beginning of period	37,461	35,802
New support arrangements	57,342	59,313
Recognition of support revenue	(56,800)	(57,654)
Balance end of period	38,003	37,461
Total deferred revenue, net	41,454	39,328
Less: current portion	33,184	31,769
Non-current deferred revenue	<u>\$ 8,270</u>	<u>\$ 7,559</u>

*Deferred Distributors Revenue, Net of Cost of Sales to Distributors*

At the time of shipment to distributors, the Company records a trade receivable at the contractual discount to list selling price since there is a legally enforceable obligation from the distributor to pay on a current basis for product delivered, the Company relieves inventory for the carrying value of goods shipped since legal title has passed to the distributor, and the Company records deferred revenue and deferred cost of sales in "Deferred distributors revenue, net of cost of sales to distributors" in the liability



**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

section of its consolidated balance sheets. Deferred distributors revenue, net of cost of sales to distributors effectively represents the gross margin on the sale to the distributor; however, the amount of gross margin the Company recognizes in future periods will frequently be less than the originally recorded deferred distributors revenue, net of cost of sales to distributors as a result of price concessions negotiated at time of sell-through to end customers. The Company sells each item in its product catalog to all of its distributors worldwide at contractually discounted prices. However, distributors resell the Company's products to end customers at a very broad range of individually negotiated price points based on customer, product, quantity, geography, and other competitive conditions which results in the Company remitting back to the distributors a portion of their original purchase price after the resale transaction is completed. Thus, a portion of the deferred revenue balance represents a portion of distributors' original purchase price that will be remitted back to the distributors in the future. The wide range and variability of negotiated price credits granted to distributors does not allow the Company to accurately estimate the portion of the balance in the deferred revenue that will be remitted to the distributors. Therefore, the Company does not reduce deferred revenue by anticipated future price credits; instead, price credits are recorded against revenue when incurred, which is generally at the time the distributor sells the product.

The following table summarizes deferred distributors revenue, net of cost of sales to distributors at the end of fiscal 2013 and 2012, respectively (in thousands):

	Year Ended	
	June 30, 2013	June 30, 2012
Deferred revenue	\$ 22,411	\$ 20,361
Deferred cost of Sales	(5,023)	(5,042)
Total deferred distributors revenue, net of cost of sales to distributors	<u>\$ 17,388</u>	<u>\$ 15,319</u>

*Guarantees and Product Warranties*

Upon issuance of a standard product warranty, the Company discloses and recognizes a liability for the obligation it assumes under the warranty. The following table summarizes the activity related to the Company's product warranty liability during fiscal 2013 and fiscal 2012:

	Year ended	
	June 30, 2013	June 30, 2012
Balance beginning of period	\$ 2,871	\$ 2,640
New warranties issued	4,299	3,117
Warranty expenditures	(3,874)	(2,886)
Balance end of period	<u>\$ 3,296</u>	<u>\$ 2,871</u>

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.

In the normal course of business to facilitate sales of its products, 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 claims made against certain parties. 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.

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Other Accrued Liabilities*

The following are the components of other accrued liabilities (in thousands):

	June 30, 2013	June 30, 2012
Accrued general and administrative costs	\$ 2,959	\$ 1,599
Other accrued liabilities	13,543	11,881
<b>Total</b>	<b>\$ 16,502</b>	<b>\$ 13,480</b>

*Advertising*

Cooperative advertising obligations with customers are accrued and the costs expensed at the time the related revenue is recognized. All other advertising costs are expensed as incurred. Cooperative advertising expenses are recorded as marketing expenses to the extent that an advertising benefit separate from the revenue transaction can be identified and the cash paid does not exceed the fair value of that advertising benefit received. Otherwise, such cooperative advertising obligations with customers are recorded as a reduction of revenue. Advertising expenses were \$0.2 million, \$0.5 million, and \$0.6 million, respectively, in fiscal 2013, fiscal 2012, and fiscal 2011.

*Impact of Recently Issued Accounting Standards*

In February 2013, the FASB issued ASU No. 2013-02, Topic 350 - Comprehensive Income ("ASU 2013-02"), which amends Topic 220 for the reporting of reclassifications out of accumulated other comprehensive income to the respective line items in net income. ASU 2013-02 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2012. The Company intends to adopt this standard in the first quarter of 2014 and does not expect the adoption will have a material impact on its consolidated results of operations or financial condition.

In July 2013, the FASB issued ASU No. 2013-11, Topic 740 - Income Taxes ("ASU 2013-11") which provides guidance to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company intends to adopt this standard in the first quarter of fiscal 2015 and does not expect the adoption will have an impact on its consolidated financial statements.

**3. Commitments, Contingencies and Leases***Leases*

The Company currently leases its current headquarters, research and development facilities and office spaces for its various United States and international operations. Certain leases contain rent escalation clauses and renewal options. Future annual minimum lease payments under all non-cancelable operating leases having initial or remaining lease terms in excess of one year at June 30, 2013 were as follows (in thousands):

	Future Lease Payments
Fiscal 2014	\$ 6,180
Fiscal 2015	5,209
Fiscal 2016	4,448
Fiscal 2017	4,347
Fiscal 2018	4,274
Thereafter	15,115
<b>Total minimum payments</b>	<b>\$ 39,573</b>

Rent expense was approximately \$5.9 million in fiscal 2013, \$4.3 million in fiscal 2012, and \$4.3 million in fiscal 2011.

*Purchase Commitments*

The Company currently has arrangements with contract manufacturers and suppliers for the manufacture of its products. The arrangements allow them to procure long lead-time component inventory based upon a rolling production forecast provided by the Company. The Company is obligated to the purchase of long lead-time component inventory that its contract manufacturer

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

procures in accordance with the forecast, unless the Company gives notice of order cancellation outside of applicable component lead-times. As of June 30, 2013, the Company had non-cancelable commitments to purchase approximately \$50.1 million of such inventory during the first quarter of fiscal 2014.

### ***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, 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.

#### ***Intellectual Property Litigation***

##### *Enterasys Networks*

On June 21, 2005, Enterasys Networks ("Enterasys") filed suit against Extreme and Foundry Networks, Inc. ("Foundry") in the United States District Court for the District of Massachusetts, Civil Action No. 05-11298 DPW. The complaint alleged willful infringement of U.S. Patent Nos. 5,251,205; 5,390,173; 6,128,665; 6,147,995; 6,539,022; and 6,560,236, and sought: a) a judgment that the Company willfully infringes each of the patents; (b) a permanent injunction from infringement, inducement of infringement and contributory infringement of each of the six patents; (c) damages and a "reasonable royalty" to be determined at trial; (d) treble damages; (e) attorneys' fees, costs and interest; and (f) equitable relief at the Court's discretion. Petitions for reexamination were filed challenging five of the patents at issue to the U.S. Patent and Trademark Office, and a stay of the case was entered. Following the reexamination proceedings, Enterasys withdrew its allegations of infringement as to two of the patents, U.S. Patent Nos. 6,539,022 and 6,560,236. The stay was lifted on May 21, 2010, and the Court held claim construction hearings in December 2010. Fact discovery was ongoing. No trial date was set.

