EXTREME NETWORKS INC
Form 10-Q
May 07, 2014

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

Form 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

OR

o 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 [State or other jurisdiction of incorporation or organization]	77-0430270 [I.R.S Employer Identification No.]
145 Rio Robles, San Jose, California [Address of principal executive office]	95134 [Zip Code]

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

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

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 x No o

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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

The number of shares of the Registrant’s Common Stock, $.001 par value, outstanding at April 25, 2014 was 96,491,396.

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EXTREME NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	March 31, 2014	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$71,355	$95,803
Short-term investments	34,700	43,034
Accounts receivable, net of allowances of $2,150 at March 31, 2014 and $1,252 at June 30, 2013	94,187	47,642
Inventories	63,142	16,167
Deferred income taxes	846	386
Prepaid expenses and other current assets	16,552	5,749
Total current assets	280,782	208,781
Property and equipment, net	47,209	23,644
Marketable securities	—	66,776
Intangible assets, net	97,205	4,243
Goodwill	64,537	—
Other assets	18,061	7,980
Total assets	$507,794	$311,424
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$28,875	$—
Accounts payable	36,138	27,163
Accrued compensation and benefits	25,483	13,503
Restructuring liabilities	537	1,466
Accrued warranty	7,825	3,296
Deferred revenue, net	71,183	33,184
Deferred distributors revenue, net of cost of sales to distributors	24,217	17,388
Other accrued liabilities	26,326	16,502
Total current liabilities	220,584	112,502
Deferred revenue, less current portion	19,667	8,270
Long-term debt, less current portion	93,500	—
Other long-term liabilities	8,506	1,507
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Convertible preferred stock, $.001 par value, issuable in series, 2,000,000 shares authorized; none issued	—	—
Common stock, $.001 par value, 750,000,000 shares authorized; 96,379,224 shares issued and outstanding at March 31, 2014 and 93,626,150 shares issued and outstanding at June 30, 2013	96	94
Additional paid-in-capital	837,499	821,331
Accumulated other comprehensive income (loss)	(76)	(1,377)
Accumulated deficit	(671,982)	(630,903)
Total stockholders' equity	165,537	189,145
Total liabilities and stockholders' equity	$507,794	$311,424

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Net revenues:				
Product	$109,891	$54,072	$290,001	$175,450
Service	31,871	14,131	74,260	44,431
Total net revenues	141,762	68,203	364,261	219,881
Cost of revenues:				
Product	58,703	25,206	153,112	85,059
Service	12,204	5,060	26,742	16,171
Total cost of revenues	70,907	30,266	179,854	101,230
Gross profit:				
Product	51,188	28,866	136,889	90,391
Service	19,667	9,071	47,518	28,260
Total gross profit	70,855	37,937	184,407	118,651
Operating expenses:				
Research and development	24,265	9,381	53,098	30,954
Sales and marketing	44,703	20,644	108,033	64,764
General and administrative	11,278	6,288	29,401	18,292
Acquisition and integration costs	6,443	—	18,826	—
Restructuring (credit) charge, net of reversals	(6)	1,076	499	6,242
Amortization of intangibles	7,666	—	11,444	—
Litigation settlement (income) expense	(100)	2,450	(100)	2,029
Gain on sale of facilities	—	—	—	(11,539)
Total operating expenses	94,249	39,839	221,201	110,742
Operating (loss) income	(23,394)	(1,902)	(36,794)	7,909
Interest income	156	256	603	786
Interest expense	(764)	—	(1,288)	—
Other expense, net	(146)	(165)	(1,338)	(814)
(Loss) income before income taxes	(24,148)	(1,811)	(38,817)	7,881
Provision for income taxes	910	409	2,262	1,392
Net (loss) income	$(25,058)	$(2,220)	$(41,079)	$6,489
Basic and diluted net (loss) income per share:				
Net (loss) income per share – basic	$(0.26)	$(0.02)	$(0.43)	$0.07
Net (loss) income per share – diluted	$(0.26)	$(0.02)	$(0.43)	$0.07
Shares used in per share calculation – basic	96,069	92,968	95,116	94,069
Shares used in per share calculation – diluted	96,069	92,968	95,116	95,094

See accompanying notes to condensed consolidated financial statements.

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EXTREME NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Net (loss) income:	$(25,058)	$(2,220)	$(41,079)	$6,489
Other comprehensive income, net of tax:				
Available for sale securities:				
Change in unrealized gains (losses) on available for sale securities, net of taxes	(95)	(55)	138	83
Reclassification of adjustment for realized net gains on available for sale securities included in net (loss) income	10	—	158	—
Net change in unrealized gains (losses) on available for sale securities, net of taxes	(85)	(55)	296	83
Net change in foreign currency translation adjustments	48	(150)	1,005	630
Other comprehensive income (loss)	(37)	(205)	1,301	713
Total comprehensive (loss) income	$(25,095)	$(2,425)	$(39,778)	$7,202

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	March 31, 2014	March 31, 2013
Cash flows from operating activities:		
Net (loss) income	$(41,079)	$6,489
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	7,767	3,389
Amortization of intangible assets	18,937	1,168
Provision for (recovery of) doubtful accounts	898	(556)
Stock-based compensation	9,874	5,625
Loss (gain) on disposition of long lived assets, net	922	(11,451)
Other non-cash charges	1,345	1,284
Changes in operating assets and liabilities, net		
Accounts receivable	(24,171)	(1,889)
Inventories	(13,313)	10,952
Prepaid expenses and other assets	(1,354)	1,363
Accounts payable	(5,404)	(9,101)
Accrued compensation and benefits	(1,764)	(2,526)
Restructuring liabilities	(929)	1,311
Deferred revenue	17,625	(708)
Other current and long term liabilities	29	1,653
Net cash (used in) provided by operating activities	(30,617)	7,003
Cash flows from investing activities:		
Capital expenditures	(17,384)	(4,422)
Acquisition, net of cash acquired	(180,000)	—
Purchases of investments	(9,045)	(40,113)
Proceeds from maturities of investments and marketable securities	26,722	13,867
Proceeds from sales of investments and marketable securities	56,594	12,478
Purchases of intangible assets	—	(335)
Proceeds from sales of facilities	—	42,659
Net cash (used in) provided by investing activities	(123,113)	24,134
Cash flows from financing activities:		
Borrowings under Revolving Facility	59,000	—
Borrowings under Term Loan	65,000	—
Repayment of Term Loan	(1,625)	—
Proceeds from issuance of common stock	6,296	2,539
Repurchase of common stock	—	(10,973)
Net cash provided by (used in) financing activities	128,671	(8,434)
Foreign currency effect on cash	611	293
Net (decrease) increase in cash and cash equivalents	(24,448)	22,996
Cash and cash equivalents at beginning of period	95,803	54,596

Cash and cash equivalents at end of period	$71,355	$77,592

See accompanying notes to the condensed consolidated financial statements.

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EXTREME NETWORKS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The unaudited condensed consolidated financial statements of Extreme Networks, Inc. (referred to as the “Company” or “Extreme Networks”) included herein have been prepared under the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted under such rules and regulations. The condensed consolidated balance sheet at June 30, 2013 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, 2013.

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 Networks at March 31, 2014. The results of operations for the three and nine months ended March 31, 2014 are not necessarily indicative of the results that may be expected for fiscal 2014 or any future periods.

On October 31, 2013, the Company completed the acquisition of Enterasys Networks, Inc., a Delaware corporation ("Enterasys"), whereby Enterasys became a wholly-owned subsidiary of the Company (see Note 2: Summary of Significant Accounting Policies - Business Combinations" and Note 4: "Business Combinations" for further discussion). The results of operations of Enterasys are included in the consolidated results of operations beginning October 31, 2013.

2. Summary of Significant Accounting Policies

Revenue Recognition

The Company's revenue is primarily derived from the sale of networking products, which are tangible products containing software and non-software components that function together to deliver the tangible product's essential functionality. In addition to tangible products, the Company's sales arrangements may include other deliverables such as standalone software licenses, or service offerings. For multiple deliverable arrangements, the Company recognizes revenue in accordance with the accounting standard for multiple deliverable revenue arrangements, which provides guidance on whether multiple deliverables exist, how deliverables in an arrangement should be separated, and how consideration should be allocated. Software revenue recognition guidance is applied to the sales of the Company's standalone software products, including software upgrades and software that is not essential to the functionality of the hardware with which it is sold.

