UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2019

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	**77-0430270**
[State or other jurisdiction of incorporation or organization]	**[I.R.S Employer Identification No.]**
6480 Via Del Oro, San Jose, California	**95119**
[Address of principal executive office]	**[Zip Code]**

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	EXTR	NASDAQ Global Market

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

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

As of January 24, 2020, the registrant had 118,507,258 shares of common stock, $0.001 par value per share, outstanding.

EXTREME NETWORKS, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED

December 31, 2019

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EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	December 31, 2019	June 30, 2019
ASSETS		
Current assets:		
Cash	$ 140,414	$ 169,607
Accounts receivable, net of allowance for doubtful accounts of $1,083 and $1,054 respectively	159,790	174,414
Inventories	79,664	63,589
Prepaid expenses and other current assets	37,744	34,379
Total current assets	417,612	441,989
Property and equipment, net	67,938	73,554
Operating lease right-of-use assets, net	57,194	-
Intangible assets, net	86,740	51,112
Goodwill	330,184	138,577
Other assets	54,985	51,642
Total assets	$ 1,014,653	$ 756,874
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt, net of unamortized debt issuance costs of $2,186 and $489, respectively	$ 16,814	$ 9,011
Accounts payable	65,995	65,704
Accrued compensation and benefits	55,718	51,625
Accrued warranty	16,209	14,779
Current portion of operating lease liabilities	17,921	-
Current portion of deferred revenue	180,935	144,230
Other accrued liabilities	69,365	70,680
Total current liabilities	422,957	356,029
Deferred revenue, less current portion	96,902	59,012
Long-term debt, less current portion, net of unamortized debt issuance costs of $7,334 and $1,261, respectively	348,916	169,739
Operating lease liabilities, less current portion	58,598	-
Deferred income taxes	2,114	1,957
Other long-term liabilities	34,239	54,150
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Convertible preferred stock, $.001 par value, issuable in series, 2,000 shares authorized; none issued	—	—
Common stock, $.001 par value, 750,000 shares authorized; 124,616 and 121,538 shares issued, respectively; 118,400 and 119,172 shares outstanding, respectively	125	122
Additional paid-in-capital	1,008,176	986,772
Accumulated other comprehensive loss	(2,485)	(2,473)
Accumulated deficit	(914,710)	(853,434)
Treasury stock at cost: 6,216 and 2,366 shares, respectively	(40,179)	(15,000)
Total stockholders' equity	50,927	115,987
Total liabilities and stockholders' equity	$ 1,014,653	$ 756,874

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net revenues:				
Product	$ 190,492	$ 189,567	$ 375,626	$ 367,287
Service	76,980	63,113	147,352	125,279
Total net revenues	267,472	252,680	522,978	492,566
Cost of revenues:				
Product	91,387	86,487	182,778	170,030
Service	27,414	24,894	54,286	49,166
Total cost of revenues	118,801	111,381	237,064	219,196
Gross profit:				
Product	99,105	103,080	192,848	197,257
Service	49,566	38,219	93,066	76,113
Total gross profit	148,671	141,299	285,914	273,370
Operating expenses:				
Research and development	55,380	52,204	114,496	103,445
Sales and marketing	75,436	68,342	146,793	135,924
General and administrative	15,098	13,886	30,080	26,657
Acquisition and integration costs	8,994	67	24,919	2,613
Restructuring charges, net of reversals and impairment	6,622	474	12,759	1,282
Amortization of intangibles	2,377	1,575	4,307	3,716
Total operating expenses	163,907	136,548	333,354	273,637
Operating (loss) income	(15,236)	4,751	(47,440)	(267)
Interest income	477	643	1,144	1,037
Interest expense	(6,234)	(3,066)	(11,398)	(6,592)
Other (expense) income, net	(748)	(399)	(190)	88
(Loss) income before income taxes	(21,741)	1,929	(57,884)	(5,734)
Provision (benefit) for income taxes	1,797	(5,270)	3,392	(3,868)
Net (loss) income	$ (23,538)	$ 7,199	$ (61,276)	$ (1,866)
Basic and diluted net (loss) income per share:				
Net (loss) income per share - basic	$ (0.20)	$ 0.06	$ (0.51)	$ (0.02)
Net (loss) income per share - diluted	$ (0.20)	$ 0.06	$ (0.51)	$ (0.02)
Shares used in per share calculation - basic	119,555	117,544	119,891	117,456
Shares used in per share calculation - diluted	119,555	119,544	119,891	117,456

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net (loss) income	$ (23,538)	$ 7,199	$ (61,276)	$ (1,866)
Other comprehensive (loss) income, net of tax:				
Change in unrealized losses on available for sale securities	7	—	—	—
Net change in foreign currency translation adjustments	879	(28)	(12)	(525)
Other comprehensive income (loss), net of tax:	886	(28)	(12)	(525)
Total comprehensive (loss) income	$ (22,652)	$ 7,171	$ (61,288)	$ (2,391)

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands) (unaudited)

	Common Stock						Treasury Stock					
	Shares	Amount		Additional Paid-In-Capital		Accumulated Other Comprehensive Loss	Shares	Amount		Accumulated Deficit		Total Stockholders' Equity
Balance at September 30, 2018	118,270	$ 118	$	956,356	$	(2,697)	—	$ —	$	(836,646)	$	117,131
Net income	—	—		—		—	—	—		7,199		7,199
Other comprehensive loss	—	—		—		(28)	—	—		—		(28)
Issuance of common stock from equity incentive plans, net of tax	819	1		(2,132)		—		—		—		(2,131)
Repurchase of stock	—	—		—		—	(2,366)	(15,000)		—		(15,000)
Share-based compensation	—	—		8,700		—	—	—		—		8,700
Balance at December 31, 2018	119,089	$ 119	$	962,924	$	(2,725)	(2,366)	$ (15,000)	$	(829,447)	$	115,871
Balance at June 30, 2018	116,124	$ 116	$	942,397	$	(1,703)	—	$ —	$	(828,078)	$	112,732
Cumulative effect of adopting ASU 2016-01	—	—		—		(497)	—	—		497		—
Net loss	—	—		—		—	—	—		(1,866)		(1,866)
Other comprehensive loss	—	—		—		(525)	—	—		—		(525)
Issuance of common stock from equity incentive plans, net of tax	2,965	3		5,002		—	—	—		—		5,005
Repurchase of stock	—	—		—		—	(2,366)	(15,000)		—		(15,000)
Share-based compensation	—	—		15,525		—	—	—		—		15,525
Balance at December 31, 2018	119,089	$ 119	$	962,924	$	(2,725)	(2,366)	$ (15,000)	$	(829,447)	$	115,871
Balance at September 30, 2019	123,864	$ 124	$	1,003,268	$	(3,371)	(2,366)	$ (15,000)	$	(891,172)	$	93,849
Net loss	—	—		—		—	—	—		(23,538)		(23,538)
Other comprehensive loss	—	—		—		886	—	—		—		886
Issuance of common stock from equity incentive plans, net of tax	752	1		(1,229)		—	—	—		—		(1,228)
Equity forward contract	—	—		(4,821)		—	—	—		—		(4,821)
Repurchase of stock	—	—		—		—	(3,850)	(25,179)		—		(25,179)
Share-based compensation	—	—		10,958		—	—	—		—		10,958
Balance at December 31, 2019	124,616	$ 125	$	1,008,176	$	(2,485)	(6,216)	$ (40,179)	$	(914,710)	$	50,927
Balance at June 30, 2019	121,538	$ 122	$	986,772	$	(2,473)	(2,366)	$ (15,000)	$	(853,434)	$	115,987
Net loss	—	—		—		—	—	—		(61,276)		(61,276)
Other comprehensive loss	—	—		—		(12)	—	—		—		(12)
Issuance of common stock from equity incentive plans, net of tax	3,078	3		2,903		—	—	—		—		2,906
Stock awards granted in connection with acquisition	—	—		3,530		—	—	—		—		3,530
Equity forward contract	—	—		(4,821)		—	—	—		—		(4,821)
Repurchase of stock	—	—		—		—	(3,850)	(25,179)		—		(25,179)
Share-based compensation	—	—		19,792		—	—	—		—		19,792
Balance at December 31, 2019	124,616	$ 125	$	1,008,176	$	(2,485)	(6,216)	$ (40,179)	$	(914,710)	$	50,927

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	December 31, 2019	December 31, 2018
Cash flows from operating activities:		
Net loss	$ (61,276)	$ (1,866)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	14,251	13,476
Amortization of intangible assets	17,772	13,552
Reduction in carrying amount of right-of-use asset	8,477	—
Provision for doubtful accounts	626	861
Share-based compensation	19,792	15,525
Deferred income taxes	801	(6,516)
Non-cash restructuring and impairment charges	7,622	—
Unrealized/realized gain on equity investment	—	274
Non-cash interest expense	1,982	1,532
Other	735	(344)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	25,751	66,568
Inventories	3,157	5,570
Prepaid expenses and other assets	(274)	(12,390)
Accounts payable	(9,070)	(40,050)
Accrued compensation and benefits	(3,036)	(3,851)
Operating lease liabilities	(9,051)	—
Deferred revenue	6,181	11,568
Other current and long-term liabilities	(2,529)	(2,298)
Net cash provided by operating activities	21,911	61,611
Cash flows from investing activities:		
Capital expenditures	(9,438)	(11,140)
Business acquisitions, net of cash acquired	(219,458)	—
Maturities and sales of investments	45,249	727
Net cash used in investing activities	(183,647)	(10,413)
Cash flows from financing activities:		
Borrowings under Term Loan	199,500	—
Repayments of debt	(24,950)	(14,933)
Loan fees on borrowings	(10,514)	(545)
Equity forward contract	(4,821)	—
Repurchase of common stock	(25,179)	(15,000)
Proceeds from issuance of common stock, net of tax withholding	2,906	5,005
Payment of contingent consideration obligations	(2,000)	(3,856)
Deferred payments on an acquisition	(2,206)	(2,000)
Net cash provided by (used in) financing activities	132,736	(31,329)
Foreign currency effect on cash	(193)	(365)
Net (decrease) increase in cash	(29,193)	19,504
Cash at beginning of period	169,607	121,139
Cash at end of period	$ 140,414	$ 140,643

See accompanying notes to the condensed consolidated financial statements.

1. Description of Business and Basis of Presentation

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

The unaudited condensed consolidated financial statements of Extreme included herein have been prepared under the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted under such rules and regulations. The condensed consolidated balance sheet at June 30, 2019 was derived from audited financial statements as of that date but does not include all disclosures required by generally accepted accounting principles for complete financial statements. These interim financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2019.

The unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations and cash flows for the interim periods presented and the financial condition of Extreme at December 31, 2019. The results of operations for the three and six months ended December 31, 2019 are not necessarily indicative of the results that may be expected for fiscal 2020 or any future periods.

Fiscal Year

The Company uses a fiscal calendar year ending on June 30. All references herein to "fiscal 2020" or "2020" represent the fiscal year ending June 30, 2020. All references herein to "fiscal 2019" or "2019" represent the fiscal year ended June 30, 2019.

Principles of Consolidation

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

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

Accounting Estimates

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

2. Summary of Significant Accounting Policies

For a description of significant accounting policies, see Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2019. There have been no material changes to the Company's significant accounting policies since the filing of the Annual Report on Form 10-K, except for the adoption of the new lease guidance and related policies as discussed within these financial statements.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the identification of arrangements that should be accounted for as leases by lessees and lessors, and key disclosure information about leasing arrangements. In general, for lease arrangements exceeding a twelve-month term, these arrangements are recognized as assets and liabilities on the balance sheet of the lessee. Under Topic 842, a right-of-use asset ("ROU") and lease obligation are recorded for all leases, whether operating or financing, while the statement of operations will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of Topic 842 is calculated using the applicable incremental borrowing rate at the date of adoption. Topic 842 also requires lessors to classify leases as a sales-type, direct financing or operating lease. A lease is a sales-type lease if any one of five criteria are met, each of which indicate that the lease, in effect, transfers control of the underlying asset to the lessee. If none of those five criteria are met, but two additional criteria are both met, indicating that the lessor has transferred substantially all of the risks and benefits to the lessee and a third party, the lease is a direct financing lease. All leases that are not sales-type or direct financing leases are operating leases. Substantially all of the Company's leases continue to be classified as operating leases. In addition, Topic 842 was subsequently amended by ASU No 2018-10, Codification Improvements; ASU 2018-11, Targeted Improvements; ASU 2018-20 Narrow Scope Improvements; and ASU 2019-01 Codification Improvements.

The Company adopted the new standards beginning with its fiscal year 2020. Topic 842 is applied on the modified retrospective method, applying the new standard to all leases existing as of July 1, 2019. The Company adopted the new standard using the effective date of July 1, 2019 as the date of initial application. Consequently, financial information has not been updated, and disclosures required under the new standard will not be provided for dates and periods prior to July 1, 2019.

The new standard provides a number of optional practical expedients in transition. The Company elected the "package of practical expedients" which permitted the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs. The new standard also provided practical expedients for ongoing accounting. The Company also elected the short-term lease recognition exemption for all leases that qualified. For those leases that qualified, existing short-term leases at the transition date and those entered into subsequent to the transition date, the Company did not recognize right-of-use assets or lease liabilities. In addition, the Company elected the practical expedient not to separate lease and non-lease components for leases except for the logistic services asset class and certain revenue subscription contracts where the Company leases its hardware products and provides maintenance and support over a service period which is recognized under ASC Topic 606. See Note 9, Leases, for additional information regarding the Company's leases.

On July 1, 2019, the Company recognized ROU assets of approximately $64.6 million and corresponding lease liabilities of $79.5 million on the condensed consolidated balance sheets, which was based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which is intended to allow companies to better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results by expanding and refining hedge accounting for both nonfinancial and financial risk components and aligning the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. In addition, in October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging* (*Topic 815*), which amends Topic 815 to add the overnight index swap (OIS) rate based on the secured overnight financing rate as a fifth U.S. benchmark interest rate. In addition, Topic 815 was subsequently amended by ASU 2019-04, Codification Improvements. These standards are effective for interim and annual reporting periods beginning after December 15, 2018. This guidance was effective for the Company beginning with its fiscal year 2020. It did not have a material impact on the Company's financial statements upon adoption.

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

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326). The standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. It replaces the existing incurred loss impairment model with an expected loss model. It also requires credit losses related to available-for-sale debt securities to be recognized as an allowance for credit losses rather than as a reduction to the carrying value of the securities. ASU 2016-13 is effective for fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of this new standard on its condensed consolidated financial statements and related disclosures. The Company currently plans to adopt this standard beginning with its fiscal year 2021, beginning on July 1, 2020.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment* (Topic 350), which removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. An impairment charge will now be the amount by which a reporting unit's carrying value exceeds the fair value, not to exceed the carrying amount of goodwill. This standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted The Company does not expect the adoption to have a material impact on the condensed consolidated financial statements. The Company currently plans to adopt this standard beginning with its fiscal year 2021, beginning on July 1, 2020.

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

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

In December 2019, the FASB issued ASU 2019-12, *Income taxes – Simplifying the Accounting for Income taxes (Topic 740*), which reduces the complexity of accounting for income taxes including the removal of certain exceptions to the general principles of ASC 740, *Income taxes*, and simplification in several other areas such as accounting for franchise tax (or similar tax) that is partially based on income. This standard is effective for interim and annual reporting periods beginning after December 15, 2020, and early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements. This guidance is effective for the Company beginning with its fiscal year 2022, beginning on July 1, 2021.