On April 20, 2007, the Company filed suit against Enterasys in the United States District Court for the Western District of Wisconsin, Civil Action No. 07-C-0229-C. The complaint alleged willful infringement of U.S. Patents Nos. 6,104,700, 6,678,248, and 6,859,438, and sought injunctive relief against Enterasys' continuing sale of infringing goods and monetary damages. Enterasys responded to the complaint on May 30, 2007, and also filed counterclaims alleging infringement of three U.S. patents owned by Enterasys. On April 9, 2008, the Court dismissed Enterasys' counterclaims on one of its patents with prejudice. On May 5, 2008, the Court granted the Company's motion for summary judgment, finding that it does not infringe Enterasys' two remaining patents and dismissing all of Enterasys' remaining counterclaims with prejudice. On May 30, 2008, a jury found that Enterasys infringed all three of the Company's patents and awarded the Company damages in the amount of \$0.2 million. The Court also ruled in the Company's favor on Enterasys' challenge to the validity of the Company's patents. On October 29, 2008, the Court denied Enterasys' post-trial motion for judgment as a matter of law, and granted Extreme Network's motion for a permanent injunction against Enterasys. The injunction order permanently enjoins Enterasys from manufacturing, using, offering to sell, selling in the U.S. and importing into the U.S. the Enterasys products accused of infringing Extreme Network's three patents. On March 16, 2009, the Court also denied Enterasys' motion for a new trial, but granted Enterasys' motion for a stay of the injunction pending appeal. On April 17, 2009, Enterasys filed its notice of appeal and on May 1, 2009, the Company filed its cross appeal. On September 30, 2010, the U.S. Court of Appeals for the Federal Circuit upheld the jury verdict of infringement by Enterasys of the Company's patents and the District Court's summary judgment of non-infringement by the Company of Enterasys' '727 patent. The Federal Circuit reversed the judgment of non-infringement by the Company of Enterasys' '181 patent, holding that the District Court Judge

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

applied an incorrect claim construction and reversed the District Court's denial of the Company's request for attorneys' fees as premature.

On November 4, 2011, a jury returned a verdict of non-infringement by the Company of the '181 patent and found the patent to be valid. Both parties filed post-trial motions, including motions for a new trial, for judgment as a matter of law and for attorneys' fees, all of which the Court denied on July 11, 2012. Enterasys did not file a notice of appeal by the August 10, 2012 deadline. Consequently, the judgment of non-infringement in favor of the Company in the second trial is final. During the fourth quarter of fiscal 2012, Enterasys paid the Company \$0.6 million related to the judgment. During the quarter ended December 31, 2012, the Company received payments from Enterasys totaling approximately \$0.4 million for the Court's award for damages, supplemental damages, pre and post judgment interests, costs from the first trial and second trial, plus the amount Enterasys agreed to release for damages held in escrow that accrued during the stay of the injunction post-trial and on appeal.

During the third quarter of fiscal 2013, the Company and Enterasys engaged in settlement discussions. On March 29, 2013, the parties entered into a confidential settlement agreement ("Agreement"). The Agreement required a dismissal with prejudice of the Wisconsin and Massachusetts litigation, as well as cross covenants not to sue and survival of settlement rights for any acquiring party of the parties. Joint motions to dismiss were granted on April 13, 2013, and April 15, 2013 respectively. All matters between the parties have now been resolved.

#### *Chrimar Systems*

On October 31, 2011, Chrimar Systems, Inc. DBA CMS Technologies, and Chrimar Holding Company filed suit against the Company, Cisco Systems, Inc., and Cisco Consumer Products LLC. Cisco-Linksys LLC, Hewlett-Packard Company, 3Com Corporation and Avaya, Inc. in the United States District Court for the District of Delaware, Civil Action No. 11-1050 (the "Delaware action"). The complaint alleges infringement of U.S. Patent No. 7,457,250. The Delaware action has been stayed pursuant to 28 USC Section 1659(a) pending final determination of the International Trade Commission action described below, based on the fact that the allegations in both cases relate to the same patent.

During the fourth quarter of the fiscal 2012, the Company engaged in settlement discussions with Chrimar Systems Inc. As part of the negotiations the Company determined that it is reasonably possible that a range of loss could be between \$0.3 million and \$1.4 million which was dependent on a number of factors including whether mutually acceptable settlement terms can be reached. During the quarter ended June 30, 2012 the Company capitalized \$1.2 million related to such patents as intangibles based on a probable estimated value and recorded a charge of \$0.3 million based on its best estimate of the probable loss. In addition, during the quarter ending March 31, 2013, venue for the Delaware action was transferred to the United States District Court for the District of Northern California.

On July 16, 2013, the parties entered into a confidential patent license and settlement agreement ("Agreement"). Pursuant to that Agreement, the Company paid \$1.4 million on July 25, 2013 and Chrimar filed for dismissal of the Delaware Action with prejudice on July 29, 2013. All matters between the parties have now been resolved.

#### *Reefedge Networks*

On September 17, 2012, Reefedge Networks, LLC filed suit against the Company in the United States District Court for the District of Delaware, Civil Action No. 12-1148. The complaint alleged wrongful use, making, selling, and/or offering to sell products that infringe U.S. Patent Nos. 6,633,761; 6,975,864; and 7,197,308 and sought unspecified monetary damages and a permanent injunction for products originating from a single supplier to which the Company had submitted an indemnification request. An answer was filed on December 10, 2012. The Company was dismissed from the suit on May 6, 2013. All matters between the parties have now been resolved.

#### *Relay IP Inc.*

On May 3, 2013, Relay IP, Inc. filed suit against the Company in the United States District Court for the District of Delaware, Civil Action case number 13-775. The complaint alleges infringement based on the Company's testing of its own equipment and inducing its customers to infringe U.S. Patent No. 5,331,637 and seeks unspecified monetary damages. An answer was filed on July 15, 2013. Given the preliminary nature of the claims, it is premature to assess the likelihood of a particular outcome.

#### ***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 Delaware and California 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 these matters. It is not possible to estimate the maximum potential amount under these indemnification agreements due to the limited history of these claims. The cost to defend the Company and the named individuals could have a material adverse effect on its consolidated financial position, results of operations and cash

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

flows in the future. Recovery of such costs under its directors and officers insurance coverage is uncertain. As of June 30, 2013, the Company had no outstanding indemnification claims.

#### 4. Stockholders' Equity

##### *Preferred Stock*

In April 2001, in connection with the entering into of the Company's Rights Agreement, the Company authorized the issuance of preferred stock. The preferred stock may be issued from time to time in one or more series. The Board of Directors is authorized to provide for the rights, preferences and privileges of the shares of each series and any qualifications, limitations or restrictions on these shares. As of June 30, 2013, no shares of preferred stock were outstanding.

