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 October 1, 2006

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.]**
3585 Monroe Street	**95051**

Santa Clara, California
[Address of principal executive offices] **[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 x

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

The number of shares of the Registrant s Common Stock, $.001 par value, outstanding at

May 31, 2007 was 114,037,984.

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Explanatory Note

In September 2006, our Board of Directors formed a Special Committee (Special Committee) to conduct an independent review of our historical stock option granting and accounting practices. Following the conclusion of the Special Committee s investigation, and with the concurrence of management and the Audit Committee, the Company determined that it should have recognized approximately $223.0 million of pre-tax, non-cash, share-based compensation expense during fiscal years 2000 through 2005 that was not accounted for in the Company s previously issued financial statements. In addition, the Company should have recorded approximately $0.3 million of income tax benefits. Therefore, in our Annual Report on Form 10-K for the year ended July 2, 2006 (the 2006 Form 10-K), we restated financial information for each of the fiscal years ended July 3, 2005, June 27, 2004, June 29, 2003, June 30, 2002, July 1, 2001, and July 2, 2000. None of the information in this Quarterly Report on Form 10-Q is restated, although the filing of this report was delayed pending completion and filing of the 2006 Form 10-K.

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EXTREME NETWORKS, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED OCTOBER 1, 2006

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Part I. Financial Information

Item 1. Financial Statements

EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	October 1, 2006 (Unaudited)	July 2, 2006 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 138,282	$ 92,598
Short-term investments	251,385	297,726
Accounts receivable, net	27,845	27,681
Inventories, net	24,077	19,303
Prepaid expenses and other current assets, net	8,328	9,420
Total current assets	449,917	446,728
Property and equipment, net	44,820	46,499
Marketable securities	33,750	42,781
Other assets, net	22,196	22,710
TOTAL ASSETS	$ 550,683	$ 558,718
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 24,353	$ 20,138
Accrued compensation and benefits	11,992	11,758
Restructuring liabilities	6,601	5,571
Accrued warranty	7,168	7,027
Deferred revenue	33,492	35,406
Convertible subordinated notes	200,000	200,000
Other accrued liabilities	21,724	19,581
Total current liabilities	305,330	299,481
Restructuring liabilities, less current portion	10,443	11,471
Deferred revenue, less current portion	9,265	9,699
Deferred income taxes	604	579
Other long-term liabilities	1,306	1,307
Commitments and contingencies (Note 3)		
Stockholders equity:		
Common stock and capital in excess of par value	930,341	927,835
Treasury stock	(44,901)	(33,700)
Accumulated other comprehensive income (loss)	(390)	(1,567)
Accumulated deficit	(661,315)	(656,387)

Total stockholders equity	223,735	236,181
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 550,683	$ 558,718

See accompanying notes to the 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	
	October 1, 2006	**October 2, 2005**
Net revenues:		
Product	$ 67,982	$ 81,917
Service	15,781	16,005
Total net revenues	83,763	97,922
Cost of revenues:		
Product	31,799	35,926
Service	8,813	8,708
Total cost of revenues	40,612	44,634
Gross margin:		
Product	36,183	45,991
Services	6,968	7,297
Total gross margin	43,151	53,288
Operating expenses:		
Sales and marketing	25,443	25,916
Research and development	15,774	16,263
General and administrative	7,605	7,175
Restructuring charge	1,534	
Total operating expenses	50,356	49,354
Operating income (loss)	(7,205)	3,934
Other income, net	3,064	929
Income (loss) before income taxes	(4,141)	4,863
Provision for income taxes	786	510
Net income (loss)	$ (4,927)	$ 4,353
Net income (loss) per share basic	$ (0.04)	$ 0.04
Net income (loss) per share diluted	$ (0.04)	$ 0.03
Shares used in per share calculation basic	115,653	123,018

Shares used in per share calculation diluted	115,653	124,754

See accompanying notes to the unaudited condensed consolidated financial statements.

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EXTREME NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	October 1, 2006	October 2, 2005
Cash flows from operating activities:		
Net income (loss)	$ (4,927)	$ 4,353
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,361	3,165
Provision for doubtful accounts	2	614
Provision for excess and obsolete inventory	467	155
Deferred income taxes	25	
Amortization of warrant	1,012	1,892
Loss on disposal of assets	76	
Share-based compensation	1,850	1,870
Restructuring	1,534	
Changes in operating assets and liabilities, net:		
Accounts receivable	(218)	1,336
Inventories	(5,239)	4,439
Prepaid expenses and other assets	647	3,933
Accounts payable	4,215	(468)
Accrued compensation and benefits	234	(1,065)
Restructuring liabilities	(1,532)	(1,482)
Lease liability		(471)
Accrued warranty	141	(138)
Deferred revenue	(2,348)	(4,921)
Other accrued liabilities	2,218	(2,391)
Net cash provided by operating activities	518	10,821
Cash flows from investing activities:		
Capital expenditures	(758)	(1,963)
Purchases of investments	(76,980)	(91,841)
Proceeds from sales and maturities of investments and marketable securities	133,450	27,282
Net cash provided by (used in) investing activities	55,712	(66,522)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of repurchases	655	1,376
Repurchase of common stock	(11,201)	
Net cash provided by (used in) financing activities	(10,546)	1,376
Net increase (decrease) in cash and cash equivalents	45,684	(54,325)
Cash and cash equivalents at beginning of period	92,598	127,470

Cash and cash equivalents at end of period	$ 138,282	$ 73,145

See accompanying notes to the unaudited condensed consolidated financial statements.

