

EXTREME NETWORKS INC
Form 10-Q
February 03, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 26, 2010

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
[State or other jurisdiction
of incorporation or organization]

77-0430270
[I.R.S Employer
Identification No.]

3585 Monroe Street,
Santa Clara, California
[Address of principal executive office]

95051
[Zip Code]

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

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

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

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

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Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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 number of shares of the Registrant's Common Stock, \$.001 par value, outstanding at January 31, 2011 was 91,443,645.

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

	December 26, 2010 (unaudited)	June 27, 2010 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$46,878	\$51,944
Short-term investments	43,625	64,854
Accounts receivable, net	46,820	42,057
Inventories, net	24,218	21,842
Deferred income taxes	338	392
Prepaid expenses and other current assets, net	7,944	3,932
Total current assets	169,823	185,021
Property and equipment, net	42,722	43,572
Marketable securities	51,182	18,561
Other assets, net	15,572	15,731
Total assets	\$279,299	\$262,885
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$16,109	\$18,543
Accrued compensation and benefits	17,751	16,305
Restructuring liabilities	1,693	3,097
Accrued warranty	2,811	3,169
Deferred revenue, net	32,982	29,552
Deferred revenue, net of cost of sales to distributors	17,106	18,345
Other accrued liabilities	18,608	13,381
Total current liabilities	107,060	102,392
Restructuring liabilities, less current portion	—	273
Deferred revenue, less current portion	7,145	7,633
Deferred income taxes	108	731
Other long-term liabilities	56	2,661
Commitments and contingencies (Note 3)	—	—
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; 130,881,110 issued at December 26, 2010 and 129,827,715 at June 27, 2010	131	130
Treasury stock, 39,625,305 at December 26, 2010 and June 27, 2010	(149,666) (149,666)
Additional paid-in-capital	959,530	956,792
Accumulated other comprehensive income	2,455	1,100
Accumulated deficit	(647,520) (659,161)
Total stockholders' equity	164,930	149,195
Total liabilities and stockholders' equity	\$279,299	\$262,885

- (1) The information in this column is derived from the Company's consolidated balance sheet included in the Company's Annual Report on Form 10-K for the year ended June 27, 2010.

See accompanying notes to unaudited 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		Six Months Ended		
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009	
Net revenues:					
Product	\$70,334	\$64,469	\$139,547	\$115,228	
Service	14,797	14,928	29,421	30,478	
Total net revenues	85,131	79,397	168,968	145,706	
Cost of revenues:					
Product	30,893	27,199	61,723	50,917	
Service	6,257	6,435	12,428	12,267	
Total cost of revenues	37,150	33,634	74,151	63,184	
Gross profit:					
Product	39,441	37,270	77,824	64,311	
Service	8,540	8,493	16,993	18,211	
Total gross profit	47,981	45,763	94,817	82,522	
Operating expenses:					
Sales and marketing	25,087	24,613	49,993	46,282	
Research and development	12,028	12,444	24,889	26,055	
General and administrative	5,963	6,521	12,548	13,765	
Restructuring charge, net of reversal	—	4,145	—	3,633	
Litigation settlement	(4,200) —	(4,200) —	
Total operating expenses	38,878	47,723	83,230	89,735	
Operating income (loss)	9,103	(1,960) 11,587	(7,212)
Interest income	332	388	661	710	
Interest expense	(29) (30) (59) (69)
Other expense	117	(40) (158) (117)
Income (loss) before income taxes	9,523	(1,642) 12,031	(6,688)
Provision for income taxes	594	(263) 390	173	
Net income (loss)	\$8,929	\$(1,379) \$11,641	\$(6,861)
Basic and diluted net income (loss) per share:					
Net income (loss) per share - basic	\$0.10	\$(0.02) \$0.13	\$(0.08)
Net income (loss) per share - diluted	\$0.10	\$(0.02) \$0.13	\$(0.08)
Shares used in per share calculation - basic	90,878	89,059	90,592	88,951	
Shares used in per share calculation - diluted	91,274	89,059	90,942	88,951	