3. Revenues

The Company accounts for revenue in accordance with ASU 2014-09, *Revenue from Contracts from Customers* (Topic 606), which the Company adopted on July 1, 2017, using the retrospective method. The Company derives the majority of its revenue from sales of its networking equipment, with the remaining revenue generated from software delivered as a service ("SaaS") and service fees primarily relating to maintenance contracts with additional revenues from professional services, and training for its products. The Company sells its products and maintenance contracts direct to customers and to partners in two distribution channels, or tiers. The first tier consists of a limited number of independent distributors that stock its products and sell primarily to resellers. The second tier of the distribution channel consists of non-stocking distributors and value-added resellers that sell directly to end-users. Products and services may be sold separately or in bundled packages.

Revenue Recognition

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

The Company's performance obligations are satisfied at a point in time or over time as work progresses. Substantially all of the Company's product sales revenues are recognized at a point in time. Substantially all of the Company's service and SaaS revenue is recognized over time. For revenue recognized over time, the Company uses an input measure, days elapsed, to measure progress.

On December 31, 2019, the Company had $277.8 million of remaining performance obligations, which primarily comprised of deferred maintenance and SaaS revenue. The Company expects to recognize approximately 42 percent of its deferred revenue as revenue in fiscal 2020, an additional 34 percent in fiscal 2021 and 24 percent of the balance thereafter.

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

Revenue recognized for the three months ended December 31, 2019 and 2018 that was included in the deferred revenue balance at the beginning of each period was $67.2 million and $59.9 million, respectively. Revenue recognized for the six months ended December 31, 2019 and 2018 that was included in the deferred revenue balance at the beginning of each period was $90.9 million and $88.8 million, respectively.

Contract Costs. The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. Management expects that commission fees paid to sales representatives as a result of obtaining service contracts and contract renewals are recoverable and therefore the Company's condensed consolidated balance sheets included capitalized balances in the amount of $8.3 million and $6.5 million at December 31, 2019 and June 30, 2019, respectively. Capitalized commission fees are amortized on a straight-line basis over the average period of service contracts of approximately three years, and are included in "Sales and marketing" in the accompanying condensed consolidated statements of operations. Amortization recognized during the three months ended December 31, 2019 and 2018, was $1.5 million and $0.7 million, respectively. Amortization recognized during the six months ended December 31, 2019 and 2018 was $3.0 million and $1.4 million, respectively. There was no impairment loss in relation to the costs capitalized.

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

Revenue by Category

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

	Three Months Ended					
	December 31, 2019			December 31, 2018		
	Distributor	Direct	Total	Distributor	Direct	Total
Americas:						
United States	$ 60,111	$ 61,622	$ 121,733	$ 44,141	$ 55,326	$ 99,467
Other	8,204	5,563	13,767	8,269	5,380	13,649
Total Americas	68,315	67,185	135,500	52,410	60,706	113,116
EMEA	64,717	44,257	108,974	79,876	32,773	112,649
APAC	6,007	16,991	22,998	4,767	22,148	26,915
Total net revenues	$ 139,039	$ 128,433	$ 267,472	$ 137,053	$ 115,627	$ 252,680

	Six Months Ended					
	December 31, 2019			December 31, 2018		
	Distributor	Direct	Total	Distributor	Direct	Total
Americas:						
United States	$ 130,089	$ 123,967	$ 254,056	$ 100,883	$ 115,262	$ 216,145
Other	12,219	10,562	22,781	12,762	10,904	23,666
Total Americas	142,308	134,529	276,837	113,645	126,166	239,811
EMEA	123,846	73,891	197,737	141,207	63,611	204,818
APAC:	15,120	33,284	48,404	7,116	40,821	47,937
Total net revenues	$ 281,274	$ 241,704	$ 522,978	$ 261,968	$ 230,598	$ 492,566

Included in the above amounts are $2.3 million and $4.7 million of leasing revenue for the three and six months ended December 31, 2019, respectively. Included in the above amounts are $3.2 million and $5.9 million of leasing revenue for the three and six months ended December 31, 2018, respectively.

Customer Concentrations

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

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

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Tech Data Corporation	14%	22%	15%	19%
Jenne Corporation	18%	12%	16%	12%
Westcon Group Inc.	15%	15%	13%	14%

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

	December 31, 2019	June 30, 2019
Tech Data Corporation	20%	12%
Jenne Corporation	23%	35%

4. Business Combination

Aerohive Acquisition

On August 9, 2019 (the "Acquisition Date") the Company consummated its acquisition (the "Acquisition") of all of the outstanding common stock of Aerohive Networks, Inc. ("Aerohive") pursuant to that certain Agreement and Plan of Merger (the "Merger Agreement") entered into as of June 26, 2019. Under the terms of the Acquisition, the preliminary net consideration paid by Extreme to Aerohive stockholders was $267.1 million.

The Acquisition was accounted for using the acquisition method of accounting whereby the acquired assets and liabilities of Aerohive have been recorded at their respective fair values and added to those of the Company including an amount for goodwill calculated as the difference between the acquisition consideration and the fair value of the identifiable net assets. The purchase price was preliminarily allocated to tangible and identifiable intangible assets acquired and liabilities assumed. The final purchase price allocation is pending the finalization of valuations including intangible assets, goodwill and income tax assets and liabilities that are not able to be finalized yet, which may result in an adjustment to the preliminary purchase price allocation.

The estimated fair values were determined through established and generally accepted valuation techniques, including work performed by third-party valuation specialists. The fair value of working capital related items, such as other current assets and accrued liabilities, approximated their book values at the Acquisition Date. Inventories were valued at fair value using the net realizable value approach. The fair value of the acquired deferred revenue was estimated using the cost build-up approach. The cost build-up approach determines fair value using estimates of the costs required to provide the contracted deliverables plus an assumed profit. The total costs including the assumed profit were adjusted to present value using a discount rate considered appropriate. The resulting fair value approximates the amount the Company would be required to pay to a third party to assume the obligation. Valuations of the intangible assets were valued using income approaches based on management projections, which the Company considers to be Level 3 inputs. The Company also continues to analyze the tax implications of the Acquisition and the intangible assets which may ultimately

impact the overall level of goodwill associated with the acquisition. Results of operations of Aerohive have been included in the operations of the Company beginning with the Acquisition Date.

The components of aggregate estimated purchase consideration are as follows (in thousands):

Estimated purchase consideration		August 9, 2019
Cash paid to acquire outstanding shares	$	263,616
Replacement of stock-based awards		3,530
Aggregate estimated purchase consideration	$	267,146

The preliminary purchase price allocation is set forth in the table below and reflects estimated fair values (in thousands).

		Preliminary Allocation as of August 9, 2019		Adjustments			Allocation as of December 31, 2019
Cash and cash equivalents	$	44,158	$	—		$	44,158
Short-term investments		45,148		—			45,148
Accounts receivable, net		11,753		—			11,753
Inventories		16,698		2,534	a		19,232
Prepaid expenses and other current assets		3,980		(56)	b		3,924
Property and equipment		2,185		179	c		2,364
Operating lease right-of-use assets		6,336		—			6,336
Other assets		2,195		—			2,195
Debt		(20,000)		—			(20,000)
Accounts payable		(9,737)		—			(9,737)
Accrued compensation and benefits		(7,129)		—			(7,129)
Accrued warranty		(570)		—			(570)
Other accrued liabilities		(1,960)		—			(1,960)
Operating lease liabilities		(4,752)		—			(4,752)
Deferred revenue		(68,415)		—			(68,415)
Other liabilities		(408)		—			(408)
Net tangible assets		19,482		2,657			22,139
Identifiable intangible assets		53,400		—			53,400
Goodwill		194,264		(2,657)	a,b,c		191,607
Total intangible assets acquired		247,664		(2,657)			245,007
Total net assets acquired	$	267,146	$	-		$	267,146

The changes during the period in the table above include: a) adjustment of the fair value of inventories acquired, b) write-off of an asset with no future economic value as of the Acquisition Date, c) adjustment to the value of property and equipment as of the Acquisition Date at an international location.

The following table presents details of the identifiable intangible assets acquired as part of the Acquisition (dollars in thousands):

Intangible Assets	Estimated Useful Life (in years)		Amount
Developed technology	4	$	40,000
Backlog	1		400
Customer relationships	7		11,400
Trade names	1		1,600
Total identifiable intangible assets		$	53,400

The amortization for the developed technology and backlog is recorded in “Cost of revenues” for product and the amortization for the remaining intangibles is recorded in “Amortization of intangibles” in the accompanying condensed consolidated statements of operations. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Aerohive. The Company will not be entitled to amortization of the goodwill and intangible assets for tax purposes as this acquisition is a nontaxable stock acquisition.

The results of operations of Aerohive are included in the accompanying condensed consolidated results of operations beginning August 9, 2019. The Aerohive revenue for the three and six months ended December 31, 2019 was $41.9 million and $67.3 million, respectively, and was incorporated into the revenue of the Company. Certain associated expenses of Aerohive were incorporated with the results of operations of the Company and, therefore, stand-alone operating results are not available.

In the three and six months ended December 31, 2019, the Company incurred acquisition and integration related expenses of $9.0 million and $24.9 million, respectively, associated with the Acquisition. In the quarter ended September 30, 2019, this included a $6.8 million compensation charge for certain Aerohive Executive stock awards which were accelerated due to change-in-control and termination provisions included in the Executives' employment contracts. Other acquisition and integration costs consist primarily of professional fees for financial and legal advisory services and severance charges for terminated Aerohive employees. Such acquisition-related costs were expensed as incurred and are included in "Acquisition and integration costs" in the accompanying condensed consolidated statements of operations.

Pro forma financial information

The following unaudited pro forma results of operations are presented as though the Acquisition had occurred as of July 1, 2018, the beginning of fiscal 2019, after giving effect to purchase accounting adjustments relating to inventories, deferred revenue, depreciation and amortization of intangibles, acquisition and integration costs, interest income and expense and related tax effects.

The pro forma results of operations are not necessarily indicative of the combined results that would have occurred had the acquisition been consummated as of the beginning of fiscal 2019, nor are they necessarily indicative of future operating results. The unaudited pro forma results do not include the impact of synergies, nor any potential impacts on current or future market conditions which could alter the unaudited pro forma results.

The unaudited pro forma financial information for the three and six months ended December 31, 2019 combines the historical results for Extreme for the period, which include the results of Aerohive subsequent to the Acquisition Date, and Aerohive's historical results up to the Acquisition Date.

Pro forma results of operations for the three and six months ended December 31, 2018 combines the historical results of operations for Extreme and for Aerohive.

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

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net revenues	$ 268,367	$ 288,873	$ 536,045	$ 568,107
Net loss	$ (5,031)	$ (20,694)	$ (28,847)	$ (59,779)
Net loss per share - basic and diluted	$ (0.04)	$ (0.18)	$ (0.24)	$ (0.51)
Shares used in per share calculation - basic and diluted	119,555	117,544	119,891	117,456

5. Balance Sheet Accounts

Inventories

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

Inventories consist of the following (in thousands):

	December 31, 2019	June 30, 2019
Finished goods	$ 62,116	$ 49,492
Raw materials	17,548	14,097
Total Inventories	$ 79,664	$ 63,589

Property and Equipment, Net

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

	December 31, 2019	June 30, 2019
Computers and equipment	$ 74,694	$ 72,309
Purchased software	32,199	29,126
Office equipment, furniture and fixtures	11,453	10,815
Leasehold improvements	52,499	51,245
Total property and equipment	170,845	163,495
Less: accumulated depreciation and amortization	(102,907)	(89,941)
Property and equipment, net	$ 67,938	$ 73,554

Deferred Revenue

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

Guarantees and Product Warranties

The majority of the Company's hardware products are shipped with either a one-year warranty or a limited lifetime warranty, and software products receive a 90-day warranty for media only. 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 accrues a liability in cost of product revenue for this amount. The determination of the Company's warranty requirements is based on actual historical experience with the product or product family, estimates of repair and replacement costs and any product warranty problems that are identified after shipment. The Company estimates and adjusts these accruals at each balance sheet date in accordance with changes in these factors.

The following table summarizes the activity related to the Company's product warranty liability during the three and six months ended December 31, 2019 and 2018 (in thousands):

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Balance beginning of period	$ 15,988	$ 12,601	$ 14,779	$ 12,807
Warranties assumed due to acquisitions	—	—	570	—
New warranties issued	5,539	4,145	11,461	7,867
Warranty expenditures	(5,318)	(3,938)	(10,601)	(7,866)
Balance end of period	$ 16,209	$ 12,808	$ 16,209	$ 12,808

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

Other long-term liabilities

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

	December 31, 2019	June 30, 2019
Acquisition related deferred payments, less current portion	$ 7,741	$ 9,604
Contingent consideration obligations, less current portion	930	2,688
Other contractual obligations, less current portion	22,529	26,261
Other	3,039	15,597
Total other long-term liabilities	$ 34,239	$ 54,150

Concentrations

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

6. Fair Value Measurements

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

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

The Company had one fair value item at December 31, 2019 and June 30, 2019, a level 3 acquisition-related contingent consideration obligation $4.2 million and $6.3 million, respectively.

Level 1 and 2 assets and liabilities:

The Company has no Level 1 or Level 2 assets or liabilities at December 31, 2019 or June 30, 2019. There were no transfers of assets or liabilities between levels for the periods presented. The fair value of the borrowings under the 2019 Credit Agreement is estimated based on valuations provided by alternative pricing sources supported by observable inputs which is considered Level 2. Due to the recent establishment of the Credit Agreement, the fair value approximates the face amount of the Company’s indebtedness of $375.3 million and $180.5 million as of December 31, 2019, and June 30, 2019, respectively.

Level 3 assets and liabilities:

At December 31, 2019 and June 30, 2019, the Company reflected one liability measured at fair value of $4.2 million and $6.3 million, respectively, for contingent consideration related to a certain acquisition completed in fiscal 2018. The fair value measurement of the contingent consideration obligation is determined using Level 3 inputs. These fair value measurements represent Level 3 measurements as they are based on significant inputs not observable in the market. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. Accordingly, changes in assumptions could have a material impact on the amount of contingent consideration expense the Company records in any given period. Changes in the value of the contingent consideration obligations is recorded in general and administrative expenses in the accompanying condensed consolidated statements of operations.

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

	Six Months Ended December 31, 2019
Beginning balance	6,298
Payments	(2,206)
Accretion on discount	60
Ending balance	$ 4,152

There were no transfers of assets or liabilities between Level 2 and Level 3 during the three and six months ended December 31, 2019, or 2018. There were no impairments recorded for the three and six months ended December 31, 2019, or 2018.

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 investment securities were not significant for the three and six months ended December 31, 2019 or for the three and six months ended December 31, 2018.