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 Extreme Networks and as we , us and our) included herein have been prepared pursuant to 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 pursuant to such rules and regulations. The condensed consolidated balance sheet at July 2, 2006 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 our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended July 2, 2006.

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 October 1, 2006. The results of operations for the first quarter of fiscal 2007 are not necessarily indicative of the results that may be expected for fiscal 2007 or any future periods.

Revenue Recognition

We derive the majority of our revenue from sales of our modular and stackable networking equipment, with the remaining revenue generated from service fees relating to the service contracts and training on our products. We generally recognize product revenue from our value-added resellers and end-users at the time of shipment, provided that persuasive evidence of an arrangement exists, delivery has occurred, the price of the product is fixed or determinable and collection of the sales proceeds is reasonably assured. Revenue from service obligations under service contracts is deferred and recognized on a straight-line basis over the contractual service period. Service contracts typically range from one to five years. When sales arrangements contain multiple deliverables, such as hardware, service contracts and other services, we determine whether the deliverables represent separate units of accounting and then allocate revenue to each unit of accounting based on their relative fair values. We recognize revenue for each unit of accounting when the revenue recognition criteria for each unit of accounting are met. Shipping costs are included in cost of product revenues.

We make certain sales to partners in two distribution channels, or tiers. The first tier consists of a limited number of independent distributors that sell primarily to resellers and, on occasion, to end-user customers. We defer recognition of revenue on all sales to these distributors until the distributors sell the product, as evidenced by monthly sales-out reports that the distributors provide to us. We grant these distributors the right to return a portion of unsold inventory to us for the purpose of stock rotation. We also grant these distributors certain price protection rights. The distributor-related deferred revenue and receivables are adjusted at the time of the stock rotation return or price reduction. We also provide distributors with credits for changes in selling prices, and allow them to participate in cooperative marketing programs. Cooperative advertising expenses are recorded as marketing expenses to the extent that an advertising benefit separate from the revenue transaction can be identified and the cash paid does not exceed the fair value of that advertising benefit received. We maintain estimated accruals and allowances for these exposures based upon our historical experience. The second tier of the distribution channel consists of a large number of third-party resellers that sell directly to end-users and are not granted return privileges, except for defective products during the warranty period. We reduce product revenue for certain price protection rights that may occur under contractual arrangements we have with our resellers.

Inventories

Inventories consist of raw materials and finished goods and are stated at the lower of cost, determined on a first-in, first-out basis, or market. Inventories, which are net of an allowance for excess and obsolete inventory (which we determine primarily based on future demand forecasts) of $5.6 million and $5.1 million at October 1, 2006 and July 2, 2006, respectively, consist of (in thousands):

	October 1, 2006	July 2, 2006
Raw materials	$ 386	$ 431

Finished goods		23,691		18,872
Total	$	24,077	$	19,303

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Sales to Distributors

We defer recognition of revenue on all sales to distributors until the distributor successfully resells the product, typically to an authorized reseller. Distributors regularly provide us their sales-out reports for this purpose. Until it is sold, inventory held by distributors is included in our reported finished goods inventory and was $4.3 million and $3.2 million at October 1, 2006 and July 2, 2006, respectively. The accounts receivable owed us by distributors, net of the deferred revenue from sales to distributors, is recorded in prepaid expenses and other current assets, as reflected in the following table (in thousands):

	October 1, 2006	July 2, 2006
Accounts receivable, net of allowance for doubtful accounts of $248 ($300 at July 2, 2006)	$ 19,654	$ 17,158
Deferred revenue	(18,306)	(13,325)
Net, included in Prepaid expenses and other current assets	$ 1,348	$ 3,833

Guarantees and Product Warranties

Financial Accounting Standards Board (FASB) Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45) requires that upon issuance of a guarantee, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under that guarantee.

We have determined that the requirements of FIN 45 apply to our standard product warranty liability. The following table summarizes the activity related to our product warranty liability during the first quarter of fiscal 2007 and fiscal 2006 (in thousands):

	Three Months Ended	
	October 1, 2006	October 2, 2005
Balance beginning of period	$ 7,027	$ 7,471
New warranties issued	2,508	2,788
Warranty expenditures	(2,367)	(2,926)
Balance end of period	$ 7,168	$ 7,333

Our standard hardware warranty period is typically 12 months from the date of shipment to end-users. Upon shipment of products to our customers, we estimate expenses for the cost to repair or replace products that may be returned under warranty and accrue a liability in cost of product revenue for this amount. The determination of our 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. We estimate and adjust these accruals at each balance sheet date in accordance with changes in these factors.

In the normal course of business to facilitate sales of our products, we indemnify our resellers and end-user customers with respect to certain matters. We have 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 us under these agreements have not had a material impact on our operating results or financial position.

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Deferred Support Revenue

We offer renewable support arrangements, including extended warranty contracts, to our customers that range generally from one to five years. The change in our deferred support revenue balance in relation to these arrangements was as follows (in thousands):

	Three Months Ended	
	October 1, 2006	October 2, 2005
Balance beginning of period	$ 41,722	$ 47,849
New support arrangements	13,318	10,185
Recognition of support revenue	(14,451)	(14,478)
Balance end of period	40,589	43,556
Less current portion	31,324	32,250
Non-current deferred revenue	$ 9,265	$ 11,306

Recently Issued Accounting Standards

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS 157 replaces the different definitions of fair value in the accounting literature with a single definition. It defines fair value 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. SFAS 157 is effective for fair-value measurements already required or permitted by other standards for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We currently are in the process of determining the impact of adopting the provisions of SFAS 157 on our financial position, results of operations and cash flows.

