

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 6, 2003

EXTREME NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

000-25711

(Commission File Number)

77-0430270

(IRS Employer
Identification No.)

**3585 Monroe Street
Santa Clara, California 95051**
(Address of principal executive offices) (Zip Code)

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

Not Applicable

(Former name or former address, if changed since last report)

Item 5. Other Events.

On January 6, 2003, Extreme Networks, Inc. ("Extreme") issued a press release and held a conference call regarding its financial results for the period ending December 29, 2002. Extreme made forward-looking statements regarding 2003 in both the press release and the conference call. A copy of the press release that Extreme issued regarding its second quarter financial results, together with the forward-looking statements relating to 2003, is filed herewith as Exhibit 99.1. In addition, the text of the forward-looking disclosures regarding 2003 that Extreme made in the conference call is filed herewith as Exhibit 99.2. Both exhibits are incorporated herein by reference.

Item 7. Financial Statements and Exhibits.

(c) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press release dated January 6, 2003 regarding Extreme's financial results for the quarter ended December 29, 2002 and forward-looking statements relating to 2003.
99.2	Certain forward-looking comments made by Extreme during its conference call on January 6, 2003.

SIGNATURES

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

EXTREME NETWORKS, INC.

Date: January 7, 2003

By: /s/ HAROLD L. COVERT

Harold L. Covert
Chief Financial Officer

EXHIBIT INDEX

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Extreme Networks Reports Q2 FY'03 Financial Results

SANTA CLARA, Calif., Jan. 6/PRNewswire-FirstCall/ — Extreme Networks, Inc., (Nasdaq: EXTR—News), a leader in Ethernet broadband networking solutions, today announced financial results for the second fiscal quarter ended Dec. 29, 2002.

Net revenue for the second quarter of fiscal 2003 was \$90.2 million, compared to \$100.6 million for the first quarter of fiscal 2003. Including special charges and deferred compensation totaling \$28.6 million, the Company reported a net loss of \$19.7 million or \$0.17 per share for the second quarter of fiscal 2003, compared to a net loss of \$4.7 million or \$0.04 per share for the first quarter of fiscal 2003. Before special charges and deferred compensation was recorded during the quarter, the Company had a loss of \$2.8 million compared to a loss of \$3.1 million for the first quarter of fiscal 2003.

“Although the worldwide climate remains challenging, we are not satisfied with this quarter’s results and are committed to strong results independent of external factors,” said Gordon Stitt, Extreme Networks president and CEO. “During the past several quarters, we have implemented a number of programs that are beginning to show results and are planned to have a positive impact on our financial performance. One such area of focus is management of our supply chain where we are now experiencing lower overall costs.”

“In addition, we continue to expand our customer base by forming strategic partnerships with other worldwide market leading companies,” added Stitt. “We are also maintaining our strong investment in technology development, and this year our new technology introduction plan includes our third generation family of ASICs and innovative software, all ideally suited for the advanced networking applications being deployed today and planned for tomorrow. Our ongoing technology developments enable Extreme to offer valuable customer-focused networking solutions that allows for a lower total cost of ownership with superior performance and in turn will drive our market growth.”

Conference Call

Extreme Networks will host a conference call to discuss these results at 2:30 p.m. PT, for more information visit <http://www.extremenetworks.com/aboutus/investor/>

Extreme Networks, Inc.

Extreme Networks delivers the most effective applications and services infrastructure by creating networks that are faster, simpler and more cost-effective. Headquartered in Santa Clara, Calif., Extreme Networks markets its network switching solutions in more than 50 countries. For more information, visit www.extremenetworks.com.

NOTE: Extreme Networks is a trademark of Extreme Networks, Inc., in the United States and other countries.

This announcement contains forward-looking statements that involve risks and uncertainties, including statements about achieving our strategic and financial goals, and other statements that include “expect,” “anticipate” or words of similar intent. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors, including, but not limited to: (i) a limited operating history and limited history of profitability that make it more difficult to predict results; (ii) current economic trends in worldwide geographic markets; (iii) the effectiveness of our cost reduction efforts; (iv) fluctuations in demand for our products and services; (v) a highly competitive business environment for network switching equipment; (vi) the possibility that we might experience delays in the development of new technology and products, and (vii) a dependency on third parties for certain components and for the manufacturing of our products. More information about potential factors that could affect our business and financial results is included in our Annual Report on Form 10-K for the year ended June 30, 2002, including, without limitation, under the captions: “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Risk Factors,” which is on file with the Securities and Exchange Commission (<http://www.sec.gov>).