7. Goodwill and Intangible Assets

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

	December 31, 2019
Balance as of June 30, 2019	$ 138,577
Additions due to acquisition (see Note 4)	191,607
Balance at end of period	$ 330,184

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

	Weighted Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2019				
Developed technology	2.8 years	$ 157,000	$ 90,673	$ 66,327
Customer relationships	4.9 years	63,039	46,965	16,074
Backlog	— years	400	400	—
Trade names	1.6 years	10,700	7,034	3,666
License agreements	5.5 years	2,445	1,796	649
Other intangibles	0.1 years	1,382	1,358	24
Total intangibles, net		$ 234,966	$ 148,226	$ 86,740

	Weighted Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
June 30, 2019				
Developed technology	2.4 years	$ 117,000	$ 77,449	$ 39,551
Customer relationships	2.0 years	51,639	44,410	7,229
Trade names	2.4 years	9,100	5,647	3,453
License agreements	5.4 years	2,445	1,661	784
Other intangibles	0.6 years	1,382	1,287	95
Total intangibles, net		$ 181,566	$ 130,454	$ 51,112

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

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Amortization in “Cost of revenues: Product”	$ 6,970	$ 4,904	$ 13,465	$ 9,836
Amortization of intangibles in "Operations"	2,377	1,575	4,307	3,716
Total amortization	$ 9,347	$ 6,479	$ 17,772	$ 13,552

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

8. Debt

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

	December 31, 2019	June 30, 2019
Current portion of long-term debt:		
Term Loan	$ 19,000	$ 9,500
Less: unamortized debt issuance costs	(2,186)	(489)
Current portion of long-term debt	$ 16,814	$ 9,011
Long-term debt, less current portion:		
Term Loan	$ 356,250	$ 171,000
Less: unamortized debt issuance costs	(7,334)	(1,261)
Total long-term debt, less current portion	348,916	169,739
Total debt	$ 365,730	$ 178,750

In connection with the Acquisition as discussed in Note 4, on August 9, 2019, the Company entered into an Amended and Restated Credit Agreement (the “2019 Credit Agreement”), by and among the Company, as borrower, several banks and other financial institutions as Lenders, BMO Harris Bank N.A., as an issuing lender and swingline lender, Silicon Valley Bank, as an Issuing Lender, and Bank of Montreal, as administrative agent and collateral agent for the Lenders.

The 2019 Credit Agreement provides for a 5-year first lien term loan facility in an aggregate principal amount of $380 million (the “2019 Term Loan”) and a 5-year revolving loan facility in an aggregate principal amount of $75 million (the “2019 Revolving Facility”). In addition, the Company may request incremental term loans and/or incremental revolving loan commitments in an aggregate amount not to exceed the sum of $100 million plus an unlimited amount that is subject to pro forma compliance with certain financial tests. On August 9, 2019, the Company used the proceeds to partially fund the Acquisition and for working capital and general corporate purposes.

At the Company’s election, the initial term loan (the “Initial Term Loan”) under the 2019 Credit Agreement may be made as either base rate loans or Eurodollar loans. The applicable margin for base rate loans ranges from 0.25% to 2.50% per annum and the applicable margin for Eurodollar loans ranges from 1.25% to 3.50%, in each case based on Extreme’s consolidated leverage ratio. All Eurodollar loans are subject to a Base Rate of 0.00%. In addition, the Company is required to pay a commitment fee of between 0.25% and 0.40% quarterly (currently 0.35%) on the unused portion of the 2019 Revolving Facility, also based on the Company’s consolidated leverage ratio. Principal installments are payable on the new term loan in varying percentages quarterly starting December 31, 2019 and to the extent not previously paid, all outstanding balances are to be paid at maturity. The 2019 Credit Agreement is secured by substantially all of the Company’s assets.

The 2019 Credit Agreement requires the Company to maintain certain minimum financial ratios at the end of each fiscal quarter. The 2019 Credit Agreement also includes covenants and restrictions that limit, among other things, the Company’s ability to incur additional indebtedness, create liens upon any of its property, merge, consolidate or sell all or substantially all of its assets. The 2019 Credit Agreement also includes customary events of default which may result in acceleration of the outstanding balance.

Financing costs incurred in connection with obtaining long-term financing are deferred and amortized over the term of the related indebtedness or credit agreement. The Company incurred $10.5 million of deferred financing costs in conjunction which this modification of the debt and continues to amortize $1.6 million of debt issuance costs as of August 9, 2019 that were associated with the previous facility. The interest rate as of December 31, 2019 was 5.0%.

Amortization of deferred financing costs included in “Interest expense” in the accompanying condensed consolidated statements of operations totaled $0.7 million and $0.2 million for the three months ended December 31, 2019 and 2018, and totaled $1.1 million and $0.3 million for the six months ended December 31, 2019 and 2018, respectively.

The Company had $60.3 million of availability under the 2019 Revolving Facility as of December 31, 2019. The Company had $7.7 million of outstanding letters of credit as of December 31, 2019.

9. Leases

Lessee Considerations

The Company lease certain facilities, equipment, and vehicles under operating leases that expire on various dates through fiscal 2028. Its leases generally have terms that range from one year to nine years for its facilities, one year to five years for equipment, and one year to five years for vehicles. Some of its leases contain renewal options, escalation clauses, rent concessions, and leasehold improvement incentives.

The Company determines if an arrangement is a lease at inception. The Company has elected not to recognize a lease liability or right-of-use (ROU) asset for short-term leases (leases with a term of twelve months or less). Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The interest rate used to determine the present value of future payments is the Company's incremental borrowing rate because the rate implicit in the leases are not readily determinable. The Company's incremental borrowing rate is a hypothetical rate for collateralized borrowings based on the current economic environment, credit history, credit rating, value of leases, currency in which the lease obligation is satisfied, rate sensitivity, lease term and materiality. Operating lease assets also included a reclassification for previous asset impairments and associated restructuring liabilities, deferred rent, lease incentives and initial direct costs which reduced the operating lease ROU assets as of July 1, 2019.

Some operating leases contain lease and non-lease components. Certain lease contracts include fixed payments for services, such as operations, maintenance, or other services. The Company has elected to account for fixed lease and non-lease components as a single lease component except for the logistic service asset class. Cash payments made for non-lease costs and variable lease costs are not included in the measurement of operating lease assets and liabilities and are recognized in the Company's condensed consolidated statements of operations as incurred. Some lease terms include one or more options to renew. The Company does not assume renewals in its determination of the lease term unless it is reasonably certain that it will exercise that option. The Company's lease agreements do not contain any residual value guarantees.

Activity and other information relating to operating leases is as follows (in thousands except for lease term and discount rate):

	Three Months Ended December 31, 2019	Six Months Ended December 31, 2019
Operating lease costs	$ 5,002	$ 10,003
Cash paid for amounts included in the measurement of operating liabilities	5,346	10,831
ROU assets obtained for new lease obligations	1,357	1,422
ROU assets obtained from Aerohive business combination	-	6,336

	December 31, 2019
Weighted average remaining lease term (in years)	4.7
Weighted Average Discount Rate	4.5%

Short-term lease expense for the three and six months ended December 31, 2019 was not material.

The maturities of the Company's operating lease liabilities as of December 31, 2019 by fiscal year are as follows:

	Operating Leases (in thousands)
2020 (remaining six months)	$ 10,534
2021	20,298
2022	19,486
2023	15,767
2024	6,370
Thereafter	12,505
Total future minimum lease payments	84,960
Less amount representing interest	8,441
Total operating lease liabilities	$ 76,519
Operating lease liabilities, current	$ 17,921
Operating lease liabilities, non-current	$ 58,598

As of June 30, 2019, the minimum future rentals on non-cancellable operating leases by fiscal year, based on the previous accounting standard, were as follows:

	Operating Leases (in thousands)
2020	$ 22,733
2021	21,174
2022	20,680
2023	17,828
2024	5,976
Thereafter	16,287
Total lease payments	$ 104,678

Sublease Considerations

The Company currently is a sublessor on several operating facility subleases that expire on various dates through fiscal 2023. The subleases have terms from 5 to 6 years and extend through the term of the underlying leases. The subleases do not include renewal options, purchase options, or termination rights. These operating subleases include only lease components. Included in lease expense, the Company had $0.6 million and $1.2 million of sublease income for the three and six months ended December 31, 2019, respectively.

Lessor Considerations

Although most of the Company's revenue from its hardware business comes from sales of hardware, the Company also sells subscription contracts which contain both operating lease and non-lease components. These leases range in duration generally up to three years with payments generally collected in equal quarterly installments and include 60-day termination rights by either party. For the three months ended December 31, 2019 and 2018, $2.3 million and $3.2 million are included in product revenue in the financial statements, respectively. For the six months ended December 31, 2019 and 2018, $4.7 million and $5.9 million are included in product revenue in the financial statements, respectively. There were no changes to the accounting treatment of these transactions from the adoption of ASC 842.

10. Commitments and Contingencies

Purchase Commitments

The Company currently has arrangements with contract manufacturers and suppliers for the manufacture of its products. Those arrangements allow the contract manufactures to procure long lead-time component inventory based upon a rolling production forecast provided by the Company. The Company is obligated to purchase long lead-time component inventory that its contract manufacturer procures in accordance with the forecast, unless the Company gives notice of order cancellation outside of applicable component lead-times. As of December 31, 2019, the Company had commitments to purchase $47.7 million of inventory and other services.

Legal Proceedings

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

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

fine or penalty. Accordingly, for current proceedings, except as noted below, the Company is currently unable to estimate any reasonably possible loss or range of possible loss. However, an adverse resolution of one or more of such matters could have a material adverse effect on the Company's results of operations in a particular quarter or fiscal year.

All currency conversions in this Legal Proceedings section are as of December 31, 2019.

Brazilian Tax Assessment Matter

On May 28, 2007, the Public Treasury Department of the State of Sao Paolo, Brazil (the “Tax Authority”) assessed the Company’s Brazilian subsidiary, Enterasys Networks do Brasil Ltda. (“Enterasys Brasil”), based on an alleged underpayment of taxes due to denial of presumed tax credits from 2003 to 2004 (the “ICMS Tax Assessment”). The value of the disallowed presumed tax credits is BRL 3.4 million (USD $0.8 million), excluding interest and penalties.

On October 1, 2014, Enterasys Brasil filed a lawsuit in the 11th Public Treasury Court of the Sao Paolo State Court of Justice (Judiciary District of Sao Paolo) to overturn or reduce the ICMS Tax Assessment. A decision in 2017 would require Enterasys Brasil to pay a total of BRL 20.2 million (USD $5.0 million), which includes penalties, court costs, attorneys’ fees, and accrued interest as of December 1, 2019. Enterasys Brasil recorded an accrual of BRL 9.4 million (USD $2.3 million) as of the date the Company acquired Enterasys Networks. The Company has appealed the lower court’s decision.

On December 12, 2019, Enterasys Brasil participated in an amnesty program called the *Programa Especial de Parcelamento* offered by the Brazilian government to reach a resolution to this issue. On December 18, 2019, Enterasys Brasil paid BRL 8.692 million (USD $2.2 million) to settle the ICMS Tax Assessment. The Company will dismiss the pending appellate suit and has accrued for payment of the government’s legal fees of approximately BRL 0.632 million (USD $0.157 million).

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

On April 19, 2017, XR Communications, LLC (“XR”) (d/b/a Vivato Technologies) filed a patent infringement lawsuit against the Company in the Central District of California. The operative Second Amended Complaint asserts infringement of U.S. Patent Nos. 7,062,296, 7,729,728, and 6,611,231 based on the Company’s manufacture, use, sale, offer for sale, and/or importation into the United States of certain access points and routers supporting multi-user, multiple-input, multiple-output technology. XR seeks unspecified damages, on-going royalties, pre- and post-judgment interest, and attorneys’ fees. In 2018, the Court stayed the case pending a resolution by the Patent Trial and Appeal Board (“PTAB”) of *inter partes* review (IPR) petitions filed by several defendants in other XR-related patent lawsuits challenging the validity of the asserted patents. The PTAB has now invalidated all asserted claims of the ’296 patent and ’728 patent, and has found the challenged claims of the ’231 patent not invalid in view of the prior art asserted in the IPR instituted against that patent. The matter has been stayed and a status conference is set for March 17, 2020. The Company believes the claims are without merit and intends to defend them vigorously.

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

On February 1, 2018, Orckit IP, LLC (“Orckit”) filed a patent infringement lawsuit against the Company and its Irish and German subsidiaries in the District Court in Dusseldorf, Germany. The lawsuit alleges direct and indirect infringement of the German portion of European Patent EP 1 958 364 B1 (“EP ’364”) based on the offer, distribution, use, possession and/or importation into Germany of certain network switches equipped with the ExtremeXOS operating system. Orckit is seeking injunctive relief, accounting, and an unspecified declaration of liability for damages and costs of the lawsuit. On May 3, 2018, Extreme Networks GmbH filed a separate nullity action in the Federal Patent Court in Munich, seeking to invalidate the asserted patents. The District Court Düsseldorf held a hearing in this case on January 28, 2020 and a decision is expected in a few weeks.

On April 23, 2019, Orckit filed and extension of the patent infringement complaint against the Company and its Irish and German subsidiaries in the District Court in Dusseldorf, Germany. With this extension, Orckit alleges infringement of the German portion of European Patent EP 3 068 077 B1 (“EP ‘077”) based on the offer, distribution, use, possession and/or importation into Germany of certain network switches. Orckit is seeking injunctive relief, accounting and sales information, and a declaration of liability for damages as well as costs of the lawsuit. Extreme filed a nullity action with the German Federal Patent Court on or before that date, seeking to invalidate the asserted patent. No hearing has been scheduled yet in this case, which was split from the original action involving the first patent in suit.

The Company believes that all claims in both cases are without merit and defends them vigorously.

Global Innovation Aggregators, LLC v. Extreme Networks, Inc.; Extreme Networks China Limited; Extreme Networks Technology (Beijing) Co., Ltd.; and Shenzhen Yingzhixiang Technology Co.

In January 2019, Global Innovation Aggregators, LLC ("GIA") filed six patent infringement lawsuits against the Company and its Chinese and Hong Kong subsidiaries and Shenzhen Yingzhixiang Technology Co., Ltd. in Shenzhen Intermediate People's Court in China. The six patents at issue are ZL200610168028.1 ("ZL '028.1"), ZL200510120823.9, ZL200410057124.X, ZL200410070933.4, ZL200510103486.2 ("ZL '486.2"), and ZL200610060686.9 ("ZL '686.9") (collectively, the "Asserted Patents"). GIA has accused a number of Summit switching products of infringing the Asserted Patents. Each patent was asserted in a separate lawsuit. The trial related to the ZL '4862 patent has been postponed, and the trials for the rest of the cases have not yet been scheduled. Extreme disputes GIA's claims and intends to defend the matter vigorously. Additionally, Extreme has filed invalidity challenges with the Chinese patent office to challenge the validity of each asserted patent. Oral invalidity hearings were held in July and August 2019. The Chinese patent office has issued decisions maintaining the validity of the ZL '028.1 and ZL '486.2 patents, and Extreme has appealed these two rulings. All the claims in ZL '686.9 have been fully invalidated. Decisions have not yet been issued for the remaining three patents.

Given the uncertainty of litigation and the preliminary stage of the case, Extreme cannot estimate at this time the possible loss or range of loss that may result from this action.

Shenzhen Dunjun Technology Ltd. v. Aerohive Networks (Hangzhou) Ltd.; Aerohive Networks, Inc.; and Yunqing Information Technology (Shenzhen) Ltd.

On June 20, 2019, Shenzhen Dunjun Technology Ltd. ("Shenzhen Dunjun") filed a patent infringement lawsuit against Aerohive Networks, Inc. ("Aerohive"), its Chinese subsidiary, and Yunqing Information Technology (Shenzhen) Ltd. in the Shenzhen Intermediate People's Court in China. The lawsuit alleges infringement of Chinese patent ZL02123502.3 and seeks damages of RMB 10.0 million (USD $1.4 million). The trial originally scheduled for November 15, 2019 has been postponed by the Court, pending the jurisdictional objections filed by Aerohive and has not yet been rescheduled. The Court rejected the jurisdictional challenge, which Aerohive is appealing. The Company cannot estimate at this time the possible loss or range of loss that may result from this action.

