# 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 September 30, 2017**

**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**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company 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 | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

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

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

The number of shares of the Registrant's Common Stock, $.001 par value, outstanding at November 3, 2017, was 113,420,099

**EXTREME NETWORKS, INC.**

**FORM 10-Q**
**QUARTERLY PERIOD ENDED 2018**

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**EXTREME NETWORKS, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share and per share amounts)**
**(Unaudited)**

| | September 30, 2017 | June 30, 2017 (As adjusted) |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 153,014 | $ 130,450 |
| Accounts receivable, net of allowance for doubtful accounts of $1,685 at September 30, 2017 and $1,190 at June 30, 2017 | 116,500 | 93,115 |
| Inventories | 58,100 | 47,410 |
| Prepaid expenses and other current assets | 18,237 | 27,867 |
| Total current assets | 345,851 | 298,842 |
| Property and equipment, net | 38,627 | 30,240 |
| Intangible assets, net | 67,328 | 25,337 |
| Goodwill | 118,554 | 80,216 |
| Other assets | 27,524 | 25,065 |
| Total assets | $ 597,884 | $ 459,700 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 17,863 | $ 12,280 |
| Accounts payable | 50,567 | 31,587 |
| Accrued compensation and benefits | 38,810 | 42,662 |
| Accrued warranty | 13,499 | 10,584 |
| Deferred revenue | 90,705 | 79,048 |
| Other accrued liabilities | 52,335 | 37,044 |
| Total current liabilities | 263,779 | 213,205 |
| Deferred revenue, less current portion | 28,500 | 25,293 |
| Long-term debt, less current portion | 149,729 | 80,422 |
| Deferred income taxes | 7,204 | 6,576 |
| Other long-term liabilities | 13,235 | 8,526 |
| Commitments and contingencies (Note 9) | | |
| Stockholders' equity: | | |
| Convertible preferred stock, $.001 par value, issuable in series, 2,000,000 shares authorized; none issued | — | — |
| Common stock, $.001 par value, 750,000,000 shares authorized; 113,304,977 shares issued and outstanding at September 30, 2017 and 110,924,508 shares issued and outstanding at June 30, 2017 | 113 | 111 |
| Additional paid-in-capital | 913,998 | 909,155 |
| Accumulated other comprehensive loss | (1,764) | (2,302) |
| Accumulated deficit | (776,910) | (781,286) |
| Total stockholders' equity | 135,437 | 125,678 |
| Total liabilities and stockholders' equity | $ 597,884 | $ 459,700 |

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 | |
|---|---|---|
| | September 30, 2017 | September 30, 2016 (As adjusted) |
| Net revenues: | | |
| Product | $ 164,774 | $ 90,093 |
| Service | 46,941 | 32,511 |
| Total net revenues | 211,715 | 122,604 |
| Cost of revenues: | | |
| Product | 80,045 | 44,249 |
| Service | 19,289 | 12,469 |
| Total cost of revenues | 99,334 | 56,718 |
| Gross profit: | | |
| Product | 84,729 | 45,844 |
| Service | 27,652 | 20,042 |
| Total gross profit | 112,381 | 65,886 |
| Operating expenses: | | |
| Research and development | 34,285 | 18,299 |
| Sales and marketing | 55,561 | 36,859 |
| General and administrative | 12,185 | 8,287 |
| Acquisition and integration costs | 4,244 | 2,321 |
| Amortization of intangibles | 1,614 | 4,142 |
| Total operating expenses | 107,889 | 69,908 |
| Operating income (loss) | 4,492 | (4,022) |
| Interest income | 647 | 57 |
| Interest expense | (2,215) | (647) |
| Other income (expense), net | 3,127 | (223) |
| Income (loss) before income taxes | 6,051 | (4,835) |
| Provision for income taxes | 1,675 | 907 |
| Net income (loss) | $ 4,376 | $ (5,742) |
| Basic and diluted net income (loss) per share: | | |
| Net income (loss) per share - basic | $ 0.04 | $ (0.05) |
| Net income (loss) per share - diluted | $ 0.04 | $ (0.05) |
| Shares used in per share calculation - basic | 112,241 | 105,955 |
| Shares used in per share calculation - diluted | 118,431 | 105,955 |

See accompanying notes to condensed consolidated financial statements.

**EXTREME NETWORKS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(In thousands)**
**(Unaudited)**

| | Three Months Ended | |
|---|---|---|
| | September 30, 2017 | September 30, 2016 (As adjusted) |
| Net income (loss): | $ 4,376 | $ (5,742) |
| Other comprehensive income, net of tax: | | |
| Available for sale securities: | | |
| Change in unrealized gains on available for sale securities, net of taxes | 183 | — |
| Net change in foreign currency translation adjustments | 355 | 126 |
| Other comprehensive income, net of tax: | 538 | 126 |
| Total comprehensive income (loss) | $ 4,914 | $ (5,616) |

See accompanying notes to condensed consolidated financial statements.

**EXTREME NETWORKS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**
**(Unaudited)**

| | September 30, 2017 | September 30, 2016 (As adjusted) |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ 4,376 | $ (5,742) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 3,125 | 2,437 |
| Amortization of intangible assets | 4,309 | 7,640 |
| Provision for doubtful accounts | 489 | 223 |
| Stock-based compensation | 4,803 | 3,475 |
| Realized gain on sale of non-marketable equity investment | (3,757) | — |
| Other non-cash charges | 1,416 | 695 |
| Changes in operating assets and liabilities, net of assets acquired and liabilities assumed | | |
| Accounts receivable | (5,762) | 16,606 |
| Inventories | 5,915 | (3,312) |
| Prepaid expenses and other assets | (1,856) | 1,465 |
| Accounts payable | 9,042 | (3,154) |
| Accrued compensation and benefits | (5,360) | (7,318) |
| Deferred revenue | 4,650 | (2,622) |
| Other current and long term liabilities | (2,792) | (819) |
| Net cash provided by operating activities | 18,598 | 9,574 |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (7,421) | (1,635) |
| Acquisitions | (68,047) | — |
| Proceeds from sale of non-marketable equity investment | 4,922 | — |
| Net cash used in investing activities | (70,546) | (1,635) |
| **Cash flows from financing activities:** | | |
| Borrowings under Term Loan | 80,000 | — |
| Repayments of debt | (4,093) | (3,250) |
| Loan fees on borrowings | (1,494) | — |
| Proceeds from issuance of common stock, net of tax | 42 | 3,416 |
| Net cash provided by financing activities | 74,455 | 166 |
| Foreign currency effect on cash | 57 | 38 |
| Net increase in cash and cash equivalents | 22,564 | 8,143 |
| **Cash and cash equivalents at beginning of period** | 130,450 | 94,122 |
| **Cash and cash equivalents at end of period** | $ 153,014 | $ 102,265 |

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 generally accepted accounting principles have been condensed or omitted under such rules and regulations. The condensed consolidated balance sheet at June 30, 2017 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, 2017.

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 September 30, 2017. The results of operations for the three months ended September 30, 2017 are not necessarily indicative of the results that may be expected for fiscal 2018 or any future periods.

Effective July 1, 2017, the Company adopted the requirements of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. All amounts and disclosures set forth in this Form 10-Q have been updated to comply with the new standards, as indicated by the "as adjusted" footnote.

*Fiscal Year*

The Company uses a fiscal calendar year ending on June 30. All references herein to "fiscal 2018" or "2018" represent the fiscal year ending June 30, 2018. All references herein to "fiscal 2017" or "2017" represent the fiscal year ending June 30, 2017.

*Principles of Consolidation*

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

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

*Accounting Estimates*

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

## 2. Business Combinations

### 2018 Acquisition

On July 14, 2017, (the "Avaya Closing Date") the Company completed its acquisition of Avaya Inc.'s. ("Avaya") fabric-based secure networking solutions and network security solutions business ("Avaya Networking") that had been announced on March 7, 2017. Upon the terms and subject to the conditions of the asset purchase agreement (the "Avaya Purchase Agreement"), the Company acquired the customers, employees, technology and other assets of Avaya Networking, as well as assume certain contracts and other liabilities of Avaya Networking, for total provisional consideration of $79.8 million, calculated as $100.0 million, less adjustments set forth in the Avaya Purchase Agreement related to net working capital, deferred revenue, certain assumed lease obligations and certain assumed pension obligations for transferring employees of Avaya Networking. Pursuant to certain ancillary agreements, Avaya will also provide the Company with access to specified technology related to Avaya Networking, as well as transition services for a period of time following the Avaya Closing Date of the transaction. As a condition of the Avaya Purchase Agreement, the Company had made deposits of $10.2 million in the third quarter of fiscal 2017, which were applied to the purchase price upon the Avaya Closing Date.

The transaction has been accounted for using the acquisition method of accounting. The provisional purchase price has been allocated on a preliminary basis to tangible and intangible assets acquired and liabilities assumed. The final purchase price allocation is pending the finalization of valuations, which may result in an adjustment to the preliminary purchase price allocation. Also, additional information which existed as of the acquisition date, but was unknown to the Company at that time, may become known to the Company during the remainder of the measurement period (up to one year from the acquisition date), and may result in a change in the purchase price allocation. While management believes that its preliminary estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired and liabilities assumed, and the resulting amount of goodwill.

The following table below summarizes the preliminary allocation as of September 30, 2017 of the tangible and identifiable intangible assets acquired and liabilities assumed:

| | | Preliminary Allocation as of July 14, 2017 |
|---|---|---|
| Accounts receivables, net | $ | 18,112 |
| Inventory | | 16,605 |
| Other current assets | | 673 |
| Property and equipment | | 3,768 |
| Other long-term assets | | 2,568 |
| Accounts payable and accrued expenses | | (29,716) |
| Deferred revenue | | (10,214) |
| Other liabilities | | (6,608) |
| Net tangible assets acquired | | (4,812) |
| Identifiable intangible assets | | 44,000 |
| In-process research and development | | 2,300 |
| Goodwill | | 38,338 |
| Total intangible assets acquired | | 84,638 |
| Total net assets acquired | $ | 79,826 |

The estimated purchase price has been allocated based on the preliminary estimates of the fair value of assets acquired and liabilities assumed as of the acquisition date. The fair value of working capital related items, such as other current assets and accrued liabilities, approximated their book values at the date of acquisition. Inventories were valued at fair value using the net realizable value approach. The fair value of property and equipment was determined using a cost approach. The fair value of the acquired deferred revenue was estimated using the cost build-up approach. The cost build-up approach determines fair value using estimates of the costs required to provide the contracted deliverables plus an assumed profit. The total costs including the assumed profit were adjusted to present value using a discount rate considered appropriate. The resulting fair value approximates the amount that the Company would be required to pay a third party to assume the obligation. Valuations of the intangible assets were valued using income approaches based on projections provided by management, which the Company considers to be Level 3 inputs. The Company also continues to analyze the tax implications of the acquisition of the intangible assets which may ultimately impact the overall level of goodwill associated with the acquisition.

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

| Intangible Assets | Estimated Useful Life (in years) | | Amount |
|---|---|---|---|
| Developed technology | 6 | $ | 34,800 |
| Customer relationships | 4 | | 5,300 |
| Trademarks | 5 | | 2,400 |
| Backlog | 1 | | 1,500 |
| Total identifiable intangible assets | | $ | 44,000 |

The amortization for the developed technology is recorded in “Cost of revenues” for product and the amortization for the remaining intangibles is recorded in “Amortization of intangibles” on the condensed consolidated statement of operations. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of the Avaya Networking. The Company anticipates both the goodwill and intangible assets to be fully deductible for tax purposes.

The Company also acquired an indefinite lived asset of $2.3 million which represents the fair value of in-process research and development activities. Once the related research and development efforts are completed, the Company will determine whether the asset will continue to be an indefinite lived asset or become a finite lived asset and apply the appropriate accounting accordingly.

The results of operations of Avaya Networking are included in the condensed consolidated results of operations beginning July 14, 2017. The associated expenses of the Avaya Networking business have been incorporated with the results of operations of the Company as a product line and, therefore, stand-alone operating results are not available. The Company incurred $5.1 million of acquisition-related expenses of which $2.9 million was incurred in the three months ended September 30, 2017. Such acquisition-related costs are included in “Acquisition and integration costs” on the condensed consolidated statement of operations. The costs, which the Company expensed as incurred, consist primarily of professional fees to financial and legal advisors and IT consultants and companies.

**2017 Acquisition**

On October 28, 2016, the Company completed the acquisition of the wireless local area network business (“WLAN Business”) from Zebra Technologies Corporation. Under the terms of the purchase agreement, the Company acquired customers, employees, technology and other assets as well as assumed certain contracts and other liabilities of the WLAN Business, for a net cash consideration to $49.5 million.

The acquisition has been accounted for using the acquisition method of accounting. The purchase price allocation as of the acquisition date is set forth in the table below and reflects fair values. The fair values were determined through established and generally accepted valuation techniques, including work performed by third-party valuation specialists. All valuations were considered finalized as of June 30, 2017.

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

| | | Final Allocation as of October 28, 2016 |
|---|---|---|
| Accounts receivables, net | $ | 14,636 |
| Inventory | | 13,593 |
| Other current assets | | 808 |
| Property and equipment | | 3,159 |
| Other long-term assets | | 7,634 |
| Deferred revenue | | (14,159) |
| Other liabilities | | (7,201) |
| Total tangible assets acquired and liabilities assumed | | 18,470 |
| Identifiable intangible assets | | 20,300 |
| In-process research and development | | 1,400 |
| Goodwill | | 9,339 |
| Total intangible assets acquired | | 31,039 |
| Total net assets acquired | $ | 49,509 |

The purchase price has been allocated based on the fair value of assets acquired and liabilities assumed as of the acquisition date. The fair value of working capital related items, such as other current assets and accrued liabilities, approximated their book values at the date of acquisition. Inventories were valued at fair value using the net realizable value approach. The fair value of property and equipment was determined using a cost approach. The fair value of the acquired deferred revenue was estimated using the cost build-up approach. The cost build-up approach determines fair value using estimates of the costs required to provide the contracted deliverables plus an assumed profit. The total costs including the assumed profit were adjusted to present value using a discount rate considered appropriate. The resulting fair value approximates the amount that the Company would be required to pay a third party to assume the obligation. Valuations of the intangible assets were valued using income approaches based on projections provided by management, which we consider to be Level 3 inputs.

***Pro forma financial information***

The following unaudited pro forma results of operations are presented as though the acquisition of Avaya Networking and WLAN Business had occurred as of the beginning of the earliest period presented after giving effect to purchase accounting adjustments relating to inventories, deferred revenue, depreciation and amortization on acquired property and equipment and intangibles, acquisition costs, interest income and expense and related tax effects.

The pro forma results of operations are not necessarily indicative of the combined results that would have occurred had the acquisition been consummated as of the earliest period presented, 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 months ended September 30, 2017, combines the results for Extreme for the three months ended September 30, 2017, which include the results of Avaya Networking subsequent to the acquisition date, and the historical results of Avaya Networking for the month of July 2017 up to the acquisition date of July 14, 2017. Pro forma results of operations from Avaya Networking acquisition for the quarter ended September 30, 2017 prior to the acquisition date have not been adjusted for the adoption of ASC 606 because the Company determined that it was impractical to estimate the impact of the adoption.

The unaudited pro forma financial information for the three months ended September 30, 2016, combines the historical results for Extreme for those periods, as adjusted for the adoption of ASC 606, with the historical results of Avaya Networking and WLAN Business for the three months ended September 30, 2016. Pro forma results of operations from Avaya Networking and WLAN Business acquisitions for the quarter ended September 30, 2016 have not been adjusted for the adoption of ASC 606 because the Company determined that it is impractical to estimate the impact of the adoption.

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

| | Three Months Ended | |
|---|---|---|
| | September 30, 2017 | September 30, 2016 (As adjusted) |
| Net revenues | $ 222,382 | $ 238,858 |
| Net income (loss) | $ 16,776 | $ (8,936) |
| Net income (loss) per share - basic | $ 0.15 | $ (0.08) |
| Net income (loss) per share - diluted | $ 0.14 | $ (0.08) |
| Shares used in per share calculation - basic | 112,241 | 105,955 |
| Shares used in per share calculation - diluted | 118,431 | 105,955 |

## 3. Summary of Significant Accounting Policies

For a description of significant accounting policies, see Note 3, Summary of Significant Accounting Policies, to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017. Except for the following policy, there have been no material changes to the Company’s significant accounting policies since the filing of the Annual Report on Form 10-K.

*Revenue Recognition*

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

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. For each contract, the Company considers the promise to transfer products and services, each of which are distinct, to be the identified performance obligations. In determining the transaction price the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled.

For all of the Company's sales and distribution channels, revenue is recognized when control of the product is transferred to the customer (i.e. when the Company's performance obligation is satisfied), which typically occurs at shipment for product sales. Revenue from maintenance contracts is recognized over time as the Company's performance obligations are satisfied. This is typically the contractual service period, which range from one to three years. For product sales to value-added resellers of the Company, non-stocking distributors and end-user customers, the Company generally does not grant return privileges, except for defective products during the warranty period, nor does the Company grant pricing credits. Sales incentives and other programs that the Company may make available to these customers are considered to be a form of variable consideration and the Company maintains estimated accruals and allowances using the expected value method. There were no material changes in the current period to the estimated transaction price for performance obligations which were satisfied or partially satisfied during previous periods.