EXTREME NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per-share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
Net revenue	\$ 90,216	\$ 109,066	\$ 190,785	\$ 217,355
Costs and expenses:				
Cost of revenue	44,926	51,450	96,425	134,762
Sales, marketing and service	30,397	35,703	63,650	72,688
Research and development	13,418	14,604	27,927	31,015
General and administrative	6,729	5,974	13,664	14,087
Amortization of deferred stock compensation	1,783	2,655	3,784	5,528
Amortization of goodwill and purchased intangible assets	—	12,580	—	24,433
Restructuring charge	14,187	—	14,187	—
Property and equipment write-off	12,678	—	12,678	—
Total costs and expenses	124,118	122,966	232,315	282,513
Operating loss	(33,902)	(13,900)	(41,530)	(65,158)
Other income (expense), net	990	1,701	1,870	(1,877)
Loss before income taxes	(32,912)	(12,199)	(39,660)	(67,035)
Benefit for income taxes	(13,173)	(1,547)	(15,190)	(20,375)
Net loss	\$ (19,739)	\$ (10,652)	\$ (24,470)	\$ (46,660)
Net loss per share—basic and diluted	\$ (0.17)	\$ (0.09)	\$ (0.22)	\$ (0.42)
Shares used in per share calculation—basic and diluted	114,819	112,680	113,409	112,317

EXTREME NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	<u>Dec. 31,</u> 2002	<u>June 30,</u> 2002
Assets		
Current assets:		
Cash, cash equivalents and investments	\$ 194,920	\$ 236,497
Accounts receivable, net	21,729	51,344
Inventories, net	28,039	24,627
Deferred income taxes	42,891	42,882
Other current assets	12,437	13,126
Total current assets	300,016	368,476
Property and equipment, net	82,282	99,551
Marketable securities	210,990	163,560
Deferred income taxes	105,817	90,617
Other assets	16,042	13,547
Total assets	<u>\$ 715,147</u>	<u>\$ 735,751</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 22,331	\$ 29,215
Deferred revenue	43,493	40,772
Accrued warranty	10,211	9,055
Other accrued liabilities	67,303	67,479
Total current liabilities	143,338	146,521
Convertible subordinated notes and other long-term deposit	200,272	200,272
Total stockholders' equity	371,537	388,958
Total liabilities and stockholders' equity	<u>\$ 715,147</u>	<u>\$ 735,751</u>

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

	Six Months Ended	
	Dec. 31, 2002	Dec. 31, 2001
Cash flows from operating activities:		
Net loss	\$ (24,470)	\$ (46,660)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	14,282	15,543
Amortization of goodwill and purchased intangible assets	—	24,432
Provision for doubtful accounts	—	2,700
Deferred income taxes	(15,209)	(22,144)
Restructuring charge and property and equipment write-off	26,865	—
Amortization of deferred stock compensation	3,784	5,528
Write-down of investments	—	6,000
Compensation expense for options granted to consultants	—	420
Changes in operating assets and liabilities:		
Accounts receivable	29,615	6,501
Inventories	(3,412)	12,499
Other current and noncurrent assets	(1,806)	1,015
Accounts payable	(6,884)	1,249
Deferred revenue	2,721	9,506
Accrued warranty	1,156	3,290
Other accrued liabilities	(12,470)	8,375
Net cash provided by operating activities	14,172	28,254
Cash flows from investing activities:		
Capital expenditures	(11,584)	(20,634)
Purchases and maturities of investments, net	(40,966)	(7,378)
Acquisition of business	—	(14,910)
Net cash used in investing activities	(52,550)	(42,922)
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,025	6,578
Proceeds from issuance of convertible subordinated notes, net	—	193,899
Net cash provided by financing activities	2,025	200,477
Net increase (decrease) in cash and cash equivalents	(36,353)	185,809
Cash and cash equivalents at beginning of period	71,830	87,722
Cash and cash equivalents at end of period	\$ 35,477	\$273,531

The following disclosures contain forward-looking statements that involve risks and uncertainties, including statements about Extreme's expense trends, gross margins and new product introductions, and other statements that include "expect" or words of similar intent. Actual results could differ materially from those projected in the forward-looking statements. You should consult the risk factors in our filings with the SEC for a discussion of some of the risks that could affect our actual results.