Fair Value Option for Financial Assets and Liabilities

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (FAS 159). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The provisions of FAS 159 become effective for fiscal years beginning after November 15, 2007. We believe that the adoption of SFAS 159 will not have a material effect on our financial statements.

Accounting for Electronic Equipment Waste Obligations

In June 2005, the FASB issued FSP No. FAS 143-1, *Accounting for Electronic Equipment Waste Obligations* (FSP 143-1). FSP 143-1 provides guidance in accounting for obligations associated with Directive 2002/96/EC (the Directive) on Waste Electrical and Electronic Equipment adopted by the European Union. FAS 143-1 is required to be applied to the later of the first reporting period ending after June 6, 2005 or the date of the Directive s adoption into law by the applicable EU member countries in which we have significant operations. The Directive distinguishes between new and historical waste. New waste relates to products put on the market after August 13, 2005. FSP 143-1 directs commercial users to apply the provisions of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, and the related FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, for the measurement and recognition of the liability and asset retirement obligation associated with the historical waste management requirements of the Directive. Additionally, FSP 143-1 provides guidance for the accounting by producers for the financing of the obligations of historical waste held by private households.

The adoption of FAS 143-1 in the first quarter of fiscal 2006 did not have a material impact on our financial position and results of operations. We are continuing to analyze the impact of the Directive, and FSP 143-1, on our consolidated financial position and results of operations as additional EU member countries adopt the Directive.

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Accounting for Income Taxes

In July 2006, the Financial Accounting Standards Board (FASB) released its final Interpretation on uncertain tax positions, FIN 48, *Accounting for Uncertainty in Income Taxes an interpretation of FAS 109.* This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS 109). This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The guidance will become effective as of the beginning of a company s fiscal year beginning after December 15, 2006. The Company is currently assessing the impact of adopting this standard.

2. Share-Based Compensation

On July 4, 2005, we adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123(R), *Share-Based Payment*, (FAS 123R) using the modified-prospective-transition method.

Share-based compensation recognized in the condensed consolidated financial statements by line item caption is as follows (dollars in thousands):

	Three Months Ended	
	October 1, 2006	**October 2, 2005**
Cost of product revenue	$ 197	$ 170
Cost of service revenue	123	108
Sales and marketing	667	782
Research and development	558	525
General and administrative	305	285
Total share-based compensation expense	1,850	1870
Share-based compensation cost capitalized in inventory	0	24
Total share-based compensation cost	$ 1,850	$ 1894

The fair value of each option award 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 expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The risk-free rate for periods within the contractual life of the option 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 our stock and historical volatility on our stock.

For options granted after July 3, 2005, and valued in accordance with FAS 123R, we used the straight-line method for expense attribution, and we estimate forfeitures and only recognize expense for those shares expected to vest. Our estimated forfeiture rate in the first quarter of fiscal 2007, based on our historical forfeiture experience, is approximately 10%.

	Stock Option Plans Three Months Ended		Employee Stock Purchase Plan Three Months Ended	
	October 1, 2006	**October 2, 2005**	**October 1, 2006**	**October 2, 2005**
Expected life	2.5 yrs	2.6 yrs	0.9 yrs	0.6 yrs
Risk-free interest rate	4.90%	3.95%	5.03%	3.69%
Volatility	51%	62%	37%	45%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

The Black-Scholes-Merton option valuation model requires the input of highly subjective assumptions, including the expected life of the share-based award and stock price volatility. The assumptions listed above represent management s best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, our share-based compensation cost could have been materially different from that recorded. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be materially different.

The weighted-average grant-date per share fair value of options granted in the first quarter of fiscal 2007 and fiscal 2006 were $1.26 and $1.86, respectively. The weighted-average estimated per share fair value of shares granted under our 1999 Employee Stock Purchase Plan in the first quarter of fiscal 2007 and fiscal 2006 were $1.13 and $1.45, respectively.

3. Commitments, Contingencies and Leases

Stock Repurchase Program

On October 20, 2005, our Board of Directors authorized the repurchase of up to $50 million of our common stock. This authorization will expire in October 2007. In the quarter ended October 1, 2006, we repurchased approximately 3.0 million shares for approximately $11.2 million, primarily through open market purchases, bringing the cumulative total to 10.2 million repurchased shares for approximately $44.9 million. On October 25, 2006 the Board of Directors terminated the share repurchase plan, and as of that date, we had repurchased approximately 11.1 million shares for approximately $48.3 million.

Line of Credit

We have a revolving line of credit for $10.0 million with a major lending institution. Borrowings under this line of credit bear interest at the bank s prime rate. As of October 1, 2006, there were no outstanding borrowings under this line of credit. The line of credit contains a provision for the issuance of letters of credit not to exceed the unused balance of the line. As of October 1, 2006, we had letters of credit totaling $0.7 million. These letters of credit were primarily issued to satisfy requirements of certain of our customers for performance bonds. The line of credit requires us to maintain specified financial covenants related to tangible net worth and liquidity with which we were in compliance as of October 1, 2006. The line of credit expires on January 25, 2007.

Purchase Commitments

We currently have arrangements with one contract manufacturer and other suppliers for the manufacture of our products. Our arrangements allow them to procure long lead-time component inventory on our behalf based upon a rolling production forecast provided by us. We are obligated to the purchase of long lead-time component inventory that our contract manufacturer procures in accordance with the forecast, unless we give notice of order cancellation outside of applicable component lead-times. As of October 1, 2006, we had non-cancelable commitments to purchase approximately $24.9 million of such inventory during the second quarter of fiscal 2007.