Sales to stocking distributors are made under terms allowing certain price adjustments and limited rights of return (known as "stock rotation") of the Company's products held in their inventory. Revenue from sales to distributors is recognized upon the transfer of control to the distributor. Frequently, distributors need to sell at a price lower than the contractual distribution price in order to win business, and submit rebate requests for Company pre-approval prior to selling the product through at the discounted price. At the time the distributor invoices its customer or soon thereafter, the distributor submits a rebate claim to the Company to adjust the distributor's cost from the contractual price to the pre-approved lower price. After the Company verifies that the claim was pre-approved, a credit memo is issued to the distributor for the rebate claim. In determining the transaction price, the Company considers these rebate adjustments to be variable consideration. Such price adjustments are estimated using the expected value method based on an analysis of actual claims, at the distributor level over a trailing twelve month period of time considered adequate to account for current pricing and business trends. Stock rotation rights grant the distributor the ability to return certain specified amounts of inventory. Stock rotation adjustments are an additional form of variable consideration and are also estimated using the expected value method based on historical return rates. 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.

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

The Company's performance obligations are satisfied at a point in time or over time as work progresses. Substantially all of the Company's product sales revenues as reflected on the consolidated statements of operations for the three-month periods ended September 30, 2017, and 2016 are recognized at a point in time. Substantially all of the Company's service revenue is recognized over time. For revenue recognized over time, the Company uses an input measure, days elapsed, to measure progress.

On September 30, 2017, the Company had $119.2 million of remaining performance obligations, which is comprised of deferred maintenance revenue and services not yet delivered. The Company expects to recognize approximately 70 percent of its remaining performance obligations as revenue in fiscal 2018, an additional 18 percent by fiscal 2019 and the balance thereafter.

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

Revenue recognized for the three month periods ended September 30, 2017 and 2016, that was included in the deferred revenue balance at the beginning of each year was $42.1 million and $37.2 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. These costs are included in selling and marketing expenses. Management expects that commission fees paid to sales representative as a result of obtaining service contracts and contract renewals are recoverable and therefore the Company capitalized them as contract costs in the amount of $2.5 million and $2.3 million at September 30, 2017 and 2016, 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 expenses. Amortization recognized during the three-month period ended September 30, 2017 and September 30, 2016, was $0.4 million and $0.3 million, respectively. There was no impairment loss in relation to the costs capitalized.

**Revenue by Category:** The following table sets forth the Company's revenue disaggregated by sales channel and geographic region based on the billing addresses of our customers (in thousands, unaudited):

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2017 | | | September 30, 2016 (As adjusted) | | |
| | Distributor | Direct | Total | Distributor | Direct | Total |
| Americas: | | | | | | |
| United States | $ 42,392 | $ 50,990 | $ 93,382 | $ 26,991 | $ 26,829 | $ 53,820 |
| Other | 14,336 | 6,395 | 20,731 | 1,393 | 9,628 | 11,021 |
| Total Americas | 56,728 | 57,385 | 114,113 | 28,384 | 36,457 | 64,841 |
| EMEA: | 51,232 | 27,903 | 79,135 | 31,299 | 16,529 | 47,828 |
| APAC: | 3,264 | 15,203 | 18,467 | 1,452 | 8,483 | 9,935 |
| Total net revenues | $ 111,224 | $ 100,491 | $ 211,715 | $ 61,135 | $ 61,469 | $ 122,604 |

## 4. Recent Accounting Pronouncements

*Recently Issued Accounting Pronouncements*

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2017-12, Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"), 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. The guidance is effective for fiscal years beginning after December 15, 2018. The Company is evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption. This guidance is effective for the Company beginning with its fiscal year 2020.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718) - Scope of Modification Accounting ("ASU 2017-09") which amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The guidance is effective prospectively for fiscal years beginning after December 15, 2017, and interim periods within that reporting period. Early adoption is permitted, including adoption in any interim period. The Company does not expect the adoption of this guidance to have a material effect on our financial statements. This guidance will be effective for the Company beginning with its fiscal year 2019.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures. This guidance will become effective for the Company beginning with its fiscal year 2019.

In February 2016, the FASB issued ASU No. 2016-02 (Topic 842), *Leases* ("ASU 2016-02") which requires the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the statement of operations will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASU 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, ASU 2016-02 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures. This guidance will become effective for the Company beginning with its fiscal year 2020.

*Recently Adopted Accounting Pronouncements*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services. In addition, ASU 2014-09 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted Topic 606 on July 1, 2017, using the full retrospective method. This adoption primarily affected the Company's accounting for distributor and resellers revenues from a primarily "sell-through" model, where revenue is recognized upon the sale from the distribution channel to the end customer, to the "sell-in" method where revenue is recognized upon transfer of control to its customers, including distributors. Under the sell-in method, the Company is required to make estimates at the time of shipment to its distributors of variable consideration as well as estimated returns under stock rotation rights granted to the distributors. Additionally, the Company capitalizes contract acquisition costs such as commissions paid for maintenance services contracts in excess of one year. Following the adoption of ASU 2014-09, the revenue recognition for the Company's other sales arrangements remained materially consistent with our historical practice.

Upon adoption of Topic 606, we applied the standard's practical expedients that allows a) an entity to use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods, b) that permits the omission of prior-period information about our performance obligations, and c) that allows the Company to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations.

See the tables at the end of this note for the effects of the adoption of ASU 2014-09 on our condensed consolidated financial statements as of June 30, 2017, and for the three months ended September 30, 2016. See Note 3. "Summary of Significant Accounting Policies" to our condensed consolidated financial statements for further discussion of the effects of the adoption of ASU 2014-09 on our significant accounting policies.

***Adjustments to Previously Reported Financial Statements from the Adoption of Accounting Pronouncements***

The following table presents the effect of the adoption of ASU 2014-09 on our condensed consolidated balance sheet (unaudited) as of June 30, 2017, (in thousands):

| | As of June 30, 2017 | | |
|---|---|---|---|
| | As Reported | Adjustment | As Adjusted |
| Accounts receivable, net | $ 120,770 | $ (27,655) | $ 93,115 |
| Inventories | 45,880 | 1,530 | 47,410 |
| Total current assets | 324,967 | (26,125) | 298,842 |
| Other assets | 22,586 | 2,479 | 25,065 |
| Total assets | 483,346 | (23,646) | 459,700 |
| | | | |
| Accrued warranty | 10,007 | 577 | 10,584 |
| Other accrued liabilities | 36,713 | 331 | 37,044 |
| Deferred distributors revenue, net of cost of sales to distributors | 43,525 | (43,525) | — |
| Total current liabilities | 255,822 | (42,617) | 213,205 |
| | | | |
| Accumulated deficit | (800,257) | 18,971 | (781,286) |
| Total stockholders' equity | 106,707 | 18,971 | 125,678 |
| Total liabilities and stockholders' equity | $ 483,346 | $ (23,646) | $ 459,700 |

The following table presents the effect of the adoption of ASU 2014-09 on our condensed consolidated statements of operations (unaudited) for the three months ended September 30, 2016 (in thousands, except per share amounts):

| | Three months ended September 30, 2016 | | |
|---|---|---|---|
| | As Reported | Adjustment | As Adjusted |
| Net revenues | | | |
| Product | $ 90,131 | $ (38) | $ 90,093 |
| Service | 32,511 | — | 32,511 |
| Total net revenues | 122,642 | (38) | 122,604 |
| | | | |
| Cost of revenues | | | |
| Product | 44,927 | (678) | 44,249 |
| Service | 12,469 | — | 12,469 |
| Total cost of revenues | 57,396 | (678) | 56,718 |
| | | | |
| Gross profit | | | |
| Product | 45,204 | 640 | 45,844 |
| Service | 20,042 | — | 20,042 |
| Total Gross profit | 65,246 | 640 | 65,886 |
| | | | |
| Sales and marketing expenses | 36,956 | (97 ) | 36,859 |
| Operating loss | (4,759 ) | 737 | (4,022) |
| Net loss before tax | (5,572) | 737 | (4,835) |
| | | | |
| Net loss | $ (6,479) | $ 737 | $ (5,742) |
| | | | |
| Basic and diluted net loss per share | | | |
| Net loss per share - basic | $ (0.06 ) | | $ (0.05) |
| Net loss per share - diluted | $ (0.06 ) | | $ (0.05) |
| | | | |
| Shares used in per share calculation - basic | 105,955 | | 105,955 |
| Shares used in per share calculation - diluted | 105,955 | | 105,955 |

The following table presents the effect of the adoption of ASU 2014-09 on our condensed consolidated statement of cash flows (unaudited) for the three months ended September 30, 2016 (in thousands):

| | Three months ended September 30, 2016 | | |
|---|---|---|---|
| | As Reported | Adjustment | As Adjusted |
| Cash flows from operating activities | | | |
| Net loss | $ (6,479) | $ 737 | $ (5,742) |
| Changes in operating assets and liabilities, net | | | |
| Accounts receivable | 12,950 | 3,656 | 16,606 |
| Inventories | (2,405) | (907) | (3,312) |
| Prepaid and other assets | 1,562 | (97) | 1,465 |
| Deferred distributors revenue, net of cost of sales to distributors | 3,412 | (3,412) | — |
| Other current and long term liabilities | (842) | 23 | (819) |
| Net cash provided by operating activities | 9,574 | — | 9,574 |
| Cash flows from investing activities | (1,635) | — | (1,635) |
| Cash flows from financing activities | 166 | — | 166 |
| Foreign currency effect on cash | 38 | — | 38 |
| Net increase in cash and cash equivalents | $ 8,143 | $ — | $ 8,143 |

## 5. Balance Sheet Accounts

*Cash, Cash Equivalents and Short-term Investments*

The following is a summary of cash, cash equivalents and short-term investments (in thousands):

| | September 30, 2017 | June 30, 2017 |
|---|---|---|
| Cash | $ 148,514 | $ 126,159 |
| Cash equivalents (consisting of available-sale-securities) | 4,500 | 4,291 |
| Total cash and cash equivalents | 153,014 | 130,450 |
| Short-term investments | 1,050 | — |
| Total cash, cash equivalents and short-term investments | $ 154,064 | $ 130,450 |

The Company considers highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Investments with original maturities greater than three months, but less than one year at the balance sheet date are classified as short-term investments. Short-term investments are recorded in “Prepaid expenses and other current assets” in the accompanying condensed consolidated balance sheets.

*Inventories*

The Company values its inventory at lower of cost or net realizable value. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. The Company has established inventory allowances primarily determined by the demand of inventory or 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 disclosed.

Inventories consist of the following (in thousands):

| | September 30, 2017 | June 30, 2017 (As Adjusted) |
|---|---|---|
| Finished goods | $ 57,515 | $ 46,620 |
| Raw materials | 585 | 790 |
| Total Inventories | $ 58,100 | $ 47,410 |

*Property and Equipment, Net*

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

| | September 30, 2017 | June 30, 2017 |
|---|---|---|
| Computer equipment | $ 40,209 | $ 34,716 |
| Purchased software | 12,961 | 11,785 |
| Office equipment, furniture and fixtures | 11,464 | 10,852 |
| Leasehold improvements | 27,167 | 23,046 |
| Total property and equipment | 91,801 | 80,399 |
| Less: accumulated depreciation and amortization | (53,174) | (50,159) |
| Property and equipment, net | $ 38,627 | $ 30,240 |

*Intangibles*

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 |
|---|---|---|---|---|
| September 30, 2017 | | | | |
| Developed technology | 5.3 years | $ 91,600 | $ 44,395 | $ 47,205 |
| Customer relationships | 2.9 years | 45,600 | 38,051 | 7,549 |
| Maintenance contracts | 1.1 years | 17,000 | 13,317 | 3,683 |
| Trademarks | 4.7 years | 7,500 | 3,057 | 4,443 |
| Backlogs | 0.2 years | 1,500 | 892 | 608 |
| License agreements | 6.2 years | 2,445 | 1,187 | 1,258 |
| Other intangibles | 2.4 years | 1,382 | 1,100 | 282 |
| Total intangibles, net with finite lives | | 167,027 | 101,999 | 65,028 |
| In-process research and development, with indefinite life | | 2,300 | — | 2,300 |
| Total intangibles, net | | $ 169,327 | $ 101,999 | $ 67,328 |

| | Weighted Average Remaining Amortization Period | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|---|
| June 30, 2017 | | | | |
| Developed technology | 5.3 years | $ 55,400 | $ 42,689 | $ 12,711 |
| Customer relationships | 3.3 years | 40,300 | 37,567 | 2,733 |
| Maintenance contracts | 1.3 years | 17,000 | 12,467 | 4,533 |
| Trademarks | 4.3 years | 5,100 | 2,846 | 2,254 |
| License agreements | 6.4 years | 2,445 | 1,120 | 1,325 |
| Other intangibles | 2.7 years | 1,382 | 1,001 | 381 |
| Total intangibles, net with finite lives | | 121,627 | 97,690 | 23,937 |
| In-process research and development, with indefinite life | | 1,400 | — | 1,400 |
| Total intangibles, net | | $ 123,027 | $ 97,690 | $ 25,337 |

During the three months ended September 30, 2017, in-process research and development of $1.4 million was reclassified to developed technology upon completion of the project and is being amortized over its estimated useful life.

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

| | Three Months Ended | |
|---|---|---|
| | September 30, 2017 | September 30, 2016 |
| Amortization in "Cost of revenues: Product" | $ 2,695 | $ 3,498 |
| Amortization of intangibles | 1,614 | 4,142 |
| Total amortization | $ 4,309 | $ 7,640 |

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

*Goodwill*

The following table summarizes goodwill for the periods presented (in thousands):

| | September 30, 2017 |
|---|---|
| Balance as of June 30, 2017 | $ 80,216 |
| Additions due to acquisition | 38,338 |
| Balance at end of period | $ 118,554 |

During the three months ended September 30, 2017, the Company completed the acquisition of certain assets and liabilities from Avaya resulting in an additional $38.3 million of goodwill. See Note 2 for additional information related to the acquisition.

*Deferred Revenue*

The Company offers for sale to its customers, renewable support arrangements that range from one to five years as well as deferred revenue for professional and training services.

*Debt*

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

| | September 30, 2017 | June 30, 2017 |
|---|---|---|
| Current portion of long-term debt: | | |
| Term Loan | $ 18,418 | $ 12,444 |
| Less: unamortized debt issuance costs | (555) | (164) |
| Current portion of long-term debt | $ 17,863 | $ 12,280 |
| | | |
| Long-term debt, less current portion: | | |
| Term Loan | $ 141,202 | $ 71,268 |
| Revolver | 10,000 | 10,000 |
| Less: unamortized debt issuance costs | (1,473) | (846) |
| Total long-term debt, less current portion | 149,729 | 80,422 |
| Total debt | $ 167,592 | $ 92,702 |

In connection with the closing of Avaya Networking discussed in Note 2, the Company entered into the Second Amendment to the Amended and Restated Credit Agreement ("Second Amendment"), which amended the Amended and Restated Credit Agreement, dated as of October 28, 2016 (the "Credit Facility, as amended"), by and among the Company, as borrower, Silicon Valley Bank, as administrative agent and collateral agent, and lenders. Among other things, the Second Amendment (i) increased the amount of the available borrowing under the Credit Facility from $140.5 million to $243.7 million, composed of (a) the five-year term loan ("Term Loan") in a principal amount of up to $183.7 million and (b) the five-year revolving credit facility ("Revolver") in a principal amount of up to $60.0 million, (ii) extends the maturity date under the existing Term Loan and the termination date under the existing Revolver, (iii) provides for an uncommitted additional incremental loan facility in the principal amount of up to $50.0 million ("Incremental Facility"), and (iv) joins certain additional banks, financial institutions and institutional lenders as lenders pursuant to the terms of the Credit Facility, as amended.  On July 14, 2017, the Company borrowed an additional $80.0 million under the Term Loan which was used to fund the purchase of Avaya Networking.

Borrowings under the Term Loan bear interest, at our option, at a rate equal to either the LIBOR rate (subject to a 0.0% LIBOR floor), plus an applicable margin (currently 3.25% per annum based on a stated consolidated leverage ratio) or the adjusted base rate, plus an applicable margin (currently 1.25% per annum based on the Company's consolidated leverage ratio).  Borrowings under the Revolver bear interest, at the Company's option, at a rate equal to either the LIBOR rate (subject to a 0.0% LIBOR floor), plus an applicable margin (currently 3.25% per annum based on a stated consolidated leverage ratio) or the adjusted base rate, plus an applicable margin (currently 1.25% per annum based on a stated consolidated leverage ratio).  The Revolver has a commitment fee payable on the undrawn amount ranging from 0.375% to 0.50% per annum based upon a stated consolidated leverage ratio.