##### *Stockholders' Rights Agreement*

On November 27, 2012, the Company's Board of Directors adopted an Amended and Restated Rights Agreement (the "Restated Rights Plan"), between Extreme Networks and Computershare Shareholder Services LLC as the rights agent (the "Rights Agent"). 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 Series A Preferred Stock of Extreme Networks. The Restated Rights Plan replaces in its entirety the Rights Agreement, dated as of April 27, 2001, as amended on June 30, 2010 and April 26, 2011 between Extreme Networks and Mellon Investor Services LLC (the "Prior Rights Plan"). The Board reviewed the necessity of the provision of the Prior Rights Plan adopted to preserve the value of Extreme Networks' deferred tax assets, including its net operating loss carry forwards, with respect to its ability to fully use its tax benefits to offset future income may be limited if it 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 Extreme Networks' common stock. Following its review, the Board decided it was necessary and in the best interests of Extreme Networks 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. The Company's stockholders voted to extend the term of the Restated Rights Plan from April 30, 2013 to April 30, 2014 at our 2012 Annual Meeting of Stockholders, and the Restated Rights Plan was amended effective April 30, 2013 to reflect the extension of the term.

##### *Shares Reserved for Issuance*

The following are shares reserved for issuance (in thousands):

	June 30, 2013
Employee stock purchase plan	1,967
Employee stock options	13,676
Total shares reserved for issuance	<u>15,643</u>

#### 5. Employee Benefit Plans (including Share-based Compensation)

As of June 30, 2013, the Company has the following share-based compensation plans:

##### *2005 Equity Incentive Plan*

The 2005 Equity Incentive Plan (the "2005 Plan") was adopted by the Company's Board of Directors on October 20, 2005, and approved by stockholders on December 2, 2005. The 2005 Plan replaces the 1996 Stock Option Plan (the "1996 Plan"), 2000 Non-statutory Stock Option Plan (the "2000 Plan") and 2001 Non-statutory Stock Option Plan (the "2001 Plan").

Under the 2005 Plan, the Company may grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and other share-based or cash-based awards to employees and consultants. The 2005 Plan also authorizes the grant of awards of stock options, stock appreciation rights, restricted stock and restricted stock units to non-employee members of the Board of Directors and deferred compensation awards to officers, directors and certain management or highly compensated employees. The 2005 Plan authorizes the issuance of up to 12,000,000 shares of the Company's common stock and on December 23, 2009, the Company's stockholders approved to increase the number of shares authorized by another 4,000,000 shares. In addition, up to 11,000,000 shares subject to awards outstanding under the 1996 Plan, the 2000 Plan, and the 2001 Plan that expired have been added to the number of shares available for future grant under the 2005 Plan. As of June 30, 2013, total options and awards to acquire 10,548,505 shares were outstanding under the 2005 Plan and 3,615,342 shares are available for grant under the 2005 Plan. Options granted under this plan have a contractual term of seven years.

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Amended 1996 Stock Option Plan*

The 1996 Plan was originally adopted in September 1996, and provided for the grant of options for common stock to eligible participants. A total of 56,382,867 shares were reserved under the 1996 Plan. Options granted under this plan have a contractual term of ten years. Effective December 2, 2005, the 1996 Plan was terminated, and, as of June 30, 2013, options to acquire 805,071 shares were outstanding under the 1996 Plan.

*2000 Plan*

In March 2000, the Board of Directors adopted the 2000 Plan which provided for the grant of options for common stock to eligible participants. A total of 4,000,000 shares were reserved under the 2000 Plan. Options granted under this plan have a contractual term of ten years. Effective December 2, 2005, the 2000 Plan was terminated, and, as of June 30, 2013, options to acquire 64,027 shares were outstanding under the 2000 Plan.

*2001 Plan*

In May 2001, the Board of Directors adopted the 2001 Plan which provided for the grant of options for common stock to eligible participants. A total of 4,000,000 shares were reserved under the 2001 Plan. Options granted under this plan have a contractual term of ten years. Effective December 2, 2005, the 2001 Plan was terminated, and, as of June 30, 2013, options to acquire 21,750 shares were outstanding under the 2001 Plan.

The following table summarizes stock option activity under all plans:

	Number of Shares (000's)	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ 000's)
Options outstanding at June 27, 2010	9,586	\$ 4.24		
Granted	2,748	\$ 3.28		
Exercised	(606)	\$ 2.52		
Canceled	(2,596)	\$ 4.40		
Options outstanding at July 3, 2011	9,132	\$ 4.01		
Granted	2,593	\$ 3.30		
Exercised	(437)	\$ 2.24		
Canceled	(2,282)	\$ 4.85		
Options outstanding at June 30, 2012	9,006	\$ 3.68		
Granted	4,163	\$ 3.35		
Exercised	(2,045)	\$ 3.00		
Canceled	(1,979)	\$ 3.77		
Options outstanding at June 30, 2013	9,145	\$ 3.66	4.89	1,737
Exercisable at June 30, 2013	4,855	\$ 3.96	3.64	1,073
Vested and expected to vest at June 30, 2013	8,279	\$ 3.71	4.71	1,562

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table summarizes significant ranges of outstanding and exercisable options at June 30, 2013:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding (000's)	Weighted-Average Remaining Contractual Life <i>(In years)</i>	Weighted-Average Exercise Price	Number Exercisable (000's)	Weighted-Average Exercise Price
\$1.69 – \$3.03	1,039	4.64	\$ 2.45	949	\$ 2.39
\$3.17 – \$3.17	1,996	6.76	\$ 3.17	31	\$ 3.17
\$3.25 – \$3.38	1,486	5.35	\$ 3.33	546	\$ 3.30
\$3.43 – \$3.54	1,105	5.11	\$ 3.53	395	\$ 3.52
\$3.58 – \$3.68	938	5.24	\$ 3.64	394	\$ 3.68
\$3.74 – \$4.18	942	4.07	\$ 3.85	901	\$ 3.85
\$4.22 – \$4.74	986	3.54	\$ 4.36	986	\$ 4.36
\$4.78 – \$8.05	586	0.89	\$ 6.50	586	\$ 6.50
\$8.36 – \$8.36	7	0.33	\$ 8.36	7	\$ 8.36
\$9.80 – \$9.80	60	0.43	\$ 9.80	60	\$ 9.80
<b>\$1.69 – \$9.80</b>	<b>9,145</b>	<b>4.89</b>	<b>\$ 3.66</b>	<b>4,855</b>	<b>\$ 3.96</b>

The total intrinsic value of options exercised in fiscal 2013, fiscal 2012 and fiscal 2011 were \$1.1 million, \$0.5 million, and \$0.5 million, respectively. The fair value of options vested in fiscal 2013, fiscal 2012 and fiscal 2011 were \$1.5 million, \$2.3 million, and \$1.0 million, respectively.

#### Stock Awards

Stock awards may be granted under the 2005 Plan on terms approved by the Board of Directors. Stock awards generally provide for the issuance of restricted stock which vests over a fixed period.