Legal Proceedings

Government Inquiries Relating to Historical Stock Option Practices

On June 27, 2006, the Company received an informal inquiry letter from the Staff of the SEC Enforcement Division requesting that the Company voluntarily provide documents related to its policies, practices and procedures for granting stock options for the period since its initial public offering on April 9, 1999 (IPO). The Company responded to the request and is cooperating fully with the SEC inquiry.

Late SEC Filing and Nasdaq Delisting Proceedings

As discussed in the Explanatory Note to this Quarterly Report, the Company did not timely file its Form 10-K for the fiscal year ending July 2, 2006 or the Quarterly Reports on Forms 10-Q for the quarters ended October 1, 2006, December 31, 2006 and April 1, 2007. As a result, the Company initially received two Nasdaq Staff Determination letters, dated September 22, 2006, and November 15, 2006, respectively, stating that the Company was not in compliance with the filing requirements of Marketplace Rule 4310(c)(14) and, therefore, that the Company s stock was subject to delisting from the Nasdaq Global

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Select Market. The Company appealed the determination in the September 22, 2006 letter and requested a hearing before a Nasdaq Listing Qualifications Panel. On November 9, 2006, we attended a hearing, at which we simultaneously sought appropriate exceptions to the filing requirements from the Panel pending completion and filing of both our delinquent 10-K and 10-Q report for the quarter ended October 1, 2006. On January 8, 2007, the Panel granted our request for continued listing of our stock on the Nasdaq Global Select Market, subject to the condition that we file the 10-K annual report and our Quarterly Report on Form 10-Q for the quarter ended October 1, 2006 on or before March 21, 2007.

On February 20, 2007, we received another Nasdaq Staff Determination letter, stating that we were not in compliance with the filing requirements of Marketplace Rule 4310(c)(14) because we did not timely file our Quarterly Report on Form 10-Q for the quarter ended December 31, 2006 and, therefore, that our stock was subject to delisting from the Nasdaq Global Select Market. Also on February 20, 2007, we were informed by the Nasdaq Listing and Hearings Review Council that at our request it had stayed the Panel s determination and any future Panel determinations to suspend our securities from trading pending further action by the Listing Council. On June 22, 2007, the Listing Council issued a ruling exercising its authority under Marketplace Rule 4802(b) to grant the Company an extension until July 3, 2007 to file this Report and our Quarterly Reports on Forms 10-Q for the quarters ended October 1, 2006, December 31, 2006, and April 1, 2007. On June 18, 2007, in anticipation of the Listing Council s decision, the Company requested that the Nasdaq Board of Directors provide a further extension of time to allow the Company to come into compliance. The Nasdaq Board granted that request on June 25, 2007.

With the filing of our Annual Report on Form 10-K for fiscal year 2006, this Quarterly Report and our Quarterly Reports on Forms 10-Q for the quarters ended December 31, 2006, and April 1, 2007, the Company believes that it has returned to full compliance with SEC reporting requirements and Nasdaq listing requirements. The Company therefore expects that the Nasdaq delisting matter will be closed, and will seek confirmation from Nasdaq of that result.

We cannot predict, however, whether the SEC will review these reports and, if so, whether the SEC will have comments on these reports (or other reports that we previously filed) that may require us to file amended reports with the SEC. In addition, we cannot predict whether the Nasdaq Listing Qualifications Panel or Listing Council will concur that we are in compliance with all relevant listing requirements. If either of those events occurs, we might be unable to remain in compliance with SEC reporting requirements and Nasdaq listing requirements, and, therefore, we might be unable to maintain an effective listing of our common stock on the Nasdaq Global Select Market or any other national securities exchange.

Shareholder Litigation Relating to Historical Stock Option Practices

On April 25, 2007, an individual identifying herself as a shareholder of the Company filed a derivative action in the United States District Court for the Northern District of California purporting to assert claims on behalf of and in the name of the Company against various of our current and former directors and officers relating to our stock option granting practices for stock options issued from 2000 to 2003. The complaint alleges that the individual defendants breached their fiduciary duties and other obligations to the Company and violated federal securities laws in connection with our historical stock option granting process and our accounting for past stock options.

The plaintiff has asserted claims for violations of Sections 10(b) (including Rule 10b-5 thereunder), 14(a), and 20(a) of the Securities Exchange Act of 1934, unjust enrichment, breach of fiduciary duty and aiding and abetting such breach, rescission, and a claim for an accounting of all stock option grants made to the named defendants. Extreme Networks, Inc. is named as a nominal defendant in these actions. On behalf of Extreme Networks, Inc., the plaintiff seeks unspecified monetary and other relief against the named defendants. The plaintiff is Yenna Wu. The individual named defendants are Gordon L. Stitt, Herb Schneider, Stephen Haddock, Paul Romeo, Vito Palermo, Harold Covert, Darrell Scherbarth, Christopher, N. Todd, Alexander J. Gray, Frank C. Carlucci, William R. Slakey, Charles Carinalli, Harry Silverglide, Michael West, Kenneth Levy, Robert L. Corey, Peter Wolken, and Promod Haque.

A similar derivative action was filed in the same court on May 2, 2007, by Linda Erikson, another individual identifying herself as a shareholder of the Company, alleging the same legal claims against the same individual defendants concerning the same subject matter.