The Company had $0.9 million of outstanding letters of credit and $49.1 million of availability under the Revolver as of September 30, 2017.

*Guarantees and Product Warranties*

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

Upon issuance of a standard product warranty, the Company discloses and recognizes a liability for the obligations it assumes under the product warranty. The following table summarizes the activity related to the Company's product warranty liability during the three months ended September 30, 2017 and 2016 (in thousands):

| | Three Months Ended | |
|---|---|---|
| | September 30, 2017 | September 30, 2016 (as adjusted) |
| Balance beginning of period | $ 10,584 | $ 9,998 |
| Warranties assumed due to acquisition | 3,156 | — |
| New warranties issued | 2,272 | 928 |
| Warranty expenditures | (2,513) | (1,909) |
| Balance end of period | $ 13,499 | $ 9,017 |

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.

*Advertising*

All advertising costs are expensed as incurred.  Advertising expenses for three months ended September 30, 2017 and 2016, were immaterial.

*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.

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 our net revenue:

| | Three Months Ended | |
|---|---|---|
| | September 30, 2017 | September 30, 2016 (As adjusted) |
| Westcon Group Inc. | 15% | 11% |
| Jenne Corporation | 14% | 16% |
| Tech Data Corporation | 11% | 17% |

The following customers account for more than 10% of the Company’s accounts receivable outstanding as of September 30, 2017, Jenne Corporation 17%, Westcon Group 15% and Tech Data 13%.

## 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 did not hold any financial liabilities that required measurement at fair value on a recurring basis. The following table presents the Company’s fair value hierarchy for its financial assets measured at fair value on a recurring basis (in thousands):

| September 30, 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments: | | | | |
| Money market funds | $ 4,500 | $ — | $ — | $ 4,500 |
| Marketable securities | 1,050 | — | — | 1,050 |
| Total assets measured at fair value | $ 5,550 | $ — | $ — | $ 5,550 |

| June 30, 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments: | | | | |
| Money market funds | $ 4,291 | $ — | $ — | $ 4,291 |
| Investment in non-marketable equity | — | — | 3,000 | 3,000 |
| Total assets measured at fair value | $ 4,291 | $ — | $ 3,000 | $ 7,291 |

*Level 1 investments*:

During the first quarter of fiscal 2017, pursuant to the sale of an investment in non-marketable equity securities, the Company received 41,685 shares of a company publicly traded on the London Stock Exchange. As of September 30, 2017, the shares received have a fair value of $1.0 million. (See below, Level 3 investments)

*Level 2 investments*:

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

The fair value of the borrowings under the Credit Facility, as amended is estimated based on valuations provided by alternative pricing sources supported by observable inputs which is considered Level 2. Due to the short duration until maturity of the credit facility, the fair value approximates the face amount of the Company's indebtedness of $169.6 million and $93.7 million as of September 30, 2017 and June 30, 2017, respectively. Such amounts are immaterial for all periods presented.

*Level 3 investments:*

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

As of June 30, 2017, the Company reflected its non-marketable equity investment as Level 3 in the fair value hierarchy as it is based on unobservable inputs that market participants would use in pricing this asset due to the absence of recent comparable market transactions and inherent lack of liquidity. During fiscal 2015, the Company purchased a $3.0 million equity interest in a company that operates in the enterprise software platform industry. The Company did not enter into any other transactions with the investee during fiscal 2017 or the first quarter of fiscal 2018. During the three months ended September 30, 2017, the investee was acquired by a third party. The Company received $6.8 million as consideration for its equity interest in the investee, including $5.4 million in cash and 65,937 shares with a market value of $1.4 million. During the first quarter of fiscal 2018, the Company received $5.8 million of the consideration, consisting of $4.9 million in cash and 41,685 shares with a market value of $0.9 million. The remainder of the consideration consisting of $0.5 million and $0.5 million of cash and shares, respectively, will remain in escrow for a period of 18 months for general representations and warranties. A gain of $3.8 million related to this sale was recorded in "Other income (expense), net" in the accompanying condensed consolidated statements of operations for the quarter ended September 30, 2017. The 41,685 shares received and held as of September 30, 2017 were considered Level 1 investments as these have quoted prices in active markets.

There were no transfers of assets or liabilities between Level 2 and Level 3 during the first three months of fiscal year 2018 or 2017. There were no impairments recorded for the first three months of fiscal year 2018 or 2017.

## 7. Share-based Compensation

*Shares reserved for issuance*

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

| | September 30, 2017 | June 30, 2017 |
|---|---|---|
| 2014 Employee Stock Purchase Plan | 6,517 | 7,785 |
| Employee stock options and awards outstanding | 10,130 | 9,726 |
| 2013 Equity Incentive Plan shares available for grant | 5,353 | 7,629 |
| Total shares reserved for issuance | 22,000 | 25,140 |

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

| | Three Months Ended | |
|---|---|---|
| | September 30, 2017 | September 30, 2016 |
| Cost of product revenue | $ 92 | $ 68 |
| Cost of service revenue | 133 | 232 |
| Research and development | 1,051 | 1,141 |
| Sales and marketing | 1,643 | 1,062 |
| General and administrative | 1,884 | 972 |
| Total share-based compensation expense | $ 4,803 | $ 3,475 |

During the three months ended September 30, 2017 and 2016, 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 of Directors. Stock awards generally provide for the issuance of restricted stock units (including performance or market-based restricted stock units) which vest over a fixed period of time or based upon the satisfaction of certain performance criteria. The Company uses the straight-line method for expense attribution, and beginning with fiscal 2017, the Company does not estimate forfeitures, but accounts for them as incurred.

The following table summarizes stock award activity for the three months ended September 30, 2017 (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, 2017 | 6,664 | $ 4.66 | $ 61,440 |
| Granted | 2,094 | 10.55 | |
| Vested | (1,223) | 3.45 | |
| Cancelled | (118) | 4.72 | |
| Non-vested stock awards outstanding at September 30, 2017 | 7,417 | $ 6.53 | $ 88,195 |

The following table summarizes stock option activity for the three months ended September 30, 2017 (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, 2017 | 3,062 | $ 4.06 | 4.19 | $ 15,868 |
| Exercised | (347) | 4.44 | | |
| Cancelled | (2) | 5.58 | | |
| Options outstanding at September 30, 2017 | 2,713 | $ 4.01 | 4.10 | $ 21,478 |
| Vested and expected to vest at September 30, 2017 | 2,713 | $ 4.01 | 4.10 | $ 21,478 |
| Exercisable at September 30, 2017 | 2,129 | $ 4.33 | 3.40 | $ 16,090 |

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

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

During the first quarter of fiscal 2018, the Company approved the grant of 1,154,014 stock awards to the Company’s Executive Officers and 939,925 stock awards to other Company employees. Fifty percent (50%) of the stock awards granted to executives, except the chief executive officer, were in the form of PSUs, with grant date fair values of $10.90, and fifty percent (50%) of the stock awards granted were in the form of service-based RSUs. The Company’s chief executive received sixty percent (60%) of his stock award grant in the form of PSUs, while forty percent (40%) were in the form of RSUs, with a grant date fair value of $10.90. The RSUs vest from the original grant date as to one-third (1/3) on the one year anniversary and one-twelfth (1/12) each quarter thereafter, subject to continued service to the Company.

For the PSUs referenced in the preceding paragraph, they are considered earned once the Company’s combined earnings per share equals or exceeds $0.32 for two consecutive quarters. (“FY18 Performance Threshold”). Once the FY18 Performance Threshold is satisfied the PSUs shall vest with respect to the number of RSUs that have vested as of the date the FY18 Performance Threshold is satisfied and thereafter shall vest on the same schedule as the RSUs, subject to continued service to the Company. If the FY18 Performance Threshold is not met by the third anniversary of the grant date the award is canceled. In addition, the FY18

Performance Threshold shall be deemed satisfied upon the closing of a Change in Control (within the meaning of the Company's 2013 Equity Incentive Plan) in the event the per share consideration received by the Company's stockholders equals or exceeds $16.00 per share.

During the quarter ended September 30, 2017, none of the PSU grants referenced above achieved their FY18 Performance Threshold.

During the first quarter of fiscal 2017, the Company approved the grant of 680,000 stock awards to the Company's Executive Officers and 1,878,420 stock awards to other Company employees. Fifty percent (50%) of the stock awards granted were in the form of PSUs, with grant date fair values ranging from $3.02 to $3.09, and fifty percent (50%) of the stock awards granted were in the form of RSUs. The RSUs vest from the original grant date as to one-third (1/3) on the one year anniversary and one-twelfth (1/12) each quarter thereafter, subject to continued service to the Company.

The PSUs were considered earned once the Company's stock price equaled or exceeded $5.00 per share for 30 consecutive trading days after January 1, 2017 ("FY17 Performance Threshold"). Once the FY17 Performance Threshold goal was attainted the PSUs began to vest on the same schedule as the RSUs that were granted at the same time, subject to continued service to the Company.

During the quarter ended March 31, 2017, all of the PSU grants referenced above achieved their FY17 Performance Threshold and as such, began vesting and will be released on the schedule as noted, subject to continued service to the Company.

The fair value of each share purchase option under the Company's 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.

The weighted-average fair value of shares granted under the Company's 2014 ESPP during the three months ended September 30, 2017 and 2016, was $2.41 and $1.00, respectively. There were 1,267,930 and 1,103,599 shares issued under the Company's 2014 ESPP during the three months ended September 30, 2017 and 2016, respectively.

| | **Employee Stock Purchase Plan** | |
|---|---|---|
| | **Three Months Ended** | |
| | **September 30, 2017** | **September 30, 2016** |
| Expected life | 0.50 years | 0.50 years |
| Risk-free interest rate | 1.15% | 0.40% |
| Volatility | 42% | 40% |
| Dividend yield | —% | —% |

## 8. Restructuring Charges

No restructuring charges were recorded during the three months ended September 30, 2017 or 2016.

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

In fiscal 2017, the Company announced a reduction-in-force. The Company recorded $5.6 million in severance and benefits charges, net during the year ended June 30, 2017. Cash payments of $0.6 million were paid during the first three months of fiscal 2018. The balance of cash payments are expected to be paid by the end of the second quarter of fiscal 2018. The excess facilities payments will continue through fiscal year 2023.

During fiscal 2016, the Company realigned its operations by abandoning excess facilities, primarily in San Jose, California; Salem, New Hampshire and Morrisville, North Carolina. The fiscal 2016 restructuring was largely completed as of the end of the first quarter of fiscal 2018.

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

| | Three months ended | |
|---|---|---|
| | September 30, 2017 | September 30, 2016 |
| Beginning balance | $ 4,122 | $ 4,644 |
| Period payments | (562) | (508) |
| Ending balance | 3,560 | 4,136 |
| Less: current portion included in other accrued liabilities | 1,877 | 1,754 |
| Restructuring accrual included in other long-term liabilities | $ 1,683 | $ 2,382 |

## 9. Commitments and Contingencies

*Purchase Commitments*

The Company currently has arrangements with contract manufacturers and suppliers for the manufacture of its products. Those arrangements allow the contract 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 Company's forecast, unless the Company gives notice of order cancellation outside of applicable component lead-times. As of September 30, 2017, the Company had non-cancelable commitments to purchase $115.1 million of such inventory. As of September 30, 2017 the Company had non-cancelable software and maintenance support commitments to purchase $20.3 million of software and support services.

***Legal Proceedings***

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

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

*Brazilian Tax Assessment Matter*

On May 28, 2007, the Public Treasury Department of the State of Sao Paolo, Brazil (the "Tax Authority") assessed our Brazilian subsidiary, Enterasys Networks do Brasil Ltda. ("Enterasys Brasil"), based on an alleged underpayment of taxes. The Tax Authority also charged interest and penalties with respect to the assessment (collectively, the "ICMS Tax Assessment"). The Tax Authority denied Enterasys Brasil the use of certain presumed tax credits granted by the State of Espirito Santo, Brazil under the terms of the FUNDAP program for the period from February 2003 to December 2004. The value of the disallowed presumed tax credits is BRL 3.4 million (US $1.1 million), excluding interest and penalties. As of September 30, 2017, the total amount claimed by the Tax Authority—including accrued interest, penalties, and attorneys' fees—is BRL 26.6 million (US $8.4 million). All currency conversions in this Legal Proceedings section are as of September 30, 2017.

Unable to resolve the matter at the administrative level, on October 1, 2014, Enterasys Brasil filed a lawsuit in the 11th Public Treasury Court of the Sao Paolo State Court of Justice (Judiciary District of Sao Paolo) to overturn or reduce the ICMS Tax

Assessment. As part of this lawsuit, Enterasys Brasil requested a stay of execution, so that no tax foreclosure could be filed and no guarantee would be required until the court issued its final ruling. On or about October 6, 2014, the court granted a preliminary injunction staying any execution on the assessment, but requiring that Enterasys Brasil deposit the assessed amount with the court. Enterasys Brasil appealed this ruling and, on or about January 28, 2015, the appellate court ruled that no cash deposit (or guarantee) was required. In a decision dated August 28, 2017, and published on October 3, 2017, the court determined that Enterasys Brasil's claim is "well grounded," but nonetheless validated the assessment and penalty imposed by the Tax Authority. The court did rule, however, that the Tax Authority was charging an unlawfully high interest rate on the tax assessment and penalty amounts, and ordered the interest rate reduced to the maximum Federal rate. The August 28, 2017 decision, were it to become final, would require Enterasys Brasil to pay a total of BRL 16.6 million (US $5.2 million), including penalties, court costs, attorneys' fees, and accrued interest as of September 30, 2017. The Company believes the ICMS Tax Assessment against Enterasys Brasil is without merit, and expects to continue prosecuting vigorously its challenge to the assessment. Enterasys Brasil has filed a motion for clarification and reconsideration, and, if the motion is denied, expects to appeal.

Based on the currently available information, the Company believes the ultimate outcome of the ICMS Tax Assessment litigation will not have a material adverse effect on the Company's financial position or overall results of operations. However, due to the complexities and uncertainty surrounding the judicial process in Brazil and the nature of the claims asserted, there can be no assurance of a favorable outcome for Enterasys Brasil, which recorded an accrual of BRL 9.4 million (US $3.0 million) as of the date the Company acquired Enterasys Networks.

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

*In re Extreme Networks, Inc. Securities Litigation*

On October 23 and 29, 2015, putative class action complaints alleging violations of securities laws were filed in the U.S. District Court for the Northern District of California against the Company and three of its former officers (Charles W. Berger, Kenneth B. Arola, and John T. Kurtzweil). Subsequently, the cases were consolidated (*In re Extreme Networks, Inc. Securities Litigation*, No. 3:15-CY-04883-BLF). Plaintiffs allege that defendants violated the securities laws by disseminating materially false and misleading statements and concealing material adverse facts regarding the Company's financial condition, business operations and growth prospects. Plaintiffs seek unspecified damages on behalf of a purported class of investors who purchased the Company's common stock from September 12, 2013 through April 9, 2015. On June 28, 2016, the Court appointed a lead plaintiff. On September 26, 2016, the lead plaintiff filed a consolidated complaint. On November 10, 2016, defendants filed a motion to dismiss, which the Court granted with leave to amend on April 27, 2017. On June 2, 2017, the lead plaintiff filed an amended complaint, which, on July 10, 2017, defendants again moved to dismiss. Defendants' motion to dismiss currently is scheduled to be heard on December 14, 2017. The Company believes plaintiffs' claims are without merit and intends to defend them vigorously.

On February 18, 2016, a shareholder derivative case was filed in the Superior Court of California, Santa Clara County (*Shaffer v. Kispert et al.*, No. 16 CV 291726). The complaint names current and former officers and directors as defendants, and seeks recovery on behalf of the Company based on substantially the same allegations as the securities class action litigation described above. The parties have agreed to stay the case pending further activities in the securities class action litigation, and the court signed a stipulation and order to that effect.

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

On April 19, 2017, XR Communications, LLC ("XR") (d/b/a Vivato Technologies) sued the Company in the Central District of California (*XR Communications, LLC, dba Vivato Technologies v. Extreme Networks, Inc.*, No. 2:17-cv-2953-AG). The operative Second Amended Complaint asserts infringement of U.S. Patent Nos. 7,062,296, 7,729,728, and 6,611,231 based on the Company's manufacture, use, sale, offer for sale, and/or importation into the United States of certain access points and routers supporting multi-user, multiple-input, multiple-output technology. XR seeks unspecified damages, on-going royalties, pre- and post-judgment interest, and attorneys' fees (but no injunction). On July 24, 2017, the Company filed its answer. In an order entered on October 23, 2017, the court scheduled a claim construction hearing for April 10, 2018, and ordered any trial of this matter to commence no earlier than March 19, 2019. The Company believes the claims are without merit and intends to defend them vigorously.

***Indemnification Obligations***

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

## 10. Income Taxes

For the three months ended September 30, 2017 and 2016, the Company recorded an income tax provision of $1.7 million and $0.9 million, respectively.

