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 March 31, 2022

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.]**
2121 RDU Center Drive, Suite 300, Morrisville, North Carolina	**27560**
[Address of principal executive offices]	**[Zip Code]**

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

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

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

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

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

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

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

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

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

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

As of April 21, 2022, the registrant had 130,835,701 shares of common stock, $0.001 par value per share, outstanding.

EXTREME NETWORKS, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED

March 31, 2022

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EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	March 31, 2022	June 30, 2021
ASSETS		
Current assets:		
Cash	$ 166,566	$ 246,894
Accounts receivable, net	162,967	156,476
Inventories	37,738	32,885
Prepaid expenses and other current assets	79,605	51,340
Total current assets	446,876	487,595
Property and equipment, net	49,365	55,004
Operating lease right-of-use assets, net	28,164	36,927
Intangible assets, net	36,689	36,038
Goodwill	400,144	331,159
Other assets	63,606	63,370
Total assets	$ 1,024,844	$ 1,010,093
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt, net of unamortized debt issuance costs of $2,305 and $2,404, respectively	$ 30,945	$ 23,721
Accounts payable	68,504	60,142
Accrued compensation and benefits	45,151	71,610
Accrued warranty	10,576	11,623
Current portion of operating lease liabilities	15,804	18,743
Current portion of deferred revenue	222,380	212,412
Other accrued liabilities	64,430	57,449
Total current liabilities	457,790	455,700
Deferred revenue, less current portion	150,030	133,172
Long-term debt, less current portion, net of unamortized debt issuance costs of $2,986 and $4,760, respectively	279,514	315,865
Operating lease liabilities, less current portion	23,919	32,515
Deferred income taxes	7,956	3,828
Other long-term liabilities	6,372	14,545
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value, issuable in series, 2,000 shares authorized; none issued	—	—
Common stock, $0.001 par value, 750,000 shares authorized; 139,115 and 133,279 shares issued, respectively; 130,689 and 126,682 shares outstanding, respectively	139	133
Additional paid-in-capital	1,108,013	1,078,602
Accumulated other comprehensive loss	(1,320)	(2,811)
Accumulated deficit	(939,482)	(978,343)
Treasury stock at cost, 8,426 and 6,597 shares, respectively	(68,087)	(43,113)
Total stockholders' equity	99,263	54,468
Total liabilities and stockholders' equity	$ 1,024,844	$ 1,010,093

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		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Net revenues:				
Product	$ 198,373	$ 176,334	$ 574,636	$ 503,575
Service and subscription	87,135	77,066	259,489	227,755
Total net revenues	285,508	253,400	834,125	731,330
Cost of revenues:				
Product	92,582	76,442	264,459	223,842
Service and subscription	31,568	28,145	93,919	83,465
Total cost of revenues	124,150	104,587	358,378	307,307
Gross profit:				
Product	105,791	99,892	310,177	279,733
Service and subscription	55,567	48,921	165,570	144,290
Total gross profit	161,358	148,813	475,747	424,023
Operating expenses:				
Research and development	49,615	48,909	145,461	147,619
Sales and marketing	72,840	70,898	213,932	201,955
General and administrative	17,714	16,023	52,594	48,844
Acquisition and integration costs	2,833	—	6,456	1,975
Restructuring and related charges	407	425	978	2,121
Amortization of intangibles	638	1,406	2,596	4,704
Total operating expenses	144,047	137,661	422,017	407,218
Operating income	17,311	11,152	53,730	16,805
Interest income	109	81	302	281
Interest expense	(2,794)	(5,594)	(9,750)	(18,325)
Other income (expense), net	54	269	297	(1,572)
Income (loss) before income taxes	14,680	5,908	44,579	(2,811)
Provision for income taxes	1,856	2,436	5,718	5,579
Net income (loss)	$ 12,824	$ 3,472	$ 38,861	$ (8,390)
Basic and diluted income (loss) per share:				
Net income (loss) per share - basic	$ 0.10	$ 0.03	$ 0.30	$ (0.07)
Net income (loss) per share - diluted	$ 0.10	$ 0.03	$ 0.29	$ (0.07)
Shares used in per share calculation - basic	129,913	124,788	129,321	123,252
Shares used in per share calculation - diluted	133,415	129,988	133,779	123,252

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Net income (loss)	$ 12,824	$ 3,472	$ 38,861	$ (8,390)
Other comprehensive income (loss):				
Derivatives designated as hedging instruments:				
Change in unrealized gains and losses on interest rate swaps	908	158	1,169	(135)
Reclassification adjustment related to interest rate swaps	231	230	797	616
Change in unrealized gains and losses on foreign currency forward contracts	275	—	214	—
Net change from derivatives designated as hedging instruments	1,414	388	2,180	481
Net change in foreign currency translation adjustments	57	(730)	(689)	2,885
Other comprehensive income (loss)	1,471	(342)	1,491	3,366
Total comprehensive income (loss)	$ 14,295	$ 3,130	$ 40,352	$ (5,024)

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Stock		Additional Paid-In-Capital	Accumulated Other Comprehensive Loss	Treasury Stock		Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			Shares	Amount		
Balance at December 31, 2020	130,180	$ 130	$ 1,055,719	$ (2,670)	(6,597)	$ (43,113)	$ (992,141)	$ 17,925
Net income	—	—	—	—	—	—	3,472	3,472
Other comprehensive loss	—	—	—	(342)	—	—	—	(342)
Issuance of common stock from equity incentive plans, net of tax withholdings	2,328	3	4,880	—	—	—	—	4,883
Share-based compensation	—	—	9,198	—	—	—	—	9,198
Balance at March 31, 2021	132,508	$ 133	$ 1,069,797	$ (3,012)	(6,597)	$ (43,113)	$ (988,669)	$ 35,136
Balance at June 30, 2020	127,114	$ 127	$ 1,035,041	$ (6,378)	$ (6,597)	$ (43,113)	$ (980,279)	$ 5,398
Net loss	—	—	—	—	—	—	(8,390)	(8,390)
Other comprehensive income	—	—	—	3,366	—	—	—	3,366
Issuance of common stock from equity incentive plans, net of tax withholdings	5,394	6	7,161	—	—	—	—	7,167
Share-based compensation	—	—	27,595	—	—	—	—	27,595
Balance at March 31, 2021	132,508	$ 133	$ 1,069,797	$ (3,012)	(6,597)	$ (43,113)	$ (988,669)	$ 35,136
Balance at December 31, 2021	137,478	$ 137	$ 1,092,646	$ (2,791)	(8,426)	$ (68,087)	$ (952,306)	$ 69,599
Net income	—	—	—	—	—	—	12,824	12,824
Other comprehensive income	—	—	—	1,471	—	—	—	1,471
Issuance of common stock from equity incentive plans, net of tax withholdings	1,637	2	4,514	—	—	—	—	4,516
Share-based compensation	—	—	10,853	—	—	—	—	10,853
Balance at March 31, 2022	139,115	$ 139	$ 1,108,013	$ (1,320)	(8,426)	$ (68,087)	$ (939,482)	$ 99,263
Balance at June 30, 2021	133,279	$ 133	$ 1,078,602	$ (2,811)	(6,597)	$ (43,113)	$ (978,343)	$ 54,468
Net income	—	—	—	—	—	—	38,861	38,861
Other comprehensive income	—	—	—	1,491	—	—	—	1,491
Issuance of common stock from equity incentive plans, net of tax withholdings	5,836	6	(3,219)	—	—	—	—	(3,213)
Repurchase of stock	—	—	—	—	(1,829)	(24,974)	—	(24,974)
Share-based compensation	—	—	32,630	—	—	—	—	32,630
Balance at March 31, 2022	139,115	$ 139	$ 1,108,013	$ (1,320)	(8,426)	$ (68,087)	$ (939,482)	$ 99,263

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	March 31, 2022	March 31, 2021
Cash flows from operating activities:		
Net income (loss)	$ 38,861	$ (8,390)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	15,324	17,801
Amortization of intangible assets	15,670	24,501
Reduction in carrying amount of right-of-use asset	11,641	12,129
Provision for doubtful accounts	(3)	270
Share-based compensation	32,630	27,595
Deferred income taxes	228	741
Non-cash interest expense	3,611	3,195
Other	41	2,770
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(5,068)	(8,101)
Inventories	(4,925)	11,869
Prepaid expenses and other assets	(28,054)	(7,908)
Accounts payable	8,481	7,900
Accrued compensation and benefits	(28,227)	351
Operating lease liabilities	(14,524)	(14,983)
Deferred revenue	16,725	27,233
Other current and long-term liabilities	1,644	(9,477)
Net cash provided by operating activities	64,055	87,496
Cash flows from investing activities:		
Capital expenditures	(11,130)	(12,318)
Business acquisition, net of cash acquired	(69,517)	—
Net cash used in investing activities	(80,647)	(12,318)
Cash flows from financing activities:		
Payments on debt obligations	(31,000)	(69,250)
Repurchase of common stock	(24,974)	—
Payments for tax withholdings, net of proceeds from issuance of common stock	(3,213)	7,167
Payment of contingent consideration obligations	(1,024)	(1,298)
Deferred payments on an acquisition	(3,000)	(3,000)
Net cash used in financing activities	(63,211)	(66,381)
Foreign currency effect on cash	(525)	470
Net (decrease) increase in cash	(80,328)	9,267
Cash at beginning of period	246,894	193,872
Cash at end of period	$ 166,566	$ 203,139

See accompanying notes to the condensed consolidated financial statements.

1. Description of Business and Basis of Presentation

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

The unaudited condensed consolidated financial statements of Extreme included herein have been prepared under the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted under such rules and regulations. The condensed consolidated balance sheets at June 30, 2021 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, 2021.

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 March 31, 2022. The results of operations for the three and nine months ended March 31, 2022 are not necessarily indicative of the results that may be expected for fiscal 2022 or any future periods.

Fiscal Year

The Company uses a fiscal calendar year ending on June 30. All references herein to "fiscal 2022" or "2022" represent the fiscal year ending June 30, 2022. All references herein to "fiscal 2021" or "2021" represent the fiscal year ended June 30, 2021.

Principles of Consolidation

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

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

Accounting Estimates

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

2. Summary of Significant Accounting Policies

For a description of significant accounting policies, see Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2021. There have been no material changes to the Company's significant accounting policies since the filing of the Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("the FASB") issued ASU 2019-12, *Income Taxes – Simplifying the Accounting for Income Taxes (Topic 740*), which reduces the complexity of accounting for income taxes including the removal of certain exceptions to the general principles of Accounting Standards Codification ("ASC") 740, *Income Taxes*, and simplification in several other areas such as accounting for franchise tax (or similar tax) that is partially based on income. This standard is effective for fiscal years beginning after December 15, 2020, including interim periods within the fiscal year. The standard was adopted on July 1, 2021 and did not have a material impact on the Company's financial statements upon adoption.

Recently Issued and Adopted Accounting Pronouncements

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, *Revenue from Contracts with Customers*, as if it had originated the contracts. Under the current business combinations guidance, such assets and liabilities are recognized by the acquirer at fair value on the acquisition date. ASU 2021-08 is effective for annual periods beginning after December 15, 2022 and interim periods within those annual periods, with early adoption permitted, including adoption in an interim period. The Company elected to early adopt the standard in the quarter ended December 31, 2021 and retrospectively applied the standard to the acquisition that happened in the current fiscal year beginning July 1, 2021. The application of the guidance increased the deferred revenue balance acquired through the acquisition of Ipanema by $7.1 million as of the acquisition date.

3. Revenues

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

Revenue Recognition

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

The Company's performance obligations are satisfied at a point in time or over time as the customer receives and consumes the benefits provided. Substantially all of the Company's product sales revenues are recognized at a point in time. Substantially all of the Company's service, subscription, and SaaS revenues are recognized over time. For revenues recognized over time, the Company uses an input measure, days elapsed, to measure progress.

On March 31, 2022, the Company had $372.4 million of remaining performance obligations, which are primarily comprised of deferred maintenance and SaaS revenues. The Company expects to recognize approximately 21% of its deferred revenue as revenue in fiscal 2022, an additional 45% in fiscal 2023 and 34% of the balance thereafter.

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

Revenue recognized for the three months ended March 31, 2022 and 2021 that was included in the deferred revenue balance at the beginning of each period was $77.3 million and $67.9 million, respectively. Revenue recognized for the nine months ended March 31, 2022 and 2021 that was included in the deferred revenue balance at the beginning of each period was $176.1 million and $158.7 million, respectively.