The following table summarizes stock award activity:

	Number of Shares (000's)	Weighted-Average Grant-Date Fair Value
Non-vested stock outstanding at June 27, 2010	2,880	\$ 2.92
Granted	818	\$ 3.18
Vested	(1,376)	\$ 3.21
Cancelled	(452)	\$ 3.03
Non-vested stock outstanding at July 3, 2011	1,870	\$ 2.79
Granted	739	\$ 3.11
Vested	(1,233)	\$ 3.28
Cancelled	(298)	\$ 3.17
Non-vested stock outstanding at June 30, 2012	1,078	\$ 2.35
Granted	3,220	\$ 3.49
Vested	(939)	\$ 3.38
Cancelled	(673)	\$ 3.44
Non-vested stock outstanding at June 30, 2013	2,686	\$ 3.09

The non-vested shares were placed in an escrow account and will be released to the recipients as the shares vest over periods of up to twenty-four months. If a participant terminates employment prior to the vesting dates, the non-vested shares will be canceled and returned to the 2005 Plan. The Company recognizes compensation expense on the awards over the vesting period based on an intrinsic value as of the date of grant.



**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*1999 Employee Stock Purchase Plan*

In January 1999, the Board of Directors approved the adoption of Extreme Network's 1999 Employee Stock Purchase Plan (the "ESPP"). On December 2, 2005, the stockholders approved an amendment to the ESPP to increase the maximum number of shares of common stock that may be issued under the plan by 5,000,000 to a total of 12,000,000 shares. The ESPP permits eligible employees to acquire shares of the Company's common stock through periodic payroll deductions of up to 15% of total compensation. No more than 625 shares may be purchased on any purchase date per employee. Each offering period has a maximum duration of 3 months. The price at which the common stock may be purchased is 85% of the lesser of the fair market value of the Company's common stock on the first day of the applicable offering period or on the last day of the respective purchase period. On January 26, 2010, the Board of Directors approved an amendment to the ESPP to increase the maximum number of shares that may be purchased on any purchase date per employee from 625 shares to 1,000 shares. Through June 30, 2013, 10,033,395 shares had been purchased under the ESPP.

*Share Based Compensation*

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

	Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
Cost of product revenue	\$ 428	\$ 463	\$ 435
Cost of service revenue	292	257	232
Research and development	2,461	1,363	1,113
Sales and marketing	1,032	1,765	1,948
General and administrative	3,140	2,341	1,520
Total share-based compensation expense	<u>\$ 7,353</u>	<u>\$ 6,189</u>	<u>\$ 5,248</u>

The amount of stock based compensation expense capitalized in inventory has been immaterial for each of the periods presented. As of June 30, 2013, there was \$5.5 million of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of approximately 3.0 years. As of June 30, 2013, there were approximately \$4.2 million in unrecognized compensation costs related to non-vested stock awards. This cost is expected to be recognized over a weighted-average period of approximately 1.9 years.

The weighted-average grant-date per share fair value of options granted in fiscal 2013, fiscal 2012, and fiscal 2011 were \$1.74, \$1.67, and \$1.57, respectively. The weighted-average estimated per share fair value of shares purchased under the ESPP in fiscal 2013, fiscal 2012, and fiscal 2011 were \$0.88, \$0.98, and \$0.98, respectively. The average fair-value and the average derived service period on the grant-date for the performance-based option awards with market conditions, granted in fiscal 2013, was \$1.53 and 2.5 years respectively.

The Company uses the straight-line method for expense attribution, and the Company estimates forfeitures and only recognizes expense for those shares expected to vest. The Company's estimated forfeiture rate in fiscal 2013 based on the Company's historical forfeiture experience is approximately 9% for non-executives and 3% for executives.

The fair value of each option award and share purchase option under the Company's 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 Company uses the Monte-Carlo simulation model to determine the fair value and the derived service period of performance-based option 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 expected term of ESPP represents the contractual life of the ESPP purchase period. The risk-free rate based upon the estimated life of the option and ESPP is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on both the implied volatilities from traded options on the Company's stock and historical volatility on the Company's stock.



**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	Stock Option Plan			Employee Stock Purchase Plan		
	Year Ended			Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011	June 30, 2013	June 30, 2012	July 3, 2011
Expected life	4.58 yrs	5.06 yrs	4.43 yrs	0.25 yrs	0.25 yrs	0.24 yrs
Risk-free interest rate	0.74%	1.05%	1.47%	0.07%	0.07%	0.17%
Volatility	64%	60%	62%	49%	61%	55%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

*Employee Stock Option Exchange Program*

On December 23, 2009, the Company's stockholders approved a voluntary program ("Exchange Program") that permitted eligible employees to exchange certain outstanding stock options that were "underwater" for a lesser number of shares of restricted stock units to be granted under the 2005 Plan and to exchange certain other stock options that are more substantially underwater for a cash payment. The Exchange Program was open to all of the Company's United States employees, except for members of its Board of Directors and its executive officers. The Exchange Program commenced on February 4, 2010 and ended March 4, 2010. On March 5, 2010, the Company canceled a total of 3,058,761 tendered stock options, issued a total of 569,189 replacement restricted stock units under the 2005 Plan, and incurred a cash outlay of \$8,769 which was paid out at the end of March 2010.

*401(k) Plan*

The Company provides a tax-qualified employee savings and retirement plan, commonly known as a 401(k) plan (the "Plan"), which covers the Company's eligible employees. Pursuant to the Plan, employees may elect to reduce their current compensation up to the IRS annual contribution limit of \$17,500 for calendar year 2013. Effective January 1, 2005, employees age 50 or over may elect to contribute an additional \$5,500. The amount contributed to the Plan is on a pre-tax basis.

The Company provides for discretionary matching contributions as determined by the Board of Directors for each calendar year. All matching contributions vest immediately. In addition, the Plan provides for discretionary contributions as determined by the Board of Directors each year. The program was to match \$0.50 for every dollar contributed by the employee up to the first 2.5% of pay. The Company's matching contributions to the Plan totaled \$0.5 million, \$0.5 million, and \$0.6 million, for fiscal 2013, fiscal 2012 and fiscal 2011, respectively. No discretionary contributions were made in fiscal 2013, fiscal 2012 and fiscal 2011.

**6. Common Stock Repurchases and Retirement**

*Retirement of Treasury Stock*

On September 5, 2012, the Company retired 39,631,836 shares of treasury stock. The retired shares had a carrying value of approximately \$149.7 million, and the Company reduced additional paid-in capital by approximately \$149.7 million upon the formal retirement of the shares. The retired shares are now included in the Company's authorized but unissued shares.

*Common Stock Repurchases*

On September 28, 2012, the Company's Board of Directors approved a share repurchase program for a maximum of \$75 million which may be purchased over a three year period in the open market or in privately negotiated transactions. All repurchased shares will be retired and included in the Company's authorized but unissued shares. During the year ended June 30, 2013, the Company repurchased 4.1 million shares of common stock at a total cost of \$14.5 million.

