EXTREME NETWORKS INC
Form 10-Q
February 08, 2018

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 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 000-25711

EXTREME NETWORKS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	77-0430270
[State or other jurisdiction of incorporation or organization]	[I.R.S Employer Identification No.]

6480 Via Del Oro,

San Jose, California	95119
[Address of principal executive office]	[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 or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" and "an emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The number of shares of the Registrant's Common Stock, $.001 par value, outstanding at February 2, 2018, was 115,267,499

EXTREME NETWORKS, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED 2018

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EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	December 31, 2017	June 30, 2017 (As adjusted)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 127,108	$ 130,450
Accounts receivable, net of allowance for doubtful accounts of $1,382 at December 31, 2017 and $1,190 at June 30, 2017	154,906	93,115
Inventories	83,377	47,410
Prepaid expenses and other current assets	24,772	27,867
Total current assets	390,163	298,842
Property and equipment, net	68,565	30,240
Intangible assets, net	92,925	25,337
Goodwill	130,988	80,216
Other assets	44,267	25,065
Total assets	$ 726,908	$ 459,700
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 22,426	$ 12,280
Accounts payable	73,553	31,587
Accrued compensation and benefits	49,104	42,662
Accrued warranty	13,010	10,584
Deferred revenue	113,664	79,048
Other accrued liabilities	74,517	37,044
Total current liabilities	346,274	213,205
Deferred revenue, less current portion	38,693	25,293
Long-term debt, less current portion	160,712	80,422
Deferred income taxes	5,163	6,576
Other long-term liabilities	64,347	8,526
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; 113,931,341 shares issued and outstanding at December 31, 2017 and 110,924,508 shares issued and	114	111

outstanding at June 30, 2017		
Additional paid-in-capital	921,716	909,155
Accumulated other comprehensive loss	(1,278)	(2,302)
Accumulated deficit	(808,833)	(781,286)
Total stockholders' equity	111,719	125,678
Total liabilities and stockholders' equity	$ 726,908	$459,700

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2017	December 31, 2016 (As adjusted)	December 31, 2017	December 31, 2016 (As adjusted)
Net revenues:				
Product	$174,850	$ 118,055	$339,624	$ 208,148
Service	56,273	38,322	103,214	70,833
Total net revenues	231,123	156,377	442,838	278,981
Cost of revenues:				
Product	78,472	62,627	158,517	106,876
Service	23,665	14,098	42,954	26,567
Total cost of revenues	102,137	76,725	201,471	133,443
Gross profit:				
Product	96,378	55,428	181,107	101,272
Service	32,608	24,224	60,260	44,266
Total gross profit	128,986	79,652	241,367	145,538
Operating expenses:				
Research and development	45,907	24,013	80,192	42,312
Sales and marketing	65,659	41,025	121,220	77,884
General and administrative	11,669	9,397	23,854	17,684
Acquisition and integration costs, net of bargain purchase gain	34,115	4,169	38,359	6,490
Restructuring and related charges, net of reversals	—	1,853	—	1,853
Amortization of intangibles	2,746	2,175	4,360	6,317
Total operating expenses	160,096	82,632	267,985	152,540
Operating loss	(31,110)	(2,980)	(26,618)	(7,002)
Interest income	717	81	1,364	138
Interest expense	(2,504)	(1,176)	(4,719)	(1,823)
Other income (expense), net	(643)	1,025	2,484	802
Loss before income taxes	(33,540)	(3,050)	(27,489)	(7,885)
Provision (benefit) for income taxes	(1,617)	1,179	58	2,086
Net loss	$(31,923)	$ (4,229)	$(27,547)	$ (9,971)
Basic and diluted net loss per share:				
Net loss per share - basic	$(0.28)	$ (0.04)	$(0.24)	$ (0.09)
Net loss per share - diluted	$(0.28)	$ (0.04)	$(0.24)	$ (0.09)
Shares used in per share calculation - basic	113,621	107,425	112,931	106,690
Shares used in per share calculation - diluted	113,621	107,425	112,931	106,690

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016 (As adjusted)	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016 (As adjusted)
Net loss:	$(31,923)	$ (4,229)	$(27,547)	$ (9,971)
Other comprehensive income (loss), net of tax:				
Available for sale securities:				
Change in unrealized gains on available for sale securities	54	—	237	—
Net change in foreign currency translation adjustments	432	(421)	787	(974)
Other comprehensive income (loss), net of tax:	486	(421)	1,024	(974)
Total comprehensive loss	$(31,437)	$ (4,650)	$(26,523)	$ (10,945)

See accompanying notes to condensed consolidated financial statements.