Contract Costs. The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. Management expects that commission fees paid to sales representatives as a result of obtaining service and subscription contracts and contract renewals are recoverable and therefore the Company's condensed consolidated balance sheets included capitalized balances in the amount of $14.8 million and $13.1 million at March 31, 2022 and June 30, 2021, respectively. Capitalized commission fees are amortized on a straight-line basis over the average period of service contracts of approximately three years, and are included in "Sales and marketing" in the accompanying condensed consolidated statements of operations. Amortization recognized during the three months ended March 31, 2022 and 2021, was $1.9 million and $1.4 million, respectively. Amortization recognized during the nine months ended March 31, 2022 and 2021, was $5.5 million and $3.9 million, respectively.

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

Revenues by Category

The Company operates in three geographic regions: Americas, which includes the United States, Canada, Mexico, Central America and South America; EMEA, which includes Europe, Russia, Middle East and Africa; and APAC, which includes Asia Pacific, China, South Asia and Japan. The following table sets forth the Company's revenues disaggregated by sales channel and geographic region based on the billing addresses of its customers (in thousands):

	Three Months Ended					
	March 31, 2022			March 31, 2021		
	Distributor	Direct	Total	Distributor	Direct	Total
Americas:						
United States	$ 59,582	$ 60,852	$ 120,434	$ 54,873	$ 62,172	$ 117,045
Other	7,574	3,513	11,087	8,926	3,730	12,656
Total Americas	67,156	64,365	131,521	63,799	65,902	129,701
EMEA	101,980	36,844	138,824	65,210	34,127	99,337
APAC	40	15,123	15,163	3,569	20,793	24,362
Total net revenues	$ 169,176	$ 116,332	$ 285,508	$ 132,578	$ 120,822	$ 253,400

	Nine Months Ended					
	March 31, 2022			March 31, 2021		
	Distributor	Direct	Total	Distributor	Direct	Total
Americas:						
United States	$ 184,215	$ 196,768	$ 380,983	$ 162,049	$ 178,263	$ 340,312
Other	19,238	11,835	31,073	26,117	11,468	37,585
Total Americas	203,453	208,603	412,056	188,166	189,731	377,897
EMEA	248,812	114,703	363,515	182,341	101,923	284,264
APAC	9,409	49,145	58,554	11,413	57,756	69,169
Total net revenues	$ 461,674	$ 372,451	$ 834,125	$ 381,920	$ 349,410	$ 731,330

For the three months ended March 31, 2022 and 2021, the Company generated 18% and 11% of its revenues from the Netherlands. For the nine months ended March 31, 2022 and 2021, the Company generated 12% and 10% of its revenues from the Netherlands. No other foreign country accounted for 10% or more of revenue for the three and nine months ended March 31, 2022 or 2021.

Customer Concentrations

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

The following table sets forth customers accounting for 10% or more of the Company’s net revenues for the periods indicated below:

	Three Months Ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
TD Synnex Corporation	17%	15%	20%	21%
Jenne Corporation	20%	16%	17%	14%
Westcon Group Inc.	25%	19%	18%	17%

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

	March 31, 2022	June 30, 2021
TD Synnex Corporation	*	19%
Jenne Corporation	23%	24%
Westcon Group Inc.	29%	*

* Less than 10% of accounts receivable.

4. Business Combination

Fiscal 2022 Acquisition

Ipanema Acquisition

On September 14, 2021 (the “Acquisition Date”), the Company completed its acquisition (the “Acquisition”) of Ipanematech SAS (“Ipanema”), the cloud-native enterprise Software-Defined Wide Area Network (“SD-WAN”) business unit of Infovista pursuant to a Sale and Purchase Agreement. Under the terms of the Acquisition, the net consideration paid by Extreme to Ipanema stockholders was $70.9 million, which was funded from existing cash on hand. The primary reason for the acquisition was to acquire the talent and the technology to allow us to expand our portfolio with new cloud-managed SD-WAN and security offerings to support our enterprise customers.

The Acquisition has been accounted for using the acquisition method of accounting whereby the acquired assets and liabilities of Ipanema have been recorded at their respective fair values and added to those of the Company including an amount for goodwill calculated as the difference between the acquisition consideration and the fair value of the identifiable net assets. The purchase price has been preliminarily allocated to tangible and identifiable intangible assets acquired and liabilities assumed. The final purchase price allocation is pending the finalization of valuations primarily intangible assets, goodwill and income tax assets and liabilities, which may result in an adjustment to the preliminary purchase price allocation.

The estimated fair values were determined through established and generally accepted valuation techniques, including work performed by third-party valuation specialists. The fair value of working capital related items, such as accounts receivable, other current assets and accrued liabilities, approximated their book values at the date of acquisition. 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 to a third party to assume the obligation. The fair value of the acquired deferred revenue was subsequently remeasured in accordance with ASC Topic 606 based on the recently issued and adopted guidance ASU 2021-08. Valuations of the intangible assets were valued using income approaches based on management projections, which the Company considers to be Level 3 inputs. The Company has completed its analysis of the tax implications of the acquisition of the intangible assets and a deferred tax liability has been established for the non-deductible intangible amortization, increasing the overall level of goodwill associated with the Acquisition. Results of operations of Ipanema have been included in the operations of the Company beginning with the Acquisition Date.

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

	Preliminary Allocation as of September 14, 2021	Adjustments		Allocation as of March 31, 2022
Cash and cash equivalents	$ 1,364	$ —		$ 1,364
Accounts receivable, net	1,440	(6)	a	1,434
Inventories	337	(63)	a	274
Prepaid expenses and other current assets	1,841	(1,231)	a	610
Property and equipment	46			46
Other assets	21			21
Accounts payable	(1,220)	244	a	(976)
Accrued compensation and benefits	(2,304)	467	a	(1,837)
Accrued warranty	(41)			(41)
Other accrued liabilities	(71)	(51)	a	(122)
Deferred revenue	(2,758)	(7,376)	a,b	(10,134)
Deferred taxes	-	(4,320)	c	(4,320)
Other liabilities	(723)			(723)
Net tangible liabilities	(2,068)	(12,336)		(14,404)
Identifiable intangible assets	16,300	—		16,300
Goodwill	56,649	12,336	a,b,c	68,985
Total intangible assets acquired	72,949	12,336		85,285
Total net assets acquired	$ 70,881	$ —		$ 70,881

The changes made during the period in the table above include: a) measurement period adjustments attributable to the Company's review of the additional information being obtained on preacquisition assets and liabilities, b) the increase in deferred revenue (and the corresponding increase to Goodwill by the same amount) is the result of the adoption of ASU 2021-08 in the period ended December 31, 2021, and c) establishment of deferred tax liability.

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

Intangible Assets	Weighted Average Estimated Useful Life (in years)	Amount
Developed technologies	6	$ 14,500
Customer relationships	4	1,800
Total identifiable intangible assets		$ 16,300

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

The results of operations of Ipanema are included in the accompanying condensed consolidated results of operations beginning September 15, 2021. The overall results of Operations of Ipanema were not material to the condensed consolidated financial statements of Extreme.

For the three and nine months ended March 31, 2022, the Company incurred acquisition and integration related expenses of $2.8 million and $6.5 million, respectively, associated with the acquisition of Ipanema. Acquisition and integration costs consisted primarily of professional fees for financial and legal advisory services. Such acquisition-related costs were expensed as incurred and are included in "Acquisition and integration costs" in the accompanying condensed consolidated statements of operations.

Pro forma financial information

The following unaudited pro forma results of operations are presented as though the Acquisition had occurred as of the beginning of the earliest period presented, July 1, 2020, the beginning of fiscal 2021, after giving effect to purchase accounting adjustments relating to deferred revenue, depreciation and amortization of intangibles and acquisition and integration costs.

The pro forma results of operations are not necessarily indicative of the combined results that would have occurred had the acquisition been consummated as of the beginning of fiscal 2021, nor are they necessarily indicative of future operating results. The unaudited pro forma results do not include the impact of synergies, nor any potential impacts on current or future market conditions, which could alter the unaudited pro forma results.

The unaudited pro forma financial information for the three and nine months ended March 31, 2022 combines the results for Extreme for such periods assuming the transaction closed on July 1, 2020, which include the results of Ipanema subsequent to the Acquisition Date, and Ipanema's historical results up to the Acquisition Date. The unaudited pro forma financial information for the three and nine months ended March 31, 2021 combines the historical results of operations for Extreme assuming the transaction closed on July 1, 2020 and historical results for Ipanema.

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

	Three months ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Net revenues	$ 285,508	$ 259,073	$ 837,251	$ 747,901
Net income (loss)	$ 15,657	$ 750	$ 47,201	$ (16,127)
Net income (loss) per share - basic	$ 0.12	$ 0.01	$ 0.36	$ (0.13)
Net income (loss) per share - diluted	$ 0.12	$ 0.01	$ 0.35	$ (0.13)
Shares used in per share calculation - basic	129,913	124,788	129,321	123,252
Shares used in per share calculation - diluted	133,415	129,988	133,779	123,252

5. Balance Sheet Accounts

Inventories

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

Inventories consist of the following (in thousands):

	March 31, 2022	June 30, 2021
Finished goods	$ 30,737	$ 27,901
Raw materials	7,001	4,984
Total inventories	$ 37,738	$ 32,885

Property and Equipment, Net

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

	March 31, 2022	June 30, 2021
Computers and equipment	$ 76,407	$ 75,866
Purchased software	44,587	40,037
Office equipment, furniture and fixtures	9,874	10,201
Leasehold improvements	52,972	53,329
Total property and equipment	183,840	179,433
Less: accumulated depreciation and amortization	(134,475)	(124,429)
Property and equipment, net	$ 49,365	$ 55,004

Deferred Revenue

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

Guarantees and Product Warranties

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

The following table summarizes the activity related to the Company’s product warranty liability during the three and nine months ended March 31, 2022 and 2021 (in thousands):

	Three Months Ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Balance beginning of period	$ 11,137	$ 13,073	$ 11,623	$ 14,035
Warranties assumed due to acquisition	—	—	41	—
New warranties issued	3,104	2,969	9,636	9,105
Warranty expenditures	(3,665)	(3,725)	(10,724)	(10,823)
Balance end of period	$ 10,576	$ 12,317	$ 10,576	$ 12,317

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 for intellectual property infringement and certain other losses. 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.

Concentrations

The Company may be subject to concentration of credit risk as a result of certain financial instruments consisting of accounts receivable. See Note 3, Revenues, for the Company’s accounts receivable concentration. The Company does not invest an amount exceeding 10% of its combined cash in the securities of any one obligor or maker, except for obligations of the United States government, obligations of United States government agencies and money market accounts.

6. Fair Value Measurements

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

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

The following table presents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis at March 31, 2022 and June 30, 2021 (in thousands).

March 31, 2022	Level 1	Level 2	Level 3	Total
Assets				
Foreign currency derivatives	$ —	$ 119	$ —	$ 119
Interest rate swaps	—	832	—	832
Total assets measured at fair value	$ —	$ 951	$ —	$ 951
Liabilities				
Foreign currency derivatives	$ —	$ 36	$ —	$ 36
Total liabilities measured at fair value	$ —	$ 36	$ —	$ 36

June 30, 2021	Level 1	Level 2	Level 3	Total
Liabilities				
Foreign currency derivatives	$ —	$ 560	$ —	$ 560
Interest rate swaps	—	1,133	—	1,133
Acquisition-related contingent consideration obligations	—	—	913	913
Total liabilities measured at fair value	$ —	$ 1,693	$ 913	$ 2,606

Level 1 Assets and Liabilities:

The Company's financial instruments consist of cash, accounts receivable, accounts payable, and accrued liabilities. The Company states accounts receivable, accounts payable and accrued liabilities at their carrying value, which approximates fair value due to the short time to the expected receipt or payment.

Level 2 Assets and Liabilities:

The fair value of derivative instruments under the Company's foreign exchange forward contracts and interest rate swaps are estimated based on valuations provided by alternative pricing sources supported by observable inputs which is considered Level 2.

As of March 31, 2022 and June 30, 2021, the Company had foreign exchange forward contracts that were not designated as hedging instruments with notional principal amount of $20.2 million and $23.0 million, respectively. These contracts have maturities of 40 days or less. Changes in the fair value of these foreign exchange forward contracts are included in other income (expense), net in the condensed consolidated statement of operations. For the three and nine months ended March 31, 2022, there were net losses of $0.1 million and $0.4 million, respectively. For the three and nine months ended March 31, 2021, there were net losses of $0.3 million and net gains of $0.5 million, respectively. As of March 31, 2022 and June 30, 2021, the Company had foreign exchange forward contracts that were designated as hedging instruments with notional principal amount of $0.2 million and $21.8 million, respectively. These contracts have maturities of less than twelve months. Gains and losses arising from these contracts designated as hedging instruments are recorded as a component of accumulated other comprehensive income (loss). As of March 31, 2022 and June 30, 2021, these contracts had unrealized gain of less than $0.1 million and unrealized loss of $0.2 million, respectively. See Note 13, Derivatives and Hedging, for additional information.