The income tax provisions for the three months ended September 30, 2017 and 2016, consisted primarily of taxes on the income of the Company's foreign subsidiaries as well as tax expense associated with the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisition of Enterasys Networks, Inc., the WLAN Business and Avaya Networking. The income tax provisions for both fiscal years were calculated based on the actual results of operations for the three months ended September 30, 2017 and 2016, and therefore may not reflect the annual effective tax rate.

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

The acquisition of Enterasys in October 2013 included a U.S. parent company as well as its wholly-owned domestic and foreign subsidiaries. The Company elected to treat this stock acquisition as an asset purchase by filing the required election forms under IRC Sec 338(h)(10). Additionally, the Company completed asset purchases of the WLAN Business as well as the Avaya Networking in October 2016 and July 2017, respectively. The Company has estimated the value of the intangible assets from these transactions and is amortizing the amounts over 15 years for tax purposes. During the three months ended September 30, 2017 and 2016, the Company deducted $1.6 million and $1.1 million of tax amortization expense respectively, for each period related to capitalized goodwill resulting from these acquisitions. As of September 30, 2017, the Company recorded a deferred tax liability of $6.9 million related to this amortization which is not considered a future source of taxable income in evaluating the need for a valuation allowance against its deferred tax assets.

The Company had $19.2 million of unrecognized tax benefits as of September 30, 2017. The future impact of the unrecognized tax benefit of $19.2 million, if recognized, would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. The Company does not anticipate any events to occur during the next twelve months that would reduce the unrealized tax benefit as currently stated in the Company's balance sheet.

The Company's policy is to accrue interest and penalties related to the underpayment of income taxes as a component of tax expense in the 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 currently under examination by the state of North Carolina for the fiscal years ended 2014, 2015 and 2016.

## 11. Net Income (Loss) Per Share

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

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

| | Three Months Ended | |
|---|---|---|
| | September 30, 2017 | September 30, 2016 (As adjusted) |
| Net income (loss) | $ 4,376 | $ (5,742) |
| Weighted-average shares used in per share - basic calculation | 112,241 | 105,955 |
| Effect of potentially dilutive shares: | | |
| Options to purchase common stock | 1,760 | — |
| Restricted stock units | 4,007 | — |
| Employee Stock Purchase Plan shares | 423 | — |
| Weighted-average shares used in per share - diluted calculation | 118,431 | 105,955 |
| Net income (loss) per share: | | |
| Basic | $ 0.04 | $ (0.05) |
| Diluted | $ 0.04 | $ (0.05) |

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

| | Three Months Ended | |
|---|---|---|
| | September 30, 2017 | September 30, 2016 |
| Options to purchase common stock | — | 3,715 |
| Restricted stock units | 496 | 1,635 |
| Employee Stock Purchase Plan shares | 204 | 201 |
| Total shares excluded | 700 | 5,551 |

## 12. Foreign Exchange Forward Contracts

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

As of September 30, 2017, forward foreign currency contracts had a notional principal amount of $9.6 million and an immaterial unrealized loss. These contracts have maturities of less than 60 days. Changes in the fair value of these foreign exchange forward contracts are offset largely by re-measurement of the underlying assets and liabilities. As of September 30, 2016, the Company did not have any derivative instruments outstanding.

Foreign currency transactions gains and losses from operations was loss of $0.6 million and $0.2 million for the three months ended September 30, 2017 and 2016, respectively.

## 13. Disclosure about Segments of an Enterprise and Geographic Areas

The Company operates in one segment, the development and marketing of network infrastructure equipment. The Company conducts business globally and is managed geographically. Revenue is attributed to a geographical area based on the location of its customers. The Company operates in three geographical areas: Americas, which includes the United States, Canada, Mexico, Central America and South America; EMEA, which includes Europe, Russia, Middle East and Africa; and APAC which includes Asia Pacific, South Asia, India, Australia and Japan.

The Company attributes revenues to geographic regions and channels based on the customer's ship-to location as follows (in thousands):

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2017 | | | September 30, 2016 (As adjusted) | | |
| | Distributor | Direct | Total | Distributor | Direct | Total |
| Americas: | | | | | | |
| United States | $ 42,392 | $ 50,990 | $ 93,382 | $ 26,991 | $ 26,829 | $ 53,820 |
| Other | 14,336 | 6,395 | 20,731 | 1,393 | 9,628 | 11,021 |
| Total Americas | 56,728 | 57,385 | 114,113 | 28,384 | 36,457 | 64,841 |
| EMEA: | 51,232 | 27,903 | 79,135 | 31,299 | 16,529 | 47,828 |
| APAC: | 3,264 | 15,203 | 18,467 | 1,452 | 8,483 | 9,935 |
| Total net revenues | $ 111,224 | $ 100,491 | $ 211,715 | $ 61,135 | $ 61,469 | $ 122,604 |

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

| Long Lived Assets | September 30, 2017 | June 30, 2017 (As adjusted) |
|---|---|---|
| Americas | $ 113,901 | $ 67,369 |
| EMEA | 11,412 | 8,998 |
| APAC | 8,166 | 4,275 |
| Total long lived assets | $ 133,479 | $ 80,642 |

## 14. Subsequent Event

On October 27, 2017 (the "Brocade Closing Date"), the Company completed its acquisition of Brocade Communication Systems, Inc.'s ("Brocade") switching, routing and analytics business ("Brocade SRA"), that had been announced on October 3, 2017. Under the terms and subject to the conditions of the Brocade Asset Purchase Agreement ("Brocade Purchase Agreement"), the Company acquired customers, employees, technology and other assets of Brocade SRA, as well as assumed certain contracts and other liabilities of Brocade SRA, for an upfront cash closing payment equal to $23.0 million, plus a deferred payment equal to $20.0 million to be paid $1 million per quarter for 20 quarters following the Brocade Closing Date, plus quarterly earn out payments equal to 50% of profits of Brocade SRA, with certain deductions per the terms of the Brocade Purchase Agreement for the five-year period commencing at the end of our first full fiscal quarter following the Brocade Closing Date. The Company is still evaluating the estimated consideration from the earn out provision. In conjunction with the acquisition, Extreme paid a fee of $25.0 million to Broadcom, Inc. in October 2017, for the right to acquire the Brocade SRA business.

The acquisition will be accounted for using the acquisition method of accounting whereby the acquired assets and liabilities of Brocade SRA will be recorded at their respective fair values and added to those of the Company including an amount for goodwill representing the difference between the acquisition consideration and the fair value of the identifiable net assets. Results of operations of Brocade SRA will be included in the Company's operations beginning with the Brocade Closing Date, As of the date of filing this Form 10-Q, the initial purchase price allocation has not been prepared as there has not been sufficient time to complete the related activities.

On October 26, 2017, the Company entered into the Third Amendment to the Credit Facility (the "Third Amendment"). Among other things, the Third Amendment (i) amends the negative covenant governing dispositions to increase the general dispositions basket for the fiscal year of the Company ending June 30, 2018, and (ii) amends certain definitions and provisions to update certain references to the Brocade Purchase Agreement (as defined above). On the Brocade Closing Date to partially fund the acquisition of the Brocade SRA acquisition, the Company drew $20.0 million on the Term Loan.

## 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 first quarter of fiscal 2018, our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, 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; the timing of any recovery 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 the acquisition of the Zebra Business.*

### Business Overview

We believe that understanding the following key developments is helpful to an understanding of our operating results for the fiscal quarter ended September 30, 2017.

Extreme Networks, Inc., together with its subsidiaries (collectively referred to as "Extreme" and as "we", "us" and "our") is a leader in providing software-driven networking solutions for enterprise customers. Providing a combined end-to-end solution from the data center to the access point, Extreme designs, develops and manufactures wired and wireless network infrastructure equipment and develops the software for network management, policy, analytics, security and access controls. We strive to help our customers and partners Connect Beyond the Network™ by building world-class software and network infrastructure solutions that solve the wide range of problems faced by information technology ("IT") departments.

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

*Industry Developments*

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

- **Ethernet (wired and wireless) has solidified its role in both public and private networks through its scalability, adaptability and cost-effectiveness.** At the same time, the enterprises and service providers expect the technology to follow a price-performance curve that mandates continued innovation by Ethernet vendors.
- **The mobile workforce continues to proliferate.** Employees expect high-quality and secure access to corporate resources in a BYOD world across a diversity of endpoints such as laptops, tablets, smart phones and wearables, whether they are within the corporate firewall or on-the-go.  With ExtremeManagement, IT departments focus their investment decisions on this mobile workforce, taking a unified view of wireless access, from the campus core and the data center.  Networking vendors offer end-to-end solutions that permit IT managers to meet employee expectations and to maximize IT return on investment.
- **Verticals such as healthcare, education, manufacturing, government, hospitality, which includes sports and entertainment venues and retail are connecting with their customers and guests beyond the network.** These enterprises are investing in guest and location technologies that connect with their customers via their mobile devices over their WLAN. This allows them to obtain rich analytics for contextual marketing, which in turn, enables them to deliver a personalized brand experience. ExtremeGuest™ and ExtremeLocation™ have been built on cloud-based technology for simple implementation and fast release to market to better provide necessary insights into guest demographics and location-based analytics.

- **Growing usage of the cloud.** Enterprises have migrated increasing numbers of applications and services to either private clouds or public clouds offered by third parties. In either case, the network infrastructure must adapt to this new dynamic environment. Intelligence and automation are key if enterprises are to derive maximum benefit from their cloud deployments. Ethernet speeds, scaling from 10 Gigabits per second ("G") to 40G and even 100G, provide the infrastructure for both private and public clouds. In addition, there is growing interest in SDN approaches that may include technologies such as OpenFlow, OpenStack, and CloudStack for increased network agility.
- ***Vendor consolidation is expected to continue.*** *Consolidation of vendors within the enterprise network equipment market and between adjacent markets (storage, security, wireless & voice software and applications) continues to gain momentum. We identified* this trend in 2013 with our acquisition of Enterasys. Further, we believe customers are demanding more end-to-end, integrated networking solutions. To address this demand, we acquired the WLAN Business of Zebra in October 2016, and Avaya's fabric-based secure networking solutions and network security solutions business ("Avaya Networking") in July 2017.

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:**

- **Data Center to access edge wired and wireless solutions**. The addition of the WLAN Business and the Avaya Networking assets will allow Extreme to offer a complete, unified portfolio of software-driven network access solutions. We offer the latest in wireless access points for both outdoor and indoor use plus a complete line of switches for the Campus, Core and Data Center.
- **Multi-vendor management from a "single pane-of-glass".** Extreme's Management Center ("EMC") 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, including Avaya Networking products, enabling 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.
- **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.** ExtremeControl™, a network access control, and identity management solution is delivered with the wired and wireless hardware. This may reduce the need to add on expensive software or hardware that may require complex compatibility testing.
- **Easier policy assignment and SDN.** ExtremeControl™ and ExtremeManagement™ software allow our customers to assign policy across the entire network. 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.

Extreme sells products primarily through an ecosystem of channel partners which combine our Ethernet, wireless and management and software analytics products with their vertical-specific offerings to create IT solutions for end user customers.

**Acquisitions**

*Avaya Networking*

On July 14, 2017 ("Avaya Closing Date"), we completed the acquisition of Avaya Inc's. fabric-based secure networking solutions and network security solutions business ("Avaya Networking"), that had been announced on March 7, 2017, and funds were remitted to Avaya pursuant to the Avaya Purchase Agreement. We acquired customers, employees, technology and other assets, as well as assume contracts and other liabilities of Avaya Networking, for a purchase price of $79.8 million, including all adjustments. Pursuant to certain ancillary agreements, Avaya will also provide us with access to certain technology related to Avaya

Networking, as well as transition services for a period of time following the Avaya Closing Date. See Note 2. Business Combination for additional information.

The acquisition was accounted for using the acquisition method of accounting whereby the acquired assets and liabilities of the Avaya Networking is recorded at their respective fair values and added to those of ours including an amount for goodwill representing the difference between the acquisition consideration and the fair value of the identifiable net assets. Results of operations of Avaya Networking are included in our operations beginning with the Avaya Closing Date.

During the fiscal quarter ended September 30, 2017, we recognized acquisition and integration costs of $2.9 million related to the Avaya Networking acquisition which is included in “Acquisition and integration costs” in the accompanying condensed consolidated statements of operations.

*Brocade SRA*

On October 27, 2017 (“Brocade Closing Date”), we completed our acquisition of Brocade Communication Systems, Inc.’s (“Brocade”) switching, routing and analytics business (“Brocade SRA”) that had been announced on October 3, 2017. Upon the terms and subject to the conditions of the Brocade Asset Purchase Agreement, we acquired customers, employees, technology and other assets of Brocade SRA, as well as assumed certain contracts and other liabilities of Brocade SRA, for an upfront cash closing payment equal to $23.0 million, plus deferred payments equal to $20.0 million to be paid $1 million per quarter for 20 quarters following the Brocade Closing Date, plus quarterly earn out payments equal to 50% of profits of Brocade SRA for the five-year period commencing at the end of our first full fiscal quarter following the Brocade Closing Date. Pursuant to certain ancillary agreements, Brocade will also provide us with access to certain technology related to Brocade SRA, as well as transition services for a period of time following the Brocade Closing Date. The acquisition will include the rights to have manufactured and to sell Brocade’s current SLX based solutions product portfolio, which launched in March 2017. In conjunction with the acquisition, Extreme paid a fee of $25.0 million to Broadcom, Inc., for the right to acquire the Brocade SRA. (See Item 1A Risk Factors)

During the three months ended September 30, 2017, we recognized acquisition costs of $1.3 million, which is included in “Acquisition and integration costs” in the accompanying condensed consolidated statements of operations related to the Brocade SRA acquisition.

**Results of Operations**

During the first quarter of fiscal 2018, we achieved the following results:

- Net revenues of $211.7 million compared to $122.6 million in the first quarter of fiscal 2017.
- Product revenues of $164.8 million compared to $90.1 million in the first quarter of fiscal 2017.
- Service revenues of $46.9 million compared to $32.5 million in the first quarter of fiscal 2017.
- Total gross margin of 53.1% of net revenues compared to 53.7% of net revenues in the first quarter of fiscal 2017.
- Operating income of $4.5 million compared to operating loss $4.0 million in the first quarter of fiscal 2017.
- Net income of $4.4 million compared to a net loss of $5.7 million in the first quarter of fiscal 2017.
- Cash flow provided by operating activities of $18.6 million compared to $9.6 million in the first quarter of fiscal 2017.
- Cash, cash equivalents and short-term investments of $154.1 million compared to $102.3 million as of June 30, 2017.

***Net Revenues***

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

| | Three Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2017 | September 30, 2016 (As adjusted) | $ Change | % Change |
| Net Revenues: | | | | |
| Product | $ 164,774 | $ 90,093 | $ 74,681 | 82.9% |
| *Percentage of net revenue* | *77.8%* | *73.5%* | | |
| Service | 46,941 | 32,511 | 14,430 | 44.4% |
| *Percentage of net revenue* | *22.2%* | *26.5%* | | |
| Total net revenues | $ 211,715 | $ 122,604 | $ 89,111 | 72.7% |

Product revenues increased $74.7 million or 82.9% for the three months ended September 30, 2017 as compared to the corresponding period of fiscal 2017. The increase in product revenues for the three months of fiscal 2018 was attributable primarily to the acquisition of the WLAN Business in October 2016 and Avaya Networking in July 2017.

Service revenues increased $14.4 million, or 44.4% for the three months ended September 30, 2017, compared to the corresponding period of fiscal 2017. The increase in service revenue was due to the increased number of service contracts acquired as a result of the acquisition of the WLAN Business in October 2016 and Avaya Networking in July 2017.

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 | | | |
|---|---|---|---|---|
| | September 30, 2017 | September 30, 2016 (As adjusted) | $ Change | % Change |
| Gross profit: | | | | |
| Product | $ 84,729 | $ 45,844 | $ 38,885 | 84.8% |
| *Percentage of product revenue* | 51.4% | 50.9% | | |
| Service | 27,652 | 20,042 | 7,610 | 38.0% |
| *Percentage of service revenue* | 58.9% | 61.6% | | |
| Total gross profit | $ 112,381 | $ 65,886 | $ 46,495 | 70.6% |
| *Percentage of net revenue* | 53.1% | 53.7% | | |

Product gross profit increased $38.9 million or 84.8% for three months ended September 30, 2017, as compared to the corresponding period in fiscal 2017, due primarily to the acquisition of the WLAN Business and Avaya Networking and the corresponding revenues attributed to those acquisitions, lower amortization of developed technology intangibles of $0.8 million and more favorable manufacturing costs due to cost reduction efforts. The increases in product gross profit were partially offset by integration costs of $1.8 million primarily related to excess inventory charges related to the discontinuance of certain product lines due to the Avaya Networking acquisition, higher warranty charges of $1.7 million and increased royalty charges of $1.2 million.

Service gross profit increased $7.6 million or 38.0% for three months ended September 30, 2017, as compared to the corresponding period in fiscal 2017, primarily due to an increase in service revenue of $14.4 million related to the acquisition of the WLAN Business and Avaya Networking as a result of higher number of maintenance contracts.