Pursuant to the guidance of the accounting standard for multiple deliverable revenue arrangements, when the Company's sales arrangements contain multiple elements, such as products, software licenses, maintenance agreements, or professional services, the Company determines the standalone selling price for each element based on a selling price hierarchy. The application of the multiple deliverable revenue accounting standard does not change the units of accounting for the Company's multiple element arrangements. Under the selling price hierarchy, the selling price for each deliverable is based on the Company's vendor-specific objective evidence (“VSOE”), which is determined by a substantial majority of the Company's historical standalone sales transactions for a product or service falling within a narrow range. If VSOE is not available due to a lack of standalone sales transactions or lack of pricing within a narrow range, then third party evidence (“TPE”), as determined by the standalone pricing of competitive vendor products in similar markets, is used, if available. TPE typically is difficult to establish due to the proprietary differences of competitive products and difficulty in obtaining reliable competitive standalone pricing information. When neither VSOE nor TPE is available, the Company determines its best estimate of standalone selling price (“ESP”) for a product or service and does so by considering several factors including, but not limited to, the 12-month historical median sales price, sales channel, geography, gross margin objective, competitive product pricing, and product life cycle. In consideration of all relevant pricing factors, the Company applies management judgment to determine the Company's best estimate of selling price through consultation with and formal approval by the Company's management for all products and services for which neither VSOE nor TPE is available. Generally, the standalone selling price of services is determined using VSOE and the standalone selling price of other deliverables is determined by using ESP. The Company regularly reviews VSOE, TPE and ESP for all of its products and services and maintains internal controls over the establishment and updates of these estimates.

In accordance with the software revenue recognition accounting standard, the Company continues to recognize revenue for software using the residual method for its sale of standalone software products and other software that is not essential to the functionality of the hardware with which it is sold. After allocation of the relative selling price to each element of the arrangement, the Company recognizes revenue in accordance with the Company's policies for product, software, and service revenue recognition.

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Business Combinations

The Company applies the acquisition method of accounting for business combinations, including its acquisition of Enterasys Networks, Inc. on October 31, 2013. Under this method of accounting, all assets acquired and liabilities assumed are recorded at their respective fair values at the date of the completion of the transaction. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, intangibles and other asset lives, among other items. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Market participants are assumed to be buyers and sellers in the principal (most advantageous) market for the asset or liability. Additionally, fair value measurements for an asset assume the highest and best use of that asset by market participants. As a result, the Company may have been required to value the acquired assets at fair value measures that do not reflect its intended use of those assets. Use of different estimates and judgments could yield different results. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Although the Company believes the assumptions and estimates it has made are reasonable and appropriate, they are based in part on historical experience and information that may be obtained from the management of the acquired company and are inherently uncertain. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations.

Goodwill

Goodwill is assessed for impairment annually or more frequently when an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value. Goodwill is tested for impairment at the reporting unit level at the beginning of fourth quarter of the fiscal year and at least annually thereafter. To test goodwill for impairment, the Company first performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, the Company will then perform the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Under the two-step goodwill impairment test, the Company would, in the first step, compare the estimated fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value, no impairment loss would be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount, if any, of the impairment is then measured in the second step in which the Company determines the implied value of goodwill based on the allocation of the estimated fair value determined in the initial step to all assets and liabilities of the reporting unit.

Long-Lived Assets

Long-lived assets include property and equipment, and service inventory. Property and equipment assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or asset groups may not be recoverable. If such facts and circumstances exist, the Company assesses the recoverability of these assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets or asset groups. The Company reduces the carrying value of service inventory to net realizable value based on excess and obsolete inventories which are primarily determined by age of inventory and future demand forecasts.

Intangible Assets

Intangibles assets are reviewed for impairment annually or more frequently when an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below its carrying value. License agreements are presented at cost, net of accumulated amortization and are amortized over their estimated useful life. The in-process research and development efforts are monitored regularly for completion and once they are completed, the Company will determine whether the asset will continue to be an indefinite-lived asset or it has become a finite lived asset and apply the appropriate accounting accordingly. The Company determines that its in-process research and development project is complete when all material research and development costs have been incurred and no significant risks remain. The Company reviews the carrying value of indefinite-lived intangible assets for impairment at least annually during the last quarter of the fiscal year, or more frequently if it believes indicators of impairment exist.

3. Recently Issued Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-11, Income Taxes (Topic 740)-Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). This ASU provides guidance regarding the presentation in the statement of financial position of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryforward exists. The ASU generally provides that an entity's unrecognized tax benefit, or a portion of its unrecognized tax benefit, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. The Company intends to adopt this standard prospectively in the first quarter of its fiscal year ending June 30, 2015. The Company does not believe this updated standard will have a material impact on its consolidated financial statements.

4. Business combinations

On October 31, 2013 (the "Acquisition Date"), the Company completed the acquisition of Enterasys, a privately held provider of wired and wireless network infrastructure and security solutions, for $180.0 million, net of cash acquired. The purchase price consideration was finalized in the quarter ended March 31, 2014. The Company also assumed outstanding options and restricted stock units of Enterasys at the Acquisition Date, all of which were unvested.

The acquisition has been accounted for using the acquisition method of accounting. The purchase price has been allocated on a preliminary basis to tangible and intangible assets acquired and liabilities assumed. The final purchase price allocation is pending the finalization of valuations, which may result in an adjustment to the preliminary purchase price allocation. Also, additional information which existed as of the acquisition date but was unknown to the Company at that time, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date, and may result in a change in the purchase price allocation. While management believes that its preliminary estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired and liabilities assumed, and the resulting amount of goodwill.

The Company is in the process of finalizing the purchase price allocation and may make adjustments to the allocation during the period up to the date the allocation is finalized ("measurement period"). The following table below summarizes the preliminary allocation of the tangible and identifiable intangible assets acquired and liabilities assumed as of October 31, 2013, as well as the adjustments made in the quarter ended March 31, 2014 (in thousands):

	Preliminary Allocation as of December 31, 2013	Change during three months ended March 31, 2014		Preliminary Allocation as of March 31, 2014
Cash	$4,969	$2,428	a	$7,397
Receivables	25,699	(2,428	) a	23,271
Inventory	33,662	—		33,662
Other current assets	8,888	—		8,888
Property and equipment	23,122	(1,829	) b	21,293
Identifiable intangible assets	108,900	—	c	108,900
In-process research and development	3,000	—		3,000
Deferred tax assets	9	—		9

Other assets	7,343	—		7,343
Goodwill	57,922	6,615		64,537
Current liabilities	(75,394)	(1,315)	b,d,e	(76,709)
Other long-term liabilities	(13,151)	(1,043)	b	(14,194)
Total purchase price allocation	$184,969	$2,428		$187,397
Less: Cash acquired from acquisition	(4,969)	(2,428)	a	(7,397)
Total purchase price consideration, net of cash acquired	$180,000	$—		$180,000

a.The Company finalized the working capital adjustment during the three months ended March 31, 2014, which led to a decrease of $2.4 million in receivables and a corresponding increase in cash. As a result of this adjustment, the

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EXTREME NETWORKS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

total cash acquired from the acquisition also increased by the same amount. The net effect of this adjustment is an increase in goodwill of $2.4 million.
b.The Company updated its preliminary estimate of the fair value of property and equipment which led to a decrease of $3.0 million in property and equipment with a corresponding increase in goodwill. The Company also updated the fair values of the asset retirement obligations and the related asset retirement assets which led to an increase in the fair value of property and equipment of $1.2 million and a corresponding increase in current liabilities and other long-term liabilities of $0.2 million and $1.0 million, respectively. The decrease in depreciation expense due to the change in fair value of property and equipment was immaterial for the quarter ended December 31, 2013.
c.During the three months ended March 31, 2014, there were no changes to the fair value of the identifiable intangible assets acquired. However, the Company revised the estimated useful life of Order backlog from 1.5 years to 1 year, which would have increased the amortization expense for the three months ended December 31, 2013 by $0.8 million to a total of $4.6 million amortization expense upon retrospective adjustment for such change in estimate.
d.The Company obtained new information regarding accruals for litigation and statutory tax assessment as of the acquisition date which led to an increase in the fair value of current liabilities of $0.7 million and a corresponding increase in goodwill.
e.The Company obtained new information regarding the existence of accrued liabilities as of the acquisition date which led to an increase in the fair value of accrued liabilities by $0.5 million with a corresponding increase in goodwill. The change in the fair value measurement for such accrued liabilities would have decreased operating expenses for three months ended December 31, 2013 by $0.5 million.
The measurement period adjustments above would have increased the reported net loss for the three month ended and six months ended December 31, 2013 by $0.4 million to $16.4 million. The Company does not believe that the measurement period adjustments have a significant impact on the condensed consolidated statement of operations, balance sheet or cash flows in any period and, therefore, we have not retrospectively adjusted our financial statements.