The fair values of the interest rate swaps are based upon inputs corroborated by observable market data which is considered Level 2. As of March 31, 2022 and as of June 30, 2021, the Company had interest rate swap contracts, designated as cash flow hedges, with the total notional amount of $200.0 million. Changes in fair value of these contracts are recorded as a component of accumulated other comprehensive loss. As of March 31, 2022 and as of June 30, 2021, these contracts had an unrealized gain of $0.8 million and unrealized loss of $1.1 million, respectively. See Note 13, Derivatives and Hedging, for additional information.

The fair value of the borrowings under the 2019 Credit Agreement (as defined in Note 8) is estimated based on valuations provided by alternative pricing sources supported by observable inputs which is considered Level 2. Since the interest rate is variable for the 2019 Credit Agreement, the fair value approximates the face amount of the Company's indebtedness of $315.8 million and $346.7 million as of March 31, 2022, and June 30, 2021, respectively.

Level 3 Assets and Liabilities:

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

As of March 31, 2022, the Company did not have any asset or liability that were considered level 3. At June 30, 2021, the Company reflected one liability measured at fair value of $0.9 million for contingent consideration related to a certain acquisition completed in fiscal 2018. The fair value measurement of the contingent consideration obligation was determined using Level 3 inputs. These fair value measurements represent Level 3 measurements as they are based on significant inputs not observable in the market. Changes in the value of the contingent consideration obligations are recorded in general and administrative expenses in the accompanying condensed consolidated statements of operations. The activities related to acquisition-related contingent consideration obligations during the period were not significant.

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the three and nine months ended March 31, 2022 and 2021. There were no impairments recorded for the three and nine months ended March 31, 2022 and 2021.

The Company determines the basis of the cost of a security sold or the amount reclassified out of accumulated other comprehensive loss into earnings using the specific identification method.

7. Intangible Assets

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
March 31, 2022				
Developed technology	3.3 years	$ 170,600	$ 142,957	$ 27,643
Customer relationships	4.2 years	64,839	56,211	8,628
Backlog	— years	400	400	—
Trade names	0.3 years	10,700	10,620	80
License agreements	4.7 years	2,445	2,107	338
Total intangibles, net		$ 248,984	$ 212,295	$ 36,689

	Weighted Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
June 30, 2021				
Developed technology	1.8 years	$ 156,100	$ 129,861	$ 26,239
Customer relationships	4.8 years	63,039	54,204	8,835
Backlog	— years	400	400	—
Trade names	0.7 years	10,700	10,128	572
License agreements	5.4 years	2,445	2,053	392
Total intangibles, net		$ 232,684	$ 196,646	$ 36,038

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

	Three Months Ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Amortization of intangibles in "Total cost of revenues"	$ 3,639	$ 6,449	$ 13,074	$ 19,797
Amortization of intangibles in "Operations"	638	1,406	2,596	4,704
Total amortization expense	$ 4,277	$ 7,855	$ 15,670	$ 24,501

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

8. Debt

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

	March 31, 2022	June 30, 2021
Current portion of long-term debt:		
Term Loan	$ 33,250	$ 26,125
Less: unamortized debt issuance costs	(2,305)	(2,404)
Current portion of long-term debt	$ 30,945	$ 23,721
Long-term debt, less current portion:		
Term Loan	$ 282,500	$ 320,625
Less: unamortized debt issuance costs	(2,986)	(4,760)
Total long-term debt, less current portion	279,514	315,865
Total debt	$ 310,459	$ 339,586

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

The 2019 Credit Agreement provides for a five-year first lien term loan facility in an aggregate principal amount of $380.0 million and a five-year revolving loan facility in an aggregate principal amount of $75.0 million (the "2019 Revolving Facility"). In addition, the Company may request incremental term loans and/or incremental revolving loan commitments in an aggregate amount not to exceed the sum of $100.0 million, plus an unlimited amount that is subject to pro forma compliance with certain financial tests. On August 9, 2019, the Company used the additional proceeds from the term loan to partially fund the Acquisition and for working capital and general corporate purposes.

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

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

On April 8, 2020, the Company entered into the first amendment to the 2019 Credit Agreement (the "First Amendment") to waive certain terms and financial covenants of the 2019 Credit Agreement through July 31, 2020. On May 8, 2020, the Company entered into the second amendment to the 2019 Credit Agreement (the "Second Amendment"), which superseded the First Amendment and provided certain revised terms and financial covenants through March 31, 2021. Subsequent to March 31, 2021, the original terms and financial covenants under the 2019 Credit Agreement resumed in effect. The Second Amendment required the Company to maintain certain minimum cash requirement and certain financial metrics at the end of each fiscal quarter through March 31, 2021. Under the terms of the Second Amendment, the Company was not permitted to exceed $55.0 million in its outstanding balance under the 2019 Revolving Facility, the applicable margin for Eurodollar rate was 4.50%, and the Company was restricted from pursuing certain activities such as incurring additional debt, stock repurchases, making acquisitions or declaring a dividend, until the Company was in compliance with the original covenants of the 2019 Credit Agreement.

On November 3, 2020, the Company and its lenders entered into the Third Amendment to the 2019 Credit Agreement (the "Third Amendment"), to increase the sublimit for letters of credit to $20.0 million. On December 8, 2020, the Company and its lenders entered into the fourth amendment to the 2019 Credit Agreement (the "Fourth Amendment"), to waive and amend certain terms and financial covenants within the 2019 Credit Agreement through March 31, 2021.

The Second Amendment provided for the Company to end the covenant Suspension Period early and revert to the covenants and interest rates per the original terms of the 2019 Credit Agreement dated August 9, 2019 by filing a Suspension Period Early Termination Notice and Covenant Certificate demonstrating compliance. For the twelve-month period ended March 31, 2021, the

Company’s financial performance was in compliance with the original covenants defined in the 2019 Credit Agreement and, as such, the Company filed a Suspension Early Termination Notice and Covenant Certificate with the administration agent subsequent to filing the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2021. Returning to compliance with the covenants per the original terms of the 2019 Credit Agreement dated August 9, 2019 resulted in the Company’s Eurodollar loan spread decreasing from 4.50% during the suspension period to 2.75% and unused facility commitment fee decreasing from 0.40% to 0.35%, and the limitation on revolver borrowings being removed effective May 1, 2021 after filing of the certificate with the administrative agent.

Financing costs incurred in connection with obtaining long-term financing are deferred and amortized over the term of the related indebtedness or credit agreement. During the year ended June 30, 2020, the Company incurred $10.5 million of deferred financing costs in conjunction with the 2019 Credit Agreement and $1.5 million of deferred financing costs from the amendments, and continues to amortize $1.6 million of debt issuance costs as of August 9, 2019 that were associated with the previous facility. The interest rate as of March 31, 2022 was 2.07% and as of March 31, 2021 was 4.60%.

Amortization of deferred financing costs included in “Interest expense” in the accompanying condensed consolidated statements of operations were $0.7 million each for the three months ended March 31, 2022 and 2021 and were $2.3 million each for the nine months ended March 31, 2022 and 2021.

During the fiscal year ended June 30, 2021, the Company repaid $55.0 million against its 2019 Revolving Facility’s outstanding balance of $55.0 million and had no remaining outstanding balance at March 31, 2022. The Company had $60.2 million of availability under the 2019 Revolving Facility as of March 31, 2022. During the nine months ended March 31, 2022, the Company made an additional payment of $12.0 million against its term loan facility.

The Company had $14.8 million of outstanding letters of credit as of March 31, 2022.

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 forecast, unless the Company gives notice of order cancellation outside of applicable component lead-times. As of March 31, 2022, the Company had commitments to purchase $70.4 million of inventory.

Legal Proceedings

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

In accordance with applicable accounting guidance, the Company records accruals for certain of its outstanding legal proceedings, investigations or claims when it is probable that a liability will be incurred, and the amount of loss can be reasonably estimated. The Company evaluates, at least on a quarterly basis, developments in legal proceedings, investigations or claims that could affect the amount of any accrual, as well as any developments that would result in a loss contingency to become both probable and reasonably estimable. When a loss contingency is not both probable and reasonably estimable, the Company does not record a loss accrual. However, if the loss (or an additional loss in excess of any prior accrual) is at least reasonably possible and material and a reasonable estimate can be made, then the Company would make an accrual. 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. Litigation is unpredictable, and 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. 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.

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

On April 19, 2017, XR Communications, LLC (“XR”) (d/b/a Vivato Technologies) filed a patent infringement lawsuit against the Company in the Central District of California. The operative Second Amended Complaint asserts infringement of certain U.S. Patent 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. The Court dismissed the case without prejudice on January 4, 2022 and on April 18, 2022, entered final judgment in favor of the Company. XR has 30 days to file a notice of appeal.

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

On February 1, 2018, Orckit IP, LLC ("Orckit") filed a patent infringement lawsuit against the Company and its Irish and German subsidiaries in the District Court in Dusseldorf, Germany. The lawsuit alleges direct and indirect infringement of the German portion of a patent ("EP '364") based on the offer, distribution, use, possession and/or importation into Germany of certain network switches that equipped with the ExtremeXOS operating system. Orckit is seeking injunctive relief, accounting, and an unspecified declaration of liability for damages and costs of the lawsuit. On January 28, 2020, the Court rendered a decision in the infringement case in favor of the Company. The matter is proceeding through the appellate process, and an oral hearing was held on October 21, 2021. The Court has appointed an expert to provide an opinion and a decision is pending.

On April 23, 2019, Orckit filed an extension of the patent infringement complaint against the Company and its Irish and German subsidiaries in the District Court in Dusseldorf, Germany. With this extension, Orckit alleges infringement of the German portion of a second patent ("EP '077") based on the offer, distribution, use, possession and/or importation into Germany of certain network switches that the Company no longer sells in Germany. Orckit is seeking injunctive relief, accounting and sales information, and a declaration of liability for damages as well as costs of the lawsuit. On October 13, 2020, the Court issued an infringement decision against the Company and granted to Orckit the right to enforce the judgment against the Company, which Orckit has provided notification to the Company that it will enforce the judgment. In the rendering of account, Orckit was informed that the products at issue were in end of sale status prior to the filing of the EP'077 complaint. The Company has appealed the infringement decision, and the matter is proceeding through the appellate process.

The Company filed a nullity action related to the EP '364 patent on May 3, 2018, and one related to the EP '077 patent on October 31, 2019, both in the Federal Patent Court in Munich. The court found the EP '364 patent to be valid and the Company has filed an appeal. The case filed to seek to invalidate the EP '077 patent is proceeding, with a hearing to be held June 29, 2022.

SNMP Research, Inc. and SNMP Research International, Inc. v. Broadcom Inc., Brocade Communications Systems LLC, and Extreme Networks, Inc.

On October 26, 2020, SNMP Research, Inc. and SNMP Research International, Inc. (collectively, "SNMP") filed a lawsuit against the Company in the Eastern District of Tennessee for copyright infringement, alleging that the Company was not properly licensed to use its software. SNMP is seeking actual damages and profits attributed to the infringement, as well as equitable relief. The Company has filed a motion to dismiss and a motion to transfer the case to the Northern District of California. Both motions are pending. A trial date has been set for February 2023.

Mala Technologies Ltd. v. Extreme Networks GmbH, Extreme Networks Ireland Ops Ltd., and Extreme Networks, Inc.

On April 15, 2021, Mala Technologies Ltd. ("Mala") filed a patent infringement lawsuit against the Company and its Irish and German subsidiaries in the District Court in Dusseldorf, Germany. The lawsuit alleges indirect infringement of the German portion of a patent ("EP '498") based on the offer and sale in Germany of certain network switches equipped with the ExtremeXOS operating system. Mala is seeking injunctive relief, accounting, and an unspecified declaration of liability for damages and costs of the lawsuit. A hearing date has been set for July 14, 2022. The Company filed a nullity action related to the EP'498 patent on September 24, 2021 in the German Federal Patent Court.

Indemnification Obligations

Subject to certain limitations, the Company may be obligated to indemnify its current and former directors, officers and employees. These obligations arise under the terms of its certificate of incorporation, its bylaws, applicable contracts, and applicable law. The obligation to indemnify, where applicable, generally means that the Company is required to pay or reimburse, and in certain circumstances the Company has paid or reimbursed, the individuals' reasonable legal expenses and possibly damages and other liabilities incurred in connection with certain legal matters. The Company also procures Directors and Officers liability 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 governing documents and 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. Stockholders' Equity

Stockholders' Rights Agreement

On May 17, 2021, the Company entered into the Amended and Restated Tax Benefit Preservation Plan (the "2021 Tax Benefit Preservation Plan"), which amended and restated the Amended and Restated Rights Agreement between the Company and Computershare Shareholder Services LLC, as the rights agent. The 2021 Tax Benefit Preservation Plan was approved by stockholders of the Company at the annual meeting of stockholders on November 4, 2021. The 2021 Tax Benefit Preservation Plan governs the terms of each right ("Right") that has been issued with respect to each share of common stock of Extreme Networks. Each Right initially represents the right to purchase one one-thousandth of a share of the Company's Preferred Stock.