A third derivative action was filed in the same court on May 31, 2007 by Frank A. Grucel, an individual identifying himself as a shareholder of the Company, purporting to assert claims on the Company s behalf relating to the Company's historic stock options granting practices. The complaint seeks unspecified monetary and injunctive relief and asserts claims for violations of Section 14(a) of the Securities Exchange Act of 1934, an accounting of all stock option grants made to the named defendants, breach of fiduciary duty and aiding and abetting such breach, abuse of control, gross mismanagement, constructive fraud, corporate waste, unjust enrichment, rescission, violations of California Corporations Code Section 25402, and breach of fiduciary duties related to insider selling and alleged misappropriation of information. Extreme Networks, Inc. is named as a nominal defendant in this action, and the individual named defendants are Gordon L. Stitt, Herb Schneider, Stephen Haddock, Alexander J. Gray, Frank C. Carlucci, William R. Slakey, Charles Carinalli, Harry Silverglide, Michael West, Kenneth Levy, Robert L. Corey, Peter Wolken, Michael Palu, and Alicia Moore.

The foregoing actions have been related and assigned to the same judge. On June 15, 2007, Yenna Wu filed an amended complaint in her action. The amended complaint names one additional individual defendant, Mark Canepa, as well as the individual defendants named in the derivative complaints filed on April 25, 2007 and May 2, 2007, is purportedly brought both as a derivative action and as a class action on behalf of all current shareholders of the Company, and alleges a claim for violation of Delaware General Corporations Code Section 211(c), seeking an order compelling the Company to hold a shareholder s meeting. The amended complaint otherwise alleges the same claims as the derivative complaints filed on April 25, 2007 and May 2, 2007 by plaintiffs Wu and Erikson, respectively.

The foregoing actions are at an early stage. Discovery has not commenced, and the defendants are not yet required to respond to the complaints. We cannot predict whether these actions are likely to result in any material recovery by or expense to the Company.

Indemnification Obligations

Subject to certain limitations, we may be obligated to indemnify our current and former directors, officers and employees. These obligations arise under the terms of our certificate of incorporation, our bylaws, applicable contracts, and Delaware and California law. The obligation to indemnify, where applicable, generally means that we are required to pay or reimburse, and in certain circumstances we have 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 our consolidated financial position, results of operations and cash flows in the future. Recovery of such costs under our directors and officers insurance coverage is uncertain.

Other Legal Matters

On April 20, 2007, Extreme Networks filed suit against Enterasys in the United States District Court for the Western District of Wisconsin, Civil Action No. 07-C-0229-C. The complaint alleges willful infringement of U.S. patents Nos. 6,104,700, 6,678,248, and 6,859,438, and seeks injunctive relief against Enterasys continuing sale of infringing goods and monetary damages. Enterasys responded to the complaint on May 30, 2007. Enterasys also filed a counterclaim alleging infringement of three U.S. patents owned by Enterasys. The case is in its early stages, however a Markman Hearing has been scheduled for October 2007, and a trial date has been set for May 2008.

On December 27, 2005, Broadband Office Inc. (Broadband) served an amended complaint, adding Extreme Networks as a defendant in its lawsuit against Technology Credit Corporation (TCC) and Key Equipment Finance, Inc., seeking recovery of an alleged preferential payment in the amount of $0.8 million plus interest, purportedly paid by Broadband to TCC within ninety days prior to Broadband s petition for bankruptcy protection. Extreme Networks disputes that it owes any money to Broadband, and intends vigorously to defend against the claims.

On June 21, 2005, Enterasys filed suit against Extreme Networks and Foundry Networks, Inc. (Foundry) in the United States District Court for the District of Massachusetts, Civil Action No.05-11298 DPW. The complaint alleges willful infringement of U. S. Patent Nos. 5,251,205; 5,390,173; 6,128,665; 6,147,995; 6,539,022; and 6,560, 236, and seeks: a) a judgment that Extreme willfully infringes each of the patents; (b) a permanent injunction from infringement, inducement of infringement and contributory infringement of each of the six patents; (c) damages and a reasonable royalty to be determined at trial; (d) trebled damages; (e) attorneys fees, costs and interest; and (f) equitable relief at the court s discretion. The Markman hearing has been rescheduled for October 2007. We intend vigorously to defend against Enterasys assertions, which we believe to be without merit.

On May 27, 2003, Lucent filed suit against Extreme Networks and Foundry in the United States District Court for the District of Delaware, Civil Action No. 03-508. The complaint alleged willful infringement of U.S. Patent Nos. 4,769,810, 4,769,811, 4,914,650, 4,922,486 and 5,245,607. After the Markman hearing, Lucent dropped its claims relating to the 5,245,607 patent. The judge split the case into three parts to be tried separately: phase 1 to cover infringement, willfulness and damages; phase 2 to cover invalidity; and phase 3 to cover equitable defenses and our counterclaims. On May 9, 2005, a jury in Delaware awarded a verdict to Extreme in the phase 1 trial of non-infringement on 18 out of the 19 claims asserted. The jury did award Lucent damages of approximately $275,000 on the remaining claim; which covers a feature that is not offered in our current product line. The parties each filed post-trial motions; and on August 16, 2005, the judge granted Lucent s motion for a new trial, ruling that Extreme impermissibly introduced to the jury evidence of its prior relationship with Lucent. Extreme s motion for reconsideration was denied. On August 9, 2006, the parties entered into a settlement agreement to resolve all outstanding claims which includes the dismissal of all claims and a patent cross-license for a defined term.