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016 (As adjusted)
Cash flows from operating activities:		
Net loss	$ (27,547)	$ (9,971)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	8,093	4,832
Amortization of intangible assets	11,023	11,593
Provision for doubtful accounts	1,180	154
Stock-based compensation	11,828	6,856
Deferred income taxes	(2,135)	923
Non-cash restructuring and related charges	—	1,718
Realized gain on sale of non-marketable equity investment	(3,757)	—
Realized gain on bargain purchase	(4,920)	—
Other non-cash items	1,818	(243)
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed		
Accounts receivable	(11,188)	(7,756)
Inventories	(449)	4,313
Prepaid expenses and other assets	1,188	6,823
Accounts payable	17,547	(4,444)
Accrued compensation and benefits	3,734	(916)
Deferred revenue	4,446	(2,469)
Other current and long-term liabilities	3,387	7,875
Net cash provided by operating activities	14,248	19,288
Cash flows from investing activities:		
Capital expenditures	(13,309)	(4,662)
Acquisitions	(97,581)	(51,088)
Proceeds from sale of non-marketable equity investment	4,922	—
Net cash used in investing activities	(105,968)	(55,750)
Cash flows from financing activities:		
Borrowings under Term Loan	100,000	48,250
Repayments of debt	(8,686)	(5,513)
Loan fees on borrowings	(1,494)	(1,327)
Proceeds from issuance of common stock, net of tax withholding	(1,536)	4,831
Net cash provided by financing activities	88,284	46,241
Foreign currency effect on cash	94	(115)
Net (decrease) increase in cash and cash equivalents	(3,342)	9,664

Cash and cash equivalents at beginning of period	130,450	94,122
Cash and cash equivalents at end of period	$127,108	$ 103,786

See accompanying notes to the condensed consolidated financial statements.

EXTREME NETWORKS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

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

The unaudited condensed consolidated financial statements of Extreme included herein have been prepared under the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted under such rules and regulations. The condensed consolidated balance sheet at June 30, 2017 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, 2017.

The unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations and cash flows for the interim periods presented and the financial condition of Extreme at December 31, 2017. The results of operations for the three and six months ended December 31, 2017 are not necessarily indicative of the results that may be expected for fiscal 2018 or any future periods.

Effective July 1, 2017, the Company adopted the requirements of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. All amounts and disclosures set forth in this Form 10-Q have been updated to comply with the new standards, as indicated by the "as adjusted" footnote.

Fiscal Year

The Company uses a fiscal calendar year ending on June 30. All references herein to "fiscal 2018" or "2018" represent the fiscal year ending June 30, 2018. All references herein to "fiscal 2017" or "2017" represent the fiscal year ending June 30, 2017.

Principles of Consolidation

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

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

Accounting Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are used for, but are not limited to, the accounting for the allowances for doubtful accounts and sales returns, determining the fair value of acquired assets and assumed liabilities, estimated selling prices, inventory valuation and purchase commitments, depreciation and amortization, impairment of long-lived assets including goodwill, warranty accruals, restructuring liabilities, measurement of share-based compensation costs and income taxes. Actual results could differ from these estimates.

Reclassification

Certain amounts from prior years have been reclassified to conform to the current year’s presentation in the accompanying condensed consolidated statements of cash flow. The reclassification had no impact on previously reported net loss or accumulated deficit.

2. Business Combinations

The Company completed three acquisitions during the six months ended December 31, 2017. The acquisitions have been accounted for using the acquisition method of accounting. The purchase price has been allocated on a preliminary basis to tangible and identifiable intangible assets acquired and liabilities assumed. The fair value of working capital related items, such as other current assets and accrued liabilities, approximated their book values at the date of acquisition. Inventories were valued at fair value using the net realizable value approach. The fair value of property and equipment was determined using a cost approach. The fair value of the acquired deferred revenue was estimated using the cost build-up approach. The cost build-up approach determines fair value using estimates of the costs required to provide the contracted deliverables plus an assumed profit. The total costs including the assumed profit were adjusted to present value using a discount rate considered appropriate. The resulting fair value approximates the amount that the Company would be required to pay to a third party to assume the obligation. Valuations of the intangible assets were valued using income approaches based on management projections, which we consider to be Level 3 inputs. The Company also continues to analyze the tax implications of the acquisition of the intangible assets which may ultimately impact the overall level of goodwill associated with the acquisition.