***Operating Expenses***

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

| | Three Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2017 | September 30, 2016 (As adjusted) | $ Change | % Change |
| Research and development | $ 34,285 | $ 18,299 | $ 15,986 | 87.4% |
| Sales and marketing | 55,561 | 36,859 | 18,702 | 50.7% |
| General and administrative | 12,185 | 8,287 | 3,898 | 47.0% |
| Acquisition and integration costs | 4,244 | 2,321 | 1,923 | 82.9% |
| Amortization of intangibles | 1,614 | 4,142 | (2,528) | (61.0)% |
| Total operating expenses | $ 107,889 | $ 69,908 | $ 37,981 | 54.3% |

**Research and Development Expenses**

Research and development expenses consist primarily of salaries and related personnel expenses, consultant fees and prototype expenses related to the design, development, and testing of our products.

Research and development expenses increased by $16.0 million or 87.4% for the three months ended September 30, 2017, as compared to the corresponding period of fiscal 2017. The increase in research and development expenses was due to higher personnel costs (which consists of compensation, benefits and non-cash stock based compensation) of $11.2 million due to increased headcount related to the acquisitions of the WLAN Business in October 2016 and Avaya Networking business in July 2017, $2.6 million in increased facility and information technology costs, $1.5 million in increased supplies and equipment costs and $0.4 million of travel and other costs, and $0.3 million in consulting and contract projects.

**Sales and Marketing Expenses**

Sales and marketing expenses consist of salaries, commissions and related expenses for personnel engaged in marketing and sales functions, as well as trade shows and promotional expenses.

Sales and marketing expenses increased by $18.7 million or 50.7% for the three months ended September 30, 2017, as compared to the corresponding period of fiscal 2017 three months ended September 30, 2017 primarily as a result of the acquisitions of the WLAN Business in October 2016 and Avaya Networking in July 2017. The increase consisted of higher personnel costs including benefits and non-cash stock compensation of $12.6 million, $2.4 million in additional professional fees, $2.2 million in travel, meeting and conference costs, and $1.6 million in increased facility and information technology costs.

**General and Administrative Expenses**

General and administrative expense consists primarily of personnel costs, legal and professional service costs, share-based compensation, travel and facilities and information technology costs.

General and administrative expenses increased by $3.9 million or 47.0% for the three months ended September 30, 2017 as compared to the corresponding period of fiscal 2017 primarily due to $2.2 million in higher compensation, benefits and non-cash stock based compensation, $1.1 million in higher professional fees, $0.4 million in higher bad debts provision, and $0.1 million in higher travel costs.

**Acquisition and Integration Costs**

During the three months ended September 30, 2017 and 2016, we recorded $4.2 million and $2.3 million, respectively, of acquisition and integration costs.

For the three months ended September 30, 2017, we incurred $1.2 million of acquisition and $1.7 million of integration costs related to the acquisition of Avaya Networking on July 14, 2017, and $1.3 million of acquisition costs related to the future acquisition of Brocade SRA.

For the three months ended September 30, 2016, we incurred $2.3 million of acquisition costs consisting primarily of legal and accounting services associated with the acquisition of the WLAN Business.

**Amortization of Intangibles**

During the three months ended September 30, 2017 and 2016, we recorded $1.6 million and $4.1 million, respectively of amortization expense as operating expenses in the condensed consolidated statements of operations. The reduction was due to the acquired intangibles from the Enterasys acquisition becoming fully amortized.

**Interest Expense**

During the three months ended September 30, 2017 and 2016, we recorded $2.2 million and $0.6 million, respectively, in interest expense. The increase in interest expense was primarily in connection with the increased balance of our Credit Facility due to the acquisitions of the WLAN Business and Avaya Networking in October 2016 and July 2017.

**Other Income (Expense), Net**

During the three months ended September 30, 2017 and 2016, we recorded income of $3.1 million and expenses of $0.2 million, respectively, in other income (expense), net. The income for fiscal 2018 period was primarily driven by a gain of $3.8 million due to the sale of non-marketable equity investment. The charge for fiscal 2017 period was primarily due to foreign exchange 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 September 30, 2017 and 2016, we recorded an income tax provision of $1.7 million and $0.9 million, respectively, which consisted primarily of taxes on the income of our foreign subsidiaries as well as tax expense associated with the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisition of Enterasys, the WLAN Business and Avaya Networking.

***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, 2017, 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*
- *Goodwill*
- *Share-based Payments*
- *Business Combinations*
- *Restructuring Charges*

The following critical accounting policy is the only change since the filing of our last Annual Report on Form 10-K.

*Revenue Recognition*

We account for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which we adopted on July 1, 2017, using the full retrospective method. The adoption of this ASC, which we opted to early adopt pursuant to the guidance, requires us, among other things to restate prior periods to conform to current presentation and the adoption of ASC 606 is considered an accounting change. Under ASC 606 revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services.

We derive the majority of our revenue from sales of our networking equipment, with the remaining revenue generated from service fees relating to maintenance contracts, professional services, and training for our products. We sell our products and maintenance contracts to partners in two distribution channels, or tiers. The first tier consists of a limited number of independent distributors that stock our products and sell primarily to resellers. The second tier of the distribution channel consists of a non-stocking distributors and value-added resellers that sell directly to end-users. Products and services may be sold separately or in bundled packages.

We consider customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. For each contract, we consider the promise to transfer products, each of which are distinct, to be the identified performance obligations. In determining the transaction price we evaluate whether the price is subject to refund or adjustment to determine the net consideration to which we expect to be entitled.

For all of our sales and distribution channels, revenue is recognized when control of the product is transferred to the customer (i.e. when our performance obligation is satisfied), which typically occurs at shipment for product sales. For product sales to our value-added resellers, non-stocking distributors and end-user customers, we generally do not grant return privileges, except for defective products during the warranty period. Sales incentives and other programs that we may make available to these customers are considered to be a form of variable consideration and we maintain estimated accruals and allowances using the expected value method.

Sales to stocking distributors are made under terms allowing certain price adjustments and limited rights of return (known as "stock rotation") of the Company's products held in their inventory. Revenue from sales to distributors is recognized upon the transfer of control to the distributor. Frequently, distributors need to sell at a price lower than the contractual distribution price in order to win business, and submits rebate requests for Company pre-approval prior to selling the product through at the discounted price. At the time the distributor invoices its customer or soon thereafter, the distributor submits a rebate claim to the Company to adjust the distributor's cost from the contractual price to the pre-approved lower price. After the Company verifies that the claim was pre-approved, a credit memo is issued to the distributor for the rebate claim. In determining the transaction price, the Company considers these rebate adjustments to be variable consideration. Such price adjustments are estimated using the expected value method based on an analysis of actual claims, at the distributor level over a trailing twelve month period of time considered adequate to account for current pricing and business trends. Stock rotation rights grant the distributor the ability to return certain specified amounts of inventory. Stock rotation adjustments are an additional form of variable consideration and are also estimated using the expected value method based on historical return rates The Company did not experience significant differences in its estimates during the three months ended September 30, 2017. For additional information, see Note 3, Summary of Significant Accounting Policies.

***New Accounting Pronouncements***

See Note 4 of the accompanying condensed consolidated financial statements for a full description of new accounting pronouncements, including the respective expected dates of adoption and effects on results of operations and financial condition.

## Liquidity and Capital Resources

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

| | September 30, 2017 | June 30, 2017 |
|---|---|---|
| Cash and cash equivalents | $ 153,014 | $ 130,450 |
| Short-term investments | 1,050 | — |
| Total cash, cash equivalent and short-term investments | $ 154,064 | $ 130,450 |
| Working capital | $ 82,072 | $ 85,637 |

As of September 30, 2017, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of $154.1 million, accounts receivable, net of $116.5 million and availability of borrowings from the five-year revolving credit facility ("Revolver") of $49.1 million. Our principal uses of cash will include repayments of debt and related interest, purchase of finished goods inventory from our contract manufacturers, payroll, restructuring expenses and other operating expenses related to the development, marketing of our products and purchases of property and equipment. We believe that our $154.1 million of cash, cash equivalents and short-term investments at September 30, 2017, cash flows from operations along with the availability of borrowings from the Revolver will be sufficient to fund our principal uses of cash for at least the next 12 months.

On July 14, 2017, in connection with the closing of Avaya Networking, we entered into the Second Amendment to the Amended and Restated Credit Agreement ("Second Amendment"), which amends the Amended and Restated Credit Agreement, dated as of October 28, 2016 (as amended, the "Credit Facility"), by and among us, as borrower, Silicon Valley Bank, as administrative agent and collateral agent, and Lenders. Among other things, the Second Amendment (i) increased the amount of the available borrowing under the Credit Facility from $140.5 million to $243.7 million, consisted of (a) the five-year term loan ("Term Loan") facilities in a principal amount of up to $183.7 million and (b) the Revolver in a principal amount of up to $60.0 million, (ii) extends the maturity date under the existing Term Loan and the termination date under the existing Revolver until July 2022, (iii) provides for an uncommitted additional incremental loan facility in a principal amount of up to $50.0 million ("Incremental Facility"), and (iv) joins certain additional banks, financial institutions and institutional lenders as Lenders pursuant to the terms of the Credit Facility. On July 14, 2017, we borrowed an additional $80.0 million under the Term Loan which was used to fund the purchase of Avaya Networking.

On October 26, 2017, we entered into the Third Amendment to the Credit Facility (the "Third Amendment Among other things, the Third Amendment (i) amends the negative covenant governing dispositions to increase the general dispositions basket for our fiscal year ending June 30, 2018, and (ii) amends certain definitions and provisions to update certain references to the Brocade Purchase Agreement. On October 27, 2017, we drew $20.0 million on the Term Loan to partially fund the acquisition of the Brocade SRA (see Note 14. Subsequent Events for additionally information).

Borrowings under the Term Loan bear interest, at our option, at a rate equal to either the LIBOR rate (subject to a 0.0% LIBOR floor), plus an applicable margin (currently 3.25% per annum) or the adjusted base rate, plus an applicable margin (currently 1.25% per annum). Borrowings under the Revolver bear interest, at our option, at a rate equal to either the LIBOR rate, plus an applicable margin (currently 3.25% per annum) or the adjusted base rate, plus an applicable margin (currently 1.25% per annum based). The Revolver has a commitment fee payable on the undrawn amount ranging from 0.375% to 0.50% per annum.

If not repaid earlier, the borrowings on the Revolver shall be repaid on the termination date. The Credit Facility is secured by substantially all of our assets and is jointly and severally guaranteed by us and certain of our subsidiaries.

The Credit Facility contains financial covenants that require us to maintain a minimum Consolidated Fixed Charge Coverage Ratio and a Consolidated Quick Ratio and a maximum Consolidated Leverage Ratio as well as several other financial and non-financial covenants and restrictions that limit our ability to incur additional indebtedness, create liens upon any of our property, merge, consolidate or sell all or substantially all of our assets, etc. These covenants, are subject to certain exceptions.

The Credit Facility also includes customary events of default, including failure to pay principal, interest or fees when due, failure to comply with covenants, if any representation or warranty made by us is false or misleading in any material respect, certain insolvency or receivership events affecting us and our subsidiaries, the occurrence of certain material judgments, the occurrence of certain ERISA events, the invalidity of the loan documents or a change in control of us. The amounts outstanding under the Credit Facility may be accelerated upon certain events of default. At September 30, 2017, we were in compliance with the covenants of the Second Amendment to the Credit Facility and they are not expected to impact our liquidity or capital resources.

*Key Components of Cash Flows and Liquidity*

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

| | Three Months Ended | |
|---|---|---|
| | September 30, 2017 | September 30, 2016 (As adjusted) |
| Net cash provided by operating activities | $ 18,598 | $ 9,574 |
| Net cash used in investing activities | (70,546) | (1,635) |
| Net cash provided by financing activities | 74,455 | 166 |
| Foreign currency effect on cash | 57 | 38 |
| Net increase in cash and cash equivalents | $ 22,564 | $ 8,143 |

*Net Cash Provided By Operating Activities*

Cash flows provided by operations in the three months ended September 30, 2017 were $18.6 million, including net income of $4.4 million and non-cash expenses of $10.4 million for items such as amortization of intangibles, stock-based compensation expense, depreciation and gain on sale of non-marketable equity investment as well as a decrease in inventory and increases in accounts payable and deferred revenue. This was partially offset by an increase in accounts receivable and decreases in accrued compensation and current and noncurrent liabilities.

Cash flows provided by operations in the three months ended September 30, 2016 were $9.6 million including non-cash expenses of $14.5 million such as amortization of intangibles, stock-based compensation expense and depreciation, combined with higher collections of accounts receivables during the quarter. This was partially offset by the current period's net loss of $5.7 million along with increased use of cash in inventory, accounts payable and accrued compensation.

*Net Cash Used In Investing Activities*

Cash flows used in investing activities in the three months ended September 30, 2017 and 2016, were $70.5 million and $1.6 million, respectively. For the three months ended September 30, 2017, cash flows consisted of expenditures for acquisitions of $68.0 million consisting of $69.6 million for the Avaya Networking acquisition less receipt of $1.6 million as final settlement of a working capital adjustment related to the WLAN Business acquisition, $7.4 million of purchases of property and equipment and proceeds of $4.9 million related to the sale of non-marketable equity investment. For the September 30, 2016, amounts consisted of purchases of property and equipment.

*Net Cash Provided by Financing Activities*

Cash flows provided by financing activities in the three months ended September 30, 2017 were $74.5 million, including new borrowings of $80.0 million to fund our acquisition of Avaya Networking, $4.9 million proceeds from issuance of shares of our common stock under our Employee Stock Purchase Plan ("ESPP") and the exercise of stock options less $4.8 million of taxes paid on vested and released stock awards, partially offset by repayment of debt totaling $4.1 million and $1.5 million of loan fees incurred in connection with the Second Amendment of our Credit Facility.

Cash flows provided by financing activities in the three months ended September 30, 2016 were $0.2 million which consisted of $3.4 million proceeds from the issuance of shares of our common stock under our ESPP and the exercise of stock options, net of taxes paid on vested and released stock awards, offset by repayment of debt of $3.2 million.

*Foreign currency effect on cash*

Foreign currency effect on cash increased in the three months ended September 30, 2017, primarily due to changes in foreign currency exchange rates between the US Dollar and particularly the Brazilian Real, British Pound, Indian Rupee and the EURO.

*Contractual Obligations OPEN*

The following summarizes our contractual obligations as of September 30, 2017, 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 | $ 169,616 | $ 18,414 | $ 61,392 | $ 89,810 | $ — |
| Interest on debt obligations | 21,289 | 6,653 | 10,362 | 4,274 | — |
| Non-cancellable inventory purchase commitments | 115,114 | 115,114 | — | — | — |
| Non-cancellable purchase commitments | 20,250 | 5,000 | 10,750 | 4,500 | — |
| Non-cancellable operating lease obligations | 51,389 | 12,551 | 19,782 | 19,056 | — |
| Other liabilities | 881 | 184 | 368 | 329 | — |
| Total contractual cash obligations | $ 378,539 | $ 157,916 | $ 102,654 | $ 117,969 | $ — |

Non-cancelable inventory purchase commitments represent the purchase of long lead-time component inventory that our contract manufacturers procure in accordance with our forecast. Inventory purchase commitments were $115.1 million as of September 30, 2017. We expect to honor the inventory purchase commitments within the next 12 months.

Non-cancelable purchase commitments represent future payments for software and support used in our products.

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

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 September 30, 2017.

*Off-Balance Sheet Arrangements*

We did not have any off-balance sheet arrangements as of September 30, 2017.

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

### Interest Rate Sensitivity

The following table presents the amounts of our cash equivalents that are subject to market risk by range of expected maturity and weighted-average interest rates as of September 30, 2017 (dollars in thousands).

| | Maturing in | | | | |
|---|---|---|---|---|---|
| | Three months or less | Three months to one year | Greater than one year | Total | Fair Value |
| September 30, 2017 | | | | | |
| Included in cash equivalents | $ 4,500 | $ — | $ — | $ 4,500 | $ 4,500 |
| Weighted average interest rate | 0.2% | —% | —% | | |

The following tables present hypothetical changes in fair value of the financial instruments held at September 30, 2017, that are sensitive to changes in interest rates (in thousands):

| Unrealized gain given a decrease in interest rate of X bps | | Fair value as of | Unrealized loss given an increase in interest rate of X bps | |
|---|---|---|---|---|
| (100 bps) | (50 bps) | September 30, 2017 | 100 bps | 50 bps |
| $ — | $ — | $ 4,500 | $ — | $ — |

***Debt***

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

At certain points in time we are exposed to the impact of interest rate fluctuations, primarily in the form of variable rate borrowings from the Second Amendment to our Credit Facility. Our debt and Credit Facilities, as amended, are fully described in the Note 3 of our Notes to the Consolidated Financial Statements in our annual report on Form 10-K. At September 30, 2017, we had $169.6 million of debt outstanding, all of which was from our Credit Facilities, as amended. Through the first quarter of fiscal 2018, the average daily outstanding amount was $111.7 million with a high of $173.7 million and a low of $93.7 million.