The Company's Board of Directors (the "Board") adopted the 2021 Tax Benefit Preservation Plan to preserve the value of deferred tax assets, including net operating loss carry forwards of the Company, with respect to its ability to fully use its tax benefits to offset future income which may be limited if the Company experiences an "ownership change" for purposes of Section 382 of the Internal Revenue Code of 1986 as a result of ordinary buying and selling of shares of its common stock. Following its review of the terms of the plan, the Board decided it was necessary and in the best interests of the Company and its stockholders to enter into the 2021 Tax Benefit Preservation Plan.

Equity Incentive Plan

The Compensation Committee of the Board unanimously approved an amendment to the Extreme Networks, Inc. Amended and Restated 2013 Equity Incentive Plan (the "2013 Plan") on August 11, 2021 to update tax withholding obligations. The Compensation Committee of the Board unanimously approved an amendment to the 2013 Plan on September 10, 2021 to increase the maximum number of available shares by 7.9 million shares, which amendment was approved by the stockholders at the Company's annual meeting of stockholders held on November 4, 2021.

Employee Stock Purchase Plan

The Compensation Committee of the Board unanimously approved an amendment to the 2014 Employee Stock Purchase Plan (the "ESPP") on September 9, 2021 to increase the maximum number of shares that will be available for sale thereunder by 7.5 million shares. The amendment was approved by the stockholders of the Company at the annual meeting of stockholders held on November 4, 2021.

Common Stock Repurchases

On November 2, 2018, the Company announced the Board had authorized management to repurchase up to $60.0 million of the Company's common stock over a two-year period from the date of authorization. Purchases may be made from time to time through any means including, but not limited to, open market purchases and privately negotiated transactions. In February 2020, the Board increased the authorization to repurchase by $40.0 million to $100.0 million and extended the period for repurchase for three years from February 5, 2020. A maximum of $30.0 million of the Company's common stock may be repurchased in any calendar year.

There were no shares repurchased during the three months ended March 31, 2022. During the nine months ended March 31, 2022, the Company repurchased a total of 1,829,333 shares of its common stock on the open market at a total cost of $25.0 million with an average price of $13.65 per share. There were no shares repurchased during the three and nine months ended March 31, 2021. As of March 31, 2022, approximately $30.0 million remains available for share repurchases under the program.

11. Employee Benefit Plans

Shares Reserved for Issuance

The Company had the following reserved shares of common stock for future issuance as of the dates noted (in thousands):

	March 31, 2022	June 30, 2021
2013 Equity Incentive Plan shares available for grant	11,173	6,753
Employee stock options and awards outstanding	8,415	10,359
2014 Employee Stock Purchase Plan	9,961	4,414
Total shares reserved for issuance	29,549	21,526

Share-based Compensation Expense

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

	Three Months Ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Cost of product revenues	$ 291	$ 297	$ 904	$ 869
Cost of service and subscription revenues	343	412	1,056	1,223
Research and development	2,446	2,414	7,568	7,380
Sales and marketing	3,832	3,150	11,267	9,036
General and administrative	3,941	2,925	11,835	9,087
Total share-based compensation expense	$ 10,853	$ 9,198	$ 32,630	$ 27,595

Stock Options

The following table summarizes stock option activity for the nine months ended March 31, 2022 (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, 2021	1,645	$ 5.44	3.62	$ 9,404
Granted	—	—		
Exercised	(431)	2.54		
Cancelled	—	—		
Options outstanding at March 31, 2022	1,214	$ 6.47	3.86	$ 6,963
Vested and expected to vest at March 31, 2022	1,214	$ 6.47	3.86	$ 6,963
Exercisable at March 31, 2022	975	$ 6.42	3.73	$ 5,647

The fair value of each stock option grant under the 2013 Plan is estimated on the date of grant using the Black-Scholes-Merton option valuation model. 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. There were no stock options granted during the three and nine months ended March 31, 2022 and 2021.

Stock Awards

Stock awards may be granted under the 2013 Plan on terms approved by the Compensation Committee of the Board. Stock awards generally provide for the issuance of restricted stock units ("RSUs") including performance-condition or market-condition RSUs which vest over a fixed period of time or based upon the satisfaction of certain performance criteria or market conditions. The Company recognizes compensation expense on the awards over the vesting period based on the awards' fair value as of the date of grant. The Company does not estimate forfeitures, but accounts for them as incurred.

The following table summarizes stock award activity for the nine months ended March 31, 2022 (in thousands, except grant date fair value):

	Number of Shares	Weighted- Average Grant Date Fair Value	Aggregate Fair Value
Non-vested stock awards outstanding at June 30, 2021	8,714	$ 5.51	
Granted	4,182	11.45	
Released	(5,302)	5.27	
Cancelled	(393)	6.69	
Non-vested stock awards outstanding at March 31, 2022	7,201	$ 9.07	$ 87,928
Stock awards expected to vest at March 31, 2022	7,201	$ 9.07	$ 87,928

The RSU's granted under the 2013 Plan vest over a period of time, generally one to three years, and are subject to participant's continued service to the Company. The stock awards granted during the nine months ended March 31, 2022 included 1.0 million RSUs including the market condition awards discussed below to named executive officers and directors.

Market Condition Awards

During the nine months ended March 31, 2022 and 2021, the Compensation Committee of the Board granted 0.7 million and 0.5 million RSUs, respectively, with vesting based on market conditions ("MSU") to certain of the Company's executive officers. These MSUs vest based on the Company's total shareholder return ("TSR") relative to the TSR of the Russell 2000 Index ("Index"). The MSU award represents the right to receive a target number of shares of common stock of up to 150% of the original grant. The MSUs vest based on the Company's TSR relative to the TSR of the Index over performance periods of three years from the grant date, subject to the grantees' continued service through the certification of performance.

Level	Relative TSR	Shares Vested
Below Threshold	TSR is less than the Index by more than 37.5 percentage points	0%
Threshold	TSR is less than the Index by 37.5 percentage points	25%
Target	TSR equals the Index	100%
Maximum	TSR is greater than the Index by 25 percentage points or more	150%

Total shareholder return is calculated based on the average closing price for the 30-trading days prior to the beginning and end of the performance periods. Performance is measured based on three periods, with the ability for up to one-third of target shares to vest after years one and two and the ability for up to the maximum of the full award to vest based on the full three-year TSR less any shares vested based on one- and two-year periods. Linear interpolation is used to determine the number of shares vested for achievement between target levels.

The grant date fair value of each MSU was determined using the Monte Carlo simulation model. The weighted-average grant-date fair value of the MSUs granted during the nine months ended March 31, 2022 was $12.69 per share. The assumptions used in the Monte Carlo simulation included the expected volatility of 66%, risk-free rate of 0.44%, no expected dividend yield, expected term of three years and possible future stock prices over the performance period based on the historical stock and market prices. The Company recognizes the expense related to these MSUs on a graded-vesting method over the estimated term.

The weighted-average grant-date fair value of the MSUs granted during the nine months ended March 31, 2021 was $5.32 per share. The assumptions used in the Monte Carlo simulation included the expected volatility of 69%, risk-free rate of 0.18%, no expected dividend yield, expected term of three years and possible future stock prices over the performance period based on the historical stock and market prices.

Employee Stock Purchase Plan

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

There were 1.0 million and 1.5 million shares issued under the ESPP during the three months ended March 31, 2022 and 2021, respectively. There were 2.0 million and 2.9 million shares issued under the ESPP during the nine months ended March 31, 2022 and 2021, respectively. The following assumptions were used to determine the grant-date fair values of the ESPP shares during the following periods:

	Employee Stock Purchase Plan Three Months Ended		Employee Stock Purchase Plan Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Expected life	0.5 years	0.5 years	0.5 years	0.5 years
Risk-free interest rate	0.67%	0.05%	0.33%	0.09%
Volatility	45%	55%	49%	95%
Dividend yield	—%	—%	—%	—%

The weighted-average grant-date fair value of shares under the ESPP during the three months ended March 31, 2022 and 2021 was $3.49 and $2.87 per share respectively. The weighted-average grant-date fair value of shares under the ESPP during the nine months ended March 31, 2022 and 2021 was $3.32 and $2.47 per share, respectively.

12. Information about Segments and Geographic Areas

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

See Note 3, Revenues, for the Company's revenues by geographic regions and channel based on the customer's billing address.

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

	March 31, 2022	June 30, 2021
Americas	$ 131,770	$ 151,839
EMEA	32,258	25,940
APAC	13,796	13,560
Total long-lived assets	$ 177,824	$ 191,339

13. Derivatives and Hedging

Interest Rate Swaps

The Company is exposed to interest rate risk on its debt. The Company enters into interest rate swap contracts to effectively manage the impact of fluctuations of interest rate changes on its outstanding debt which has floating interest rate. The Company does not enter into derivative contracts for trading or speculative purposes.

At the inception date of the derivative contract, the Company performs an assessment of these contracts and has designated these contracts as cash flow hedges. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreement without exchange of the underlying notional amount. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, by performing qualitative and quantitative assessment, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in other comprehensive income (loss). When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively. In accordance with ASC 815 "Derivatives and Hedging," the Company may prospectively discontinue the hedge accounting for an existing hedge if the applicable criteria are no longer met, the derivative instrument expires, is sold, terminated or exercised or if the Company removes the designation of the respective cash flow hedge. In those circumstances, the net gain or loss remains in accumulated other comprehensive loss and is reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings, unless the forecasted transaction is no longer probable in which case the net gain or loss is reclassified into earnings immediately.

During fiscal 2020, the Company entered into multiple interest rate swap contracts, designated as cash flow hedges, to hedge the variability of cash flows in interest payments associated with the Company's various tranches of floating-rate debt. As of March 31, 2022 and March 31, 2021, the total notional amount of these interest rate swaps was $200.0 million and had maturity dates through April 2023. As of March 31, 2022 and March 31, 2021, these contracts had unrealized gain of $0.8 million and unrealized loss of $1.3 million, respectively, which are recorded in "Accumulated other comprehensive income (loss)" with the associated asset in "Prepaid expenses and other current assets" and with the associated liability in "Other accrued liabilities", respectively in the condensed consolidated balance sheets. Cash flows associated with periodic settlements of interest rate swaps are classified as operating activities in the condensed consolidated statement of cash flows. Realized gains and losses are recognized as they accrue in interest expense. Amounts reported in accumulated other comprehensive income (loss) related to these cash flow hedges are reclassified to interest expense over the life of the swap contracts. The Company estimates that $0.8 million will be reclassified to interest income over the next twelve months. The classification and fair value of these cash flow hedges are discussed in Note 6, Fair Value Measurements.

Foreign Exchange Forward Contracts

The Company uses derivative financial instruments to manage exposures to foreign currency that may or may not be designated as hedging instruments. The Company's objective for holding derivatives is to use the most effective methods to minimize the impact of these exposures. The Company does not enter into derivatives for speculative or trading purposes. The Company enters into foreign exchange forward contracts primarily 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.

For foreign exchange forward contracts not designated as hedging instruments, 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. As of March 31, 2022 and 2021, foreign exchange forward contracts not designated as hedging instruments had the total notional principal amount of $20.2 million and $26.7 million, respectively. These contracts have maturities of 40 days or less. The net gains and losses recorded in the condensed consolidated statement of operations from these transactions during the three and nine months ended March 31, 2022 were net losses of $0.1 million and $0.4 million, respectively, and during the three and nine months ended March 31, 2021, there were net losses of $0.3 million and net gains of $0.5 million, respectively. Changes in the fair value of these foreign exchange forward contracts are offset largely by remeasurement of the underlying assets and liabilities

For foreign exchange forward contracts designated as hedging instruments, gains and losses arising from these contracts are recorded as a component of accumulated other comprehensive income (loss) on the condensed consolidated balance sheets. The hedging gains and losses in accumulated other comprehensive income (loss) are subsequently reclassified to expenses, as applicable, in the condensed consolidated statements of operations in the same period in which the underlying transactions affect our earnings. As of March 31, 2022, foreign exchange forward contracts designated as hedging instruments had the notional amount of $0.2 million. These contracts have maturities of less than twelve months. As of March 31, 2022, these contracts had unrealized gains of less than $0.1 million which are recorded in accumulated other comprehensive income (loss) with the associated asset in "Prepaid expenses and other current assets" in the accompanying condensed consolidated balance sheets. There were no foreign exchange forward contracts at March 31, 2021 that were designated as hedging instruments.

