

EXTREME NETWORKS INC
Form 10-Q
February 05, 2009
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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 28, 2008

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]

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

of incorporation or organization]

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.

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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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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 30, 2009 was 88,630,568.

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QUARTERLY PERIOD ENDED DECEMBER 28, 2008

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Table of Contents**EXTREME NETWORKS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share amounts)

	December 28, 2008 (unaudited)	June 29, 2008 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,318	\$ 70,370
Short-term investments	11,188	42,922
Accounts receivable, net	44,285	64,417
Inventories, net	22,275	13,942
Deferred income taxes	287	254
Prepaid expenses and other current assets, net	5,023	4,654
Total current assets	117,376	196,559
Property and equipment, net	43,843	43,348
Marketable securities	98,013	112,380
Other assets, net	14,033	13,474
Total assets	\$ 273,265	\$ 365,761
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 27,722	\$ 16,921
Accrued compensation and benefits	13,013	18,956
Restructuring liabilities	2,847	2,612
Accrued warranty	3,516	4,824
Deferred revenue, net	32,411	31,284
Deferred revenue, net of cost of sales to distributors	15,220	14,138
Other accrued liabilities	24,056	27,728
Total current liabilities	118,785	116,463
Restructuring liabilities, less current portion	5,213	6,777
Deferred revenue, less current portion	8,079	9,006
Deferred income taxes	503	403
Other long-term liabilities	795	1,058
Commitments and contingencies (Note 3)		
Stockholders' equity:		
Common stock, \$.001 par value, 750,000,000 shares authorized; 128,108,535 issued at December 28, 2008 (127,358,570 June 29, 2008) and capital in excess of par value	946,286	943,283
Treasury stock, 39,625,305 shares at December 28, 2008 (11,053,877 June 29, 2008)	(149,665)	(48,303)
Accumulated other comprehensive income (loss)	1,367	(723)
Accumulated deficit	(658,098)	(662,203)
Total stockholders' equity	139,890	232,054
Total liabilities and stockholders' equity	\$ 273,265	\$ 365,761

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- (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 29, 2008.

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**EXTREME NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per share amounts)****(unaudited)**

	Three Months Ended		Six Months Ended	
	December 28, 2008	December 30, 2007	December 28, 2008	December 30, 2007
Net revenues:				
Product	\$ 72,580	\$ 77,427	\$ 146,929	\$ 151,572
Service	14,968	15,103	30,145	29,920
Total net revenues	87,548	92,530	177,074	181,492
Cost of revenues:				
Product	31,411	31,039	61,544	62,295
Service	7,446	8,511	15,407	17,121
Total cost of revenues	38,857	39,550	76,951	79,416
Gross profit:				
Product	41,169	46,388	85,385	89,277
Service	7,522	6,592	14,738	12,799
Total gross profit	48,691	52,980	100,123	102,076
Operating expenses:				
Sales and marketing	25,776	25,050	51,633	49,588
Research and development	13,924	17,154	30,529	33,645
General and administrative	7,412	8,592	15,851	15,115
Total operating expenses	47,112	50,796	98,013	98,348
Operating income	1,580	2,184	2,111	3,728
Interest income	870	2,860	2,293	5,633
Interest expense	(19)	(21)	(69)	(41)
Other income / (expense), net	768	(249)	1,316	(491)
Income before income taxes	3,199	4,774	5,651	8,829
Provision for income taxes	733	638	1,546	1,060
Net Income	\$ 2,466	\$ 4,136	\$ 4,105	\$ 7,769
Basic and diluted net income per share:				
Net income per share - basic	0.03	0.04	0.04	0.07
Net income per share - diluted	0.03	0.04	0.04	0.07
Shares used in per share calculation - basic	88,323	114,530	99,823	114,217
Shares used in per share calculation - diluted	88,363	115,725	99,925	115,498

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended	
	December 28, 2008	December 30, 2007
Cash flows from operating activities:		
Net income	\$ 4,105	\$ 7,769
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,745	3,707
Gain on value of option to put securities	(6,778)	
Mark to market, trading loss	6,778	
Provision for doubtful accounts	(56)	265
Provision for excess and obsolete inventory	819	1,324
Deferred income taxes	68	(240)
Amortization of warrant		1,349
Gain (loss) on retirement of assets	94	(7)
Stock-based compensation	1,396	2,429
Changes in operating assets and liabilities, net		
Accounts receivable	20,188	(6,709)
Inventories	(9,157)	2,533
Prepaid expenses and other assets	(928)	2,830
Accounts payable	10,801	(4,926)
Accrued compensation and benefits	(5,943)	3,241
Restructuring liabilities	(1,329)	(4,182)
Accrued warranty	(1,307)	(474)
Deferred revenue, net	200	(21,972)
Deferred revenue, net of cost of sales to distributors	1,082	22,361
Other accrued liabilities	(4,970)	(27)
Net cash provided by operating activities	17,808	9,271
Cash flows provided by (used in) investing activities:		
Capital expenditures	(3,334)	(2,068)
Purchases of investments	(25,166)	(171,393)
Proceeds from maturities of investments and marketable securities	28,164	76,247
Proceeds from sales of investments and marketable securities	46,225	59,679
Net cash provided by (used in) investing activities	45,889	(37,535)
Cash flows (used in) provided by financing activities:		
Proceeds from issuance of common stock	1,614	2,733
Repurchase of common stock, including expenses	(101,363)	
Net cash (used in) provided by financing activities	(99,749)	2,733