The following table presents hypothetical changes in interest expense for the quarter ended September 30, 2017, on outstanding credit facility borrowings as of September 30, 2017 , that are sensitive to changes in interest rates (in thousands):

| Change in interest expense given a decrease in interest rate of X bps* | | Average outstanding debt as of | Change in interest expense given an increase in interest rate of X bps | |
|---|---|---|---|---|
| (100 bps) | (50 bps) | September 30, 2017 | 100 bps | 50 bps |
| $ (424) | $ (212) | $ 169,620 | $ 424 | $ 212 |

* Underlying interest rate was 1.30% during the quarter.

### Exchange Rate Sensitivity

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

**Foreign Exchange Forward Contracts**

We record all derivatives on the balance sheet at fair value. Changes in the fair value of derivatives are recognized in earnings as Other expense, net. From time to time, we enter into foreign exchange forward contracts to mitigate the effect of gains and losses generated by the foreign currency forecast transactions related to certain operating expenses and re-measurement of certain assets and liabilities denominated in foreign currencies. These derivatives do not qualify as hedges. Changes in the fair value of these foreign exchange forward contracts are offset largely by re-measurement of the underlying assets and liabilities. At September 30, 2017, we had $9.6 million notional of forward foreign currency contracts outstanding.

Foreign currency transaction gains and losses from operations was a loss of $0.6 million and $0.2 million for the three months ended September 30, 2017 and 2016, respectively.

**Item 4. Controls and Procedures**

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

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

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

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

There were no changes in our internal control over financial reporting (as defined in Rules 13a – 15(f) and 15(d) – 15(f) during the September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new accounting standards related to revenue recognition to facilitate its adoption on July 1, 2017. There were no significant changes to our internal control over financial reporting due to the adoption of this new standard.

***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, 2017, and Note 9 to our Notes to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report which are incorporated herein by reference.

### Item 1A. Risk Factors

The following is a list of risks and uncertainties which may have a material and adverse effect on our business, operations, industry, financial condition, results of operations or future financial performance. While we believe we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our business, results of operations, industry, financial position and financial performance in the future

**We may not realize anticipated benefits of past or future acquisitions, divestitures and strategic investments, and the integration of acquired companies or technologies may negatively impact our business and financial results or dilute the ownership interests of our stockholders.**

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

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

These actions could have a material adverse effect on our operating results or the price of our common stock.

For example, on October 28, 2016, we completed the acquisition of the WLAN Business from Zebra Technologies Corporation and amended the Credit Facility with our lenders to finance the acquisition. As of September 30, 2017, we have $169.6 million of indebtedness outstanding.

On July 14, 2017, we completed the acquisition of Avaya Networking for a purchase price of $100.0 million subject to certain adjustments set forth in the Avaya Purchase Agreement.

On October 27, 2017, the Company completed its acquisition of Brocade SRA. Upon the terms and subject to the conditions of the Brocade Asset Purchase Agreement (“Brocade Purchase Agreement”), the Company acquired customers, employees, technology and other assets of Brocade SRA, as well as assumed certain contracts and other liabilities of Brocade SRA, for an upfront cash closing payment equal to $23.0 million, plus a deferred payment equal to $20.0 million to be paid $1 million per quarter for 20 quarters following the Closing, plus quarterly earn out payments equal to 50% of profits of Brocade SRA, with certain deductions per the terms of the Brocade Purchase Agreement, for the five-year period commencing at the end of our first full fiscal quarter following the Brocade Closing Date.

Moreover, even if we do obtain benefits in the form of increased sales and earnings, these benefits may be recognized much later than the time when the expenses associated with an acquisition are incurred. This is particularly relevant in cases where it would be necessary to integrate new types of technology into our existing portfolio and new types of products may be targeted for potential customers with which we do not have pre-existing relationships.

Our ability to realize the anticipated benefits of our acquisitions and investment activities, including the WLAN Business, Avaya Networking and Brocade SRA, also entail numerous risks, including, but not limited to:

- difficulties in the assimilation and successful integration of acquired operations, technologies and/or products;
- unanticipated costs, litigation or other contingent liabilities associated with the acquisition or investment transaction;

- incurrence of acquisition- and integration-related costs, goodwill or in-process research and development impairment charges, or amortization costs for acquired intangible assets, that could negatively impact our operating results and financial condition;
- the diversion of management’s attention from other business concerns;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience;
- the potential loss of key employees of acquired organizations and inability to attract or retain other key employees; and
- substantial charges for the amortization of certain purchased intangible assets, deferred stock compensation or similar items.

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

**Our credit facilities impose financial and operating restrictions on us.**

Our debt instruments, including our credit facility, as amended, entered into in connection with the WLAN Business and Avaya Networking business, impose, and the terms of any future debt may impose, operating and other restrictions on us. These restrictions could affect, and in many respects limit or prohibit, among other items, our ability to:

- incur additional indebtedness;
- create liens;
- make investments;
- enter into transactions with affiliates;
- sell assets;
- guarantee indebtedness;
- declare or pay dividends or other distributions to stockholders;
- repurchase equity interests;
- change the nature of our business;
- enter into swap agreements;
- issue or sell capital stock of certain of our subsidiaries; and
- consolidate, merge, or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis.

The agreements governing our credit facility, as amended, also require us to achieve and maintain compliance with specified financial ratios. A breach of any of these restrictive covenants or the inability to comply with the required financial ratios could result in a default under our debt instruments. If any such default occurs, the lenders under our credit agreement may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. The lenders under our credit agreement also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we are unable to repay outstanding borrowings when due, the lenders under our credit agreement will have the right to proceed against the collateral granted to them to secure the debt. If the debt under our credit agreement were to be accelerated, we cannot give assurance that this collateral would be sufficient to repay our debt.

**If we fail to meet our payment or other obligations under our credit facility, as amended, the lenders under such credit facility, as amended, could foreclose on, and acquire control of, substantially all of our assets.**

Our credit facility, as amended, is jointly and severally guaranteed by us and certain of our subsidiaries. Borrowings under our credit facility, as amended, are secured by liens on substantially all of our assets, including the capital stock of certain of our subsidiaries, and the assets of our subsidiaries that are loan party guarantors. If we are unable to repay outstanding borrowings when due, the lenders under our credit agreement will have the right to proceed against this pledged capital stock and take control of substantially all of our assets.

**Our revenues may decline as a result of changes in public funding of educational institutions.**

A portion of our revenues comes from sales to both public and private K-12 educational institutions. Public schools receive funding from local tax revenue, and from state and federal governments through a variety of programs, many of which seek to assist schools located in underprivileged or rural areas. The funding for a portion of our sales to educational institutions comes from a federal funding program known as the E-Rate program. E-Rate is a program of the Federal Communications Commission that subsidizes the purchase of approved telecommunications, Internet access, and internal connection costs for eligible public educational institutions. The E-Rate program, its eligibility criteria, the timing and specific amount of federal funding actually available and which Wi-Fi infrastructure and product sectors will benefit, are uncertain and subject to final federal program approval and funding appropriation continues to be under review by the Federal Communications Commission, and we cannot assure that this program or its equivalent will continue, and as a result, our business may be harmed. Furthermore, if state or local funding of public education is significantly reduced because of legislative or policy changes or by reductions in tax revenues due to changing economic conditions, our sales to educational institutions may be negatively impacted by these changed conditions. Any reduction in spending on information technology systems by educational institutions would likely materially and adversely affect our business and results of operations. This is a specific example of the many factors which add additional uncertainty to our future revenue from our education end-customers.

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

Our success depends to a significant degree upon the continued contributions of our key management, engineering, sales and marketing, service and operations personnel, many of whom would be difficult to replace. We do not have employment contracts with these individuals that mandate that they render services for any specific term, nor do we carry life insurance on any of our key personnel. We have experienced and may in the future experience significant turnover in our executive personnel. Changes in our management and key employees could affect our financial results, and a recent reduction in force, may impede our ability to attract and retain highly skilled personnel. We believe our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, engineering, sales and marketing, service, finance and operations personnel. The market for these personnel is competitive, and we have had difficulty in hiring employees, particularly engineers, in the time-frame we desire.

A number of our employees are foreign nationals who rely on visas and entry permits in order to legally work in the United States and other countries. In recent years, the United States has increased the level of scrutiny in granting H-1(B), L-1 and other business visas. In addition, the current U.S. administration has indicated that immigration reform is a priority. Compliance with United States immigration and labor laws could require us to incur additional unexpected labor costs and expenses or could restrain our ability to retain skilled professionals. Any of these restrictions could have a material adverse effect on our business, results of operations and financial conditions.

**We cannot assure you we will be profitable in the future, and our financial results may fluctuate significantly from period to period.**

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

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

- our dependence on obtaining orders during a quarter and shipping those orders in the same quarter to achieve our revenue objectives;
- decreases in the prices of the products we sell;
- the mix of products sold and the mix of distribution channels through which products are sold;
- acceptance provisions in customer contracts;
- our ability to deliver installation or inspection services by the end of the quarter;
- changes in general and/or specific economic conditions in the networking industry;

- seasonal fluctuations in demand for our products and services;
- a disproportionate percentage of our sales occurring in the last month of the quarter;
- our ability to ship products by the end of a quarter;
- reduced visibility into the implementation cycles for our products and our customers' spending plans;
- our ability to forecast demand for our products, which in the case of lower-than-expected sales, may result in excess or obsolete inventory in addition to non-cancelable purchase commitments for component parts;
- our sales to the telecommunications service provider market, which represents a significant source of large product orders, being especially volatile and difficult to forecast;
- product returns or the cancellation or rescheduling of orders;
- announcements and new product introductions by our competitors;
- our ability to develop and support relationships with enterprise customers, service providers and other potential large customers;
- our ability to achieve and maintain targeted cost reductions;
- fluctuations in warranty or other service expenses actually incurred;
- our ability to obtain sufficient supplies of sole- or limited-source components for our products on a timely basis;
- increases in the price of the components we purchase; and
- changes in funding for customer technology purchases in our markets, such as policy changes in public funding of educational institutions in the United States in accordance with the Federal Communications Commission's E-Rate program.

Due to the foregoing and other factors, many of which are described herein, period-to-period comparisons of our operating results should not be relied upon as an indicator of our future performance.

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

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

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

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

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

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

- longer accounts receivable collection cycles;
- difficulties in managing operations across disparate geographic areas;
- difficulties associated with enforcing agreements through foreign legal systems;
- reduced or limited protection of intellectual property rights, particularly in jurisdictions that have less developed intellectual property regimes, such as China and India;
- higher credit risks requiring cash in advance or letters of credit;
- potential adverse tax consequences;
- compliance with regulatory requirements of foreign countries, including compliance with rapidly evolving environmental regulations;
- compliance with U.S. laws and regulations pertaining to the sale and distribution of products to customers in foreign countries, including export controls and the Foreign Corrupt Practices Act;
- the payment of operating expenses in local currencies, which exposes us to risks of currency fluctuations.
- political and economic turbulence;
- terrorism, war or other armed conflict;
- compliance with U.S. and other applicable government regulations prohibiting certain end-uses and restrictions on trade with embargoed or sanctioned countries, such as Russia, and with denied parties;
- potential import tariffs imposed by the United States and the possibility of reciprocal tariffs by foreign countries;
- difficulty in conducting due diligence with respect to business partners in certain international markets;
- increased complexity of accounting rules and financial reporting requirements;
- fluctuations in local economies; and
- natural disasters and epidemics.

Any or all of these factors could have a material adverse impact on our business, financial condition, and results of operations.

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

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

Local laws and customs in many countries differ significantly from, or conflict with, those in the United States or in other countries in which we operate. In many foreign countries, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. regulations applicable to us. Although we have implemented policies, procedures and training designed to ensure compliance with these U.S. and foreign laws and policies, there can be no complete assurance that any individual employee, contractor, channel partner, or agents will not violate our policies and procedures. Violations of laws or key control policies by our employees, contractors, channel partners, or agents could result in termination of our relationship, financial reporting problems, fines, and/or penalties for us, or prohibition on the importation or exportation of our products, and could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

- ASICs - merchant silicon, Ethernet switching, custom and physical interface;
- microprocessors;
- programmable integrated circuits;
- selected other integrated circuits;
- custom power supplies; and
- custom-tooled sheet metal.

Our principal limited-source components include:

- flash memory;
- DRAMs and SRAMs;
- printed circuit boards;
- CAMs;
- connectors; and
- timing circuits (crystals & clocks).

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

Our top ten suppliers accounted for a significant portion of our purchases during the quarter. Given the significant concentration of our supply chain, particularly with certain sole or limited source providers, any significant interruption by any of the key suppliers or a termination of a relationship could temporarily disrupt our operations. Additionally, our operations are materially dependent upon the continued market acceptance and quality of these manufacturers' products and their ability to continue to manufacture products that are competitive and that comply with laws relating to environmental and efficiency standards. Our inability to obtain products from one or more of these suppliers or a decline in market acceptance of these suppliers' products could have a material adverse effect on our business, results of operations and financial condition. Other than pursuant to an agreement with a key component supplier which includes pricing based on a minimum volume commitment, generally we do not have agreements fixing long-term prices or minimum volume requirements from suppliers. From time to time we have experienced shortages and allocations of certain components, resulting in delays in filling orders. Qualifying new suppliers to compensate for such shortages may be time-consuming and costly and may increase the likelihood of errors in design or production. In addition, during the development of our products, we have experienced delays in the prototyping of our chipsets, which in turn has led to delays in product introductions. Similar delays may occur in the future. Furthermore, the performance of the components from our suppliers as incorporated in our products may not meet the quality requirements of our customers.

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

The market for network switching solutions is intensely competitive and dominated primarily by Cisco Systems Inc., Dell, Hewlett-Packard Company, Huawei Technologies Co. Ltd. and Juniper Networks, Inc. Most of our competitors have longer operating histories, greater name recognition, larger customer bases, broader product lines and substantially greater financial, technical, sales, marketing and other resources. As a result, these competitors are able to devote greater resources to the development, promotion, sale and support of their products. In addition, they have larger distribution channels, stronger brand names, access to more customers, a larger installed customer base and a greater ability to make attractive offers to channel partners and customers than we do. Some of our customers may question whether we have the financial resources to complete their projects and future service commitments.

For example, we have encountered, and expect to continue to encounter in the future, many potential customers who are confident in and committed to the product offerings of our principal competitors. Accordingly, these potential customers may not consider or evaluate our products. When such potential customers have considered or evaluated our products, we have in the past lost, and expect in the future to lose, sales to some of these customers as large competitors have offered significant price discounts to secure these sales.

The pricing policies of our competitors impact the overall demand for our products and services. Some of our competitors are capable of operating at significant losses for extended periods of time, increasing pricing pressure on our products and services. If we do not maintain competitive pricing, the demand for our products and services, as well as our market share, may decline. From time to time, we may lower the prices of our products and services in response to competitive pressure. When this happens, if we are unable to reduce our component costs or improve operating efficiencies, our revenue and gross margins will be adversely affected.

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

We have undertaken restructuring efforts in the past to streamline operations and reduce operating expenses. Our ability to achieve the anticipated cost savings and other benefits from our restructuring efforts within expected time frames is subject to many estimates and assumptions and may vary materially based on factors such as market conditions and the effect of our restructuring efforts on our work force. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. We cannot assure that we will fully realize the anticipated positive impacts to future financial results from our current or future restructuring efforts. If our estimates and assumptions are incorrect or if other unforeseen events occur, we may not achieve the cost savings expected from such restructurings, and our business and results of operations could be adversely affected.

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

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

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

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

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

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

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

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

**If we do not successfully anticipate technological shifts, market needs and opportunities, and develop products, product enhancements and business strategies that meet those technological shifts, needs and opportunities, or if those products are not made available or strategies are not executed in a timely manner or do not gain market acceptance, we may not be able to compete effectively and our ability to generate revenues will suffer.**

The markets for our products are constantly evolving and characterized by rapid technological change, frequent product introductions, changes in customer requirements, and continuous pricing pressures. We cannot guarantee that we will be able to anticipate future technological shifts, market needs and opportunities or be able to develop new products, product enhancements and business strategies to meet such technological shifts, needs or opportunities in a timely manner or at all. For example, the move from traditional network infrastructures towards SDN has been receiving considerable attention. In our view, it will take several years to see the full impact of SDN, and we believe the successful products and solutions in this market will combine hardware and software elements together. If we fail to anticipate market requirements or opportunities or fail to develop and introduce new products, product enhancements or business strategies to meet those requirements or opportunities in a timely manner, it could cause us to lose customers, and such failure could substantially decrease or delay market acceptance and sales of our present and future products and services, which would significantly harm our business, financial condition, and results of operations. Even if we are able to anticipate, develop and commercially introduce new products and enhancements, we cannot assure that new products or enhancements will achieve widespread market acceptance.