The Company recognized total foreign currency gains of $0.3 million and $0.6 million for the three months ended March 31, 2022 and 2021, respectively, related to the change in fair value of foreign currency denominated assets and liabilities. The Company recognized total foreign currency gains of $0.6 million and a loss of $1.9 million for the nine months ended March 31, 2022 and 2021, respectively, related to the change in fair value of foreign currency denominated assets and liabilities.

14. Restructuring and Related Charges

The Company recorded $0.4 million and $1.0 million of restructuring and related charges during the three and nine months ended March 31, 2022, respectively, which primarily included facility related charges of $0.4 million and $1.0 million for the three and nine months ended March 31, 2022, respectively. Severance and benefit restructuring charges consisted primarily of employee severance and benefit expenses incurred under the reduction-in-force action initiated in the third quarter of fiscal 2020 (the "2020 Plan") to reduce operating costs and enhance financial flexibility as a result of disruptions caused by the COVID-19 global pandemic. With the reduction and realignment of the headcount under the 2020 Plan, the Company is relocating certain of its lab test equipment to third-party consulting companies. The Company has incurred $9.6 million of charges under the 2020 Plan through March 31, 2022. As of March 31, 2022, the Company has substantially completed all these activities under the 2020 Plan. The facility restructuring charges included additional facilities expenses related to previously impaired facilities.

The Company recorded $0.4 million and $2.1 million of restructuring charges, net of reversals and impairments during the three and nine months ended March 31, 2021, respectively. Total restructuring charges included severance, benefits, and equipment relocation charges of $0.1 million and $1.2 million, as well as facility related charges of $0.3 million and $0.9 million for the three and nine months ended March 31, 2021, respectively. Severance and benefit restructuring charges consisted primarily of additional employee severance and benefit expenses incurred under the 2020 Plan to reduce operating costs and enhance financial flexibility as a result of disruptions caused by the COVID-19 global pandemic. With the reduction and realignment of the headcount under 2020 Plan, the Company relocated certain of its lab test equipment to third-party consulting companies. The Company incurred $9.3 million charges under the 2020 Plan through March 31, 2021. The facility restructuring charges included additional facilities expenses related to previously impaired facilities.

Restructuring liabilities related to severance, benefits, and equipment relocation obligations are recorded in “Other accrued liabilities” in the accompanying condensed consolidated balance sheets. The following table summarizes the activity related to the severance, benefits, and equipment relocation liabilities during the three and nine months ended March 31, 2022 (in thousands):

	Three Months Ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	Severance and Other		Severance and Other	
Balance at beginning of period	$ 97	$ 181	$ 271	$ 2,219
Period charges	—	119	12	1,366
Period reversals	—	—	(30)	(128)
Period payments	—	(286)	(156)	(3,443)
Balance at end of period	$ 97	$ 14	$ 97	$ 14

15. Income Taxes

For the three months ended March 31, 2022 and 2021, the Company recorded an income tax provision of $1.9 million and $2.4 million, respectively. For the nine months ended March 31, 2022 and 2021, the Company recorded an income tax provision of $5.7 million and $5.6 million, respectively.

The income tax provisions for the three and nine months ended March 31, 2022 and 2021, consisted of (1) taxes on the income of the Company’s foreign subsidiaries, (2) foreign withholding taxes, (3) state taxes in jurisdictions where the Company has no remaining state net operating losses (“NOLs”) and (4) 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 wireless local area network business from Zebra Technologies Corporation, the Campus Fabric Business from Avaya and the Data Center Business from Brocade. The interim income tax provisions for the three and nine months ended March 31, 2022 and 2021 were calculated using the discrete effective tax rate method as allowed by ASC 740-270-30-18, “Income Taxes – Interim Reporting.” The discrete method is applied when the application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The discrete method treats the year-to-date period as if it was the annual period and determines the income tax expense or benefit on that basis. The Company believes that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as (i) the estimated annual effective tax rate method is not reliable due to the high degree of uncertainty in estimating annual pretax earnings on a jurisdictional basis and (ii) the Company’s ongoing assessment that the recoverability of certain U.S. and Irish deferred tax assets is not more likely than not.

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

On September 14, 2021, the Company completed its acquisition of Ipanema. This acquisition is treated as a non-taxable stock acquisition and, therefore, Extreme will have carryover tax basis in the assets and liabilities acquired. A deferred tax liability has been established for the non-deductible amortization of the associated intangibles under US GAAP.

The Company had $19.1 million of unrecognized tax benefits as of March 31, 2022. If fully recognized in the future, $0.5 million would impact the effective tax rate and $18.6 million would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance with no impact to the effective tax rate. The Company does not anticipate any events to occur during the next twelve months that would materially reduce the unrealized tax benefit as currently stated in the Company's condensed consolidated balance sheets.

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

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

16. Net Income (Loss) Per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period. Dilutive income per share is calculated by dividing net income by the weighted-average number of shares of common stock used in the basic net income (loss) per share calculation plus the dilutive effect of shares subject to repurchase, options and unvested RSUs.

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		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Net income (loss)	$ 12,824	$ 3,472	$ 38,861	$ (8,390)
Weighted-average shares used in per share calculation - basic	129,913	124,788	129,321	123,252
Options to purchase common stock	535	549	637	—
Restricted stock units	2,967	4,651	3,821	—
Weighted-average shares used in per share calculation - diluted	133,415	129,988	133,779	123,252
Net income (loss) per share - basic and diluted				
Net income (loss) per share - basic	$ 0.10	$ 0.03	$ 0.30	$ (0.07)
Net income (loss) per share - diluted	$ 0.10	$ 0.03	$ 0.29	$ (0.07)

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		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Options to purchase common stock	—	637	—	1,864
Restricted stock units	118	17	57	8,994
Employee Stock Purchase Plan shares	386	480	127	158
Total shares excluded	504	1,134	184	11,016

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 third quarter ended March 31, 2022, our Annual Report on Form 10-K for the fiscal year ended June 30, 2021, and other filings we have made with the Securities and Exchange Commission. These risk factors, include, but are not limited to: risks related to supply chain disruptions; fluctuations in demand for our products and services; a highly competitive business environment for network switching equipment; our effectiveness in controlling expenses; the possibility that we might experience delays in the development or introduction of new technology and products; customer response to our new technology and products; fluctuations in the global economy, including political, social, economic, currency and regulatory factors (such as the outbreak of COVID-19); risks related to pending or future litigation; a dependency on third parties for certain components and for the manufacturing of our products and our ability to receive the anticipated benefits of acquired businesses.

Business Overview

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

Extreme Networks, Inc. (“Extreme” or “Company”) is a leading provider of end-to-end, cloud-driven networking solutions and top-rated services and support. Providing a set of comprehensive solutions from the Internet of Things (“IoT”) edge to the cloud, Extreme designs, develops, and manufactures wired and wireless network infrastructure equipment as well as a leading cloud networking platform and applications portfolio using cloud management, machine learning (“ML”), and artificial intelligence (“AI”) to deliver network policy, analytics, security, and access controls. Our solutions enable companies to embrace the value of new cloud technology without having to rip and replace existing infrastructures. Extreme has been pushing the boundaries of networking technology for a quarter of a century, driven by a higher purpose of helping our customers connect beyond the network. Extreme’s cloud-driven technologies provide flexibility and scalability in deployment, management, and licensing of networks globally. Our global footprint provides service to over 50,000 customers across the world including some of the world’s leading names in business, hospitality, retail, transportation and logistics, education, government, healthcare, manufacturing and service providers. We derive all our revenues from the sale of our networking equipment, software subscriptions, and related maintenance contracts.

Industry Background

Enterprises are adopting new Information Technology (“IT”) delivery models and applications that require fundamental network alterations and enhancements spanning from the access edge to the data center. With the impact of the global pandemic, we believe IT teams in every industry will need more control and better insights than ever before to ensure secure, distributed connectivity and comprehensive centralized visibility. ML and AI technologies have the potential to vastly improve the network experience in the post-pandemic world by collating large data sets to increase accuracy and derive resolutions to improve the operation of the network. When applied with cloud-driven networking and automation, administrators can quickly scale to provide productivity, availability, manageability, security, and speed, regardless of how distributed the network is.

We believe that the network has never been more vital than it is today. As administrators grapple with more data, coming from more places, more connected devices, and more Software-as-a-service ("SaaS") based applications, the cloud is fundamental to establishing a new normal. Traditional network offerings are not well-suited to fulfill enterprise expectations for rapid delivery of new services, more flexible business models, real-time response, and massive scalability. As enterprises continue to migrate increasing numbers of applications and services to either private clouds or public clouds offered by third parties and to adopt new IT delivery models and applications, they are required to make fundamental network alterations and enhancements spanning from device access points ("AP") to the network core. In either case, the network infrastructure must adapt to this new dynamic environment. Intelligence and automation are key if enterprises are to derive maximum benefit from their cloud deployments. Service providers are also investing in network enhancements with platforms and applications that deliver data insights, provide flexibility, and can quickly respond to new user demands and 5G use cases.

We believe Extreme stands to benefit from the use of its technology to manage distributed campus network architecture centrally from the cloud. Extreme has blended a dynamic fabric attach architecture, that delivers simplicity for moves and changes at the edge of the network, together with corporate-wide role-based policy. This enables customers to migrate to new cloud managed switching and Wi-Fi, agnostic of the existing networking or wireless equipment they already have installed. In the end, we expect these customers to see lower operating and capital expenditures, lower subscription costs, lower overall cost of ownership and more flexibility along with a more resilient network. We estimate the total addressable market for our Enterprise Networking solutions consisting of cloud networking, wireless local area networks ("WLAN"), data center networking, ethernet switching, campus local area networks ("LAN"), and software-defined wide area network ("SD-WAN") solutions to be approximately $26 billion and growing at approximately five percent per year over the next three years. In addition, we estimate that 5G provides an estimated $3 billion serviceable available market for Service Provider Networking.

The Extreme Strategy

The global pandemic resulted in unprecedented change – from the physical footprint of offices, to supply chain operations, to how we connect. Organizations and workforces extend anywhere and everywhere. IT leaders are now tasked with ensuring the global, hybrid workforce is functional and successful no matter where they are and ensure people can work wherever they want.

Extreme has recognized that the way we and our customers communicate has changed and has given rise to these distributed enterprise environments, or in other words, the **Infinite Enterprise**, which has three key tenets:

- **Infinitely distributed connectivity** is the enterprise-grade reliable connectivity that allows users to connect to anywhere, from anywhere. It is always present, available and assured, while being secure and manageable.
- **Scalable cloud** allows administrators to harness the power of the cloud to efficiently onboard, manage, orchestrate, troubleshoot the network, and find data and insights of the distributed connectivity at their pace in their way.
- **Consumer-centric experience** designed to deliver a best-in-class experience to users who consume network services.

Extreme's broad product, solutions and technology portfolio supports these three tenets and continues to innovate and evolve them to help businesses succeed.

Key elements of Extreme's strategy and differentiation include:

- **Creating effortless networking solutions that allow all of us to advance.** We believe that progress is achieved when we connect—allowing us to learn, understand, create, and grow. We make connecting simple and easy with effortless networking experiences that enable all of us to advance how we live, work, and share.

- **Provide a differentiated end-to-end cloud architecture.** Cloud networking is estimated to be a $2 billion segment of the networking market and is projected to be the fastest growing part of the networking industry at approximately 20% per year over the next three years, according to data from 650 Group Market Research. Cloud management technology has evolved significantly over the past decade. We believe we deliver a combination of innovation, reliability, and security with the leading end-to-end cloud management platform powered by ML and AI that spans from the IoT edge to the enterprise data center. Key characteristics of our cloud architecture include:
    - A robust cloud management platform that delivers visibility, intelligence, and assurance from the IoT edge to the core.
    - Cloud Choice for customers: Our cloud networking solution is available on all major cloud providers (Amazon Web Services ("AWS"), Google Cloud Platform ("GCP") and Microsoft Azure).
    - Unlimited Network Data plans for the length of the cloud subscription to improve an organization's ability to make smarter, more effective business decisions.
    - Consumption Flexibility: Offer a range of financing and network purchase options. Our value-based subscription tiers (including Connect, Navigator and Pilot) provide customers with flexibility to grow as they go, as well as offer pool-able and portable licenses that can be transferred between products (*e.g.* access points and switches) at one fixed price.

  - "No 9s" Reliability and Resiliency to ensure business continuity for our customers.
  - Zero-Trust Security (Information Security Management ("ISO") 27001 Certified).

- **Offer customers choice: public or private cloud, or on-premises.** We leverage the cloud where it makes sense for our customers and provide on-premises solutions where customers need it and also have a solution for those who want to harness the power of both. Our hybrid approach gives our customers options to adapt the technology to their business. At the same time, all of our solutions have visibility, control and strategic information built in, all tightly integrated with a single view across all of the installed products. Our customers can understand what is going on across their network and applications in real time – who, when, and what is connected to the network – critical for bring your own device ("BYOD") and IoT usage.