The purchase price has been allocated based on the preliminary estimates of the fair value of assets acquired and liabilities assumed as of the acquisition date. The Company also continues to analyze accounts receivables, inventory, other assets, current and long term liabilities and the tax implications of the acquisition of Enterasys which may ultimately impact the overall level of goodwill associated with the acquisition.
The following table presents details of the preliminary identifiable intangible assets acquired as part of the acquisition (in thousands):

Intangible Assets	Estimated Useful Life (in years)	Amount
Developed technology	3	$45,000
Customer relationships	3	37,000
Maintenance contracts	5	17,000
Trademarks	3	2,500
Order backlog	1	7,400
Total identifiable intangible assets	3	$108,900

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

The Company also has an indefinite-lived asset of $3.0 million which represents the fair value of in-process research and development activities. The Company expects to complete such research and development efforts in the fourth quarter of fiscal 2014. Once the related research and development efforts are completed, the Company will determine whether the asset will continue to be an indefinite lived asset or it has become a finite lived asset and apply the appropriate accounting accordingly.

The results of operations of Enterasys are included in the consolidated results of operations beginning October 31, 2013. For the nine months ended March 31, 2014, $148.3 million of revenue and $27.5 million of operating income from Enterasys are included in the condensed consolidated statement of operations. The Company incurred $5.9 million of acquisition-related expenses for the nine months ended March 31, 2014. Such acquisition-related costs are included in

"Acquisition-integration expenses" on the condensed consolidated statement of operations. The costs, which the Company expensed as incurred, consist primarily of professional fees payable to financial and legal advisors.

Pro forma financial information

The following unaudited pro forma results of operations are presented as though the acquisition of Enterasys had occurred as of the beginning of the earliest period presented after giving effect to purchase accounting adjustments relating to inventories, deferred revenue, stock-based compensation for the options and restricted stock units assumed, depreciation and amortization on acquired property and equipment and intangibles, interest income and expense and related tax effects. The pro forma results of operations do not reflect the impact of non-recurring charges that have resulted from or in connection with the acquisition including acquisition and integration expenses incurred in connection with the acquisition. The pro forma results of operations are not necessarily indicative of the combined results that would have occurred had the acquisition been consummated as of the earliest period presented, nor are they necessarily indicative of future operating results.

The unaudited pro forma financial information for the nine months ended March 31, 2014 combines the results for Extreme for the nine months ended March 31, 2014, which include the results of Enterasys subsequent to the acquisition date, and the historical results for Enterasys for the three months ended September 30, 2013 and the month ended October 31, 2013. The unaudited pro forma financial information for the three and nine months ended March 31, 2013 combines the historical results for Extreme for those periods, with the historical results for Enterasys for the three and nine months ended March 31, 2013. The following table summarizes the pro forma financial information (in thousands, except per share amounts):

	Three Months Ended	Nine Months Ended	
	March 31, 2013	March 31, 2014	March 31, 2013
Net revenues	$137,936	$463,600	$465,535
Net loss	$(21,166)	$(63,410)	$(35,999)
Net loss per share – basic and diluted	$(0.23)	$(0.66)	$(0.38)

5. Balance Sheet Accounts

Cash, Cash Equivalents, Short-Term Investments and Marketable Securities

Summary of Cash and Available-for-Sale Securities (in thousands)

	March 31, 2014	June 30, 2013
Cash	$70,668	$41,518
Cash equivalents	$687	$54,285
Short-term investments	34,700	43,034
Marketable securities	—	66,776
Total available-for-sale	$35,387	$164,095

Total cash, cash equivalents and available for sale securities	$106,055	$205,613

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Available-for-Sale Securities

The following is a summary of available-for-sale securities (in thousands):

	Amortized Cost	Fair Value	Unrealized Holding Gains	Unrealized Holding Losses
March 31, 2014				
Money market funds	$687	$687	$—	$—
U.S. corporate debt securities	34,579	34,700	121	—
	$35,266	$35,387	$121	$—
Classified as:				
Cash equivalents	$687	$687	$—	$—
Short-term investments	34,579	34,700	121	—
	$35,266	$35,387	$121	$—
June 30, 2013				
Money market funds	$54,285	$54,285	$—	$—
U.S. corporate debt securities	110,078	109,810	126	(394)
	$164,363	$164,095	$126	$(394)
Classified as:				
Cash equivalents	$54,285	$54,285	$—	$—
Short-term investments	42,994	43,034	44	(4)
Marketable securities	67,084	66,776	82	(390)
	$164,363	$164,095	$126	$(394)

The amortized cost and estimated fair value of available-for-sale investments in debt securities at March 31, 2014, by contractual maturity, were as follows (in thousands):

	Amortized Cost	Fair Value
Due in 1 year or less	$24,697	$24,803
Due in 1-2 years	7,553	7,568
Due in 2-5 years	3,016	3,016
Total investments in available for sale debt securities	$35,266	$35,387

The Company considers highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Investments with original maturities of greater than three months, but less than one year at the balance sheet date are classified as Short Term Investments. Investments with maturities of greater than one year at balance sheet date which the Company intends to hold for longer than one year are classified as Marketable Securities. Except for direct obligations of the United States government, securities issued by agencies of the United States government, and money market funds, the Company diversifies its investments by limiting its holdings with any individual issuer.

Investments include available-for-sale investment-grade debt securities that the Company carries at fair value. The Company accumulates unrealized gains and losses on the Company's available-for-sale debt securities, net of tax, in accumulated other comprehensive income (loss) in the stockholders' equity section of its balance sheets. Such an unrealized gain or loss does not reduce net income for the applicable accounting period. If the fair value of an available-for-sale debt instrument is less than its amortized cost basis, an other-than-temporary impairment is triggered in circumstances where (1) the Company intends to sell the instrument, (2) it is more likely than not that the

Company will be required to sell the instrument before recovery of its amortized cost basis, or (3) the Company does not expect to recover the entire amortized cost basis of the instrument (that is, a credit loss exists). If the Company intends to sell or it is more likely than not that the Company will be required to sell the available-for-sale debt instrument before recovery of its amortized cost basis, the Company recognizes an other-than-temporary impairment in earnings equal to the entire difference between the debt instruments' amortized cost basis and its fair value. For available-for-sale debt instruments that are considered other-than-temporarily impaired due to the existence of a credit loss, if the Company does not intend to sell and it is not more likely than not that the Company will be required to sell the instrument before recovery of its remaining amortized cost basis (amortized cost basis less any current-period credit loss), the Company separates the amount of the impairment into the amount that is credit related and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the debt instrument's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the debt instrument's fair value and the present value of future expected cash flows is due to factors that are not credit related and is recognized in other comprehensive income.