**The cloud networking market is still in its early stages and is rapidly evolving. If this market does not evolve as we anticipate or our target end customers do not adopt our cloud networking solutions, we may not be able to compete effectively, and our ability to generate revenue will suffer.**

The cloud networking market is still in its early stages. The market demand for cloud networking solutions has increased in recent years as end customers have deployed larger networks and have increased the use of virtualization and cloud computing. Our success may be impacted by our ability to provide successful cloud networking solutions that address the needs of our channel partners and end customers more effectively and economically than those of other competitors or existing technologies. If the cloud networking solutions market does not develop in the way we anticipate, if our solutions do not offer significant benefits compared to competing legacy network switching products or if end customers do not recognize the benefits that our solutions provide, then our potential for growth in this cloud market could be adversely affected.

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

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

Litigation resulting from claims that we are infringing the proprietary rights of others has resulted and could in the future result in substantial costs and a diversion of resources, and could have a material adverse effect on our business, financial condition and results of operations. We previously received notices from entities alleging that we were infringing their patents and have been party to patent litigation in the past.

Without regard to the merits of these or any other claims, an adverse court order or a settlement could require us, among other actions, to:

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

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

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

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

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

We have in the past, currently are and will likely in the future pursue or be subject to claims or lawsuits in the normal course of our business. In addition to the risks related to the intellectual property lawsuits described above, we are currently parties to other litigation as described in Note [8] to our Notes to Consolidated Financial Statements included elsewhere in this Quarterly Report. Regardless of the result, litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a lawsuit in which we are a defendant could result in a court order against us or payments to other parties that would have an adverse effect on our business, results of operations or financial condition. Even if we are successful in prosecuting claims and lawsuits, we may not recover damages sufficient to cover our expenses incurred to manage, investigate and pursue the litigation. In addition, subject to certain limitations, we may be obligated to indemnify our current and former customers, suppliers, directors, officers and employees in certain lawsuits. We may not have adequate insurance coverage to cover all of our litigation costs and liabilities.

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

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. However, we cannot ensure that the actions we have taken will adequately protect our intellectual property rights or that other parties will not independently develop similar or competing products that do not infringe on our patents. We generally enter into confidentiality, invention assignment or license agreements with our employees, consultants and other third parties with whom we do business, and control access to and distribution of our intellectual property and other proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise misappropriate or use our products or technology, which would adversely affect our business.

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

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

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

**Our dependence on a few manufacturers for our manufacturing requirements could harm our operating results.**

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

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

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

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

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

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

The purchase of our products represent a significant strategic decision by a customer regarding its communications infrastructure. The decision by customers to purchase our products is often based on the results of a variety of internal procedures associated with the evaluation, testing, implementation and acceptance of new technologies. Accordingly, the product evaluation process frequently results in a lengthy sales cycle, typically ranging from three months to longer than a year, and as a result, our ability to sell products is subject to a number of significant risks, including risks that:

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

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

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

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

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

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

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

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

Our products must also comply with various U.S. federal government regulations and standards defined by agencies such as the Federal Communications Commission, standards established by governmental authorities in various foreign countries and recommendations of the International Telecommunication Union. In some circumstances, we must obtain regulatory approvals or certificates of compliance before we can offer or distribute our products in certain jurisdictions or to certain customers. Complying with new regulations or obtaining certifications can be costly and disruptive to our business.

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

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

Our ability to successfully implement our business plan and comply with regulations requires an effective planning and management process. We need to continue improving our existing, and implement new, operational and financial systems, procedures and controls. We need to ensure that any businesses acquired, including the WLAN Business and Avaya Networking, are appropriately integrated in our financial systems. Any delay in the implementation of, or disruption in the integration of acquired businesses, or delay and disruption in the transition to, new or enhanced systems, procedures or controls, could harm our ability to record and report financial and management information on a timely and accurate basis, or to forecast future results.

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

Our future effective tax rates may be volatile or adversely affected by changes in our business or U.S. or foreign tax laws, including: the partial or full release of the valuation allowance recorded against our net U.S. deferred tax assets; expiration of or lapses in the research and development tax credit laws; transfer pricing adjustments; tax effects of stock-based compensation; or costs related to restructuring. The current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, could affect the tax treatment of our foreign earnings. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. Although we regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes, there is no assurance that such determinations by us are in fact adequate. Changes in our effective tax rates or amounts assessed upon examination of our tax returns may have a material, adverse impact on our cash flows and our financial condition.

Our future effective tax rate in particular could be adversely affected by a change in ownership pursuant to U.S. Internal Revenue Code Section 382. If a change in ownership occurs, it may limit our ability to utilize our net operating losses to offset our U.S. taxable income. If U.S. taxable income is greater than the change in ownership limitation, we will pay a higher rate of tax with respect to the amount of taxable income that exceeds the limitation. This could have a material adverse impact on our results of operations. On April 26, 2012, we adopted an Amended and Restated Rights Agreement to help protect our assets (the “Rights Agreement”). In general, this does not allow a stockholder to acquire more than 4.95% of our outstanding common stock without a waiver from our board of directors, who must take into account the relevant tax analysis relating to potential limitation of our net operating losses. Our Rights Agreement is effective through May 31, 2018, subject to ratification by a majority of the stockholders of the Company at the next annual shareholders meeting, expected to be held on November 9, 2017.

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

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

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

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

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

**We are required to evaluate the effectiveness of our internal control over financial reporting on an annual basis and publicly disclose any material weaknesses in our controls. Any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and significant expense to remediate, and ultimately could have an adverse effect on our stock price.**

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to assess the effectiveness of our internal control over financial reporting and to disclose if such controls were unable to provide assurance that a material error would be prevented or detected in a timely manner. We have an ongoing program to review the design of our internal controls framework in keeping with changes in business needs, implement necessary changes to our controls design and test the system and process controls necessary to comply with these requirements. 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 our Company will have been detected.

If we or our independent registered public accounting firm identifies material weaknesses in our internal controls, the disclosure of that fact, even if quickly remedied, may cause investors to lose confidence in our financial statements and its stock price may decline. Remediation of a material weakness could require us to incur significant expenses and, if we fail to remedy any material weakness, our ability to report our financial results on a timely and accurate basis may be adversely affected, our access to the capital markets may be restricted, our stock price may decline, and we may be subject to sanctions or investigation by regulatory authorities, including the U.S. Securities and Exchange Commission or the NASDAQ Stock Market LLC. We may also be required to restate our financial statements from prior periods. Execution of restatements create a significant strain on our internal resources and could cause delays in our filing of quarterly or annual financial results, increase our costs and cause management distraction. Restatements may also significantly affect our stock price in an adverse manner.

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

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

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

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

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

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

In addition, fluctuations in our stock price and our price-to-earnings multiple may make our stock attractive to momentum, hedge or day-trading investors who often shift funds into and out of stock rapidly, exacerbating price fluctuations in either direction, particularly when viewed on a quarterly basis. These fluctuations may adversely affect the trading price or liquidity of our common stock. Some companies, including us, that have had volatile market prices for their securities have had securities class action lawsuits filed against them. If a suit were filed against us, regardless of its merits or outcome, it could result in substantial costs and divert management's attention and resources.

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

Some of our products are designed to include software or other intellectual property, including open source software, licensed from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of these products. There can be no assurance that the necessary licenses would be available on acceptable terms, if at all. The inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, could have a material adverse effect on our business, operating results, and financial condition. Moreover, the inclusion in our products of software or other intellectual property licensed from third parties on a nonexclusive basis could limit our ability to protect our proprietary rights in our products. Further, the failure to comply with the terms of any license, including free open source software, may result in our inability to continue to use such license. Our inability to maintain or re-license any third-party licenses required in our products or our inability to obtain third-party licenses necessary to develop new products and product enhancements, could require us, if possible, to develop substitute technology or obtain substitute technology of lower quality or performance standards or at a greater cost, any of which could delay or prevent product shipment and harm our business, financial condition, and results of operations.

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

In the ordinary course of business, we store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners on our networks. In addition, we store sensitive data through cloud-based services that may be hosted by third parties and in data center infrastructure maintained by third parties. The secure maintenance of this information is critical to our operations and business strategy. Increasingly, companies, including us, are subject to a wide variety of attacks on their networks on an ongoing basis. Despite our security measures, our information technology and infrastructure may be vulnerable to penetration or attacks by computer programmers and hackers, or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products, and the information stored on our networks could be accessed, publicly disclosed, lost or stolen, which could subject us to liability to our customers, suppliers, business partners and others, and cause us reputational and financial harm. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of our networks. This can be true even for “legacy” products that have been determined to have reached an end of life engineering status but will continue to operate for a limited amount of time.

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

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

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

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

Our products are designed to interface with our customers’ existing networks, each of which have different specifications and utilize multiple protocol standards and products from other vendors. Many of our customers’ networks contain multiple generations of products that have been added over time as these networks have grown and evolved. Our products must inter-operate with many or all of the products within these networks as well as future products in order to meet our customers' requirements. If we find errors in the existing software or defects in the hardware used in our customers' networks, we may need to modify our software networking solutions to fix or overcome these errors so that our products will inter-operate and scale with the existing software and hardware, which could be costly and could negatively affect our business, financial condition, and results of operations. In addition, if our products do not inter-operate with those of our customers' networks, demand for our products could be adversely affected or orders for our products could be canceled. This could hurt our operating results, damage our reputation, and seriously harm our business and prospects.

**We have liabilities for real estate leases in excess of what is necessary for our current business.**

We have real estate leases that we are currently trying to sublease or that we have had to write-off their cost. Until such time that we are able to sublease these properties, or the current leases expire, we may incur financial liabilities for real estate leases significantly in excess of what is necessary for our current business.

**The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.**

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The terms of the withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiated the withdrawal process in March 2017. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal. The referendum has also given rise to calls for the governments of other European Union member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and results of operations and reduce the price of our securities.

While the full effects of the referendum will not be known for some time, the referendum and beginnings of the British exit from the European Union could cause disruptions to, and create uncertainty surrounding, our business with customers in the United Kingdom. One of the most immediate effects of the referendum to date includes the currency exchange rate fluctuations that have resulted in the strengthening of the U.S. Dollar against the U.K. Pound Sterling. The weaker U.K. Pound Sterling means that revenues earned in U.K. Pounds Sterling translate to lower reported U.S. Dollar revenues. The weaker U.K. Pound Sterling also means that expenses incurred in U.K. Pounds Sterling translate to lower reported U.S. Dollar expenses. In addition, the continued strength and future increases in the value of the U.S. Dollar relative to the U.K. Pounds Sterling could make the sale of our products less competitive in the United Kingdom.

**Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain metals used in the manufacturing of our products.**

As a public company, we are subject to requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, and the regulations adopted by the SEC as a result of the Dodd-Frank Act, that require us to perform certain reasonable country of origin inquiry and diligence exercises, and disclose and report on our diligence process and efforts to ascertain whether or not our products may contain "conflict minerals" mined from the Democratic Republic of the Congo or adjoining countries. These requirements could adversely affect the sourcing, availability and pricing of the materials used in the manufacture of components used in our products. In addition, we continue to incur additional costs to comply with these disclosure requirements, including costs related to conducting ongoing diligence procedures and, if applicable, potential changes to products, processes or sources of supply as a consequence of such activities. We may encounter challenges to satisfy customers who require that all of the components of our products are certified as "conflict free." If we cannot satisfy these customers, they may choose a competitor's products.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – Not applicable**

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

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

**Item 5. Other Information – Not Applicable**

**Item 6. Exhibits**

(a) Exhibits:

| Exhibit Number | Description of Document | Incorporated by Reference Form | Filing Date | Number | Filed Herewith |
|---|---|---|---|---|---|
| 2.1 | Asset Purchase Agreement, dated October 3, 2017, by and between Extreme Networks, Inc. and Brocade Communications Systems, Inc. | 8-K | 10/3/2017 | 2.1 | |
| 10.1 | Second Amendment to the Amended and Restated Credit Agreement, dated as of July 14, 2017, by and among Extreme Networks, Inc., as a borrower, the several banks and other financial institutions or entities party thereto as lenders, and Silicon Valley Bank, as administrative agent and collateral agent. | 8-K | 7/18/2017 | 10.1 | |
| 10.2 | Consent Agreement Re: Termination of Prior Asset Purchase Agreement, dated as of October 3, 2017, by and among LSI Corporation, Broadcom Corporation and Extreme Networks, Inc. | 8-K | 10/3/2017 | 10.1 | |
| 10.4* | Form of Performance-based Vesting Restricted Stock Unit Grant Notice and Grant Agreement August 2017 | | | | 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 |

*Indicates management compensatory contract, plan or arrangement.

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

**SIGNATURES**

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

EXTREME NETWORKS, INC.
(Registrant)

/ S / B. DREW DAVIES

**B. Drew Davies**
**Executive Vice President, Chief Financial Officer**
**(Principal Accounting Officer)**

November 9, 2017

Exhibit 10.4

# EXTREME NETWORKS, INC.
# NOTICE OF GRANT OF
# PERFORMANCE VESTING RESTRICTED STOCK UNITS
## (For U.S. Participants)

Extreme Networks, Inc. (the "***Company***") has granted to the Participant an award (the "***Award***") of certain units pursuant to the Extreme Networks, Inc. 2013 Equity Incentive Plan (the "***Plan***"), each of which represents the right to receive on the applicable Settlement Date one (1) share of Stock, as follows:

| | | | |
|---|---|---|---|
| **Participant:** | %%FIRST_NAME%-% %%LAST_NAME%-% | **Employee ID:** | %%EMPLOYEE_IDENTIFIER%-% |

**Grant Date:** %%August 23, 2017%-%

**Total Number of Units:** %%TOTAL_SHARES_GRANTED%-%, subject to adjustment as provided by the Performance Vesting Restricted Stock Units Agreement.

**Settlement Date:** Except as provided by the Performance Vesting Restricted Stock Units Agreement, the date on which a Unit becomes a Vested Unit.

**Eligible Units:** The Total Number of Units will become Eligible Units once the following Performance Threshold is satisfied, as determined by the Committee, in its sole discretion (such date, the "***Eligibility Date***"). The Performance Threshold will be satisfied if the sum of the Company's GAAP earnings per share equals or exceeds $0.32 for two (2) consecutive fiscal quarters during the period beginning August 23, 2017 and ending August 23, 2020.

If the Performance Threshold has not be satisfied on or before August 23, 2020, the Award shall automatically terminate and cease to be outstanding without payment of compensation to the Participant.

**Vested Units:** Except as provided in the Performance Vesting Restricted Stock Units Agreement and provided that the Participant's Service has not terminated prior to the applicable vesting date, Eligible Units shall become Vested Units as follows:

- On the Eligibility Date, (i) no shares shall vest if the Eligibility Date occurs before the first anniversary of the Grant Date, and (ii) if the Eligibility Date occurs on or after the first anniversary of the Grant Date, one-third ($^1/_3$) of the Eligible Units shall automatically vest plus one-twelfth ($^1/_{12}$) of the Eligible Units shall vest for each three (3)-month period that has lapsed between the first-year anniversary of the Grant Date and the Eligibility Date, if any.

- Following the Eligibility Date, (i) if the Eligibility Date preceded the first anniversary of the Grant Date, upon the first anniversary of the Grant Date, one-third ($^1/_3$) of the Eligible Units shall vest and one-twelfth ($^1/_{12}$) of the Eligible Units shall vest on each three (3)-month anniversary of the Grant Date, thereafter and (ii) if the Eligibility Date occurred on or after the first anniversary, one-twelfth ($^1/_{12}$) of the Eligible Units shall vest on each three (3)-month anniversary of the Grant Date following the Eligibility Date, such that the Eligible Units shall be fully vested on the third anniversary of the Grant Date, in each case.

**Superseding Agreement:** None

By the Company's authorized signature below and the Participant's by electronic acceptance in a form authorized by the Company, the Company and the Participant agree that the Award is governed by this Grant Notice and by the provisions of the Performance Vesting Restricted Stock Units Agreement and the Plan, both of which are made a part of this document, and by the Superseding Agreement, if any. The Participant acknowledges that copies of the Plan, the Performance Vesting Restricted Stock Units Agreement and the prospectus for the Plan are available on the Company's internal web site and may be viewed and printed by the Participant for attachment to the Participant's copy of this Grant Notice. The Participant represents that the Participant has read and is familiar with the provisions of the Performance Vesting Restricted Stock Units Agreement and the Plan, and hereby accepts the Award subject to all of their terms and conditions.