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 dates, but was unknown to the Company at that time, may become known to the Company during the remainder of the measurement period (up to one year from the acquisition dates), 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. Results of operations of the acquired entities are included in the Company’s operations beginning with the closing date of each acquisition.

Fiscal 2018 Acquisitions

Data Center Business

On October 27, 2017 (the “Brocade Closing”), the Company completed its acquisition of the data center business (the “Data Center Business”) of Brocade Communication Systems, Inc.’s (“Brocade”), pursuant to an Asset Purchase Agreement (the “Brocade APA”) dated as of October 3, 2017, by and between the Company and Brocade. Under the terms and conditions of the Brocade APA, the Company acquired customers, employees, technology and other assets of the Data Center Business as well as assumed certain contracts and other liabilities of the Data Center Business.

The fair value of consideration transferred on the Brocade Closing date includes:

- upfront cash closing payment equal to $23.0 million,
- deferred payments of $1.0 million per quarter for the next twenty full fiscal quarters of the Company following the acquisition date discounted to their present value,
- contingent consideration in the form of quarterly earnout payments equal to 50% of the profits of the Data Center Business for the five-year period commencing at the end of the first full fiscal quarter of the Company following the acquisition of the Data Center Business discounted to their present value,
- an amount payable due to the excess working capital acquired over the target working capital agreed upon in the Brocade APA, and,
-

portion of the fair value of replacement stock awards granted to employees assumed from Brocade for which their services were provided prior to the Brocade Closing date.

The components of aggregate estimated purchase consideration are as follows (in thousands):

Estimated purchase consideration	October 27, 2017
Cash paid to sellers at closing	$23,000
Deferred payments	18,430
Contingent consideration	34,100
Working capital adjustment	6,534
Replacement of stock-based awards	2,273
Aggregate estimated purchase consideration	$84,337

The following table below summarizes the preliminary allocation as of October 27, 2017 of the tangible and identifiable intangible assets acquired and liabilities assumed:

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	Preliminary Allocation as of October 27, 2017
Accounts receivables	$ 33,488
Inventories	19,973
Prepaid expenses and other current assets	988
Property and equipment	29,160
Other assets	4,734
Accounts payable and accrued expenses	(15,850)
Deferred revenue	(33,519)
Net tangible assets acquired	38,974
Identifiable intangible assets	28,600
Goodwill	16,763
Total intangible assets acquired	45,363
Total net assets acquired	$ 84,337

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

Intangible Assets	Estimated Useful Life (in years)	Amount
Developed technology	2 - 5	$21,800
Customer relationships	5	5,400
Trade names	4	1,400
Total identifiable intangible assets		$28,600

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” in the accompanying condensed consolidated statements of operations. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of the Data Center Business. The Company anticipates both the goodwill and intangible assets to be fully deductible for income tax purposes.

The results of operations of the Data Center Business are included with those of the Company beginning October 28, 2017. The associated expenses of the Data Center Business have been incorporated with the results of operations of the Company as a product line and, therefore, stand-alone operating results are not available. In the three and six months ended December 31, 2017 the Company incurred $32.5 million and $33.8 million, respectively, of acquisition and integration related expenses associated with the acquisition of the Data Center Business, including a $25.0 consent fee paid to terminate a previous asset purchase agreement entered into by the Company to purchase the Data Center Business from Broadcom Corporation, in anticipation of Broadcom’s proposed acquisition of Brocade. The fee was paid to allow the Company to buy the Data Center Business directly from Brocade. Such acquisition-related costs are included in “Acquisition and integration costs, net of bargain purchase gain” in the accompanying condensed consolidated statements of operations. The costs, which the Company expensed as incurred, consist primarily of professional fees to financial and legal advisors and IT consultants and companies.

Campus Fabric Business

On July 14, 2017, (the “Avaya Closing Date”) the Company completed its acquisition of Avaya Inc.’s. (“Avaya”) fabric-based secure networking solutions and network security solutions business (the “Campus Fabric Business”) that had been announced on March 7, 2017. Upon the terms and subject to the conditions of the Asset Purchase Agreement (the “Avaya APA”), the Company acquired the customers, employees, technology and other assets of the

Campus Fabric Business, as well as assumed certain contracts and other liabilities of the Campus Fabric Business, for total provisional consideration of $79.8 million, calculated as $100.0 million, less adjustments set forth in the Avaya APA related to net working capital, deferred revenue, certain assumed lease obligations and certain assumed pension obligations for transferring employees of the Campus Fabric Business. Pursuant to certain ancillary agreements, Avaya will also provide the Company with transition services for a period of time following the Avaya Closing Date. As a condition of the Avaya APA, the Company had made deposits of $10.2 million in the third quarter of fiscal 2017, which were applied to the purchase price upon the Avaya Closing Date.