The Company determines the basis of the cost of a security sold or the amount reclassified out of accumulated other comprehensive income (loss) into earnings using the specific identification method. As of March 31, 2014, five out of twenty investment securities had unrealized losses. For investments that were in an unrealized loss position as of March 31, 2014, the Company recorded an other-than-temporary impairment loss of $10,000 during the three months ended March 31, 2014 as the Company intends to sell such securities. The Company had previously recorded an other-than-temporary impairment loss of $148,000 during the six months ended December 31, 2013, accordingly the total impairments recorded during the nine months ended March 31, 2014 is $158,000 as compared to none for the nine months ended March 31, 2013.

Long-Lived Assets

On September 11, 2012, the Company completed the sale of its corporate campus and accompanying 16 acres of land in Santa Clara, California for net cash proceeds of approximately $44.7 million and realized a gain of approximately $11.5 million.

Goodwill and Intangibles

As part of the acquisition of Enterasys, the Company acquired $64.5 million in goodwill which has been allocated to the Company's only reportable segment, the development and marketing of network infrastructure equipment.

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

	Total
Balance as of September 30, 2013	$—
Addition due to acquisition of Enterasys (Note 4)	57,922
Balance as of December 31, 2013	$57,922
Purchase price allocation adjustments	6,615
Balance as of March 31, 2014	$64,537

The following tables present details of the Company’s intangible assets (in thousands):

March 31, 2014	Weighted average remaining amortization period	Gross	Accumulated amortization	Net
Intangible assets with finite lives:				
Developed technology	2.4 years	$45,000	$6,736	$38,264
Customer relationships	2.6 years	37,000	5,139	31,861
Maintenance contracts	4.6 years	17,000	1,417	15,583
Trademarks	2.6 years	2,500	347	2,153
Order backlog	1.0 year	7,400	4,542	2,858
License agreements	10.9 years	10,447	7,971	2,476
Other intangibles	5.2 years	2,459	1,449	1,010

Total intangible assets with finite lives	121,806	27,601	94,205
In-process research and development, with indefinite life	3,000	—	3,000
Total	$124,806	$27,601	$97,205

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EXTREME NETWORKS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2013	Weighted average remaining amortization period	Gross	Accumulated amortization	Net
Intangible assets with finite lives:				
License agreements	10.3 years	10,447	7,407	3,040
Other intangibles	5.8 years	2,459	1,256	1,203
Total intangible assets with finite lives		12,906	8,663	4,243

Amortization expense was $11.9 million and $18.9 million respectively, for the three and nine months ended March 31, 2014. Amortization expense was $0.4 million and $1.2 million respectively, for the three and nine months ended March 31, 2013. Of the total amount recognized, $4.4 million and $7.3 million for the three and nine months ended March 31, 2014 and $0.3 million and $1.0 million respectively for the three and nine months ended March 31, 2013, is included in "Cost of revenues for products" on the condensed consolidated statements of operations, while the remainder of the amortization expense is included in "Amortization of intangibles" on the condensed consolidated statement of operations. The amortization expense for developed technology, patents, license agreements and other intangibles is recognized in "Cost of revenues for products" on the condensed consolidated statement of operations. The estimated future amortization expense for finite lived intangibles to be recorded for each of the next five years is as follows (in thousands):

Fiscal year	Amount
2014 (remaining 3 months)	$9,540
2015	34,648
2016	31,286
2017	12,379
2018	3,682
2019	1,415
Thereafter	1,255
Total	$94,205

Deferred Revenue, Net

Deferred revenue, net represents amounts for (i) deferred services revenue (support arrangements, professional services and training), and (ii) deferred product revenue net of the related cost of revenue when the revenue recognition criteria have not been met. The following table summarizes deferred revenue, net at March 31, 2014 and June 30, 2013, respectively (in thousands):

	March 31, 2014	June 30, 2013
Deferred services	$84,206	$38,003
Deferred product and other revenue	6,644	3,451
Total deferred revenue	90,850	41,454
Less: current portion	71,183	33,184
Non-current deferred revenue, net	$19,667	$8,270

The Company offers for sale to its customers, renewable support arrangements, including extended warranty contracts that range from one to five years. Deferred support revenue is included within deferred revenue, net within the services category above. The change in the Company's deferred support revenue balance in relation to these arrangements was as follows (in thousands):

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	Three Months Ended		Nine Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Balance beginning of period	$81,485	$35,797	$38,003	$37,461
Assumed from acquisition	—	—	35,879	—
New support arrangements	30,986	14,431	77,475	41,745
Recognition of support revenue	(28,265)	(13,420)	(67,151)	(42,398)
Balance end of period	84,206	36,808	84,206	36,808
Less: current portion	64,539	28,801	64,539	28,801
Non-current deferred revenue	$19,667	$8,007	$19,667	$8,007

Deferred Distributors Revenue, Net of Cost of Sales to Distributors
The Company records revenue from its distributors on a sell-through basis, recording deferred revenue and deferred cost of sales associated with all sales transactions to its distributors in “Deferred distributors revenue, net of cost of sales to distributors” in the liability section of its condensed consolidated balance sheet. When the Company ships products to its distributors, legal title to the products passes to its distributors, and a legally enforceable obligation is created for the distributors to pay on a current basis. Therefore, the Company records a trade receivable at the contractual discount to the list selling price and relieves inventory for the cost of goods shipped to the distributor.
The amount shown as “Deferred distributors revenue, net of cost of sales to distributors” represents the deferred gross margin on sales to distributors based on contractual pricing. Distributors purchase products from the Company at a contractual discount based on geographic region and resell the Company's products at a very broad range of individually negotiated price points depending on competitive factors and other market conditions. A portion of the deferred revenue balance represents an amount of the distributors' original purchase price that will be remitted back to the distributors after resale transactions are reported to the Company. Therefore, the amount of gross margin the Company will recognize in future periods from distributor sales will be less than the deferred amount recorded for the original sale to the distributor as a result of the price concessions negotiated at the time of sell-through. The wide range and variability of negotiated price credits granted to distributors do not allow the Company to accurately estimate the portion of the balance in the deferred revenue that will be credited to the distributors in the future. Therefore, the Company does not reduce deferred revenue by anticipated future price credits; instead, price credits are recorded against revenue and accounts receivable when incurred, which is generally at the time the distributor sells the product.
The following table summarizes deferred distributors revenue, net of cost of sales to distributors at March 31, 2014 and June 30, 2013, respectively (in thousands):

	March 31, 2014	June 30, 2013
Deferred distributors revenue	$31,070	$22,411
Deferred cost of sales to distributors	(6,853)	(5,023)
Deferred distributors revenue, net of cost of sales to distributors	$24,217	$17,388

Debt

The Company's debt is comprised of the following:

	March 31, 2014
Current portion of long-term debt:	
Term Loan	4,875
Revolving Facility	24,000
Current portion of long-term debt	28,875
Long-term debt, less current portion:	
Term Loan	58,500
Revolving Facility	35,000
Total long-term debt, less current portion	93,500
Total debt	122,375

On October 31, 2013, the Company entered into a Credit Agreement (the “Credit Agreement”) which provides for a $60 million five-year revolving credit facility (the “Revolving Facility”) and a $65 million five-year term loan (the “Term Loan”) and together with the Revolving Facility (the “Senior Secured Credit Facilities”). The proceeds from the Term Loan were used to pay a portion of the purchase price in the acquisition of all of the issued and outstanding capital stock of Enterasys. The company also drew $35 million of the Revolving Facility to pay a portion of the purchase price and subsequently drew $24 million in the third quarter of fiscal 2014 to fund working capital requirements. Such additional draw of $24 million was repaid as of the filing date of this Form 10-Q.

Borrowings under the Senior Secured Credit Facilities bear interest, at the Company's election, at a rate per annum equal to an agreed to applicable margin plus (a) the higher of (x) the prime rate in effect on such day or (y) the federal funds effective rate in effect on such day plus 0.50%, or (b) an adjusted Libor rate. In addition, the Company is required to pay a commitment fee of between 0.375% and 0.50% quarterly (currently 0.50%) on the unused portion of the Revolving Facility, also based on the Company’s Consolidated Leverage Ratio. Principal installments are payable on the Term Loan in varying percentages quarterly starting December 31, 2013 and to the extent not previously paid, all outstanding balance to be paid at maturity. If not repaid before maturity, the draws on the Revolving Facility shall be repaid on the maturity date. The Senior Secured Credit Facilities are secured by substantially all of the Company’s assets and are jointly and severally guaranteed by the Company and certain of its subsidiaries.