**Forward-Looking Disclosures Made by Extreme Networks, Inc.
During Conference Call Held on January 6, 2003**

The following are forward-looking disclosures regarding 2003 that Extreme made in its conference call held on January 6, 2003.

- The \$9.6 million real estate charge relates to excess real estate that was first reported in the third quarter of fiscal 2002. During that quarter which ended on March 31, 2002, a charge of \$25.4 million was recorded for excess real estate. The commercial real estate market has continued to deteriorate since the initial charge was taken necessitating an increase in reserves that take the unfavorable difference between lease obligation payments and projected sublease receipts into consideration.
- During the second quarter of fiscal 2003, the company completed a fixed asset inventory as part of our recent new ERP system implementation. The new ERP system enables the tracking of fixed assets by cost center and responsible manager. The fixed asset inventory resulted in the identification of \$14.6 million of fixed assets that the company will no longer carry on our balance sheet or that we have determined are impaired. The assets that we will no longer carry on our balance sheet all have an initial individual acquisition price under \$3,000.
- Going forward the new ERP system and related business practices along with tightening payback and return on investment criteria for capital expenditures will enhance management's capability to monitor fixed asset utilization and control capital expenditures.
- As part of the goal to lower our breakeven point the company reduced its staff and temporary personnel by approximately 10 percent or 100 people during the second quarter of fiscal 2003. A charge of \$2.7 million for severance expense was recorded as part of this process.
- Continued improvement in supply chain management has and will continue to result in lower product costs. During the second quarter of fiscal 2003, these savings were approximately \$2.5 million. Of the \$2.5 million, approximately half lowered the carrying value of inventory as of the end of the quarter and the remaining half reduced cost of goods sold during the quarter.

- With gross margin of approximately 53 to 54 percent and our cost structure as we enter the third quarter of fiscal 2003, our breakeven point is approximately \$90 million of quarterly revenue. However, in the near term gross margin in the 53 to 54 percent range may not be achievable.
- As a result of the uncertain global macro economic environment in general and in particular in the technology sector we will not provide any specific financial guidance. We believe that the current business environment is not likely to dramatically change in the near term therefore we have adjusted our operating model to take this view into consideration. Although we are not providing any specific financial guidance we would like to make the following comments:
 - * We are in the process of enhancing our current product families with new products that we expect to begin shipping in the second calendar quarter of 2003 and planning the rollout of a new family of products in the second half of calendar 2003. In both cases, these new products will be based on new chip-sets including advanced software functionality. We expect that revenue growth will resume as we introduce these new products. In addition as the global economic environment improves and our sales productivity programs continue to progress we expect to see a positive impact on revenue generation.
 - * Looking at gross margin we have achieved and expect to continue to achieve improvements in supply chain management. However, while modular product pricing appears to be fairly stable in terms of historical trends and will likely remain in that mode, stackable product pricing has become more competitive and will likely continue that pattern. Going forward the favorable impact on gross margin from supply chain management improvements may be offset by the decline in stackable products gross margin and unfavorable geographic gross margin contribution levels until our new products begin shipping.
- With the recent reduction in our operating expenses and capital expenditures and continued effective management of working capital we believe that we will generate free cash flow going forward.
- Two years ago we began development of our third generation ASIC chip set and simultaneously set up an independent team to develop fourth generation technology. We are pleased to say that our third generation technology will ship in products during the first half of calendar year 2003. This technology brings a number of benefits including high density, new functionality, including advanced traffic shaping, hardware acceleration for additional functions, integrated support for voice over IP and other functional enhancements. We have designed this new chip set and our products to provide a seamless and non-disruptive upgrade path for existing customers. These new products support and enhance our value proposition for both existing and new customers.

- At the same time as we embarked on our third generation ASIC chip set, we also began developing a revolutionary new ASIC chip set that is focused on the Metro Ethernet technology. This technology, which we will introduce in the second half of this year, is a major leap forward and we believe will deliver revenue growth for more than five years. The products based on this fourth generation technology will complement our current product families and will primarily be focused on the very largest enterprises and Ethernet metro service providers. By employing leading technology this new product family will dramatically improve performance and functionality and continue to position the company as a technology leader.