**7. Income Taxes**

Income before income taxes is as follows (in thousands):

	Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
Domestic	\$ 14,692	\$ 20,839	\$ 4,416
Foreign	(3,341)	(3,771)	(704)
Total	\$ 11,351	\$ 17,068	\$ 3,712

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The provision for income taxes for fiscal 2013, 2012 and fiscal 2011 consisted of the following (in thousands):

	Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
<b>Current:</b>			
Federal	\$ 225	\$ 114	\$ 142
State	140	79	92
Foreign	1,163	916	1,613
<b>Total current</b>	<b>1,528</b>	<b>1,109</b>	<b>1,847</b>
<b>Deferred:</b>			
Federal	15	30	(639)
Foreign	135	57	(209)
<b>Total deferred</b>	<b>150</b>	<b>87</b>	<b>(848)</b>
<b>Provision for income taxes</b>	<b>\$ 1,678</b>	<b>\$ 1,196</b>	<b>\$ 999</b>

The difference between the provision for income taxes and the amount computed by applying the federal statutory income tax rate (35 percent) to income before taxes is explained below (in thousands):

	Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
Tax at federal statutory rate	\$ 3,973	\$ 5,974	\$ 1,299
State income tax, net of federal benefit	105	51	57
Valuation allowance	(3,687)	(8,035)	(2,492)
Foreign earnings taxed at other than U.S. rates	498	3,607	1,576
Deferred compensation	845	170	398
Other	(56)	(571)	161
<b>Provision for income taxes</b>	<b>\$ 1,678</b>	<b>\$ 1,196</b>	<b>\$ 999</b>

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Significant components of the Company's deferred tax assets are as follows (in thousands):

	June 30, 2013	June 30, 2012
<b>Deferred tax assets:</b>		
Net operating loss carry-forwards	\$ 85,276	\$ 73,413
Tax credit carry-forwards	28,882	23,051
Depreciation	—	14,074
Deferred revenue (net)	9,710	8,722
Warrant amortization	3,991	5,489
Inventory write-downs	2,759	2,803
Other allowances and accruals	3,658	2,901
Other	8,714	10,895
<b>Total deferred tax assets</b>	<b>142,990</b>	<b>141,348</b>
Valuation allowance	(142,023)	(140,641)
<b>Total net deferred tax assets</b>	<b>967</b>	<b>707</b>
<b>Deferred tax liabilities:</b>		
Depreciation	(388)	—
Deferred tax liability on foreign withholdings	(134)	(120)
<b>Total deferred tax liabilities</b>	<b>(522)</b>	<b>(120)</b>
<b>Net deferred tax assets</b>	<b>\$ 445</b>	<b>\$ 587</b>
<b>Recorded as:</b>		
Net current deferred tax assets	\$ 386	\$ 644
Net non-current deferred tax assets	294	178
Net current deferred tax liabilities	(235)	(235)
<b>Net deferred tax assets</b>	<b>\$ 445</b>	<b>\$ 587</b>

The Company's valuation allowance increased by \$1.4 million in fiscal 2013 and decreased by \$9.9 million in fiscal 2012. The Company has provided a full valuation allowance against all of its U.S. federal and state deferred tax assets, and no valuation allowance against any of its non-U.S. deferred tax assets. The 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, coupled with the Company's inability to forecast greater than one quarter in advance and 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. This valuation allowance will be evaluated periodically and can be reversed partially or totally if business results and the economic environment have sufficiently improved to support realization of the Company's deferred tax assets.

As of June 30, 2013, the Company had net operating loss carry-forwards for federal and state tax purposes of \$270.7 million and \$87.9 million, respectively, of which \$35.3 million and \$32.7 million, respectively, represent deductions from share-based compensation for which a benefit would be recorded in additional paid-in capital when realized. The Company also had federal and state tax credit carry-forwards of \$18.7 million and \$15.6 million, respectively, as of June 30, 2013. Federal net operating loss carry-forwards of \$270.7 million will expire between 2020 through 2032 and state net operating losses of \$87.9 million will expire between 2013 through 2030, if not utilized. Federal tax credits of \$18.7 million will expire beginning in 2018, if not utilized and state tax credits of \$0.2 million will expire beginning in 2013, if not utilized. The additional state tax credits of \$15.4 million will carry forward indefinitely.

As of June 30, 2013, the Company conducted an Internal Revenue Code Section 382 ("Sec. 382") analysis with respect to its net operating loss and credit carry-forwards and determined that there was no limitation. It is possible that subsequent ownership changes may limit the utilization of these tax attributes.

As of June 30, 2013, the Company intends to indefinitely reinvest the earnings of approximately \$42.1 million of certain foreign corporations. If such earnings were distributed, the Company would accrue an additional income tax expense of approximately \$1.2 million.

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

As of June 30, 2013, the Company had \$10.9 million of unrecognized tax benefits. If fully recognized in the future, \$0.3 million would impact the effective tax rate, and \$10.6 million would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. It is reasonably possible that the amount of unrealized tax benefit could decrease by approximately \$0.1 million during the next twelve months due to the expiration of the statute of limitations in certain foreign jurisdictions. During the year ended June 30, 2013 the Company performed a study on its research and development credits documenting the historic credits as prescribed by Internal Revenue Service. As a result of this study the company adjusted its available federal and state research credits as well as the amount of these credits that would be unrecognized tax benefits. The credits classified as unrecognized tax benefits decreased by approximately \$15.0 million as a result of this study.

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

Balance at June 27, 2010	\$	23,910
Increases related to prior year tax positions		464
Increases related to current year tax positions		1,636
Balance at July 3, 2011	\$	26,010
Decrease related to prior year tax positions		(444)
Increase related to current year tax positions		729
Lapse of statute of limitations		(549)
Balance at June 30, 2012	\$	25,746
Decrease related to prior year tax positions		(14,966)
Increase related to prior year tax positions		45
Increase related to current year tax positions		270
Lapse of statute of limitations		(197)
Balance at June 30, 2013	\$	10,898

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of tax expense in the Consolidated Statement of Income and totaled approximately \$14,000, \$28,000, and \$30,000 for the years ended June 30, 2013, June 30, 2012, and July 3, 2011, respectively. Accrued interest and penalties were approximately \$40,000 and \$77,000 as of June 30, 2013 and June 30, 2012, respectively.

In general, the Company's U.S. federal income tax returns are subject to examination by tax authorities for fiscal years 1999 forward due to net operating losses and the Company's state income tax returns are subject to examination for fiscal years 1997 forward due to net operating losses.

#### **8. Disclosure about Segments of an Enterprise and Geographic Areas**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers with respect to the allocation of resources and performance.

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 the 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 and Japan. Prior to fiscal 2012, South America was included as part of EMEA.

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The Company attributes revenues to geographic regions based on the customer's ship-to location. Information regarding geographic areas is as follows (in thousands):

	Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
Net Revenues:			
Americas:			
United States	\$ 101,790	\$ 106,110	\$ 103,087
Other	33,584	34,970	30,487
Total Americas	135,374	141,080	133,574
EMEA	112,812	128,093	134,730
APAC	51,157	53,549	66,124
Total net revenues	<u>\$ 299,343</u>	<u>\$ 322,722</u>	<u>\$ 334,428</u>

Substantially all of the Company's assets were attributable to North America operations at June 30, 2013 and June 30, 2012.