The Credit Agreement contains financial covenants that require the Company to maintain a minimum Consolidated Fixed Charge Coverage Ratio and a Consolidated Quick Ratio and a maximum Consolidated Leverage Ratio as well as several other covenants and restrictions that limit 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, etc. These covenants, which are described more fully in the Credit Agreement, to which reference is made for a complete statement of the covenants, are subject to certain exceptions. The Company currently is in compliance with its covenants.

The Credit Agreement also includes customary events of default, including failure to pay principal, interest or fees when due, failure to comply with covenants, if any representation or warranty made by the Company is false or misleading in any material respect, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, the occurrence of certain ERISA events, the invalidity of the loan documents or a change in control of the Company. The amounts outstanding under the Senior Secured Credit Facilities may be accelerated upon certain events of default.

Guarantees and Product Warranties

Upon issuance of a standard product warranty, the Company discloses and recognizes a liability for the obligation it assumes under the warranty. The following table summarizes the activity related to the Company’s product warranty liability during the three and nine months ended March 31, 2014 and 2013:

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EXTREME NETWORKS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Three Months Ended		Nine Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Balance beginning of period	$7,479	$2,971	$3,296	$2,871
Assumed from acquisition	—	—	3,732	—
New warranties issued	1,824	1,257	4,782	4,761
Warranty expenditures	(1,478)	(1,332)	(3,985)	(4,736)
Balance end of period	$7,825	$2,896	$7,825	$2,896

The Company's standard hardware warranty period is typically 12 months from the date of shipment to end-users and 90 days for software. For certain access products, the Company offers a limited lifetime hardware warranty commencing on the date of shipment from the Company and ending five (5) years following the Company's announcement of the end of sale of such product. Upon shipment of products to its customers, the Company estimates expenses for the cost to repair or replace products that may be returned under warranty and accrues a liability in cost of product revenue for this amount. The determination of the Company's warranty requirements is based on actual historical experience with the product or product family, estimates of repair and replacement costs and any product warranty problems that are identified after shipment. The Company estimates and adjusts these accruals at each balance sheet date in accordance with changes in these factors.
In the normal course of business to facilitate sales of its products, the Company indemnifies its resellers and end-user customers with respect to certain matters. The Company has agreed to hold the customer harmless against losses arising from a breach of intellectual property infringement or other claims made against certain parties. 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 principally of marketable investments and accounts receivable. The Company has placed its investments with high-credit quality issuers. The Company does not invest an amount exceeding 10% of its combined cash, cash equivalents, short-term investments and marketable securities in the securities of any one obligor or maker, except for obligations of the United States government, obligations of United States government agencies and money market accounts.
The following table sets forth major customers accounting for 10% or more of our net revenue:

	Three Months Ended		Nine Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Tech Data	16%	11%	12%	*
Westcon Group Inc.	14%	19%	13%	10%
Scansource, Inc.	*	10%	*	*

* Less than 10% of revenue

6. Fair Value Measurements

The following table presents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis:

March 31, 2014	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Investments:				
Money market funds	$687	$—	$—	$687
Corporate notes/bonds	—	34,700	—	34,700
Foreign currency forward contracts	—	7	—	7
Total	$687	$34,707	$—	$35,394

June 30, 2013	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Investments:				
Money market funds	$54,285	$—	$—	$54,285
Corporate notes/bonds	—	109,810	—	109,810
Foreign currency forward contracts	—	21	—	21
Total	$54,285	$109,831	$—	$164,116

Level 2 investment valuations are based on inputs such as quoted market prices of similar instruments, dealer quotations or valuations provided by alternative pricing sources supported by observable inputs. These generally include U.S. government and sovereign obligations, most government agency securities, investment-grade corporate bonds, and state, municipal and provincial obligations. There were no transfers of assets or liabilities between Level 1 and Level 2 during the three and nine months ended March 31, 2014. There were no liabilities as of March 31, 2014 that were being measured using fair value on a recurring basis.

7. Share-based Compensation

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, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Cost of product revenue	$268	$118	$568	$413
Cost of service revenue	420	61	623	304
Research and development	1,419	268	2,559	988
Sales and marketing	1,765	756	3,614	2,051
General and administrative	970	638	2,510	1,869
Total share-based compensation expense	$4,842	$1,841	$9,874	$5,625

During the three and nine months ended March 31, 2014 and 2013, the Company did not capitalize any stock-based compensation expense in inventory, as the amounts were immaterial. The income tax benefit for share-based compensation expense was immaterial in the three and nine months ended March 31, 2014 and 2013.

The weighted-average grant-date per share fair value of options granted during the three months ended March 31, 2014 and 2013 was $2.71 and $1.72, respectively. The weighted-average estimated per share fair value of shares purchased under the Company's 1999 Employee Stock Purchase Plan ("ESPP") during the three months ended March 31, 2014 and 2013 was $1.62 and $0.86, respectively.
The weighted-average grant-date per share fair value of options granted during the nine months ended March 31, 2014 and 2013 was $2.39 and $2.71, respectively. The weighted-average estimated per share fair value of shares purchased under the ESPP during the nine months ended March 31, 2014 and 2013 was $1.44 and $0.88, respectively.

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The following table summarizes stock option activity under all plans for the nine months ended March 31, 2014:

	Number of Shares (000's)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000's)
Options outstanding at June 30, 2013	9,145	$3.66		
Granted	6,097	$5.22		
Exercised	(1,676)	$3.60		$1,036
Cancelled	(1,323)	$4.92		
Options outstanding at March 31, 2014	12,243	$4.31	5.50	$18,367
Exercisable at March 31, 2014	3,926	$3.78	3.80	$8,040
Vested and expected to vest at March 31, 2014	11,247	$4.28	5.42	$17,301

Included in the options granted above are 4.2 million options, assumed in connection with the acquisition of Enterasys on October 31, 2013, with an exercise price of $5.30.

Stock Awards

Stock awards may be granted under the 2013 Plan on terms approved by the Board of Directors. Stock awards generally provide for the issuance of restricted stock which vests over a fixed period.

The following table summarizes stock award activity for the nine months ended March 31, 2014:

	Number of Shares (000's)	Weighted-Average Grant-Date Fair Value	Aggregate Fair Market Value ($000's)
Non-vested stock outstanding at June 30, 2013	2,686	$3.09	
Granted	5,037	$5.56	
Vested	852	$3.51	$4,982
Cancelled	515	$2.62	
Non-vested stock outstanding at March 31, 2014	9,090	$4.47	

Included in the restricted stock units granted above are 2.7 million restricted stock units assumed in connection with the acquisition of Enterasys on October 31, 2013, with an acquisition-date fair value of $5.30.

Excluding the options assumed as part of the Enterasys acquisition, the fair value of each option award and share purchase option under the Company's 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 Company uses the Monte-Carlo simulation model to determine the fair value and the derived service period of performance-based option awards, with market conditions, on the date of the grant. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The expected term of ESPP represents the contractual life of the ESPP purchase period. The risk-free rate based upon the estimated life of the option and ESPP is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on both the implied volatilities from traded options on the Company's stock and historical volatility on the Company's stock.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Stock Option Plan		Employee Stock Purchase Plan		Stock Option Plan		Employee Stock Purchase Plan	
	Three Months Ended		Three Months Ended		Nine Months Ended		Nine Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Expected life	5 years	4 years	0.25 years	0.25 years	4 years	5 years	0.25 years	0.25 years
Risk-free interest rate	1.41 %	0.72 %	0.09 %	0.10 %	1.23 %	0.71 %	0.10 %	0.07 %
Volatility	57 %	62 %	57 %	42 %	56 %	60 %	51 %	53 %
Dividend yield	— %	— %	— %	— %	— %	— %	— %	— %

The Company is required to estimate the expected forfeiture rate and only recognize expense on a straight-line method for those shares expected to vest.

