

**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 July 28, 2012

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: 000-25601

Brocade Communications Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

77-0409517

(I.R.S. Employer
Identification No.)

**130 Holger Way
San Jose, CA 95134**

(408) 333-8000

(Address, including zip code, of principal
executive offices and registrant's telephone
number, including area code)

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

The number of shares outstanding of the registrant's common stock as of August 24, 2012 was 458,695,877 shares.

BROCADE COMMUNICATIONS SYSTEMS, INC.

FORM 10-Q

QUARTER ENDED JULY 28, 2012

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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements regarding future events and future results. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including, but not limited to, statements regarding future revenue, margins, expenses, tax provisions, earnings, cash flows, benefit obligations, debt repayments, share repurchases or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning expected development, performance or market share relating to products or services; any statements regarding future economic conditions or performance; any statements regarding pending litigation, including claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Words such as “expects,” “anticipates,” “assumes,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “continues,” “may,” variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on current expectations, estimates, forecasts and projections about the industries in which Brocade operates, and the beliefs and assumptions of management. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified below under “Part II - Other Information, Item 1A. Risk Factors” and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Further, Brocade undertakes no obligation to revise or update any forward-looking statements for any reason.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

BROCADE COMMUNICATIONS SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
	(In thousands, except per share amounts)			
Net revenues				
Product	\$ 467,281	\$ 414,298	\$ 1,399,687	\$ 1,328,821
Service	88,051	88,552	259,726	268,148
Total net revenues	555,332	502,850	1,659,413	1,596,969
Cost of revenues				
Product	173,637	149,321	513,221	498,012
Service	41,217	47,002	123,863	142,939
Total cost of revenues	214,854	196,323	637,084	640,951
Gross margin	340,478	306,527	1,022,329	956,018
Operating expenses:				
Research and development	90,530	87,320	272,780	270,669
Sales and marketing	146,378	153,345	457,921	462,991
General and administrative	18,612	16,617	55,752	53,176
Legal fees associated with indemnification obligations and other related costs, net	—	—	—	124
Amortization of intangible assets	14,737	15,023	44,467	46,236
Total operating expenses	270,257	272,305	830,920	833,196
Income from operations	70,221	34,222	191,409	122,822
Interest expense	(12,029)	(42,066)	(37,804)	(84,357)
Interest and other income (loss), net	103	(519)	(1,345)	(160)
Income (loss) before income tax	58,295	(8,363)	152,260	38,305
Income tax expense (benefit)	14,995	(10,300)	11,080	(16,629)
Net income	\$ 43,300	\$ 1,937	\$ 141,180	\$ 54,934
Net income per share — basic	\$ 0.09	\$ 0.00	\$ 0.31	\$ 0.12
Net income per share — diluted	\$ 0.09	\$ 0.00	\$ 0.30	\$ 0.11
Shares used in per share calculation — basic	457,147	483,744	455,727	474,020
Shares used in per share calculation — diluted	469,571	509,548	471,719	500,741

See accompanying notes to condensed consolidated financial statements.

BROCADE COMMUNICATIONS SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	July 28, 2012	October 29, 2011
(In thousands, except par value)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 580,626	\$ 414,202
Short-term investments	808	774
Total cash, cash equivalents and short-term investments	581,434	414,976
Accounts receivable, net of allowances for doubtful accounts of \$2,184 and \$1,388 at July 28, 2012 and October 29, 2011, respectively	231,155	249,141
Inventories	74,200	74,172
Deferred tax assets	55,400	53,604
Prepaid expenses and other current assets	49,176	52,308
Total current assets	991,365	844,201
Property and equipment, net	523,405	532,384
Goodwill	1,626,754	1,630,967
Intangible assets, net	134,715	214,697
Non-current deferred tax assets	182,381	210,028
Other assets	38,904	42,031
Total assets	\$ 3,497,524	\$ 3,474,308
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 116,469	\$ 109,471
Accrued employee compensation	137,942	118,298
Deferred revenue	208,263	201,421
Current liabilities associated with facilities lease losses	868	1,456
Current portion of long-term debt	8,515	40,539
Other accrued liabilities	83,311	94,802
Total current liabilities	555,368	565,987
Long-term debt, net of current portion	621,206	748,904
Non-current liabilities associated with facilities lease losses	1,942	2,496
Non-current deferred revenue	71,560	69,024
Non-current income tax liability	46,366	63,593
Other non-current liabilities	9,481	10,166
Total liabilities	1,305,923	1,460,170
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.001 par value, 800,000 shares authorized:		
Issued and outstanding: 460,903 and 448,022 shares at July 28, 2012 and October 29, 2011, respectively	461	448
Additional paid-in capital	2,028,305	1,984,830
Accumulated other comprehensive loss	(19,204)	(11,996)
Retained earnings	182,039	40,856
Total stockholders' equity	2,191,601	2,014,138
Total liabilities and stockholders' equity	\$ 3,497,524	\$ 3,474,308

See accompanying notes to condensed consolidated financial statements.

BROCADE COMMUNICATIONS SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	July 28, 2012	July 30, 2011
(In thousands)		
Cash flows from operating activities:		
Net income	\$ 141,180	\$ 54,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess tax (benefits) detriments from stock-based compensation	(1,338)	81
Depreciation and amortization	144,683	155,453
Loss on disposal of property and equipment	404	2,046
Amortization of debt issuance costs and original issue discount	3,767	11,924
Write-off of debt issuance costs and original issue discount on debt extinguishment	—	25,465
Net gains on investments	(35)	(348)
Provision for doubtful accounts receivable and sales allowances	9,533	8,057
Non-cash compensation expense	58,746	63,405
Changes in assets and liabilities:		
Accounts receivable	8,454	13,802
Inventories	(2,099)	(2,931)
Prepaid expenses and other assets	2,675	(4,069)
Deferred tax assets	181	23
Accounts payable	8,476	(31,874)
Accrued employee compensation	5,554	(22,184)
Deferred revenue	9,377	13,299
Other accrued liabilities	(8,038)	(38,877)
Liabilities associated with facilities lease losses	(1,142)	(5,207)
Net cash provided by operating activities	<u>380,378</u>	<u>242,999</u>
Cash flows from investing activities:		
Purchases of short-term investments	—	(38)
Proceeds from maturities and sale of short-term investments	—	1,604
Proceeds from sale of subsidiary	35	—
Purchases of property and equipment	(56,005)	(76,661)
Net cash used in investing activities	<u>(55,970)</u>	<u>(75,095)</u>
Cash flows from financing activities:		
Payment of principal related to the term loan	(160,000)	(309,897)
Payment of fees related to the term loan	—	(1,090)
Proceeds from term loan	—	198,949
Payment of principal related to capital leases	(1,389)	(1,311)
Common stock repurchases	(70,153)	(10,044)
Proceeds from issuance of common stock	76,472	93,333
Excess tax benefits (detriments) from stock-based compensation	1,338	(81)
Net cash used in financing activities	<u>(153,732)</u>	<u>(30,141)</u>
Effect of exchange rate fluctuations on cash and cash equivalents	(4,252)	812
Net increase in cash and cash equivalents	166,424	138,575
Cash and cash equivalents, beginning of period	414,202	333,984
Cash and cash equivalents, end of period	<u>\$ 580,626</u>	<u>\$ 472,559</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 44,489</u>	<u>\$ 55,124</u>
Cash paid for income taxes	<u>\$ 3,189</u>	<u>\$ 848</u>

See accompanying notes to condensed consolidated financial statements.

BROCADE COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

Brocade Communications Systems, Inc. ("Brocade" or the "Company") has prepared the accompanying Condensed Consolidated Financial Statements pursuant to the rules and regulations of the United States ("U.S.") Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. The Condensed Consolidated Balance Sheet as of October 29, 2011 was derived from the Company's audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 29, 2011.

The accompanying Condensed Consolidated Financial Statements are unaudited but, in the opinion of the Company's management, reflect all adjustments, including normal recurring adjustments, that management considers necessary for a fair presentation of these Condensed Consolidated Financial Statements. The results for the interim periods presented are not necessarily indicative of the results for the full fiscal year or any other future period.

The Company's fiscal year is a 52 or 53 week period ending on the last Saturday in October. Fiscal year 2012 is a 52-week fiscal year, and the third quarter of 2012 was a 13-week quarter. Fiscal year 2011 was a 52-week year, and the third quarter of 2011 was a 13-week quarter.

The Condensed Consolidated Financial Statements include the accounts of Brocade and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates in Preparation of Condensed Consolidated Financial Statements

The preparation of condensed consolidated financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and judgments that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, revenue recognition, sales allowances and programs, allowance for doubtful accounts, stock-based compensation, purchase price allocations, warranty obligations, inventory valuation and purchase commitments, restructuring costs, commissions, facilities lease losses, impairment of goodwill and intangible assets, litigation, income taxes and investments. Actual results may differ materially from these estimates.

2. Summary of Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies for the nine months ended July 28, 2012 as compared to the significant accounting policies disclosed in Brocade's Annual Report on Form 10-K for the fiscal year ended October 29, 2011.

Recent Accounting Pronouncements

There have been no new accounting pronouncements during the nine months ended July 28, 2012, as compared to the recent accounting pronouncements disclosed in Brocade's Annual Report on Form 10-K for the fiscal year ended October 29, 2011, that are expected to have a material impact on the Company's financial position, results of operations, cash flows or disclosure requirements.

Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, short-term investments and accounts receivable. The Company's cash, cash equivalents and short-term investments are primarily maintained at five major financial institutions. Deposits held with banks may be redeemed upon demand and may exceed the amount of insurance provided on such deposits.

A majority of the Company's accounts receivable balance is derived from sales to original equipment manufacturer ("OEM") partners in the computer storage and server industry. As of July 28, 2012, three customers accounted for 17%, 15% and 15%, respectively, of total accounts receivable, for a combined total of 47% of total accounts receivable. As of October 29, 2011, two customers accounted for 16% and 14%, respectively, of total accounts receivable, for a combined total of 30% of total accounts receivable. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable balances. The Company has established reserves for credit losses, sales allowances, and other allowances.

For the three months ended July 28, 2012, four customers accounted for 16%, 16%, 13% and 10%, respectively, of the Company's total net revenues for a combined total of 55% of total net revenues. For the three months ended July 30, 2011, three customers accounted for 16%, 12% and 15%, respectively, of the Company's total net revenues for a combined total of 43% of total net revenues.

The Company currently relies on single and limited sources for multiple key components used in the manufacture of its products. Additionally, the Company relies on contract manufacturers ("CMs") for the manufacturing of its products. Although the Company uses standard parts and components for its products where possible, the Company's CMs currently purchase, on the Company's behalf, several key product components from single or limited supplier sources.

3. Goodwill and Intangible Assets

The following table summarizes goodwill activity by reportable segment for the nine months ended July 28, 2012 (in thousands):

	Data Storage Products	Ethernet Products	Global Services	Total
Balance at October 29, 2011				
Goodwill	\$ 176,968	\$ 1,344,415	\$ 155,416	\$ 1,676,799
Accumulated impairment losses	—	(45,832)	—	(45,832)
	176,968	1,298,583	155,416	1,630,967
Tax and other adjustments during the nine months ended July 28, 2012 (1)	(8)	(4,205)	—	(4,213)
Balance at July 28, 2012				
Goodwill	176,960	1,340,210	155,416	1,672,586
Accumulated impairment losses	—	(45,832)	—	(45,832)
	<u>\$ 176,960</u>	<u>\$ 1,294,378</u>	<u>\$ 155,416</u>	<u>\$ 1,626,754</u>

(1) The goodwill adjustments during the nine months ended July 28, 2012 were primarily a result of tax benefits from the exercise of stock awards of acquired companies.

The Company conducts its goodwill impairment test annually, as of the first day of the second fiscal quarter, and whenever events or changes in facts and circumstances indicate that the fair value of the reporting unit may be less than its carrying amount. For the annual goodwill impairment test, the Company uses the income approach, the market approach, or a combination thereof, to determine each reporting unit's fair value. The income approach provides an estimate of fair value based on discounted expected future cash flows ("DCF"). The market approach provides an estimate of fair value using various prices or market multiples applied to the reporting unit's operating results and then applying an appropriate control premium. For the fiscal year 2012 annual goodwill impairment test, the Company used a combination of approaches to estimate each reporting unit's fair value. The Company believed that at the time of impairment testing performed in the second fiscal quarter of 2012, the income approach and the market approach were equally representative of a reporting unit's fair value.

Determining the fair value of a reporting unit or an intangible asset requires judgment and involves the use of significant estimates and assumptions. The Company based its fair value estimates on assumptions it believes to be reasonable, but inherently uncertain. Estimates and assumptions with respect to the determination of the fair value of its reporting units using the income approach include, among other inputs:

- The Company's operating forecasts;
- Revenue growth rates; and
- Risk-commensurate discount rates and costs of capital.

The Company's estimates of revenues and costs are based on historical data, various internal estimates and a variety of external sources, and are developed as part of our regular long-range planning process. The control premium used in market or combined approaches is determined by considering control premiums offered as part of the acquisitions that have occurred in the reporting units' comparable market segments. Based on the results of the annual goodwill impairment analysis performed during the second fiscal quarter of 2012, the Company determined that no impairment needed to be recorded. During the three months ended July 28, 2012, there were no facts and circumstances that indicated that the fair value of the reporting units may be less than their current carrying amount.

Intangible assets other than goodwill are amortized on a straight-line basis over the following estimated remaining useful lives, unless the Company has determined these lives to be indefinite. The following tables present details of the Company's intangible assets (in thousands, except for weighted-average remaining useful life):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Useful Life (in years)
July 28, 2012				
Trade name	\$ 10,441	\$ 10,434	\$ 7	0.42
Core/developed technology	337,858	281,370	56,488	1.22
Customer relationships	352,581	274,361	78,220	1.28
Total intangible assets	\$ 700,880	\$ 566,165	\$ 134,715	1.25

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Useful Life (in years)
October 29, 2011				
Trade name	\$ 10,441	\$ 10,422	\$ 19	1.17
Core/developed technology	337,858	245,855	92,003	2.04
Customer relationships	352,581	229,906	122,675	2.12
Total intangible assets	\$ 700,880	\$ 486,183	\$ 214,697	2.08

The following table presents the amortization of intangible assets included on the Condensed Consolidated Statements of Income (in thousands):

	Three Months Ended		Nine Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Cost of revenues	\$ 10,713	\$ 14,466	\$ 35,516	\$ 43,399
Operating expenses	14,737	15,023	44,467	46,236
Total	\$ 25,450	\$ 29,489	\$ 79,983	\$ 89,635

The following table presents the estimated future amortization of intangible assets as of July 28, 2012 (in thousands):

Fiscal Year	Estimated Future Amortization
2012 (remaining three months)	\$ 25,450
2013	93,109
2014	16,156
Total	<u>\$ 134,715</u>

4. Balance Sheet Details

The following table provides details of selected balance sheet items (in thousands):

	July 28, 2012	October 29, 2011
Inventories:		
Raw materials	\$ 21,501	\$ 25,535
Finished goods	52,699	48,637
Total	<u>\$ 74,200</u>	<u>\$ 74,172</u>
Property and equipment, net:		
Computer equipment and software	\$ 56,419	\$ 55,175
Engineering and other equipment	395,185	357,827
Furniture and fixtures (1)	30,147	29,195
Leasehold improvements	25,731	23,793
Land and building (2)	384,666	384,666
Subtotal	892,148	850,656
Less: Accumulated depreciation and amortization (1), (3)	(368,743)	(318,272)
Total	<u>\$ 523,405</u>	<u>\$ 532,384</u>

(1) Furniture and fixtures and accumulated depreciation and amortization include the following amounts under leases as of July 28, 2012 and October 29, 2011 (in thousands):

	July 28, 2012	October 29, 2011
Cost	\$ 10,613	\$ 10,613
Accumulated depreciation	(3,268)	(2,131)
Total	<u>\$ 7,345</u>	<u>\$ 8,482</u>

(2) In connection with the purchase of the property located in San Jose, California, the Company obtained a four-year option to purchase a fourth unimproved approximate four acre parcel for a fixed price of approximately \$26.0 million as well as a right of first offer to purchase this parcel. The Company elected to not exercise the option and it terminated in November 2011. As of July 28, 2012, the Company retained the right of first offer.

(3) The following table presents the depreciation of property and equipment included on the Condensed Consolidated Statements of Income (in thousands):

	Three Months Ended		Nine Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Depreciation expense	\$ 21,709	\$ 21,731	\$ 64,700	\$ 65,817

5. Fair Value Measurements

The Company applies fair value measurements for both financial and nonfinancial assets and liabilities. The Company has no nonfinancial assets and liabilities that are required to be measured at fair value on a recurring basis as of July 28, 2012.

The fair value accounting guidance permits companies to elect fair value measurement for many financial instruments and certain other items that are otherwise not required to be accounted for at fair value. The Company did not elect to measure any eligible financial instruments or other assets at fair value as of July 28, 2012 and October 29, 2011.

Fair Value Hierarchy

The Company utilizes a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and liabilities measured and recorded at fair value on a recurring basis as of July 28, 2012 were as follows (in thousands):

	Balance as of July 28, 2012	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	\$ 238,940	\$ 238,940	\$ —	\$ —
Corporate bonds	808	—	808	—
Derivative assets	272	—	272	—
Total assets measured at fair value	\$ 240,020	\$ 238,940	\$ 1,080	\$ —
Liabilities:				
Derivative liabilities	\$ 4,485	\$ —	\$ 4,485	\$ —
Total liabilities measured at fair value	\$ 4,485	\$ —	\$ 4,485	\$ —

(1) Money market funds are reported within "Cash and cash equivalents" on the Condensed Consolidated Balance Sheets.

Assets and liabilities measured and recorded at fair value on a recurring basis as of October 29, 2011 were as follows (in thousands):

	Balance as of October 29, 2011	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	\$ 138,959	\$ 138,959	\$ —	\$ —
Corporate bonds	774	—	774	—
Derivative assets	1,368	—	1,368	—
Total assets measured at fair value	\$ 141,101	\$ 138,959	\$ 2,142	\$ —
Liabilities:				
Derivative liabilities	\$ 1,790	\$ —	\$ 1,790	\$ —
Total liabilities measured at fair value	\$ 1,790	\$ —	\$ 1,790	\$ —

(1) Money market funds are reported within “Cash and cash equivalents” on the Condensed Consolidated Balance Sheets.

During the nine months ended July 28, 2012, the Company had no transfers between levels of the fair value hierarchy of its assets measured at fair value.

6. Liabilities Associated with Facilities Lease Losses

The Company reevaluates its estimates and assumptions on a quarterly basis and makes adjustments to the reserve balance if necessary. The following table summarizes the activity related to the facilities lease loss reserve, net of expected sublease income (in thousands):

	Lease Loss Reserve
Reserve balance at October 29, 2011	\$ 3,952
Cash payments on facilities leases	(1,142)
Reserve balance at July 28, 2012	\$ 2,810

Cash payments for facilities that are part of our lease loss reserve are expected to be paid over the respective lease terms through fiscal year 2017.

7. Borrowings

The following table provides details of the Company's long-term debt (in thousands):

	Maturity	Stated Annual Interest Rate	July 28, 2012		October 29, 2011	
			Amount	Effective Interest Rate	Amount	Effective Interest Rate
Senior Secured Notes:						
2018 Notes	2018	6.625%	\$ 300,000	7.05%	\$ 300,000	7.05%
2020 Notes	2020	6.875%	300,000	7.26%	300,000	7.26%
Senior Secured Credit Facility:						
Term loan	2014	LIBOR+	30,000	12.64%	190,000	4.41%
Capital lease obligations	2015	5.80%	5,392	5.80%	6,782	5.80%
Total long-term debt			635,392		796,782	
Less:						
Unamortized discount			5,671		7,339	
Current portion of long-term debt			8,515		40,539	
Total long-term debt, net of current portion			\$ 621,206		\$ 748,904	

Senior Secured Notes

In January 2010, the Company issued \$300 million in aggregate principal amount of senior secured notes due 2018 (the "2018 Notes") and \$300 million in aggregate principal amount of senior secured notes due 2020 (the "2020 Notes" and together with the 2018 Notes, the "Senior Secured Notes"). The senior secured notes bear interest payable semi-annually. No payments were made towards the principal of the senior secured notes during the nine months ended July 28, 2012.

As of July 28, 2012 and October 29, 2011, the fair value of the Company's senior secured notes was approximately \$642 million and \$626 million, respectively, estimated based on broker trading prices.

On or after January 2013, the Company may redeem all or a part of the 2018 Notes at the redemption prices set forth in the Indenture governing the 2018 Notes (the 2018 Indenture), plus accrued and unpaid interest and special interest, if any, to the applicable redemption date. In addition, at any time prior to January 2013, the Company may, on one or more than one occasion, redeem some or all of the 2018 Notes at any time at a redemption price equal to 100% of the principal amount of the 2018 Notes redeemed, plus a "make-whole" premium determined as of, and accrued and unpaid interest and special interest, if any, to, the applicable redemption date. On or after January 2015, the Company may redeem all or a part of the 2020 Notes at the redemption prices set forth in the Indenture governing the 2020 Notes (the 2020 Indenture), plus accrued and unpaid interest and special interest, if any, to the applicable redemption date. In addition, at any time prior to January 2015, the Company may, on one or more than one occasion, redeem some or all of the 2020 Notes at any time at a redemption price equal to 100% of the principal amount of the 2020 Notes redeemed, plus a "make-whole" premium determined as of, and accrued and unpaid interest and special interest, if any, to the applicable redemption date. At any time prior to January 2013, the Company may also redeem up to 35% of the aggregate principal amount of the 2018 Notes and 2020 Notes, using the proceeds of certain qualified equity offerings, at the redemption prices set forth in the 2018 Indenture and the 2020 Indenture, respectively.

If the Company experiences specified change of control triggering events, it must offer to repurchase the senior secured notes at a repurchase price equal to 101% of the principal amount of the senior secured notes repurchased, plus accrued and unpaid interest and special interest, if any, to the applicable repurchase date. If the Company or its subsidiaries sell assets under certain specified circumstances, the Company must offer to repurchase the senior secured notes at a repurchase price equal to 100% of the principal amount of the senior secured notes repurchased, plus accrued and unpaid interest and special interest, if any, to the applicable repurchase date.

Senior Secured Credit Facility

In October 2008, the Company entered into a credit facility agreement for (i) a five-year \$1,100 million term loan facility and (ii) a five-year \$125 million revolving credit facility, which includes a \$25 million swing line loan sub-facility and a \$25 million letter of credit sub-facility. The credit facility agreement was subsequently amended in January 2010 and June 2011. In accordance with the applicable accounting guidance for debt modification and extinguishment, the Company expensed \$25.5 million of debt issuance costs and original issue discount relating to the portion of the term loan that was extinguished by the June 2011 amendment. This expense was reported within “Interest expense” in the Condensed Consolidated Statements of Income for the three and nine months ended July 30, 2011.

The Company may draw additional proceeds from the revolving credit facility in the future for ongoing working capital and other general corporate purposes. The term loan facility and revolving credit facility are referred to together as the “Senior Secured Credit Facility.” There were no principal amounts outstanding under the revolving credit facility as of July 28, 2012 and October 29, 2011.

During the nine months ended July 28, 2012, the Company paid \$160.0 million towards the principal of the term loan, \$142.6 million of which were voluntary prepayments.

The Company believes that the carrying value of its Senior Secured Credit Facility approximates its fair value as the interest rate is based on a floating market rate.

Debt Maturities

Fiscal Year	Estimated Future Maturities
2012 (remaining three months)	\$ 2,349
2013	9,477
2014	22,720
2015	846
2016	—
Thereafter	600,000
Total	\$ 635,392

8. Commitments and Contingencies

Product Warranties

The Company’s accrued liability for estimated future warranty costs is included in “Other accrued liabilities” in the accompanying Condensed Consolidated Balance Sheets. The following table summarizes the activity related to the Company’s accrued liability for estimated future warranty costs during the nine months ended July 28, 2012 and July 30, 2011 (in thousands):

	Accrued Warranty	
	Nine Months Ended	
	July 28, 2012	July 30, 2011
Beginning balance	\$ 11,298	\$ 5,980
Liabilities accrued for warranties issued during the period	5,827	4,501
Warranty claims paid and used during the period	(1,095)	(1,093)
Changes in liability for pre-existing warranties during the period	(1,652)	(1,444)
Ending balance	\$ 14,378	\$ 7,944

In addition, the Company has standard indemnification clauses contained within its various customer contracts. As such, the Company indemnifies the parties to whom it sells its products with respect to the Company's product, alone or potentially in combination with others, infringing upon any patents, trademarks, copyrights, or trade secrets, as well as against bodily injury or damage to real or tangible personal property caused by a defective Company product. As of July 28, 2012, there have been no known events or circumstances that have resulted in a material customer contract-related indemnification liability to the Company.

Manufacturing and Purchase Commitments

Brocade has manufacturing arrangements with CMs under which Brocade provides twelve-month product forecasts and places purchase orders in advance of the scheduled delivery of products to Brocade's customers. The required lead time for placing orders with the CMs depends on the specific product. Brocade issues purchase orders and the CMs then generate invoices based on prices and payment terms mutually agreed upon and set forth in those purchase orders. Although the purchase orders Brocade places with its CMs are cancellable, the terms of the agreements require Brocade to purchase all inventory components not returnable, usable by, or sold to other customers of the CMs.

As of July 28, 2012, the Company's aggregate commitment to the CMs for inventory components used in the manufacture of Brocade products was \$223.5 million, which the Company expects to utilize during future normal ongoing operations, net of a purchase commitments reserve of \$4.7 million. The Company's purchase commitments reserve reflects the Company's estimate of purchase commitments it does not expect to consume in normal ongoing operations within the next twelve months.

Income Taxes

The Company has several ongoing income tax audits. For additional discussions, see Note 11, "Income Taxes," of the Notes to Condensed Consolidated Financial Statements. The Company believes it has adequate reserves for all open tax years.

Legal Proceedings

Stockholder Litigation

In March 2012, a stockholder filed a complaint in Santa Clara County Superior Court captioned *Stephen Knee vs. Brocade Communications Systems, Inc., et al.* alleging that the proposal in Brocade's proxy for its 2012 annual meeting of stockholders seeking additional shares for the 2009 Stock Plan pool was misleading and incomplete; the plaintiff claimed the right to enjoin the stockholders' vote. In early April 2012, the plaintiff filed a motion for preliminary injunction seeking to enjoin the stockholders' vote on the proposal. Brocade filed an opposition to the plaintiff's motion for preliminary injunction. On April 10, 2012, the Court held a hearing and issued an order granting the plaintiff's motion. On April 12, 2012, the Court entered a stipulation and order regarding settlement in which Brocade agreed to postpone the vote on the proposal at least seven days and to issue supplemental disclosures regarding the proposal. The supplemental disclosures were filed with the SEC on April 12, 2012. Brocade's stockholders approved the proposal on April 20, 2012. On July 26, 2012, the parties signed a Stipulation of Settlement regarding the matter. On August 10, 2012, plaintiff filed a Motion for Preliminary Approval of Settlement. The Preliminary Approval of Settlement Hearing is currently scheduled for September 28, 2012.

Intellectual Property Litigation

On June 21, 2005, Enterasys Networks, Inc. ("Enterasys") filed a lawsuit against Foundry Networks, LLC (formerly Foundry Networks, Inc.) ("Foundry") (and Extreme Networks, Inc.) in the United States District Court for the District of Massachusetts alleging that certain of Foundry's products infringe six of Enterasys' patents and seeking injunctive relief, as well as unspecified damages. The Court severed the claims against Extreme from the claims against Foundry for trial, and Enterasys subsequently added Brocade as a defendant. On August 28, 2007, the Court granted Foundry's motion to stay the case based on petitions that Foundry had filed with the United States Patent and Trademark Office ("USPTO") in 2007 for reexamination of five of the six Enterasys patents. Two of the patents received final rejections during their respective reexaminations, in which the USPTO held that the claims were invalid. Enterasys filed appeals of those rejections with the USPTO's Board of Patent Appeals and Interferences in 2009. The USPTO's Board affirmed one, and partially affirmed and partially reversed the other of those two rejections on January 24, 2011, and Enterasys did not appeal further, which ended the proceedings on those two patents. The USPTO has issued reexamination certificates for the remaining three patents undergoing reexamination indicating that the patents were valid over the references that had been submitted. Meanwhile, on May 21, 2010, the Court lifted the stay of the litigation, and Enterasys subsequently dropped from the litigation the two patents it appealed at the USPTO. Accordingly, four patents remain at issue in the litigation. No trial date has been set.

On September 6, 2006, Chrimar Systems, Inc. (“Chrimar”) filed a lawsuit against Foundry (and D-Link Corporation and PowerDsine, Ltd.) in the United States District Court for the Eastern District of Michigan alleging that certain of Foundry’s products infringe Chrimar’s U.S. Patent 5,406,260 and seeking injunctive relief, as well as unspecified damages. Discovery has been completed. On June 1, 2012, Brocade filed its second Supplemental Statement of Material Facts In Support of Motion for Summary Judgment of Invalidity of Paradigm Claim 17 of the 5,406,260 patent. On August 1, 2012, the Court issued its Memorandum and Order Granting Defendant’s Motion for Summary Judgment of Invalidity and dismissed the case.

On August 4, 2010, Brocade and Foundry (“Plaintiffs”) filed a lawsuit against A10 Networks, Inc. (“A10”), A10’s founder and other individuals in the United States District Court for the Northern District of California. On October 29, 2010, Plaintiffs filed an amended complaint. In the amended complaint, Brocade alleged that A10 and the individual defendants have misappropriated Plaintiff’s trade secrets, infringed copyrighted works, interfered with existing contracts between the Plaintiffs and their employees, breached contracts, breached their fiduciary duties and duties of loyalty, and that certain of A10’s products infringe 13 of Brocade’s patents. Brocade is seeking injunctive relief, as well as monetary damages. On May 16, 2011, A10 filed an answer and counterclaim alleging that certain of Brocade’s products infringe a patent recently acquired by A10 and seeking injunctive relief, as well as unspecified damages. In addition, A10 filed petitions with the USPTO to have each of 13 of the patents reexamined, in view of prior art that A10 alleges invalidates the patents. The petitions were granted, and reexaminations of the patents are in progress. On January 6, 2012, the Court granted Brocade’s summary judgment motion of non-infringement of the A10 patent. Trial on Brocade’s claims against A10 and the individual defendants commenced on July 16, 2012. On August 6, 2012, the jury found A10 responsible for intellectual property infringement and unfair competition, awarding approximately \$112 million to Brocade. On August 7, 2012, A10 issued a press release that reflects a different interpretation of the jury verdict. A10 has stated that it will take appropriate action to set aside the verdict and reverse the award of damages. A10 also stated that it intends to seek judgment in its favor as a matter of law. On August 27, 2012, the Court entered a judgment without commenting on the differing interpretations of the jury verdict or any post-trial motions. Brocade expects that the Court will address post-trial motions in the coming months. The outcome of such motions cannot be predicted with any certainty.

On September 9, 2011, A10 filed a lawsuit against Brocade in the United States District Court for the Northern District of California. A10 alleged that certain of Brocade’s products infringed two patents acquired by A10. After Brocade moved to dismiss the complaint, A10 dismissed one of its patents-in-suit, leaving only one patent at issue. In lieu of answering the complaint, Brocade filed a new motion to dismiss the complaint, which was granted. On June 27, 2012, the Court entered a Final Judgment dismissing A10’s action. On June 28, 2012, A10 filed a notice of its intent to appeal.