### 9. Net Income Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of options, warrants and unvested restricted stock. Dilutive earnings per share is calculated by dividing net income 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. The following table presents the calculation of basic and diluted net income per share (in thousands, except per share data):

	Year Ended		
	June 30, 2013	June 30, 2012	July 3, 2011
Net income	\$ 9,673	\$ 15,872	\$ 2,713
Weighted-average shares used in per share calculation – basic	93,954	93,451	91,423
Incremental shares using the treasury stock method:			
Stock options	385	372	427
Unvested restricted awards	600	554	818
Employee Stock Purchase Plan	105	113	127
Weighted -average share used in per share calculation – diluted	<u>95,044</u>	<u>94,490</u>	<u>92,795</u>
Net income per share – basic	\$ 0.10	\$ 0.17	\$ 0.03
Net income per share – diluted	\$ 0.10	\$ 0.17	\$ 0.03

Potentially dilutive common shares from employee incentive plans are determined by applying the treasury stock method to the assumed exercise of outstanding stock options, the assumed vesting of outstanding restricted stock units, and the assumed issuance of common stock under the ESPP. Weighted stock options outstanding with an exercise price higher than the Company's average stock price for the periods presented are excluded from the calculation of diluted net income per share since the effect of including them would have been anti-dilutive due to the net income position of the Company during the periods presented. For fiscal 2013, 2012, and 2011, the Company excluded 6.7 million, 8.3 million, and 8.0 million outstanding weighted average stock options, respectively, from the calculation of diluted earnings per common share because they would have been anti-dilutive.

### 10. 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 Company records all derivatives on the balance sheet as Other Assets, Net at fair value. Changes in the fair value of derivatives are recognized in earnings as Other Income (Expense). The Company enters into foreign exchange forward contracts to mitigate the effect of gains and losses generated by the foreign currency forecasted transactions related to certain operating expenses and re-measurement of certain assets and liabilities denominated in

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

foreign currencies. These derivatives do not qualify as hedges. At June 30, 2013, these forward foreign currency contracts had a notional principal amount of \$7.7 million and an immaterial unrealized gain. These contracts have maturities of less than 60 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 transaction gains and losses from operations were a loss of \$0.9 million in fiscal 2013, a gain of \$2.5 million in fiscal 2012 and a loss of \$0.6 million in fiscal 2011. Included in the 2012 gain is a \$1.9 million adjustment resulting from Japan subsidiary liquidation.

### **11. Restructuring Charges**

As of June 30, 2013, restructuring liabilities were \$1.5 million and consisted of obligations for termination benefits. During fiscal 2013, 2012 and 2011, the Company recorded a restructuring charge, net of \$6.8 million, \$1.6 million, and \$3.8 million, respectively. A portion of the 2012 restructuring activity is related to the liquidation of the Company's Japan subsidiary with a charge of \$0.5 million during fiscal 2012. The Company substantially liquidated the subsidiary in Japan in the fourth quarter of fiscal 2012, as part of the Company's broad restructuring effort. The Company disposed the remaining immaterial assets and liabilities and completed the liquidation process during fiscal 2013.

#### *Fiscal 2013 Restructuring*

During the second quarter of fiscal 2013, the Company further reduced costs through targeted restructuring activities intended to reduce operating costs and realign its organization in the current competitive environment. As part of its restructuring efforts in the second quarter, the Company initiated a plan to reduce its worldwide headcount by 13%, consolidate specific global administrative functions, and shift certain operating costs to lower cost regions, among other actions. As of June 30, 2013, the Company had restructuring liabilities of \$1.1 million related to the fiscal 2013 restructuring, which it anticipates paying by the end of the first quarter of fiscal 2014. The Company anticipates incurring additional restructuring charges of approximately \$0.3 million through the end of the first quarter of fiscal 2014.

#### *Fiscal 2012 Restructuring*

During fiscal 2012, the Company incurred total charges of \$2.2 million, including \$1.8 million of related severance, \$0.1 million of contract termination fees, and \$0.2 million other charges. The Company also made payments of \$4.3 million. The associated restructuring costs were primarily termination benefits and contract termination costs. Termination benefits primarily consist of outplacement services, health insurance coverage, and legal costs. Contract termination costs primarily consist of costs to terminate operating leases and other contracts, including rent expense (less expected sublease income) on facilities under operating leases. There are no outstanding liabilities as of June 30, 2013.

#### *Fiscal 2011 Restructuring*

During fiscal 2011, the Company commenced a strategy to focus on growing revenue in specific market verticals and on improving operational effectiveness. As part of the strategy, the Company reduced headcount by 139 and incurred total restructuring charges of \$4.2 million, of which \$1.0 million and \$3.2 million were recognized in the third and fourth quarter of fiscal 2011, respectively. During the fourth quarter of fiscal 2011, the lease term for the excess leased facilities ended. The Company recognized a restructuring reversal of \$0.4 million related to the true up of operating and rent expenses. As of June 30, 2013, \$0.4 million of restructuring liabilities remained for fiscal 2011 restructuring.

**EXTREME NETWORKS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Restructuring liabilities consist of (in thousands):

	Excess Facilities	Contract Termination	Termination Benefits	Other	Total
Balance at June 27, 2010	\$ 3,140	\$ 9	\$ 221	\$ —	\$ 3,370
Period charges	—	—	4,146	80	4,226
Period reversals	(381)	—	(38)	—	(419)
Period payments	(2,759)	(9)	(1,226)	—	(3,994)
Balance at July 3, 2011	\$ —	\$ —	\$ 3,103	\$ 80	\$ 3,183
Period charges	—	124	1,832	206	2,162
Period reversals	—	(18)	(499)	(51)	(568)
Period payments	—	(13)	(4,077)	(224)	(4,314)
Balance at June 30, 2012	\$ —	\$ 93	\$ 359	\$ 11	\$ 463
Period charges	—	113	6,293	719	7,125
Period reversals	—	(2)	(287)	—	(289)
Period payments	—	(204)	(5,148)	(481)	(5,833)
Restructuring liabilities at June 30, 2013	\$ —	\$ —	\$ 1,217	\$ 249	\$ 1,466

## 12. Technology Agreements

On March 31, 2005, the Company entered into a Patent and Cross License Agreement (“Technology Agreement”) with IBM. The agreement provides for a release of prior claims and a cross license of patents extending into the future from the effective date of the agreement. On December 22, 2008, the Company amended the Technology Agreement to extend the term of the agreement over the remaining life of the patents. The Company capitalized the cost of the amendment in intangible assets, net on the consolidated balance sheet and continued to amortize the remaining cost of the Technology Agreement and its amendment over the remaining life of the patents.

On July 16, 2010, the Company entered into a Memorandum of Understanding (“Network-1 MOU”) with Network-1 Security Solutions, Inc. The Network-1 MOU provides for a nonexclusive and worldwide license to certain patents of each party, and a release of claims based on any prior infringement of such patents. The license term is nine years and eight months and expires in March 2020. The release covers any potential claims arising out of the past use or practice of any of the patents. Total fees for the grant of the license under the Network-1 MOU were \$2.4 million. The Company charged the estimated value of the release of prior claims of \$0.2 million to Cost of Product Revenues for claims incurred in fiscal 2010 and \$0.8 million to Litigation Settlement for claims incurred prior to fiscal 2010 in its fiscal 2010 consolidated financial statements. The remaining \$1.4 million was recorded as intangible assets, net and is being recognized ratably over the license period in cost of product revenue.