Indemnification Obligations

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

11. Stockholders' Equity

Stockholders' Rights Agreement

On April 26, 2012, the Company entered into an Amended and Restated Rights Agreement between the Company and Computershare Shareholder Services LLC as the rights agent (the "Restated Rights Plan"). The Restated Rights Plan governs the terms of each right ("Right") that has been issued with respect to each share of common stock of Extreme Networks. Each Right initially represents the right to purchase one one-thousandth of a share of the Company's Preferred Stock.

The Company's Board of Directors (the "Board") adopted the Restated Rights Plan to preserve the value of deferred tax assets, including net operating loss carry forwards of the Company, with respect to its ability to fully use its tax benefits to offset future income which may be limited if the Company experiences an "ownership change" for purposes of Section 382 of the Internal Revenue Code of 1986 as a result of ordinary buying and selling of its common stock. Following its review of the terms of the plan, the Board decided it was necessary and in the best interests of the Company and its stockholders to enter into the Restated Rights Plan. Each year since 2013 the Board and stockholders have approved an amendment providing for a one-year extension of the term of the Restated Rights Plan. The Board unanimously approved an amendment to the Restated Rights Plan on May 9, 2019, to extend the Restated Rights Plan through May 31, 2020, which was ratified by a majority of the stockholders of the Company at the November 7, 2019 shareholders meeting.

Equity Incentive Plan

The Board of Directors unanimously approved an amendment to the Extreme Networks, Inc. Amended and Restated 2013 Equity Incentive Plan to increase the maximum number of available shares by 7,000,000 shares. The amendment was ratified by a majority of the stockholders at the Company's annual meeting of stockholders held on November 7, 2019.

Common Stock Repurchases

On November 2, 2018, the Company announced the Board had authorized management to repurchase up to $60.0 million of the Company's common stock over a two-year period from the date of authorization. Purchases may be made from time to time through any means including, but not limited to, open market purchases and privately negotiated transactions. A maximum of $35.0 million of the Company's common stock may be repurchased in any calendar year.

In November 2019, the Company entered into an accelerated share repurchase agreement (the "November 2019 ASR") to repurchase shares of the Company's common stock. Pursuant to the November 2019 ASR, the Company paid $30.0 million for an initial delivery of 3,850,000 shares valued at $25.2 million. The remaining balance of $4.8 million was recorded in additional paid-in-capital as a forward contract in the Company's common stock. The forward contract was settled on January 24, 2020 and the Company received an additional 381,505 shares of its common stock.

The following table summarizes stock award activity for the three and six months ended December 31, 2019 and 2018.

	Three and Six Months Ended	
	December 31, 2019	December 31, 2018
Total number of shares repurchased	3,850	2,366
Average price paid per share	$ 6.54	$ 6.34
Dollar value of shares repurchased	$ 25,179	$ 15,000
Dollar value of shares that may yet be repurchased under program	$ 19,821	$ 45,000

12. Employee Benefit Plans

Shares reserved for issuance

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

	December 31, 2019	June 30, 2019
2013 Equity Incentive Plan shares available for grant	10,435	8,462
Employee stock options and awards outstanding	13,541	10,455
2014 Employee Stock Purchase Plan	8,862	10,085
Total shares reserved for issuance	32,838	29,002

Aerohive 2014 Equity Incentive Plan

Pursuant to the acquisition of Aerohive on August 9, 2019, the Company assumed the Aerohive 2014 Equity Incentive Plan (the "Aerohive Plan"). Stock awards outstanding under the Aerohive Plan were converted into awards for Extreme shares as of the Acquisition Date at a predetermined rate pursuant to the Merger Agreement. As of December 31, 2019, total awards to acquire 1,147,232 shares of Extreme common stock were outstanding under the Aerohive Plan. If a participant terminates employment prior to the vesting dates, the non-vested shares will be forfeited and retired. No future grants may be made from the Aerohive Plan.

Share-based compensation expense

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

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Cost of product revenue	$ 402	$ 217	$ 652	$ 395
Cost of service revenue	505	677	852	1,022
Research and development	3,260	2,797	5,695	5,139
Sales and marketing	3,511	2,983	7,230	5,342
General and administrative	2,801	2,026	4,884	3,627
Integration costs	479	—	479	—
Total share-based compensation expense	$ 10,958	$ 8,700	$ 19,792	$ 15,525

During the three and six months ended December 31, 2019, and 2018, the Company did not capitalize any share-based compensation expense in inventory, as the amounts were immaterial.

Stock Awards

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

The following table summarizes stock award activity for the six months ended December 31, 2019 (in thousands, except grant date fair value):

	Number of Shares	Weighted- Average Grant Date Fair Value	Aggregate Fair Market Value
Non-vested stock awards outstanding at June 30, 2019	7,736	$ 7.67	
Granted	6,017	6.86	
Released	(2,474)	7.08	
Cancelled	(890)	7.08	
Non-vested stock awards outstanding at December 31, 2019	10,389	$ 7.39	$ 76,570
Vested and expected to vest at December 31, 2019	9,729	$ 7.30	$ 71,705

The following table summarizes stock option activity for the six months ended December 31, 2019 (in thousands, except per share and contractual term):

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Options outstanding at June 30, 2019	2,719	$ 4.61	3.26	$ 5,070
Granted	637	6.70		
Exercised	(181)	4.55		
Cancelled	(23)	4.75		
Options outstanding at December 31, 2019	3,152	$ 5.03	3.66	$ 7,374
Vested and expected to vest at December 31, 2019	3,152	$ 5.03	3.66	$ 7,374
Exercisable at December 31, 2019	1,735	$ 3.80	1.65	$ 6,194

The fair value of each stock option grant under the 2013 Plan and 2005 Equity Incentive Plan is estimated on the date of grant using the Black-Scholes-Merton option valuation model. The Company uses the Monte-Carlo simulation model to determine the fair value and the derived service period of stock awards with market conditions, on the date of the grant. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The risk-free rate is

based upon the estimated life of the option and the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on the historical volatility on the Company's stock. The average fair value of the options granted was $6.70.

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

The RSUs granted during the six months ended December 31, 2019 vest from the original grant date as to one-third (1/3) on the one-year anniversary and one-twelfth (1/12) each quarter thereafter, subject to continued service to the Company. These RSUs included 566,038 RSUs to named executive officers and directors.

During fiscal 2019 and 2018, the Company approved the grant of 0.6 million shares of stock awards each year in the form of PSU's to named executive officers and other vice president level employees. These PSUs would be considered earned once the Company's U.S. GAAP earnings aggregates at least $0.20 per share over two consecutive quarters (the "Performance Thresholds"). During the second quarter of fiscal 2020, the compensation committee of the Board of Directors modified the Performance Thresholds of $0.20 earnings per share over two consecutive quarters for PSUs issued in fiscal 2019 and 2018, to $0.09 earnings per share over two consecutive quarters. Upon satisfying the Performance Thresholds, the PSUs will vest with respect to the same number of RSUs that have vested which were granted on the same date and thereafter will vest on the same schedule as the RSUs, subject to continued service to the Company. If the Performance Thresholds is not met by the third anniversary of the grant date for each award, that award is canceled. During the six months ended December 31, 2019, the 2019 and 2018 Performance Thresholds for outstanding performance awards were not achieved.

2014 Employee Stock Purchase Plan

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

There were 1,233,434 and 1,280,708 shares issued under the ESPP during the six months ended December 31, 2019 and 2018, respectively. The following assumptions were used to calculate the fair value of shares granted under the ESPP during the following periods:

	Employee Stock Purchase Plan Six Months Ended	
	December 31, 2019	December 31, 2018
Expected life	0.5 years	0.5 years
Risk-free interest rate	1.85%	2.20%
Volatility	43%	63%
Dividend yield	—%	—%

The weighted-average fair value of shares granted under the ESPP during the six months ended December 31, 2019 and 2018 was $2.02 and $2.73, respectively.

13. Information about Segments and Geographic Areas

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

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

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

Long-lived Assets	December 31, 2019	June 30, 2019
Americas	$ 218,301	$ 136,035
EMEA	28,630	28,744
APAC	19,926	11,529
Total long-lived assets	$ 266,857	$ 176,308

14. Restructuring Charges, net of reversals and impairment

The Company recorded $6.6 million and $12.8 million of restructuring charges, net of reversals and impairments during the three and six months ended December 31, 2019, respectively. The charges included facility related charges of $3.9 million and $7.9 million and severance and benefits charges of $2.7 million and $4.9 million for the three and six-month periods ended December 31, 2019, respectively.

During the first quarter of fiscal 2020, the Company continued its initiative to realign its operations by exiting a floor of its San Ignacio building in San Jose California and consolidating its workforce. Also, the Company exited additional space in its Salem New Hampshire facility, which includes general office and lab space. The Company has the intent and ability to sub-lease these facilities which it has ceased using and as such has considered estimated future sub-lease income based on its existing leases agreement, as well as the local real estate market conditions in measuring the amount of asset impairment. The Company also factored into its estimate the time for a sub-lease tenant to enter into an agreement and complete any improvements. For the three months ended September 30, 2019, the Company recorded restructuring charges of $3.9 million related to the exited facilities.

During the second quarter of fiscal 2020, the Company continued its initiative to realign its operations resulting from the acquisition of Aerohive and consolidating its workforce. The Company exited its facility in Milpitas, California which includes general office and lab space. The Company has the intent and ability to sub-lease these facilities which it has ceased using and as such has considered estimated future sub-lease income based on its existing leases agreement, as well as the local real estate market conditions in measuring the amount of asset impairment. The Company also factored into its estimate the time for a sub-lease tenant to enter into an agreement and complete any improvements. For the three months ended December 31, 2019, the Company recorded charges for the impairment of right-of-use-assets of $2.8 million, long-lived assets of $0.9 million, and other charges of $0.2 million related to the exited facilities.

Certain amounts have been reclassified from restructuring liabilities and have been recorded as a reduction to operating lease ROU assets as of July 1, 2019.

Restructuring liabilities related to severance and benefits obligations are recorded in "Other accrued liabilities" in the accompanying condensed consolidated balance sheets. Total restructuring and related liabilities consist of (in thousands):

	Excess Facilities	Severance Benefits	Total
Balance as of June 30, 2019	$ 1,764	$ 3,559	$ 5,323
Period charges	—	5,879	5,879
Period reversals	—	(1,005)	(1,005)
Reclassification to reduce operating lease assets	(1,764)	—	(1,764)
Period payments	—	(7,565)	(7,565)
Balance as of December 31, 2019	$ —	$ 868	$ 868

15. Income Taxes

For the three months ended December 31, 2019 and 2018, the Company recorded an income tax provision of $1.8 million and an income tax benefit of $5.3 million, respectively. For the six months ended December 31, 2019 and 2018, the Company recorded an income tax provision of $3.4 million and an income tax benefit of $3.9 million, respectively.

The income tax provisions for the three and six months ended December 31, 2019 and 2018, consisted of (1) taxes on the income of the Company's foreign subsidiaries, (2) foreign withholding taxes (3) tax expense associated with the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisition of Enterasys Networks, Inc., the WLAN Business,

the Campus Fabric Business and the Data Center Business, and (4) state taxes in jurisdictions where the Company has no remaining state Net Operating Losses ("NOL'S"). In addition, the three and six months ended December 31, 2018 included tax benefits associated with the release of valuation allowance resulting from changes introduced by US tax reform as well as the release of a valuation allowance recorded against deferred tax assets in Australia. The income tax provisions for both fiscal years were calculated based on the actual results of operations for the three and six months ended December 31, 2019 and 2018 , respectively and therefore may not reflect the annual effective tax rate.

In the first quarter of fiscal year ended June 30, 2019, the Company adopted ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset at the time the transfer occurs. Historically, GAAP has prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset had been sold outside the consolidated group. Effective July 1, 2018, the Company adopted ASU 2016-16 on a modified retrospective basis which requires an adjustment of the cumulative-effect of the adoption to retained earnings. The adjustment was immaterial to the financial statements and as such, no such adjustment was necessary. As a result of adoption, the income tax consequences of future intra-entity transfer of assets will be recognized in earnings in each period rather than be deferred until the assets leave the consolidated group. In the three months ended September 30, 2018, the Company recognized a deferred tax asset relating to a transfer of certain assets from the U.S. parent company to its wholly-owned Irish subsidiary of $3.7 million, which was fully offset by the establishment of a valuation allowance resulting in no impact to Company's statement of operations.

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

On August 9, 2019, the Company completed its acquisition of Aerohive. This acquisition will be treated as a non-taxable stock acquisition and therefore Extreme Networks will have carryover tax basis in the assets and liabilities acquired.

The Company had $25.8 million of unrecognized tax benefits as of December 31, 2019. The future impact of the unrecognized tax benefit of $25.8 million, if recognized, would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance with no impact to the effective tax rate. The Company does not anticipate any events to occur during the next twelve months that would reduce the unrealized tax benefit as currently stated in the Company's balance sheet.

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

In general, the Company's U.S. federal income tax returns are subject to examination by tax authorities for fiscal years 2001 forward due to net operating losses and the Company's state income tax returns are subject to examination for fiscal years 2000 forward due to net operating losses. The Company is not currently under audit in any material jurisdictions.

16. Net Loss Per Share

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

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

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Net income (loss)	(23,538)	7,199	(61,276)	(1,866)
Weighted-average shares used in per share calculation - basic	119,555	117,544	119,891	117,456
Effect of potentially dilutive shares:				
Options to purchase common stock	—	657	—	—
Restricted stock units	—	1,129	—	—
Employee Stock Purchase Plan shares	—	214	—	—
Weighted-average shares used in per share calculation - basic and diluted	119,555	119,544	119,891	117,456
Net loss per share - basic and diluted				
Net income (loss) per share - basic	$ (0.20)	$ 0.06	$ (0.51)	$ (0.02)
Net income (loss) per share - diluted	$ (0.20)	$ 0.06	$ (0.51)	$ (0.02)

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

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Options to purchase common stock	3,177	781	3,037	543
Restricted stock units	10,378	6,341	9,862	1,369
Employee Stock Purchase Plan shares	1,500	1,286	1,500	1,286
Total shares excluded	15,055	8,408	14,399	3,198

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

This quarterly report on Form 10-Q, including the following sections, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including in particular, our expectations regarding market demands, customer requirements and the general economic environment, future results of operations, and other statements that include words such as "may," "will," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," "continue" and similar expressions. These forward-looking statements involve risks and uncertainties. We caution investors that actual results may differ materially from those projected in the forward-looking statements as a result of certain risk factors identified in the section entitled "Risk Factors" in this Quarterly Report on Form 10-Q for the second quarter ended December 31, 2019, our Annual Report on Form 10-K for the fiscal year ended June 30, 2019, and other filings we have made with the Securities and Exchange Commission. These risk factors, include, but are not limited to: fluctuations in demand for our products and services; a highly competitive business environment for network switching equipment; our effectiveness in controlling expenses; the possibility that we might experience delays in the development or introduction of new technology and products; customer response to our new technology and products; fluctuations in the global economy; risks related to pending or future litigation; a dependency on third parties for certain components and for the manufacturing of our products and our ability to receive the anticipated benefits of acquired businesses.