General

From time to time, the Company is subject to other legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights, patents and/or other intellectual property rights and commercial contract disputes. Third parties assert patent infringement claims against the Company from time to time in the form of letters, lawsuits and other forms of communication. In addition, from time to time, the Company receives notification from customers claiming that they are entitled to indemnification or other obligations from the Company related to infringement claims made against them by third parties. Litigation, even if the Company is ultimately successful, can be costly and divert management’s attention away from the day-to-day operations of the Company.

On a quarterly basis, the Company reviews relevant information with respect to litigation contingencies and updates its accruals, disclosures and, when possible, estimates of reasonably possible losses or ranges of loss based on such reviews. However, litigation is inherently unpredictable, and outcomes are typically uncertain, and the Company’s past experience does not provide any additional visibility or predictability to estimate the range of loss that may occur because the costs, outcome and status of these types of claims and proceedings have varied significantly in the past. The Company is not currently able to reasonably estimate the possible loss or range of loss from the above legal proceedings where the Company is the defendant and, accordingly, the Company is unable to estimate the effects of the above on its financial condition, results of operations or cash flows.

The Company records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

9. Derivative Instruments and Hedging Activities

In the normal course of business, the Company is exposed to fluctuations in interest rates and the exchange rates associated with foreign currencies. The Company's primary objective for holding derivative financial instruments is to manage foreign currency exchange rate risk. The Company currently does not enter into derivative instruments to manage credit risk. However, the Company manages its exposure to credit risk through its investment policies. The Company generally enters into derivative transactions with high-credit quality counterparties and, by policy, limits the amount of credit exposure to any one counterparty based on its analysis of that counterparty's relative credit standing.

The amounts subject to credit risk related to derivative instruments are generally limited to the amounts, if any, by which counterparty's obligations exceed the Company's obligations with that counterparty.

Foreign Currency Exchange Rate Risk

A majority of the Company's revenue, expense and capital purchasing activities is transacted in U.S. dollars. However, the Company is exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies. The Company is primarily exposed to foreign currency fluctuations related to operating expenses denominated in currencies other than the U.S. dollar, of which the most significant to its operations for the nine months ended July 28, 2012 were the Chinese yuan, the euro, the Japanese yen, the Indian rupee, the British pound, the Singapore dollar and the Swiss franc. The Company has established a foreign currency risk management program to protect against the volatility of future cash flows caused by changes in foreign currency exchange rates. This program reduces, but does not always entirely eliminate, the impact of foreign currency exchange rate movements. The Company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward and option contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. These instruments generally have a maturity of less than one year. For these derivatives, the Company reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive loss in stockholders' equity and reclassifies it into earnings in the same period in which the hedged transaction affects earnings. Net gains (losses) relating to the effective portion of foreign currency derivatives recorded in the condensed consolidated statements of income are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Cost of revenues	\$ (278)	\$ 311	\$ (690)	\$ 597
Research and development	(410)	96	(756)	282
Sales and marketing	(1,551)	1,817	(3,935)	3,740
General and administrative	(113)	167	(278)	297
Total	\$ (2,352)	\$ 2,391	\$ (5,659)	\$ 4,916

The net foreign currency exchange gains and losses recorded as part of "Interest and other income (loss), net" were losses of \$0.2 million and \$1.6 million for the three and nine months ended July 28, 2012, respectively, and losses of \$0.9 million and \$0.4 million for the three and nine months ended July 30, 2011, respectively.

Gross unrealized loss positions are recorded within "Other accrued liabilities" and "Other non-current liabilities," and gross unrealized gain positions are recorded within "Prepaid expenses and other current assets." As of July 28, 2012, the Company had gross unrealized loss positions of \$4.5 million and gross unrealized gain positions of \$0.3 million included in "Other accrued liabilities" and "Prepaid expenses and other current assets," respectively. Effective cash flow hedges are reported as a component of accumulated other comprehensive loss. Ineffective cash flow hedges are included in the Company's net income as part of "Interest and other income (loss), net." The amount recorded on ineffective cash flow hedges was not significant.

Volume of Derivative Activity

Total gross notional amounts, presented by currency, are as follows (in thousands):

In United States Dollars	Derivatives Designated as Hedging Instruments		Derivatives Not Designated as Hedging Instruments	
	As of July 28, 2012	As of October 29, 2011	As of July 28, 2012	As of October 29, 2011
Euro	\$ 28,993	\$ 57,935	\$ —	\$ —
British pound	14,758	25,282	—	—
Indian rupee	12,474	—	—	—
Singapore dollar	9,336	16,136	—	—
Japanese yen	7,942	17,957	—	—
Swiss franc	5,412	13,060	2,787	5,012
Total	\$ 78,915	\$ 130,370	\$ 2,787	\$ 5,012

The Company utilizes a rolling hedge strategy for the majority of its foreign currency derivative instruments with cash flow hedge accounting designation that hedges exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. All of the Company's foreign currency forward contracts are single delivery, which are settled at maturity involving one cash payment exchange.

10. Stock-Based Compensation

Stock-based compensation expense, net of estimated forfeitures, was included in the following line items of the Condensed Consolidated Statements of Income as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Cost of revenues	\$ 3,074	\$ 4,235	\$ 12,045	\$ 11,262
Research and development	3,110	5,581	13,741	14,975
Sales and marketing	4,483	8,670	24,946	27,081
General and administrative	2,402	2,483	8,014	10,087
Total stock-based compensation	\$ 13,069	\$ 20,969	\$ 58,746	\$ 63,405

The following table presents stock-based compensation expense, net of estimated forfeitures, by grant type (in thousands):

	Three Months Ended		Nine Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Stock options, including variable options	\$ 169	\$ 563	\$ 899	\$ 3,211
Restricted stock awards and restricted stock units ("RSUs")	7,720	15,253	44,441	40,636
Employee stock purchase plan ("ESPP")	5,180	5,153	13,406	19,558
Total stock-based compensation	\$ 13,069	\$ 20,969	\$ 58,746	\$ 63,405

The following table presents unrecognized compensation expense, net of estimated forfeitures, of the Company's equity compensation plans as of July 28, 2012, which is expected to be recognized over the following weighted-average periods (in thousands, except for weighted-average period):

	Unrecognized Compensation Expense	Weighted- Average Period (in years)
Stock options	\$ 956	0.65
RSUs	\$ 90,291	2.26
ESPP	\$ 22,630	1.26

The following table presents details on grants made by the Company for the following periods:

	Nine Months Ended		Nine Months Ended	
	July 28, 2012		July 30, 2011	
	Granted (in thousands)	Weighted-Average Grant Date Fair Value	Granted (in thousands)	Weighted-Average Grant Date Fair Value
Stock options	160	\$ 2.39	243	\$ 2.23
RSUs	8,582	\$ 4.84	9,185	\$ 6.12

The total intrinsic value of stock options exercised for the nine months ended July 28, 2012 and July 30, 2011 was \$23.1 million and \$44.3 million, respectively.

11. Income Taxes

In general, the Company's provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense and adjustments to unrecognized tax benefits.

For the three and nine months ended July 28, 2012, the Company recorded an income tax expense of \$15.0 million and \$11.1 million, respectively. The tax reported for both periods was impacted by the net effect of a decrease in benefit from the federal research and development tax credit which expired on December 31, 2011, partially offset by discrete benefits from reserve releases of settled tax audits, and the expiration of certain statutes of limitations.

For the three and nine months ended July 30, 2011, the Company recorded an income tax benefit of \$10.3 million and \$16.6 million, respectively, primarily as a result of discrete benefits from the retroactive reinstatement of the federal research and development tax credit provision and reserve releases of settled tax audits, and the expiration of certain statutes of limitations.

The total amount of unrecognized tax benefits of \$103.2 million as of July 28, 2012 would affect the Company's effective tax rate, if recognized. Although the timing of the closure of audits is highly uncertain, it is reasonably possible that the balance of unrecognized tax benefits could significantly change during the remainder of fiscal year 2012.

The Internal Revenue Service ("IRS") and other tax authorities regularly examine the Company's income tax returns. The IRS is currently examining fiscal years 2009 and 2010. In addition, the IRS has also examined the Company's income tax returns for fiscal years 2007 and 2008 and is contesting the Company's transfer pricing for the cost sharing and buy-in arrangements with its foreign subsidiaries. The Company has filed a protest to appeal the amount of proposed adjustments in the Revenue Agent's Report with the Appeals Office of the IRS. The Company believes it has sufficient reserves recorded for the ultimate settlement amount on this issue. Furthermore, the Company is in discussion with foreign tax authorities to obtain correlative relief on transfer pricing adjustments settled with the IRS. We believe that our reserves for unrecognized tax benefits are adequate for all open tax years. The timing of the resolution of income tax examinations, as well as the amounts and timing of related settlements, is highly uncertain. The Company believes that before the end of fiscal year 2012, it is reasonably possible that either certain audits will conclude or the statutes of limitations relating to certain income tax examination periods will expire, or both. As such, after we reach settlement with the tax authorities, we expect to record a corresponding adjustment to our unrecognized tax benefits. Given the uncertainty as to settlement terms, the timing of payments and the impact of such settlements on other uncertain tax positions, the range of estimated potential decreases in underlying uncertain tax positions is between \$0 and \$23 million in the next twelve months.

The Company believes that sufficient positive evidence exists from historical operations and projections of taxable income in future years to conclude that it is more likely than not that the Company will realize its deferred tax assets. Accordingly, the Company applies a valuation allowance only on the deferred tax assets relating to capital loss carryforwards, due to limited carryforward periods and the character of such tax attributes. The Governor of the State of California and the California state legislature have introduced tax proposals affecting future state income tax apportionment that may have a significant impact on our ability to realize certain California deferred tax assets. We will reevaluate the realization of these California deferred tax assets if and when the current law changes.

12. Segment Information

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (“CODM”), or decision-making group, in deciding how to allocate resources and in assessing performance. Currently, the Company’s CODM is its Chief Executive Officer.

Brocade is organized into four operating segments. Two of the operating segments, Data Storage Products and Global Services are individually reportable segments. The other two operating segments, Ethernet Switching & Internet Protocol (“IP”) Routing and Application Delivery Products (“ADP”), combine to form a third reportable segment: Ethernet Products. These segments are organized principally by product category.

Financial decisions and the allocation of resources are based on the information from the Company’s internal management reporting system. The Company does not track its assets by operating segments. The majority of the Company’s assets as of July 28, 2012 were attributable to its United States operations.

Summarized financial information by reportable segment for the three and nine months ended July 28, 2012 and July 30, 2011, based on the internal management reporting system, is as follows (in thousands):

	Data Storage Products	Ethernet Products	Global Services	Total
Three months ended July 28, 2012				
Net revenues	\$ 321,464	\$ 145,817	\$ 88,051	\$ 555,332
Cost of revenues	87,113	86,524	41,217	214,854
Gross margin	<u>\$ 234,351</u>	<u>\$ 59,293</u>	<u>\$ 46,834</u>	<u>\$ 340,478</u>
Three months ended July 30, 2011				
Net revenues	\$ 275,391	\$ 138,907	\$ 88,552	\$ 502,850
Cost of revenues	69,219	80,102	47,002	196,323
Gross margin	<u>\$ 206,172</u>	<u>\$ 58,805</u>	<u>\$ 41,550</u>	<u>\$ 306,527</u>
Nine months ended July 28, 2012				
Net revenues	\$ 1,017,258	\$ 382,429	\$ 259,726	\$ 1,659,413
Cost of revenues	273,308	239,913	123,863	637,084
Gross margin	<u>\$ 743,950</u>	<u>\$ 142,516</u>	<u>\$ 135,863</u>	<u>\$ 1,022,329</u>
Nine months ended July 30, 2011				
Net revenues	\$ 935,129	\$ 393,692	\$ 268,148	\$ 1,596,969
Cost of revenues	267,522	230,490	142,939	640,951
Gross margin	<u>\$ 667,607</u>	<u>\$ 163,202</u>	<u>\$ 125,209</u>	<u>\$ 956,018</u>

13. Net Income per Share

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

	Three Months Ended		Nine Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Basic net income per share				
Net income	\$ 43,300	\$ 1,937	\$ 141,180	\$ 54,934
Weighted-average shares used in computing basic net income per share	457,147	483,744	455,727	474,020
Basic net income per share	\$ 0.09	\$ —	\$ 0.31	\$ 0.12
Diluted net income per share				
Net income	\$ 43,300	\$ 1,937	\$ 141,180	\$ 54,934
Weighted-average shares used in computing basic net income per share	457,147	483,744	455,727	474,020
Dilutive potential common shares in the form of stock options	6,172	14,657	8,391	15,664
Dilutive potential common shares in the form of other share based awards	6,252	11,147	7,601	11,057
Weighted-average shares used in computing diluted net income per share	469,571	509,548	471,719	500,741
Diluted net income per share	\$ 0.09	\$ —	\$ 0.30	\$ 0.11
Antidilutive potential common shares in the form of ⁽¹⁾				
Stock options	17,742	15,367	17,437	19,493
Other share based awards	1,000	67	728	537

(1) These amounts are excluded from the computation of diluted net income per share.

14. Comprehensive Income

The components of comprehensive income (loss), net of tax, are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Net income	\$ 43,300	\$ 1,937	\$ 141,180	\$ 54,934
Other comprehensive income (loss):				
Change in net unrealized losses on cash flow hedges	(1,419)	(2,953)	(2,778)	(3,818)
Change in cumulative translation adjustments	(2,951)	(316)	(4,427)	888
Total comprehensive income (loss)	\$ 38,930	\$ (1,332)	\$ 133,975	\$ 52,004

15. Guarantor and Non-Guarantor Subsidiaries

On January 20, 2010, the Company issued in total \$600.0 million aggregate principal amount of its senior secured notes. The Company's obligations under the senior secured notes are guaranteed by certain of the Company's domestic subsidiaries (the "Subsidiary Guarantors"). Each of the Subsidiary Guarantors is 100% owned by the Company and all guarantees are joint and several. The senior secured notes are not guaranteed by certain of the Company's domestic subsidiaries and all of the Company's foreign subsidiaries (the "Non-Guarantor Subsidiaries").

Pursuant to the terms of the senior secured notes, the guarantees are full and unconditional, but are subject to release under the following circumstances:

- upon the sale of the subsidiary or all or substantially all of its assets;
- upon the discharge of the guarantees under the credit facility or other debt provided that the credit facility has been paid in full and the applicable series of senior secured notes have an investment grade rating from both Standard & Poor's and Moody's;
- upon designation of the subsidiary as an "unrestricted subsidiary" under the applicable Indenture;
- upon the merger, consolidation or liquidation of the subsidiary into another subsidiary guarantor; and
- upon legal or covenant defeasance or the discharge of the Company's obligations under the applicable indenture.

Because the guarantees are subject to release under the above described circumstances, they would not be deemed "full and unconditional" for purposes of Rule 3-10 of Regulation S-X. However, as these circumstances are customary, the Company concluded that it may rely on Rule 3-10 of Regulation S-X, as the other requirements of Rule 3-10 have been met.

The following tables present condensed consolidated financial statements for the parent company, the Subsidiary Guarantors and the Non-Guarantor Subsidiaries, respectively.

The following is the condensed consolidated balance sheet as of July 28, 2012 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current assets:					
Cash, cash equivalents and short-term investments	\$ 204,938	\$ 1,620	\$ 374,876	\$ —	\$ 581,434
Accounts receivable, net	149,061	(1,554)	83,648	—	231,155
Inventories	63,751	—	10,449	—	74,200
Intercompany receivables	—	465,891	—	(465,891)	—
Other current assets	91,810	664	11,545	557	104,576
Total current assets	509,560	466,621	480,518	(465,334)	991,365
Property and equipment, net	450,454	54,206	18,745	—	523,405
Investment in subsidiaries	1,284,970	—	—	(1,284,970)	—
Other non-current assets	1,471,483	510,021	1,250	—	1,982,754
Total assets	\$ 3,716,467	\$ 1,030,848	\$ 500,513	\$ (1,750,304)	\$ 3,497,524
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	\$ 91,883	\$ 353	\$ 24,233	\$ —	\$ 116,469
Current portion of long-term debt	8,515	—	—	—	8,515
Intercompany payables	423,467	—	42,424	(465,891)	—
Other current liabilities	290,665	12,758	126,404	557	430,384
Total current liabilities	814,530	13,111	193,061	(465,334)	555,368
Long-term debt, net of current portion	621,206	—	—	—	621,206
Other non-current liabilities	89,130	43	40,176	—	129,349
Total liabilities	1,524,866	13,154	233,237	(465,334)	1,305,923
Total stockholders' equity	2,191,601	1,017,694	267,276	(1,284,970)	2,191,601
Total liabilities and stockholders' equity	\$ 3,716,467	\$ 1,030,848	\$ 500,513	\$ (1,750,304)	\$ 3,497,524

The following is the condensed consolidated balance sheet as of October 29, 2011 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current assets:					
Cash, cash equivalents and short-term investments	\$ 101,367	\$ 2,301	\$ 311,308	\$ —	\$ 414,976
Accounts receivable, net	157,839	(2,149)	93,451	—	249,141
Inventories	50,000	—	24,172	—	74,172
Intercompany receivables	—	446,455	—	(446,455)	—
Other current assets	87,495	805	15,609	2,003	105,912
Total current assets	396,701	447,412	444,540	(444,452)	844,201
Property and equipment, net	460,347	55,594	16,443	—	532,384
Investment in subsidiaries	1,285,356	—	—	(1,285,356)	—
Other non-current assets	1,506,086	590,318	1,319	—	2,097,723
Total assets	\$ 3,648,490	\$ 1,093,324	\$ 462,302	\$ (1,729,808)	\$ 3,474,308
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	\$ 85,700	\$ 376	\$ 23,395	\$ —	\$ 109,471
Current portion of long-term debt	40,539	—	—	—	40,539
Intercompany payables	377,228	—	69,227	(446,455)	—
Other current liabilities	276,982	17,261	119,731	2,003	415,977
Total current liabilities	780,449	17,637	212,353	(444,452)	565,987
Long-term debt, net of current portion	748,904	—	—	—	748,904
Other non-current liabilities	104,999	580	39,700	—	145,279
Total liabilities	1,634,352	18,217	252,053	(444,452)	1,460,170
Total stockholders' equity	2,014,138	1,075,107	210,249	(1,285,356)	2,014,138
Total liabilities and stockholders' equity	\$ 3,648,490	\$ 1,093,324	\$ 462,302	\$ (1,729,808)	\$ 3,474,308

The following is the condensed consolidated statement of income for the three months ended July 28, 2012 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$ 353,594	\$ 1,038	\$ 200,700	\$ —	\$ 555,332
Intercompany revenues	11,442	—	5,239	(16,681)	—
Total net revenues	365,036	1,038	205,939	(16,681)	555,332
Cost of revenues	145,292	10,291	56,246	3,025	214,854
Intercompany cost of revenues	(8,078)	—	24,759	(16,681)	—
Total cost of revenues	137,214	10,291	81,005	(13,656)	214,854
Gross margin (loss)	227,822	(9,253)	124,934	(3,025)	340,478
Operating expenses	204,948	12,893	55,441	(3,025)	270,257
Intercompany operating expenses (income)	(38,781)	(7,971)	46,752	—	—
Total operating expenses	166,167	4,922	102,193	(3,025)	270,257
Income (loss) from operations	61,655	(14,175)	22,741	—	70,221
Other income (expense)	(11,495)	45	(476)	—	(11,926)
Income (loss) before income tax provision and equity in net earnings (losses) of subsidiaries	50,160	(14,130)	22,265	—	58,295
Income tax expense	13,032	—	1,963	—	14,995
Equity in net earnings (losses) of subsidiaries	6,172	—	—	(6,172)	—
Net income (loss)	\$ 43,300	\$ (14,130)	\$ 20,302	\$ (6,172)	\$ 43,300

The following is the condensed consolidated statement of income for the three months ended July 30, 2011 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$ 299,841	\$ 7,526	\$ 195,483	\$ —	\$ 502,850
Intercompany revenues	15,753	367	11,211	(27,331)	—
Total net revenues	315,594	7,893	206,694	(27,331)	502,850
Cost of revenues	120,070	19,209	53,669	3,375	196,323
Intercompany cost of revenues	(8,122)	—	35,452	(27,330)	—
Total cost of revenues	111,948	19,209	89,121	(23,955)	196,323
Gross margin (loss)	203,646	(11,316)	117,573	(3,376)	306,527
Operating expenses	204,259	14,794	56,628	(3,376)	272,305
Intercompany operating expenses (income)	(32,891)	(6,280)	39,171	—	—
Total operating expenses	171,368	8,514	95,799	(3,376)	272,305
Income (loss) from operations	32,278	(19,830)	21,774	—	34,222
Other expense	(41,934)	(76)	(575)	—	(42,585)
Income (loss) before income tax provision and equity in net earnings (losses) of subsidiaries	(9,656)	(19,906)	21,199	—	(8,363)
Income tax expense (benefit)	(11,444)	35	1,109	—	(10,300)
Equity in net earnings (losses) of subsidiaries	149	—	—	(149)	—
Net income (loss)	\$ 1,937	\$ (19,941)	\$ 20,090	\$ (149)	\$ 1,937

The following is the condensed consolidated statement of income for the nine months ended July 28, 2012 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$ 1,046,498	\$ 3,777	\$ 609,138	\$ —	\$ 1,659,413
Intercompany revenues	36,049	—	19,308	(55,357)	—
Total net revenues	1,082,547	3,777	628,446	(55,357)	1,659,413
Cost of revenues	417,480	38,279	173,170	8,155	637,084
Intercompany cost of revenues	(23,244)	—	78,601	(55,357)	—
Total cost of revenues	394,236	38,279	251,771	(47,202)	637,084
Gross margin (loss)	688,311	(34,502)	376,675	(8,155)	1,022,329
Operating expenses	620,073	43,382	175,620	(8,155)	830,920
Intercompany operating expenses (income)	(105,706)	(20,532)	126,238	—	—
Total operating expenses	514,367	22,850	301,858	(8,155)	830,920
Income (loss) from operations	173,944	(57,352)	74,817	—	191,409
Other expense	(34,692)	(61)	(4,396)	—	(39,149)
Income (loss) before income tax provision and equity in net earnings (losses) of subsidiaries	139,252	(57,413)	70,421	—	152,260
Income tax expense	4,910	—	6,170	—	11,080
Equity in net earnings (losses) of subsidiaries	6,838	—	—	(6,838)	—
Net income (loss)	\$ 141,180	\$ (57,413)	\$ 64,251	\$ (6,838)	\$ 141,180

The following is the condensed consolidated statement of income for the nine months ended July 30, 2011 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$ 948,200	\$ 22,407	\$ 626,362	\$ —	\$ 1,596,969
Intercompany revenues	76,729	1,571	26,521	(104,821)	—
Total net revenues	1,024,929	23,978	652,883	(104,821)	1,596,969
Cost of revenues	397,419	62,416	170,470	10,646	640,951
Intercompany cost of revenues	4,962	—	99,858	(104,820)	—
Total cost of revenues	402,381	62,416	270,328	(94,174)	640,951
Gross margin (loss)	622,548	(38,438)	382,555	(10,647)	956,018
Operating expenses	636,393	43,614	163,836	(10,647)	833,196
Intercompany operating expenses (income)	(110,684)	(19,133)	129,817	—	—
Total operating expenses	525,709	24,481	293,653	(10,647)	833,196
Income (loss) from operations	96,839	(62,919)	88,902	—	122,822
Other expense	(83,231)	(502)	(784)	—	(84,517)
Income (loss) before income tax provision and equity in net earnings (losses) of subsidiaries	13,608	(63,421)	88,118	—	38,305
Income tax expense (benefit)	(22,093)	46	5,418	—	(16,629)
Equity in net earnings (losses) of subsidiaries	19,233	—	—	(19,233)	—
Net income (loss)	\$ 54,934	\$ (63,467)	\$ 82,700	\$ (19,233)	\$ 54,934

The following is the condensed consolidated statement of cash flows for the nine months ended July 28, 2012 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	\$ 304,610	\$ (716)	\$ 76,484	\$ —	\$ 380,378
Cash flows from investing activities:					
Proceeds from sale of subsidiary	35	—	—	—	35
Purchases of property and equipment	(47,341)	—	(8,664)	—	(56,005)
Net cash used in investing activities	(47,306)	—	(8,664)	—	(55,970)
Cash flows from financing activities:					
Payment of principal related to the term loan	(160,000)	—	—	—	(160,000)
Payment of principal related to capital leases	(1,389)	—	—	—	(1,389)
Common stock repurchases	(70,153)	—	—	—	(70,153)
Proceeds from issuance of common stock	76,472	—	—	—	76,472
Excess tax benefits from stock-based compensation	1,338	—	—	—	1,338
Net cash used in financing activities	(153,732)	—	—	—	(153,732)
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	(4,252)	—	(4,252)
Net increase (decrease) in cash and cash equivalents	103,572	(716)	63,568	—	166,424
Cash and cash equivalents, beginning of period	101,366	1,528	311,308	—	414,202
Cash and cash equivalents, end of period	\$ 204,938	\$ 812	\$ 374,876	\$ —	\$ 580,626

The following is the condensed consolidated statement of cash flows for the nine months ended July 30, 2011 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided by operating activities	\$ 135,029	\$ 431	\$ 107,539	\$ —	\$ 242,999
Cash flows from investing activities:					
Purchases of short-term investments	—	(38)	—	—	(38)
Proceeds from maturities and sale of short-term investments	—	1,604	—	—	1,604
Purchases of property and equipment	(70,389)	(24)	(6,248)	—	(76,661)
Net cash provided by (used in) investing activities	(70,389)	1,542	(6,248)	—	(75,095)
Cash flows from financing activities:					
Payment of principal related to the term loan	(309,897)	—	—	—	(309,897)
Payment of fees related to the term loan	(1,090)	—	—	—	(1,090)
Proceeds from term loan	198,949	—	—	—	198,949
Payment of principal related to capital leases	(1,311)	—	—	—	(1,311)
Common stock repurchases	(10,044)	—	—	—	(10,044)
Proceeds from issuance of common stock	93,333	—	—	—	93,333
Excess tax benefits (detriments) from stock-based compensation	(249)	—	168	—	(81)
Net cash provided by (used in) financing activities	(30,309)	—	168	—	(30,141)
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	812	—	812
Net increase in cash and cash equivalents	34,331	1,973	102,271	—	138,575
Cash and cash equivalents, beginning of period	23,455	6,907	303,622	—	333,984
Cash and cash equivalents, end of period	\$ 57,786	\$ 8,880	\$ 405,893	\$ —	\$ 472,559

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with the Condensed Consolidated Financial Statements and notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report filed on Form 10-K with the Securities and Exchange Commission on December 20, 2011.

Overview

We are a leading supplier of networking products and services for businesses and organizations of many types and sizes, including global enterprises, and service providers such as telecommunication firms, cable operators and mobile carriers. Our business model is focused on two key markets, namely our Data Storage business, where we offer storage area network ("SAN") backbones, directors, fabrics, switches, host bus adapters ("HBAs"), and server virtualization solutions, and our Ethernet business, where we offer modular and stackable solutions, Ethernet fabrics, converged network products, as well as application delivery, security and wireless solutions.

Growth opportunities in the Data Storage market are expected to be driven by key customer IT initiatives such as server virtualization, enterprise mobility, data center consolidation, migration to higher performance technologies and "cloud" computing initiatives. Our Ethernet business strategies are intended to increase new Ethernet accounts, and expand our market share. We plan to continue to support our Data Storage and Ethernet growth plans by enhancing our existing partnerships and forming new ones primarily by building out a two-tier distribution channel, continuous innovation, new product introductions, and leveraging the investments we have made in sales and marketing.

We continue to face multiple challenges, including aggressive price discounting from competitors, rapid adoption of new technologies by customers, the uncertainty in the worldwide macroeconomic climate and its impact on IT spending patterns globally, as well as the federal government spending in the United States. We are also cautious about the stability and health of certain international markets, including China and Europe, and current global and country specific dynamics, including inflationary risks in China and the continuing sovereign debt risk in Europe. These factors may impact our business and that of our partners. While the diversification of our business model helps mitigate the effect of some of these challenges and we expect IT spending levels to generally rise in the long-term, it is generally difficult to offset short-term reductions of IT spending.

We expect the number of Data Storage and Ethernet products we ship to fluctuate depending on the demand for our existing and recently introduced products, sales support for our products from our new distribution and resale partners as well as the timing of product transitions by our original equipment manufacturer ("OEM") partners. The average selling prices per port for our Data Storage and Ethernet products have typically declined over time in the past and will likely continue to decline in the future.

Our plans for our operating cash flows are to build our cash balance and reduce our existing term loan. We also expect to use our operating cash flows to repurchase our stock to offset the dilutive effects of our equity award programs and, from time-to-time, we may also opportunistically repurchase our stock under our previously announced stock repurchase programs. In addition, we may opportunistically use our operating cash flows to strengthen our networking portfolios through acquisitions and strategic investments.

Results of Operations

Our results of operations for the three and nine months ended July 28, 2012 and July 30, 2011 are reported in this discussion and analysis as a percentage of total net revenues, except for gross margin for each segment, which is presented as a percentage of the respective segment net revenues.

Revenues. Our revenues are derived primarily from sales of our Data Storage products, Ethernet products, and Support and Services related to these products which we call Global Services.

Our total net revenues are summarized as follows (in thousands, except percentages):

	Three Months Ended					
	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Data Storage Products	\$ 321,464	57.9%	\$ 275,391	54.8%	\$ 46,073	16.7 %
Ethernet Products	145,817	26.2%	138,907	27.6%	6,910	5.0 %
Global Services	88,051	15.9%	88,552	17.6%	(501)	(0.6)%
Total net revenues	\$ 555,332	100.0%	\$ 502,850	100.0%	\$ 52,482	10.4 %

	Nine Months Ended					
	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Data Storage Products	\$ 1,017,258	61.3%	\$ 935,129	58.6%	\$ 82,129	8.8 %
Ethernet Products	382,429	23.0%	393,692	24.6%	(11,263)	(2.9)%
Global Services	259,726	15.7%	268,148	16.8%	(8,422)	(3.1)%
Total net revenues	\$ 1,659,413	100.0%	\$ 1,596,969	100.0%	\$ 62,444	3.9 %

The increase in total net revenues for the three months ended July 28, 2012 compared to the three months ended July 30, 2011 was due to higher revenues from our Data Storage products and Ethernet products. It was partially offset by lower revenues from Global Services offerings.

- The increase in Data Storage product revenues for the period was driven by a shift in mix to our high-end, higher bandwidth Director and Switch products, including the strong growth in sales of our 16 Gbps products. The number of ports shipped during the three months ended July 28, 2012 increased by 8%. Average selling price per port increased by 8% due to a favorable change in our product sales mix towards our high-end, higher bandwidth products;
- The increase in Ethernet product revenues was due to higher revenues from our enterprise customers, driven by sales of our new Brocade ICX products, and higher revenue from United States (U.S.) federal government customers. Revenues from our service provider customers were slightly lower for the three months ended July 28, 2012 compared to the three months ended July 30, 2011; and
- The decrease in Global Services revenues was primarily attributable to the sale of Strategic Business Systems, Inc. ("SBS"), a wholly-owned subsidiary of the Company, during the fourth quarter of fiscal year 2011. This decrease was partially offset by an increase in both Data Storage and Ethernet support revenues.

The increase in total net revenues for the nine months ended July 28, 2012 compared to the nine months ended July 30, 2011 reflects higher sales of our Data Storage products, partially offset by lower revenues from our Ethernet products and Global Services offerings.