- **Highest value of cloud management subscriptions.** ExtremeCloud IQ Pilot provides our customers with four key applications enabling organizations to eliminate overlays.
  - Extreme AirDefense™ is a comprehensive wireless intrusion prevention system that simplifies the protection, monitoring and security of wireless networks. With the added Bluetooth and Bluetooth low energy intrusion prevention, network administrators can address growing threats against Bluetooth and low energy devices.
  - ExtremeLocation™ delivers proximity, presence and location-based services for advanced contact tracing in support of the location-intelligent enterprise.
  - ExtremeGuest™ is a comprehensive guest engagement solution that enables IT administrators to use analytical insights to engage visitors with personalized engagements.
  - Extreme IoT™ delivers simple and secure onboarding, profiling, segmentation and filtering of IoT devices on a production network.

- **Offers universal platforms for enterprise class switching and wireless infrastructure.** Extreme offers universal platforms which support multiple deployment use cases, providing flexibility and investment protection.
  - **Universal switches** support fabric or traditional networking with a choice of cloud or on-premises (air-gapped or cloud connected) management.
  - **Universal WiFi 6 APs** support campus or distributed deployments with a choice of cloud or on-premises (air-gapped or cloud connected) management.
  - **Universal licensing** with one portable management license for any device and for any type of management. For switches, OS feature licenses are portable, and bulk activated through ExtremeCloud IQ.

- **Enable a common fabric to simplify and automate the network.** Fabric technologies virtualize the network infrastructure (decoupling network services from physical connectivity) which enables network services to be turned up faster, with lower likelihood of error. They make the underlying network much easier to design, implement, manage and troubleshoot.

- **End-to-End Portfolio.** Our cloud-driven solutions provide visibility, control and strategic intelligence from the edge to the data center, across networks and applications. Our solutions include wired switching, wireless switching, wireless access points, WLAN controllers, routers, and an extensive portfolio of software applications that deliver AI-enhanced access control, network and application analytics, as well as network management. All can be managed, assessed and controlled from a single pane of glass on premises or from the cloud.

- **Provide high-quality "in-house" customer service and support.** We seek to enhance customer satisfaction and build customer loyalty through high-quality service and support. This includes a wide range of standard support programs to the level of service our customers require, from standard business hours to global 24-hour-a-day, 365-days-a-year real-time responsive support.

- **Extend switching and routing technology leadership.** Our technological leadership is based on innovative switching, routing and wireless products, the depth and focus of our market experience and our operating systems - the software that runs on all of our networking products. Our products reduce operating expenses for our customers and enable a more flexible and dynamic network environment that will help them meet the upcoming demands of IoT, mobile, and cloud.

- **Expand Wi-Fi technology leadership.** Wireless is today's network access method of choice and every business must deal with scale, density and BYOD challenges. The network edge landscape is changing as the explosion of mobile devices increases the demand for mobile, transparent, and always-on wired to wireless edge services. The unified access layer requires distributed intelligent components to ensure that access control and resiliency of business services are available across the entire infrastructure and manageable from a single console. We are at a technology inflection point with the pending migration from Wi-Fi 5 solutions to Wi-Fi 6 (802.11ax), focused on providing more efficient access to the broad array of connected devices. We believe we have the industry's broadest Wi-Fi 6 wireless portfolio providing intelligence for the wired/wireless edge and enhanced by our cloud architecture with machine learning and AI-driven insights.

- **Offer a superior quality of experience.** Our network-powered application analytics provide actionable business insights by capturing and analyzing context-based data about the network and applications to deliver meaningful intelligence about applications, users, locations and devices. With an easy to comprehend dashboard, our applications help businesses turn their network into a strategic business asset that helps executives make faster and more effective decisions.
- **Expand market penetration by targeting high-growth market segments.** Within the campus, we focus on the mobile user, leveraging our automation capabilities and tracking WLAN growth. Our data center approach leverages our product portfolio to address the needs of public and private cloud data center providers. We believe that the cloud networking compound annual growth rate will continue to outpace the compound annual growth rate for on-premises managed networking. Our focus is on expanding our technology foothold in the critical cloud networking segment to accelerate not only cloud management adoption, but also subscription-based licensing (SaaS) consumption.
- **Leverage and expand multiple distribution channels.** We distribute our products through select distributors, a large number of resellers and system-integrators worldwide, as well as several large strategic partners. We maintain a field sales force to support our channel partners and to sell directly to certain strategic accounts. As an independent networking vendor, we seek to provide products that, when combined with the offerings of our channel partners, create compelling solutions for end-user customers.
- **Maintain and extend our strategic relationships.** We have established strategic relationships with a number of industry-leading vendors to both, provide increased and enhanced routes to market, and collaboratively develop unique solutions.

Acquisition

On September 14, 2021, we completed our acquisition (the “Acquisition”) of Ipanematech SAS (“Ipanema”), the cloud-native enterprise Software-Defined Wide Area Network (“SD-WAN”) business unit of Infovista pursuant to a Sale and Purchase Agreement. Under the terms of the Acquisition, the net consideration paid by Extreme to Ipanema stockholders was $70.9 million. The primary reason for the Acquisition was to acquire the talent and the technology to allow us to expand our portfolio with new cloud-managed SD-WAN and security offerings to support our enterprise customers.

Key Financial Metrics

During the third quarter of fiscal 2022, we achieved the following results:

- Net revenues of $285.5 million compared to $253.4 million in the third quarter of fiscal 2021.
- Product revenues of $198.4 million compared to $176.3 million in the third quarter of fiscal 2021.
- Service and subscription revenues of $87.1 million compared to $77.1 million in the third quarter of fiscal 2021.
- Total gross margin of 56.5% of net revenues compared to 58.7% of net revenues in the third quarter of fiscal 2021.
- Operating income of $17.3 million compared to $11.2 million in the third quarter of fiscal 2021.
- Net income of $12.8 million compared to $3.5 million in the third quarter of fiscal 2021.

During the first nine months of fiscal 2022, we reflected the following results:

- Cash flows provided by operating activities of $64.1 million compared to $87.5 million in the nine months ended March 31, 2021.
- Cash of $166.6 million as of March 31, 2022 compared to $246.9 million as of June 30, 2021.

Net Revenues

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

	Three Months Ended				Nine Months Ended			
	March 31, 2022	March 31, 2021	$ Change	% Change	March 31, 2022	March 31, 2021	$ Change	% Change
Net revenues:								
Product	$ 198,373	$ 176,334	$ 22,039	12.5%	$ 574,636	$ 503,575	$ 71,061	14.1%
Percentage of net revenues	*69.5%*	*69.6%*			*68.9%*	*68.9%*		
Service and subscription	87,135	77,066	10,069	13.1%	259,489	227,755	31,734	13.9%
Percentage of net revenues	*30.5%*	*30.4%*			*31.1%*	*31.1%*		
Total net revenues	$ 285,508	$ 253,400	$ 32,108	12.7%	$ 834,125	$ 731,330	$ 102,795	14.1%

Product revenues increased $22.0 million or 12.5% for the three months ended March 31, 2022, as compared to the corresponding period of fiscal 2021. Product revenues increased $71.1million or 14.1% for the nine months ended March 31, 2022, as compared to the corresponding period of fiscal 2021. The product revenues increase was primarily due to stronger demand for our products and also due to the material slow-down in global demand during the corresponding period of fiscal 2021 due to the global outbreak of COVID-19.

Service and subscription revenues increased $10.1 million, or 13.1% for the three months ended March 31, 2022 as compared to the corresponding period in fiscal 2021. Service and subscription revenues increased $31.7 million, or 13.9% for the nine months ended March 31, 2022 as compared to the corresponding period in fiscal 2021. The increase in service and subscription revenues was primarily due to the growth in our subscription revenues and partially due to the acquisition of Ipanema.

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

	Three Months Ended				Nine Months Ended			
	March 31, 2022	March 31, 2021	$ Change	% Change	March 31, 2022	March 31, 2021	$ Change	% Change
Gross profit:								
Product	$ 105,791	$ 99,892	$ 5,899	5.9%	$ 310,177	$ 279,733	$ 30,444	10.9%
Percentage of product revenues	53.3%	56.6%			54.0%	55.5%		
Service and subscription	55,567	48,921	6,646	13.6%	165,570	144,290	21,280	14.7%
Percentage of service and subscription revenues	63.8%	63.5%			63.8%	63.4%		
Total gross profit	$ 161,358	$ 148,813	$ 12,545	8.4%	$ 475,747	$ 424,023	$ 51,724	12.2%
Percentage of net revenues	56.5%	58.7%			57.0%	58.0%		

Product gross profit increased $5.9 million or 5.9% for the three months ended March 31, 2022, as compared to the corresponding period in fiscal 2021. The increase in product gross profit was primarily due to increased revenues along with lower excess and obsolete inventory charges of $0.2 million and lower amortization of intangibles of $2.8 million due to certain intangibles being fully amortized, partially offset by higher product costs and higher distribution cost of $8.5 million primarily due to higher freight costs due to supply constraints.

Product gross profit increased $30.4 million or 10.9% for the nine months ended March 31, 2022, as compared to the corresponding period in fiscal 2021. The increase in product gross profit was primarily due to increased revenues along with lower excess and obsolete inventory charges of $2.6 million and lower amortization of intangibles of $6.7 million due to certain intangibles being fully amortized, partially offset by higher product costs and distribution cost of $13.1 million primarily due to higher freight costs due to supply constraints.

Service and subscription gross profit increased $6.6 million or 13.6% for the three months ended March 31, 2022, as compared to the corresponding period in fiscal 2021. Service and subscription gross profit increased $21.3 million or 14.7% for the nine months ended March 31, 2022, as compared to the corresponding period in fiscal 2021. The increases were primarily due to increased service and subscription revenues, partially offset by higher professional fees and increased cloud service costs.

Operating Expenses

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

	Three Months Ended				Nine Months Ended			
	March 31, 2022	March 31, 2021	$ Change	% Change	March 31, 2022	March 31, 2021	$ Change	% Change
Research and development	$ 49,615	$ 48,909	$ 706	1.4%	$ 145,461	$ 147,619	$ (2,158)	(1.5)%
Sales and marketing	72,840	70,898	1,942	2.7%	213,932	201,955	11,977	5.9%
General and administrative	17,714	16,023	1,691	10.6%	52,594	48,844	3,750	7.7%
Acquisition and integration costs	2,833	—	2,833	100.0%	6,456	1,975	4,481	226.9%
Restructuring and related charges	407	425	(18)	(4.2)%	978	2,121	(1,143)	(53.9)%
Amortization of intangibles	638	1,406	(768)	(54.6)%	2,596	4,704	(2,108)	(44.8)%
Total operating expenses	$ 144,047	$ 137,661	$ 6,386	4.6%	$ 422,017	$ 407,218	$ 14,799	3.6%

Research and Development Expenses

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

Research and development expenses increased by $0.7 million or 1.4% for the three months ended March 31, 2022, as compared to the corresponding period in fiscal 2021. The increase in research and development expenses was primarily due to a $0.6 million increase in personnel related costs, a $0.4 million increase in software licenses and engineering project costs, a $0.3 million increase in equipment related and other costs, partially offset by a $0.6 million decrease in facility and information technology costs.

Research and development expenses decreased by $2.2 million or 1.5% for the nine months ended March 31, 2022, as compared to the corresponding period in fiscal 2021. The decrease in research and development expenses was primarily due to a $2.7 million decrease in facility and information technology costs, a $1.4 million decrease in software licenses and engineering project costs and lower equipment related costs and a $0.5 million decrease in other costs, partially offset by a $2.4 million increase in personnel related costs.

Sales and Marketing Expenses

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

Sales and marketing expenses increased by $1.9 million or 2.7% for the three months ended March 31, 2022, as compared to the corresponding period in fiscal 2021. The increase in sales and marketing expenses was primarily due to a $0.5 million increase in personnel costs primarily due to higher compensation and benefits costs, a $1.0 million increase in travel costs and a $0.7 million increase in marketing and facilities related costs, partially offset by a $0.2 million decrease in other expenses.

Sales and marketing expenses increased by $12.0 million or 5.9% for the nine months ended March 31, 2022, as compared to the corresponding period in fiscal 2021. The increase in sales and marketing expenses was primarily due to a $8.5 million increase in personnel costs due to higher compensation and benefits costs due to increase in headcount, a $3.1 million increase in travel costs and a $1.7 million increase in facilities related costs and other expenses primarily marketing and sales promotions costs, partially offset by a $0.7 million decrease in professional fees and a $0.8 million decrease in equipment related expenses.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel costs (which consist of compensation, benefits and share-based compensation), legal and professional service costs, and facilities and information technology costs.