Beginning on July 6, 2001, purported securities fraud class action complaints were filed in the United States District Court for the Southern District of New York. The cases were consolidated and the litigation is now captioned as In re Extreme Networks, Inc. Initial Public Offering Securities Litigation, Civ. No. 01-6143 (SAS) (S.D.N.Y.), related to In re Initial Public Offering Securities Litigation, 21 MC 92 (SAS) (S.D.N.Y.).The operative amended complaint names as defendants Extreme Networks; six of our present and former officers and/or directors, including our CEO (the "Extreme Networks Defendants"); and several investment banking firms that served as underwriters of our initial public offering and October 1999 secondary offering. The complaint alleges liability under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, on the grounds that the registration statement for the offerings did not disclose that: (1) the underwriters had agreed to allow certain customers to purchase shares in the offerings in exchange for excess commissions paid to the underwriters; and (2) the underwriters had arranged for certain customers to purchase additional shares in the aftermarket at predetermined prices. Similar allegations were made in other lawsuits challenging over 300 other initial public offerings and follow-on offerings conducted in 1999 and 2000. The cases were consolidated for pretrial purposes. Previously, we executed a settlement agreement presented to all issuer defendants. In that settlement, plaintiffs would dismiss and release all claims against the Extreme Network Defendants, in exchange for a contingent payment by the insurance companies collectively responsible for insuring the issuers in all of the IPO cases, and for the assignment or surrender of control of certain claims we may have against the underwriters. The Extreme Networks Defendants would not be required to make any cash payments in the settlement, unless the pro rata amount paid by the insurers in the settlement exceeded the amount of the insurance coverage. The Court gave preliminary approval to the settlement in February 2005 and held a hearing in April 2006 to consider final approval of the settlement. Before the Court issued a final decision on the settlement, on December 5, 2006 the United States Court of Appeals for the Second Circuit vacated the class certification of plaintiffs claims against the underwriters in six cases designated as focus or test cases. Thereafter, on December 14, 2006, the Court ordered a stay of all proceedings in all of the lawsuits pending the outcome of plaintiffs petition to the Second Circuit Court of Appeals for a rehearing en banc and resolution of the class certification issue. On April 6, 2007, the Second Circuit Court of Appeals denied plaintiffs petition for a rehearing, but clarified that the plaintiffs may seek to certify a more limited class. Accordingly, the plaintiffs and issuers have stated that they are prepared to discuss how the settlement might be amended or renegotiated to comply with the decision of the Second Circuit Court of Appeals. On April 30, 2007, Plaintiffs stated that they intend to present a proposed redefined class to the Court. If the settlement is not amended or renegotiated and then approved by the Court, there is no assurance that we will prevail in the lawsuit. Failure to prevail could have a material adverse effect on our consolidated financial position, results of operations and cash flows in the future.

We may from time to time be party to litigation arising in the course of our business, including, without limitation, allegations relating to commercial transactions or 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.

4. Comprehensive Income (Loss)

Comprehensive income (loss) was as follows (in thousands):

	Three Months Ended	
	October 1, 2006	**October 2, 2005**
Net income (loss)	$ (4,927)	$ 4,353
Other comprehensive income (loss):		
Unrealized gain (loss) on investments:		
Change in net unrealized gain (loss) on investments	1,100	(351)
Less: Net gain on investments realized and included in net income		
Net unrealized gain (loss) on investments	1,100	(351)
Unrealized gain on derivatives	(1)	(1)
Foreign currency translation adjustments	78	(135)
Total comprehensive income (loss)	$ (3,750)	$ 3,866

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5. Income Taxes

We recorded an income tax provision of $0.8 million and $0.5 million for the first quarter of fiscal 2007 and the first quarter of fiscal 2006, respectively. The income tax provision for the first quarter of fiscal 2007 reflects an effective tax rate of negative 15%, which differs from the statutory tax rate due to benefits to the tax impact of income from foreign operations and unbenefited losses in the U.S. taxes due to the full valuation allowance on our net deferred tax assets in accordance with SFAS 109. The income tax provision for the first quarter of fiscal 2006 reflects an effective tax rate of 10%, which differs from the statutory tax rate due to benefits to U.S. taxes from net operating loss carryforwards and tax credit carryforwards, offset by the tax impact of income from foreign operations. The effective tax rate is estimated based on estimated full year earnings, and may be subject to revision during fiscal 2007.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Significant management judgment is required in determining our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We make an assessment of the likelihood that our net deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not believed to be likely, a valuation allowance is established.

During fiscal 2003, we established a full valuation allowance for our net deferred tax assets. The valuation allowance was calculated in accordance with the provisions of SFAS 109, which requires an assessment of both negative and positive evidence when measuring the need for a valuation allowance. In accordance with SFAS 109, evidence, such as operating results during the most recent three-year period, is given more weight than our expectations of future profitability, which are inherently uncertain. Our most recent three year history of losses, as of the date of the establishment of the valuation allowance, represented sufficient negative evidence to require a full valuation allowance against our net deferred tax assets under SFAS 109. This valuation allowance will be evaluated periodically and can be reversed partially or totally if business results have sufficiently improved to support realization of our deferred tax assets.

6. Net Income (Loss) Per Share

Basic net income (loss) per share is calculated by dividing net income (loss) 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 convertible subordinated notes. Diluted net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares used in the basic earnings (loss) per share calculation plus the dilutive effect of shares subject to repurchase, options, warrants and convertible subordinated notes.