- The increase in Data Storage product revenues for the period was driven by our high-end, higher bandwidth Director and Switch products. The number of ports shipped during the nine months ended July 28, 2012 increased by 3%, and average selling price per port increased by 5%;
- The decrease in Ethernet product revenues reflects lower revenues from our enterprise customers, partially offset by an increase in revenues from both service provider and U.S. federal government customers. Our Ethernet business has been impacted by slower enterprise customer spending and the competitive enterprise environment. In addition, enterprise product revenue decreased due in part to our transition to a two-tier distribution channel model that adversely impacted sales volumes and average selling prices in the first two quarters of fiscal 2012; and

- The decrease in Global Services revenues was primarily attributed to the sale of SBS, a wholly-owned subsidiary of the Company, during the fourth quarter of fiscal year 2011.

Our total net revenues by geographical area are summarized as follows (in thousands, except percentages):

	Three Months Ended					
	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
United States	\$ 354,632	63.8%	\$ 307,357	61.1%	\$ 47,275	15.4 %
Europe, the Middle East and Africa	116,033	20.9%	115,173	22.9%	860	0.7 %
Asia Pacific	45,371	8.2%	50,566	10.0%	(5,195)	(10.3)%
Japan	29,417	5.3%	19,390	3.9%	10,027	51.7 %
Canada, Central and South America	9,879	1.8%	10,364	2.1%	(485)	(4.7)%
Total net revenues	\$ 555,332	100.0%	\$ 502,850	100.0%	\$ 52,482	10.4 %

	Nine Months Ended					
	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
United States	\$ 1,050,274	63.3%	\$ 970,603	60.8%	\$ 79,671	8.2 %
Europe, the Middle East and Africa	358,893	21.6%	378,038	23.7%	(19,145)	(5.1)%
Asia Pacific	144,768	8.7%	160,618	10.0%	(15,850)	(9.9)%
Japan	72,046	4.4%	55,816	3.5%	16,230	29.1 %
Canada, Central and South America	33,432	2.0%	31,894	2.0%	1,538	4.8 %
Total net revenues	\$ 1,659,413	100.0%	\$ 1,596,969	100.0%	\$ 62,444	3.9 %

International revenues decreased as a percentage of total net revenues for the three months ended July 28, 2012 compared to the three months ended July 30, 2011 primarily due to higher revenues from our Data Storage product sales to U.S. OEM partners partially offset by higher revenues from our Data Storage product sales to OEM's in Japan. International revenues decreased as a percentage of total net revenues for the nine months ended July 28, 2012 compared to the nine months ended July 30, 2011 primarily due to higher revenues from our Data Storage product sales to U.S. OEM partners as well as lower product sales in Europe, the Middle East and Africa ("EMEA") due to a weak macroeconomic environment. Revenues are attributed to geographic areas based on where our products are shipped. However, certain OEM partners take possession of our products domestically and then distribute these products to their international customers. Because we account for all of those OEM revenues as domestic revenues, we cannot be certain of the extent to which our domestic and international revenue mix is impacted by the practices of our OEM partners, but we believe that international revenues comprise a larger percentage of our total net revenues than the attributed revenues may indicate.

A significant portion of our revenues are concentrated among a relatively small number of OEM customers. For the three months ended July 28, 2012, four customers accounted for 16%, 16%, 13% and 10%, respectively, of the Company's total net revenues for a combined total of 55% of total net revenues. For the three months ended July 30, 2011, three customers accounted for 16%, 12% and 15%, respectively, of the Company's total net revenues for a combined total of 43% of total net revenues. We expect that a significant portion of our future revenues will continue to come from sales of products to a relatively small number of OEM partners and to the U.S. federal government and its individual agencies through our distributors and resellers. Therefore, the loss of, or significant decrease in the level of sales to, or a change in the ordering pattern of any one of these customers could seriously harm our financial condition and results of operations.

Gross margin. Gross margin as stated below is indicated as a percentage of the respective segment net revenues, except for total gross margin, which is stated as a percentage of total net revenues. Gross margin is summarized as follows (in thousands, except percentages):

	Three Months Ended					
	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Points Change
Data Storage Products	\$ 234,351	72.9%	\$ 206,172	74.9%	\$ 28,179	(2.0)%
Ethernet Products	59,293	40.7%	58,805	42.3%	488	(1.6)%
Global Services	46,834	53.2%	41,550	46.9%	5,284	6.3 %
Total gross margin	<u>\$ 340,478</u>	61.3%	<u>\$ 306,527</u>	61.0%	<u>\$ 33,951</u>	0.3 %

	Nine Months Ended					
	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Points Change
Data Storage Products	\$ 743,950	73.1%	\$ 667,607	71.4%	\$ 76,343	1.7 %
Ethernet Products	142,516	37.3%	163,202	41.5%	(20,686)	(4.2)%
Global Services	135,863	52.3%	125,209	46.7%	10,654	5.6 %
Total gross margin	<u>\$ 1,022,329</u>	61.6%	<u>\$ 956,018</u>	59.9%	<u>\$ 66,311</u>	1.7 %

For the three months ended July 28, 2012 compared to the three months ended July 30, 2011, total gross margin percentage did not change significantly. This was because the higher relative sales volume of Data Storage products which have higher gross margins was offset by the relative decrease in margin percentage on both Data Storage and Ethernet products.

Gross margin percentage by reportable segment increased or decreased for the three months ended July 28, 2012 compared to the three months ended July 30, 2011 primarily due to the following factors (the percentages below reflect the impact on gross margin):

- Data Storage gross margins relative to net revenues decreased primarily due to a benefit of 4.4% from the \$14.3 million release of a reserve for certain pre-acquisition litigation during the three month period ended July 30, 2011. This was partially offset by a decrease in amortization of intangible assets relative to net revenues of 1.3% and a combined decrease of 0.9% in product costs and stock based compensation costs relative to net revenues during the three months ended July 28, 2012.
- Ethernet products gross margins relative to net revenues decreased mainly due to the impact of lower average selling prices and a less profitable product mix; and
- Global Services gross margins relative to net revenues increased due to a 5.0% decrease in service and support costs relative to net revenues, primarily from decreased headcount as a result of the sale of SBS. Additionally, stock-based compensation and amortization of intangible assets relative to net revenues decreased by 1.3%.

For the nine months ended July 28, 2012 compared to the nine months ended July 30, 2011, total gross margin increased in absolute dollars and percentage due to an increase in margins on Data Storage products and Global Services offerings and a favorable mix due to the relative increased volume of sales of Data Storage products which yield higher gross margins. This was partially offset by a decrease in margins on Ethernet products.

Gross margin percentage by reportable segment increased or decreased for the nine months ended July 28, 2012 compared to the nine months ended July 30, 2011 primarily due to the following factors (the percentages below reflect the impact on gross margin):

- Data Storage gross margins relative to net revenues increased due to a 1.3% decrease in product costs and a 0.9% decrease in manufacturing costs relative to net revenues. Additionally, amortization of Data Storage related intangible assets decreased by 0.8% relative to net revenues. These benefits were partially offset by the impact of a non-recurring benefit of 1.4% from the \$14.3 million release of a reserve for a certain pre-acquisition litigation during the nine month period ended July 30, 2011 relative to net revenues;

- Ethernet products gross margins relative to net revenues decreased due to a 1.9% increase in product costs relative to net revenues which is primarily as a result of the impact of a decrease in average selling prices and a less advantageous product mix as well as a 2.0% increase in manufacturing costs relative to net revenues. Additionally, amortization of Ethernet products related intangible assets and stock-based compensation increased relative to net revenues by 0.2%; and
- Global Services gross margins relative to net revenues increased due to a 5.6% decrease in service and support costs relative to net revenues, primarily from decreased headcount as a result of the sale of SBS.

Gross margin is primarily affected by the mix of products and services, route to market and customer segment, the average selling price per port, number of ports shipped and cost of revenues. We believe that we have the ability to partially mitigate the effect of declines in average selling price per port on gross margins by reducing our product and manufacturing operations costs but may not be able to reduce these costs quickly or in sufficient amounts to offset the selling price declines.

Stock-based compensation expense. Stock-based compensation expense is summarized as follows (in thousands, except percentages):

	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$ 13,069	2.4%	\$ 20,969	4.2%	\$ (7,900)	(37.7)%
Nine months ended	\$ 58,746	3.5%	\$ 63,405	4.0%	\$ (4,659)	(7.3)%

The decrease in stock-based compensation expense for the three and nine months ended July 28, 2012 compared to the three and nine months ended July 30, 2011 was due to fewer restricted stock units granted to employees during the nine months ended July 28, 2012 and a reversal of the previously recognized expense related to forfeited unvested restricted stock units during the three months ended July 28, 2012.

Research and development expenses. Research and development (“R&D”) expenses consist primarily of compensation and related expenses for personnel engaged in engineering and R&D activities, fees paid to consultants and outside service providers, engineering expenses, which primarily consist of nonrecurring engineering charges and prototyping expenses related to the design, development, testing and enhancement of our products, depreciation related to engineering and test equipment, and related IT and facilities expenses.

R&D expenses are summarized as follows (in thousands, except percentages):

	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$ 90,530	16.3%	\$ 87,320	17.4%	\$ 3,210	3.7%
Nine months ended	\$ 272,780	16.4%	\$ 270,669	16.9%	\$ 2,111	0.8%

R&D expenses increased for the three months ended July 28, 2012 compared to the three months ended July 30, 2011 due to the following (in thousands):

	Increase (Decrease)
Salaries and wages	\$ 3,456
Engineering expenses	1,916
Outside services	814
Various individually insignificant items	162
The increase in R&D expenses was partially offset by decreases in the following:	
Stock-based compensation expense	(2,471)
Engineering equipment	(667)
	<u>\$ 3,210</u>

Salaries and wages increased by \$3.5 million primarily due to an increase in our variable compensation due to improved financial results during the three months ended July 28, 2012. Engineering expenses increased by \$1.9 million primarily due to higher engineering spending related to new product development and higher prototype costs. Outside services increased by \$0.8 million primarily due to projects related to testing of our new product offerings and new product certifications. These increases were partially offset by a decrease in stock-based compensation expense of \$2.5 million, primarily driven by the lower expense associated with restricted stock units due to fewer grants and forfeiture-related expense adjustments due to employee terminations. In addition, engineering equipment expenses reduced by \$0.7 million mainly due to reduced spending on equipment for higher density products testing.

R&D expenses increased for the nine months ended July 28, 2012 compared to the nine months ended July 30, 2011 due to the following (in thousands):

	Increase (Decrease)
Outside services	\$ 3,544
Salaries and wages	3,477
Depreciation and amortization expense	1,441
The increase in R&D expenses was partially offset by decreases in the following:	
Engineering equipment expenses	(2,394)
Engineering expenses	(1,969)
Stock-based compensation expense	(1,234)
Various individually insignificant items	(754)
	<u>\$ 2,111</u>

Outside services expense increased by \$3.5 million primarily due to increased certification and technical publication expenses as we penetrate new markets and fulfill additional U.S. federal government customer testing requirements. Salaries and wages increased by \$3.5 million primarily due to an increase in our variable compensation due to improved financial results during the nine months ended July 28, 2012. In addition, depreciation and amortization expense increased by \$1.4 million due to additional depreciation expenses related to our new laboratories. These increases were partially offset by the decrease of \$2.4 million in engineering equipment expenses mainly due to reduced spending on equipment for products testing. Engineering expenses decreased by \$2.0 million due to lower prototype costs and lower expense associated with new products during the nine months ended July 28, 2012. In addition, stock-based compensation expense decreased by \$1.2 million mainly because of lower expense associated with restricted stock units due to fewer grants and forfeiture-related expense adjustments due to employee terminations.

Sales and marketing expenses. Sales and marketing expenses consist primarily of salaries, commissions and related expenses for personnel engaged in sales, marketing and customer service functions, costs associated with promotional and marketing programs, travel expenses, and expenses related to IT and facilities and other shared functions.

Sales and marketing expenses are summarized as follows (in thousands, except percentages):

	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$ 146,378	26.4%	\$ 153,345	30.5%	\$ (6,967)	(4.5)%
Nine months ended	\$ 457,921	27.6%	\$ 462,991	29.0%	\$ (5,070)	(1.1)%

Sales and marketing expenses decreased for the three months ended July 28, 2012 compared to the three months ended July 30, 2011 due to the following (in thousands):

	Increase (Decrease)
Salaries and wages	\$ (6,891)
Stock-based compensation expenses	(4,185)
Various individually insignificant items	(77)
The decrease in sales and marketing expenses was partially offset by increases in the following:	
Expenses related to shared functions	2,457
Marketing and advertising expenses	1,729
Total change	\$ (6,967)

Salaries and wages decreased by \$6.9 million primarily due to a reduction in variable compensation mainly attributable to lower headcount and a revised commission plan, which decreased our salary and commission expense. Stock-based compensation expense decreased by \$4.2 million primarily driven by the lower expense associated with restricted stock units due to fewer grants and forfeiture-related expense adjustments due to employee terminations. These decreases were partially offset by expenses related to shared functions which increased by \$2.4 million primarily due to an increase in legal expenses allocated to sales and marketing. In addition, marketing and advertising expenses increased primarily due to our marketing awareness campaigns and various other marketing activities.

Sales and marketing expenses decreased for the nine months ended July 28, 2012 compared to the nine months ended July 30, 2011 due to the following (in thousands):

	Increase (Decrease)
Salaries and wages	\$ (13,257)
Stock-based compensation expenses	(2,134)
Travel and entertainment expenses	(2,001)
Sales office facilities expenses	(1,037)
Various individually insignificant items	(1,297)
The decrease in sales and marketing expenses was partially offset by increases in the following:	
Marketing and advertising expenses	8,659
Expenses related to shared functions	5,997
Total change	\$ (5,070)

Salaries and wages decreased by \$13.3 million primarily due to a reduction in variable compensation mainly attributable to lower sales commissions and lower headcount. Stock-based compensation decreased by \$2.1 million primarily driven by the lower expense associated with restricted stock units due to fewer grants and forfeiture-related expense adjustments as a result of employee terminations. Travel and entertainment expenses decreased by \$2.0 million due to lower headcount and lower spending due to cost control initiatives. Sales office facilities expenses decreased by \$1.0 million due to lower headcount and office consolidation. These decreases were partially offset by an increase in marketing and advertising expenses of \$8.7 million primarily due to our marketing awareness campaigns and various other marketing activities. In addition, expenses related to shared functions increased by \$6.0 million primarily due to an increase in legal expenses allocated to sales and marketing.

General and administrative expenses. General and administrative (“G&A”) expenses consist primarily of salaries and related expenses for corporate executives, finance, human resources, legal and investor relations, as well as recruiting expenses, professional fees, other corporate expenses, and related IT and facilities expenses.

G&A expenses are summarized as follows (in thousands, except percentages):

	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$ 18,612	3.4%	\$ 16,617	3.3%	\$ 1,995	12.0%
Nine months ended	\$ 55,752	3.4%	\$ 53,176	3.3%	\$ 2,576	4.8%

G&A expenses increased for the three months ended July 28, 2012 compared to the three months ended July 30, 2011 due to the following (in thousands):

	Increase (Decrease)
Outside services	\$ 3,805
Salaries and wages	817
Various individually insignificant items	672
The increase in general and administrative expenses was partially offset by decreases in the following:	
Increase in shared expenses allocated to other functions	(2,011)
Facilities expenses	(1,288)
Total change	\$ 1,995

Expenses associated with outside services increased by \$3.8 million, primarily due to increased costs associated with ongoing litigation matters. Salaries and wages expense increased by \$0.8 million primarily driven by higher variable compensation due to improved financial results during the three months ended July 28, 2012. These increases were partially offset by a \$1.3 million decrease in facilities expenses due to reduced rent and telecommunication costs and a \$2.0 million increase in shared expenses allocated to other functions as a result of our higher ongoing litigation costs.

G&A expenses increased for the nine months ended July 28, 2012 compared to the nine months ended July 30, 2011 due to the following (in thousands):

	Increase (Decrease)
Outside services	\$ 9,197
Salaries and wages	2,071
The increase in general and administrative expenses was partially offset by decreases in the following:	
Facilities expenses	(2,743)
Increase in shared expenses allocated to other functions	(2,266)
Stock-based compensation expenses	(2,075)
Equipment and furniture expenses	(1,244)
Various individually insignificant items	(364)
Total change	\$ 2,576

Expenses associated with outside services increased by \$9.2 million primarily driven by increased costs for our ongoing litigation matters. Salaries and wages expenses increased by \$2.1 million driven by higher medical insurance costs and higher variable compensation due to improved financial results during the nine months ended July 28, 2012. These increases were partially offset by an increase in shared expenses allocated to other functions of \$2.3 million as result of our higher ongoing litigation costs and a decrease in various facility expenses, stock-based compensation expenses and spending on equipment and furniture.

Amortization of intangible assets. Amortization of intangible assets is summarized as follows (in thousands, except percentages):

	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$ 14,737	2.7%	\$ 15,023	3.0%	\$ (286)	(1.9)%
Nine months ended	\$ 44,467	2.7%	\$ 46,236	2.9%	\$ (1,769)	(3.8)%

The decrease in amortization of intangible assets for the three and nine months ended July 28, 2012 compared to the three and nine months ended July 30, 2011 was primarily due to the full amortization of certain of our intangible assets.

Interest expense. Interest expense primarily represents the interest cost associated with our term loan and senior secured notes (see Note 7, "Borrowings," of the Notes to Condensed Consolidated Financial Statements). Interest expense is summarized as follows (in thousands, except percentages):

	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$ (12,029)	(2.2)%	\$ (42,066)	(8.4)%	\$ (30,037)	(71.4)%
Nine months ended	\$ (37,804)	(2.3)%	\$ (84,357)	(5.3)%	\$ (46,553)	(55.2)%

Interest expense decreased for the three and nine months ended July 28, 2012 compared to the three and nine months ended July 30, 2011 as a result of a reduction in the principal amount of our debt outstanding, and refinancing of our term debt credit agreement in June 2011, as described further below in "Liquidity and Capital Resources". In addition, as a result of the June 2011 refinancing, in accordance with the applicable accounting guidance for debt modification and extinguishment, we expensed \$25.5 million of debt issuance costs and original issue discount relating to the portion of the term loan that was extinguished, which was reported within "Interest expense" in the Condensed Consolidated Statements of Income for the three and nine months ended July 30, 2011.

During the nine months ended July 28, 2012, we made net debt payments of \$160.0 million toward the principal of the Senior Secured Credit Facility, \$142.6 million of which were voluntary prepayments.

Interest and other income (loss), net. Interest and other income (loss), net, are summarized as follows (in thousands, except percentages):

	July 28, 2012	% of Net Revenues	July 30, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$ 103	—%	\$ (519)	(0.1)%	\$ 622	(119.8)%
Nine months ended	\$ (1,345)	(0.1)%	\$ (160)	0.0%	\$ (1,185)	740.6%

Other loss for the nine months ended July 28, 2012 compared to other loss for the nine months ended July 30, 2011 increased primarily due to higher net foreign exchange losses recognized during the nine months ended July 28, 2012.

Income tax expense (benefit). Income tax expense (benefit) and the effective tax rates are summarized as follows (in thousands, except effective tax rates):

	Three Months Ended		Nine Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Income tax expense (benefit)	\$ 14,995	\$ (10,300)	\$ 11,080	\$ (16,629)
Effective tax rate	25.7%	123.2%	7.3%	(43.4)%

In general, our provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense and adjustments to unrecognized tax benefits.

We recorded a tax expense for the three and nine months ended July 28, 2012. The tax reported for both periods was impacted by the effect of a decrease in the amount of benefit from the federal research and development tax credit which expired on December 31, 2011 partially offset by discrete benefits from reserve releases of settled tax audits and certain expiring statutes of limitation.

We recorded a tax benefit for the three and nine months ended July 30, 2011, primarily as a result of discrete benefits from the retroactive reinstatement of the federal research and development tax credit provision and reserve releases of settled tax audits and the expiration of certain statutes of limitation.

Based on our currently forecasted results, we expect a lower tax expense for fiscal year 2012 compared to tax expense for fiscal year 2011 which was impacted by a significant amount of tax expense resulting from a nonrecurring cash distribution from our foreign subsidiaries. Our income tax provision could change from either effects of changing tax laws and regulations, or differences in the amount of international revenues and earnings from those historically achieved, a factor largely influenced by the buying behavior of our OEM and channel partners. Factors such as the mix of Ethernet versus Data Storage products and domestic versus international profits could also affect our tax expense. As estimates and judgments are used to project such international earnings, the impact to our tax provision could vary if current planning or assumptions change. In addition, we do not forecast discrete events, such as settlement of tax audits with governmental authorities due to their inherent uncertainty. Such settlements could materially impact our tax expense. Given that our tax rate is driven by several different factors, it is not possible to estimate our future tax rate with a high degree of certainty.

The IRS and other tax authorities regularly examine our income tax returns. The IRS is currently examining our returns for fiscal years 2007 through 2010. If we reach settlement with the IRS, we expect to record a corresponding adjustment to our unrecognized tax benefits. Due to availability of net operating losses and credits, IRS audit settlements are not expected to result in a significant tax payment. Given the uncertainty as to settlement terms, the timing of payments and the impact of such settlements on other uncertain tax positions, the range of estimated potential decreases in underlying uncertain tax positions is between \$0 and \$23 million in the next twelve months.

We believe that sufficient positive evidence exists from historical operations and projections of taxable income in future years to conclude that it is more likely than not that we will realize our deferred tax assets. Accordingly, we apply a valuation allowance only on the deferred tax assets relating to capital loss carryforwards due to limited carryforward periods and the character of such tax attributes. The Governor of the State of California and the California state legislature have introduced tax proposals affecting future state income tax apportionment that may have a significant impact on our ability to realize certain California deferred tax assets. We will reevaluate the realization of these California deferred tax assets if and when the current law changes.

Liquidity and Capital Resources

	July 28, 2012	October 29, 2011	Increase/ (Decrease)
	(in thousands)		
Cash and cash equivalents	\$ 580,626	\$ 414,202	\$ 166,424
Short-term investments	808	774	34
Total	<u>\$ 581,434</u>	<u>\$ 414,976</u>	<u>\$ 166,458</u>
Percentage of total assets	16.6%	11.9%	

We use cash generated by operations as our primary source of liquidity. We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our revenues, the timing of product shipments during the quarter, accounts receivable collections, inventory and supply chain management, and the timing and amount of tax and other payments. For additional discussion, see "Part II - Other Information, Item 1A. Risk Factors."

During the third quarter of fiscal year 2011, we amended our term debt credit agreement (the "Credit Agreement") to refinance all of the outstanding term loan with a replacement term loan that reduced interest rates on the term loan facility, and to amend certain other provisions of the Credit Agreement to provide us with greater flexibility, including extending the maturity date of the term loan facility to October 31, 2014.

Based on past performance and current expectations, we believe that internally generated cash flows and cash on hand are generally sufficient to support business operations, capital expenditures, contractual obligations, and other liquidity requirements associated with our operations for at least the next twelve months. Also, we have up to \$125 million available under our revolving credit facility, and we can factor our trade receivables up to the maximum amount available at any time of our \$50 million factoring facility to provide additional liquidity. There are no other transactions, arrangements, or other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity and availability of and our requirements for capital resources.

Financial Condition

Cash and cash equivalents and short-term investments as of July 28, 2012 increased by \$166.5 million over the balance as of October 29, 2011 primarily due to cash from operating activities, partially offset by accelerated payments towards the principal of the term loan and cash used to repurchase our outstanding shares.

As of July 28, 2012, three customers accounted for 17%, 15% and 15%, respectively, of total accounts receivable, for a combined total of 47% of total accounts receivable. As of October 29, 2011, two customers accounted for 16% and 14%, respectively, of total accounts receivable, for a combined total of 30% of total accounts receivable. We perform ongoing credit evaluations of our customers and generally do not require collateral or security interests on accounts receivable balances. We have established reserves for credit losses, sales allowances, and other allowances. While we have not experienced material credit losses in any of the periods presented, there can be no assurance that we will not experience material credit losses in the future.

Net proceeds from the issuance of common stock in connection with employee participation in our equity compensation plans have historically been a significant component of our liquidity. The extent to which our employees participate in these programs generally increases or decreases based upon changes in the market price of our common stock. As a result, our cash flow resulting from the issuance of common stock in connection with employee participation in equity compensation plans will vary.

Nine Months Ended July 28, 2012 Compared to Nine Months Ended July 30, 2011

Operating Activities. Cash provided by operating activities is net income adjusted for certain non-cash items and changes in certain assets and liabilities.

Net cash provided by operating activities increased by \$137.4 million primarily due to higher net income in the current period and favorable changes in our working capital, partially offset by lower adjustments to net income for non-cash items. The adjustments for non-cash items were lower primarily due to lower depreciation and amortization of intangible assets and amortization of debt issuance costs and original issue discount in the current period.

Investing Activities. Net cash used in investing activities decreased by \$19.1 million. The decrease was due to lower purchases of property and equipment during the nine months ended July 28, 2012.

Financing Activities. Net cash used in financing activities increased for the nine months ended July 28, 2012, compared to the nine months ended July 30, 2011 by \$123.6 million. The increase was primarily due to higher net debt payments and stock repurchase activity during the nine months ended July 28, 2012.

Liquidity

Manufacturing and Purchase Commitments. We have manufacturing arrangements with contract manufacturers under which we provide twelve-month product forecasts and place purchase orders in advance of the scheduled delivery of products to our customers. Our purchase commitments reserve reflects our estimate of purchase commitments we do not expect to consume in normal operations, in accordance with our policy (see Note 8, "Commitments and Contingencies," of the Notes to Condensed Consolidated Financial Statements).

Income Taxes. We accrue U.S. income taxes on the earnings of our foreign subsidiaries unless the earnings are considered indefinitely reinvested outside of the U.S. We intend to reinvest current and accumulated earnings of our foreign subsidiaries for expansion of our business operations outside the U.S. for an indefinite period of time.

Our existing cash, cash equivalents and short-term investments totaled \$581.4 million as of July 28, 2012. Of this amount, approximately 64% was held by our foreign subsidiaries. Under current tax laws and regulations, if these funds are distributed to the U.S. in the form of dividends or otherwise, we may be subject to additional U.S. income taxes and foreign withholding taxes.

The IRS and other tax authorities regularly examine our income tax returns (see Note 11, "Income Taxes," of the Notes to Condensed Consolidated Financial Statements). We believe we have adequate reserves for all open tax years.

Senior Secured Credit Facility. A portion of our outstanding debt is related to the financing of the Foundry acquisition, the costs and expenses related to the merger, and the ongoing working capital and other general corporate purposes of the combined organization after consummation of the merger (see Note 7, "Borrowings," of the Notes to Condensed Consolidated Financial Statements). During the third quarter of fiscal year 2011, we amended the Credit Agreement to refinance all of the outstanding term loan with a replacement term loan that reduced interest rates on the term loan facility, and to amend certain other provisions of the Credit Agreement to provide us with greater operating flexibility, including extending the maturity date of the term loan facility to October 31, 2014 and removing certain restrictions on the repurchase of the Company's shares, provided the consolidated senior secured leverage ratio is under 2.00. As a result of this amendment, in accordance with the applicable accounting guidance for debt modification and extinguishment, the Company expensed \$25.5 million of debt issuance costs and original issue discount relating to the portion of the term loan that was extinguished, which was reported within "Interest Expense" in the Condensed Consolidated Statements of Income for the nine months ended July 30, 2011.

During the nine months ended July 28, 2012, we paid \$160.0 million towards the principal of the Senior Secured Credit Facility, \$142.6 million of which were voluntary prepayments.

If additional liquidity is necessary, we have the following resources available to obtain short-term or long-term financing as of July 28, 2012 (in thousands):

	Original Amount Available	July 28, 2012	
		Used	Available
Revolving credit facility	\$ 125,000	\$ —	\$ 125,000

Trade Receivables Factoring Facility. We have an agreement with a financial institution to sell certain of our trade receivables from customers with limited, non-credit related, recourse provisions. The sale of receivables eliminates our credit exposure in relation to these receivables. Total trade receivables sold under our factoring facility are summarized as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Trade receivables sold under factoring agreement	\$ —	\$ 20,581	\$ —	\$ 50,534

Under the terms of the factoring agreement, the remaining available amount of the factoring facility as of July 28, 2012 is \$50.0 million.

Covenant Compliance

In January 2010, we issued \$300 million in aggregate principal amount of senior secured notes due 2018 (the “2018 Notes”) and \$300 million in aggregate principal amount of senior secured notes due 2020 (the “2020 Notes” and together with the 2018 Notes, the senior secured notes).

The senior secured notes were issued pursuant to two separate indentures (together, the “Indentures”), among the Company, the Subsidiary Guarantors and Wells Fargo Bank, National Association, as trustee. Each of the Indentures contains covenants that, among other things, restrict the ability of the Company and its restricted subsidiaries to:

- pay dividends, make investments or make other restricted payments;
- incur additional indebtedness;
- sell assets;
- enter into transactions with affiliates;
- incur liens;
- permit consensual encumbrances or restrictions on the Company’s restricted subsidiaries’ ability to pay dividends or make certain other payments to the Company;
- consolidate, merge, sell or otherwise dispose of all or substantially all of the Company’s or its restricted subsidiaries’ assets; and
- designate subsidiaries as unrestricted.

These covenants are subject to a number of other limitations and exceptions set forth in the Indentures. The Company was in compliance with all applicable Indentures’ covenants as of July 28, 2012 and October 29, 2011.

Each of the Indentures provides for customary events of default, including, but not limited to, cross defaults to specified other debt of the Company and its subsidiaries. In the case of an event of default arising from specified events of bankruptcy or insolvency, all outstanding senior secured notes will become due and payable immediately without further action or notice. If any other event of default under either Indenture occurs or is continuing, the applicable trustee or holders of at least 25% in aggregate principal amount of the then outstanding 2018 Notes or 2020 Notes, as applicable, may declare all of the 2018 Notes or 2020 Notes, respectively, to be due and payable immediately.

The Senior Secured Credit Facility agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on liens, indebtedness, investments, fundamental changes, dispositions, capital expenditures, prepayment of other indebtedness, redemption or repurchase of subordinated indebtedness, share repurchases, dividends and other distributions. The credit agreement contains financial covenants that require the Company to maintain a minimum consolidated fixed charge coverage ratio, a maximum consolidated leverage ratio and a maximum consolidated senior secured leverage ratio, each as defined in the credit agreement and described further below. The credit agreement also includes customary events of default, including cross-defaults on the Company’s material indebtedness and change of control. The Company was in compliance with all applicable covenants as of July 28, 2012 and October 29, 2011.

Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”), as defined in the credit agreement, is used to determine the Company’s compliance with certain covenants in the Senior Secured Credit Facility. Consolidated EBITDA is defined as:

- Consolidated net income

Plus:

- Consolidated interest charges;
- Provision for federal, state, local and foreign income taxes;
- Depreciation and amortization expense;
- Fees, costs and expenses incurred on or prior to the closing date of the Foundry acquisition in connection with the acquisition and the financing thereof;
- Any cash restructuring charges and integration costs in connection with the Foundry acquisition, in an aggregate amount not to exceed \$75.0 million;
- Approved non-cash restructuring charges incurred in connection with the Foundry acquisition and the financing thereof;
- Other non-recurring expenses reducing consolidated net income which do not represent a cash item in such period or future periods;

- Any non-cash stock-based compensation expense; and
- Legal fees associated with the indemnification obligations for the benefit of former officers and directors in connection with Brocade's historical stock option litigation;

Minus:

- Federal, state, local and foreign income tax credits; and
- All non-cash items increasing consolidated net income.