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended	
	December 26, 2010	December 27, 2009
Cash flows from operating activities:		
Net income (loss)	\$ 11,641	\$(6,861)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Increase in accrued investment income	(1,479)	(138)
Depreciation and amortization	3,148	3,023
Change in value / loss on value of UBS option to put securities	2,429	47
Auction rate securities mark to market, trading gain	(2,429)	(47)
Provision for doubtful accounts	30	—
Excess and obsolete inventory	(100)	960
Deferred income taxes	(569)	(69)
Loss on retirement of assets	109	78
Stock-based compensation	2,485	3,158
Restructuring charge, net of reversal	—	3,633
Changes in operating assets and liabilities, net		
Accounts receivable	(4,793)	(2,982)
Inventories	(2,294)	(5,216)
Prepaid expenses and other assets	(3,855)	(3)
Accounts payable	(2,434)	9,410
Accrued compensation and benefits	1,447	(689)
Restructuring liabilities	(1,677)	(4,418)
Accrued warranty	(359)	60
Deferred revenue, net	2,943	1,231
Deferred revenue, net of cost of sales to distributors	(1,239)	6,365
Other accrued liabilities	6,576	2,156
Other long-term liabilities	(2,605)	(1)
Net cash provided by operating activities	6,975	9,697
Cash flows used in investing activities:		
Capital expenditures	(2,407)	(2,720)
Purchases of investments	(70,147)	(18,958)
Proceeds from maturities of investments and marketable securities	11,800	8,775
Proceeds from sales of investments and marketable securities	48,440	6,515
Net cash used in investing activities	(12,314)	(6,388)
Cash flows provided by financing activities:		
Proceeds from issuance of common stock	273	397
Net cash provided by financing activities	273	397
Net (decrease) increase in cash and cash equivalents	(5,066)	3,706
Cash and cash equivalents at beginning of period	51,944	49,233
Cash and cash equivalents at end of period	\$46,878	\$52,939

See accompanying notes to the unaudited condensed consolidated financial statements.

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EXTREME NETWORKS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Summary of Significant Accounting Policies

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 27, 2010 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 27, 2010. The Company has evaluated all subsequent events through the date these interim financial statements were filed with the SEC.

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 December 26, 2010. The results of operations for the second quarter of fiscal 2011 are not necessarily indicative of the results that may be expected for fiscal 2011 or any future periods.

Reclassification

The Company has revised its previously reported Balance Sheets as of June 27, 2010, and June 28, 2009, to reclassify certain cash balances totaling \$2.9 million and \$3.0 million, respectively, which had previously been reported as a reduction of “Accrued Compensation and Benefits”. Such amounts have been reclassified to “Cash and Cash Equivalents”. As a result, as of June 27, 2010 and June 28, 2009, cash and cash equivalents have been revised to \$51.9 million and \$49.2 million (previously reported as \$49.0 million and \$46.2 million), respectively and accrued compensation and benefits have been revised to \$16.3 million and \$15.3 million (previously reported as \$13.4 million and \$12.3 million), respectively. In addition, the Company has revised its previously reported Statement of Cash Flows for the six-month period ended December 27, 2009, to reclassify accrued interest income and amortization related to its investments totaling \$0.1 million resulting in a decrease in cash flows provided by operating activities and a decrease in cash flows used in investing activities.

As a result of the two items noted above, for the six-month period ended December 27, 2009, fiscal year ended June 28, 2009 and fiscal year ended June 27, 2010, cash flows provided by operating activities have been revised to \$9.7 million, \$6.6 million and \$8.0 million (previously reported as \$10.2 million, \$4.7 million and \$9.3 million), respectively, and cash flows provided by or used in investing activities have been revised to \$6.4 million used in investing activities, \$67.9 million provided by investing activities and \$6.4 million used in investing activities (previously reported as \$6.5 million used in investing activities, \$70.4 million provided by investing activities and \$7.6 million used in investing activities), respectively.

The revisions had no effect on previously reported Statements of Operations or Stockholders' Equity and were not material to the Company's financial statements taken as a whole. These revisions have been reflected in this Form 10-Q to the extent applicable and will be reflected for all quarterly and annual periods presented in the Company's future filings.

Cash, Cash Equivalents, and Investments

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

	December 26, 2010	June 27, 2010
Cash and cash equivalents	\$46,878	\$51,944
Short-term investments	43,625	64,854
Marketable securities	51,182	18,561
Total cash and investments	\$141,685	\$135,359

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