General and administrative expenses increased by $1.7 million or 10.6% for the three months ended March 31, 2022, as compared to the corresponding period in fiscal 2021. The increase in general and administrative expenses was primarily due to a $0.9 million increase in personnel costs due to higher compensation and benefits cost, a $0.7 million increase in equipment related costs and a $0.5 million increase in travel costs, partially offset by a $0.2 million decrease in legal and professional fees and a $0.2 million decrease in facilities and related costs.

General and administrative expenses increased by $3.8 million or 7.7% for the nine months ended March 31, 2022, as compared to the corresponding period in fiscal 2021. The increase in general and administrative expense was primarily due to a $2.2 million increase in personnel costs primarily compensation expenses, a $1.2 million increase in equipment and software licensing costs and a $0.6 million increase in other expenses, primarily travel, partially offset by a $0.4 million decrease in other costs, primarily facilities and related costs.

Acquisition and Integration Costs

During the three months ended March 31, 2022, we incurred acquisition and integration costs of $2.8 million. During the nine months ended March 31, 2022, we incurred $6.5 million of integration costs. Acquisition and integration costs for the three and nine months ended March 31, 2022 consisted primarily of professional fees for legal advisory services, system and product integrations, and financial and accounting services related to the acquisition of Ipanema.

During the three months ended March 31, 2021 we did not incur any acquisition and integration costs. During the nine months ended March 31, 2021, we incurred $2.0 million of acquisition and integration costs. Acquisition and integration costs for the nine months ended March 31, 2021 consisted primarily of additional professional fees for system integration and financial services related to the Aerohive acquisition.

Restructuring and Related Charges

For the three and nine months ended March 31, 2022, we recorded restructuring and related charges of $0.4 million and $1.0 million respectively, which primarily comprised of facility-related charges related to our previously impaired facilities.

For the three and nine months ended March 31, 2021, we recorded restructuring charges of $0.4 million and $2.1 million, respectively. We continued our cost reduction initiative began in the third quarter of fiscal 2020 and recorded related severance, benefits, and equipment relocation charges of less than $0.1 million and $1.2 million respectively, related to the 2020 Plan. In addition, we had facility-related charges of $0.3 million and $0.9 million, respectively, related to our previously impaired facilities.

Amortization of Intangibles

During the three months ended March 31, 2022 and 2021, we recorded $0.6 million and $1.4 million, respectively, of operating expenses for amortization of intangibles. During the nine months ended March 31, 2022 and 2021, we recorded $2.6 million and $4.7 million, respectively, of operating expenses for amortization of intangibles. The decreases during the three and nine months ended March 31, 2022 were primarily due to lower amortization related to certain acquired intangibles from previous acquisitions becoming fully amortized.

Interest Expense

During the three months ended March 31, 2022 and 2021, we recorded $2.8 million and $5.6 million, respectively, in interest expense. During the nine months ended March 31, 2022 and 2021, we recorded $9.8 million and $18.3 million, respectively, in interest expense. The decrease in interest expense were primarily driven by lower average loan balances and lower average rates during the respective period under our Amended and Restated Credit Agreement (as amended, the “2019 Credit Agreement”), dated August 9, 2019, by and among us, as borrower, several banks and other financial institutions as Lenders, BMO Harris Bank N.A., as an issuing lender and swingline lender, Silicon Valley Bank, as an Issuing Lender, and Bank of Montreal, as administrative agent and collateral agent for the Lenders.

Other Income (Expense), Net

During the three months ended March 31, 2022 and 2021, we recorded other income, net of $0.1 million and $0.3 million, respectively. During the nine months ended March 31, 2022 and 2021, we recorded other income, net of $0.3 million and other expense, net of $1.6 million, respectively. The changes for the three and nine months ended March 31, 2022 were primarily due to foreign exchange impact 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 March 31, 2022 and 2021, we recorded an income tax provision of $1.9 million and $2.4 million. For the nine months ended March 31, 2022 and 2021, we recorded an income tax provision of $5.7 million and $5.6 million, respectively.

The income tax provisions for the three and nine months ended March 31, 2022 and 2021 consisted of (1) taxes on the income of our foreign subsidiaries, (2) foreign withholding taxes, (3) state taxes in jurisdictions where we have no remaining state net operating losses and (4) tax expense associated with the establishment of a U.S. deferred tax liability for amortizable goodwill resulting from the acquisition of Enterasys Networks, Inc., the WLAN Business, the Campus Fabric Business and the Data Center Business.

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. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted under SEC rules and regulations. 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, 2021, 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*
- *Inventory Valuation and Purchase Commitments*

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

Liquidity and Capital Resources

The following table summarizes information regarding our cash (in thousands):

	March 31, 2022	June 30, 2021
Cash	$ 166,566	$ 246,894

As of March 31, 2022, our principal sources of liquidity consisted of cash of $166.6 million and accounts receivable, net of $163.0 million, and available borrowings under our five-year 2019 Revolving Facility of $60.2 million. Our principal uses of cash include the purchase of finished goods inventory from our contract manufacturers, payroll and other operating expenses related to the development and marketing of our products, purchases of property and equipment, and repayments of debt and related interest. We believe that our $166.6 million of cash at March 31, 2022, our cash flow from operations, and the availability of borrowings from the 2019 Revolving Facility will be sufficient to fund our planned operations for at least the next 12 months.

On November 2, 2018, our Board of Directors announced that it had authorized management to repurchase up to $60.0 million of our shares of common stock for two years from the date of authorization, of which $15.0 million was used for repurchases in fiscal 2019 and $30.0 million was used for repurchases in fiscal 2020. In February 2020, our Board of Directors increased the authorization to repurchase by $40.0 million to $100.0 million and extended the period for repurchases for three years from February 5, 2020. Purchases may be made from time to time in the open market or in privately negotiated transactions. The manner, timing and amount of any future purchases will be determined by our management based on their evaluation of market conditions, stock price, Extreme's ongoing determination that it is the best use of available cash and other factors. The repurchase program does not obligate Extreme to acquire any shares of its common stock, may be suspended or terminated at any time without prior notice and will be subject to regulatory considerations. During the nine months ended March 31, 2022, we repurchased a total of 1,829,333 shares of common stock on the open market at a total cost of $25.0 million. As of March 31, 2022, we have $30.0 million available under our share repurchase program.

In connection with the acquisition of Aerohive, as of August 9, 2019, we amended the 2018 Credit Agreement, which is no longer outstanding, and entered into the 2019 Credit Agreement. The 2019 Credit Agreement provides for a five-year first lien term loan facility in an aggregate principal amount of $380.0 million and a five-year revolving loan facility in an aggregate principal amount of $75.0 million ("2019 Revolving Facility"). In addition, we may request incremental term loans and/or incremental revolving loan commitments in an aggregate amount not to exceed the sum of $100.0 million plus an unlimited amount that is subject to pro forma compliance with certain financial tests. On August 9, 2019, we used the proceeds to partially fund the acquisition of Aerohive and for working capital and general corporate purposes.

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

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

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

On April 8, 2020, we entered into the First Amendment to waive certain terms and financial covenants of the 2019 Credit Agreement through July 31, 2020. On May 8, 2020, we entered into the Second Amendment which superseded the First Amendment and provided certain revised terms and financial covenants through March 31, 2021. Subsequent to March 31, 2021, the original terms and financial covenants under the 2019 Credit Agreement resumed in effect. The Second Amendment required us to maintain certain minimum cash requirement and certain financial metrics at the end of each fiscal quarter through March 31, 2021. Under the terms of the Second Amendment, we were not permitted to exceed $55.0 million in our outstanding balance under the 2019 Revolving Facility, the applicable margin for Eurodollar rate was 4.5% and we were restricted from pursuing certain activities such as incurring additional debt, stock repurchases, making acquisitions or declaring a dividend, until we are in compliance with the original covenants of the 2019 Credit Agreement. On November 3, 2020, we and our lenders entered into the Third Amendment to increase the sublimit for letters of credit to $20.0 million. On December 8, 2020, we and our lenders entered into the Fourth Amendment to waive and amend certain terms and financial covenants within the 2019 Credit Agreement through March 31, 2021.

The Second Amendment provided for us to end the covenant Suspension Period early and revert to the covenants and interest rates per the original terms of the 2019 Credit Agreement dated August 9, 2019 by filing a Suspension Period Early Termination Notice and Covenant Certificate demonstrating compliance. For the twelve-month period ended March 31, 2021, our financial performance was in compliance with the original covenants defined in the 2019 Credit Agreement and as such we filed a Suspension Early Termination Notice and Covenant Certificate with the administration agent subsequent to filing our Quarterly Report on Form 10-Q for the period ended March 31, 2021. Returning to compliance with the covenants per the original terms of the 2019 Credit Agreement dated August 9, 2019, resulted in our Eurodollar loan spread decreasing from 4.5% during the suspension period to 2.75% and unused facility commitment fee decreasing from 0.4% to 0.35%, and the limitation on revolver borrowings being removed effective May 1, 2021 after filing of the certificate with the administrative agent.

Key Components of Cash Flows and Liquidity

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

	Nine Months Ended	
	March 31, 2022	**March 31, 2021**
Net cash provided by operating activities	$ 64,055	$ 87,496
Net cash used in investing activities	(80,647)	(12,318)
Net cash used in financing activities	(63,211)	(66,381)
Foreign currency effect on cash	(525)	470
Net (decrease) increase in cash	$ (80,328)	$ 9,267

Net Cash Provided by Operating Activities

Cash flows provided by operations in the nine months ended March 31, 2022, were $64.1 million, including our net income of $38.9 million and non-cash expenses of $79.1 million for items such as amortization of intangibles, share-based compensation, depreciation, reduction in carrying amount of right-of-use assets, deferred income taxes, and interest. Other sources of cash for the period included increases in accounts payable, deferred revenue and other current and long-term liabilities. This was partially offset by increases in accounts receivable, inventories, prepaid expenses and other current assets and decreases in accrued compensation and operating lease liabilities.

Cash flows provided by operations in the nine months ended March 31, 2021 were $87.5 million, including our net loss of $8.4 million and non-cash expenses of $89.0 million for items such as amortization of intangibles, share-based compensation, depreciation, reduction in carrying amount of right-of-use assets, deferred income taxes and imputed interest. Other sources of cash for the period included a decrease in inventory and increases in accounts payable, accrued compensation, and deferred revenues. This was partially offset by decreases in other current and long-term liabilities and operating lease liabilities and increases in accounts receivables and prepaid expenses and other current assets.

Net Cash Used in Investing Activities

Cash flows used in investing activities in the nine months ended March 31, 2022 were $80.6 million primarily due to the payment of $69.5 million (net of cash acquired) for the acquisition of Ipanema and $11.1 million for the purchases of property and equipment.

Cash flows used in investing activities in the nine months ended March 31, 2021 were $12.3 million for the purchases of property and equipment.

Net Cash Used in Financing Activities

Cash flows used in financing activities in the nine months ended March 31, 2022 were $63.2 million due primarily to debt repayments of $31.0 million, share repurchases of $25.0 million under our share repurchase program, payment of contingent consideration of $1.0 million, $3.0 million for deferred payments on acquisitions and $3.2 million for taxes paid on vested and released stock awards net of proceeds from the issuance of shares of our common stock under our Employee Stock Purchase Plan (“ESPP”) and exercise of stock options.

Cash flows used in financing activities in the nine months ended March 31, 2021 were $66.4 million due primarily to debt repayments of $69.3 million, payment of contingent consideration of $1.3 million, and $3.0 million for deferred payments on acquisitions. This was partially offset by $7.2 million of proceeds from the issuance of shares of our common stock under our ESPP and exercise of stock options, net of taxes paid on vested and released stock awards.

Foreign Currency Effect on Cash

Foreign currency effect on cash decreased in the nine months ended March 31, 2022, primarily due to changes in foreign currency exchange rates between the U.S. Dollar and particularly the Indian Rupee, the UK Pound, and the EURO. Foreign currency effect on the cash increased in the nine months ended March 31, 2021, primarily due to changes in foreign currency exchange rates between the U.S. Dollar and particularly the Indian Rupee, the UK Pound, and the EURO.

Contractual Obligations

The following summarizes our contractual obligations as of March 31, 2022, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments due by Period				
	Total	**Less than 1 Year**	**1-3 years**	**3-5 years**	**More than 5 years**
Contractual obligations:					
Debt obligations	$ 315,750	$ 33,250	$ 282,500	$ —	$ —
Interest on debt obligations	15,309	7,447	7,862	—	—
Unconditional purchase obligations	70,368	70,368	—	—	—
Contractual commitments	76,983	27,744	29,852	17,233	2,154
Lease payments on operating leases	43,141	4,802	23,697	10,225	4,417
Deferred payments for an acquisition	4,000	4,000	—	—	—
Other liabilities	355	150	205	—	—
Total contractual cash obligations	$ 525,906	$ 147,761	$ 344,116	$ 27,458	$ 6,571

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

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

Interest on debt obligations includes the effect of our interest rate swap agreements.