The Senior Secured Credit Facility financial covenants are defined as below:

Consolidated Fixed Charge Coverage Ratio

Consolidated fixed charge coverage ratio means, at any date of determination, the ratio of (a) (i) consolidated EBITDA (excluding interest expense, if any, attributable to the campus sale-leaseback), plus (ii) rentals payable under leases of real property, less (iii) the aggregate amount of all capital expenditures to (b) consolidated fixed charges; provided that, for purposes of calculating the consolidated fixed charge coverage ratio for any period ending prior to the first anniversary of the closing date, consolidated interest charges shall be an amount equal to actual consolidated interest charges from the closing date through the date of determination multiplied by a fraction the numerator of which is 365 and the denominator of which is the number of days from the closing date through the date of determination.

In accordance with the amendment and waiver to the credit agreement, the Company has agreed that it will not permit the consolidated fixed charge coverage ratio as of the end of any fiscal quarter during any period set forth below to be less than the ratio set forth below opposite such period:

Four Fiscal Quarters Ending During Period:	Minimum Consolidated Fixed Charge Coverage Ratio
October 31, 2010 through October 29, 2011	1.50:1.00
October 30, 2011 through October 27, 2012	1.75:1.00
October 28, 2012 and thereafter	1.75:1.00

Consolidated Leverage Ratio

Consolidated leverage ratio means, as of any date of determination, the ratio of (a) consolidated funded indebtedness as of such date to (b) consolidated EBITDA for the measurement period ending on such date.

In accordance with the amendment and waiver to the credit agreement, the Company has agreed that it will not permit the consolidated leverage ratio at any time during any period set forth below to be greater than the ratio set forth below opposite such period:

Four Fiscal Quarters Ending During Period:	Maximum Consolidated Leverage Ratio
October 31, 2010 through October 29, 2011	3.00:1.00
October 30, 2011 through October 27, 2012	2.75:1.00
October 28, 2012 and thereafter	2.75:1.00

Consolidated Senior Secured Leverage Ratio

Consolidated senior secured leverage ratio means, as of any date of determination, the ratio of (a) consolidated funded indebtedness as of such date, minus, without duplication, all unsecured senior subordinated or subordinated indebtedness of Brocade or its subsidiaries on a consolidated basis as of such date (including the McDATA Corporation ("McDATA") convertible subordinated debt prior to being retired on February 16, 2010), to (b) consolidated EBITDA for the measurement period ending on such date.

In accordance with the amendment and waiver to the credit agreement, the Company has agreed that it will not permit the consolidated senior secured leverage ratio at any time during any period set forth below to be greater than the ratio set forth below opposite such period:

Four Fiscal Quarters Ending During Period:	Maximum Consolidated Senior Secured Leverage Ratio
October 31, 2010 through October 29, 2011	2.50:1.00
October 30, 2011 through October 27, 2012	2.25:1.00
October 28, 2012 and thereafter	2.00:1.00

Contractual Obligations

The following table summarizes our contractual obligations, including interest expense, and commitments as of July 28, 2012 (in thousands):

	Total	Less than 1 Year	1—3 Years	3—5 Years	More than 5 Years
Contractual Obligations:					
Term loan (1)	\$ 32,236	\$ 8,701	\$ 23,535	\$ —	\$ —
Senior secured notes due 2018 (1)	409,313	19,875	39,750	39,750	309,938
Senior secured notes due 2020 (1)	454,688	20,625	41,250	41,250	351,563
Non-cancelable operating leases (2)	87,893	21,675	36,534	22,675	7,009
Non-cancelable capital leases	5,860	2,221	3,639	—	—
Purchase commitments, gross (3)	228,202	228,202	—	—	—
Total contractual obligations	\$ 1,218,192	\$ 301,299	\$ 144,708	\$ 103,675	\$ 668,510
Other Commitments:					
Standby letters of credit	\$ 218	n/a	n/a	n/a	n/a
Unrecognized tax benefits and related accrued interest (4)	\$ 119,382	n/a	n/a	n/a	n/a

- (1) Amount reflects total anticipated cash payments, including anticipated interest payments.
- (2) Amount excludes contractual sublease income of \$30.3 million, which consists of \$6.6 million to be received in less than one year, \$13.7 million to be received in one to three years and \$10.0 million to be received in three to five years.
- (3) Amount reflects total gross purchase commitments under our manufacturing arrangements with third-party contract manufacturers. Of this amount, we have accrued \$4.7 million for estimated purchase commitments that we do not expect to consume in normal operations within the next twelve months, in accordance with our policy.
- (4) As of July 28, 2012, we had a liability for unrecognized tax benefits of \$117.0 million and a net accrual for the payment of related interest and penalties of \$2.4 million. Due to availability of net operating losses and credits, a tax audit settlement is not expected to result in a significant tax payment. Given the uncertainty as to settlement terms, the timing of payments and the impact of such settlements on other uncertain tax positions, the range of estimated potential decreases in underlying uncertain tax positions is between \$0 and \$23 million in the next twelve months.

Share Repurchase Program. As of July 28, 2012, our Board of Directors had authorized a total of \$1.3 billion for the repurchase of our common stock. The purchases may be made, from time to time, in the open market or by privately negotiated transactions and will be funded from available working capital. The number of shares to be purchased and the timing of purchases will be based on the level of our cash balances, general business and market conditions, our debt covenants, the trading price of our common stock and other factors, including alternative investment opportunities. For the three months ended July 28, 2012, we repurchased 8.7 million shares for an aggregate purchase price of 45.1 million. Approximately \$608.4 million remained authorized for future repurchases under this program as of July 28, 2012. We are subject to certain covenants relating to our borrowings that restrict the amount of our Company's shares that we can repurchase. There is no restriction on the repurchase of our Company's shares under the terms of our Senior Secured Credit Facility, provided our consolidated senior secured leverage ratio as defined in the credit agreement is under 2.00.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As of July 28, 2012, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission ("SEC") Regulation S-K.

Critical Accounting Estimates

There have been no material changes in the matters for which we make critical accounting estimates in the preparation of our condensed consolidated financial statements during the nine months ended July 28, 2012 as compared to those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 29, 2011.

Impairment of goodwill and intangible assets. Goodwill is generated as a result of business combinations. We conduct our goodwill impairment test annually, as of the first day of the second fiscal quarter, and whenever events or changes in facts and circumstances indicate that the fair value of the reporting unit may be less than its carrying amount. Events which might indicate impairment include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, material negative changes in relationships with significant customers, and/or a significant decline in our stock price for a sustained period. Consistent with prior years, we performed our annual goodwill impairment test using measurement data as of the first day of the second fiscal quarter of 2012.

We apply a two-step approach in testing goodwill for impairment for each reporting unit, which we have determined to be at the operating segment level. The reporting units are determined by the components of our operating segments that constitute a business for which both (i) discrete financial information is available and (ii) segment management regularly reviews the operating results of that component. Our four reporting units are: Data Storage Products; Ethernet Switching & Internet Protocol ("IP") Routing, which includes Open Systems Interconnection Reference Model ("OSI") Layer 2-3 products; Application Delivery Products ("ADP"), which includes OSI Layer 4-7 products; and Global Services.

The first step tests for potential impairment by comparing the fair value of reporting units with reporting units' net asset values. If the fair value of the reporting unit exceeds the carrying value of the reporting unit's net assets, then goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is below the reporting unit's carrying value, then the second step is required to measure the amount of potential impairment. The second step requires an assignment of the reporting unit's fair value to the reporting unit's assets and liabilities, using the initial acquisition accounting guidance in ASC 805 Business Combinations, to determine the implied fair value of the reporting unit's goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of the reporting unit's goodwill to determine the goodwill impairment loss to be recognized, if any. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, we record an impairment loss equal to the difference.

To determine the reporting unit's fair values, we use the income approach, the market approach, or a combination thereof. The income approach provides an estimate of fair value based on discounted expected future cash flows. The market approach provides an estimate of the fair value of our four reporting units using various prices or market multiples applied to the reporting unit's operating results and then applying an appropriate control premium. During our fiscal year 2012 annual goodwill impairment test under the first step, we used a combination of approaches to estimate reporting units' fair values. We believe that at the time of impairment testing performed in the second fiscal quarter of 2012, the income approach and the market approach were equally representative of a reporting unit's fair value.

Determining the fair value of a reporting unit or an intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. We based our fair value estimates on assumptions we believe to be reasonable, but inherently uncertain. Estimates and assumptions with respect to the determination of the fair value of our reporting units using the income approach include, among other inputs:

- The Company’s operating forecasts;
- Revenue growth rates; and
- Risk-commensurate discount rates and costs of capital.

Our estimates of revenues and costs are based on historical data, various internal estimates and a variety of external sources, and are developed as part of our regular long-range planning process. The control premium used in market or combined approaches is determined by considering control premiums offered as part of acquisitions that have occurred in a reporting unit’s comparable market segments.

Based on the results of our step one analysis, we believe that all our reporting units pass the step one test and no further testing is required. However, because some of the inherent assumptions and estimates used in determining the fair value of these reportable segments are outside the control of management, changes in these underlying assumptions can adversely impact fair value. The sensitivity analysis below quantifies the impact of key assumptions on certain reporting units’ fair value estimates. The principal key assumptions impacting our estimates were (i) discount rates and (ii) DCF terminal value multipliers. As the discount rates, ultimately, reflect the risk of achieving reporting units’ revenue and cash flow projections, we do not believe that a separate sensitivity analysis for changes in revenue and cash flow projections is meaningful or useful.

The estimated fair value of the Ethernet Switching & IP Routing reporting unit exceeded its carrying value by approximately \$117 million and the ADP reporting unit exceeded its carrying value by approximately \$40 million. The respective fair values of our remaining reporting units exceeded carrying value by significant amounts and were not subject to the sensitivity analysis presented below.

The following table summarizes the approximate impact that a change in principal key assumptions would have on the estimated fair value of Ethernet Switching & IP Routing reporting unit, leaving all other assumptions unchanged:

	Change	Approximate Impact on Fair Value (In millions)	Excess of Fair Value over Carrying Value (In millions)
Discount rate	±1%	\$ (28) - 30	\$ 88 - 146
DCF terminal value multiplier	±0.5x	\$ (58) - 58	\$ 59 - 175

The following table summarizes the approximate impact that a change in principal key assumptions would have on the estimated fair value of the ADP reporting unit, leaving all other assumptions unchanged:

	Change	Approximate Impact on Fair Value (In millions)	Excess of Fair Value over Carrying Value (In millions)
Discount rate	±1%	\$ (5) - 5	\$ 35 - 45
DCF terminal value multiplier	±0.5x	\$ (5) - 5	\$ 35 - 45

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our condensed consolidated financial statements, see Note 2, “Summary of Significant Accounting Policies,” of the Notes to Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we are exposed to market risks related to changes in interest rates, foreign currency exchange rates and equity prices that could impact our financial position and results of operations. Our risk management strategy with respect to these three market risks may include the use of derivative financial instruments. We use derivative contracts only to manage existing underlying exposures of the Company. Accordingly, we do not use derivative contracts for speculative purposes. Our risks and risk management strategy are outlined below. Actual gains and losses in the future may differ materially from the sensitivity analysis presented below based on changes in the timing and amount of interest rates and our actual exposures and hedges.

Interest Rate Risk

Our exposure to market risk due to changes in the general level of United States interest rates relates primarily to our term loan and cash equivalents.

We are exposed to changes in interest rates as a result of our borrowings under our term loan. As of July 28, 2012, the weighted-average annualized effective interest rate on the term loan was 12.6%. Based on outstanding principal indebtedness of \$30.0 million under our term loan as of July 28, 2012, if market rates average 1% above the current interest rate, our annual interest expense would increase by approximately \$0.3 million.

Our cash and cash equivalents are primarily maintained at five major financial institutions. The primary objective of our investment activities is the preservation of principal while maximizing investment income and minimizing risk.

The Company did not have any material investments as of July 28, 2012 that are sensitive to changes in interest rates.

Foreign Currency Exchange Rate Risk

We are exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies. We are primarily exposed to foreign currency fluctuations related to operating expenses denominated in currencies other than the U.S. dollar, of which the most significant to our operations for the nine months ended July 28, 2012 were the Chinese yuan, the euro, the Japanese yen, the Indian rupee, the British pound, the Singapore dollar and the Swiss franc. As such, we benefit from a stronger U.S. dollar and may be adversely affected by a weaker U.S. dollar relative to the foreign currency. We use foreign currency forward contracts designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in our forecasted operating expenses denominated in currencies other than the U.S. dollar. We recognize the gains and losses on foreign currency forward contracts in the same period as the remeasurement losses and gains of the related foreign currency denominated exposures.

We also may enter into other non-designated derivatives that consist primarily of forward contracts to minimize the risk associated with the foreign exchange effects of revaluing monetary assets and liabilities. Monetary assets and liabilities denominated in foreign currencies and any associated outstanding forward contracts are marked-to-market with realized and unrealized gains and losses included in earnings.

Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures if we believe such exposure acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency or if the currency is difficult or too expensive to hedge. As of July 28, 2012, we held \$78.9 million in cash flow derivative instruments. The maximum length of time over which we are hedged as of July 28, 2012 is through October 1, 2013.

We have performed a sensitivity analysis as of July 28, 2012, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant. The analysis covers all of our foreign currency contracts offset by the underlying exposures. The foreign currency exchange rates we used were based on market rates in effect on July 28, 2012. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would not result in a material foreign exchange loss as of July 28, 2012.

Equity Price Risk

We had no investments in publicly traded equity securities as of July 28, 2012. The aggregate cost of our equity investments in non-publicly traded companies was \$7.0 million as of July 28, 2012. We monitor our equity investments for impairment on a periodic basis. In the event that the carrying value of the equity investment exceeds its fair value, and we determine the decline in value to be other-than-temporary, we reduce the carrying value to its current fair value. Generally, we do not attempt to reduce or eliminate our market exposure on these equity securities. We do not purchase our equity securities with the intent to use them for speculative purposes.

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "BRCD." On July 27, 2012, the last business day of our third fiscal quarter of 2012, the last reported sale price of our common stock on the NASDAQ Global Select Market was \$4.97 per share.

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date").

The purpose of this evaluation is to determine if, as of the Evaluation Date, our disclosure controls and procedures are effective such that the information required to be disclosed in the reports we file or submit under the Act (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

(b) *Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting that occurred during the quarter ended July 28, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Disclosure Controls and Procedures.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Information set forth in the Legal Proceedings portion of Note 8, “Commitments and Contingencies,” of the Notes to Condensed Consolidated Financial Statements in Part 1, Item 1 of this Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

Uncertainty about or a slowdown in the domestic and global economies has adversely affected, and may increasingly adversely affect, Brocade's operating results and financial condition.

There is ongoing uncertainty about the domestic and global economies and there may be a prolonged period of significant slowdown. Such uncertainty or slowdown may result in lower growth or a decline in the networking industry as a whole and reduced demand for information technology, including high-performance data networking solutions. Information technology (“IT”) spending has historically declined as federal IT spending decreases and general economic and market conditions have worsened. The loss or delay of orders from any of Brocade's more significant customers, such as the U.S. government or individual branches or agencies within the U.S. government, such as the Department of Defense or certain intelligence agencies where Brocade's revenue is highly concentrated, or customers within the financial services, education, health sectors and service providers, could also cause its revenue and profitability to suffer. For example, if Brocade experiences governmental procurement delays due to the timing of approval of the federal budget or budget reductions that target specific agencies where Brocade's revenue is concentrated, Brocade's revenue and operating results could be negatively impacted. If the domestic and/or global economy undergoes a prolonged period of significant uncertainty or a significant downturn, such as the debt crisis occurring in the Eurozone economy, or if Brocade's customers believe such a period of uncertainty or a downturn will continue for a sustained period, they will likely reduce their information technology spending and future budgets. Brocade is particularly susceptible to reductions in information technology spending because the purchase of Brocade's products is often discretionary and may involve a significant commitment of capital and other resources. Future delays or reductions in information technology spending, domestically and/or internationally, could harm Brocade's business, results of operations and financial condition in a number of ways, including longer sales cycles, increased inventory provisions, increased production costs, lowered prices for products and reduced sales volumes. Similarly, as Brocade's suppliers face challenges in obtaining credit or otherwise in operating their businesses, they may become unable to continue to offer the materials Brocade uses to manufacture its products. These events have caused, and may cause further, reductions in Brocade's revenue, profitability and cash flows, increased price competition, increased operating costs and longer fulfillment cycles and exacerbate many other risks noted in this Form 10-Q, which adversely affect Brocade's business, results of operations and financial condition.

Given the current uncertainty about the extent and duration of the global financial recovery, it is increasingly difficult for Brocade, Brocade's customers and Brocade's suppliers to accurately forecast future product demand trends, which could cause Brocade to produce excess products that would increase Brocade's inventory carrying costs and could result in obsolete inventory that would reduce Brocade's profits. Alternatively, this forecasting difficulty could cause a shortage of products or materials used in Brocade's products that would result in an inability to satisfy demand for Brocade's products and a loss of revenues and market share.

A prolonged period of economic uncertainty or a downturn may also significantly affect financing markets, the availability of capital and the terms and conditions of financing arrangements, including the overall cost of financing. Circumstances may arise in which Brocade needs, or desires, to raise additional capital. Such capital may not be available on commercially reasonable terms, or at all, which in turn could adversely affect Brocade's financial condition.

Intense competition in the market for networking solutions could prevent Brocade from increasing or maintaining revenue, profitability and cash flows with respect to its networking solutions.

The networking market is increasingly competitive. While Cisco Systems, Inc. ("Cisco") maintains a dominant position in the Ethernet networking market, other companies have strengthened their networking portfolios through acquisitions, including the acquisition of Force10 Networks by Dell Inc. ("Dell"), the acquisition of 3Com Corporation by Hewlett-Packard Company ("HP"), and the acquisition of Blade Network Technologies by International Business Machines Corporation ("IBM"). These acquisitions have limited Brocade's ability to sell Ethernet products through these companies and may also indirectly impact the Fibre Channel business. HP, IBM and Dell are important OEM partners for Brocade in the Fibre Channel switching market, yet also are competitive with Brocade in other respects. Other competitors in the Ethernet networking market include Arista Networks, Alcatel-Lucent, Avaya Inc., A10 Networks, Inc. ("A10"), Enterasys Networks, Inc., Extreme Networks, Inc., F5 Networks, Inc., Huawei Technologies Co. Ltd., and Juniper Networks, Inc.

Brocade also competes with Cisco and QLogic Corporation in the Fibre Channel switching market and with QLogic Corporation and Emulex Corporation in the server connectivity or HBA market. Also, our OEM partners have and may in the future develop partnerships with our competitors in the storage and networking markets to sell packaged solutions which may impact our business with that partner and our ability to compete in the marketplace.

The above-referenced acquisitions and business partnerships demonstrate the increasingly complex nature of relationships within the networking industry, especially as the IT industry migrates to cloud computing models. This trend has led the networking industry to introduce new solutions and technology architectures to support cloud computing. Brocade calls this category "Ethernet fabrics" and has introduced a new portfolio through the Brocade VDX family of Data Center Switches and the Brocade VCS software. Brocade's competitors also recently introduced and have begun shipping new products focused on cloud computing and delivering alternative flat network solutions such as Juniper Networks, Inc. with its QFabric architecture and Cisco with its FabricPath. Other competitors in cloud solutions include Arista Networks, Avaya Inc., Alcatel-Lucent and Dell/Force10 Networks who have all recently introduced roadmaps and solutions targeted at cloud computing users.

Some of Brocade's competitors have greater market leverage, longer operating histories, greater financial, technical, sales, marketing and other resources, more name recognition and larger installed customer bases. Brocade's competitors could also adopt more aggressive pricing policies than Brocade. Brocade believes that competition based on price may become more aggressive than it has traditionally experienced. As a result of these factors, Brocade's competitors could devote more resources to develop, promote and sell their own products rather than Brocade's, and, therefore, those competitors could respond more quickly to changes in customer or market requirements. Brocade's failure to successfully compete in the market would harm Brocade's business and financial results.

Brocade's failure to successfully grow a channel and direct sales model or any other significant failure to execute on Brocade's overall sales strategy could significantly reduce Brocade's revenues and negatively affect Brocade's financial results.

Brocade offers its Ethernet products through a multipath distribution strategy, including through resellers, distributors, and the Brocade direct sales force, and through OEMs that have historically offered Brocade SAN products. However, Brocade's efforts to increase sales through both these new and expanded channels may not generate much, if any, incremental Ethernet revenue opportunities for Brocade. This is further compounded by the fact that several of our major OEMs customers, including Dell, IBM and HP, have acquired companies who offer Ethernet products competitive to Brocade's offerings. A loss of or significant reduction in revenue through one of Brocade's paths to market would impact Brocade's financial results.

Additionally, Brocade has focused substantial resources to emphasize the Ethernet networking market and grow revenues through a multi-tier channel strategy. This focus on the Ethernet networking market may negatively impact Brocade's other businesses such as its Data Storage networking products because management's attention and limited resources such as employees may be reallocated away from Brocade's Data Storage products and towards Ethernet products. Brocade must continually anticipate and respond to the needs of its distribution partners and their customers, and ensure that its products integrate with their solutions. Brocade's failure to successfully manage and grow its distribution relationships or the failure of its distribution partners to sell Brocade's products could reduce Brocade's revenues significantly. In addition, Brocade's ability to respond to the needs of its distribution partners in the future may depend as well on third parties producing complementary products and applications for Brocade's products to enable these partners to be competitive in the market. There can be no assurance that Brocade will be successful in expanding its go-to-market objectives which includes effectively maintaining or expanding its distribution channels, managing distribution relationships successfully, or marketing its products through distribution partners. If Brocade fails to respond successfully to the needs of these distribution partners, its business and financial results could be harmed.

The prices of Brocade's products have declined in the past and Brocade expects the prices of Brocade's products to continue to decline, which could reduce Brocade's revenues, gross margins and profitability.

The average selling price for Brocade's products has typically declined in the past and will likely continue to decline in the future as a result of competitive pricing pressure, broader macroeconomic factors, product mix, enhanced marketing programs, increased sales discounts, new product introductions by Brocade or Brocade's competitors, the entrance of new competitors and other factors. Price declines may also increase as competitors ramp up product releases that compete with Brocade's products. Furthermore, particularly as economic conditions deteriorate and drive a more cautious capital spending environment in the technology sector, Brocade and its competitors could pursue more aggressive pricing strategies in an effort to maintain or seek to increase sales levels. If Brocade is unable to offset the negative impact from the above factors on the average selling price of Brocade's products by increasing the volume of products shipped or reducing product manufacturing costs, Brocade's total revenues and gross margins will be negatively impacted.

In addition, to maintain Brocade's gross margins, Brocade must maintain or increase the number of existing products shipped and develop and introduce new products and product enhancements with improved costs, and continue to reduce the overall costs of Brocade's products. While Brocade has successfully reduced the cost of manufacturing its products in the past, Brocade may not be able to continue to reduce cost of production at historical rates or at all. Moreover, most of Brocade's expenses are fixed in the short-term or incurred in advance of receipt of corresponding revenue. As a result, Brocade may not be able to decrease its spending quickly enough or in sufficient amounts to offset any unexpected shortfall in revenues. If this occurs, Brocade could incur losses and Brocade's operating results and gross margins could be below expectations.

Additionally, Brocade's gross margins may be negatively affected by fluctuations in manufacturing volumes, component costs, foreign currency exchange rates, the mix of product configurations sold, the mix of distribution channels through which its products are sold or, if product or related warranty costs associated with Brocade's products are greater than previously experienced, Brocade's gross margins may also be adversely affected. Brocade has also stated its plans to increase gross margins for its Ethernet products by a combination of initiatives, including new product introductions with improved gross margins, normalized pricing, inventory management and increased product volumes. If Brocade is not able to successfully execute on one or more of these on-going initiatives, gross margin improvements may not be realized.

A limited number of major OEM customers comprise a significant portion of Brocade's revenues and the loss of any of these major OEM customers could significantly reduce Brocade's revenues and negatively affect Brocade's financial results.

Brocade's SAN business depends on recurring purchases from a limited number of large OEM partners for a substantial portion of its revenues. As a result, these large OEM partners have a significant influence on Brocade's quarterly and annual financial results. For fiscal years 2011, 2010 and 2009, the same three customers each represented 10% or more of Brocade's total net revenues, for a combined total of 43%, 47% and 48% of total net revenues, respectively. Brocade's agreements with its OEM partners are typically cancelable, non-exclusive, have no minimum purchase requirements and have no specific timing requirements for purchases. Brocade's OEM partners could also elect to eliminate, reduce, or rebalance the amount they purchase from Brocade and/or increase the amount purchased from Brocade's competitors or introduce their own technology. Changes to SAN inventory levels paid for and held by our OEMs at one or multiple partners can impact Brocade's revenue and earnings results and may mask underlying changes in end-user demand.

Also, one or more of Brocade's OEM partners could elect to consolidate or enter into a strategic partnership with one of Brocade's competitors, which could reduce or eliminate Brocade's future revenue opportunities with that OEM partner. Brocade anticipates that a significant portion of its revenues and operating results from its SAN business will continue to depend on sales to a relatively small number of OEM partners. The loss of any one significant OEM partner, or a decrease in the level of sales to any one significant OEM partner, or unsuccessful quarterly negotiation on key terms, conditions or timing of purchase orders placed during a quarter, would likely cause serious harm to Brocade's business and financial results.

Brocade's OEM partners evaluate and qualify Brocade's SAN products for a limited time period before they begin to market and sell them. Assisting Brocade's OEM partners through the evaluation process requires significant sales, marketing and engineering management efforts on Brocade's part, particularly if Brocade's SAN products are being qualified with multiple distribution partners at the same time. In addition, once Brocade's SAN products have been qualified, its customer agreements have no minimum purchase commitments.

Brocade's future revenue growth depends on its ability to introduce new products and services on a timely basis and achieve market acceptance of these new products and services.

Developing new offerings requires significant upfront investments that may not result in revenue for an extended period of time, if at all. Brocade must achieve widespread market acceptance of its new product and service offerings on a timely basis in order to realize the benefits of Brocade's investments. However, the market for networking solutions, driven in part by the growth and evolution of the Internet, is characterized by rapidly changing technology, accelerating product introduction cycles, changes in customer requirements and evolving industry standards. Brocade's future success depends largely upon its ability to address the rapidly changing needs of its customers by developing and supplying high-quality, cost-effective products, product enhancements and services on a timely basis and by keeping pace with technological developments and emerging industry standards. This risk may become more pronounced if the networking market becomes more competitive.

For example, adoption of network attached storage and internet small computer system interface in storage networks may displace existing products in customer IT implementations and may erode the total addressable market for Fibre Channel products. Brocade recently introduced a number of Fibre Channel switching products that support the new 16 gigabits per second technology standards. The transition to this new Fibre Channel technology may be negatively impacted if customers accelerate their adoption of alternative storage networking technologies.

Brocade is also an early developer of, and the vendor who was first-to-market for, Ethernet fabrics based on the Brocade VDX 6720 and Brocade VCS software, which were built to provide the features necessary to support server virtualization and cloud based architectures. The success of Ethernet fabrics will depend on customers recognizing the benefits of upgrading their data center local area networks to fabric-based architectures. Brocade plans to continue to invest in this area with new and enhanced Ethernet fabric solutions, therefore, Brocade's future success would be negatively impacted if this technological transition does not occur at the anticipated rate or at all.

Other factors that may affect Brocade's successful introduction of new product and service offerings include Brocade's ability to:

- Properly determine the market for and define new products and services, which can be particularly challenging for initial product offerings in new markets;
- Differentiate Brocade's new products and services from its competitors' technology and product offerings;
- Address the complexities of interoperability of Brocade's products with its installed base, OEM partners' server and storage products and its competitors' products;
- Meet or exceed customer requirements for product features, cost-effectiveness, and scalability; and
- Maintain high levels of product quality and reliability.

Various factors impacting market acceptance of Brocade's products are outside of Brocade's control, including the following:

- The availability and price of competing products and alternative technologies;
- The cost of certain product subcomponents, which could cause Brocade to modify prices to maintain adequate gross margins;
- Product qualification requirements by Brocade's OEM partners, which can cause delays in the market acceptance;
- The timing of the adoption of new industry standards relative to Brocade's development of new technologies and products; and
- The ability of Brocade's OEM partners to successfully distribute, support and provide training for its products.

If Brocade is not able to successfully develop and market new and enhanced products and services on a timely basis, its business and results of operations will likely be harmed.

As Brocade introduces new or enhanced products, Brocade must also successfully manage the transition from older products to minimize disruption in customers' ordering patterns, avoid excessive levels of older product inventories and provide sufficient supplies of new products to meet customer demands. The introduction of new or enhanced products may shorten the life cycle of Brocade's existing products, or replace sales of some of its current products, thereby offsetting the benefit of even a successful product introduction and may cause customers to defer purchasing its existing products in anticipation of the new products. When Brocade introduces new or enhanced products, Brocade faces numerous risks relating to product transitions, including the inability to accurately forecast demand, manage excess and obsolete inventories, address new or higher product cost structures, and manage different sales and support requirements due to the type or complexity of the new products. In addition, any customer uncertainty regarding the timeline for rolling out new products or Brocade's plans for future support of existing products may cause customers to delay purchase decisions or purchase competing products which would adversely affect Brocade's business and financial results.

If Brocade loses key talent or is unable to hire additional qualified talent, Brocade's business may be harmed.

Brocade's success depends, to a significant degree, upon the continued contributions of key management including executive officers, engineering, sales and other talent, many of whom would be difficult to replace. In particular, we recently announced that our chief executive officer, Michael Klayko, plans to leave the Company and our Board of Directors is currently searching for his successor. While our Board of Directors is actively conducting a comprehensive search, the prospective change in the office of the chief executive officer, and any protracted delay in identifying a successor, may cause disruption to our business and adversely affect our operating results. In addition, Mr. Klayko is also serving as the interim head of worldwide sales, so any such delay or a delay in hiring a permanent head of worldwide sales could also negatively impact the sales organization.

Brocade believes its future success depends, in large part, upon Brocade's ability to effectively attract highly skilled sales talent in addition to managerial, engineering and other talent, and on the ability of management to operate effectively, both individually and as a group, in geographically diverse locations. There is limited qualified talent in each applicable market and competition for such talent has become much more aggressive. Other companies in Brocade's industry and geographic regions are recruiting from the same limited talent pool which creates further compression on the availability of qualified talent. In particular, Brocade operates in various locations with highly competitive labor markets including Bangalore, India and San Jose, California. Brocade may experience difficulty in hiring qualified talent with skills in areas such as sales, application-specific integrated circuits ("ASICs"), software, system and test, product management, marketing, service, customer support and key management.

In addition, future declines in Brocade's stock price generally reduce the value of equity awards granted to its employees. To the extent Brocade's stock price declines, Brocade's ability to incentivize, retain or attract qualified talent could be negatively impacted. Additionally, such declines in stock price may result in additional "underwater" stock options held by certain employees. Brocade's ability to retain qualified talent may also be affected by future acquisitions, which may cause uncertainty and loss of key talent.

In addition, companies in the computer storage, networking and server industries whose employees accept positions with competitors may claim that their competitors have engaged in unfair hiring practices or that there will be inappropriate disclosure of confidential or proprietary information. Brocade may be subject to such claims in the future as Brocade seeks to hire additional qualified talent. Such claims could result in litigation. As a result, Brocade could incur substantial costs in defending against these claims, regardless of their merits, and be subject to additional restrictions if any such litigation is resolved against Brocade.

The loss of the services of any of Brocade's key employees, the inability to attract or retain qualified talent in the future, or delays in hiring required talent, particularly sales and engineering talent, could delay the development and introduction of Brocade's products or services, and negatively affect Brocade's ability to sell its products or services.

Brocade has a substantial amount of acquired intangible assets, goodwill and deferred tax assets on its balance sheet, and Brocade could be required to record impairment charges for these assets; any impairment of the carrying value of those assets could adversely affect Brocade's business and financial results.