Business Overview

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

Extreme Networks, Inc., together with its subsidiaries (collectively referred to as "Extreme" and as "we", "us" and "our") is a leader in providing cloud-driven networking solutions for enterprise, data center, and service provider customers. Providing a combined end-to-end solution from the IoT edge to the cloud, Extreme designs, develops, and manufactures wired and wireless network infrastructure equipment and develops the software and cloud architecture for network management, policy, intelligence, analytics, security, and assurance. We were incorporated in California in May 1996 and reincorporated in Delaware in March 1999. Our corporate headquarters are located in San Jose, California. We derive substantially all of our revenue from the sale of our networking equipment, software, and related maintenance contracts.

Extreme delivers software-driven solutions from the IoT edge to the cloud that are agile, adaptive, and secure to enable autonomous enterprises of the future. We recognize that every customer environment is unique with its own requirements, which may be industry-specific or site driven. We address these distinctions with our Extreme Elements architecture. Elements gives customers and partners the power to mix and match a broad array of software, hardware, and services (including third-party applications) to create a custom network that can be managed and automated from end-to-end and enabled with intelligence and assurance from the cloud. With this strategic asset in place, organizations have the foundation needed to drive both digital transformation and the outcomes impacting each one of us.

Our 100% in-sourced services and support are number one in the industry, and even as we increase the breadth of our portfolio and scale our organization, we remain nimble and responsive to ensure customer and partner success. We are relentless in our commitment to our over 50,000 customers around the world, including over half of the Fortune 50 and some of the world's leading names in business, hospitality, retail, transportation and logistics, education, government, healthcare, and manufacturing, and provide the building blocks that drive competitive advantage, accelerate innovation, and improve the human experience.

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

Improving the network experience for enterprises that increasingly require greater simplification at the edge or the access layer of the network to ensure business success and provide a secure, unified, wired / wireless infrastructure augmented and managed through a single plane of glass remains a key focus for Extreme. We enhanced our product portfolio in fiscal year 2019 with the launches of our suite of Wi-Fi 6 access points, ExtremeAI software solutions, and Defender for IoT to simplify IoT security. Enterprises have also migrated increasing numbers of applications and services to either private clouds or public clouds offered by third parties and are adopting new IT delivery models and applications that require fundamental network alterations and enhancements spanning from device access point to the network core. 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.

A trend affecting the enterprise network equipment market is the adoption of the cloud-managed enterprise WLAN in the enterprise market. We continued execution towards our strategic objectives by expanding our cloud portfolio with the acquisition of Aerohive Networks, Inc. (“Aerohive”) in August 2019. This acquisition enhances our cloud offering by adding a 3rd generation cloud with Machine Learning/Artificial Intelligence insights and analytics that we intend to expand to all the Extreme Elements™. This cloud-driven solution will be the only offering in the market that seamlessly integrates the Cloud with on premises infrastructures and spans from the IoT edge to the enterprise data center.

The Extreme Strategy

We are focused on delivering end-to-end networking and software solutions for today’s enterprise environments. From wireless and wired access technologies, through the campus, core, and into the datacenter, Extreme is developing solutions to deliver outstanding business outcomes for our customers. Leveraging a unified management approach, both on premises and in the cloud, we continue to accelerate adoption and delivery of new technologies in support of emerging trends in enterprise networking. We continue to execute on our growth objectives by maximizing customer, partner, and shareholder value.

In fiscal 2017, we completed the acquisition of the WLAN Business from Zebra. In fiscal 2018, we completed the acquisitions of the Campus Fabric Business from Avaya and the Data Center Business from Brocade. In August 2019, we acquired the entire Cloud Networking portfolio from Aerohive. These acquisitions support our growth strategy to lead the enterprise network equipment market with end-to-end software-driven cloud and on-premises solutions for enterprise customers from the data center to the wireless edge. After the closing of the acquisitions of the Campus Fabric Business and Data Center Business, Extreme immediately became a networking industry leader with more than 30,000 customers. In addition, the acquisition of Aerohive brought us another 20,000+ customers and solidify our position as the third ranked networking vendor in the United States and the second ranked cloud networking provider globally. As a network switching leader in enterprise, datacenter, and cloud, we combine and extend our world-class products and technologies to provide customers with some of the most advanced, high performance and open solutions in the market as well as a superb overall customer experience. The combination of all the Extreme Elements™ is significant in that it brings together distinct strengths addressing the key areas of the network, from unified wired and wireless edge, to the enterprise core, to the data center to offer a complete, unified portfolio of cloud-driven network access solutions.

Provider of high quality, cloud-driven, secure networking solutions and the industry’s #1 customer support organization

- Only end-to-end cloud-driven networking vendor with management, intelligence, and assurance values built into every solution.
- Delivering new releases of next generation portfolio Elements organically and through acquisition.

Key elements of our strategy include:

- **Focus on being nimble and responsive to customers and partners.** We work with our customers to deliver cloud-driven solutions from the IoT edge to the cloud that are agile, adaptive, and secure to enable digital transformation for our customers. We help our customers move beyond just “keeping the lights on”, so they can think strategically and innovate. By allowing customers to access critical decision-making intelligence, we are able reduce their daily tactical work, so they can spend their time on learning and understanding how to innovate their business with IT.
- **Provide the industry’s first and only 3rd generation end-to-end cloud architecture.** Cloud technologies have evolved significantly over the past decade, from monolithic software images hosted remotely to microservices providing machine learning insights continuous integration and delivery of new features. We deliver unrivaled innovation, reliability, and security with the leading end-to-end cloud management platform powered by ML and AI that spans from the IoT edge to the enterprise data center.
- **Enable a common fabric to simplify and automate the network.** Fabric technologies virtualize the network infrastructure (decoupling network services from physical connectivity) which enables network services to be turned up faster, with lower likelihood of error. They make the underlying network much easier to design, implement, manage and troubleshoot.

- **Cloud-driven networking services-led solutions.** Our cloud-driven solutions provide visibility, control and strategic intelligence from the edge to the data center, across networks and applications. Our solutions include wired switching, wireless switching, wireless access points, WLAN controllers, routers, and an extensive portfolio of software applications that deliver AI-enhanced access control, network and application analytics, as well as network management. All can be managed, assessed and controlled from a single pane of glass on premises or from the cloud.
- **Offer customers choice – cloud or on-premises.** We leverage cloud where it makes sense for our customers and provide on premises solutions where customers need it and have a solution for those that want to harness the power of both. Our hybrid approach gives our customers options to adapt the technology to their business. At the same time, all of our solutions have visibility, control and strategic information built in, all tightly integrated with a single view across all of the installed products. Our customers can understand what's going on across the network and applications in real time – who, when, and what is connected to the network, which is critical for BYOD and IoT.
- **Enable IoT without additional IT resources.** In a recent IoT IT infrastructure survey, enterprise IT decision makers across industry verticals indicated their preference to opt for their existing wireless connectivity infrastructure to support IoT devices. These preferences will place unprecedented demand on network administrators to enhance management capabilities, scalability and programmability of the enterprise networks they manage without additional IT resources.
- **Provide a strong value proposition for our customers.** Our cloud-managed wired and wireless networking solutions provide additional choice and flexibility with cloud or on-premises options for device and application management coupled with our award-winning services and support. This delivers a strong value proposition to the following customers and applications:
  - Enterprises and private cloud data centers use our products to deploy automated next-generation virtualized and high-density infrastructure solutions.
  - Enterprises and organizations in education, healthcare, retail, manufacturing, hospitality, transportation and logistics, and government agencies use our solutions for their mobile campus and backbone networks.
  - Enterprises, universities, stadiums, healthcare, and hospitality organizations use our solutions to enable better visibility and control of their data processing and analytics requirements.
- **Provide high-quality customer service and support.** We seek to enhance customer satisfaction and build customer loyalty through high-quality service and support. This includes a wide range of standard support programs that provide the level of service our customers require, from standard business hours to global 24-hour-a-day, 365-days-a-year real-time response support.
- **Extend switching and routing technology leadership.** Our technological leadership is based on innovative switching, routing and wireless products, the depth and focus of our market experience and our operating systems - the software that runs on all of our networking products. Our products reduce operating expenses for our customers and enable a more flexible and dynamic network environment that will help them meet the upcoming demands of IoT, mobile, and cloud, etc. Furthermore, our network operating systems, our primary merchant silicon vendor Broadcom, and select manufacturing partners permit us to leverage our engineering investment. We have invested in engineering resources to create leading-edge technologies to increase the performance and functionality of our products, and as a direct result, the value of our solution to our current and future customers. We look for maximum synergies from our engineering investment in our targeted verticals.
- **Expand Wi-Fi technology leadership.** Wireless is today's network access method of choice and every business must deal with scale, density and BYOD challenges. The increase in demand being seen today, fueled by more users with multiple devices, increases the expectation that everything will just work. The network edge landscape is changing as the explosion of mobile devices increases the demand for mobile, transparent, and always-on wired to wireless edge services. The unified access layer requires distributed intelligent components to ensure that access control and resiliency of business services are available across the entire infrastructure and manageable from a single console. We are at a technology inflection point with the pending migration from Wi-Fi 5 solutions to Wi-Fi 6 (802.11ax), focused on providing more efficient access to the broad array of connected devices. We have the industry's broadest Wi-Fi 6 wireless portfolio providing intelligence for the wired/wireless edge and enhanced by our 3rd generation cloud architecture with machine learning and AI-driven insights.
- **Continue to deliver unified management and a common fabric across the wired/wireless environment from the Data Center to the mobile Edge.** Our rich set of integrated management capabilities provides centralized visibility and highly efficient anytime, anywhere control of enterprise wired and wireless network resources.
- **Offer a superior quality of experience.** Our network-powered application analytics provide actionable business insight by capturing and analyzing context-based data about the network and applications to deliver meaningful intelligence about applications, users, locations and devices. With an easy to comprehend dashboard, our applications help businesses to turn their network into a strategic business asset that helps executives make faster and more effective decisions.

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

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

- **Cloud-driven networking solutions for the enterprise.** We are a cloud-driven networking solution company focused on the enterprise. We focus our R&D team and our sales teams to execute against a refined set of requirements for optimized return on investment, faster innovation, and clearer focus on mega trends and changes in the industry. As a cloud-driven networking company, we offer solutions for the entire enterprise network, the data center, the campus, the core and the WLAN.
- **Expand market penetration by targeting high-growth market segments.** Within the Campus, we focus on the mobile user, leveraging our automation capabilities and tracking WLAN growth. Our Data Center approach leverages our product portfolio to address the needs of public and private Cloud Data Center providers. Within the Campus we also target the high-growth physical security market, converging technologies such as Internet Protocol ("IP") video across a common Ethernet infrastructure in conjunction with technology partners. Cloud Networking is the fastest growing segment of WLAN growth, with a 15% projected compound annual growth rate year over year (compared to low single digits for the WLAN industry as a whole), and our focus is on expanding our technology foothold in this key segment with the acquisition of Aerohive to accelerate not only cloud management adoption, but also subscription-based licensing (SaaS) consumption.
- **Leverage and expand multiple distribution channels.** We distribute our products through select distributors, a large number of resellers and system-integrators worldwide, and several large strategic partners. We maintain a field sales force to support our channel partners and to sell directly to certain strategic accounts. As an independent networking 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. We announced this in the second quarter of fiscal year ended June 30, 2020 that we were selected by Broadcom, the industry's largest merchant silicon provider, as their preferred choice for enterprise campus deployments. As a Broadcom preferred provider for enterprise campus networking solutions, Extreme will give enterprise customers and partners powerful security, segmentation, resiliency, policy, telemetry, and performance advantages as they pursue cloud-driven digital transformation with the industry's most simple, secure, and intelligent campus architecture.

We seek to differentiate ourselves in the market by delivering a value proposition based on a software-driven approach to network management, control and analytics.

Our key points of differentiation include:

- **Extreme Elements™** Extreme Elements are the building blocks that enable the creation of an Autonomous Network to deliver the positive outcomes important to customer organizations, including those in education, healthcare, retail, manufacturing, transportation and logistics, and government. Combining architecture, automation, and artificial intelligence, Extreme Elements enable customers to get what they need, when and where they need it.
- **Cloud-Driven end-to-end networking solutions.** The acquisition of Aerohive enhances our cloud offering with a 3rd generation cloud with Machine Learning/Artificial Intelligence insights and analytics that we intend to expand to all the Extreme Elements™. This breadth of coverage from the edge to the enterprise data center will be unique in the industry, and cloud networking is the fastest growing segment of the networking industry.
- **Data center to access edge wired and wireless solutions**. Extreme offers a complete, unified portfolio of software-driven network access solutions from the edge to the cloud. We have the latest in wireless access points for both outdoor and indoor use plus a complete line of networking options for the Campus, Core, and Data Center, all of which are enhanced with our extensive portfolio of intelligent applications.
- **Multi-vendor management from a "single pane-of-glass".** Extreme's Management Center ("XMC") is a single unified management system that is designed to provide visibility, security, and control across the entire network. This can make the network easier to manage and troubleshoot, often with lower operating expenses. Extreme's software can manage third-party vendors' network devices, allowing our customers to potentially maximize device lifespan and protect investments.
- **Software-driven vertical solutions.** Extreme's software-driven solutions are designed to be easily adaptable to vertical solutions in industries such as healthcare, education, manufacturing, retail, transportation and logistics, government and hospitality. Extreme solutions are also designed to be well-suited for vertical-specific partners in these industries.

- **Extreme Validated Design.** Helping customers consider, select, and deploy data center network solutions for current and planned needs is our mission. Extreme Validated Designs offer a fast track to success by accelerating that process. Validated designs are repeatable reference network architectures that have been engineered and tested to address specific use cases and deployment scenarios.
- **Application-aware Quality of Service ("QoS") and analytics**. Extreme has innovative analytic software that enables our customers to see application usage across the network and apply policies that maximize network capabilities. This allows our customers to improve the user experience.
- **Built-in identity and access control.** Our network access control and identity management solutions are delivered with our network infrastructure to reduce the need to add expensive software or hardware that may require complex compatibility testing.
- **Easier policy assignment and SDN.** Our software applications allow our customers to assign policy across the entire network, and Extreme Workflow Composer improves IT agility by automating the entire network lifecycle—including initial provisioning, configuration, validation, and troubleshooting/auto-remediation—with event-driven automation. The SDN component adds versatility for implementing policies that increase network utilization.
- **100% in-sourced tech support.** ExtremeWorks delivers best in class customer support in the industry with 92% first call resolution through a 100% in-sourced support model.
- **Strengthens the Channel.** Extreme sells products primarily through an ecosystem of channel partners which combine our portfolio elements together to create customized IT solutions for end user customers.

Key Financial Metrics

During the second quarter of fiscal 2020, we achieved the following results:

- Net revenues of $267.5 million compared to $252.7 million in the second quarter of fiscal 2019.
- Product revenue of $190.5 million compared to $189.6 million in the second quarter of fiscal 2019.
- Service revenue of $77.0 million compared to $63.1 million in the second quarter of fiscal 2019.
- Total gross margin of 55.6% of net revenues compared to 55.9% of net revenues in the second quarter of fiscal 2019.
- Operating loss of $15.2 million compared to operating income of $4.8 million in the second quarter of fiscal 2019.
- Net loss of $23.5 million compared to net income of $7.2 million in the second quarter of fiscal 2019.

During the first six months of fiscal 2020, we reflected the following results:

- Cash flow provided by operating activities of $21.9 million compared to cash flow provided by operating activities of $61.6 million in the six months ended December 31, 2018. Cash of $140.4 million compared to $169.6 million as of June 30, 2019.