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

	Three Months Ended	
	October 1, 2006	October 2, 2005
Net income (loss)	$ (4,927)	$ 4,353
Weighted-average shares of common stock outstanding	115,653	123,018
Less: Weighted-average shares subject to repurchase		
Weighted-average shares used in per share calculation basic	115,653	123,018
Incremental shares using the treasury stock method		1,736
Weighted-average shares used in per share calculation diluted	115,653	124,754
Net income (loss) per share basic	$ (0.04)	$ 0.04
Net income (loss) per share diluted	$ (0.04)	$ 0.03

The following table sets forth potential shares of common stock that are not included in the diluted net income (loss) per share calculation above because to do so would be antidilutive for the periods (in thousands):

	Three Months Ended	
	October 1, 2006	**October 2, 2005**
Stock options outstanding:		
In-the-money options	507	
Out-of-the-money options	20,879	19,785
Warrants	857	
Convertible subordinated notes	9,542	9,542
Total potential shares of common stock excluded from the computation of earnings per share	31,785	29,327

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The computation of diluted net income (loss) per share for the first fiscal quarter of 2007 and 2006 excludes the impact of the conversion of the convertible subordinated notes, which are convertible into approximately 9.5 million shares of common stock, as the impact of adding back to income the after tax interest expense associated with the convertible subordinated notes, and including the impact of the common shares to be issued, would be antidilutive in these periods.

Warrants and stock options with an exercise price lower than our average stock price for the periods presented (In-the-money stock options) are excluded from the calculation of diluted net (loss) per share in the quarter ended October 1, 2006 since the effect would have been antidilutive under the treasury stock method due to the net loss in the period.

Stock options outstanding with an exercise price higher than our average stock price for the periods presented (Out-of-the-money stock options) are excluded from the calculation of diluted net income (loss) per share since the effect would have been anti-dilutive under the treasury stock method.

7. Restructuring Liabilities

As of October 1, 2006, restructuring liabilities were $17.0 million and consisted of obligations under excess facility operating leases and severance costs. During the first quarter of fiscal 2007, we recorded a restructuring charge of $1.5 million for our Japan operations, $1.3 million of which represented severance charges and $0.2 million represented an excess facilities charge. The severance charges of $1.3 million related to a reduction in our Japan staff during the first quarter of fiscal 2007.

An excess facility charge was initially recognized during fiscal 2002 to permanently reduce occupancy or vacate certain domestic and international facilities. The charge for excess facilities was comprised primarily of future minimum lease payments payable over the remaining life of the leases, net of total estimated sublease income. Since the commercial real estate market continued to be weak in certain areas during fiscal 2006, we concluded that we would not be able to find a suitable tenant for the remaining vacant facility and accordingly adjusted our estimate by $3.3 million to exclude any future sublease income assumption for that facility. The actual costs could differ from our estimates, and additional adjustments to the restructuring liability could be recorded if we are unable to negotiate reasonable termination fees on certain facilities, if facility sub-lease rental rates change, or if other estimates and assumptions change.

Activity with respect to restructuring liabilities is as follows (in thousands):

	Excess Facilities	Severance	Total
Balance at July 2, 2006	$ 17,042	$	$ 17,042
Charge in first quarter of fiscal 2007	172	1,362	1,534
Cash payments	(1,532)		(1,532)
Balance at October 1, 2006	15,682	1,362	17,044
Less: current portion	5,239	1,362	6,601
Restructuring liabilities at October 1, 2006, less current portion	$ 10,443	$	$ 10,443

Proposed Sale of Corporate Campus

On April 24, 2006, the Company announced that it had entered into a contract for the sale of its corporate headquarters campus in Santa Clara, California at a price of $70 million (the Campus Sale Agreement). Under the Campus Sale

Agreement, completion of the transaction was contingent upon the satisfaction of certain conditions. On October 31, 2006, the Company announced that the Campus Sale Agreement expired under its terms. Accordingly, the parties are no longer bound to proceed with the transaction, and the proposed purchaser has the right not to proceed with the transaction. The Company continues to review its alternatives with respect to this matter, but cannot make any predictions at this time.

8. Subsequent Event

On June 25, 2007, the Company s Board of Directors, following a review of on-going expense requirements, approved a plan under which the Company will incur a restructuring charge in the fourth quarter of fiscal 2007 related to a reduction in force, the closure of a facility, and the termination of certain product development contracts. The Company expects to finalize the plan during the fourth quarter of fiscal 2007. The Company believes that all cash expenditures in connection with the plan will occur in future periods.

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, particularly statements relating to our expectations regarding results of operations, our ability to expand our market penetration, our ability to expand our distribution channels, customer acceptance of our products, our ability to meet the expectations of our customers, product demand and revenue, cash flows, product gross margins, our expectations to continue to develop new products and enhance existing products, our expectations regarding the amount of our research and development expenses, our expectations relating to our selling, general and administrative expenses, our efforts to achieve additional operating efficiencies and to review and improve our business systems and cost structure, our expectations to continue investing in technology, resources and infrastructure, our expectations concerning the availability of products from suppliers and contract manufacturers, anticipated product costs and sales prices, our expectations that we have sufficient capital to meet our requirements for at least the next twelve months, our expectations regarding the rationalization of our workforce and facilities, our efforts to sell our corporate campus, and our expectations regarding materials and inventory management. These forward-looking statements involve risks and uncertainties, and the cautionary statements set forth below and those contained in the section entitled Risk Factors identify important factors that could cause actual results to differ materially from those predicted in any such forward-looking statements. 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 this Form 10-Q and other filings we have made with the Securities and Exchange Commission.

Business Overview

We develop and sell a family of modular and stackable network infrastructure equipment and offer related service contracts for extended warranty and maintenance agreements. Substantially all of our revenue is derived from the sale of networking equipment and the related service contracts. We believe that understanding the following key developments is helpful to an understanding of our operating results for the first quarter of fiscal 2007.