Brocade has a substantial amount of acquired intangible assets, goodwill and deferred tax assets on its balance sheet. The goodwill and acquired intangibles relate to Brocade's prior strategic acquisitions. In response to changes in industry and market conditions, Brocade may elect to realign its resources strategically and consider restructuring, selling, disposing of, or otherwise exiting businesses. Any decision to limit investment in, sell, dispose of or otherwise exit businesses may result in the recording of special charges, such as inventory and technology-related write-offs, goodwill impairment charges, intangible asset write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or claims from third parties who were resellers or users of discontinued products.

Brocade is organized into four operating segments, of which two are individually reportable segments: Data Storage Products and Global Services; and the two other operating segments, Ethernet Switching & IP Routing and ADP, combine to form a third reportable segment: Ethernet Products. Brocade's determination of fair value of long-lived assets relies on management's assumptions of future revenues, operating costs, and other relevant factors. If management's estimates of future operating results change or if there are changes to other assumptions, such as the discount rate applied to future cash flows, the estimate of the fair value of Brocade's reporting units could change significantly, which could result in goodwill impairment charges. Brocade's estimates with respect to the useful life or ultimate recoverability of Brocade's carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Brocade is required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances, and future goodwill impairment tests may result in a charge to earnings. Brocade conducted its annual goodwill impairment test during the second fiscal quarter of 2012, and determined that no impairment needed to be recorded (see Note 3, "Goodwill and Intangible Assets," of the Notes to Condensed Consolidated Financial Statements, and sensitivity analysis performed in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations). If future goodwill impairment tests result in a charge to earnings, Brocade's financial results would be adversely affected.

Brocade has determined that more-likely-than-not it will realize its deferred tax assets based on positive evidence of its historical operations and projections of future income. Accordingly, the Company only applies a valuation allowance on the deferred tax assets relating to capital loss carryforwards. In the event future income by jurisdiction is less than what is currently projected, Brocade may be required to apply a valuation allowance to these deferred tax assets in jurisdictions where realization of such assets are no longer more-likely-than-not (see discussion in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, and also Note 15, "Income Taxes," of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Form 10-K).

Brocade's estimates relating to the liabilities for excess facilities are also affected by changes in real estate market conditions. In addition, Brocade has made investments in certain private companies which could become impaired if the operating results of those companies change adversely.

The failure to accurately forecast demand for Brocade's products or the failure to successfully manage the production of Brocade's products could increase Brocade's product cost or adversely affect Brocade's ability to manufacture and sell Brocade's products.

Brocade provides product forecasts to its contract manufacturers and places purchase orders with them in advance of the scheduled delivery of products to Brocade's customers. In preparing sales and demand forecasts, Brocade relies largely on input from its sales force, partners, resellers and end-user customers. Therefore, if Brocade or these third party partners are unable to accurately forecast demand, or if Brocade fails to effectively communicate with its distribution partners about end-user demand or other time-sensitive information, the sales and demand forecasts may not reflect the most accurate, up-to-date information. If these forecasts are inaccurate, Brocade may be unable to obtain adequate manufacturing capacity from its contract manufacturers to meet customers' delivery requirements or Brocade may accumulate excess inventories. Furthermore, Brocade may not be able to identify forecast discrepancies until late in its fiscal quarter. Consequently, Brocade may not be able to make timely adjustments to its business model. If Brocade is unable to obtain adequate manufacturing capacity from its contract manufacturers, or if Brocade is unable to make necessary adjustments to Brocade's business model to offset forecast discrepancies, revenue may be delayed or even lost to Brocade's competitors and Brocade's business and financial results may be harmed. If excess inventories accumulate, Brocade's gross margins may be negatively impacted by write-downs for excess and/or obsolete inventory. In addition, Brocade may experience higher fixed costs as it expands its contract manufacturer capabilities for forecast demand, which could negatively affect Brocade's margins because Brocade will not be able to react quickly to reduce fixed costs if demand suddenly decreases.

Brocade's ability to accurately forecast demand also may become increasingly more difficult as Brocade introduces new or enhanced products, begins phasing out certain products, or acquires other companies or businesses. Forecasting demand for products that are nearing end of life or are being replaced by new versions, and decreasing production on these older products, while at the same time ramping up production on the new products, may be difficult. Brocade may be unable to obtain adequate supply of new product components and/or manufacturing capacity from its contract manufacturers to meet customers' delivery requirements and such a situation may negatively impact revenues. Brocade may also accumulate excess inventories that may negatively impact gross margins due to write-downs for excess and/or obsolete inventory.

In addition, although the purchase orders placed with Brocade's contract manufacturers are cancelable in certain circumstances, if Brocade cancels any of its contract manufacturer ("CM") purchase orders, Brocade could be required to purchase certain unused material of the CM if that material is not returnable, usable by, or sold to other customers. This purchase commitment exposure is particularly high in periods of new product introductions and product transitions. If Brocade is required to purchase unused material from Brocade's contract manufacturers, Brocade could incur unanticipated expenses, including write-downs for excess and/or obsolete inventory, and Brocade's business and financial results could be negatively affected. In the past, Brocade has experienced delays in shipments of its Ethernet products from its contract manufacturers and OEMs, which in turn delayed product shipments to its customers. Brocade may in the future experience similar delays or other problems, such as insufficient quantity of product, acquisition by a competitor or loss of business from one or more of its OEMs, any of which could harm Brocade's business and operating results.

Brocade's revenues and operating results and financial position may fluctuate in future periods due to a number of factors, which make predicting results of operations difficult and could adversely affect the trading price of Brocade's stock.

Information technology spending is subject to cyclical and uneven fluctuations. It can be difficult to predict the degree to which the seasonality and uneven sales patterns of Brocade's OEM partners or other customers will affect Brocade's business in the future, particularly as Brocade releases new products. While Brocade's first and fourth fiscal quarters have typically been seasonally stronger quarters than its second and third fiscal quarters, particularly for storage networking products, future buying patterns may differ from historical seasonality. In addition, the United States federal budget for government IT spending can be subject to delay, reductions and uncertainty from time to time due to political and legislative volatility, which can cause Brocade's financial results to fluctuate unevenly and unpredictably.

Uneven sales patterns are not only difficult to predict, but also can result in irregular shipment patterns that can cause shortages or underutilized capacity, increase costs due to higher inventory levels, and otherwise adversely impact inventory planning. For example, Brocade's Ethernet networking business has experienced significantly higher levels of sales towards the end of a period. Orders received towards the end of the period may not ship within the period due to Brocade's manufacturing lead times. This exposes Brocade to additional inventory risk because Brocade must order products in anticipation of expected future orders and additional sales risk if Brocade is unable to fulfill unanticipated demand.

Brocade's quarterly and annual revenues and operating results and financial position may vary significantly in the future due to the factors noted above as well as other factors, including but not limited to, the following:

- Receipt of a high number of customer orders towards the end of a fiscal quarter will increase reported receivables outstanding as a fraction of reported sales for the period and result in higher days sales outstanding;
- Disruptions, or a continued decline, in general economic conditions, particularly in the information technology industry and U.S. federal government budget cycles, especially governmental departments such as the Department of Defense and certain intelligence agencies that are likely to be negatively impacted by budget reductions and where Brocade's revenue is highly concentrated;
- Announcements and/or rumors of pending or completed acquisitions or other strategic transactions by Brocade, its competitors or its partners;
- Announcements, introductions and transitions of new products by Brocade, its competitors or its partners;
- The timing of customer orders, product qualifications and product introductions of Brocade's partners;
- Long and complex sales cycles;
- Internal supply and inventory management objectives of Brocade's OEM partners and other customers;

- Brocade's ability to timely produce products that comply with new environmental restrictions or related requirements of its customers;
- Brocade's ability to obtain sufficient supplies of sole- or limited-sourced components, including ASICs, microprocessors, certain connectors, certain logic chips and programmable logic devices;
- Availability of supply or increases in prices of components used in the manufacture of Brocade's products;
- Variations in the mix of Brocade's products sold and the mix of distribution channels and geographies through which they are sold;
- Pending or threatened litigation, including any settlements or judgments related to such litigation;
- Stock-based compensation expense that is affected by Brocade's stock price;
- Examinations by government tax authorities that may have unfavorable outcomes and subject Brocade to additional tax liabilities;
- New legislation and regulatory developments, including increases to tax rates or changes to treatment of an income or expense item; and
- Other risk factors detailed in this section.

Accordingly, Brocade's quarterly and annual revenues and operating results may vary significantly in the future. The results of any prior periods should not be relied upon as an indication of future performance. Brocade cannot assure you that in some future quarter Brocade's revenues or operating results will not be below Brocade's projections or the expectations of stock market analysts or investors, which could cause Brocade's stock price to decline.

Brocade has extensive international operations, which subjects it to additional business risks.

A significant portion of Brocade's sales occur in international jurisdictions. In addition, Brocade's contract manufacturers have significant operations in China. Brocade plans to continue to expand its international operations and sales activities. Brocade's international sales of its Ethernet networking products have primarily depended on a variety of its resellers, including Tech Data Corporation and Avnet Inc. in Europe and Net One Systems in Japan. The failure by international resellers to sell Brocade's products could limit its ability to sustain and grow revenue. Maintenance or expansion of international sales or international operations involves inherent risks that Brocade may not be able to control, including:

- Exposure to economic instability or fluctuations in international markets that could cause reductions in customer and public sector IT spending;
- Exposure to inflationary risks in China and the continuing sovereign debt risk and economic instability in Europe;
- Reduced or limited protection of intellectual property rights, particularly in jurisdictions that have less developed intellectual property regimes such as China and India;
- Managing research and development teams in geographically diverse locations, including teams divided between the United States and India;
- Significant wage inflation in certain growing economies such as India;
- Increased exposure to foreign currency exchange rate fluctuations, including the appreciation of foreign currencies such as the Chinese yuan or European Union's euro;
- Communicating effectively across multiple geographies, cultures and languages;
- Recruiting sales and technical support personnel with the skills to design, manufacture, sell and support Brocade's products in international markets;

- Complying with governmental regulation of encryption technology and regulation of imports and exports, including obtaining required import or export approval for its products;
- Increased complexity and costs of managing international operations;
- Commercial laws and business practices that favor local competition;
- Multiple, potentially conflicting, and changing governmental laws, regulations and practices, including differing export, import, tax, labor, anti-bribery and employment laws;
- Longer sales cycles and manufacturing lead times;
- Increased complexity and cost of providing customer support and maintenance for international customers;
- Difficulties in collecting accounts receivable; and
- Increased complexity of logistics and distribution arrangements.

Failure to manage effectively our international operations or expansion of those operations could seriously harm Brocade's business, financial condition and prospects. In addition, international political instability may halt or hinder Brocade's ability to do business and may increase Brocade's costs. Various events, including the occurrence or threat of terrorist attacks, increased national security measures in the United States and other countries, and military action and armed conflicts, may suddenly increase international tensions. Such events may have an adverse effect on the world economy and could adversely affect Brocade's business operations or the operations of Brocade's OEM partners, end-user customers and channels, contract manufacturers and suppliers.

To date, no material amount of Brocade's international revenues and cost of revenues have been denominated in foreign currencies. As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make Brocade's products more expensive and, thus, not competitively priced in foreign markets. Additionally, a decrease in the value of the U.S. dollar relative to foreign currencies could increase Brocade's product and operating costs in foreign locations (e.g., appreciation of the European Union's euro, Chinese yuan and Indian rupee). In the future, a larger portion of Brocade's international revenues may be denominated in foreign currencies, which will subject Brocade to additional risks associated with fluctuations in those foreign currencies. In addition, Brocade may be unable to successfully hedge against any such fluctuations.

Brocade is subject to, and may in the future be subject to other, intellectual property infringement claims and litigation that are costly to defend and/or settle, and that could result in significant damage and cost awards against Brocade and limit Brocade's ability to use certain technologies in the future.

Brocade competes in markets that are frequently subject to claims and related litigation regarding patent and other intellectual property rights. From time to time, third parties have asserted patent, copyright, trade secret, and/or other intellectual property related claims against Brocade and/or employees of Brocade. These claims may be, and have been in the past, made against Brocade's products and services, subcomponents of its products, methods performed by its products, or a combination of products, including third party products, methods used in its operations or uses of its products by its customers, or may concern Brocade's hiring of a former employee of the third party claimant. Brocade and companies acquired by Brocade, such as Foundry, have in the past incurred, are currently incurring, and will in the future incur, substantial expenses to defend against such third-party claims. For instance, Brocade currently is defending patent-related lawsuits, including lawsuits filed by A10 and Enterasys Networks, Inc. Brocade's suppliers and customers also may be subject to third party intellectual property claims, which could negatively impact their ability to supply Brocade or their willingness to purchase from Brocade, respectively. In addition, Brocade may be subject to claims and indemnification obligations with respect to third-party intellectual property rights pursuant to Brocade agreements with suppliers, OEM and channel partners, or customers. The third party asserters of such intellectual property claims may be unreasonable in their demands, or may simply refuse to settle, which could lead to expensive settlement payments, prolonged periods of litigation expenses, additional burden on employees or other resources, distraction from Brocade's business initiatives and operations, component supply stoppages and lost sales.

In the event of an adverse determination, Brocade could incur substantial monetary liability and be prohibited from utilizing certain intellectual property or technology, hiring certain people, selling, shipping, importing or servicing certain products or incorporating necessary components into Brocade's products. Suppliers of components or OEM systems to Brocade may be unwilling to, or not be able to, defend or indemnify Brocade against third party assertions directed at, or based in part on, the components or systems they supply to Brocade, and may be unwilling to take licenses that would assure Brocade's supply of such components or OEM systems. Suppliers subject to third party intellectual property claims also may choose to, or be forced by litigation to, discontinue or alter components or services supplied to Brocade, with little or no advance notice to Brocade. Customers may perceive such third-party intellectual property claims as risks, and may, as a result, be less willing to do business with Brocade. Such third party claims or litigation could also negatively impact Brocade's recruiting efforts or ability to retain its employees. Any of the above scenarios could have a material adverse effect on Brocade's financial position, results of operations, cash flows, and future business prospects.

Brocade's intellectual property rights may be infringed or misappropriated by others, and Brocade may not be able to protect or enforce its intellectual property rights.

Brocade's intellectual property rights may be infringed or misappropriated by others. In some cases, such infringement or misappropriation may be undetectable, or enforcement of Brocade's rights may be impractical. From time to time, Brocade sends notice to third parties to assert its intellectual property rights and to request that those third parties take steps to address Brocade's concerns. In addition, Brocade has filed, and may in the future file, lawsuits against third parties in an effort to enforce its intellectual property rights. For instance, in the fourth quarter of fiscal year 2010, Brocade filed a patent infringement, copyright infringement, trade secret misappropriation and unfair competition lawsuit against A10 and certain individuals. Intellectual property litigation is expensive and unpredictable. There can be no assurance that Brocade will prevail in such assertions or enforcement efforts, either on the merits, or with respect to particular relief sought, such as damages or an injunction. Further, the opposing party may attempt to prove that the asserted intellectual property rights are invalid or unenforceable, and, if successful, may seek recompense for its attorney fees and costs. Further, the opposing party may counterclaim against Brocade, for example, for infringement of its own patents or other intellectual property rights, or may assert other tort or contract claims, which could lead to further expense and potential exposure for Brocade.

Brocade relies on a combination of patent, copyright, trademark and trade secret laws, and measures such as physical and operational security and contractual restrictions, to protect its intellectual property rights in its proprietary technologies, but none of these methods of protection may be entirely appropriate to address the particular risk, or reliable, due to, for instance, employee hiring and turnover, geographic dispersion of employees, technology disclosures with suppliers, customers, and partners, unpredictable events, misappropriation or negligence, operations in various countries that do not have well-established or reliable enforcement institutions or customs, or other aspects of doing business on the scale of Brocade's operations. The measures Brocade has taken to protect its intellectual property rights in its proprietary technologies may prove inadequate, which could result in a loss of intellectual property rights. Brocade attempts to identify its technological developments for assessment of whether to file patent applications, but there can be no assurance that all patentable technological developments will be captured in patent applications. Further, although Brocade has patent applications pending, there can be no assurance that patents will be issued from pending applications, or that claims allowed on any future patents will be sufficiently broad to protect its technology. Further, physical and operational security can be adversely affected, and associated policies and training rendered ineffective, by employee attitudes, carelessness or disregard for policies, malfeasors or changes in technology, such as the now-near-ubiquitous availability of portable memory devices, or cyber attacks due to the rise of the internet. In addition, due to less developed intellectual property regimes in certain jurisdictions, Brocade may not be able to protect fully its intellectual property as Brocade expands its operations globally.

Brocade relies on licenses from third parties and the loss or inability to obtain any such license could harm its business.

Many of Brocade's products are designed to include software or other intellectual property licensed from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of its products, Brocade believes that, based upon past experience and standard industry practice, such licenses generally can be obtained on commercially reasonable terms. Nonetheless, there can be no assurance that the necessary licenses will be available on acceptable terms, if at all. Brocade's inability to obtain certain licenses or other rights on favorable terms could have an adverse effect on Brocade's business, operating results and financial condition, including its ability to continue to distribute or support affected products.

In addition, if Brocade has failed or in the future fails to carefully manage the use of “open source” software in Brocade's products, or if companies acquired by Brocade, such as Foundry or McDATA, failed in such regard, Brocade may be required to license key portions of Brocade's products on a royalty-free basis or expose key parts of source code, or to commence costly product redesigns, which could result in a loss of intellectual property rights, product performance degradation or delay in shipping products to customers.

Brocade is dependent on sole source and limited source suppliers for certain key components, the loss of which may significantly impact results of operations.

Although Brocade uses standard parts and components for its products where possible, Brocade's contract manufacturers currently purchase, on Brocade's behalf, several key components used in the manufacture of its products from single or limited supplier sources. Brocade's single source components include, but are not limited to, its ASICs, and Brocade's principal limited source components include memory, certain oscillators, microprocessors, certain connectors, certain logic chips, power supplies, programmable logic devices, printed circuit boards, certain optical components, packet processors and switching fabrics. Brocade generally acquires these components through purchase orders and has no long-term commitments regarding supply or pricing with such suppliers. If Brocade is unable to obtain these and other components when required, or if Brocade experiences component defects, Brocade may not be able to deliver Brocade's products to Brocade's customers in a timely manner and may be required to repair or retro-fit products previously delivered to customers at significant expense to Brocade. In addition, a challenging economic or industry environment could cause some of these sole source or limited source suppliers to delay or halt production or to go out of business or be acquired by third parties, which could result in a disruption in Brocade's supply chain. Brocade's supply chain could also be disrupted in a variety of other circumstances that may impact its suppliers and partners, including adverse results from intellectual property litigation or natural disasters. As a result, Brocade's business and financial results could be harmed.

In addition, the loss of any of Brocade's major third-party contract manufacturers, or portions of their capacity, could significantly impact Brocade's ability to produce its products for an indefinite period of time. Qualifying a new contract manufacturer and commencing volume production is typically a lengthy and expensive process. If Brocade changes any of its contract manufacturers or if any of its contract manufacturers experience delays, disruptions, capacity constraints, component parts shortages or quality control problems in its manufacturing operations, shipment of Brocade's products to Brocade's customers could be delayed and result in loss of revenues and Brocade's competitive position and relationship with customers could be harmed.

Undetected software or hardware errors could increase Brocade's costs, reduce Brocade's revenues and delay market acceptance of Brocade's products.

Networking products frequently contain undetected software or hardware errors, or bugs, when first introduced or as new versions are released. Brocade's products are becoming increasingly complex and particularly, as Brocade continues to expand its product portfolio to include software-centric products, including software licensed from third parties, errors may be found from time to time in Brocade's products. In addition, through its acquisitions, Brocade has assumed, and may in the future assume, products previously developed by an acquired company that have not been through the same level of product development, testing and quality control processes used by Brocade, and may have known or undetected errors. Some types of errors also may not be detected until the product is installed in a heavy production or user environment. In addition, Brocade's products are often combined with other products, including software, from other vendors, and these products often need to interface with existing networks, each of which have different specifications and utilize multiple protocol standards and products from other vendors. As a result, when problems occur, it may be difficult to identify the source of the problem. These problems may cause Brocade to incur significant warranty and repair costs, may divert the attention of engineering personnel from product development efforts, and may cause significant customer relations problems such as reputational problems with customers. Moreover, the occurrence of hardware and software errors, whether caused by another vendor's storage, data management or Ethernet products or Brocade's, could delay market acceptance of Brocade's new products.

Brocade may not realize the anticipated benefits of past or future acquisitions, divestitures and strategic investments, and integration of acquired companies or technologies or divestiture of businesses may negatively impact Brocade's overall business.

Brocade has in the past acquired, or made strategic investments in, other companies, products or technologies, for example, the acquisition of Foundry in December 2008, and Brocade expects to make additional acquisitions and strategic investments in the future. Brocade may not realize the anticipated benefits of any of its acquisitions or strategic investments, which involve numerous risks, including:

- Difficulties in successfully integrating the acquired businesses and realizing any expected synergies;
- Inability to effectively coordinate sales and marketing efforts to communicate the capabilities of the combined company;
- Customer uncertainty that may cause delays or cancellations of customer purchases, as well as revenue attrition in excess of anticipated levels if existing customers alter or reduce their historical buying patterns;
- Unanticipated costs, litigation and other contingent liabilities;
- Diversion of management's attention from Brocade's daily operations and business;
- Adverse effects on existing business relationships with suppliers and customers;
- Risks associated with entering into markets in which Brocade has limited or no prior experience, including potentially less visibility into demand;
- Inability to attract and retain key employees;
- Inability to retain key customers, distributors, vendors and other business partners of the acquired business;
- Inability to successfully develop new products and services on a timely basis that address the market opportunities of the combined company;
- Inability to compete effectively against companies already serving the broader market opportunities expected to be available to the combined company;
- Inability to qualify the combined company's products with OEM partners on a timely basis, or at all;
- Inability to successfully integrate and harmonize financial reporting and information technology systems;
- Failure to successfully manage additional remote locations, including the additional infrastructure and resources necessary to support and integrate such locations;
- Assumption or incurrence of debt and contingent liabilities and related obligations to service such liabilities and Brocade's ability to satisfy financial and other negative operating covenants;
- Additional costs such as increased costs of manufacturing and service costs, costs associated with excess or obsolete inventory, costs of employee redeployment, relocation and retention, including salary increases or bonuses, accelerated amortization of deferred equity compensation and severance payments, reorganization or closure of facilities, taxes, advisor and professional fees, and termination of contracts that provide redundant or conflicting services;
- Incurrence of significant exit charges if products acquired in business combinations are unsuccessful;
- Incurrence of significant charges if Brocade divests, disposes of or otherwise exits all or part of a business;
- Incurrence of acquisition and integration related costs, accounting charges, or amortization costs for acquired intangible assets, that could negatively impact Brocade's operating results and financial condition; and
- Potential write-down of goodwill, acquired intangible assets and/or deferred tax assets, which are subject to impairment testing on an annual basis, and could significantly impact Brocade's operating results.

Brocade may divest certain businesses from time to time. Such divestitures will likely involve risks, such as difficulty splitting up businesses, distracting employees, potential loss of revenue and negatively impacting margins, and potentially disrupting customer relationships.

If Brocade is not able to successfully integrate or divest businesses, products, technologies or personnel that Brocade acquires or divests, or to realize expected benefits of Brocade's acquisitions, divestitures or strategic investments, Brocade's business and financial results would be adversely affected.

Brocade's business is subject to increasingly complex corporate governance, public disclosure, accounting and tax requirements, and environmental regulations that could adversely affect Brocade's business and financial results.

Brocade is subject to changing rules and regulations of federal and state government as well as the stock exchange on which Brocade's common stock is listed. These entities, including the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, the SEC, the IRS and NASDAQ, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress. In addition, the Department of Treasury, the SEC and various Congressional representatives have recently proposed additional rules and regulations that may go into effect in the near future. In 2010, the Dodd-Frank Wall Street Reform and Protection Act was enacted. The Act included significant corporate governance and executive compensation-related provisions and also required the SEC to adopt additional rules and regulations in areas such as "say on pay" and proxy access. Brocade is also subject to various rules and regulations of certain foreign jurisdictions, including applicable tax regulations. Brocade's efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management's time from other business activities. Similarly, any change in the tax law in the jurisdictions in which Brocade does business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, could result in a material increase in Brocade's tax expense. For example, the federal credit for research and experimentation expired on December 31, 2011, resulting in an increase to Brocade's overall tax rate. In addition, in the 2012 and 2013 budget proposals, the President of the United States and the U.S. Treasury Department have proposed changing certain of the U.S. tax rules for U.S. corporations doing business outside the United States. In addition, the Governor of the State of California and the California state legislature have introduced tax proposals affecting future state income tax apportionment that may have a significant impact on our ability to realize certain California deferred tax assets. With increasing discussions around overall U.S. tax reform, and other legislation that have not yet been proposed or enacted, these or other changes in the federal or state tax laws could increase Brocade's U.S. income tax liability in the future.

Brocade is subject to periodic audits or other reviews by such governmental agencies. For example, in the second quarter of fiscal 2012, Brocade accepted a notice of proposed adjustment issued by the IRS to settle its federal research and experimentation tax credit for fiscal years 2009 and 2010. However, Brocade is still under examination by the IRS for fiscal years 2007 through 2010 and in several state and foreign tax jurisdictions for various years. All of these examination cycles remain open as of July 28, 2012. To the extent federal and state carryforwards from closed tax years are used in the future, the tax authorities have the right to audit the carryforward amounts. These examinations frequently require management's time and diversion of internal resources and, in the event of an unfavorable outcome, may result in additional liabilities or adjustments to Brocade's historical financial results.

The IRS has contested Brocade's transfer pricing for the cost sharing and buy-in arrangements with its foreign subsidiaries. Brocade appealed the Revenue Agent's Report to the Appeals Office of the IRS for the fiscal years 2007 and 2008. The IRS may make similar claims against Brocade's transfer pricing arrangements for fiscal years 2009 and 2010 and in future examinations. Audits by the IRS are subject to inherent uncertainties and an unfavorable outcome could occur, such as fines or penalties. The occurrence of an unfavorable outcome in any specific period could have a material adverse effect on Brocade's results of operations for that period or future periods. The expense of defending and resolving such an audit may be significant. The amount of time to resolve an audit is unpredictable and defending Brocade may divert management's attention from Brocade's day-to-day business operations, which could adversely affect its business.

Brocade is subject to various environmental and other regulations governing product safety, materials usage, packaging and other environmental impacts in the various countries where Brocade's products are sold. For example, many of Brocade's products are subject to laws and regulations that restrict the use of lead, mercury, hexavalent chromium, cadmium and other substances, and require producers of electrical and electronic equipment to assume responsibility for collecting, treating, recycling and disposing of Brocade's products when they have reached the end of their useful life.

For example, in Europe, substance restrictions apply to products sold, and certain of Brocade's partners require compliance with these or more stringent requirements. In addition, recycling, labeling, financing and related requirements apply to products Brocade sells in Europe. China has also enacted similar legislation with similar requirements for Brocade's products or its partners. Despite Brocade's efforts to ensure that its products comply with new and emerging requirements, Brocade cannot provide absolute assurance that its products will, in all cases, comply with such requirements. If Brocade's products do not comply with the substance restrictions under local environmental laws, Brocade could become subject to fines, civil or criminal sanctions and contract damage claims. In addition, Brocade could be prohibited from shipping non-compliant products into one or more jurisdictions and required to recall and replace any non-compliant products already shipped, which would disrupt its ability to ship products and result in reduced revenue, increased obsolete or excess inventories, and harm to Brocade's business and customer relationships. Brocade's suppliers may also fail to provide it with compliant materials, parts and components despite Brocade's requirement to do so, which could impact Brocade's ability to timely produce compliant products and, accordingly, could disrupt its business.

Business interruptions could adversely affect Brocade's business.

Brocade's operations and the operations of its suppliers, contract manufacturers and customers are vulnerable to interruptions by fire, earthquake, tsunami, nuclear reactor leak, hurricane, power loss, telecommunications failure and other events beyond Brocade's control. For example, a substantial portion of Brocade's facilities, including its corporate headquarters, is located near major earthquake faults. Brocade does not have multiple site capacity for all of its services in the event of any such occurrence. In the event of a major earthquake, Brocade could experience business interruption, destruction of facilities and loss of life. Brocade carries a limited amount of earthquake insurance, which may not be sufficient to cover earthquake-related losses, and has not set aside funds or reserves to cover other potential earthquake-related losses. Additionally, major public health issues such as an outbreak of a pandemic or epidemic may interrupt business operations of Brocade or its suppliers in those geographic regions affected by that particular health issue. In addition, one of Brocade's contract manufacturers has a major facility located in an area that is subject to hurricanes, and Brocade's suppliers could face other natural disasters, such as flood, earthquake, weather and fire. In the event that a material business interruption occurs that affects Brocade, its suppliers, contract manufacturers or customers, shipments could be delayed and Brocade's business and financial results could be harmed. Brocade's servers may be vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with its computer systems despite Brocade's implementation of network security measures. Brocade may not successfully limit attacks by malicious third parties if they attempt to undermine or disrupt Brocade's network security. Any such event could have a material adverse effect on Brocade's business, operating results and financial condition, and could expose Brocade to significant third party claims of liability and damages. In addition, Brocade may suffer reputational harm and may not carry sufficient insurance to compensate for financial losses that may occur as a result of any of these events.

Brocade is exposed to various risks related to legal proceedings or claims that could adversely affect its operating results.

Brocade is a party to lawsuits in the normal course of its business. Litigation in general can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Responding to lawsuits brought against Brocade, or legal actions initiated by Brocade, can often be expensive and time-consuming. Unfavorable outcomes from these claims and/or lawsuits could adversely affect Brocade's business, results of operations, or financial condition, and Brocade could incur substantial monetary liability and/or be required to change its business practices.

Brocade has incurred substantial indebtedness that decreases Brocade's business flexibility and access to capital, and increases its borrowing costs, which may adversely affect Brocade's operations and financial results.

As of July 28, 2012, Brocade owed \$600 million of senior secured notes and approximately \$30 million under the Senior Secured Credit Facility (see Note 7, "Borrowings," of the Notes to Condensed Consolidated Financial Statements). The financial and other covenants agreed to by Brocade in connection with such indebtedness and the increased indebtedness and higher debt-to-equity ratio of Brocade in comparison to that of Brocade on a historical basis will have the effect, among other things, of reducing Brocade's flexibility to respond to changing business and economic conditions and increasing borrowing costs, and may adversely affect Brocade's operations and financial results. This indebtedness may also adversely affect Brocade's ability to access sources of capital or incur certain liens, including without limitation, funding acquisitions or repurchasing Brocade stock.

In addition, Brocade's failure to comply with these covenants could result in a default under the applicable debt financing agreements, which could permit the holders to accelerate such debt or demand payment in exchange for a waiver of such default. If any of Brocade's debt is accelerated, Brocade may not have sufficient funds available to repay such debt. The current debt under the Senior Secured Credit Facility has a floating interest rate and an increase in interest rates may negatively impact Brocade's financial results. The mandatory debt repayment schedule on the Senior Secured Credit Facility may negatively impact Brocade's cash position and reduce Brocade's financial flexibility. In addition, any negative changes by rating agencies to Brocade's credit rating may negatively impact the value and liquidity of Brocade's debt and equity securities and Brocade's ability to access sources of capital.

Provisions in Brocade's charter documents, customer agreements and Delaware law could prevent or delay a change in control of Brocade, which could hinder stockholders' ability to receive a premium for Brocade's stock.

Provisions of Brocade's certificate of incorporation and bylaws may discourage, delay or prevent a merger or mergers that a stockholder may consider favorable. These provisions include:

- Authorizing the issuance of preferred stock without stockholder approval;
- Prohibiting cumulative voting in the election of directors;
- Limiting the persons who may call special meetings of stockholders; and
- Prohibiting stockholder actions by written consent.