Net Revenues

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

	Three Months Ended				Six Months Ended			
	December 31, 2019	December 31, 2018	$ Change	% Change	December 31, 2019	December 31, 2018	$ Change	% Change
Net Revenues:								
Product	$ 190,492	$ 189,567	$ 925	0.5%	$ 375,626	$ 367,287	$ 8,339	2.3%
Percentage of net revenue	*71.2%*	*75.0%*			*71.8%*	*74.6%*		
Service	76,980	63,113	13,867	22.0%	147,352	125,279	22,073	17.6%
Percentage of net revenue	*28.8%*	*25.0%*			*28.2%*	*25.4%*		
Total net revenues	$ 267,472	$ 252,680	$ 14,792	5.9%	$ 522,978	$ 492,566	$ 30,412	6.2%

Product revenue increased $0.9 million or 0.5% for the three months ended December 31, 2019, as compared to the corresponding period of fiscal 2019. Product revenue increased $8.3 million or 2.3% for the six months ended December 31, 2019, as compared to the corresponding period of fiscal 2019. The increases in product revenues was attributable to growth related to the acquisition of Aerohive offset by lower legacy revenue.

Service revenue increased $13.9 million, or 22.0% for the three months ended December 31, 2019. Service revenue increased $22.1 million, or 17.6% for the six months ended December 31, 2019. The increase in service revenues was attributable to growth related to the acquisition of Aerohive, as well as higher legacy maintenance revenue.

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

	Three Months Ended				Six Months Ended			
	December 31, 2019	December 31, 2018	$ Change	% Change	December 31, 2019	December 31, 2018	$ Change	% Change
Gross profit:								
Product	$ 99,105	$ 103,080	$ (3,975)	(3.9)%	$ 192,848	$ 197,257	$ (4,409)	(2.2)%
Percentage of product revenue	52.0%	54.4%			51.3%	53.7%		
Service	49,566	38,219	11,347	29.7%	93,066	76,113	16,953	22.3%
Percentage of service revenue	64.4%	60.6%			63.2%	60.8%		
Total gross profit	$ 148,671	$ 141,299	$ 7,372	5.2%	$ 285,914	$ 273,370	$ 12,544	4.6%
Percentage of net revenues	55.6%	55.9%			54.7%	55.5%		

Product gross profit decreased $4.0 million or 3.9% for the three months ended December 31, 2019, as compared to the corresponding period in fiscal 2019. The decrease in product gross profit was primarily due to the expensing of the fair value step-up of inventories acquired from Aerohive of $3.4 million, higher distribution charges of $1.7 million and higher amortization of intangible assets of $1.2 million. This was offset by gross profit from higher revenues and more favorable manufacturing costs due to cost reduction efforts.

Product gross profit decreased $4.4 million or 2.2% for the six months ended December 31, 2019, as compared to the corresponding period in fiscal 2019. The decrease in product gross profit was primarily due to the expensing of the fair value step-up of inventories acquired from Aerohive of $7.3 million, higher excess and obsolete inventory charges of $3.5 million, higher amortization of intangible assets of $2.2 million and higher distribution costs of $1.1 million. This was partially offset by gross profit from higher revenues and more favorable manufacturing costs due to cost reduction efforts.

Service gross profit increased $11.3 million and $17.0 million or 29.7% and 22.3% for the three and six months ended December 31, 2019. The increases were primarily due to a higher level of service revenues related to the acquisition of the Aerohive, partially offset by higher service material costs and personnel costs due to increased headcount to support acquired contracts as well as amortization of intangible assets of $0.8 million and $1.4 million for the respective three and six-month periods ended December 31, 2019.

Operating Expenses

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

	Three Months Ended				Six Months Ended			
	December 31, 2019	December 31, 2018	$ Change	% Change	December 31, 2019	December 31, 2018	$ Change	% Change
Research and development	$ 55,380	$ 52,204	$ 3,176	6.1%	$ 114,496	$ 103,445	$ 11,051	10.7%
Sales and marketing	75,436	68,342	7,094	10.4%	146,793	135,924	10,869	8.0%
General and administrative	15,098	13,886	1,212	8.7%	30,080	26,657	3,423	12.8%
Acquisition and integration costs	8,994	67	8,927	*	24,919	2,613	22,306	853.7%
Restructuring charges, net of reversals and impairment	6,622	474	6,148	1,297.0%	12,759	1,282	11,477	895.2%
Amortization of intangibles	2,377	1,575	802	50.9%	4,307	3,716	591	15.9%
Total operating expenses	$ 163,907	$ 136,548	$ 27,359	20.0%	$ 333,354	$ 273,637	$ 59,717	21.8%

* Not meaningful.

Research and Development Expenses

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

Research and development expenses increased by $3.2 million or 6.1% for the three months ended December 31, 2019, as compared to the corresponding period of fiscal 2019 primarily due to the acquisition of Aerohive. The increase in research and development expenses was due to $1.3 million of increased salary and compensation costs, $1.8 million increased costs related to equipment, supplies and third-party design and engineering collaboration charges, $0.1 million of increased professional and contractor fees, $0.3 million in increased facility and information technology costs partially offset by a $0.3 million reduction in other operating costs.

Research and development expenses increased by $11.1 million or 10.7% for the six months ended December 31, 2019, as compared to the corresponding period of fiscal 2019 primarily due to the acquisition of Aerohive. The increase in research and development expenses was due to $6.7 million of increased salary and compensation costs, $3.4 million of increased costs related to equipment, supplies and third-party design and engineering collaboration charges, $0.2 million of increased professional and contractor fees, a $0.6 million in increased facility and information technology costs, and $0.2 million increase in other operating costs.

Sales and Marketing Expenses

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

Sales and marketing expenses increased by $7.1 million or 10.4% for the three months ended December 31, 2019, as compared to the corresponding period of fiscal 2019 primarily due to the acquisition of Aerohive. The increase was primarily due to $4.5 million of personnel costs, $0.7 million of professional fees and $0.9 million of increased facility and information technology costs, $0.4 million in travel and sales promotion costs and $0.6 million of software and equipment costs.

Sales and marketing expenses increased by $10.9 million or 8.0% for the six months ended December 31, 2019, as compared to the corresponding period of fiscal 2019 primarily due to the acquisition of Aerohive. The increase was primarily due to $9.0 million of personnel costs, $1.9 million of professional fees and $1.6 million of increased facility and information technology costs, and $1.0 million of increased software and equipment costs partially offset by a $2.6 million reduction in travel and sales promotion costs.

General and Administrative Expenses

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

General and administrative expenses increased by $1.2 million or 8.7% for the three months ended December 31, 2019, as compared to the corresponding period of fiscal 2019, primarily due to the acquisition of Aerohive. The increase in general and administrative expenses was primarily due to $0.6 million of increased personnel costs, $0.2 million in higher facility and information technology costs, $0.1 million in professional fees, and $0.3 million of insurance premiums.

General and administrative expenses increased by $3.4 million or 12.8% for the six months ended December 31, 2019, as compared to the corresponding period of fiscal 2019, primarily due to the acquisition of Aerohive. The increase in general and administrative expenses was primarily due to $1.7 million of increased personnel costs, $0.4 million in higher facility and information technology costs $0.8 million in professional fees and $0.5 million of insurance premiums.

Acquisition and Integration Costs

During the three and six months ended December 31, 2019, we incurred $9.0 million and $24.9 million, respectively of acquisition and integration costs including a $6.8 million compensation charge for certain Aerohive Executives' stock awards which were accelerated due to change-in-control and termination provisions included in the Executives' employment contracts. Other acquisition and integration costs consist primarily of professional fees for financial and legal advisory services and severance charges for Aerohive employees.

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

Restructuring Charges, Net of Reversals and Impairment

For the three months ended December 31, 2019 we recorded restructuring charges of $6.6 million. The charges consisted primarily of excess facility charges of $3.9 million for impairment of right-of-use assets related mainly to our Milpitas, California facilities. Additionally, we continued our reduction-in-force initiative begun in the fourth quarter of fiscal 2019 and we recorded severance and benefits charges of $2.7 million.

For the six months ended December 31, 2019 we recorded restructuring charges of $12.8 million. The charges consisted primarily of excess facility charges of $7.9 million for impairment of right-of-use assets related to our Milpitas California, South San Jose California, and Salem New Hampshire facilities. Additionally, we continued our reduction-in-force initiative begun in the fourth quarter of fiscal 2019 and we recorded severance and benefits charges of $4.9 million.

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

Amortization of Intangibles

During the three months ended December 31, 2019 and 2018, we recorded $2.4 million and $1.6 million, respectively, of operating expenses for amortization of intangibles in the accompanying condensed consolidated statements of operations. The increase was mainly due to amortization of acquired intangibles from the Aerohive acquisition offset by lower amortization related to certain acquired intangibles from previous acquisitions becoming fully amortized.

During the six months ended December 31, 2019 and 2018, we recorded $4.3 million and $3.7 million, respectively, of operating expenses for amortization of intangibles in the accompanying condensed consolidated statements of operations. The increase was mainly due to amortization of acquired intangibles from the Aerohive acquisition offset by lower amortization related to certain acquired intangibles from previous acquisitions becoming fully amortized.

Interest Expense

During the three months ended December 31, 2019 and 2018, we recorded $6.2 million and $3.1 million, respectively, in interest expense. The increase in interest expense was primarily driven by higher outstanding loan balances and other charges due to refinancing our Credit Agreement in August 2019.

During the six months ended December 31, 2019 and 2018, we recorded $11.4 million and $6.6 million, respectively, in interest expense. The increase in interest expense was primarily driven by higher outstanding loan balances and other charges due to refinancing our Credit Agreement in August 2019.

Other Income (Expense), Net

During the three months ended December 31, 2019 and 2018, we recorded expense of $0.7 million and $0.4 million, respectively, in other income (expense), net. The change for the three months ended December 31, 2019 was primarily due to foreign exchange gains and losses from the revaluation of certain assets and liabilities denominated in foreign currencies into U.S. Dollars.

During the six months ended December 31, 2019 and 2018, we recorded expense of $0.2 million and other income of $0.1 million, respectively, in other income (expense), net. The change for the six months ended December 31, 2019 was primarily due to foreign exchange gains and losses from the revaluation of certain assets and liabilities denominated in foreign currencies into U.S. Dollars.

Provision for Income Taxes

For the three months ended December 31, 2019 and 2018, we recorded an income tax provision of $1.8 million and tax benefit of $5.3 million, respectively. For the six months ended December 31, 2019 and 2018, we recorded an income tax provision of $3.4 million and tax benefit of $3.9 million, respectively.

The income tax provisions for the three and six months ended December 31, 2019, consisted primarily of (1) taxes on the income of the Company's foreign subsidiaries, (2) foreign withholding taxes (3) tax expense associated with the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisition of Enterasys Networks, Inc., the WLAN Business, the Campus Fabric Business and the Data Center Business, and (4) state taxes in jurisdictions where the Company has no remaining state Net Operating Losses. In addition, the three and six months ended December 31, 2018 included tax benefits associated with the release of valuation allowance resulting from changes introduced by US tax reform as well as the release of a valuation allowance recorded against deferred tax assets in Australia.

Critical Accounting Policies and Estimates

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

As discussed in Part II, Item 7, *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* of our Annual Report on Form 10-K for the year ended June 30, 2019, we consider the following accounting policies to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements:

- *Revenue Recognition*

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

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

New Accounting Pronouncements

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

Liquidity and Capital Resources

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

	December 31, 2019	June 30, 2019
Cash	$ 140,414	$ 169,607
Working capital (deficit)	$ (5,345)	$ 85,960

As of December 31, 2019, our principal sources of liquidity consisted of cash of $140.4 million, accounts receivable, net of $159.8 million, and available borrowings from our five-year 2019 Revolving Facility of $60.3 million. Our principal uses of cash include the purchase of finished goods inventory from our contract manufacturers, payroll and other operating expenses related to the development and marketing of our products, purchases of property and equipment, repayments of debt and related interest and repurchases of common stock outstanding. We believe that our $140.4 million of cash at December 31, 2019 and the availability of borrowings from the 2019 Revolving Facility will be sufficient to fund our principal uses of cash for at least the next 12 months.

On November 2, 2018, our Board of Directors announced that it had authorized management to repurchase up to $60.0 million of its common stock for two years from the date of authorization, of which $15.0 million was used for repurchases in the second quarter of fiscal 2019. Purchases may be made from time to time in the open market or in privately negotiated transactions. The manner, timing and amount of any future purchases will be determined by our management based on their evaluation of market conditions, stock price, Extreme's ongoing determination that it is the best use of available cash and other factors. The repurchase program does not obligate Extreme to acquire any common stock, may be suspended or terminated at any time without prior notice and will be subject to regulatory considerations. In November 2019, the Company entered into an accelerated share repurchase agreement (the "November 2019 ASR") to repurchase shares of the Company's common stock. Pursuant to the November 2019 ASR, the Company paid $30.0 million for an initial delivery of 3,850,000 shares valued at $25.2 million. The remaining balance of $4.8 million was recorded as a forward contract in the Company's common stock. The forward contract was settled on January 24, 2020 and the Company received an additional 381,505 shares of its common stock.

In connection with the acquisition of Aerohive as discussed in Note 4 of the accompanying condensed consolidated financial statements included elsewhere in this Report, as of August 9, 2019, we amended the 2018 Credit Agreement and entered into the 2019 Credit Agreement, by and among us, as borrower, several banks and other financial institutions as Lenders, BMO Harris Bank N.A., as an issuing lender and swingline lender, Silicon Valley Bank, as an Issuing Lender, and Bank of Montreal, as administrative agent and collateral agent for the Lenders. The 2019 Credit Agreement provides for a 5-year first lien term loan facility in an aggregate principal amount of $380 million ("2019 Term Loan") and a 5-year revolving loan facility in an aggregate principal amount of $75 million ("2019 Revolving Facility"). In addition, we may request incremental term loans and/or incremental revolving loan commitments in an aggregate amount not to exceed the sum of $100 million plus an unlimited amount that is subject to pro forma compliance with certain financial tests. On August 9, 2019, we used the proceeds to partially fund the acquisition of Aerohive and for working capital and general corporate purposes.

At our election, the initial term loan (the "Initial Term Loan") under the 2019 Credit Agreement may be made as either base rate loans or Eurodollar loans. The applicable margin for base rate loans ranges from 0.25% to 2.50% per annum and the applicable margin for Eurodollar loans ranges from 1.25% to 3.50%, in each case based on Extreme's Consolidated Leverage Ratio. All Eurodollar loans are subject to a Base Rate floor of 0.00%. The 2019 Credit Agreement is secured by substantially all of our assets.

The 2019 Credit Agreement requires us to maintain certain minimum financial ratios at the end of each fiscal quarter. The 2019 Credit Agreement also includes covenants and restrictions that limit, among other things, our ability to incur additional indebtedness, create liens upon any of our property, merge, consolidate or sell all or substantially all of our assets. The 2019 Credit Agreement also includes customary events of default which may result in acceleration of the outstanding balance.

Financial covenants under the 2019 Credit Agreement require us to maintain a minimum consolidated fixed charge and consolidated leverage ratio at the end of each fiscal quarter through maturity. The 2019 Credit Agreement also includes covenants and restrictions that limit, among other things, our ability to incur additional indebtedness, create liens upon any of our property, merge, consolidate or sell all or substantially all of our assets. The 2019 Credit Agreement also includes customary events of default which may result in acceleration of the outstanding balance. At December 31, 2019, we were in compliance with the covenants of the 2019 Credit Agreement.