EXTREME NETWORKS, INC.
6480 Via Del Oro
San Jose, California 95119

ATTACHMENTS: 2013 Equity Incentive Plan, as amended to the Date of Grant; Performance Vesting Restricted Stock Units Agreement and Plan Prospectus

# EXTREME NETWORKS, INC.
# PERFORMANCE VESTING RESTRICTED STOCK UNITS AGREEMENT
**(For U.S. Participants)**

Extreme Networks, Inc. has granted to the Participant named in the *Notice of Grant of Performance Vesting Restricted Stock Units* (the *"**Grant Notice**"*) to which this Performance Vesting Restricted Stock Units Agreement (the *"**Agreement**"*) is attached an Award consisting of Performance Vesting Restricted Stock Units (each a *"**Unit**"*) subject to the terms and conditions set forth in the Grant Notice and this Agreement. The Award has been granted pursuant to and shall in all respects be subject to the terms and conditions of the Extreme Networks, Inc. 2013 Equity Incentive Plan (the *"**Plan**"*), as amended to the Date of Grant, the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Agreement, the Plan and a prospectus for the Plan prepared in connection with the registration with the Securities and Exchange Commission of the shares issuable pursuant to the Award (the *"**Plan Prospectus**"*), (b) accepts the Award subject to all of the terms and conditions of the Grant Notice, this Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Agreement or the Plan.

1. **Definitions and Construction.**

1.1 **Definitions.** Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Grant Notice or the Plan.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

2. **Administration.**

All questions of interpretation concerning the Grant Notice, this Agreement, the Plan or any other form of agreement or other document employed by the Company in the administration of the Plan or the Award shall be determined by the Committee. All such determinations by the Committee shall be final, binding and conclusive upon all persons having an interest in the Award, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or the Award or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest in the Award. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

3. **The Award.**

3.1 **Grant of Units.** The Company hereby grants to the Participant the Award set forth in the Grant Notice, which, depending whether the Performance Threshold is attained, may result in the Participant earning the Total Number of Units. Subject to the terms of this Agreement and the Plan, each Unit, to the extent it is earned and becomes a Vested Unit, represents a right to receive on the applicable Settlement Date one (1) share of Stock. Unless and until a Unit has been determined to be an Eligible Unit and has vested and become a Vested Unit as set forth in the Grant Notice and this Agreement, the Participant will have no right to settlement of such Unit. Prior to settlement of any earned and vested Units, such Units will represent an unfunded and unsecured obligation of the Company.

3.2 **No Monetary Payment Required.** The Participant is not required to make any monetary payment (other than applicable tax withholding, if any) as a condition to receiving the Units or shares of Stock issued upon settlement of the Units, the consideration for which shall be past services actually rendered or future services to be rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock issued upon settlement of the Units.

4. **Vesting of Units**.

4.1 **Normal Vesting.** Except as otherwise provided by this Agreement, Eligible Units shall vest and become Vested Units as provided in the Grant Notice.

4.2 **Effect of Termination of Service upon Vesting.** Except as provided by Section 4.4 or a Superseding Agreement, if any, if the Participant's Service terminates for any reason, all Units subject to the Award which have not become Vested Units as of the time of such termination of Service shall be subject to the Company Reacquisition Right (as defined by Section 5.1).

4.3 **Effect of a Change in Control.** In the event of a Change in Control, the number of Eligible Units shall be determined in accordance with Section 8.2.

4.4 **Vesting Upon Termination Upon a Change in Control.** In the event of the Participant's "Termination Upon a Change in Control" (as defined by the Extreme Networks, Inc. Executive Change in Control Severance Plan, as amended or its successor (the "***Change in Control Plan***"), the vesting of Eligible Units shall be determined in accordance with Section 8.3.

5. **Company Reacquisition Right.**

5.1 **Grant of Company Reacquisition Right.** Except to the extent otherwise provided by Section 4.4 or a Superseding Agreement, if any, in the event that the Participant's Service terminates for any reason or no reason, with or without cause, the Participant shall forfeit and the Company shall automatically reacquire all Units which are not, as of the time of such termination, Vested Units (***"Unvested Units")***, and the Participant shall not be entitled to any payment therefor (the ***"Company Reacquisition Right"***).

5.2 **Ownership Change Event, Non-Cash Dividends, Distributions and Adjustments.** Upon the occurrence of an Ownership Change Event, a dividend or distribution to the stockholders of the Company paid in shares of Stock or other property, or any other adjustment upon a change in the capital structure of the Company as described in Section 9, any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends paid on Stock pursuant to the Company's dividend policy) to which the Participant is entitled by reason of the Participant's ownership of Unvested Units shall be immediately subject to the Company Reacquisition Right and included in the terms "Units" and "Unvested Units" for all purposes of the Company Reacquisition Right with the same force and effect as the Unvested Units immediately prior to the Ownership Change Event, dividend, distribution or adjustment, as the case may be. For purposes of determining the number of Vested Units following an Ownership Change Event, dividend, distribution or adjustment, credited Service shall include all Service with any corporation which is a Participating Company at the time the Service is rendered, whether or not such corporation is a Participating Company both before and after any such event.

6. **<u>Settlement of the Award</u>.**

6.1 **Issuance of Shares of Stock.** Subject to the provisions of Section 6.3, the Company shall issue to the Participant on the Settlement Date with respect to each Vested Unit to be settled on such date one (1) share of Stock. The Settlement Date with respect to a Unit shall be the date on which such Unit becomes a Vested Unit as provided by the Grant Notice (an "***Original Settlement Date***"); provided, however, that if the Original Settlement Date would occur on a date on which a sale by the Participant of the shares to be issued in settlement of the Vested Units would violate the Trading Compliance Policy of the Company, the Settlement Date for such Vested Units shall be deferred until the next day on which the sale of such shares would not violate the Trading Compliance Policy, but in any event on or before the 15th day of the third calendar month following calendar year of the Original Settlement Date. Shares of Stock issued in settlement of Units shall not be subject to any restriction on transfer other than any such restriction as may be required pursuant to Section 6.3, Section 7 or the Company's Trading Compliance Policy.

6.2 **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit any or all shares acquired by the Participant pursuant to the settlement of the Award with the Company's transfer agent, including any successor transfer agent, to be held in book entry form, or to deposit such shares for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice. Except as provided by the foregoing, a certificate for the shares acquired by the Participant shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

6.3 **Restrictions on Grant of the Award and Issuance of Shares.** The grant of the Award and issuance of shares of Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. No shares of Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

6.4 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the settlement of the Award.

7. <u>**TAX WITHHOLDING**</u>.

7.1 **In General.** At the time the Grant Notice is executed, or at any time thereafter as requested by a Participating Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for, any sums required to satisfy the federal, state, local and foreign tax (including any social insurance) withholding obligations of the Participating Company, if any, which arise in connection with the Award, the vesting of Units or the issuance of shares of Stock in settlement thereof. The Company shall have no obligation to deliver shares of Stock until the tax withholding obligations of the Participating Company have been satisfied by the Participant.

7.2 **Assignment of Sale Proceeds.** Subject to compliance with applicable law and the Company's Trading Compliance Policy, if permitted by the Company, the Participant may satisfy the Participating Company's tax withholding obligations in accordance with procedures established by the Company providing for delivery by the Participant to the Company or a broker approved by the Company of properly executed instructions, in a form approved by the Company, providing for the assignment to the Company of the proceeds of a sale with respect to some or all of the shares being acquired upon settlement of Units.

7.3 **Withholding in Shares.** The Company shall have the right, but not the obligation, to require the Participant to satisfy all or any portion of a Participating Company's tax withholding obligations by deducting from the shares of Stock otherwise deliverable to the Participant in settlement of the Award a number of whole shares having a fair market value, as determined by the Company as of the date on which the tax withholding obligations arise, not in excess of the amount of such tax withholding obligations determined by the applicable minimum statutory withholding rates.

8. <u>**EFFECT OF CHANGE IN CONTROL**</u>.

8.1 **In General.** In the event of a Change in Control, except to the extent that the Committee determines to cash out the Award in accordance with Section 14.1(c) of the Plan and subject to Section 8.2 below, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the "***Acquiror***"), may, without the consent of the Participant, assume or continue in full force and effect the Company's rights and obligations under all or any portion of the outstanding Units or substitute for all or any portion of the outstanding Units substantially equivalent rights with respect to the Acquiror's stock. For purposes of this Section, a Unit shall be deemed assumed if, following the Change in Control, the Unit confers the right to receive, subject to the terms and conditions of the Plan and this Agreement, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock); provided, however, that if such consideration is not solely common stock of the Acquiror, the Committee may, with the consent of the Acquiror, provide for the consideration to be received upon settlement of the Unit to consist solely of common stock of the Acquiror equal in Fair Market Value to the per share consideration received by holders of Stock pursuant to the Change in Control. The Award shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control to the extent that Units subject to the Award are neither assumed or continued by the Acquiror in connection with the Change in Control nor settled as of the time of the Change in Control.

8.2 **Eligible Units.** In the event of a Change in Control prior to the Eligibility Date, and notwithstanding Section 8.1 above or Section 14.1(c) of the Plan, the Eligibility Date shall be deemed to occur on the day immediately preceding the Change in Control (the "***Adjusted Eligibility Date***") and a certain portion of the Total Number of Units shall be deemed Eligible Units in accordance with the following:

(a) The Committee shall determine and certify in writing no later than the day immediately preceding the Change in Control the number of Eligible Units for the Adjusted Eligibility Date as follows:

(i) if the Transaction Price (defined below) equals or exceed $16.00 per share, 100% of the Total Number of Units shall be deemed Eligible Units; and

(ii) if the Transaction Price is less than $16.00 per share, the amount of shares that shall be deemed Eligible Units shall be the product of the Total Number of Units and the Achievement Ratio (as defined below).

(b) The Transaction Price is the price per share of Stock to be paid to the holder thereof in accordance with the definitive agreement governing the transaction constituting the Change in Control (or, in the absence of such agreement, the closing price per share of Stock on the last trading day of the Adjusted Eligibility Date as reported on the securities exchange constituting the primary market for the Stock). The Achievement Ratio is the sum of the Company's earnings per share (as determined by the Company) of the two full fiscal quarters immediately preceding the Change in Control divided by $0.32. Immediately following the Committee's determination pursuant to this Section 8.2(a), all Units subject to the Award which are not Eligible Units (the "***Unearned Units***") shall terminate and the Award, to the extent of the Unearned Units, shall cease to be outstanding.

8.3 **Involuntary Termination Following Change in Control.** This Section 8.3 shall apply only if the Participant is a participant in a Change in Control Plan (as defined by the Company's Executive Change in Control Severance Plan, as amended or its successor). In the event that the Participant's Service terminates due to "Termination Upon a Change in Control" (as such term or similar term is defined by the Change in Control Plan), then the vesting of each unvested Eligible Unit determined in accordance with Section 8.2 shall be accelerated, and such Eligible Units shall become vested Units to the extent provided by the Change in Control Plan and the Participant's participation agreement in such plan effective as of the date of the Participant's termination of Service. Consistent with Section 8.2 and notwithstanding any provision of the Change in Control Plan or such participation agreement to the contrary, the provisions of the Change in Control Plan shall not apply to the Unearned Units, with respect to which the Award will have ceased to be outstanding as of the Change in Control. The vested Units determined in accordance with this Section 8.3 shall be settled in accordance with Section 6, treating the date of the Participant's termination of Service as the vesting date, provided that payment for each vested Unit shall be made in the amount and in the form of the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock). For the purposes of this Section 8.3, the settlement date shall occur upon or as soon as practicable following the vesting date, but in any event no later than the 15th day of the third calendar month following the end of the calendar year in which the vesting date occurs.

9. **Adjustments for Changes in Capital Structure.**

Subject to any required action by the stockholders of the Company and the requirements of Section 409A of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (other than regular, periodic cash dividends paid on Stock pursuant to the Company's dividend policy) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number of Units subject to the Award and/or the number and kind of shares or other property to be issued in settlement of the Award, in order to prevent dilution or enlargement of the Participant's rights under the Award. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends paid on Stock pursuant to the Company's dividend policy) to which the Participant is entitled by reason of ownership of Units acquired pursuant to this Award will be immediately subject to the provisions of this Award on the same basis as all Units originally acquired hereunder. Any fractional Unit or share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number. Such adjustments shall be determined by the Committee, and its determination shall be final, binding and conclusive.

10. **Rights as a Stockholder, Director, Employee or Consultant.**

The Participant shall have no rights as a stockholder with respect to any shares which may be issued in settlement of this Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date the shares are issued, except as provided in Section 9. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant's employment is "at will" and is for no specified term. Nothing in this Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant's Service at any time.

11. **Legends.**

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to this Award in the possession of the Participant in order to carry out the provisions of this Section.

12. **Compliance with Section 409A.**

It is intended that any election, payment or benefit which is made or provided pursuant to or in connection with this Award that may result in Section 409A Deferred Compensation shall comply in all respects with the applicable requirements of Section 409A (including applicable regulations or other administrative guidance thereunder, as determined by the Committee in good faith) to avoid the unfavorable tax consequences provided therein for non-compliance. In connection with effecting such compliance with Section 409A, the following shall apply:

12.1 **Separation from Service; Required Delay in Payment to Specified Employee.** Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Participant's termination of Service which constitutes a "deferral of compensation" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Code (the "***Section 409A Regulations***") shall be paid unless and until the Participant has incurred a "separation from service" within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Participant is a "specified employee" within the meaning of the Section 409A Regulations as of the date of the Participant's separation from service, no amount that constitutes a deferral of compensation which is payable on account of the Participant's separation from service shall be paid to the Participant before the date (the "***Delayed Payment Date***") which is first day of the seventh month after the date of the Participant's separation from service or, if earlier, the date of the Participant's death following such separation from service. All such amounts that would, but for this Section, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

12.2 **Other Changes in Time of Payment.** Neither the Participant nor the Company shall take any action to accelerate or delay the payment of any benefits under this Agreement in any manner which would not be in compliance with the Section 409A Regulations.

12.3 **Amendments to Comply with Section 409A; Indemnification.** Notwithstanding any other provision of this Agreement to the contrary, the Company is authorized to amend this Agreement, to void or amend any election made by the Participant under this Agreement and/or to delay the payment of any monies and/or provision of any benefits in such manner as may be determined by the Company, in its discretion, to be necessary or appropriate to comply with the Section 409A Regulations without prior notice to or consent of the Participant. The Participant hereby releases and holds harmless the Company, its directors, officers and stockholders from any and all claims that may arise from or relate to any tax liability, penalties, interest, costs, fees or other liability incurred by the Participant in connection with the Award, including as a result of the application of Section 409A.

12.4 **Advice of Independent Tax Advisor.** The Company has not obtained a tax ruling or other confirmation from the Internal Revenue Service with regard to the application of Section 409A to the Award, and the Company does not represent or warrant that this Agreement will avoid adverse tax consequences to the Participant, including as a result of the application of Section 409A to the Award. The Participant hereby acknowledges that he or she has been advised to seek the advice of his or her own independent tax advisor prior to entering into this Agreement and is not relying upon any representations of the Company or any of its agents as to the effect of or the advisability of entering into this Agreement.

13. **Miscellaneous Provisions.**

13.1 **Administration.** All questions of interpretation concerning the Grant Notice, this Award Agreement, the Plan or any other form of agreement or other document employed by the Company in the administration of the Plan or the Award shall be determined by the Committee. All such determinations by the Committee shall be final, binding and conclusive upon all persons having an interest in the Award, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or the Award or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest in the Award. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

13.2 **Termination or Amendment.** The Committee may terminate or amend the Plan or this Agreement at any time; provided, however, that except as provided in Section 8 in connection with a Change in Control, no such termination or amendment may have a materially adverse effect on the Participant's rights under this Agreement without the consent of the Participant unless such termination or amendment is necessary to comply with applicable law or government regulation, including, but not limited to, Section 409A. No amendment or addition to this Agreement shall be effective unless in writing.

13.3 **Nontransferability of the Award.** Prior to the issuance of shares of Stock on the applicable Settlement Date, neither this Award nor any Units subject to this Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

13.4 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

13.5 **Binding Effect.** This Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

13.6 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address of such party set forth in the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) ***Description of Electronic Delivery.*** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. In addition, if permitted by the Company, the Participant may deliver electronically the Grant Notice to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the Internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) ***Consent to Electronic Delivery.*** The Participant acknowledges that the Participant has read Section 13.6(a) of this Agreement and consents to the electronic delivery of the Plan documents and, if permitted by the Company, the delivery of the Grant Notice, as described in Section 13.6(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 13.6(a) or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 13.6(a).

13.7 **Integrated Agreement.** The Grant Notice, this Agreement and the Plan, together with the Superseding Agreement, if any, shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter. To the extent contemplated herein or therein, the provisions of the Grant Notice, this Agreement and the Plan shall survive any settlement of the Award and shall remain in full force and effect.

13.8 **Applicable Law.** This Agreement shall be governed by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within the State of California.

13.9 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

**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:November 9, 2017

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

**Exhibit 31.2**

SECTION 302 CERTIFICATION OF B. DREW DAVIES
AS CHIEF FINANCIAL OFFICER

I, B. Drew Davies, 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: November 9, 2017

/s/ B. DREW DAVIES
B. Drew Davies
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 September 30, 2017, 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: November 9, 2017

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

**Exhibit 32.2**

CERTIFICATION OF B. DREW DAVIES 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 September 30, 2017, 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: November 9, 2017

/s/ B. DREW DAVIES
B. Drew Davies
Executive Vice President, Chief Financial Officer
(Principal Accounting Officer)