Certain provisions of Delaware law also may discourage, delay or prevent someone from acquiring or merging with Brocade, and Brocade's agreements with certain of Brocade's customers require that Brocade give prior notice of a change of control and grant certain manufacturing rights following a change of control. Brocade's various change-of-control provisions could prevent or delay a change in control of Brocade, which could hinder stockholders' ability to receive a premium for Brocade's stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of equity securities during the nine months ended July 28, 2012.

Issuer Purchases of Equity Securities

The following table summarizes share repurchase activity for the three months ended July 28, 2012 (in thousands, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
April 29, 2012 – May 26, 2012	8,696	\$ 5.18	8,696	\$ 608,442
May 27, 2012 – June 23, 2012	—	\$ —	—	\$ 608,442
June 24, 2012 – July 28, 2012	—	\$ —	—	\$ 608,442
Total	8,696	\$ 5.18	8,696	\$ 608,442

- (1) As of July 28, 2012, the Company's Board of Directors had authorized a stock repurchase program for an aggregate amount of up to \$1.3 billion (consisting of an original \$100 million authorization on August 18, 2004, plus subsequent authorizations of an additional \$200 million on January 16, 2007, \$500 million on November 29, 2007 and \$500 million on May 16, 2012), which was used for determining the amounts in this column. The number of shares purchased and the timing of purchases are based on the level of the Company's cash balances, the trading price of our common stock, general business and market conditions, and other factors, including alternative investment opportunities.

Item 6. Exhibits

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Document</u>
10.1*/**	Amendment Number 45 dated May 18, 2012 to Statement of Work Number 1 of the Goods Agreement between IBM and Brocade
10.2*/***	Agreement and General Release of Claims by and between Brocade Communications Systems, Inc. and Michael Klayko dated as of August 12, 2012
31.1*	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer
32.1*	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS****	XBRL Instance Document
101.SCH****	XBRL Taxonomy Extension Schema Document
101.CAL****	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF****	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB****	XBRL Taxonomy Extension Label Linkbase Document
101.PRE****	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Confidential treatment requested as to certain portions, which portions were omitted and filed separately with the Securities and Exchange Commission.

*** Indicates management compensatory plan, contract or arrangement

**** XBRL (eXtensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 31, 2012

Brocade Communications Systems, Inc.

By: /s/ Daniel W. Fairfax

Daniel W. Fairfax
Chief Financial Officer and Vice President, Finance

May 18, 2012

Mr. Mike Harrison
Brocade Communications Systems, Inc.
130 Holger Way
San Jose, CA 95134-1376

Subject: Amendment 45 to SOW #1 of the IBM/Brocade Goods Agreement ROC-P-68

This letter (the "Amendment") serves as Amendment Number 45 to SOW #1, including all amendments thereto ("SOW#1") of the Goods Agreement ROC-P-68 (the "Agreement"), which the parties hereto do mutually agree to amend as follows

1. The effective date of this Amendment shall be the date on the top of this Amendment (the "Effective Date").

2. Amend Section 1.0 to read in its entirety as follows:

1.0 Product Description:

Supplier Products may be Buyer or Brocade branded product set forth in Exhibit A, Pricing., Description.

3. Add Section 2.13, Point of Sale Reporting to read as follows:

2.1.3 Point of Sale Reporting: Buyer will provide Point of Sale (POS) Information to Supplier by the 5th of each month for sales in the previous month.

4. Amend Section 2.2, Payment terms, to read in its entirety as follows:

2.2 Payment terms:

Terms for payment on all invoices will be net [**] days from receipt of an acceptable invoice by Buyer.

5. Amend Section 9.7 Software Maintenance and Support as follows: Replace all references to Exhibit B with Exhibit A.

6. Renumber Section 9.7, Field Replaceable Units (FRU) Emergency, as Section 9.8.

7. Amend Section 10.0 to read in its entirety as follows:

10. COMMUNICATIONS COORDINATORS

All communications between the parties will be carried out through the following designated coordinators.

[**] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

BUSINESS COORDINATORS

FOR SUPPLIER		FOR BUYER	
Name	[**]	Name	[**]
Address	130 Holger Way San Jose, CA 95134	Address	3605 Hwy 52N NW Rochester, MN 55901
Phone	[**]	Phone	[**]
Email	[**]	Email	[**]

TECHNICAL COORDINATORS

FOR SUPPLIER		FOR BUYER	
Name	[**]	Name	[**]
Address	130 Holger Way San Jose, CA 95134	Address	555 Bailey Ave, Santa Teresa Lab San Jose CA 95141
Phone	[**]	Phone	[**]
Email	[**]	Email	[**]

PRICING NOTICES

FOR SUPPLIER		FOR BUYER	
Name	[**]	Name	[**]
Address	130 Holger Way San Jose, CA 95134	Address	3605 Hwy 52N NW Rochester, MN 55901
Phone	[**]	Phone	[**]
Email	[**]	Email	[**]

All legal notices will be sent to the following addresses and will be deemed received (a) two (2) days after mailing if sent by certified mail, return receipt requested or (b) on the date confirmation is received if sent by facsimile to the party set forth below:

LEGAL NOTICES

FOR SUPPLIER		FOR BUYER	
Name	General Counsel Legal Department	Name	[**]
Address	130 Holger Way San Jose, CA 95134	Address	650 Harry Road Almaden Research Center San Jose CA 95120
Phone	[**]	Phone	[**]
Fax	[**]	Email	[**]

- 8. Delete Attachment B, Supplier Quality Attachment, in its entirety, and replace with the attached, Attachment B, Supplier Quality Requirements Document.
- 9. Exhibit A of the SOW#1 is hereby deleted in its entirety and replaced with Exhibit A attached hereto.
- 10. Add Exhibit B Product Unique Attachment for IBM System x, Intelligent Cluster. The purpose of this attachment is to define unique terms and conditions that apply to sales of Brocade products for use with the IBM System x, Intelligent Cluster only.
- 11. Add Exhibit C, Product Unique Attachment for Brocade branded Ethernet products. The purpose of this attachment is to define unique terms and conditions that apply to sales of Brocade Ethernet products for use with IBM System Networking and IBM System x channels.

[**] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

12. Scope of Indemnification. Brocade Network Advisor 11.2.x (IP Pro) software shipped with the Product will be Brocade-branded and supported by Brocade. The end user may choose to purchase a license or use a limited evaluation license obtained directly from Brocade or a Brocade channel partner. End users use of such software will be subject to additional licensing provisions. Brocade indemnifies IBM for Brocade Network Advisor 11.2.x (IP Pro) as a Product under Section 9.0, Indemnifications, of Goods Agreement ROC-P-68.

The parties acknowledge that they have read this Amendment, understand it, and agree to be bound by its terms and conditions. All capitalized terms not defined herein shall have the meaning set forth in the Goods Agreement or the SOW #1. All other terms and conditions of the Goods Agreement and SOW#1 that are unaffected by the revisions set forth in this Amendment shall remain in full force and effect. Further, the parties agree that this Amendment and the Goods Agreement and SOW#1 are the complete and exclusive statement of the agreement between the parties, superseding all proposals or other prior agreement, oral or written, and all other communications between the parties relating to this subject.

Accepted and Agreed To:

International Business Machines Corporation

By: /s/ Kristen Styers 5/21/12

Authorized Signature Date

Kristen Styers

Type or Print Name

Mgr. Networking

Title & Organization

Address:

Accepted and Agreed To:

Brocade Communications Systems, Inc.

By: /s/ Andrew A. Vandeveld 5/18/12

Authorized Signature Date

Andrew A. Vandeveld

Type or Print Name

GSI VP

Title & Organization

Address: 130 Holger Way
San Jose, California 95134-1376

Accepted and Agreed To:

Brocade Communications Switzerland, SarL

By: /s/ Alberto Soto 5/21/12

Authorized Signature Date

Alberto Soto

Type or Print Name

Vice President EMEA

Title & Organization



BROCADE

L. Fitterer 
Legal Approved on:

May 18, 2012

ATTACHMENT B
SUPPLIER QUALITY REQUIREMENTS DOCUMENT

Brocade and IBM accept the IBM Supplier Quality Requirements (SQRD) document dated December 18, 2007 with the following agreed-to changes:

4.2, Manufacturing Process Documentation:

Brocade is not in full agreement with the following sentence, [**] Some information is proprietary to Brocade and its manufacturing sites and may be viewed during on-site visits.

4.5.1, First Piece Build and Inspection Requirements - General Requirements:

For the purpose of ensuring understanding Brocade's interpretation of the following statement, [**] is not applicable to Brocade's products/processes. Brocade does perform First Article inspections and products must pass Functional Test prior to shipment.

4.6 Sub-Tier Procurement Requirements:

In response to the following SQRD statement, [**] Brocade has an established supplier process that includes supplier qualification, product/component qualification, incoming/receiving inspection and supplier performance rating. Brocade's process is consistent with the intent of this statement and will use our process in lieu of this statement.

5.4 Supplier Engineering Change (EC) Process Control Requirements:

The following statement is not applicable to Brocade, [**] Brocade does not publish BOMs. Brocade will follow the established Process Change Notice (PCN) process as currently agreed upon with IBM as the vehicle to communicate changes to the BOM as a result of form, fit or function changes.

8.2 Continuous Improvement:

In response to the following SQRD requirement, [**]

Brocade defaults to the Statement of Work (SOW). Brocade will provide product that meets/exceeds six sigma and is currently meeting contractual requirements. In the event of specific quality issues, Brocade will continue to work with IBM to identify root cause and corrective/preventive actions.

14 IT Toolsets:

Brocade will continue to use the currently accepted PCN process. Additionally, Brocade is using the agreed upon ordering process. Brocade has their own internal tools that address the intent of the additional listed items. Any modifications to current tools should be specified in the SOW.

[**] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

IBM SUPPLIER QUALITY REQUIREMENTS DOCUMENT (SQRD)

December 18, 2007

Document Owner: Luis Gracia
Document Approver: Ryan Cruz, Manager ISC Corporate Quality

This document is maintained and distributed by ISC Corporate Quality (Department CASA)

PN 03N6595 Page 1 of 18	EC H14017B 18 December 07	EC XXXXXX			
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This document is the property of IBM. Its use is authorized only for responding to a request for quotation or for the performance of work for IBM.

Exhibit A
Products and Pricing
(see attached pages)

Amendment 45 to SOW 1 Page 6 of 52
Brocade Confidential Information

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Amendment 45 to SOW 1 Page 7 of 52
Brocade Confidential Information

SOW-1 AMENDMENT 45
 SCHEDULE 1 TO EXHIBIT A - Product Price List and Description
 DATE: May 16, 2012 FINAL
 Exhibit A

Supplier Part Number		Buyer Part Number				- M	- U	
Brocade Model	Brocade P/N	IBM Model or FC #	IBM PN / NUMA-Q PN	Description	Unit Price	**Software Maintenance (included in unit price of product)	Non Defect Based SW Technical Support & SW Upgrades - [**] Year (included in unit price of product)	Out of Warranty Pricing
	[**]		[**]	[**]	[**]			
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4Gbit/sec Switch Products and Software								
SW210x								
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SW4100								
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	[**]	[**]	[**]	[**]	[**]			
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SW4900								
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BROCADE 5000								
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SW7500								
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BROCADE 7500E								
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
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8Gbit/sec Switch Products and Software								
BROCADE 300								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
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BROCADE 300 BUNDLED WITH SFP'S								
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BROCADE 300 FRU's								
	[**]		[**]	[**]	[**]	[**]		[**]
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BROCADE 300 OPTIONAL SOFTWARE								
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	[**]	[**]	[**]	[**]	[**]			

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	[**]		[**]	[**]	[**]			
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BROCADE 5100 OPTIONAL SOFTWARE								
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BROCADE 5300								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
BROCADE 5300 BUNDLED WITH SFP'S								
	[**]	[**]	[**]	[**]	[**]	[**]		
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BROCADE 5300 FRU's								
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BROCADE 5300 OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]			

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	[**]	[**]	[**]	[**]	[**]			
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FCoE Switch Products and Software								
BROCADE 8000								
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BROCADE 8000 - MAINTENANCE RENEWALS								
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BROCADE 8000 (CEE Only)								
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BROCADE 8000 - MAINTENANCE RENEWALS								
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BROCADE 8000 - ACCESSORIES								
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	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			

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Brocade Model	Brocade P/N	IBM Model or FC #	IBM PN / NUMA-Q PN	Description	Unit Price	**Software Maintenance (included in unit price of product)	Non Defect Based SW Technical Support & SW Upgrades - [**] Year (included in unit price of product)	Out of Warranty Pricing
BROCADE 8000 FRU's								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 8000 OPTIONAL SOFTWARE								
(NOTE: Using 2 p/n's already released with Brocade 5100)								
BROCADE 8000 CEE Only (Accessories, FRU's, Optional Software)								
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 8000 CEE Only FRU's								
	[**]	[**]	[**]	[**]	[**]			[**]
EXTENSION PRODUCTS								
BROCADE 7800 Extension Switch								
	[**]	[**]	[**]	[**]	[**]		[**]	[**]
	[**]	[**]	[**]	[**]	[**]		[**]	[**]
BROCADE 7800 MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 7800 FRU's								
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 7800 OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]

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	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
[**]								
BROCADE ENCRYPTION SWITCH (IBM 2498-E32)								
	[**]	[**]	[**]	[**]	[**]		[**]	[**]
BROCADE ENCRYPTION SWITCH (IBM 2498-E32) MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
BROCADE FS8-18 ENCRYPTION BLADE								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
BROCADE ENCRYPTION SWITCH AND FS8-18 ENCRYPTION BLADE FRU's								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			
BROCADE ENCRYPTION PRODUCTS - OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
MULTI-PROTOCOL ROUTER								
SW7420								

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	[**]		[**]	[**]	[**]			
	[**]		[**]	[**]	[**]			
	[**]		[**]	[**]	[**]			
	[**]		[**]	[**]	[**]			
	[**]		[**]	[**]	[**]			
	[**]		[**]	[**]	[**]			
	[**]		[**]	[**]	[**]			
	[**]		[**]	[**]	[**]			
	[**]		[**]	[**]	[**]			
	[**]		[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE DCX-4S								
	[**]	[**]	[**]	[**]	[**]		[**]	[**]
BROCADE DCX-4S MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
BROCADE DCX-4S - ACCESSORIES								
	[**]		[**]	[**]	[**]			
	[**]		[**]	[**]	[**]			
BROCADE DCX-4S - FRU's								
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]

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	[**]	[**]	[**]	[**]				
	[**]	[**]	[**]	[**]				
	[**]	[**]	[**]	[**]				
BROCADE DCX-4S - OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
BROCADE FX8-24 DCX EXTENSION BLADE								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
BROCADE FX8-24 DCX EXTENSION BLADE - FRU's								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
BROCADE FX8-24 DCX EXTENSION BLADE - OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	
BROCADE FCoE 10-24 DCX Blade								
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
BROCADE FCoE 10-24 DCX Blade - FRU's								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
FABRIC MANAGER								
	[**]		[**]	[**]	[**]	[**]		
	[**]		[**]	[**]	[**]	[**]	[**]	
	[**]		[**]	[**]	[**]	[**]	[**]	
	[**]		[**]	[**]	[**]	[**]	[**]	
	[**]		[**]	[**]	[**]	[**]	[**]	

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16Gbit/sec Switch Products								
BROCADE 6510 Switch [**]								
2498-F48 E32	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 6510 Switch [**] MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
BROCADE 6510 Switch [**] ACCESSORIES & FRU's								
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
BROCADE 6510 Switch [**] OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]		[**]	
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
BROCADE 6505 Switch [**]								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 6505 Switch [**] ACCESSORIES								
	[**]	[**]	[**]	[**]	[**]			
BROCADE 6505 Switch [**] FRU'S								
	[**]	[**]	[**]	[**]	[**]			[**]

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	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 6505 Switch [**] MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 6505 Switch [**] OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]

16Gbit/sec DIRECTORS

BLADES & ACCESSORIES FOR SAN384B-2 [**] AND SAN768B-2 [**]								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]		[**]	[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
ACCESSORIES & FRU'S								
	[**]	[**]	[**]	[**]	[**]		[**]	[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
BLADE FRU'S								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]

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	[**]		[**]	[**]	[**]	[**]
	[**]		[**]	[**]	[**]	[**]
	[**]		[**]	[**]	[**]	[**]

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	[**]		[**]	[**]	[**]			[**]
	[**]		[**]	[**]	[**]			[**]
	[**]		[**]	[**]	[**]			[**]
	[**]		[**]	[**]	[**]			[**]
	[**]		[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]		[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]

4Gbit/sec Switch Products and Software

SW210x								
[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
	[**]		[**]	[**]	[**]			[**]
	[**]		[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]

SW4100								
[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
	[**]		[**]	[**]	[**]			[**]
	[**]		[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]

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	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]

SW4900								
[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
	[**]		[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]

BROCADE 5000								
[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
	[**]		[**]	[**]	[**]			[**]
	[**]		[**]	[**]	[**]			[**]

BROCADE 8000 - MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
BROCADE 8000 (CEE Only)								
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
BROCADE 8000 - MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
BROCADE 8000 - ACCESSORIES								
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		

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BROCADE 8000 FRU's								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 8000 OPTIONAL SOFTWARE								
(NOTE: Using 2 p/n's already released with Brocade 5100)								
BROCADE 8000 CEE Only (Accessories, FRU's, Optional Software)								
	[**]	[**]	[**]	[**]	[**]			
BROCADE 8000 CEE Only FRU's								
	[**]	[**]	[**]	[**]	[**]			[**]
EXTENSION PRODUCTS								
BROCADE 7800 Extension Switch								
	[**]	[**]	[**]	[**]	[**]		[**]	[**]
	[**]	[**]	[**]	[**]	[**]		[**]	[**]
BROCADE 7800 MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
BROCADE 7800 FRU's								
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 7800 OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		

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	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
[**]								
BROCADE ENCRYPTION SWITCH (IBM 2498-E32)								
	[**]	[**]	[**]	[**]	[**]		[**]	[**]
BROCADE ENCRYPTION SWITCH (IBM 2498-E32) MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]			
	[**]	[**]	[**]	[**]	[**]			

						(included in unit price of product)	(included in unit price of product)	
	[**]	[**]	[**]	[**]				
	[**]	[**]	[**]	[**]				
	[**]	[**]	[**]	[**]				
BROCADE DCX-4S - OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
BROCADE FX8-24 DCX EXTENSION BLADE								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
BROCADE FX8-24 DCX EXTENSION BLADE - FRU's								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
BROCADE FX8-24 DCX EXTENSION BLADE - OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
BROCADE FCoE 10-24 DCX Blade								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
BROCADE FCoE 10-24 DCX Blade - FRU's								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
FABRIC MANAGER								
	[**]		[**]	[**]	[**]			
	[**]		[**]	[**]	[**]	[**]	[**]	
	[**]		[**]	[**]	[**]	[**]	[**]	
	[**]		[**]	[**]	[**]	[**]	[**]	
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16Gbit/sec Switch Products								
BROCADE 6510 Switch [**]								
2498-F48 E32	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
BROCADE 6510 Switch [**] MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
BROCADE 6510 Switch [**] ACCESSORIES & FRU's								
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
BROCADE 6510 Switch [**] OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	
	[**]	[**]	[**]	[**]	[**]	[**]		
	[**]	[**]	[**]	[**]	[**]	[**]		
BROCADE 6505 Switch [**]								
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
BROCADE 6505 Switch [**] ACCESSORIES								
	[**]	[**]	[**]	[**]	[**]	[**]		
BROCADE 6505 Switch [**] FRU'S								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]

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Supplier Part Number	Buyer Part Number			
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						- M	- U	
Brocade Model	Brocade P/N	IBM Model or FC #	IBM PN / NUMA-Q PN	Description	Unit Price	**Software Maintenance (included in unit price of product)	Non Defect Based SW Technical Support & SW Upgrades - [**] Year (included in unit price of product)	Out of Warranty Pricing
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 6505 Switch [**] MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
BROCADE 6505 Switch [**] OPTIONAL SOFTWARE								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]

16Gbit/sec DIRECTORS

BLADES & ACCESSORIES FOR SAN384B-2 [**] AND SAN768B-2 [**]								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
ACCESSORIES & FRU'S								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
BLADE FRU'S								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]

**SOW-1 AMENDMENT 45
SCHEDULE 1 TO EXHIBIT A - Product Price List and Description
DATE: May 16, 2012 FINAL
Exhibit A**

Supplier Part Number		Buyer Part Number				- M	- U	
Brocade Model	Brocade P/N	IBM Model or FC #	IBM PN / NUMA-Q PN	Description	Unit Price	**Software Maintenance (included in unit price of product)	Non Defect Based SW Technical Support & SW Upgrades - [**] Year (included in unit price of product)	Out of Warranty Pricing
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
OPTIONAL SOFTWARE:								
	[**]	[**]	[**]	[**]	[**]	[**]		[**]
	[**]	[**]	[**]	[**]	[**]			[**]
IBM SYSTEM STORAGE SAN384B-2 [**]								
SAN384B-2	[**]	[**]	[**]	[**]	[**]		[**]	[**]
IBM [**] MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
IBM [**] FRU'S								
	[**]	[**]	[**]	[**]	[**]			v
IBM SYSTEM STORAGE SAN768B-2 [**]								
SAN768B-2	[**]	[**]	[**]	[**]	[**]		[**]	[**]
IBM [**] MAINTENANCE RENEWALS								
	[**]	[**]	[**]	[**]	[**]			[**]
	[**]	[**]	[**]	[**]	[**]			[**]
IBM [**] FRU'S								
	[**]	[**]	[**]	[**]	[**]			[**]

[**] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SOW-1 AMENDMENT 45
 SCHEDULE 1 TO EXHIBIT A - Product Price List and Description
 DATE: May 16, 2012 FINAL
 Exhibit A - Transceivers & Cables

Supplier Part Number		Buyer Part Number					- M	- U	
Brocade Model	Brocade P/N	IBM Model or FC #	IBM PN / NUMA-Q PN	Description	Unit Price	**Software Maintenance (included in unit price of product)	**Software Maintenance (included in unit price of product)	Non Defect Based SW Technical Support & SW Upgrades - [*] Year (included in unit price of product)	Out of Warranty Pricing
TRANSCEIVERS									
	IB-000139	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000141	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000142	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000143	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000144	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000146	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000147	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000148	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000153	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000157	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000163	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000164	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000172	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000174	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000181	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000182	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000183	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000190	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000192	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000193	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000217	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000218	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000300	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-001180	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000198	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000199	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
	IB-000228	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
TRANSCEIVERS (FRU'S)									

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SOW-1 AMENDMENT 45
 SCHEDULE 1 TO EXHIBIT A - Product Price List and Description
 DATE: May 16, 2012 FINAL
 Exhibit A - RMA Only

Supplier Part Number		Buyer Part Number		Description	Out of Warranty
Brocade Model	Brocade P/N	IBM Model or FC #	IBM PN / NUMA-Q PN		
DIRECTOR PRODUCTS (part numbers for DCX RMA purposes only)					
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]			[**]	[**]
	[**]			[**]	[**]
	[**]			[**]	[**]
	[**]			[**]	[**]
	[**]			[**]	[**]

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SOW-1 AMENDMENT 45
 SCHEDULE 1 TO EXHIBIT A - Product Price List and Description
 DATE: May 16, 2012 FINAL
 Exhibit A - Annual SW Maintenance

**For purpose of calculating the fees for the annual Software Maintenance Support Program as described in Section 9.4, the annual Software Maintenance Fee per Unit for each part number where it is applicable as follows:

Supplier Part Number		Buyer Part Number		Product Description	Software Maintenance Fee per Unit (annualized)
Brocade Model	Brocade P/N	IBM Model or FC #	IBM PN / NUMA-Q PN		
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
SW210E	[**]	[**]	[**]	[**]	[**]
SW210E	[**]	[**]	[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
SW3252	[**]	[**]	[**]	[**]	[**]
SW3252	[**]	[**]	[**]	[**]	[**]
	[**]		[**]	[**]	[**]
SW3854	[**]	[**]	[**]	[**]	[**]
SW3854	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
SW4100	[**]	[**]	[**]	[**]	[**]
SW4100	[**]	[**]	[**]	[**]	[**]
SW48000	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]

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SOW-1 AMENDMENT 45
 SCHEDULE 1 TO EXHIBIT A - Product Price List and Description
 DATE: May 16, 2012 FINAL
 Exhibit A - Annual SW Maintenance

**For purpose of calculating the fees for the annual Software Maintenance Support Program as described in Section 9.4, the annual Software Maintenance Fee per Unit for each part number where it is applicable as follows:

Supplier Part Number		Buyer Part Number		Product Description	Software Maintenance Fee per Unit (annualized)
Brocade Model	Brocade P/N	IBM Model or FC #	IBM PN / NUMA-Q PN		
Brocade 7500E	[**]	[**]	[**]	[**]	[**]
Brocade 300	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
Brocade 5100	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
Brocade 5300	[**]	[**]	[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]		[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]

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SOW-1 AMENDMENT 45
SCHEDULE 1 TO EXHIBIT A - Product Price List and Description
DATE: May 16, 2012 FINAL
Exhibit A - Annual SW Maintenance

**For purpose of calculating the fees for the annual Software Maintenance Support Program as described in Section 9.4, the annual Software Maintenance Fee per Unit for each part number where it is applicable as follows:

Supplier Part Number		Buyer Part Number			
Brocade Model	Brocade P/N	IBM Model or FC #	IBM PN / NUMA-Q PN	Product Description	Software Maintenance Fee per Unit (annualized)
	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]
	[**]	[**]	[**]	[**]	[**]

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SOW 1 - AMENDMENT #45
 SCHEDULE 2 TO EXHIBIT A - Product Price List and Description
 DATE: May 16, 2012 FINAL
 6710

Supplier Part Number	Description	Mfg / IBM Orderable PN	IBM PPN	IBM FRU PN	IBM HVEC MTM	IBM XCC #	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
Base Switch										
IB-VDX6710-54-F-IC-M	***	**			**	**	**	**	**	**
IB-VDX6710-54-R-IC-M	***	**			**	**	**	**	**	**
Options, Accessories, and Spares										
(IBM will release their own media and power cords)										
Software Orderables										
IB-VDX6710-54VCS-01-X-M	***	**	**				**	**	**	
FRU Only										
XIB-VDX6710-54-F-IC	***		**	**				**		**
XIB-VDX6710-54-R-IC	***		**	**				**		**
XIB-250WPSAC-F-X	***		**	**				**		
XIB-250WPSAC-R-X	***		**	**				**		
XIB-R000291-X	***	**	**	**				**		

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SOW 1 - AMENDMENT #45
SCHEDULE 2 TO EXHIBIT A - Product Price List and Description
DATE: May 16, 2012 FINAL
6710

Supplier Part Number	Description	Mfg / IBM Orderable PN	IBM PPN	IBM FRU PN	IBM HVEC MTM	IBM XCC #	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
XIB-6710-RMK	[**]		[**]	[**]				[**]		
XIB-R000030-X	[**]		[**]	[**]				[**]		
XIB-DCX-0131-X	[**]		[**]	[**]				[**]		

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SOW 1 - AMENDMENT #45
 SCHEDULE 2 TO EXHIBIT A - Product Price List and Description
 DATE: May 16, 2012 FINAL
 6720

Supplier Part Number	Description	Mfg / IBM Orderable PN	IBM PPN	IBM FRU PN	IBM HVEC MTM	IBM XCC #	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
Base Switch										
IB-VDX6720-24-F-IC-M	[**]	[**]			[**]	[**]	[**]	[**]	[**]	[**]
IB-VDX6720-24-R-IC-M	[**]	[**]			[**]	[**]	[**]	[**]	[**]	[**]
IB-VDX6720-60-F-IC-M	[**]	[**]			[**]	[**]	[**]	[**]	[**]	[**]
IB-VDX6720-60-R-IC-M	[**]	[**]			[**]	[**]	[**]	[**]	[**]	[**]
Options, Accessories, and Spares										
(IBM will release their own media and power cords)										
Software Orderables										
IB-VDX6720-24FCOE-01-X-M	[**]	[**]	[**]				[**]	[**]	[**]	
IB-VDX6720-24VCS-01-X-M	[**]	[**]	[**]				[**]	[**]	[**]	
IB-VDX6720-60FCOE-01-X-M	[**]	[**]	[**]				[**]	[**]	[**]	

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SOW 1 - AMENDMENT #45
 SCHEDULE 2 TO EXHIBIT A - Product Price List and Description
 DATE: May 16, 2012 FINAL
 6720

Supplier Part Number	Description	Mfg / IBM Orderable PN	IBM PPN	IBM FRU PN	IBM HVEC MTM	IBM XCC #	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
IB-VDX6720-60VCS-01-X-M	[**]	[**]	[**]				[**]	[**]	[**]	
FRU Only										
XIB-VDX6720-24-F-IC	[**]		[**]	[**]				[**]		[**]
XIB-VDX6720-24-R-IC	[**]		[**]	[**]				[**]		[**]
XIB-VDX6720-60-F-IC	[**]		[**]	[**]				[**]		[**]
XIB-VDX6720-60-R-IC	[**]		[**]	[**]				[**]		[**]
XIB-250WPSAC-F-X	[**]		[**]	[**]				[**]		
XIB-250WPSAC-R-X	[**]		[**]	[**]				[**]		
XIB-500WPSAC-F-X	[**]		[**]	[**]				[**]		
XIB-500WPSAC-R-X	[**]		[**]	[**]				[**]		
XIB-FAN-80-R-X	[**]		[**]	[**]				[**]		
XIB-FAN-80-F-X	[**]		[**]	[**]				[**]		
XIB-000175	[**]		[**]	[**]				[**]		
XIB-R000170-X	[**]	[**]	[**]	[**]				[**]		

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SOW 1 - AMENDMENT #45
SCHEDULE 2 TO EXHIBIT A - Product Price List and Description
DATE: May 16, 2012 FINAL
6720

Supplier Part Number	Description	Mfg / IBM Orderable PN	IBM PPN	IBM FRU PN	IBM HVEC MTM	IBM XCC #	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
XIB-R000030-X	[**]		[**]	[**]				[**]		
XIB-DCX-0131-X	[**]		[**]	[**]				[**]		

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SOW 1 - AMENDMENT #45
 SCHEDULE 2 TO EXHIBIT A - Product Price List and Description
 DATE: May 16, 2012 FINAL
 MLXe

Supplier Part Number	Description	Mfg / IBM Orderable PN	IBM PPN	IBM FRU PN	IBM HVEC MTM	IBM XCC #	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
Base Switch										
IB-MLXE-16-MR-M-AC-IC-M	[**]	[**]			[**]	[**]	[**]	[**]	[**]	[**]
IB-MLXE-8-MR-M-AC-IC-M	[**]	[**]			[**]	[**]	[**]	[**]	[**]	[**]
Options, Accessories, and Spares										
(IBM will release their own media and power cords)										
IB-NI-MLX-MR-X	[**]	[**]	[**]	[**]			[**]	[**]		[**]
IB-NI-X-16-8-HSF-X	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
IB-NI-MLX-10GX8-D-X	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
IB-NI-MLX-1GX48-T-A-X	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
IB-MLX-1GCX24-X-ML-X	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]		[**]
IB-NI-X-ACPRW-X	[**]	[**]	[**]	[**]			[**]	[**]		
Software Orderables										

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SOW 1 - AMENDMENT #45
 SCHEDULE 2 TO EXHIBIT A - Product Price List and Description
 DATE: May 16, 2012 FINAL
 MLXe