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The following table below summarizes the preliminary allocation as of December 31, 2017 of the tangible and identifiable intangible assets acquired and liabilities assumed:

	Preliminary Allocation as of September 30, 2017	Change during three months ended December 31, 2017		Preliminary Allocation as of December 31, 2017
Accounts receivables	$ 18,112	$ 183	(a)	$ 18,295
Inventories	16,605	(1,060)	(b)(c)	15,545
Prepaid expenses and other current assets	673	—		673
Property and equipment	3,768	—		3,768
Other assets	2,568	2,743	(c)	5,311
Accounts payable and accrued expenses	(29,716)	(2,203)	(d)(f)	(31,919)
Deferred revenue	(10,214)	163	(d)(e)	(10,051)
Other long-term liabilities	(6,608)	1,403	(f)	(5,205)
Net tangible assets acquired	(4,812)	1,229		(3,583)
Identifiable intangible assets	44,000	2,900	(g)	46,900
In-process research and development	2,300	200	(g)	2,500
Goodwill	38,338	(4,329)		34,009
Total intangible assets acquired	84,638	(1,229)		83,409
Total net assets acquired	$ 79,826	$ —		$ 79,826

The changes during the period in the table above include: a) additional information on accounts receivable as of the acquisition date, b) additional receipts of product, c) a reclassification from inventories to other assets related to service parts, d) a reclassification from deferred revenue to accounts payable, e) an adjustment of the fair value of deferred maintenance revenue, f) a reclassification from long-term liabilities to short-term related to liabilities assumed, g) revised net realizable value based on usefulness of identifiable intangible assets and in-process research and development acquired.

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

Intangible Assets	Estimated Useful Life (in years)	Amount
Developed technology	6	$37,400
Customer relationships	4	5,100
Trademarks	5	2,600
Backlog	1	1,800
Total identifiable intangible assets		$46,900

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” in the accompanying condensed consolidated statement of operations. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of the Campus Fabric Business. The Company anticipates both the goodwill and intangible assets to be fully deductible for income tax purposes.

The Company also acquired an indefinite lived asset of $2.5 million which represents the fair value of in-process research and development activities. 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 become a finite lived asset and apply the appropriate accounting accordingly.

The results of operations of the Campus Fabric Business are included in the accompanying condensed consolidated results of operations beginning July 14, 2017. The associated expenses of the Campus Fabric Business have been incorporated with the results of operations of the Company as a product line and, therefore, stand-alone operating results are not available. In the three and six months ended December 31, 2017, the Company incurred $6.6 million and $9.5 million, respectively, of acquisition and integration related expenses associated with the acquisition of the Campus Fabric Business. Such acquisition-related costs are included in “Acquisition and integration costs, net of bargain purchase gain” in the accompanying condensed consolidated statements of operations. The costs, which the Company expensed as incurred, consist primarily of professional fees to financial and legal advisors and IT consultants and companies.

Capital Financing Business

On December 1, 2017, Company completed its acquisition of a capital financing business (the “CF Business”), pursuant to a Bill of Sale and Assignment and Assumption Agreement (the “Assumption Agreement”) between the Company and Broadcom. Under the terms and conditions of the Assumption Agreement, the Company acquired customers, employees, contracts and lease equipment of the CF Business equal to the earn out payments to Broadcom of 90% of acquired financing receivables to be collected commencing at the closing date.

Net assets acquired included financing receivables of $13.8 million, lease equipment of $3.5 million and identifiable intangible assets of $0.6 million, and the fair value of the contingent consideration was $12.9 million. As the preliminary fair value of the net assets acquired exceeded the fair value of the purchase consideration, the Company recorded a gain from the bargain purchase of $4.9 million in “Acquisition and integration costs, net of bargain purchase gain” in the accompanying condensed consolidated statements of operations for the second quarter of fiscal 2018. Acquisition and integration related expenses associated with the acquisition of the CF Business were immaterial.