On July 16, 2013, the Company entered into a confidential Patent License and Settlement Agreement (“License Agreement”) with Chrimar Systems Inc. The agreement provides for a non-exclusive, irrevocable, perpetual, non-transferable, and non-assignable, fully-paid-up worldwide royalty-bearing license to certain patents and a release of claims based on any prior infringement of such patents. Total fees for the grant of the license under the License Agreement was \$1.4 million. The Company had capitalized \$1.2 million related to such patents in fiscal 2012 based on a probable estimated value and recorded a charge of \$0.3 million based on the estimated probable loss. The \$1.2 million was recorded as intangible assets, net and continues to be amortized over the remaining life of the patents.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

### Item 9A. 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, (the “Exchange Act”), 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 and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, 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 Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2013.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further because of changes in conditions, the effectiveness of internal control may vary over time.

We assessed the effectiveness of our internal control over financial reporting as of June 30, 2013. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment using those criteria, we concluded that, as of June 30, 2013 our internal control over financial reporting is effective.

Our independent registered public accounting firm, KPMG LLP, has audited the financial statements included in this Annual Report on Form 10-K and has issued its report on our internal control over financial reporting as of June 30, 2013.

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

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2013 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 the 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.

### **Item 9B. Other Information**

None.



### PART III

Certain information required by Part III is incorporated by reference from our definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for our 2013 Annual Meeting of Stockholders (the “Proxy Statement”) not later than 120 days after the end of the fiscal year covered by this report, and certain information therein is incorporated in this report by reference.

#### **Item 10. *Directors, Executive Officers and Corporate Governance***

The information required by this section is incorporated by reference from the information in the section entitled “Proposal 1 – Election of Directors” in the Proxy Statement. The required information concerning our executive officers is contained in the section entitled “Executive Officers of the Registrant” in Part I, Item 1 of this Form 10-K.

Item 405 of Regulation S-K calls for disclosure of any known late filing or failure by an insider to file a report required by Section 16 of the Exchange Act. This disclosure is contained in the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement and is incorporated herein by reference.

Information with respect to Item 406 of Regulation S-K is incorporated by reference to the information contained in the section captioned “Code of Ethics and Corporate Governance Materials” in the Proxy Statement.

#### **Item 11. *Executive Compensation***

The information required by this section is incorporated by reference from the information in the sections entitled “Directors’ Compensation”, “Executive Compensation and Other Matters” and “Report of the Compensation Committee” in the Proxy Statement.

#### **Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this section is incorporated by reference from the information in the section entitled “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

The information required by this section regarding securities authorized for issuance under equity compensation plans is incorporated by reference from the information in the section entitled “Equity Compensation Plan Information” in the Proxy Statement.

#### **Item 13. *Certain Relationships and Related Transactions, and Director Independence***

The information required by this section is incorporated by reference from the information in the section titled “Certain Relationships and Related Transactions” in the Proxy Statement.

#### **Item 14. *Principal Accounting Fees and Services***

The information required by this section is incorporated by reference from the information in the section titled “Principal Accountant Fees and Services” in the Proxy Statement.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**(a) The following documents are filed as a part of this Form 10-K:**

(1) Financial Statements:

Reference is made to the Index to Consolidated Financial Statements of Extreme Networks, Inc. under Item 8 in Part II of this Form 10-K.

(2) Financial Statement Schedules:

The following financial statement schedule of Extreme Networks, Inc. for the fiscal years ended June 30, 2013, June 30, 2012 and July 3, 2011 is filed as part of this Report and should be read in conjunction with the Consolidated Financial Statements of Extreme Networks, Inc.

[Schedule II – Valuation and Qualifying Accounts](#)

**Page**

**74**

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) Exhibits:

Incorporated herein by reference is a list of the Exhibits contained in the Exhibit Index.

**SCHEDULE II**  
**VALUATION AND QUALIFYING ACCOUNTS**  
**YEARS ENDED JUNE 30, 2013, JUNE 30, 2012 and JULY 3, 2011**

Description	Balance at beginning of period	Charges to costs and expenses	(Deductions) (1)	Balance at end of period
<b>Year Ended July 3, 2011:</b>				
Allowance for doubtful accounts	\$ 1,032	\$ (9)	\$ (256)	\$ 767
Allowance for sales returns	\$ 937	\$ 647	\$ (939)	\$ 645
<b>Year Ended June 30, 2012:</b>				
Allowance for doubtful accounts	\$ 767	\$ 127	\$ (510)	\$ 384
Allowance for sales returns	\$ 645	\$ 1,013	\$ (396)	\$ 1,262
<b>Year Ended June 30, 2013:</b>				
Allowance for doubtful accounts	\$ 384	\$ 312	\$ (221)	\$ 475
Allowance for sales returns	\$ 1,262	\$ 130	\$ (615)	\$ 777

(1) Uncollectible accounts written off, net of recoveries



**EXHIBIT INDEX**

The exhibits listed below are required by Item 601 of Regulation S-K. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K has been identified.

<b>Exhibit Number</b>	<b>Description of Document</b>	<b>Incorporated by Reference</b>			<b>Filed Herewith</b>
		<b>Form</b>	<b>Filing Date</b>	<b>Number</b>	
3.1	Amended and Restated Certificate of Incorporation of Extreme Networks, Inc.	8-K	12/17/2010	3.2	
3.2	Amended and Restated Bylaws of Extreme Networks, Inc.	8-K	3/31/2011	3.1	
3.3	Certificate of Designation, Preferences and Rights of the Terms of the Series A Preferred Stock	10-K	9/26/2001	3.7	
4.1	Amended and Restated Rights Agreement dated April 26, 2012 between Extreme Networks, Inc. and Computershare Shareowner Services LLC.	8-K	4/30/2012	4.1	
10.1	Form of Indemnification Agreement for directors and officers.	8-K	10/24/2011	99.1	
10.2*	Amended 1996 Stock Option Plan and forms of agreements thereunder.	S-1	2/5/1999	10.2	
10.3*	1999 Employee Stock Purchase Plan.	S-1	2/5/1999	10.3	
10.4*	2000 Nonstatutory Stock Option Plan.	10-K	9/24/2000	10.7	
10.5*	2001 Nonstatutory Stock Option Plan.	Schedule TO	10/31/2001	(d)(9)	
10.6*	Offer of Employment Letter dated August 18, 2006 from Extreme Networks, Inc. to Mark A. Canepa.	8-K	9/5/2006	99.1	
10.7*	Extreme Networks, Inc. Amended and Restated Executive Change in Control Severance Plan.	10-K	8/30/2011	10.7	
10.8*	Extreme Networks, Inc. 2005 Equity Incentive Plan.	8-K	10/23/2009	99.3	
10.9*	Form of Restricted Stock Units Agreement Under the 2005 Equity Incentive Plan.	10-Q	11/7/2008	10.22	
10.10*	Offer of Employment Letter Dated July 29, 2010 from Extreme Networks, Inc. to Oscar Rodriguez.	10-K	8/20/2010	10.32	
10.11	Agreement by and between Extreme Networks, Inc. and the Ramius Group dated as of October 13, 2010.	8-K	10/14/2010	10.1	
10.12	Option Agreement, dated September 23, 2010, between Extreme Networks, Inc. and Trumark Companies, LLC.	10-Q	11/3/2010	10.2	
10.13*	Offer of Employment Letter dated March 11, 2011 from Extreme Networks, Inc. to Jim Judson.	10-Q	5/2/2011	10.1	
10.14*	Resignation Agreement and General Release of Claims, dated September 13, 2011, between Extreme Networks, Inc. and Justin DiMacchia.	8-K	9/15/2011	10.1	
10.15*	Letter Agreement, dated September 13, 2011, between Extreme Networks, Inc. and James Judson.	8-K	9/15/2011	10.2	
10.16*	Offer Letter Agreement, dated September 13, 2011, between Extreme Networks, Inc. and Margaret Echerd.	8-K	9/15/2011	10.3	
10.17	Option Agreement, dated January 16, 2012, between Extreme Networks, Inc. and Extreme Depot LLC.	10-Q	2/7/2012	10.5	
10.18*	Amendment to the Option Agreement, dated September 17, 2010, between Extreme Networks, Inc. and Extreme Depot, LLC.	10-Q	2/7/2012	10.6	
10.19*	Letter Agreement, dated March 9, 2012, between Extreme Networks, Inc. and James Judson.	8-K	3/12/2012	10.1	
10.20*	Resignation Agreement and General Release of Claims, dated May 7, 2012, between Extreme Networks, Inc. and Michael L. Seaton.	8-K	5/9/2012	10.1	