Supplier Part Number	Description	Mfg / IBM Orderable PN	IBM PPN	IBM FRU PN	IBM HVEC MTM	IBM XCC #	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
FRU Only										
XIB-RMK-CAB-MLXE-8-X	[**]	[**]	[**]	[**]			[**]	[**]		
XIB-RMK-CAB-MLXE-16-X	[**]	[**]	[**]	[**]			[**]	[**]		
XIB-NIBI-Cable-Comb	[**]	[**]	[**]	[**]			[**]	[**]		
XIB-MLXE-16-S-IC	[**]		[**]	[**]				[**]		[**]
XIB-MLXE-8-S-IC	[**]		[**]	[**]				[**]		[**]
XIB-MLXE-16-FAN-X	[**]		[**]	[**]				[**]		
XIB-MLXE-8-FAN-X	[**]		[**]	[**]				[**]		
XIB-MLXE-16-FLTR-X	[**]		[**]	[**]				[**]		
XIB-MLXE-8-FLTR-X	[**]		[**]	[**]				[**]		
XIB-MLXE-FRUB	[**]		[**]	[**]				[**]		
	[**]									
	[**]									

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SOW 1 - AMENDMENT #45
SCHEDULE 2 TO EXHIBIT A - Product Price List and Description
DATE: May 16, 2012 FINAL
MLXe

Supplier Part Number	Description	Mfg / IBM Orderable PN	IBM PPN	IBM FRU PN	IBM HVEC MTM	IBM XCC #	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
	[**]									
	[**]									

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Amendment 45 to SOW 1 Page 40 of 52
 Brocade Confidential Information

SOW 1 - AMENDMENT #45
 SCHEDULE 3 TO EXHIBIT A - Product Price List and Description
 DATE: May 18, 2012 FINAL
 TABLE 1 - System Networking

Supplier Part Number	Description	IBM AAS MTM	IBM PPN	IBM FRU PN	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
Base Switch								
IB-VDX6730-24-R-M	[**]	[**]	[**]			[**]	[**]	[**]
IB-VDX6730-60-R-M	[**]	[**]	[**]			[**]	[**]	[**]
Options, Accessories, and Spares								
IB-E1MG-SX-OM-N	[**]		[**]	[**]	[**]	[**]		
IB-E1MG-SX-OM-8-N	[**]		[**]		[**]	[**]		
IB-E1MG-LX-OM-N	[**]		[**]	[**]	[**]	[**]		
IB-E1MG-LX-OM-8-N	[**]		[**]		[**]	[**]		
IB-000306	[**]		[**]	[**]	[**]	[**]		
IB-000307	[**]		[**]	[**]	[**]	[**]		
IB-R000162	[**]		[**]	[**]	[**]	[**]		
Software Orderables								
FRU Only								
XIB-VDX6730-24-R	[**]			[**]		[**]		[**]
XIB-250WPSAC-R	[**]			[**]		[**]		

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SOW 1 - AMENDMENT #45
 SCHEDULE 3 TO EXHIBIT A - Product Price List and Description
 DATE: May 18, 2012 FINAL
 TABLE 1 - System Networking

Supplier Part Number	Description	IBM AAS MTM	IBM PPN	IBM FRU PN	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
XIB-VDX6730-60-R	[**]			[**]		[**]		[**]
XIB-FAN-80-R	[**]			[**]		[**]		
XIB-500WPSAC-R	[**]			[**]		[**]		
XIB-E1MG-SX-OM-N	[**]		[**]	[**]		[**]		
XIB-E1MG-LX-OM-N	[**]		[**]	[**]		[**]		
XIB-000306	[**]		[**]	[**]		[**]		
XIB-000307	[**]		[**]	[**]		[**]		
XIB-R000162	[**]		[**]	[**]		[**]		
Software Maintenance Renewals								
SVC-MAINT	[**]		[**]		[**]	[**]		
SVC-MAINT	[**]		[**]		[**]	[**]		

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SOW 1 - AMENDMENT #45
 SCHEDULE 3 TO EXHIBIT A - Product Price List and Description
 DATE: May 18, 2012 FINAL
 TABLE 1 - System

Supplier Part Number	Description	Mfg / IBM Orderable PN	IBM PPN	IBM FRU PN	IBM HVEC MTM	IBM XCC #	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
Base Switch										
IB-VDX6730-24-F-X-M	[**]	[**]			[**]	[**]		[**]	[**]	[**]
IB-VDX6730-24-R-X-M	[**]	[**]			[**]	[**]		[**]	[**]	[**]
IB-VDX6730-60-F-X-M	[**]	[**]			[**]	[**]		[**]	[**]	[**]
IB-VDX6730-60-R-X-M	[**]	[**]			[**]	[**]		[**]	[**]	[**]
Options, Accessories, and Spares										
IB-10G-SFPP-SR-X	[**]	[**]	[**]	[**]			[**]	[**]		
IB-000182-X	[**]	[**]	[**]	[**]				[**]		
IB-000293	[**]	[**]	[**]	[**]				[**]		
IB-000153-X	[**]	[**]	[**]	[**]				[**]		
IB-000190-X	[**]	[**]	[**]	[**]				[**]		
IB-E1MG-SX-OM-X	[**]	[**]	[**]	[**]				[**]		
IB-E1MG-LX-OM-X	[**]	[**]	[**]	[**]				[**]		
XIB-000175	[**]	[**]	[**]	[**]				[**]		
XIB-R000170-X	[**]	[**]	[**]	[**]				[**]		
Software Orderables										
FRU Only										

[**] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SOW 1 - AMENDMENT #45
 SCHEDULE 3 TO EXHIBIT A - Product Price List and Description
 DATE: May 18, 2012 FINAL
 TABLE 1 - System

Supplier Part Number	Description	Mfg / IBM Orderable PN	IBM PPN	IBM FRU PN	IBM HVEC MTM	IBM XCC #	IBM Feature Code	Product Price (Includes SW maintenance)	SW Maintenance	OOW
XIB-VDX6730-24-F-X	[**]		[**]	[**]				[**]		[**]
XIB-VDX6730-24-R-X	[**]		[**]	[**]				[**]		[**]
XIB-VDX6730-60-F-X	[**]		[**]	[**]				[**]		[**]
XIB-VDX6730-60-R-X	[**]		[**]	[**]				[**]		[**]
XIB-250WPSAC-F-X	[**]		[**]	[**]				[**]		
XIB-250WPSAC-R-X	[**]		[**]	[**]				[**]		
XIB-FAN-80-F-X	[**]		[**]	[**]				[**]		
XIB-FAN-80-R-X	[**]		[**]	[**]				[**]		
XIB-500WPSAC-R-X	[**]		[**]	[**]				[**]		
XIB-500WPSAC-F-X	[**]		[**]	[**]				[**]		
XIB-R000030-X	[**]		[**]	[**]				[**]		
XIB-DCX-0131-X	[**]		[**]	[**]				[**]		
Software Maintenance Renewals										
SVC-MAINT	[**]	[**]	[**]					[**]		
SVC-MAINT	[**]	[**]	[**]					[**]		

[**] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Exhibit B
Product Unique Attachment
Special Terms

Buyer may purchase Products listed in Schedule 2 to Exhibit A. The terms and conditions of this SOW #1, as amended, will apply to such purchases, with the exception of the following changes. In case of a conflict between the terms of SOW #1, as amended, and this Exhibit B, the terms of this Exhibit B shall prevail for purchases of Products set forth in Schedule 2 to Exhibit A.

The following changes are made to SOW #1 for purposes of Products set forth in Schedule 2 to Exhibit A.

- **Section 1.1, Specifications** - For the purpose of products listed in Schedule 2 to Exhibit A, Section 1.1 is deleted in its entirety.
- **Section 1.2, Certifications** - For the purpose of products listed in Schedule 2 to Exhibit A, Section 1.2 to read in its entirety as follows:
1.2 Certifications: Certification are as defined in the Brocade Product Specifications as provided by Supplier to Buyer.
- **Section 2.9 Warranty Period** - For the purpose of products listed in Schedule 2 to Exhibit A, the product warranty period shall be 39 months.
- **Section 3.0 Rescheduling/Cancellation** - For the purpose of products listed in Schedule 2 to Exhibit A, all of this section is deemed deleted.
- **Section 4.0 Replenishment Logistics Attachment** - For the purpose of products listed in Schedule 2 to Exhibit A, all of this section is deemed deleted.
- **Section 5.0 Documentation** - For the purpose of the Products listed in Schedule 2 to Exhibit A, the first paragraph of this Section is deleted and replaced with the following language:

“Documentation” shall mean the Supplier’s standard end-user Product documentation provided on www.brocade.com. Buyer and Supplier agree that no documentation customization is required for the Products covered by this Exhibit D.

- **Section 9.1 Product Repair - Field Failures** - For the purpose of products listed in Schedule 2 to Exhibit A, this section is deemed deleted.
- **Section 9.7 Software Maintenance and Support Program** - For the purpose of products listed in Schedule 2 to Exhibit A, shall be modified to read as follows:

Products purchased under this Exhibit D may be subject to an annual Software Maintenance and Maintenance Level Support program provided by Supplier. If applicable, annual Software Maintenance and Maintenance Level Support will be listed on Schedule 2 to Exhibit A. Under the terms of this support program, if applicable, each unit of Product shall be eligible for up to three one (1) year periods of Software Maintenance and Maintenance Level Support commencing from the time Buyer takes title of the Product, unless and until Buyer terminates the Software Maintenance and Maintenance Level Support program for all Products. For purposes of this Section, “Eligible Products” means the number of Products eligible for Software Maintenance and Maintenance Level Support during the relevant time period. The annual Software Maintenance and Maintenance Level Support program shall be automatically renewed for all units of Product which remain eligible under the preceding sentence, unless cancelled by Buyer effective as of the end of a calendar quarter with [**] prior written notice to Supplier.

[**] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

If the Software Maintenance and Maintenance Level Support Program is cancelled by Buyer, Supplier is no longer obligated to provide Software Maintenance and Maintenance Level Support to Buyer. The fees for each year of this annual Software Maintenance and Maintenance Level Support program for a unit of Product shall be listed as the Annual Software Maintenance and Support Fee per Unit in Schedule 2 of Exhibit A to this SOW.

For the convenience of the Buyer, [**] years of annual Software Maintenance and Maintenance Level Support shall be billed to Buyer with each unit of Product purchased, and such funds shall be held by Supplier on Buyer's behalf in a funding pool (the "Pool") until earned as set forth in this paragraph. At the end of each month, Supplier shall be deemed to earn (and shall draw from the Pool) an amount equal to (A) the number of Eligible Product as of the end of such month, multiplied by (B) one-twelfth of the Annual Software Maintenance Fee per Unit set forth for such Product in Schedule 2 to Exhibit A to this SOW ("Monthly Program Amount").

For purposes of clarification, if total billings of Software Maintenance and Maintenance Level Support during an annual period exceed the amounts earned and drawn by Supplier from the Pool during that annual period as determined on a monthly basis per the calculation in the prior paragraph, the excess billings will continue to be held by Supplier on Buyer's behalf to offset fees for the annual Software Maintenance and Maintenance Level Support program in a subsequent period. If Buyer elects not to renew the annual Software Maintenance and Maintenance Level Support program for all Products, any funds remaining in the Pool which have not been earned by Supplier shall either be refunded to Buyer or (if the parties mutually agree) may be used as an adjustment to other amounts due to Supplier. If in any month, the amount remaining in the Pool is insufficient to pay the Monthly Program Amount as determined above, Buyer at Buyer's option may elect to either have the Supplier invoice Buyer for the amount of the deficiency, adjust the unit price in subsequent period(s) for the deficient amount, or adjust other amounts due to Supplier based on mutual agreement between the parties.

In addition, Buyer may, at Buyer's sole discretion renew Software Maintenance and Maintenance Level Support beyond the [**] year period at the Annual Software Maintenance and Support Fee per Unit in Schedule 2 to Exhibit A to this SOW. Supplier will invoice Buyer for these subsequent renewals.

When initiating a technical support request with Supplier, Buyer may provide only if it is reasonably available to Buyer either the serial number or worldwide name of the Product. Supplier shall have the right to assign support obligations to the appropriate local Supplier subsidiary.

Notwithstanding the foregoing, any customer will be entitled to firmware and/or software fixes at no additional charge for five (5) years after the termination of SOW 1 or five (5) years after and End of Life notice provided by Supplier pursuant to Section 2.10, whichever is earlier.

- **Section 9.8 Field Replace Units (FRU) Emergency** - For the purpose of products listed in Schedule 2 to Exhibit A, this section is deemed deleted.
- **Attachment A, IBM CSP Requirements** - For the purpose of products listed in Schedule 2 to Exhibit A, this section is deemed deleted.

[**] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

- **Section 12.0 Hazardous Substance and Environmental Law Requirements** - For the purpose of products listed in Schedule 2 to Exhibit A, this section shall be amended to read as follows.

12.0 Hazardous Substance and Environmental Law Requirements

Supplier is responsible for understanding and complying with: (a) all Environmental Laws applicable to Supplier that restrict, regulate or otherwise govern Buyer's direct or indirect import, export, sale or other distribution of Supplier's Products or Deliverables on a stand-alone basis, or as part of a buyer server, storage, or retail store solution. "Environmental Laws" means those laws, rules and regulations (local, state, provincial or federal) of the nations of the European Union, United States, Canada, Brazil, Venezuela, Switzerland, Norway, South Africa, Israel, Egypt, Hong Kong, Russia, China, Singapore, Taiwan, India, Korea and Australia that relate to environmental matters, including without limitation material restrictions, material bans, product labeling, availability of product environmental information, energy efficiency, end-of-life product take back, packaging, batteries and other similar requirements. For example, Environmental Laws include without limitation those laws of the European Union member states that implement Directive 2002/95/EC regarding restriction of the use of certain hazardous substances in electrical and electronic equipment.

As requested by Buyer, Supplier shall provide evidence of compliance with the legal requirements resulting from its obligations above by suitable means, and shall assist Buyer with any reporting obligations related to Supplier's Products or Deliverables on a stand-alone basis, or as part of a buyer server, storage, or retail store solution. Supplier certifies that the information and data provided in accordance with the foregoing, as well as any other information or data provided in accordance with the applicable specifications is accurate, true, and complete. Should supplier become aware of any conflict between the requirements of a Buyer specification applicable to the Product or Deliverable and the Environmental Laws, Supplier shall notify Buyer in writing of the conflict and Buyer shall inform Supplier which restriction controls. Notwithstanding the foregoing, where Buyer is deemed the producer of supplier's products or deliverables under a European Union member state's implementation of Directive 2002/96/EC on waste electrical and electronic equipment, buyer shall have responsibility as the producer under this law unless it contracts with supplier to perform some or all of the producer responsibilities.

- **Section 12.1** - For the purpose of products listed in Schedule 2 to Exhibit A, this section is deemed deleted.

Exhibit C
Product Unique Attachment
Special Terms

Buyer may purchase Products listed in Schedule 3 to Exhibit A. The terms and conditions of this SOW #1, as amended, will apply to such purchases, with the exception of the following changes. In case of a conflict between the terms of SOW #1, as amended, and this Exhibit C, the terms of this Exhibit C shall prevail for purchases of Products set forth in Schedule 3 to Exhibit A.

The following changes are made to SOW #1 for purposes of Products set forth in Schedule 3 to Exhibit A.

- **Section 1.1, Specifications** - For the purpose of products listed in Schedule 3 to Exhibit A, Section 1.1 is deleted in its entirety.
- **Section 1.2, Certifications** - For the purpose of products listed in Schedule 3 to Exhibit A, Section 1.2 to read in its entirety as follows:
1.2 Certifications: Certification are as defined in the Brocade Product Specifications as provided by Supplier to Buyer.
- **Section 3.0 Rescheduling/Cancellation** - For the purpose of products listed in Table 2 (SystemX), Schedule 3 to Exhibit A, this section is deemed deleted and replaced with the following:

3.0 Product Hubbing/Consignment

- 3.1 **Hub Arrangement** The parties hereby agree that “Hub Product” is defined as any Supplier Product for which a portion of sales of such Product are subject to a hubbing arrangement. The following terms and conditions will apply to any Hub Product(s) for which an agreement has been executed between and among Supplier, Buyer, and/or third party (“Hub Provider”) to allow such Hub Product to be shipped to and held in a third party's warehouse (or warehouses) (“Hub(s)”). The parties agree that, as of the Effective Date of Amendment Number 45 to the Agreement, the Brocade [**] for IBM System x will be a Hub Product.

Hubs will be established for IBM's third party fulfillment partners [**]. The parties reserve the right to discuss the addition of a Hub in other location(s), subject to the mutual written agreement of the parties.

The parties will mutually agree to any cost adders associated with the hubbing arrangement, such as freight cost to hub destinations and warehousing fees prior to any performance, which Supplier may include in the Product price and update in SOW1 exhibit A, table 3, Product Price List and Description, and for other products will be added to the applicable price list. The parties agree to periodically review a breakdown of such cost adders to determine if changes in the logistics will change this cost.

- 3.2 **Hub Stocking** On a weekly basis Buyer, or Hub Provider, will provide a 13-week rolling forecast to Supplier showing the demand for the Hub Products to be sent to the Hub(s), such quantities shall be identified by the specific geographic locations of the Hubs (“Hub Forecast”). Supplier and Buyer will review the weekly forecast and mutually agree to the final Hub Forecast for calculation of the appropriate stocking levels. Supplier agrees to ship quantities of such Product to the Hubs sufficient to meet at least [**] weeks of demand, and at most [**] weeks of demand, both of which are based on the forward-looking [**] week period forecast (“Minimum Stock Level”). Should Buyer pull more than the Hub Forecast amount, Supplier will have [**] weeks to restock the Hub to the Minimum Stock Level. The Minimum Stock Level will include the balance of the material physically in the hub location available for immediate sale (“On-Hand Balance”) plus the material en route to the hub location scheduled for arrival within the transit lead time for that hub (“In-Transit Balance”).

[**] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Supplier may reduce Hub inventory to zero only when there is no demand reflected in each week of the Hub Forecast for the forward-looking [**] week period.

- 3.3 Ship Performance** Supplier's goal will be to satisfy a [**] percent [**] product availability rate at each Hub location. Product Availability is defined as Hub Products being available for pull by Hub Provider at a time a valid pull notification is received. At the beginning of each calendar quarter, Buyer and Supplier may discuss the above Product Availability rate goal. Should the parties agree that the Product Availability rate goal was not achieved, Supplier will immediately acknowledge the deficiency. Within three (3) days of such acknowledgement, Supplier will begin the Corrective/Preventive Action Process to determine the root cause, and will develop an appropriate corrective action. Hub Product pull requests in excess of Hub Forecast will not be used in the calculation of the product availability rate, nor in the determination of root cause. In addition, should Supplier experience an allocation situation, the allocation provisions of SOW3 PUA Section 7.0 "Supply of Products" shall apply.
- 3.4 Shipping** Supplier will be responsible for shipping charges of the Hub Product from Supplier's point of origin to the Hub. Pursuant to Section 1.0 of this Attachment 5 these costs may be included in the Product price. All shipments from the Hub will be EXW the Hub, and Buyer is responsible for all shipping charges thereafter. Buyer will act as the importer of record for all Hub Product shipped from the Hub and will be responsible for associated customs, duty, and Value Add Tax (VAT) administration. Title to and risk of loss of the Hub Product will pass to Buyer upon physical removal of such Hub Product from Brocade's designated area within the applicable Hub.
- 3.5 Product Discontinuance for Products Held in Hub** Discontinuance of any Hub Product shall be in accordance with the terms set forth in the SOW. The parties agree to work together to minimize the liability of each party upon end-of-life notice of a Hub Product.

- **Section 4.0 Replenishment Logistics Attachment** - For the purpose of products listed in Schedule 3 to Exhibit A, all of this section is deemed deleted.
- **Section 9.7 Software Maintenance and Support Program** - For the purpose of products listed in Schedule 3 to Exhibit A, all of this section is deemed deleted and replaced with the following:

9.7 Software Maintenance and Support Program

All Products purchased under this SOW shall be eligible for coverage under Seller's annual Software Maintenance and Support Program. Under the terms of this support program, Supplier shall provide for a fee, Software Maintenance and Support for Products. Included as part of the transfer price for the Products as set forth in table 3 of exhibit A is provision of [**] months of such support commencing on Product shipment ("Initial Coverage Period"). After the expiration of the Initial Coverage Period, subsequent Software Maintenance and Support shall be referenced as "Post-contract Customer Support" "PCS". Supplier will make PCS available for a [**] year period following product end of life. Software Maintenance and Support (including PCS) is defined as the inclusion of product/software upgrades/enhancements that significantly improve the marketability of the product, product interoperability updates together with the Technical Support defined in Section 9.4. Buyer will make available to its customers the software upgrade feature options included in table three (3) to exhibit A. Customers that purchase this feature shall be entitled to such software upgrades. Notwithstanding the foregoing, any customer will be entitled to firmware and/or software fixes at no additional charge for [**] years after the termination of SOW 1 or [**] after and End of Life notice provided by Supplier pursuant to Section 2.10, whichever is earlier.

[**] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

- **Section 9.8 Field Replace Units (FRU) Emergency** - For the purpose of products listed in Schedule 3 to Exhibit A, other than those products identified below, this section is deemed deleted.

IBM FRU Part Number	Supplier Part Number	Description
[**]	XIB-VDX6730-60-R	VDX 6730, 60P SFP+ PORTS,16 8G FC Ports, 0 x 8G SWL Optics, PORT SIDE EXHAUST AF Includes Power Supply, fan, VCS & FCoE license
[**]	XIB-FAN-80-R	FRU FAN, 80MM, PORT SIDE EXHAUST AF
[**]	XIB-500WPSAC-R	FRU 500W ACPS, PORT SIDE EXHAUST AF
[**]	XIB-E1MG-SX-OM-N	1000BASE-SX SFP OPTIC, MMF, LC CONNECTOR, OPTICAL MONITORING CAPABLE, 1 PACK
[**]	XIB-E1MG-LX-OM-N	1000BASE-LX SFP OPTIC, SMF, LC CONNECTOR, OPTICAL MONITORING CAPABLE, 1 PACK
[**]	XIB-VDX6730-24-R	VDX 6730, 24P SFP+ PORTS, 8 8G FC Ports, 0 optics PORT SIDE EXHAUST AF Includes Power Supply, Fan, VCS & FCoE license
[**]	XIB-250WPSAC-R	FRU 250W ACPS/FAN, PORT SIDE EXHAUST AF
[**]	XIB-VDX6730-24-F-X	VDX 6730, 24P SFP+ PORTS, 8 x 8G FC Ports, 0 Optics, NON-PORT SIDE EXHAUST AF Includes fan, power supply, VCS & FCoE license
[**]	XIB-VDX6730-24-R-X	VDX 6730, 24P SFP+ PORTS, 8 8G FC Ports, 0 optics PORT SIDE EXHAUST AF Includes fan, power supply, VCS & FCoE license
[**]	XIB-VDX6730-60-F-X	VDX 6730, 60P SFP+ PORTS, 16 8G FC Ports, 0 x 8G SWL Optics, NON-PORT SIDE EXHAUST AF Includes fan, power supply, VCS & FCoE license
[**]	XIB-VDX6730-60-R-X	VDX 6730, 60P SFP+ PORTS,16 8G FC Ports, 0 x 8G SWL Optics, PORT SIDE EXHAUST AF Includes fan, power supply, VCS & FCoE license
[**]	IB-000182-X	SFP+, LR, 10G, 1-PK, BR
[**]	IB-000153-X	SFP+, LWL 10KM, 8G, 1-PK, BR
[**]	IB-000190-X	SFP,1GE COPPER,1-PK, ROHS
[**]	IB-E1MG-SX-OM-X	1000BASE-SX SFP OPTIC, MMF, LC CONNECTOR, OPTICAL MONITORING CAPABLE, 1 PACK
[**]	IB-E1MG-LX-OM-X	1000BASE-LX SFP OPTIC, SMF, LC CONNECTOR, OPTICAL MONITORING CAPABLE, 1 PACK

For the products listed above only, Section 9.8 is modified as follows:

Supplier shall stock [**] FRU for each of the applicable products at no additional charge to Buyer. Buyer shall place order(s) with Supplier to replace FRU(s) no later than the next business day after Buyer pulls the FRU(s) from its inventory. Buyer shall provide updated FRU usage reports for review during the parties' weekly quality reviews. For the first two quarters of this Amendment, the parties shall hold quarterly reviews to discuss FRU inventory and usage for the Amsterdam and Mechanicsburg shipping locations.

[**] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

- **Attachment A, IBM CSP Requirements** - For the purpose of products listed in Schedule 3 to Exhibit A, this section is deemed deleted.
- **Section 12.0 Hazardous Substance and Environmental Law Requirements** - For the purpose of products listed in Schedule 3 to Exhibit A, this section shall be amended to read as follows.

12.0 Hazardous Substance and Environmental Law Requirements

Supplier is responsible for understanding and complying with: (a) all Environmental Laws applicable to Supplier that restrict, regulate or otherwise govern Buyer's direct or indirect import, export, sale or other distribution of Supplier's Products or Deliverables on a stand-alone basis, or as part of a buyer server, storage, or retail store solution. "Environmental Laws" means those laws, rules and regulations (local, state, provincial or federal) of the nations of the European Union, United States, Canada, Brazil, Venezuela, Switzerland, Norway, South Africa, Israel, Egypt, Hong Kong, Russia, China, Singapore, Taiwan, India, Korea and Australia that relate to environmental matters, including without limitation material restrictions, material bans, product labeling, availability of product environmental information, energy efficiency, end-of-life product take back, packaging, batteries and other similar requirements. For example, Environmental Laws include without limitation those laws of the European Union member states that implement Directive 2002/95/EC regarding restriction of the use of certain hazardous substances in electrical and electronic equipment. As requested by Buyer, Supplier shall provide evidence of compliance with the legal requirements resulting from its obligations above by suitable means, and shall assist Buyer with any reporting obligations related to Supplier's Products or Deliverables on a stand-alone basis, or as part of a buyer server, storage, or retail store solution. Supplier certifies that the information and data provided in accordance with the foregoing, as well as any other information or data provided in accordance with the applicable specifications is accurate, true, and complete. Should supplier become aware of any conflict between the requirements of a Buyer specification applicable to the Product or Deliverable and the Environmental Laws, Supplier shall notify Buyer in writing of the conflict and Buyer shall inform Supplier which restriction controls. Notwithstanding the foregoing, where Buyer is deemed the producer of supplier's products or deliverables under a European Union member state's implementation of Directive 2002/96/EC on waste electrical and electronic equipment, buyer shall have responsibility as the producer under this law unless it contracts with supplier to perform some or all of the producer responsibilities.

- **Section 12.1** - For the purpose of products listed in Schedule 3 to Exhibit A, this section is deemed deleted.

AGREEMENT AND GENERAL RELEASE OF CLAIMS

This Agreement and General Release of Claims ("Agreement") is made by and between Brocade Communications Systems, Inc. ("Brocade" or the "Company"), and Michael Klayko ("Employee"), the Employee's heirs, executors, administrators, successors, and assigns (collectively referred to throughout this Agreement as "Employee") as of August 12, 2012 (the "Transition Period Commencement Date").

WHEREAS, Employee is employed by the Company as Chief Executive Officer;

WHEREAS, the Company and Employee have entered into (i) an employee invention assignment and confidentiality agreement and/or proprietary information and inventions agreement, whichever the case may be that was signed in connection with Employee's employment with the Company (the "Confidentiality Agreement") and (ii) an Amended and Restated Change of Control Retention Agreement dated December 22, 2008 (the "Change of Control Agreement");

WHEREAS, Employee has entered into equity award agreements, (i) granting Employee the option to purchase, (ii) granting Employee Restricted Stock Units ("RSUs") and/or other equity awards (collectively, Employee's options, RSUs and other equity awards are referred to as "Equity Awards") that entitle Employee to receive, shares of the Company's common stock subject to the terms and conditions of the Company's stock option plans (the "Stock Plans") and the respective stock option and/or RSUs agreements, as set forth on Exhibit B (collectively, the "Equity Agreements");

WHEREAS, Employee will step down from his role as Chief Executive Officer on the date on which his successor commences employment with the Company (the date on which his successor commences employment with the Company being the "Successor Commencement Date");

WHEREAS, if Employee remains employed through the Successor Commencement Date and satisfies the conditions set forth in Paragraph 1(e), including, but not limited to, the Continued Efforts Requirement (as defined below), and Paragraph 2, then, in recognition of Employee's successful completion of the Transition Period (as defined below) and the recruitment of, and a transition to, a new Chief Executive Officer, Employee will be entitled to the retention bonus set forth in Paragraph 1(e) below and the severance benefits set forth in Paragraph 2 below, in each case, subject to Employee executing and not revoking the Supplemental Separation Agreement attached hereto as Exhibit A, in accordance with the terms below;

WHEREAS, the Company and Employee (collectively referred to as the "Parties") wish to resolve any and all disputed claims, complaints, grievances, charges, actions, petitions and demands that Employee has or may have against the Company as defined herein, including, but not limited to, any and all claims arising from or in any way related to Employee's employment relationship, or termination of Employee's employment, with the Company; and

NOW THEREFORE, in consideration of the mutual promises made herein, the Parties hereby agree as follows:

1) Transition; Termination Date; Employment Status; Acknowledgements; Retention Bonus.

- (a) Transition. From the Transition Period Commencement Date through the date on which Employee terminates employment with the Company (the "Transition Period"), the Parties agree that Employee will continue to be employed pursuant to the current terms of his employment, as amended by this Agreement. Prior to the Successor Commencement Date, Employee will continue in his role as Chief Executive Officer on a full-time basis, reporting to the Company's Board of Directors (the "Board").

Employee hereby resigns, effective as of the Actual Termination Date (as defined below), from all positions he then holds with the Company, including, but not limited to, his position as Chief Executive Officer and his membership on the Board. Employee confirms that his resignation is not because of any disagreement with the Company on any matter relating to the Company's operations, policies or practices.

- (b) Termination Date. Employee's termination date will occur on the Successor Commencement Date, or earlier as provided in Paragraph 1(c) (the date of Employee's actual termination of employment with the Company being the "Actual Termination Date").

The Board or the successor Chief Executive Officer may request that Employee provide limited non-employment transition assistance following the Successor Commencement Date, provided, however that any such transition services shall be at a level equal to twenty percent (20%) or less of the average level of services performed by Employee during the immediately preceding thirty-six (36)-month period and, accordingly, the Successor Commencement Date will be a "separation from service" within the meaning of Section 409A (as defined below). The compensation for any post-Successor Commencement Date services will be (i) mutually determined by the Parties at such time, (ii) within reasonable market practices for such transition services and (iii) commensurate with Employee's skills and experience.

- (c) Employment Status. Employee's employment remains at-will. Employee is free to terminate his employment at any time prior to the Successor Commencement Date, for any reason or for no reason. Similarly, the Company is free to terminate Employee's employment at any time prior to the Successor Commencement Date, for any reason or for no reason. As described in Paragraphs 1(e) and Paragraph 2, Employee may be entitled to retention and/or severance benefits depending on the circumstances of Employee's termination of employment with the Company.