Key Components of Cash Flows and Liquidity

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

	Six Months Ended	
	December 31, 2019	December 31, 2018
Net cash provided by operating activities	$ 21,911	$ 61,611
Net cash used in investing activities	(183,647)	(10,413)
Net cash provided by (used in) financing activities	132,736	(31,329)
Foreign currency effect on cash	(193)	(365)
Net (decrease) increase in cash	$ (29,193)	$ 19,504

Net Cash Provided by Operating Activities

Cash flows provided by operations in the six months ended December 31, 2019, were $21.9 million, including our net loss of $61.3 million and non-cash expenses of $72.1 million for items such as amortization of intangibles, reduction in carrying amount of right-of-use asset, depreciation, restructuring, deferred income taxes and imputed interest. Other sources of cash for the period included a decrease in accounts receivables and inventory and increases in deferred revenues. This was partially offset by decreases in accounts payable, accrued compensation, other current and long-term liabilities, and operating lease liabilities.

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

Net Cash Used in Investing Activities

Cash flows used in investing activities in the six months ended December 31, 2019 were $183.6 million, including $219.5 million for the acquisition of Aerohive (net of cash acquired), purchases of property and equipment of $9.4 million, which was partially offset by proceeds of $45.2 million related to the maturity and sales of short-term investments.

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

Net Cash Provided by (Used in) Financing Activities

Cash flows provided by financing activities in the six months ended December 31, 2019 were $132.7 million due primarily to additional borrowings of $199.5 million under our 2019 Credit Agreement to partially fund our acquisition of Aerohive, $2.9 million of proceeds from the issuance of shares of our common stock under our Employee Stock Purchase Plan ("ESPP"), the exercise of stock options and net of taxes paid on vested and released stock awards. This was partially offset by debt repayments of $25.0 million, assumed from the Aerohive acquisition, payment of loan fees of $10.5 million, contingent consideration of $2.0 million, and $2.2 million for deferred payments on acquisitions.

Cash flows provided by financing activities for the period also included repurchasing of our common shares valued at $25.2 million during the six months ended December 31, 2019, in accordance with our approved share repurchase plan. The share repurchases were executed through an accelerated share repurchase program, and future share repurchases may be completed through the combination of individually negotiated transactions, accelerated share repurchases, and/or open market purchases. In addition, related to this transaction, there was an equity forward contract related to the Company's stock of $4.8 million. As of December 31, 2019, we have $19.8 million available under our share repurchase plan. Our Credit Facility does not contain any restrictions on the amount of borrowings that can be used to make share repurchases, as long as we are in compliance with our financial and non-financial covenants.

Cash flows used in financing activities in the six months ended December 31, 2018 were $31.3 million consisting of repayments of debt totaling $14.9 million, contingent consideration of $3.9 million, and $2.0 million for deferred payments on acquisitions. This was partially offset by $5.0 million of proceeds from the issuance of shares of our common stock under our Employee Stock Purchase Plan, the exercise of stock options and net of taxes paid on vested and released stock awards. Cash flows used in financing activities for the period also included repurchasing of our common shares valued at $15.0 million during the six months ended December 31, 2018, in accordance with our approved share repurchase plan.

Foreign Currency Effect on Cash

Foreign currency effect on cash decreased in the three months ended December 31, 2019, primarily due to changes in foreign currency exchange rates between the U.S. Dollar and particularly the Brazilian Real, Indian Rupee and the EURO. Foreign currency effect on cash decreased in the three months ended December 31, 2018, primarily due to changes in foreign currency exchange rates between the U.S. Dollar and particularly the Brazilian Real, Indian Rupee and the EURO.

Contractual Obligations

The following summarizes our contractual obligations as of December 31, 2019, 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 5 years
Contractual Obligations:					
Debt obligations	$ 375,250	$ 19,000	$ 52,250	$ 304,000	$ —
Interest on debt obligations	76,011	18,804	34,338	22,869	—
Unconditional purchase obligations	47,578	47,578	—	—	—
Contractual commitments	82,250	23,500	47,000	11,750	—
Lease payments on operating leases.	84,960	10,534	39,784	22,137	12,505
Deferred payments for an acquisition	13,000	4,000	8,000	1,000	—
Contingent consideration for an acquisition	4,152	2,367	1,695	90	—
Other liabilities	1,090	236	473	381	—
Total contractual cash obligations	$ 684,291	$ 126,019	$ 183,540	$ 362,227	$ 12,505

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

Debt obligations related to amounts owed under our 2019 Credit Agreement.

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

Contractual commitments to suppliers for future services.

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

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

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

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

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

We did not have any material commitments for capital expenditures as of December 31, 2019.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2019.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our financial investments and debt. We usually invest our cash in investments with short maturities or with frequent interest reset terms. Accordingly, our interest income fluctuates with short-term market conditions. As of December 31, 2019, we did not have any financial investments that were exposed to interest rate risk.

Debt

At certain points in time we are exposed to the impact of interest rate fluctuations, primarily in the form of variable rate borrowings from our 2019 Credit Agreement. Our debt and 2019 Credit Agreement are described in the Note 8. Debt, of our Notes to the condensed consolidated financial statements in this quarterly report on Form 10-Q. At December 31, 2019, we had $375.3 million of debt outstanding, all of which was from our 2019 Credit Agreement. During the quarter ended December 31, 2019, the average daily outstanding amount was $379.9 million with a high of $380.0 million and a low of $375.3 million.

The following table presents hypothetical changes in interest expense for the quarter ended December 31, 2019, on outstanding Credit Agreement borrowings as of December 31, 2019, that are sensitive to changes in interest rates (in thousands):

Change in interest expense given a decrease in interest rate of X bps*		Outstanding debt	Change in interest expense given an increase in interest rate of X bps	
(100 bps)	(50 bps)	as of December 31, 2019	100 bps	50 bps
$ (938)	$ (469)	$ 375,250	$ 938	$ 469

* Underlying interest rate was 4.96% as of December 31, 2019.

Exchange Rate Sensitivity

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

Foreign Exchange Forward Contracts

We record all derivatives on the balance sheet at fair value. Changes in the fair value of derivatives are recognized in earnings as Other expense, net. From time to time, we enter into foreign exchange forward contracts to mitigate the effect of gains and losses generated by the foreign currency forecast transactions related to certain operating expenses and re-measurement of certain assets and liabilities denominated in foreign currencies. These derivatives do not qualify as hedges. Changes in the fair value of these foreign exchange forward contracts are offset largely by re-measurement of the underlying assets and liabilities. At December 31, 2019, we did not have any forward foreign currency contracts outstanding.

Foreign currency transaction gains and losses from operations was a loss of $0.8 million and $0.6 million for the three months ended December 31, 2019 and 2018, respectively. Foreign currency transaction gains and losses from operations was a loss of $0.2 million and a loss of $0.2 million for the six months ended December 31, 2019 and 2018, respectively

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

On July 1, 2019, we adopted the new FASB lease standard ASC 842, which required us to change our accounting for leases. To facilitate accounting and reporting requirements related to ASC 842, we have implemented a software application for real estate and equipment lease accounting and made applicable changes to our internal controls over financial reporting around lease accounting and disclosure. In addition, we have implemented a new application around revenue recognition in second quarter of fiscal 2020 and made applicable changes to our internal controls as a result of this implementation.

Other than the changes discussed above, there were no changes in our internal control over financial reporting (as defined in Rules 13a – 15(f) and 15(d) – 15(f) under the Securities Exchange Act of 1934) during the three months ended December 31, 2019 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.

PART II. Other Information

Item 1. Legal Proceedings

For information regarding litigation matters required by this item, refer to Part I, Item 3, Legal Proceedings of our Annual Report on Form 10-K for the fiscal year ended June 30, 2019, and Note 10 to our Notes to condensed consolidated financial statements, included in Part I, Item 1 of this Report which are incorporated herein by reference.

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2019, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock. There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended June 30, 2019.

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

In November 2019, the Company entered into an accelerated share repurchase agreement (the "November 2019 ASR") to repurchase shares of the Company's common stock. Pursuant to the November 2019 ASR, the Company paid $30.0 million for an initial delivery of 3,850,000 shares valued at $25.2 million. The remaining balance of $4.8 million was recorded in additional paid-in-capital as a forward contract in the Company's stock. The forward contract was settled on January 24, 2020 and the Company received an additional 381,505 shares of its common stock.

The following table provides stock repurchase activity during the three months ended December 31, 2019 (in thousands, except per share amounts).

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
Remaining shares available to repurchase (1)				$ 45,000
October 1, 2019 -October 31, 2019	—	$ -	—	—
November 1, 2019 - November 30, 2019	3,850	6.54 (2)	3,850	25,179
December 1, 2019 - December 31, 2019	—	—	—	—
Total	3,850	$ 6.54 (2)	3,850	$ 19,821

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

(2) In November 2019, the Company entered into an accelerated share repurchase agreement ("the November 2019 ASR") to repurchase shares of the Company's common stock. Pursuant to the November 2019 ASR, the Company paid $30.0 million for an initial delivery of 3,850,000 shares valued at $25.2 million. The remaining balance of $4.8 million was recorded in additional paid-in-capital as a forward contract in the Company's common stock. The forward contract was settled on January 24, 2020 and the Company received an additional 381,505 shares of its common stock.

Item 3. Defaults Upon Senior Securities - Not Applicable

Item 4. Mine Safety Disclosures - Not Applicable

Item 5. Other Information - Not Applicable

Item 6. Exhibits

(a) Exhibits:

Exhibit Number	Description of Document	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Number	
10.48	Amended and Restated 2013 Equity Incentive Plan.	S-8	12/17/2019	99.1	
10.49	Executive Vice President Severance Policy.				X
10.50	Separation Agreement for Robert Gault.				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.				X
101.SCH	XBRL Taxonomy Extension Schema Document.				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				

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

SIGNATURES

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

EXTREME NETWORKS, INC.
(Registrant)

/ s /   REMI THOMAS

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

January 30, 2020

EXHIBIT 10.49

EXECUTIVE VICE PRESIDENT SEVERANCE POLICY
ONLY APPLIES TO DIRECT REPORTS OF CEO

(effective January 14, 2020)

Severance for involuntary termination by Extreme Networks, Inc. (the "Company") for convenience (does NOT include terminations in connection with a Change in Control or for Cause, as those terms are defined in the Extreme Networks Executive Change in Control Severance Plan, as amended and restated April 30, 2019) as determined by the Company, in its sole discretion, subject to the effectiveness of a general release of claims, as the Company may deem necessary or appropriate:

Severance - EVP	
	Benefits
Severance*	Up to 2 years service = 9 months base salary
	Once 2 years have been completed: 2+ years service = 11 months base salary (9 months + 2 months) 3+ years service = 12 months base salary (9 months + 3 months) Maximum of 12 months
COBRA**	Align with length of Severance
Outplacement	Align with length of Severance
Bonus	Paid for completed bonus periods

*based on original hire date
**cash equivalent

Years of service is measured as continuous service.

The COBRA cash equivalent is a cash amount equal to the full COBRA premium for the number of applicable months.

The cash amounts will be paid in a lump sum within 60 days following the date of termination, subject to the effectiveness of a general release of claims, as the Company may deem necessary or appropriate.

The Death and Disability benefit as adopted by the Committee at the February 10, 2015 Committee meeting shall only be applicable to employees who were EVPs as of May 4, 2016, and not EVPs hired or promoted after that date.

Equity will not be accelerated without Board approval.

To the extent applicable, the Policy shall be interpreted and applied consistent and in accordance with Section 409A of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder ("Section 409A"). Notwithstanding any provision of the Policy to the contrary, to the extent that the Company determines that any payments or benefits under the Policy may not be either compliant with or exempt from Code Section 409A and related Department of Treasury guidance, the Company may in its sole discretion adopt such amendments to the Policy or take such other actions that the Company determines are necessary or appropriate to (i) exempt the compensation and benefits payable under the Policy from Code Section 409A and/or preserve the intended tax treatment of such compensation and benefits, or (ii) comply with the requirements of Code Section 409A and related Department of Treasury guidance; *provided*, *however*, that this paragraph shall not create any obligation on the part of the Company to adopt any such amendment or take any other action, nor shall the Company have any liability for failing to do so. For purposes of any provision of this Policy providing for the payment of any amount or benefit upon or following a termination of employment that constitutes "nonqualified deferred compensation" under Section 409A, a termination of employment shall not be deemed to have occurred unless such termination is also a "separation from service" within the meaning of Section 409A and, for purposes of any such provision of this Policy, references to a "termination," "termination of employment" or like terms shall mean "separation from service." Notwithstanding anything to the contrary in the Policy, no amounts shall be paid to any Covered Individual under the Policy during the six-month period following such Covered Individual's "separation from service" (within the meaning of Code Section 409A(a)(2)(A)(i) and Treasury Regulation Section 1.409A-1(h)) to the extent that the Company determines that paying such amounts at the time or times indicated in the Policy would result in a prohibited distribution under Internal Revenue Code Section 409A(a)(2)(B)(i). If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six-month period (or such earlier date upon which such amount can be paid under Section 409A without resulting in a prohibited distribution, including as a result of the Covered Individual's death), the Covered Individual shall receive payment of a lump-sum amount equal to the cumulative amount that would have otherwise been payable to the Covered Individual during such six-month period without interest thereon.

This Policy may be amended or terminated by the Company's Board of Directors at any time and from time to time, in either the Board's discretion.

Exhibit 10.50

6480 Via Del Oro / San Jose, CA 95119 / +1-408-579-2800 / ExtremeNetworks.com

January 29, 2020

Via Email

Robert Gault
[address]

Re: Separation Agreement

Dear Bob:

I am writing to confirm the terms of your transition and separation from employment with Extreme Networks, Inc. (the "Company"). This letter, upon your signatures on the First Release and Second Release (defined below), will constitute the entire and final agreement between you and the Company concerning the terms of your transition and separation from employment and offers you a severance package in exchange for two releases of claims (the "Agreement"). This Agreement has two effective dates. Provided that you have not revoked the Agreement by written notice to Dean Chabrier at the Company prior to that day, the "First Effective Date" will be the eighth (8th) day after you sign the Agreement evidencing your release of claims up to and including the date of your first signature (the "First Release"), and the "Second Effective Date" will be the eighth (8th) day after you sign the release of claims up to and including the date of your second signature (the "Second Release").

1. Transition and Separation:

1.1 Separation Date: Your employment with the Company will terminate effective March 1, 2020 (the "Separation Date"). Your status as an officer of the Company will terminate on January 29, 2020. You hereby agree to execute such further document(s) as shall be determined by the Company as necessary or desirable to give effect to the termination of your status as an officer of the Company as of January 29, 2020; provided that such documents shall not be inconsistent with any of the terms of this Agreement.

1.2 Transition Period: The period between the date of this letter and the Separation Date is the Transition Period. During the Transition Period, you will receive the same base salary and benefits that you were receiving immediately before the date of this letter, as well as any earned bonus paid in accordance with the FY20 H1 bonus plan, and will be expected to:

1.2.1 Be available full-time through and including the Separation Date to transition your duties, respond promptly and thoroughly to inquiries, and perform any work requested;

1.2.2 Comply with all applicable Company policies;

1.2.3 Discharge all job duties in a professional, collegial, and diligent manner; and

1.2.4 Work diligently to plan and execute the transition of your tasks and responsibilities to designated employees (collectively, the "Transition Requirement").