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

Contractual commitments to suppliers represent commitments for future services.

Lease payments on operating leases represent base rents and operating expense obligations to landlords for facilities we occupy at various locations.

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

Contingent consideration for an acquisition of a capital financing business in December 2017 from Broadcom, at the estimated fair value. Actual payments could be different.

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

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

We did not have any material commitments for capital expenditures as of March 31, 2022.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of March 31, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to debt and foreign currencies.

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 the 2019 Credit Agreement, which is described in Note 8, Debt, of the notes to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q. At March 31, 2022, we had $315.8 million of debt outstanding, all of which was from the 2019 Credit Agreement. During the quarter ended March 31, 2022, the average daily outstanding amount was $322.8 with a high of $322.9 million and a low of $315.8 million.

Cash Flow Hedges of Interest Rate Risk

In conjunction with our term loan under the 2019 Credit Agreement, we entered into interest rate swap contracts with large financial institutions. This involves the receipt of variable rate amounts from these institutions in exchange for us making fixed-rate payments without exchange of the underlying notional amount of $200.0 million of our debt. The derivative instruments hedge the impact of the changes in variable interest rates. We record the changes in the fair value of these cash flow hedges of interest rate risk in accumulated other comprehensive income (loss) until termination of the derivative agreements.

The following table presents hypothetical changes in interest expense for the quarter ended March 31, 2022, on borrowings under the 2019 Credit Agreement and interest rate swap contracts as of March 31, 2022, 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	Change in interest expense given an increase in interest rate of X bps*	
Description	(100 bps)	(50 bps)	as of March 31, 2022	100 bps	50 bps
Debt	$ (3,228)	$ (1,614)	$ 322,796	$ 3,228	$ 1,614
Interest Rate Swaps	2,000	1,000	(200,000)	(2,000)	(1,000)
Net	$ (1,228)	$ (614)		$ 1,228	$ 614

* Underlying interest rate was 2.07% as of March 31, 2022.

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. 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. Changes in the fair value of these foreign exchange forward contracts are offset largely by re-measurement of the underlying foreign currency denominated assets and liabilities. As of March 31, 2022, and 2021 foreign exchange forward contracts not designated as hedging instruments, had a notional amount of $20.2 million and $26.7 million, respectively. These contracts have maturities of less than 40 days. Changes in the fair value of derivatives are recognized in earnings as other income (expense), net. As of March 31, 2022 , we had forward foreign currency contracts designated as hedging instruments had a notional amount of $0.2 million. These contracts have maturities of less than twelve months. Gains and losses arising from these contracts designated as hedging instruments are recorded as a component of accumulated other comprehensive income (loss). As of March 31, 2022, these contracts had unrealized gain of less than $0.1 million which are recorded in accumulated other comprehensive income (loss) with the associated asset in the accompanying consolidated balance sheets. There were no foreign exchange forward currency contracts that were designated as hedging instruments at March 31, 2021.

Foreign currency transaction gains and losses from operations were gains of $0.3 million and $0.6 million for the three months ended March 31, 2022 and 2021, respectively. Foreign currency transaction gains and losses from operations was a gain of $0.6 million and a loss of $1.9 million for the nine months ended March 31, 2022 and 2021, respectively.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure 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 ensure 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 15d – 15(f) under the Securities Exchange Act of 1934, as amended) during the three and nine months ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II. Other Information

Item 1. Legal Proceedings

For information regarding litigation matters required by this item, refer to Part I, Item 3, “*Legal Proceedings*” of our Annual Report on Form 10-K for the fiscal year ended June 30, 2021, and Note 9 to the notes to condensed consolidated financial statements, included in Part I, Item 1 of this Report which are incorporated herein by reference.

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2021, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock. There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended June 30, 2021 other than as described in the risk factors provided below:

Risks Related to Our Business, Operations, and Industry

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. At present, semiconductor chips are currently in high demand with limited supply. These shortages have been exacerbated by increased energy, raw material, and transportation costs, which are resulting in higher overall component costs, higher delivery costs for expedited shipments, and significantly longer than usual lead times for these components. If we are unable to mitigate these effects, this could have a material adverse effect on our ability to meet customer orders and will negatively impact our margins. 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 business, 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 year. 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. We do not have any material 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.

The extended factory closures in China in the wake of the COVID-19 outbreak reduced the capacity of our supply chain and may continue to do so. See also the risk factor in our Annual Report on Form 10-K for the year ended June 30, 2021, "*The coronavirus outbreak has had, and continues to have, a materially disruptive effect on our business.*"

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

International sales constitute a significant portion of our net revenues. 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 revenues. There are a number of risks arising from our international business, including:

- difficulties in managing operations across disparate geographic areas;
- longer accounts receivable collection cycles;
- higher credit risks requiring cash in advance or letters of credit;
- potential adverse tax consequences;
- increased complexity of accounting rules and financial reporting requirements;
- the payment of operating expenses in local currencies, which exposes us to risks of currency fluctuations;
- fluctuations in local economies;
- 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;
- differing privacy regulations, data localization requirements, and restrictions on cross-border data transfers;
- compliance with regulatory requirements of foreign countries, including compliance with rapidly evolving environmental regulations;
- import tariffs imposed by the United States and the possibility of reciprocal tariffs by foreign countries;
- compliance with export controls, including restrictions on trade with embargoed or sanctioned countries or with denied parties, and rules related to the export of encryption technology
- compliance with U.S. laws and regulations pertaining to the sale and distribution of products to customers in foreign countries, including anti-corruption laws such as the Foreign Corrupt Practices Act and the UK Bribery Act 2010;
- difficulty in conducting due diligence with respect to business partners in certain international markets;
- political and economic turbulence or uncertainty;
- terrorism, war or other armed conflict; 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 a larger portion of our international customers in local currency, which would expose us to greater 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.

There are compliance risks associated with complex tariff regulations and export control laws. If we fail to comply with these laws and regulations, we could incur penalties and sanctions from governments, and could be restricted from exporting products.

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.

System security risks, data 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, financial condition and results of operations.

In the ordinary course of business, we store data, including intellectual property, and our proprietary business information and that of our customers, suppliers and business partners on our networks. In addition, we store information 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 and/or cloud-based services on an ongoing basis. The number and severity of these attacks could increase as a result if nation-state actors utilize such attacks to conduct cyber warfare. Despite our security measures, our supply chain, 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. In addition, our products and services may be the targets of cyber-attacks that attempt to sabotage or otherwise disable them, or our cybersecurity and other products and services ultimately may not be able to effectively detect, prevent, or protect against or otherwise mitigate losses from all cyber-attacks. Any such breach could compromise our products, networks or cloud-based services, creating system disruptions, slowdowns or even shutdowns, and exploiting security vulnerabilities of our products, and the information stored as part of our operations could be accessed, publicly disclosed, lost or stolen, which could subject us to liability to our customers, suppliers, business partners and others, could require significant management attention and resources, could result in the loss of business, regulatory actions and potential liability, and could 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 products, 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.

The ongoing military action between Russia and Ukraine could adversely affect our business, financial condition and results of operations.

On February 24, 2022, Russian military forces launched a military action in Ukraine, and sustained conflict and disruption in the region is likely. Although the length, impact and outcome of the ongoing military conflict in Ukraine is highly unpredictable, this conflict could lead to significant market and other disruptions, including significant volatility in commodity prices and supply of energy resources, instability in financial markets, supply chain interruptions, political and social instability, changes in consumer or purchaser preferences as well as increase in cyberattacks and espionage.

Russia’s recognition of two separatist republics in the Donetsk and Luhansk regions of Ukraine and subsequent military action against Ukraine have led to an unprecedented expansion of sanction programs imposed by the United States, the European Union, the United Kingdom, Canada, Switzerland, Japan and other countries against Russia, Belarus, the Crimea Region of Ukraine, the so-called Donetsk People’s Republic and the so-called Luhansk People’s Republic, including, among others:

- blocking sanctions against some of the largest state-owned and private Russian financial institutions (and their subsequent removal from the Society for Worldwide Interbank Financial Telecommunication payment system) and certain Russian businesses, some of which have significant financial and trade ties to the European Union;
- blocking sanctions against Russian and Belarusian individuals, including the Russian President, other politicians and those with government connections or involved in Russian military activities; and
- blocking of Russia’s foreign currency reserves as well as expansion of sectoral sanctions and export and trade restrictions, limitations on investments and access to capital markets and bans on various Russian imports.

The situation is rapidly evolving as a result of the conflict in Ukraine, and the United States, the European Union, the United Kingdom and other countries may implement additional sanctions, export controls or other measures against Russia, Belarus and other countries, regions, officials, individuals or industries in the respective territories. Such sanctions and other measures, as well as the existing and potential further responses from Russia or other countries to such sanctions, tensions and military actions, could adversely affect the global economy and financial markets and could adversely affect our business, financial condition and results of operations.

We are actively monitoring the situation in Ukraine and assessing its impact on our business, including our business partners and customers. We have no way to predict the progress or outcome of the conflict in Ukraine or its impacts in Ukraine, Russia or Belarus as the conflict, and any resulting government reactions, are rapidly developing and beyond our control. The extent and duration of the military action, sanctions and resulting market disruptions could be significant and could potentially have substantial impact on the global economy and our business for an unknown period of time. Any of the abovementioned factors could affect our business, financial condition and results of operations. Any such disruptions may also magnify the impact of other risks described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2021.

Risks Related to Financial Matters

We cannot assure future profitability, and our financial results may fluctuate significantly from period to period.

We have not been consistently profitable. Even in years when we reported profits, we may not have been 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 forecasting, generating, or recognizing revenue for a number of reasons and our revenues 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; in particular, with current supply chain constraints, our backlog has continued to grow as we are unable to ship all orders obtained during a quarter
- orders in our backlog could be cancelled by customers, impacting the accuracy of our revenue forecasting;
- 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;
- seasonal fluctuations in demand for our products and services;
- a disproportionate percentage of our sales occurring in the last month 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 obtain sufficient supplies of sole- or limited-source components for our products on a timely basis; and
- changes in funding for customer technology purchases in our markets.

In addition to risks related to revenue, we are subject to risks related to costs, which may be influenced by a number of factors, including, but not limited to, the following:

- our ability to achieve and maintain targeted cost reductions;
- fluctuations in warranty or other service expenses actually incurred;
- increases in the price of the components we purchase;
- Increases in costs associated with sourcing and shipping components and finished products;
- general inflationary pressures, increasing the cost of all inputs; and
- rising interest rates, increasing the cost of borrowing.

We are subject to changes in general and specific macro-economic conditions in the networking industry, which could affect both revenue and costs.

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.

We are exposed to the credit risk of our channel partners and some of our end customers, which could result in material losses.

Most of our sales are on an open credit basis, with standard payment terms of 30 days in the United States and, because of local customs or conditions, longer in some markets outside the U.S. We monitor individual end-customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the end customers can pay and maintain reserves we believe are adequate to cover exposure for doubtful accounts. Any significant delay or default in the collection of significant accounts receivable could potentially result in an increased need for us to obtain working capital from other sources, possibly on worse terms than we could have negotiated if we had established such working capital resources prior to such delays or defaults. Any significant default could adversely affect our results of operations and delay our ability to recognize revenue.

A material portion of our sales is derived through our distributors, systems integrators and value-added resellers. Some of our distributors, systems integrators and value-added resellers may experience financial difficulties, which could adversely affect our collection of accounts receivable. Our exposure to credit risks of our channel partners may increase if our channel partners and their end customers are adversely affected by global or regional economic conditions. One or more of these channel partners could delay payments or default on credit extended to them, either of which could materially adversely affect our business, financial condition, results of operations and prospects.

Rising interest rates and increasing inflation could put additional financial pressures on some partners and customers, which could result in longer collection times or default on payment to us.

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 Disclosures - 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
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	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).				

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

SIGNATURES

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

EXTREME NETWORKS, INC.
(Registrant)

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

April 28, 2022

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:April 28, 2022

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

Exhibit 31.2

SECTION 302 CERTIFICATION OF REMI THOMAS
AS CHIEF FINANCIAL OFFICER

I, Remi Thomas, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: April 28, 2022

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

Exhibit 32.1

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

In connection with the Quarterly Report of Extreme Networks, Inc. on Form 10-Q for the period ended March 31, 2022, 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: April 28, 2022

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

Exhibit 32.2

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

In connection with the Quarterly Report of Extreme Networks, Inc. on Form 10-Q for the period ended March 31, 2022, 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: April 28, 2022

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