- (d) Continued Compensation During Transition Period. During the Transition Period, Employee will continue to (i) receive the compensation, and (ii) participate in the Company's employee benefit plans, in each case, pursuant to the current terms of his employment. For the avoidance of doubt, if Employee remains employed with the Company through the end of the Company's fiscal year 2012, then Employee will continue to be eligible to receive his incentive payment under the Brocade Senior Leadership Plan, as revised October 25, 2011 (the "Fiscal 2012 SLP"), subject to the satisfaction of the performance criteria and the terms and conditions set forth in the Fiscal 2012 SLP.
- (e) Additional Compensation for Transition Period. If (i) Employee remains employed with the Company through the Successor Commencement Date, and (ii) in the good faith judgment of the Board, Employee is deemed to have continued to perform his executive duties during the Transition Period in the same professional manner and at the same professional standard as Employee performed his executive duties prior to the Transition Period Commencement Date (such requirement, the "Continued Efforts Requirement"), then, subject to Employee executing and not revoking the Supplemental Separation Agreement, which must become effective and irrevocable no later than the Supplemental Release Deadline (as defined below), and also subject to Employee's compliance with this Agreement, Employee will receive the payments (collectively, the "Retention Bonus") described in Paragraph 1(e)(i), and, if applicable, Paragraphs 1(e)(ii) - Paragraphs 1(e)(vii), in all cases subject to Paragraphs 2(c) and 2(f):
- (i) A lump sum payment of \$320,000, less applicable withholdings, payable within fifteen (15) calendar days following the effective date of the Supplemental Separation Agreement.
 - (ii) Provided that the Successor Commencement Date occurs prior to the end of the Company's fiscal year 2012, a lump sum payment equal to the remainder of the base salary that Employee would have been paid had he been employed through the end of the Company's fiscal year 2012, less applicable withholdings, payable within fifteen (15) calendar days following the effective date of the Supplemental Separation Agreement. For the avoidance of doubt, notwithstanding anything in this Paragraph 1(e), if the Successor Commencement Date occurs on or following the end of the Company's fiscal year 2012, Employee will continue to receive his base salary in accordance with Paragraph 1(d).
 - (iii) Provided that the Successor Commencement Date occurs prior to the end of the Company's fiscal year 2012, Employee will continue to be eligible to receive his incentive payment under the Fiscal 2012 SLP as if he had been employed through the end of the Company's fiscal year 2012, subject to the

satisfaction of the performance criteria and the terms and conditions set forth in the Fiscal 2012 SLP. The payment under this Paragraph 1(e)(iii) will be paid, less applicable withholdings, (A) within fifteen (15) calendar days following the effective date of the Supplemental Separation Agreement or (B) if, by the end of the period under clause (A), incentive payments under the Fiscal 2012 SLP have not yet been paid to Company executives generally, then on the date incentive payments under the Fiscal 2012 SLP are distributed to Company executives generally (but any payment under this clause (B) will be made no later than March 15, 2013). For the avoidance of doubt, notwithstanding anything in this Paragraph 1(e), if the Successor Commencement Date occurs on or following the end of the Company's fiscal year 2012, Employee will be eligible for his incentive payment under the Fiscal 2012 SLP (subject to the terms of the Fiscal 2012 SLP).

- (iv) Provided that the Successor Commencement Date occurs prior to date thirty (30) days following the end of the Company's fiscal year 2012, the Equity Awards will accelerate and vest as to such number of shares as if Employee had continued employment through the date thirty (30) days following the end of the Company's fiscal year 2012, subject to the terms and conditions of the Equity Agreements, including, but not limited to, the satisfaction of any performance-related vesting conditions. For the avoidance of doubt, notwithstanding anything in this Paragraph 1(e), if the Successor Commencement Date occurs on or following the date thirty (30) days following the end of the Company's fiscal year 2012, Employee will be entitled to receive vesting of the Equity Awards in accordance with the terms of such awards.
- (v) Provided that the Successor Commencement Date occurs during the Company's fiscal year 2013, a lump sum payment equal to Employee's target incentive for fiscal year 2013 (pro-rated based on the number of days that Employee was employed during the Company's fiscal year 2013), less applicable withholding, payable within fifteen (15) calendar days following the effective date of the Supplemental Separation Agreement.
- (vi) Provided that the Successor Commencement Date occurs during the Company's fiscal year 2013, each of Employee's Equity Awards (both time-based vesting awards and performance-based vesting awards) will accelerate and vest as to such numbers of shares that would have vested on the Successor Commencement Date had there been daily vesting during each Equity Award's vesting period, rounded down to the nearest whole share. For purposes of this Paragraph 1(e)(vi), each Equity Award subject to

performance-based vesting will be deemed (A) to vest at a target level of performance (pro-rated based on the number of days that Employee was employed during the Company's fiscal year 2013) and (B) to have a time-based vesting schedule equal to the applicable underlying performance period. For purposes of this Paragraph 1(e)(vi), each Equity Award subject to time-based vesting will vest pro-rata based on the number of days that Employee was employed during the Company's fiscal year 2013.

- (vii) The Company will investigate and, to the extent that it can under commercially reasonable practices, address health insurance coverage for certain of Employee's children (the "Dependent") until the earlier of such time as Employee is eligible for such coverage through a plan of a successor employer that may cover the Dependent, an alternative economically reasonable plan becomes available to Employee for Dependent, Employee becomes eligible for Medicare or Employee's sixty-fifth (65th) birthday.

2) **Severance.** If Employee remains employed with the Company through the Successor Commencement Date, or, if prior to the Successor Commencement Date, Employee incurs a "separation from service" within the meaning of Section 409A as a result of his employment being terminated for any reason other than for Cause, then, subject to Employee executing and not revoking the Supplemental Separation Agreement, which must become effective and irrevocable no later than the sixtieth (60th) day following Employee's "separation from service" within the meaning of Section 409A (or if payment is triggered by the Successor Commencement Date, then the sixtieth (60th) day following the Successor Commencement Date) (in either case, the "Supplemental Release Deadline"), and also subject to Employee's compliance with this Agreement, Employee will receive the payments (collectively, the "Severance Payment") described in Paragraphs 2(a) and 2(b), in all cases subject to Paragraphs 2(c) and 2(f):

- (a) A lump sum payment of \$2,000,000, which is equal to the sum of one year of base salary and the annual target bonus, less applicable withholdings, payable within fifteen (15) calendar days following the effective date of the Supplemental Separation Agreement.
- (b) A lump sum payment, within fifteen (15) calendar days following the effective date of the Supplemental Separation Agreement, in an amount equal to 100% of: (A) the monthly premium that Employee would be required to pay to continue Employee's group plan coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") at the rates in effect on the date of the Actual Termination Date, multiplied by (B) twelve (12), which payment will be made regardless of whether Employee elects COBRA continuation coverage.
- (c) If the Supplemental Separation Agreement does not become effective and

irrevocable by the Supplemental Release Deadline, Employee will forfeit any right to severance and/or retention payments or benefits under this Agreement. In no event will severance and/or retention payments or benefits be paid or provided unless and until the Supplemental Separation Agreement actually becomes effective and irrevocable. Any severance and/or retention payments due to Employee under this Agreement that would have been made to Employee prior to the Supplemental Separation Agreement becoming effective and irrevocable will be paid to Employee no later than the first Company payroll date on or following the Supplemental Release Deadline and the remaining payments will be made as provided in this Agreement. Notwithstanding the foregoing, in the event Employee's termination of employment occurs at a time during the calendar year where the Supplemental Separation Agreement could become effective in the calendar year following the calendar year in which Executive's termination of employment occurs, then any severance and/or retention payments or benefits under this Agreement will be paid on the first (1st) payroll to occur during the calendar year following the calendar year in which the Employee terminates employment or, if later, (i) the Supplemental Release Deadline or (ii) such time required by Paragraph 2(f).

- (d) For avoidance of doubt, Employee will be entitled to receive the Severance Payment under this Paragraph 2 upon a "separation from service" within the meaning of Section 409A for any reason other than a termination by the Company for Cause. Further, Employee agrees that he is not now and never became eligible for severance benefits under Section 2 of the Change of Control Agreement. Employee and the Company agree that the Change of Control Agreement is void and of no further effect as of the Transition Period Commencement Date.
- (e) For purposes of this Agreement, "Cause" means (i) Employee's willful and continued failure to perform the duties and responsibilities of his position that is not corrected within a thirty (30) day correction period that begins upon delivery to Employee of a written demand for performance from the Board that describes the basis for the Board's belief that Employee has not substantially performed his duties; (ii) any act of personal dishonesty taken by Employee in connection with his responsibilities as an employee of the Company with the intention or reasonable expectation that such may result in substantial personal enrichment of Employee; (iii) Employee's conviction of, or plea of nolo contendere to, a felony that the Board reasonably believes has had or will have a material detrimental effect on the Company's reputation or business, or (iv) Employee materially breaching Employee's Confidentiality Agreement, which breach is (if capable of cure) not cured within thirty (30) days after the Company delivers written notice to Employee of the breach.
- (f) Notwithstanding anything to the contrary in this Agreement, no severance payments

will become payable under this Agreement until Employee has a “separation from service” within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended and the final treasury regulations (the “Treasury Regulations”) and official guidance thereunder (collectively, “Section 409A”). Each payment and benefit payable under this Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii). Payments under this Agreement are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to any additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to so comply.

To the extent it is necessary to avoid subjecting Employee to an additional tax under Section 409A, payment of all or a portion of the severance-related amounts described in this Agreement and any other separation payments or separation benefits, that in each case, when considered together are considered deferred compensation for purposes of Section 409A (collectively, “Deferred Payments”) will be delayed until the first payroll date that occurs on or after the date that is six (6) months and one (1) day following Employee's separation from service; provided, however, that in the event of Employee's death following Employee's separation from service but before the six (6) month anniversary of Employee's separation from service, then any payments delayed in accordance with this sentence will be payable in a lump sum as soon as administratively practicable after the date of Employee's death, and any other payments or benefits due will be payable in accordance with the payment schedule applicable to them.

The Company and Employee agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Employee under Section 409A. However, the Company does not guarantee that any payments or benefits under this Agreement or otherwise comply with Section 409A and Employee is solely responsible for the payment of all taxes owed on account of all such payments and benefits.

- 3) Release of All Claims. In exchange for the consideration under this Agreement (including the Retention Bonus and the Severance Payment), the Parties knowingly and voluntarily release and forever discharge both Parties and the Company's past, present and future officers, agents, directors, employees, investors, stockholders, administrators, attorneys, insurers, affiliates, divisions, subsidiaries, parents, predecessors, successors, and assigns, and the Company's current and former employees, attorneys, officers, directors and agents thereof, both individually and in their official capacities (collectively referred to throughout the remainder of this Agreement as “Releasees”) of and from any and all claims and causes

of action relating to any matters of any kind, nature, and character, whether presently known or unknown, suspected or unsuspected, asserted or unasserted, that the Parties now have or may have against Releasees relating to or arising from any act or omission occurring up through the date on which Employee signs this Agreement, including, without limitation:

- (a) any and all claims relating to or arising from Employee's offer or acceptance of employment, any agreements between Employee and the Company, Employee's employment relationship with the Company, and the termination of that employment relationship;
- (b) any and all claims relating to or arising from Employee's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;
- (c) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, Sections 1981 through 1988 of Title 42 of the United States Code, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974 (except for any vested benefits under any tax qualified benefit plan), the Immigration Reform and Control Act, the Fair Credit Reporting Act, the Worker Adjustment and Retraining Notification Act, any and all state employment law legislation including, but not limited to, the California Fair Employment and Housing Act, the California WARN Act and any and all claims arising under the provisions of the California Labor Code as well as the regulations issued thereunder, except where prohibited by law;
- (d) any and all claims for violation of any other federal, state, local law, rule, regulation, or ordinance as well as the regulations issued thereunder, except where prohibited by law;
- (e) any and all claims for violation of any public policy, wrongful termination, breach of contract or common-law tort; and
- (f) any claims for costs, fees, or other expenses including attorneys' fees.

This release does not extend to any obligations incurred under this Agreement. The Parties agree that this release of claims shall not apply to any rights or claims that cannot be released by Employee as a matter of law. Employee is not releasing any rights that Employee may have to be indemnified (including any right to reimbursement of expenses) arising under applicable law, the Company's certificate of incorporation or by-laws (or similar constituent documents of the Company), any indemnification agreement between Employee and the Company, or any directors'

and officers' liability insurance policy of the Company. Nothing in this Agreement shall prevent Employee from filing, cooperating with, or participating in any proceeding before the Equal Employment Opportunity Commission, the Department of Labor, the California Department of Fair Employment and Housing, or any other state fair employment agency, except that Employee hereby acknowledges and agrees that Employee shall not recover any monetary benefits in connection with any such proceeding with regard to any claim released in this Agreement. Nothing in this Agreement shall prevent Employee from challenging the validity of the release in a legal or administrative proceeding.

Employee acknowledges and agrees that any breach of this Paragraph 3, where the employee is found to be in breach by the competent authority with jurisdiction over the suit or arbitration case, shall entitle the Company immediately to recover the consideration discussed in Paragraph 2 above. In such event, Employee shall also be responsible to the Company for all costs, attorneys' fees and any and all damages incurred by the Company in (a) enforcing this obligation, including the bringing of any suit or arbitration proceeding to recover the monetary consideration, and (b) defending against a claim or suit or arbitration proceeding improvidently brought or pursued by Employee under this provision.

4) Other Compensation and Benefits.

- (a) Employee acknowledges and represents that the Employee has received and/or been paid for all leaves (paid and unpaid), salary, wages, bonuses, commissions, accrued vacation, and any and all other compensation and benefits that the Employee earned or was entitled to during the Employee's employment with the Company.
- (b) The vesting of Employee's outstanding Equity Awards, if any, shall cease as of the Actual Termination Date. The vested RSUs or other vested Equity Awards or the exercise of any vested stock options, if any, shall continue to be subject to the terms and conditions of the Stock Plans and the Equity Agreements.

5) Confidential Information.

- (a) Employee shall continue to maintain the confidentiality of all confidential and proprietary information of the Company and shall not disclose to any person, firm or corporation without written authorization of the Chairman of the Board or the General Counsel of the Company, any Confidential Information of the Company. "Confidential Information" means any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, product plans, products, services, customer lists and customers (including, but not limited to, customers of the Company on whom Employee called or with whom Employee became acquainted during the term of Employee's employment), markets, software, developments, inventions, processes, formulas, technology, designs, drawings,

engineering, hardware configuration information, marketing, finances or other business information disclosed to Employee by the Company either directly or indirectly in writing, orally or by drawings or observation of parts or equipment. Employee further understands that Confidential Information does not include any of the foregoing items which have become publicly known and made generally available through no wrongful act of Employee or of others who were under confidentiality obligations as to the item or items involved or improvements or new versions thereof.

- (b) Employee shall return all Company property, including, but not limited to, any devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, computer source code or other documents, or reproductions of any of the aforementioned items, and confidential and proprietary information in Employee's possession to the Company on or before the Effective Date (as defined in Paragraph 7 herein).
- 6) Employee represents that Employee has to the best of his knowledge complied with all the terms of the Confidentiality Agreement, including the reporting of any inventions and original works of authorship (as defined therein), conceived or made by Employee (solely or jointly with others) covered by the Confidentiality Agreement. Employee further represents and agrees that Employee will continue to comply with Employee's ongoing obligations under the Confidentiality Agreement following the Actual Termination Date, including, but not limited to, Employee's obligation to assist the Company in the preparation of assignments of intellectual property rights created while Employee was employed by the Company.
- 7) Acknowledgment of Waiver of Claims under the ADEA. Employee acknowledges that Employee is waiving and releasing any rights and/or claims Employee may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary (the "ADEA Waiver"). Employee and the Company agree that this ADEA Waiver does not apply to any rights or claims that may arise under the ADEA after the date on which Employee signs this Agreement. Employee acknowledges that the consideration given for this ADEA Waiver is in addition to anything of value to which Employee is already entitled. Employee further acknowledges that Employee has been advised by this writing that (a) Employee should consult with an attorney prior to executing this Agreement; (b) Employee has twenty-one (21) days within which to consider this Agreement (although Employee may choose voluntarily to sign the Agreement sooner); (c) Employee has seven (7) days following Employee's execution of this Agreement to revoke this ADEA Waiver; (d) this ADEA Waiver shall not be effective until the date upon which the revocation period has expired, which will be the eighth (8th) day after Employee signs this Agreement (the "Effective Date"); and (e) nothing in this Agreement prevents or precludes Employee from challenging or seeking a determination in good faith of the

validity of this ADEA Waiver under the ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law. Nevertheless, Employee's general release of claims, except for the ADEA Waiver, is effective immediately and not revocable.

- 8) Revocation of ADEA Waiver. Any revocation by Employee of the ADEA Waiver must be in writing and state, "I hereby revoke my ADEA Waiver," and be delivered to Brocade Communications Systems, Inc.'s Vice President and General Counsel, by certified mail within seven (7) calendar days of execution. The revocation of the ADEA Waiver must be postmarked within the seven (7) day period; be properly addressed to the Vice President and General Counsel at the address identified below; and be sent by certified mail return receipt requested. The mailing address is: Vice President and General Counsel, Brocade Communications Systems, Inc. 130 Holger Way, San Jose, California 95134.
- 9) Civil Code Section 1542. Employee understands and agrees that this Agreement extinguishes all claims known or unknown, suspected or unsuspected, asserted or unasserted against Releasees. Employee expressly waives any rights or benefits under California Civil Code Section 1542, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

Employee, whether employed in California or elsewhere, understands and agrees that this Agreement extinguishes all claims known or unknown, suspected or unsuspected, asserted or unasserted against Releasees. Employee understands and agrees that a general release does not extend to claims which Employee does not know or suspect to exist in Employee's favor at the time of executing the release, which if known by Employee must have materially affected Employee's settlement with the Company. Employee expressly waives any such claims hereunder. Employee fully understands that, if any fact with respect to any matter covered by this Agreement is found hereafter to be other than or different from the facts now believed by Employee to be true, Employee expressly accepts and assumes that this Agreement shall be and remains effective, notwithstanding such difference in the facts.

- 10) Affirmations. Employee affirms that Employee has no lawsuits, claims, or actions pending in Employee's name, or on behalf of any other person or entity concerning any matter referred to in this Agreement. Employee further affirms that Employee has no known workplace injuries or occupational diseases, for which Employee has not already filed a claim.
- 11) Confidentiality. Employee agrees to maintain in confidence the existence of this Agreement, the contents and terms of this Agreement, and the consideration for this

Agreement (hereinafter collectively referred to as "Separation Information"). Employee agrees to take every reasonable precaution to prevent disclosure of any Separation Information to third parties, other than Employee's legal counsel, if any, and agrees that there will be no publicity, directly or indirectly, concerning any Separation Information. Employee agrees to take every precaution to disclose Separation Information only to those attorneys, accountants, governmental entities, and family members who have a reasonable need to know of such Separation Information. Provided, however, that Employee may disclose Separation Information to the extent necessary to respond truthfully to a subpoena or other compulsory legal process, and may refer to any public disclosure by the Company including an 8-K filing.

- 12) No Cooperation. Subject to the prohibitions set forth in Section 16600 of the California Business and Professions Code ("Section 16600"), Employee agrees Employee will not act in any manner that might damage the business of the Company. Employee agrees that Employee will not counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against the Company and/or any officer, director, employee, agent, representative, stockholder or attorney of the Company, unless under a subpoena or other court order to do so.
- 13) Non-Solicitation and Non-Disparagement. The Parties will, at all times in the future, refrain from making any incorrect or disparaging statements about either Party, its products or services, its officers, directors, employees, investors, stockholders, administrators, affiliates, divisions, subsidiaries, predecessors and successor corporations, and assigns. Employee further agrees that for a period of one year following the Separation Date, Employee will not directly or indirectly solicit, induce, recruit or encourage any employee or consultant of the Company to terminate his or her employment or consultancy with the Company, either for Employee or any other person or entity. Subject to Section 16600, Employee further agrees that Employee will refrain from interfering with the contracts and relationships of the Company and its officers, directors, employees, investors, stockholders, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations, and assigns. Employee and his staff will be responsible for the initial drafting of public announcements and filings with respect to this Agreement, the Transition Period and Employee's departure from the Company, but the Board will retain final authority over all aspects of such announcements and filings.
- 14) No Admission of Liability. Employee understands and acknowledges that this Agreement constitutes a compromise and separation of disputed claims. No action taken by the Company, either previously or in connection with this Agreement shall be deemed or construed at any time or for any purposes to be (a) an admission of the truth or falsity of any claims made by Employee or (b) an acknowledgment or admission by the Company of any fault or liability whatsoever to Employee or to any third party,

- 15) Costs. The Parties shall each bear their own costs, expert fees, attorneys' fees and other fees incurred in connection with any disputes between them, except as otherwise provided in Paragraph 3. The Company agrees to pay Employee's reasonable and documented legal fees associated with the negotiation and preparation of this Agreement up to a maximum of \$25,000.
- 16) Arbitration. The Parties agree that any and all disputes arising out of the terms of this Agreement, their interpretation, and any of the matters herein released, including any potential claims of harassment, discrimination or wrongful termination, shall be subject to final, binding and, to the extent permitted by law, confidential arbitration in Santa Clara, California conducted before a single arbitrator by the American Arbitration Association under its National Rules for the Resolution of Employment Disputes, the current version of which are available for review at www.adr.org. **The Parties each acknowledge that by agreeing to this arbitration procedure, they waive the right to resolve any such dispute, claim or demand through a trial by jury or judge or by administrative proceeding.** The Company shall pay all administrative fees in excess of the amount of those administrative fees Employee would have been required to pay if Employee's claims were decided in a court of law. The Parties agree that the prevailing party in any arbitration shall be entitled to injunctive relief in any court of competent jurisdiction to enforce the arbitration award. Provided, however, that this arbitration provision shall not apply to any claims for injunctive relief by either of the Parties.
- 17) Authority. Employee represents and warrants that Employee has the capacity to act on Employee's own behalf and on behalf of all who might claim through Employee to bind them to the terms and conditions of this Agreement.
- 18) No Representations. Employee represents that Employee has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Neither party has relied upon any representations or statements made by the other party hereto which are not specifically set forth in this Agreement.
- 19) Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.
- 20) Entire Agreement. This Agreement, the Equity Agreements, the Stock Plans, the ADEA Disclosure and the Confidentiality Agreement represent the entire agreement and understanding between the Company and Employee, and supersede and replace any and all prior agreements and understandings concerning Employee's relationship with the Company and Employee's compensation by the Company.
- 21) No Oral Modification. This Agreement may only be amended in writing signed by Employee and the Chairman of the Board.

- 22) Governing Law. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of the State of California.
- 23) Counterparts. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.
- 24) Knowing and Voluntary Execution of Agreement. Employee acknowledges that:
- (a) Employee has read this Agreement;
 - (b) Employee has been informed by the Company in writing to consult with an attorney before signing this Agreement and has either (a) been advised by legal counsel of Employee's own choosing in the execution of this Agreement or (b) has voluntarily declined to seek such counsel; and
 - (c) Employee apprised himself or herself of sufficient relevant information to intelligently exercise Employee's own judgment and understands the terms and consequences of this Agreement, the releases it contains, and its legal and binding effect. Employee freely and knowingly and without any duress or undue influence enters into this Agreement intending to waive, settle and release all claims Employee has or might have against Releasees in exchange for the additional benefits to which Employee would not otherwise be entitled.

[remainder of page blank]

[signature page to follow]

If this Agreement is acceptable, please sign below and return to the Company's Chairman of the Board. You have twenty-one (21) calendar days to decide whether you would like to accept this Agreement, and the Company's offer contained herein will automatically expire if you do not sign it within this timeframe and return the fully signed Agreement promptly thereafter.

Brocade Communications Systems, Inc.

Dated: August 14, 2012

By: /s/ David House

David House
Chairman of the Board of Directors

Michael Klayko, an individual

Dated: August 12, 2012

By: /s/ Michael Klayko

EXHIBIT A

SUPPLEMENTAL SEPARATION AGREEMENT

This Supplemental Separation Agreement (the "Supplemental Separation Agreement") is entered into as of _____, by and between Brocade Communications Systems, Inc. (the "Company") and Michael Klayko ("Employee") (collectively, the "Parties"). Any terms capitalized and not specifically defined herein shall have the meaning ascribed to them under the Agreement and General Release of Claims, dated August 12, 2012 (the "Transition Agreement").

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions, and demands that Employee may have against the Company and any of the Releasees, including, but not limited to, any and all claims arising out of or in any way related to Employee's employment with and services to the Company, including, but not limited to, from the effective date of the Transition Agreement through the Effective Date (as defined in Paragraph 7 below) of this Supplemental Separation Agreement.

NOW, THEREFORE, in consideration of the mutual promises made herein, the Company and Employee hereby agree as follows:

1. **Consideration.** The Company agrees to pay Employee, less applicable withholding, the Severance Payment (as defined in the Transition Agreement), and, if applicable, the Retention Bonus (as defined in the Transition Agreement), in each case, pursuant to the terms and conditions thereof.

2. **Acknowledgements and Agreements.**

a. Employee acknowledges and represents that the Company will have paid all salary, wages, bonuses, accrued vacation, commissions and any and all other benefits due to Employee as of the Effective Date of this Supplemental Separation Agreement.

b. The Parties agree that Employee will be considered to have vested in the stock options, restricted stock and any other equity awards through the Actual Termination Date (as defined in the Transition Agreement) to the extent provided in Exhibit B to this Supplemental Separation Agreement and no more. Each of Employee's equity awards shall continue to be governed by the terms and conditions of the applicable Company equity plan under which the award was granted and applicable equity award agreement (each an "Equity Award Document", and together, the "Equity Award Documents.")

3. **Release of Claims.** Employee agrees that the consideration described in Paragraph 1 hereof represents consideration for both (A) Employee's acknowledgements and agreements under Paragraph 2 and (B) a release and waiver of any and all claims against the Company and any of the Releasees relating to his employment with the Company, including, but not limited to, from the effective date of the Transition Agreement through the Effective Date of this Supplemental Separation Agreement, as well as any claims under any local ordinance or state or federal employment law, including laws prohibiting discrimination in employment on the basis of race, sex, age (in particular, any claim under the Age Discrimination in Employment Act), disability, national origin, or religion, as well as any claims for wrongful discharge, breach

of contract, attorneys' fees, costs, or any claims of amounts due for fees, commissions, stock options, expenses, salary, bonuses, profit sharing or fringe benefits. **Employee further acknowledges and agrees that the terms of Paragraph 3 of the Transition Agreement shall also apply to this Supplemental Separation Agreement and is hereby incorporated and extended through the Effective Date of this Supplemental Separation Agreement.**

4. Confidential Information and Non-Solicitation. Employee acknowledges and reaffirms his obligation to keep confidential all non-public information concerning the Company that Employee acquired during the course of his employment with the Company, as stated more fully in the Confidentiality Agreement Employee signed at the beginning of his employment, which remains in full force and effect. Employee affirms his obligation to keep all Company Confidential Information¹ (as defined in the Confidentiality Agreement) confidential and not to disclose it to any third party in the future. The Confidentiality Agreement is incorporated herein by this reference, and Employee agrees to continue to be bound by the terms of the Confidentiality Agreement.

5. Return of Company Property. As part of Employee's existing and continuing obligation to the Company, Employee agrees that Employee has returned to the Company, all Company Confidential Information, including files, records, computer access codes and instruction manuals, as well as any Company assets or equipment that Employee has in his possession or under his control. Employee further agrees not to keep any copies of Company Confidential Information. Employee confirms that he has returned to the Company in good working order all keys, files, records (and copies thereof), equipment (including, but not limited to, computer hardware, software and printers, wireless handheld devices, cellular phones and pagers), access or credit cards, Company identification, Company vehicles and any other Company-owned property in Employee's possession or control and have left intact all electronic Company documents, including, but not limited to, those that Employee developed or helped to develop during his employment. Employee further confirms that he has cancelled all accounts for his benefit, if any, in the Company's name, including, but not limited to, credit cards, telephone charge cards, cellular phone and/or pager accounts and computer accounts.

6. Acknowledgements and Right to Revoke. Employee acknowledges that he has been given twenty-one (21) days after receipt of this Supplemental Separation Agreement to consider this Supplemental Separation Agreement. By signing this Supplemental Separation Agreement, Employee acknowledges that he was offered a period of at least twenty-one (21) days to consider the terms of this Supplemental Separation Agreement but, to the extent not taken, Employee choose to waive this consideration period. If Employee does not accept this Supplemental Separation Agreement within that time, it will become null and void. Employee is advised to consult with an attorney prior to executing this Supplemental Separation Agreement. Employee represents and agrees that he fully understands his right to discuss all aspects of this Supplemental Separation Agreement with his private attorney, that he has availed herself of this right, that he has carefully read and fully understands all of the provisions of this Supplemental Separation Agreement, and that he is voluntarily entering into this Supplemental Separation Agreement.

¹ To confirm that this is the defined term in the actual Confidentiality Agreement.

Employee understands and agrees that the waiver of rights contained in this Supplemental Separation Agreement is only an exchange for the consideration specified herein, and that he would not otherwise be entitled to such consideration. Once Employee has signed the Supplemental Separation Agreement, Employee can revoke his acceptance within seven (7) days by so notifying Vice President and General Counsel, 130 Holger Way, San Jose, CA 95143. Fax number: (408) 333-8344 This Supplemental Separation Agreement will become effective on the eighth day following Employee signing it (the "Effective Date").

7. Entire Agreement. This Supplemental Separation Agreement, the Equity Award Documents, the Transition Agreement, and the Confidentiality Agreement, constitute the entire agreement and understanding between the Parties concerning the subject matter of this Supplemental Separation Agreement and all prior and contemporaneous representations, understandings, and agreements concerning the subject matter of this Supplemental Separation Agreement (other than the Confidentiality Agreement) have been superseded by the terms of this Supplemental Separation Agreement.

IN WITNESS WHEREOF, the Parties have executed this Supplemental Separation Agreement on the respective dates set forth below.

Dated: _____

By _____

[NAME]

[TITLE]

Michael Klayko, an individual

Dated: _____

By _____

EXHIBIT B

Employee's Equity Awards as of August 6, 2012

Grant Date	Equity Award	Shares Granted	Exercise Price	Shares Exercised / Settled	Shares Vested	Shares Exercisable	Shares Unvested	Shares Outstanding
1/27/03	Option	250,000	\$4.55	239,583	250,000	10,417	—	10,417
6/12/06	Option	166,667	\$5.64	—	166,667	166,667	—	166,667
11/24/06	Option	150,000	\$9.27	—	150,000	150,000	—	150,000
12/13/07	Option	350,000	\$7.14	—	350,000	350,000	—	350,000
12/19/08	Option	615,000	\$3.38	—	576,562	576,562	38,438	615,000
4/29/09	Option	500,000	\$5.62	—	406,250	406,250	93,750	500,000
12/12/10	MSU ¹	280,000	—	—	—	—	280,000	280,000
10/25/11	MSU	300,000	—	—	—	—	300,000	300,000
12/11/09	RSU ²	113,000	—	75,334	75,334	—	37,666	37,666
12/12/10	RSU	100,000	—	33,334	33,334	—	66,666	66,666
10/25/11	RSU	150,000	—	—	—	—	150,000	150,000

¹ MSU refers to market stock units.

² RSU refers to restricted stock units.

CERTIFICATION

I, Michael Klayko, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended July 28, 2012 of Brocade Communications Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 31, 2012

/s/ Michael Klayko

Michael Klayko
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Daniel W. Fairfax, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended July 28, 2012 of Brocade Communications Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 31, 2012

/s/ Daniel W. Fairfax

Daniel W. Fairfax
Chief Financial Officer
(Principal Accounting Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Klayko, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Brocade Communications Systems, Inc. for the fiscal quarter ended July 28, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Brocade Communications Systems, Inc.

Date: August 31, 2012

By: /s/ Michael Klayko
Michael Klayko
Chief Executive Officer

I, Daniel W. Fairfax, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Brocade Communications Systems, Inc. for the fiscal quarter ended July 28, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Brocade Communications Systems, Inc.

Date: August 31, 2012

By: /s/ Daniel W. Fairfax
Daniel W. Fairfax
Chief Financial Officer