Exhibit Number	Description of Document	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Number	
10.21*	Resignation and Consulting Agreement, dated May 22, 2012, between Extreme Networks, Inc. and Jim Judson.	8-K	5/22/2012	10.1	
10.22*	Offer Letter Agreement, executed May 18, 2012, between Extreme Networks, Inc. and John Kurtzweil.	8-K	5/22/2012	10.2	
10.23	Lease, dated September 11, 2012, between Extreme Networks, Inc., and 3515-3585 Monroe Street, LLC.	8-K	9/18/2012	10.1	
10.24*	Amendment to Offer of Employment, dated September 13, 2012, between Extreme Networks, Inc., and Oscar Rodriguez.	8-K	9/18/2012	10.2	
10.25*	Consulting Agreement, dated September 20, 2012, between Extreme Networks, Inc. and Diane Honda.	8-K	9/21/2012	10.1	
10.26*	Offer Letter Agreement, executed September 7, 2012, between Extreme Networks, Inc. and Nancy Shemwell.	8-K	9/24/2012	10.1	
10.27	Lease Agreement by and between RDU Center III LLC and Extreme Networks, Inc. dated October 15, 2012.	8-K	10/19/2012	10.1	
10.28	First Amendment to Lease Agreement by and between RDU Center III LLC and Extreme Networks, Inc. dated December 31, 2012.	8-K	1/7/2013	10.1	
10.29	Office Space Lease Agreement by and between W3 Ridge Rio Robles Property LLC and Extreme Networks, Inc., dated December 31, 2012.	8-K	1/7/2013	10.2	
10.30*	Offer Letter, dated April 25, 2013, between Extreme Networks, Inc. and Charles Berger.	8-K	5/1/2013	10.1	
10.31*	Release of Claims, dated April 28, 2013, between Extreme Networks, Inc. and Oscar Rodriguez.	8-K	5/1/2013	10.2	
21.1	Subsidiaries of Registrant.				X
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm.				X
24.1	Power of Attorney (see the signature page of this Form 10-K).				X
31.1	Section 302 Certification of Chief Executive Officer.				X
31.2	Section 302 Certification of Chief Financial Officer.				X
32.1	Section 906 Certification of Chief Executive Officer.				X
32.2	Section 906 Certification of Chief Financial Officer.				X
101.INS	XBRL Instance Document.**				
101.SCH	XBRL Taxonomy Extension Schema Document.**				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.**				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.**				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**				

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

\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended; are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended; and otherwise are not subject to liability under these sections.

## SUBSIDIARIES OF REGISTRANT

<u>NAME</u>	<u>LOCATION</u>
Extreme Networks International	Cayman Islands
Extreme Networks Hong Kong Limited	Hong Kong
Extreme Networks IHC, Inc.	Delaware
Extreme Networks UK Limited	United Kingdom
Extreme Networks B.V.	The Netherlands
Extreme Networks GmbH	Germany
Extreme Networks Sarl	France
Extreme Networks Srl	Italy
Extreme Networks Canada, Inc.	Canada
Extreme Networks Korea, Ltd.	Korea
IHC Networks AB	Sweden
Extreme Networks Australia PTY, Ltd.	Australia
Extreme Networks EMEA	Cayman Islands
Extreme Networks Brasil, Ltda.	Brazil
Extreme Networks Mexico, Ltda.	Mexico
Extreme Networks Chile, Ltda.	Chile
Extreme Networks Singapore PTE, Ltd.	Singapore
Extreme Networks China Ltd.	China
Extreme Networks Spain, SL	Spain
Extreme Networks Switzerland GmbH	Switzerland
Extreme Networks India Private Limited	India
Extreme Networks Mauritius	Mauritius
Extreme Networks Rus, LLC.	Russia

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors

Extreme Networks, Inc.:

We consent to the incorporation by reference in the registration statement (Nos. 333-165268, 333-112831, 333- 105767, 333-76798, 333-65636, 333-58634, 333-55644, 333-54278, 333-131705, and 333-83729) on Form S-8 of Extreme Networks, Inc. of our report dated August 29, 2013, with respect to the consolidated balance sheets of Extreme Networks, Inc. and subsidiaries as of June 30, 2012 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2013, and related financial statement schedule, and the effectiveness of internal control over financial reporting as of June 30, 2013, which report appears in the June 30, 2013 annual report on Form 10-K of Extreme Networks, Inc.

/s/ KPMG LLP

Santa Clara, California  
August 29, 2013



I, Chuck Berger, certify that:

1. I have reviewed this annual report on Form 10-K 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 officers 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 officers 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: August 29, 2013

/s/ CHUCK BERGER

---

Chuck Berger

President and Chief Executive Officer

I, John Kurtzweil, certify that:

1. I have reviewed this annual report on Form 10-K 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 officers 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 officers 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: August 29, 2013

/s/ JOHN KURTZWEIL

---

John Kurtzweil

Senior Vice President and Chief Financial Officer

CERTIFICATION 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 Annual Report of Extreme Networks, Inc. (the "Company") on Form 10-K for the fiscal year ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

- (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.

/s/ CHUCK BERGER

---

Chuck Berger

President and Chief Executive Officer

August 29, 2013

*A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.*

CERTIFICATION 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 Annual Report of Extreme Networks, Inc. (the "Company") on Form 10-K for the fiscal year ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

- (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.

/s/ JOHN KURTZWEIL

---

John Kurtzweil

Senior Vice President and Chief Financial Officer

August 29, 2013

*A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.*