Fiscal 2017 Acquisition

On October 28, 2016, the Company completed the acquisition of the wireless local area network business (“WLAN Business”) from Zebra Technologies Corporation. Under the terms of the WLAN Asset Purchase Agreement, the Company acquired customers, employees, technology and other assets as well as assumed certain contracts and other liabilities of the WLAN Business, for a net cash consideration to $49.5 million. The following table below summarizes the final allocation of the tangible and identifiable intangible assets acquired and liabilities assumed:

	Final Allocation as of October 28, 2016
Accounts receivables, net	$ 14,636
Inventories	13,593
Other current assets	808
Property and equipment	3,159
Other assets	7,634
Deferred revenue	(14,159)
Other liabilities	(7,201)
Total tangible assets acquired and liabilities assumed	18,470
Identifiable intangible assets	20,300
In-process research and development	1,400
Goodwill	9,339
Total intangible assets acquired	31,039
Total net assets acquired	$ 49,509

Pro forma financial information

The following unaudited pro forma results of operations are presented as though the acquisitions of the Data Center Business, CF Business, Campus Fabric Business and WLAN Businesses had occurred as of the beginning of the earliest period presented after giving effect to purchase accounting adjustments relating to inventories, deferred revenue, depreciation and amortization on acquired property and equipment and intangibles, acquisition costs, interest income and expense and related tax effects.

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 results do not include the impact of synergies, nor any potential impacts on current or future market conditions which could alter the unaudited pro forma results.

The unaudited pro forma financial information for the three and six months ended December 31, 2017, combines the results for Extreme for the three and six months ended December 31, 2017, which include the results of the Data Center Business, CF Business and Campus Fabric Business subsequent to the acquisition date and their historical results up to the acquisition date.

The unaudited pro forma financial information for the three and six months ended December 31, 2016, combines the historical results for Extreme for those periods, as adjusted for the adoption of ASC 606, with the historical results of the Data Center Business, CF Business and Campus Fabric Business for the three and six months ended December 31, 2016, as well as the historical results of the WLAN Business up to the acquisition date.

Pro forma results of operations from the Data Center Business, CF Business, Campus Fabric Business and WLAN Business acquisitions included in the pro forma results of operations for the three and six months ended December 31, 2016 or 2017 have not been adjusted for the adoption of ASC 606 because the Company determined that it is impractical to estimate the impact of the adoption.

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

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2017	2016 (As adjusted)	2017	2016 (As adjusted)
Net revenues	$252,532	$ 311,503	$537,040	$ 644,435
Net income (loss)	$1,152	$ (62,134)	$(7,622)	$ (95,972)
Net income (loss) per share - basic	$0.01	$ (0.58)	$(0.07)	$ (0.90)
Net income (loss) per share - diluted	$0.01	$ (0.58)	$(0.07)	$ (0.90)
Shares used in per share calculation - basic	113,621	107,425	112,931	106,690
Shares used in per share calculation - diluted	119,656	107,425	112,931	106,690

3. Summary of Significant Accounting Policies

For a description of significant accounting policies, see Note 3, Summary of Significant Accounting Policies, to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017. Except for the following policies, there have been no material changes to the Company’s significant accounting policies since the filing of the Annual Report on Form 10-K.

Revenue Recognition

The Company accounts for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which the Company adopted on July 1, 2017, using the retrospective method. The Company derives the majority of its revenue from sales of its networking equipment, with the remaining revenue generated from service fees relating to maintenance contracts, professional services, and training for its products. The Company sells its products and maintenance contracts direct to customers and to partners in two distribution channels, or tiers. The first tier consists of a limited number of independent distributors that stock its products and sell primarily to resellers. The second tier of the distribution channel consists of a non-stocking distributors and value-added resellers that sell directly to end-users. Products and services may be sold separately or in bundled packages.

The Company considers customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. For each contract, the Company considers the promise to transfer products and services, each of which are distinct, to be the identified performance obligations. In determining the transaction price the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled.

For all of the Company’s sales and distribution channels, revenue is recognized when control of the product is transferred to the customer (i.e., when the Company’s performance obligation is satisfied), which typically occurs at shipment for product sales. Revenue from maintenance contracts is recognized over time as the Company’s performance obligations are satisfied. This is typically the contractual service period, which ranges from one to three years. For product sales to value-added resellers of the Company, non-stocking distributors and end-user customers, the Company generally does not grant return privileges, except for defective products during the warranty period, nor does the Company grant pricing credits. Sales incentives and other programs that the Company may make available to these customers are considered to be a form of variable consideration and the Company maintains estimated accruals and allowances using the expected value method. There were no material changes in the current period to the estimated transaction price for performance obligations which were satisfied or partially satisfied during previous periods.