8. Common Stock Repurchases

On September 28, 2012, the Company's Board of Directors approved a share repurchase program for a maximum of $75 million which may be purchased over a three year period in the open market or in privately negotiated transactions. Since the inception of the program, 4.1 million shares have been repurchased for a total purchase price of $14.5 million and $60.5 million of the authorized amount is remaining. All repurchased shares will be retired and included in the Company's authorized but unissued shares. During the three and nine months ended March 31, 2014, the Company did not repurchase any shares of common stock.

9. Commitments and Contingencies

Purchase Commitments

The Company currently has arrangements with contract manufacturers and suppliers for the manufacture of its products. The arrangements allow them to procure long lead-time component inventory based upon a rolling production forecast provided by the Company. The Company is obligated to the purchase of 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, 2014, the Company had non-cancelable commitments to purchase approximately $52.5 million of such 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 and securities litigation in particular, can be expensive and disruptive to normal business operations. Moreover, the results of legal proceedings are difficult to predict.

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

Company may not be able to estimate a range of possible loss, particularly where (i) the damages sought are substantial or indeterminate, (ii) the proceedings are in the early stages, or (iii) the matters involve novel or unsettled legal theories or a large number of parties. In such cases, there is considerable uncertainty regarding the ultimate resolution of such matters, including the amount of any possible loss, fine or penalty. Accordingly, for current proceedings, the Company is currently unable to estimate any reasonably possible loss or range of possible loss. However, an adverse resolution of one or more of such matters could have a material adverse effect on the Company's results of operations in a particular quarter or fiscal year.

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Intellectual Property Litigation

Relay IP Inc.

On May 3, 2013, Relay IP, Inc. filed suit against the Company in the United States District Court for the District of Delaware, Civil Action case number 13-775 (Extreme Case). Further on May 6, 2013 they also filed a similar suit against Enterasys in the same court, Civil Action case number 13-774.The complaint alleges infringement based on the Company's testing of its own equipment and inducing its customers to infringe U.S. Patent No. 5,331,637 and seeks unspecified monetary damages. An answer was filed on both cases in July, 2013. The suit is one of approximately 40 nearly simultaneous suits filed by Relay IP against numerous networking equipment manufacturers, suppliers, operators, and users including Cisco Systems, Hewlett-Packard, Juniper Networks, Avaya, Extreme and Enterasys. The Company denies the claims and intends to vigorously defend itself in both cases.

ReefEdge

On September 17, 2012, ReefEdge filed suit against Enterasys in the United States District Court for the District of Delaware alleging certain of the company's products (wireless controllers and wireless access points), infringe three ReefEdge U.S. patents (6633761, 6975864, 7197308). ReefEdge, a non-practicing entity, sought injunctive relief as well as monetary damages, costs, expenses and attorney fees, although there was no quantified amount sought. Extreme assumed this litigation as part of the acquisition of Enterasys. As of the date of this filing, the parties reached a settlement which required the Company to pay an immaterial amount.

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 Delaware and California 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 these matters. It is not possible to estimate the maximum potential amount under these indemnification agreements due to the limited history of these claims. The cost to defend the Company and the named individuals could have a material adverse effect on its consolidated financial position, results of operations and cash flows in the future. Recovery of such costs under its directors and officers insurance coverage is uncertain. As of March 31, 2014, the Company had no outstanding indemnification claims.

10. Income Taxes

For the three and nine months ended March 31, 2014, the Company recorded an income tax provision of $0.9 million and $2.3 million, respectively. For the three and nine months ended March 31, 2013, the Company recorded an income tax provision of $0.4 million and 1.4 million, respectively.

The income tax provisions for the three and nine months ended March 31, 2014 and 2013 consisted primarily of taxes on the income of our foreign subsidiaries as well as .U.S. state income taxes. The income tax provision for the three and nine months ended March 31, 2014 also includes an expense related to a deferred tax liability for the amortization of goodwill recorded as a result of the acquisition of Enterasys. The income tax provisions for both fiscal years were calculated based on the actual results of operations for the three and nine months ended March 31, 2014 and 2013, and therefore do not reflect the annual effective tax rate.

The Company has provided a full valuation allowance against all of its U.S. federal and state deferred tax assets as well as substantially all of the acquired Enterasys foreign entities' deferred tax assets. No valuation allowance has been established against the non-U.S. deferred tax assets of the legacy Extreme Networks, Inc. foreign subsidiaries. A valuation allowance is determined by assessing both negative and positive evidence to determine whether it is “more likely than not” that the deferred tax assets are recoverable; such assessment is required on a jurisdiction by jurisdiction basis. The Company's inconsistent earnings in recent periods, coupled with the Company's inability to forecast greater than one quarter in advance and the cyclical nature of its business represent sufficient negative evidence to require a full valuation allowance against its U.S. federal and state net deferred tax assets as well as the above mentioned foreign jurisdictions. This valuation allowance will be evaluated periodically and can be reversed partially or in whole if business results and the economic environment have sufficiently improved to support realization of some or all of the Company's deferred tax assets.

The acquisition of Enterasys included a U.S. parent company as well as its wholly-owned domestic and foreign subsidiaries. The Company has elected to treat this stock acquisition as an asset purchase by filing the required election forms under IRC Sec 338(h)(10). The Company has preliminarily estimated the value of the intangible assets from this transaction and is amortizing the amount over 15 years for tax purposes. During the current period, the Company deducted $1.7 million of tax amortization expense related to capitalized goodwill. As of March 31, 2014, the Company recorded a deferred tax liability of $0.6

million related to this amortization which is not considered a future source of taxable income in evaluating the need for a valuation allowance against our deferred tax assets.

The Company had $10.9 million of unrecognized tax benefits as of March 31, 2014. The future impact of the unrecognized tax benefit of $10.9 million, if recognized, is as follows: approximately $0.3 million would impact the effective tax rate, and approximately $10.6 million would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. It is reasonably possible that the amount of unrealized tax benefit could decrease by approximately $0.1 million during the next twelve months due to the expiration of the statute of limitations in certain foreign jurisdictions.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of tax expense in the Condensed Consolidated Statements of Operations and were immaterial for the three and nine months ended March 31, 2014 and 2013. Accrued interest and penalties were $0.1 million and $0.1 million as of March 31, 2014 and 2013, respectively.

In general, the Company's U.S. federal income tax returns are subject to examination by tax authorities for fiscal years 2001 forward due to net operating losses and the Company's state income tax returns are subject to examination for fiscal years 2003 forward due to net operating losses.

11. Net (Loss) Income Per Share

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

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

	Three Months Ended		Nine Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Net (loss) income	$(25,058)	$(2,220)	$(41,079)	$6,489
Weighted-average shares used in per share calculation – basic	96,069	92,968	95,116	94,069
Incremental shares using the treasury stock method:				
Stock options	—	—	—	391
Restricted stock units	—	—	—	526
Employee Stock Purchase Plan	—	—	—	108
Weighted -average share used in per share calculation – diluted	96,069	92,968	95,116	95,094
Net (loss) income per share – basic	$(0.26)	$(0.02)	(0.43)	0.07
Net (loss) income per share – diluted	$(0.26)	$(0.02)	(0.43)	0.07

Potentially dilutive common shares from employee incentive plans are determined by applying the treasury stock method to the assumed exercise of outstanding stock options, the assumed vesting of outstanding restricted stock units, and the assumed issuance of common stock under the stock purchase plan. Weighted stock options outstanding with an exercise price higher than the Company's average stock price for the periods presented are excluded from the calculation of diluted net income per share since the effect of including them would have been anti-dilutive due to the net income position of the Company during the periods presented. For the three months ended March 31, 2014 and 2013, the Company excluded 4.4 million and 7.1 million outstanding weighted average stock options and awards, respectively, from the calculation of diluted earnings per common share because they would have been anti-dilutive. For the nine months ended March 31, 2014 and 2013, the Company excluded 3.6 million and 7.2 million outstanding weighted average stock options and awards, respectively, from the calculation of diluted earnings per common share because they would have been anti-dilutive.