Increased Product Breadth

We believe that continued success in the marketplace will depend on our ability to develop new and enhanced products employing leading-edge technology. In fiscal 2006, we introduced several new products that allow for the continued deployment of secure, converged networks as well as the expansion of the ExtremeXOS operating system from the core to the edge of the network. The following products were introduced in fiscal 2006: the BlackDiamond 8806 enterprise edge modular switch, the Summit WM100 and WM1000 wireless network controllers, the Sentriant security appliance for the detection and mitigation of rapidly propagating threats, the BlackDiamond 12804 modular switch, a next generation Layer 3 chassis switch for metro Ethernet providers and enterprise converged networks and the Summit X450a 24t, Summit X450a 48t, Summit 450e 24p ExtremeXOSTM-based fixed switches.

Convergence of Voice, Video and Data

We have a vision of providing customers with the systems to build a converged communications infrastructure that can easily accommodate voice, video and data on a seamless wired and wireless network. We believe that these two aspects of convergence, the convergence of voice, video and data, and the convergence of wired and wireless, are important underlying demand creators in the enterprise market.

In October 2003, we announced our comprehensive strategic alliance with Avaya, Inc. to jointly develop and market converged communications solutions. The alliance brings together Avaya s global market leadership in IP voice and telephony with Extreme s expertise in high performance

IP data network infrastructure. Under a joint development agreement, the companies develop next generation, standards-based technologies in the areas of network management and provisioning, Quality of Service, security, and network resilience. Additionally, Avaya sells, services and supports Extreme s entire portfolio of data networking products through their worldwide sales organization and the Avaya Global Services organization.

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Business Environment

Throughout fiscal 2003 and early 2004, the primary factor that impacted our operations and financial performance was weak demand for networking equipment resulting from the continuing weakness of the global and U.S. economies. Weak economic conditions persisted through most of fiscal 2004, but beginning in the third quarter of fiscal 2004, we began to see evidence of strengthening demand for our products. In fiscal 2005, we continued to generate revenue growth, although not each and every quarter, and not in all geographic markets. In fiscal 2006 and the first quarter of fiscal 2007, however, we experienced a significant decline in demand for our product in the service provider segment in Japan and lower revenue in the enterprise segment in the U.S.

Results of Operations

Our operations and financial performance have been affected by the economic factors described above, and during the first quarter of fiscal 2007, we experienced the following results (with comparisons to the first quarter of fiscal 2006):

- Net revenues of $83.8 million, a decrease of 14.5% from the first quarter of fiscal 2006 net revenues of $97.9 million.
- Service revenue of $15.8 million, a decrease of 1.4% from first quarter of fiscal 2006 service revenue of $16.0 million.
- Total gross margin of 51.5% of net revenues, down from 54.4% in the first quarter of fiscal 2006.
- Net loss of $4.9 million, a decrease from $4.4 million of net income in the first quarter of fiscal 2006.
- Cash flow from operating activities was $0.5 million in the three months ending October 1, 2006. Cash and cash equivalents, short-term investments and marketable securities decreased by $9.7 million in the three months ended October 1, 2006 to $423.4 million. We continued to repurchase shares under our share repurchase program authorized by our board of directors in the first quarter of fiscal 2006 by repurchasing approximately 3.0 million shares for $11.2 million in the first quarter of fiscal 2007.

Net Revenues

The following table presents net product and service revenues for the first quarter of fiscal 2007 and fiscal 2006 (dollars in thousands):

	Three months ended			
	October 1, 2006	% of Net Revenues	October 2, 2005	% of Net Revenues
Net Revenues:				
Product	$ 67,982	81.2%	$ 81,917	83.7%
Service	15,781	18.8%	16,005	16.3%
Total net revenues	$ 83,763	100.0%	$ 97,922	100.0%

Net revenues were $83.8 million in the first quarter of fiscal 2007 and $97.9 million in the first quarter of fiscal 2006, representing a decrease of 14.5% in the first quarter of fiscal 2007 from the first quarter of fiscal 2006.

Product revenue decreased to $68.0 million for the first quarter of fiscal 2007 from $81.9 million for the first quarter of fiscal 2006, a decrease of $13.9 million, or 17.0%. This decrease was primarily due to a decrease in the volume of units sold, primarily from a decline in sales in the United States and Japan.

Service revenue decreased to $15.8 million for the first quarter of fiscal 2007 from $16.0 million for the first quarter of fiscal 2006, a decrease of $0.2 million, or 1.4%. This decrease was primarily due to lower maintenance and training revenue.

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The following table presents the total net revenue geographically for the first quarter of fiscal 2007 and fiscal 2006 (dollars in thousands):

	Three months ended			
	October 1, 2006	**% of Net Revenues**	**October 2, 2005**	**% of Net Revenues**
Net Revenues:				
United States	$ 34,241	40.9%	$ 45,116	46.1%
Europe, Middle East and Africa	32,839	39.2%	30,073	30.7%
Japan	4,609	5.5%	10,729	11.0%
Other	12,074	14.4%	12,004	12.2%
Total net revenues	$ 83,763	100.0%	$ 97,922	100.0%

Sales of products and services outside the United States accounted for approximately 59% of our business in the first quarter of fiscal 2007, compared to 54% in the first quarter of fiscal 2006. Revenue outside the U.S., as a percentage of total net revenue, in the first quarter of fiscal 2007 increased by 5% compared to the year-ago quarter due primarily to an increase in revenue in Europe, Middle East and Africa, offset by a decrease in revenue in Japan. Total net revenue in Europe, Middle East and Africa increased in the current quarter over the prior year quarter following the recent trend of improved demand in that geographic region. Total revenue in Japan decreased in the current quarter as a result of lower demand for networking products within the service provider segment. We expect that export sales will continue to represent a significant portion