Sales to stocking distributors are made under terms allowing certain price adjustments and limited rights of return (known as “stock rotation”) of the Company’s products held in their inventory. Revenue from sales to distributors is recognized upon the transfer of control to the distributor. Frequently, distributors need to sell at a price lower than the contractual distribution price in order to win business, and submit rebate requests for Company pre-approval prior to selling the product through at the discounted price. At the time the distributor invoices its customer or soon thereafter, the distributor submits a rebate claim to the Company to adjust the distributor’s cost from the contractual price to the pre-approved lower price. After the Company verifies that the claim was pre-approved, a credit memo is issued to the distributor for the rebate claim. In determining the transaction price, the Company considers these rebate adjustments to be variable consideration. Such price adjustments are estimated using the expected value method based on an analysis of actual claims, at the distributor level over a trailing twelve-month period of time considered adequate to account for current pricing and business trends. Stock rotation rights grant the distributor the ability to return certain specified amounts of inventory. Stock rotation adjustments are an additional form of variable consideration and are also estimated using the expected value method based on historical return rates. There were no material changes in the current period to the estimated variable consideration for performance obligations which were satisfied or partially satisfied during previous periods.

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

The Company's performance obligations are satisfied at a point in time or over time as work progresses. Substantially all of the Company's product sales revenues as reflected on the consolidated statements of operations for the three-month and six-month periods ended December 31, 2017, and 2016 are recognized at a point in time. Substantially all of the Company's service revenue is recognized over time. For revenue recognized over time, the Company uses an input measure, days elapsed, to measure progress.

On December 31, 2017, the Company had $152.4 million of remaining performance obligations, which is comprised of deferred maintenance revenue and services not yet delivered. The Company expects to recognize approximately 54 percent of its remaining performance obligations as revenue in fiscal 2018, an additional 31 percent by fiscal 2019 and 15 percent of the balance thereafter.

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

Revenue recognized for the six-month periods ended December 31, 2017 and 2016, that was included in the deferred revenue balance at the beginning of each period was $53.1 million and $49.7 million respectively. Revenue recognized for the three-month periods ended December 31, 2017 and 2016, that was included in the deferred revenue balance at the beginning of each period was $36.9 million and $33.5 million, respectively.

Contract Costs. The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. Management expects that commission fees paid to sales representative as a result of obtaining service contracts and contract renewals are recoverable and therefore the Company capitalized them as contract costs in the amount of $3.0 million and $2.5 million at December 31, 2017 and June 30, 2017, respectively. Capitalized commission fees are amortized on a straight-line basis over the average period of service contracts of approximately three years, and are included in "Sales and marketing" in the accompanying condensed consolidated statements of operations. Amortization recognized during the three-month period ended December 31, 2017 and 2016, was $0.5 million and $0.4 million, respectively. Amortization recognized during the six-month period ended December 31, 2017 and 2016, was $0.9 million and $0.7 million, respectively. There was no impairment loss in relation to the costs capitalized.

Revenue by Category: The following table sets forth the Company's revenue disaggregated by sales channel and geographic region based on the billing addresses of its customers (in thousands, unaudited):

	Three Months Ended December 31, 2017			December 31, 2016 (As adjusted)		
	Distributor	Direct	Total	Distributor	Direct	Total
Americas:						
United States	$56,269	$54,559	$110,828	$39,063	$38,396	$77,459
Other	1,155	5,698	6,853	2,827	3,243	6,070
Total Americas	57,424	60,257	117,681	41,890	41,639	83,529
EMEA:	55,956	33,624	89,580	36,070	24,361	60,431
APAC:	5,131	18,731	23,862	1,613	10,804	12,417
Total net revenues	$118,511	$112,612	$231,123	$79,573	$76,804	$156,377

	Six Months Ended December 31, 2017			December 31, 2016 (As adjusted)		
	Distributor	Direct	Total	Distributor	Direct	Total
Americas:						
United States	$98,661	$105,549	$204,210	$66,054	$65,225	$131,279
Other	15,491	12,093	27,584	4,220	12,871	17,091
Total Americas	114,152	117,642	231,794	70,274	78,096	148,370
EMEA:	107,188	61,527	168,715	67,369	40,890	108,259
APAC:	8,395					