12. Restructuring Charges

As part of the Company's on-going restructuring efforts, during the second quarter of fiscal year 2013, the Company initiated a plan to reduce its worldwide headcount by 13%, consolidate specific global administrative functions, and shift certain operating costs to lower cost regions, among other actions. Restructuring expense was $0.0 million and $0.5 million in the three and nine months ended March 31, 2014. Restructuring expense was $1.1 million and $6.2 million in the three and nine months ended March 31, 2013.

EXTREME NETWORKS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes restructuring activities for the nine months ended March 31, 2014:

	Termination Benefits (1)	Contract Termination	Other Cost	Total
Balance at June 30, 2013	$1,217	$—	$249	$1,466
Assumed from acquisition	—	127	—	127
Period charges	110	628	82	820
Period reversals	(309)	(11)	(1)	(321)
Period payments	(949)	(275)	(331)	(1,555)
Restructuring liabilities at March 31, 2014	$69	$469	$(1)	$537

(1) Termination benefits generally include severance, outplacement services and health insurance coverage.

13. Foreign Exchange Forward Contracts
The Company uses derivative financial instruments to manage exposures to foreign currency. The Company's objective for holding derivatives is to use the most effective methods to minimize the impact of these exposures. The Company does not enter into derivatives for speculative or trading purposes. The Company records all derivatives on the balance sheet as Other Assets, Net at fair value. Changes in the fair value of derivatives are recognized in earnings as Other Income (Expense). The Company enters into foreign exchange forward contracts to mitigate the effect of gains and losses generated by the foreign currency forecasted transactions related to certain operating expenses and re-measurement of certain assets and liabilities denominated in foreign currencies. These derivatives do not qualify as hedges. At March 31, 2014, these forward foreign currency contracts had a notional principal amount of $7.2 million and an immaterial unrealized gain on foreign exchange contracts. These contracts have maturities of less than 60 days. Changes in the fair value of these foreign exchange forward contracts are offset largely by re-measurement of the underlying assets and liabilities.
Foreign currency transaction gains and losses from operations were a $0.1 million loss and a $1.2 million loss for the three and nine months ended March 31, 2014, respectively. Foreign currency transaction gains and losses from operations were a $0.1 million loss and an immaterial gain for the three and nine months ended March 31, 2013, respectively.

14. Disclosure about Segments of an Enterprise and Geographic Areas
Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers with respect to the allocation of resources and performance.
The Company operates in one segment, the development and marketing of network infrastructure equipment. The Company conducts business globally and is managed geographically. Revenue is attributed to a geographical area based on the location of the 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, and Australia.
The Company attributes revenues to geographic regions primarily based on the customer's ship-to location. Information regarding geographic areas is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
Net Revenues:	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Americas:				

United States	$59,896	$21,609	$141,576	$69,545
Other	12,082	6,414	37,816	26,959
Total Americas	71,978	28,023	179,392	96,504
EMEA	54,113	28,481	146,175	85,700
APAC	15,671	11,699	38,694	37,677
Total net revenues	$141,762	$68,203	$364,261	$219,881

Substantially all of the Company’s assets were attributable to North America operations at March 31, 2014 and June 30, 2013.

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” “expect” or “believe” . 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 Report, our Quarterly Report on Form 10-Q for the third quarter of fiscal 2014, our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, and other filings we have made with the Securities and Exchange Commission. These risk factors, include, but are not limited to: fluctuations in demand for our products and services; a highly competitive business environment for network switching equipment; our effectiveness in controlling expenses; the possibility that we might experience delays in the development or introduction of new technology and products; customer response to our new technology and products; the timing of any recovery in the global economy; risks related to pending or future litigation; a dependency on third parties for certain components and for the manufacturing of our products; and our ability to receive the anticipated benefits of the acquisition of Enterasys.

Business Overview

We are a leading provider of network infrastructure equipment and services for enterprises, data centers, and service providers. We were incorporated in California in May 1996 and reincorporated in Delaware in March 1999. The shares of Extreme Networks, Inc. (EXTR) began trading on NASDAQ on April 1999. Our corporate headquarters are located in San Jose, California. We develop and sell network infrastructure equipment to our enterprise, data center and telecommunications service provider customers.

On October 31, 2013 (the “Acquisition Date”), we completed the acquisition of Enterasys Networks, Inc. (“Enterasys”), a privately held provider of wired and wireless network infrastructure and security solutions, for $180.0 million, net of cash acquired, whereby Enterasys became our wholly-owned subsidiary. The combined entity immediately became a networking industry leader with more than 12,000 customers. As a combined Company, we believe we will set the standard for the networking industry with a strategic focus on three principles:

Highly scaled and differentiated products and solutions: Our combined product portfolio spans data center networking, switching and routing, Software-Defined Networking (SDN), wired and wireless LAN access, network management and security. This broader solutions portfolio can be leveraged to better serve existing and new customers. We will continue to enhance and support the product roadmaps of both companies going forward to protect the investments of customers and avoid any disruption to their businesses. We intend to significantly increase research and development to accelerate our vision for high-performance, modular, open networking.

Leading customer service and support: We are working to augment our current outsourced support model by integrating Enterasys' in-sourced expertise, building on Enterasys' award-winning heritage and strong commitment to exceptional customer experience. As a result, our expanded global network of channel partners and distributors will benefit from expanded services and support capabilities.

Strong Channels and Strategic Partners: Our focus will be to leverage the capabilities of the combined company and expand existing partnerships as well as continue to add new strategic partnerships in the future. Additionally, we will increase our focus on partnering with distributors and channel partners globally. The goal will be to develop and enhance relationships that grow our revenue and profits as well as the revenue and profits of our alliance and channel partners. At the same time, we are investing in infrastructure to make doing business with us easier and more efficient.

We conduct our sales and marketing activities on a worldwide basis through a distribution channel utilizing distributors, resellers and our field sales organization. We primarily sell our products through an ecosystem of channel partners who combine our Ethernet products with their offerings to create compelling information technology solutions for end user customers. We utilize our field sales organization to support our channel partners and to sell direct to end-user customers, including some large global accounts. Our customers include businesses, hospitals, universities, hotels, telecommunications companies and government agencies around the world.

We outsource the majority of our manufacturing and supply chain management operations as part of our strategy to maintain global manufacturing capabilities and to reduce our costs. We conduct quality assurance, manufacturing engineering, document control and test development at engineering facilities in or near Research Triangle Park, North Carolina, Salem,

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New Hampshire, Chennai, India and Toronto, Canada. This approach enables us to attract talent in our selected regions and quickly respond to changes in market demand.

The market for network infrastructure equipment is highly competitive and dominated by a few large companies. The current economic climate has further driven consolidation of vendors within the Ethernet networking market and with vendors from adjacent markets, including storage, security, wireless and voice applications. We believe that the underpinning technology for all of these adjacent markets is Ethernet. As a result, we believe that, as an independent Ethernet switch vendor, we must provide products that, when combined with the products of our large strategic partners, create compelling solutions for end user customers. Our approach is to focus on the intelligence and automation layer that spans our hardware and software products that facilitates end-to-end solutions, as opposed to positioning Extreme Networks as a low-cost-vendor with point products.

We believe that continued success in our marketplace is dependent upon a variety of factors that includes, but is not limited to, our ability to design, develop and distribute new and enhanced products employing leading-edge technology.

Results of Operations

During the third quarter of fiscal 2014, we achieved the following results:

- Net revenues of $141.8 million compared to net revenues of $68.2 million in the third quarter of fiscal 2013.
- Product revenues of $109.9 million compared to product revenues of $54.1 million in the third quarter of fiscal 2013.
- Service revenues of $31.9 million compared to service revenues of $14.1 million in the third quarter of fiscal 2013.
- Total gross margin of 50% of net revenues compared to total gross margin of 56% of net revenues in the third quarter of fiscal 2013.
- Operating loss of $23.4 million compared to operating loss of $1.9 million in the third quarter of fiscal 2013.
- Net loss of $25.1 million compared to net loss of $2.2 million in the third quarter of fiscal 2013.
- Cash flow used in operating activities of $30.6 million in the nine months ended March 31, 2014 compared to cash flow provided by operating activities of $7.0 million in the nine months ended March 31, 2013.
- Cash and cash equivalents, short-term investments and marketable securities decreased by $99.6 million to $106.1 million as of March 31, 2014 from $205.6 million as of June 30, 2013, primarily due to cash used to fund a portion of the acquisition of Enterasys offset by $24 million additional borrowings from the Revolving Facility.

