

EXTREME NETWORKS INC  
Form 10-K  
September 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended June 30, 2016

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	(I.R.S. Employer
incorporation or organization)	Identification No.)

145 Rio Robles

San Jose, California	95134
(Address of principal executive offices)	(Zip Code)

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

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

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

Common stock, \$0.001 par value

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

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

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

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

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

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

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  Smaller reporting company

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$302.9 million as of December 31, 2015, the last business day of the Registrant's most recently completed second fiscal quarter, based upon the per share closing price of the Registrant's common stock as reported on The NASDAQ Global Market reported on such date. For purposes of this disclosure, shares of common stock held or controlled by executive officers and directors of the registrant and by persons who hold more than 5% of the outstanding shares of common stock have been treated as shares held by affiliates. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purpose.

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106,388,401 shares of the Registrant's Common stock, \$.001 par value, were outstanding as of August 26, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2016 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

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EXTREME NETWORKS, INC.

FORM 10-K

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## FORWARD LOOKING STATEMENTS

Except for historical information contained herein, certain matters included in this annual report on Form 10-K are, or may be deemed to be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The words "will," "may," "designed to," "believe," "should," "anticipate," "plan," "expect," "intend," "estimate" and similar expressions identify forward-looking statements, which speak only as of the date of this annual report. These forward-looking statements are contained principally under Item 1, "Business," and under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," but may also be in other sections of this annual report on Form 10-K. Because these forward-looking statements are subject to risks and uncertainties, actual results could differ materially from the expectations expressed in the forward-looking statements. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include those described in Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." In addition, new risks emerge from time to time and it is not possible for management to predict all such risk factors or to assess the impact of such risk factors on our business. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. We undertake no obligation to update or revise these forward-looking statements to reflect subsequent events or circumstances.

## PART I

### Item 1. Business

#### Overview

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

The Internet of Things ("IoT") and the evolution of the cloud have made reliable and secure Internet connections increasingly critical to business success. In this time of rapid changes and market shifts, delivering a focused value proposition based on automation, simplicity, high quality solutions and world class customer support is vitally important. As the volume and the demands of users, applications, data and devices on networks continue to increase, Extreme stands ready to help our customers address the ever-evolving demands of the business.

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

Our key points of differentiation include:

- End-to-end, wired and wireless solutions. Extreme offers a complete, unified portfolio of software-driven network access technology. We offer the latest in wireless access points for both outdoor and indoor use plus a complete line of switches to cover the campus, right up to and including the data center.
- Multi-vendor management from a "single pane of glass". Extreme offers a single unified management system that is designed to provide visibility and control across the entire network. This can make the network easier to manage and troubleshoot, often with lower operating expenses. Our software can also manage many other vendors' network

devices, enabling our customers to potentially maximize device lifespan.

- Software-driven vertical solutions. Extreme's software-driven solutions are designed to be easily adaptable to vertical solutions in industries such as, healthcare, education, manufacturing, government and hospitality. Extreme solutions are also designed to be well-suited for vertical-specific partners.
  - Application-aware Quality of Service ("QoS") and analytics. Extreme has innovative analytic software that enables our customers to see application usage across the network and apply policies that maximize network capabilities. This allows our customers to improve the user experience.
  - Built-in identity and access control. Extreme's network access control and identity management are delivered with the wired and wireless hardware. This may reduce the need to add on expensive software or hardware that may require complex compatibility testing.
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- EZ policy assignment and software-defined networking (“SDN”). ExtremeControl and ExtremeManagement software allow our customers to assign policy across the entire network. The SDN component adds versatility for implementing policies that increase network utilization.
- 100% in-sourced tech support. Extreme delivers best in class customer support in the industry with 92% first call resolution through a 100% in-sourced support model.

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

On October 31, 2013, we completed the acquisition of Enterasys Networks, Inc. (“Enterasys”), a privately held provider of wired and wireless network infrastructure and security solutions, whereby Enterasys became our wholly-owned subsidiary. The combined entity immediately became a networking industry leader with more than 14,000 customers. As network switching leaders in enterprise, datacenter and cloud, Extreme and Enterasys together combine and extend their world-class products and technologies to provide customers with some of the most advanced, high performance and open solutions in the market as well as a superb overall customer experience. The combination of Extreme and Enterasys is significant in that it brings together two companies with distinct strengths addressing the key areas of the network, from unified wired and wireless edge, to the enterprise core, to the data center and cloud. With an open software approach, we can drive product innovations and customers will benefit from the increased resources and larger scale.

#### Industry Background

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

- Ethernet (wired and wireless) has solidified its role in both public and private networks through its scalability, adaptability and cost-effectiveness. At the same time, the enterprises and service providers expect the technology to follow a price-performance curve that mandates continued innovation by Ethernet vendors.
- The mobile workforce has proliferated. Employees expect high-quality and secure access to corporate resources in a Bring Your Own Device (“BYOD”) world across a diversity of endpoints such as laptops, tablets, smart phones and wearables, whether they are within the corporate firewall or on-the-go. IT departments focus their investment decisions on this mobile workforce, taking a unified view of wireless access, the campus core and the data center. Networking vendors offer end-to-end solutions that permit IT managers to meet employee expectations and to maximize IT return on investment.
- Growing usage of the cloud. Deployment of server virtualization is influencing data center architecture. Enterprises have migrated increasing numbers of applications and services to either private clouds or public clouds offered by third parties. In either case, the network infrastructure must adapt to this new dynamic environment. Intelligence and automation are key if enterprises are to derive maximum benefit from their cloud deployments. Ethernet speeds, scaling from 10 Gigabits per second (“G”) to 40G and even 100G, provide the infrastructure for both private and public clouds. In addition, there is growing interest in SDN approaches that may include technologies such as OpenFlow, OpenStack, and CloudStack for increased network agility.
- Vendor Consolidation. We believe consolidation of vendors within the Ethernet networking market and between adjacent markets (storage, security, wireless & voice software and applications) continues to gain momentum. In 2015, the Hewlett-Packard Company (“HP”) acquired Aruba, Dell, Inc. acquisition of EMC is expected to close in October 2016 and Brocade Communication Systems acquired Ruckus in May 2016. We believe these acquisitions reflect a realization that customers want end-to-end, integrated networking solutions. Extreme identified this trend in 2013 and address the issue with its acquisition of Enterasys in 2013. Since that time, Extreme has rationalized the roadmap and provided an upgrade path for customers.

Extreme’s strategy, product portfolio and research and development are closely aligned with what we have identified as the following trends in our industry:



- Rapid adoption of white box/brite box devices. We believe the transition to white box/brite box is taking place faster than analyst firms had initially predicted. Network decision makers may be able to reduce cost, improve management and enable long-term innovation using brite box switches versus traditional switching approaches.
- ØExtreme announced its brite box offering will begin in the first half of FY 2017.

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·Cloud is a revolutionary disrupter in the network switching market. In August 2016, International Data Corporation (“IDC”), forecasts between 2015 through 2020 that private cloud is expected to experience a compound annual growth rate (“CAGR”) of 25.0% while (traditional data center) is expected to experience slow to negative growth.  
ØExtreme announced its cloud offering in April of 2016.