2. Payment of Final Wages, Bonus, and Expenses; and COBRA Rights:

2.1 Final Wages: In a timeframe in accordance with state law, the Company will provide you with a final paycheck that will include all wages earned through the Separation Date, including unused accrued Paid Time Off ("PTO"), if any, all subject to appropriate tax and other applicable withholding.

2.2 Expenses: You will be reimbursed for all outstanding properly documented and properly approved business expenses incurred through the Separation Date, if any, according to the usual Company procedures. You will submit your final documented expense reimbursement statement within ten (10) days following the Separation Date.

2.3 COBRA Rights: As provided by law ("COBRA") and by the Company's current group health insurance policies, if you are currently covered under such policies, you will be eligible to continue your health insurance benefits following your Separation Date. You will be provided with a separate notice of your right to elect health insurance continuation. To the extent you have such rights, nothing in this Agreement will impair those rights.

You will be provided with the payments and benefits described in this Section 2 whether or not you sign this Agreement.

3. Wage and PTO Acknowledgment: You acknowledge that, as of the Separation Date, other than your final paycheck as provided in Section 2.1 above, you have been paid all wages, including bonuses, commissions, and any accrued, unused PTO that you earned during your employment with the Company.

4. Equity: Vesting of any equity awards, including stock options and restricted stock units shall cease effective as of the Separation Date. Your rights with respect to such awards shall continue to be governed by and subject to the terms and conditions of the related stock option and/or restricted stock unit award agreement or any other applicable equity plans/agreements under which they were granted.

5. Consideration from the Company: As new consideration to which you are not otherwise entitled, and in exchange for your signing and returning to the Company and not revoking the First Release and the Second Release, the Company will provide you with the following consideration (with the items listed in this Section 5 collectively constituting your "Severance Package"):

5.1 First Release Consideration: Contingent upon your execution of the First Release and it becoming effective and irrevocable within thirty (30) days after the date of this Agreement, the Company will pay you the gross amount of Twenty-Five Thousand and no/100 dollars ($25,000.00) (the "First Severance Pay"), subject to appropriate tax and other applicable withholding.

5.2 Second Release Consideration: Contingent upon your satisfactory discharge of the Transition Requirements and execution of the Second Release on or after the Separation Date and it becoming effective and irrevocable within thirty (30) days after the Separation Date, the Company will) pay you the additional gross amount of Four Hundred Thousand and 16/100 dollars ($400,000.16), subject to appropriate tax and other applicable withholding (the "Second Severance Pay").

5.3 Timing of Severance Pay: The First Severance Pay and Second Severance Pay will be paid by direct deposit to the account you have previously designated for paychecks. The First Severance Pay will be paid on the first payroll date that is at least seven days following the First Effective Date. The Second Severance Pay will be paid on the first payroll date that is at least seven days following the Second Effective Date.

5.4 COBRA Subsidy: The Company shall provide a cash equivalent subsidy equal to twelve (12) months of COBRA coverage for medical and/or dental coverage (at the levels and elections you have currently selected). The subsidy will be paid to you, less withholding taxes, on the first payroll date that is at least seven days following the Second Effective Date.

5.5 Outplacement Services: Provided that you elect to engage Right Management to assist you with outplacement services within 90 days after your Separation Date, the Company shall provide twelve (12) months of outplacement services.

6. Return of Company Property and Completion of Off-Boarding: You hereby confirm that you will return or have returned, within 10 days following the Separation Date, all Company property of any type whatsoever that has been in your possession, custody, or control. No part of the Severance Package will be due until all Company property has been returned, and you have properly completed all off-boarding items.

7. Company Confidential Information: You acknowledge that you are bound by your Employee Innovations and Proprietary Rights Assignment Agreement or Employee Confidential Information and Assignment of Inventions Agreement (“Proprietary Rights Agreement”) with the Company, dated December 15, 2014 and that you will continue, even after your employment has terminated, to hold all confidential and proprietary information (including internal policies and procedures) of the Company in strictest confidence. A copy of your Proprietary Rights Agreement is attached as Exhibit A.

8. Release of Claims:

8.1 General Release: You and your successors hereby release and waive any and all claims, demands, debts, liabilities, actions, and causes of action you have or may have, or at any other time had, against the Company and its current and former predecessors, parent corporations, subsidiaries, and related entities, and each of their shareholders, investors, officers, directors, agents, attorneys, insurers, employees, successors, subscribers, affiliates, or assigns (collectively “Releasees”), whether known or unknown, suspected or unsuspected, based upon or arising out of any matter, cause, fact, thing, act, or omission whatsoever, including matters, causes, facts, things, acts or omissions relating in any way to your employment, and separation from the Company occurring at any time up to and including the date on which you sign this Agreement (or, in the case of the Second Release, the date the Second Release is signed), including, without limitation: (i) claims of unlawful or wrongful discharge, breach of contract, breach of the covenant of good faith and fair dealing, fraud, misrepresentation, negligence, breach of fiduciary duty, violation of public policy, defamation, physical injury, emotional distress, claims for additional compensation or benefits; (ii) claims of national origin, race, age, sex, sexual orientation, disability, or other discrimination or harassment; (iii) claims under federal, state, and local statutory law, including, without limitation, Title VII of the 1964 Civil Rights Act, the Americans

with Disabilities Act, the Age Discrimination in Employment Act of 1967, ("ADEA"), the Family and Medical Leave Act, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, the National Labor Relations Act, the California Fair Employment and Housing Act, the California Family Rights Act, the California Labor Code, the New Jersey Law Against Discrimination, the New Jersey Civil Rights Act, the New Jersey Conscientious Employee Protection Act, the New Jersey Family Leave Act, the New Jersey Equal Pay Law, the New Jersey Occupational Safety and Health Law, all as amended; and (iv) claims under any other applicable laws and/or regulations of any applicable jurisdiction relating to employment or employment discrimination, and the law of contract and tort (collectively, the "Released Claims"). However, this release is not intended to bar any claims that, by statute, may not be waived, such as any challenge to the validity of your release of claims under the ADEA, as set forth in this Agreement, claims for workers' compensation benefits, unemployment insurance benefits, or any statutory right to be indemnified for necessary expenditures or losses incurred in the discharge of your duties under California Labor Code Section 2802.

8.2 ADEA Release: This Agreement is intended to satisfy the requirements of the Older Workers' Benefit Protection Act of 1990 ("OWBPA"). You hereby acknowledge that you are waiving and releasing any rights you have or may have under the ADEA and that this waiver and release is knowing and voluntary. You acknowledge that the Severance Package is in addition to anything to which you were already entitled. You agree further that you are advised by this Agreement, as required by the OWBPA, that (a) this waiver and release does not apply to any rights or claims that may arise under the ADEA after you execute this Agreement (or, in the case of the Second Release, after you execute the Second Release), (b) you have the right to consult with an attorney prior to signing this Agreement, (c) you have twenty-one (21) days from the date you received this Agreement to consider it (although you may by your own choice sign the Agreement earlier, and revisions to this Agreement, whether material or immaterial, do not restart the running of this period), (d) you have seven (7) days following your signing of the Agreement to revoke the Agreement, and (e) this Agreement shall not be effective until the revocation period has expired, therefore making the effective date the eighth (8th) day after this Agreement is signed by you. In addition, this Agreement does not prohibit you from challenging the validity of this Agreement's waiver and release of claims under the ADEA.

8.3 Section 1542: By signing below, you expressly waive and release and promise never to assert any Released Claims against any of the Releasees, even if you do not now believe that you have such claims. You therefore waive, to the fullest extent permitted under applicable law, your rights under Section 1542 of the Civil Code of California (set forth below) or any other statute of similar effect.

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

8.4 Right to Participate in Agency Proceeding: This release does not prohibit you from filing a charge with the Equal Employment Opportunity Commission (the "EEOC") or equivalent state or local agency in your state or the National Labor Relations Board ("NLRB") or participating in an EEOC, state, or local administrative agency or NLRB investigation, or making other disclosures that are protected under the whistleblower, anti-discrimination or anti-retaliation provisions of federal, state or local law or regulation. However, you do agree to waive your right to monetary or other recovery should any claim be pursued with the EEOC, state agency, NLRB, or any other federal, state, or local administrative agency on your behalf arising out of or related to your employment with and/or separation from the Company. Additionally, this Agreement does not limit or waiver your right to file an application for an award for original information submitted pursuant to Section 21F of the Securities Exchange Act of 1934.

9. Nondisparagement: You agree that you will neither make nor publish, either orally or in writing, any disparaging statements regarding the Company, or its officers, directors, or employees, unless such statements are made truthfully in response to a subpoena or other legal process, or in any way impede or interfere with the professional relationships of the Company.

10. Nonsolicitation: You recognize the highly competitive nature of the Company's business and that Company employees are exposed to Company trade secrets, which may include confidential information regarding its employees. Therefore, you agree that for a period of one (1) year following the Separation Date, you will not, on behalf of yourself or any other person or entity, directly or indirectly solicit any employee of the Company to terminate his or her employment with the Company.

11. Response to Prospective Employers: In response to inquiries from prospective employers regarding you, the Company will instruct its officers to provide no information other than your dates of employment and positions held with the Company.

12. Confidentiality of Agreement: The contents, terms, and conditions of this Agreement must be kept confidential by you and must not be disclosed except to your accountant, attorneys, and family members (all of whom you will instruct to maintain confidentiality) or pursuant to a subpoena, court order, or an agency request as described in Section 8.4. You agree that if you are asked for information concerning the circumstances of your separation or this Agreement, you will state only that you and the Company reached an amicable resolution of any disputes concerning your separation from the Company. In the event you receive a subpoena or other legal request to provide such confidential information, you agree to provide the Company with reasonable and prompt notice in advance of your disclosure of any such information.

13. Defend Trade Secrets Act: Notwithstanding any provisions in this agreement or company policy applicable to the unauthorized use or disclosure of trade secrets, you are hereby notified that, pursuant to Section 7 of the DTSA, you cannot be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law. You also may not be held so liable for such disclosures made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In addition, individuals who file a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

14. No Admission of Liability and Binding Effect: This Agreement and any action taken by the Company or you, either previously or in connection with this Agreement, is not and shall not be construed to be an admission or evidence of any wrongdoing or liability on the part of either party. This Agreement shall be binding upon, and shall inure to the benefit of, the parties and their respective successors, assigns, heirs, and personal representatives.

15. Modification and Severability: It is expressly agreed that this Agreement may not be altered, amended, modified, or otherwise changed in any respect except by another written agreement that specifically refers to this Agreement, executed by an authorized representative of the Company and you. You and the Company agree that if, for any reason, any term or provision of this Agreement is determined by a court to be invalid or unenforceable, in whole or in part, the remaining terms and provisions shall remain fully enforceable. Such court will have the authority to modify or replace the invalid or unenforceable term or provision with a valid and enforceable term or provision that most accurately represents the parties' intention with respect to the invalid or unenforceable term or provision.

16. Governing Law, Dispute Resolution, and Attorneys' Fees: This Agreement shall be construed and governed by the laws of the State of California, and you and the Company agree that in the event of any litigation involving this Agreement, such litigation shall take place in either the state or federal courts located in Santa Clara County, California, and you submit to the jurisdiction of those courts. The prevailing party in any such dispute shall be awarded reasonable attorneys' fees and costs, unless otherwise prohibited by law.

17. Entire Agreement; Full Payment: This Agreement, together with your Proprietary Rights Agreement, constitutes the entire agreement between you and the Company with respect to the subject matter hereof and supersedes all prior negotiations and agreements, whether written or oral, relating to such subject matter. You acknowledge that neither the Company nor its agents or attorneys have made any promise, representation, or warranty whatsoever, either express or implied, written or oral, which is not contained in this Agreement for the purpose of inducing you to execute the Agreement, and you acknowledge that you have executed this Agreement in reliance only upon such promises, representations, and warranties as are contained herein. You further acknowledge that the payments and arrangements in this Agreement shall constitute full and complete satisfaction of any and all amounts properly due and owing to you as a result of your employment with the Company and separation therefrom.

18. Review of Separation Agreement: You understand that you may take up to twenty-one (21) days to consider this Agreement and, by signing below, affirm that you were advised to consult with an attorney prior to signing this Agreement. You also understand that you may revoke this Agreement in writing, directed to Dean Chabrier, Chief People Officer within seven (7) days of signing this Agreement, that the Effective Date of this Agreement is the eighth (8th) day after you sign without revoking, and that the consideration set forth above in Section 5 will not be paid or otherwise provided until after the Effective Date. Please review the Agreement, and let me know if you have any questions.

19. Accepting the Agreement: To accept the First Release, please date and sign this Agreement below by February 20, 2020 (the 22nd day from presentment) and return the Agreement to me. To accept the Second Release, please date and sign the Second Release below no sooner than March 1, 2020 (the Separation Date), and no later than March 23, 2020 (the 22nd day from the Separation Date) and return it to me. You also may accept this Agreement and the Second Release by providing me with a signed facsimile copy or a signed portable document format (“PDF”) of the Agreement and the Second Release by those respective dates. You and the Company agree to accept signed electronic or written signatures on a PDF of this Agreement and the Second Release as fully binding originals. If you do not sign and return the Agreement or the Second Release by those dates, the Agreement and/or Second Release (as applicable) will expire.

We wish you the best in your future endeavors and thank you for your contributions to the Company.

Sincerely,

Extreme Networks, Inc.

/s/ D. Chabrier

By: Dean Chabrier
Title: Chief People Officer

By signing this First Release, I acknowledge that I have had the opportunity to review this Agreement carefully, that I understand the terms of the Agreement, and that I voluntarily agree to those terms.

Dated: ________________ 1/28/20 ________________, 2020

/s/ Robert Gault

Robert Gault

Second Release
(to be signed on or after Separation Date)

By signing this Second Release, I affirm that:

1. I have read the terms of the Agreement again, that I understand the terms, and I affirm the validity of the general release of claims in Section 8 of the Agreement and freely agree that the terms and conditions of the Agreement are extended up to and including the Separation Date.

2. I affirm the validity of Section 3 above regarding receipt of compensation due.

3. I understand that my rights set forth in Section 8.2 of the Agreement apply to this Second Release.

4. I understand that if I do not execute this Second Release, or if I revoke my acceptance of this Second Release within seven (7) days after signing, I will not be entitled to the Second Severance Pay.

5. That the Agreement is complete, true, accurate, valid, and in full force and effect as of the date below.

____
Robert Gault

____
Date

EXHIBIT A

Proprietary Rights Agreement

Exhibit 31.1

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

I, Edward B. Meyercord III, certify that:

1. I have reviewed this Form 10-Q of Extreme Networks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:January 30, 2020

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

Exhibit 31.2

SECTION 302 CERTIFICATION OF REMI THOMAS
AS CHIEF FINANCIAL OFFICER

I, Remi Thomas, certify that:

1. I have reviewed this Form 10-Q of Extreme Networks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date:January 30, 2020

/s/ REMI THOMAS
Remi Thomas
Executive Vice President, Chief Financial Officer
(Principal Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of Extreme Networks, Inc. on Form 10-Q for the period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, in the capacities and on the date specified below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 30, 2020

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

Exhibit 32.2

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

In connection with the Quarterly Report of Extreme Networks, Inc. on Form 10-Q for the period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, in the capacities and on the date specified below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 30, 2020

/s/ REMI THOMAS
Remi Thomas
Executive Vice President, Chief Financial Officer
(Principal Accounting Officer)