We operate in three 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, South Asia, India, and Australia.

The following table presents the total net revenue geographically for the three and nine months ended March 31, 2014 and March 31, 2013, respectively (dollars in thousands):

Net Revenues	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	$ Change	% Change	Nine Months Ended March 31, 2014	Nine Months Ended March 31, 2013	$ Change	% Change
Americas:								
United States	$59,896	$21,609	$38,287	177.2 %	$141,576	$69,545	$72,031	103.6 %
Other	12,082	6,414	5,668	88.4 %	37,816	26,959	10,857	40.3 %
Total Americas	71,978	28,023	43,955	156.9 %	179,392	96,504	82,888	85.9 %
Percentage of net revenue	51.0 %	41.1 %			49.2 %	43.9 %		
EMEA	54,113	28,481	25,632	90.0 %	146,175	85,700	60,475	70.6 %
Percentage of net revenue	38.2 %	41.8 %			40.1 %	39.0 %		
APAC	15,671	11,699	3,972	34.0 %	38,694	37,677	1,017	2.7 %
Percentage of net revenue	11.1 %	17.2 %			10.6 %	17.1 %		

Total net revenues	$141,762	$68,203	$73,559	107.9	%	$364,261	$219,881	$144,380	65.7	%

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Net Revenues

The following table presents net product and service revenue for the three and nine months ended March 31, 2014 and March 31, 2013, respectively (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	March 31, 2014	March 31, 2013	$ Change	% Change	March 31, 2014	March 31, 2013	$ Change	% Change
Net Revenues:								
Product	$109,891	$54,072	$55,819	103.2 %	$290,001	$175,450	$114,551	65.3 %
Percentage of net revenue	77.5 %	79.3 %			79.6 %	79.8 %		
Service	31,871	14,131	17,740	125.5 %	74,260	44,431	29,829	67.1 %
Percentage of net revenue	22.5 %	20.7 %			20.4 %	20.2 %		
Total net revenues	$141,762	$68,203	$73,559	107.9 %	$364,261	$219,881	$144,380	65.7 %

Product revenue increased $55.8 million or 103.2% in the third quarter of fiscal 2014 compared to the corresponding period of fiscal 2013. Product revenue increased $114.6 million or 65.3% in the nine months ending March 31, 2014 compared to the corresponding period of fiscal 2013. In the three and nine months ending March 31, 2014, there was a significant increase in the number of customers and products sold during the period due to our acquisition of Enterasys in the second quarter of fiscal 2014. This resulted in a significant increase in our product revenue in all regions.

Service revenue increased $17.7 million or 125.5% in the third quarter of fiscal 2014 and $29.8 million or 67.1% in the nine months ended March 31, 2014 compared to the corresponding period of fiscal 2013. The increase in service revenue for the three and nine months ended March 31, 2014 was due to an increase in service maintenance contracts and professional service and training revenues due to our acquisition of Enterasys in the second quarter of fiscal 2014.

Cost of Revenue and Gross Profit

The following table presents the gross profit on product and service revenue and the gross profit percentage of product and service revenue for the three and nine months ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended				Nine Months Ended			
	March 31, 2014	March 31, 2013	$ Change	% Change	March 31, 2014	March 31, 2013	$ Change	% Change
Gross profit:								
Product	$51,188	$28,866	$22,322	77.3 %	$136,889	$90,391	$46,498	51.4 %
Percentage of product revenue	46.6 %	53.4 %			47.2 %	51.5 %		
Service	19,667	9,071	10,596	116.8 %	47,518	28,260	19,258	68.1 %
Percentage of service revenue	61.7 %	64.2 %			64.0 %	63.6 %		
Total gross profit	$70,855	$37,937	$32,918	86.8 %	$184,407	$118,651	$65,756	55.4 %
Percentage of net revenue	50.0 %	55.6 %			50.6 %	54.0 %		

Cost of product revenue includes costs of materials, amounts paid to third-party contract manufacturers, costs related to warranty obligations, charges for excess and obsolete inventory, amortization expense for developed technology, royalties under technology license agreements, and internal costs associated with manufacturing

overhead, including management, manufacturing engineering, quality assurance, development of test plans, and document control. We outsource substantially all of our manufacturing and supply chain management operations, and we conduct quality assurance, manufacturing engineering, document control and distribution in San Jose, California; Salem, New Hampshire; China, and Taiwan.
Product gross margin decreased to 46.6% in the third quarter of fiscal 2014 from 53.4% in the third quarter of fiscal 2013 and decreased to 47.2% in the nine months ended March 31, 2014 from 51.5% in the nine months ended March 31, 2013. The decrease in product gross margin for the three and nine months ended March 31, 2014 was primarily due to a $1.9 million and

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$11.1 million charge for three and nine months ended March 31, 2014, respectively, related to a portion of the release of the step-up value for inventory as required by business combination accounting, $9.0 million and $12.8 million increase for the three and nine months ended March 31, 2014, respectively, in the amortization of the developed technology intangibles from the acquisition of Enterasys during the second quarter of fiscal 2014 and increased stock compensation expenses for the quarter ended March 31, 2014 as compared to the corresponding periods of fiscal 2013. Such increases for the nine months ended March 31, 2014 were offset by lower excess and obsolete inventory charges as compared to corresponding period of fiscal 2013.

Our cost of service revenue consists primarily of personnel, overhead, repair and freight costs and the cost of spares used in providing support under customer service contracts. Service gross margin decreased to 61.7% from 64.2% in the third quarter of fiscal 2014 and increased to 64.0% from 63.6% during the nine months ended March 31, 2014 as compared to the corresponding periods of fiscal 2013. The service gross margin for the three ended March 31, 2014 decreased primarily due to higher personnel, overhead and travel cost as a result of our acquisition of Enterasys during the second quarter of fiscal 2014. The service gross margin for the nine months ended March 31, 2014, increased primarily due to cost reduction initiatives partially offset by the increased cost of revenues from the acquisition of Enterasys.

Operating Expenses

The following table presents operating expenses and operating income (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2014	March 31, 2013	$ Change	% Change	March 31, 2014	March 31, 2013	$ Change	% Change
Research and development	$24,265	$9,381	$14,884	158.7 %	$53,098	$30,954	$22,144	71.5 %
Sales and marketing	44,703	20,644	24,059	116.5 %	108,033	64,764	43,269	66.8 %
General and administrative	11,278	6,288	4,990	79.4 %	29,401	18,292	11,109	60.7 %
Acquisition and integration costs	6,443	—	6,443	100.0 %	18,826	—	18,826	100.0 %
Restructuring (credit) charge, net of reversals	(6)	1,076	(1,082)	100.6 %	499	6,242	(5,743)	(92.0)%
Amortization of intangibles	7,666	—	7,666	100.0 %	11,444	—	11,444	100.0 %
Litigation settlement (income) expense	(100)	2,450	(2,550)	104.1 %	(100)	2,029	(2,129)	104.9 %
Gain on sale of facilities	—	—	—	— %	—	(11,539)	11,539	(100.0)%
Total operating expenses	$94,249	$39,839	$54,410	136.6 %	$221,201	$110,742	$110,459	99.7 %
Operating income (loss)	$(23,394)	$(1,902)	$(21,492)	1,130.0 %	$(36,794)	$7,909	$(44,703)	(565.2)%

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The following table highlights our operating expenses and operating income as a percentage of net revenues:

	Three Months Ended				Nine Months Ended			
	March 31, 2014		March 31, 2013		March 31, 2014		March 31, 2013	
Research and development	17.1	%	13.8	%	14.6	%	14.1	%
Sales and marketing	31.5	%	30.3	%	29.7	%	29.5	%
General and administrative	8.0	%	9.2					