SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 29, 2000

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	77-0409517
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

1901 GUADALUPE PARKWAY
SAN JOSE, CA 95131
(408) 487-8000
(Address, including zip code, of Registrant's principal executive offices and 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 [X] No [ ]

The number of shares outstanding of the Registrant's Common Stock on February 28, 2000 was 54,237,911 shares.

BROCADE COMMUNICATIONS SYSTEMS, INC.

FORM 10-Q

QUARTER ENDED JANUARY 29, 1999

INDEX

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This Form 10-Q contains forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995), including but not limited to statements regarding Brocade's expectations, hopes or intentions regarding the future. Actual results and trends could differ materially from those discussed in the forward-looking statements. In addition, past trends should not be perceived as indicators of future performance. Among the factors that could cause actual results to differ from the forward-looking statements are those detailed elsewhere in this Report in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Brocade's Securities and Exchange Commission reports.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BROCADE COMMUNICATIONS SYSTEMS, INC.

CONDENSED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	January 29, 2000	October 31, 1999
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,889	$ 25,536
Short-term investments	70,540	63,769
Total cash, cash equivalents and short-term investments	96,429	89,305
Accounts receivable, net of allowances of $4,035 and $2,447, respectively	24,090	17,139
Inventories, net	1,962	3,686
Prepaid expenses and other current assets	2,470	2,197
Total current assets	124,951	112,327
Property and equipment, net	7,089	4,947
Other assets	3,072	6
Total assets	$ 135,112	$ 117,280
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 14,791	$ 10,664
Payroll related liabilities	7,184	4,414
Other accrued liabilities	14,354	9,830
Deferred revenue	5,238	7,688
Current portion of capital lease obligations	365	478
Total current liabilities	41,932	33,074
Stockholders' equity:		
Common stock, $.001 par value, 200,000,000 shares authorized: Issued and outstanding: 54,145,552 and 53,520,040 at January 29, 2000 and October 31, 1999, respectively	54	53
Additional paid-in capital	120,983	119,598
Deferred stock compensation	(3,160)	(3,440)
Notes receivable from stockholders	(5,660)	(5,660)
Accumulated deficit	(19,037)	(26,345)
Total stockholders' equity	93,180	84,206
Total liabilities and stockholders' equity	$ 135,112	$ 117,280

The accompanying notes are an integral part of these condensed financial statements.

BROCADE COMMUNICATIONS SYSTEMS, INC.

CONDENSED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	Three Months Ended	
	January 29, 2000	January 31, 1999

BROCADE COMMUNICATIONS SYSTEMS, INC.

CONDENSED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Three Months Ended	
	January 29, 2000	January 31, 1999
Cash flows from operating activities:		
Net income (loss)	$ 7,308	$ (1,839)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	919	504
Provision for doubtful accounts receivable	1,588	--
Noncash compensation expense	280	1,157
Write down of non-marketable investment	1,000	--
Changes in assets and liabilities:		
Accounts receivable	(8,539)	(2,598)
Inventories	1,724	894
Prepaid expenses and other assets	(339)	(1,929)
Accounts payable	4,127	1,616
Payroll related liabilities	2,770	977
Other accrued liabilities	4,524	1,596
Deferred revenue	(2,450)	--
Net cash provided by operating activities	12,912	378
Cash flows from investing activities:		
Purchases of property and equipment	(3,061)	(352)
Purchases of short-term investments	(37,544)	--
Proceeds from dispositions of short-term investments	30,773	--
Other investing activities	(4,000)	--
Net cash used in investing activities	(13,832)	(352)
Cash flows from financing activities:		
Net proceeds from the issuance of common stock	1,386	135
Payments on capital lease obligations	(113)	(184)
Proceeds from notes payable	--	28
Repayments of notes payable	--	(288)
Net cash provided by (used in) financing activities	1,273	(309)
Net increase (decrease) in cash and cash equivalents	353	(283)
Cash and cash equivalents at beginning of period	25,536	10,420
Cash and cash equivalents at end of period	$ 25,889	$ 10,137

The accompanying notes are an integral part of these condensed financial statements.

BROCADE COMMUNICATIONS SYSTEMS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Information for the three months ended January 29, 2000
and January 31, 1999 is unaudited)

1. BASIS OF PRESENTATION

The condensed financial statements included herein have been prepared by Brocade Communications Systems, Inc. ("Brocade"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the disclosures are adequate to make the information not misleading. The condensed balance sheet as of October 31, 1999 has been derived from the audited financial statements as of that date, but does not include all disclosures required by generally accepted accounting principles. These financial statements and notes should be read in conjunction with the audited financial statements and notes thereto, included in Brocade's Annual Report filed on Form 10-K with the Securities and Exchange Commission.

The unaudited condensed financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of financial position, results of operations and cash flows for the periods indicated. The results of operations for the three months ended January 29, 2000 are not necessarily indicative of the results that may be expected for future quarters or the year ending October 28, 2000.

2. CHANGE IN FISCAL YEAR END

Brocade changed its fiscal year end to the last Saturday in October, beginning with the fiscal year ended October 28, 2000. This change did not have a material impact on Brocade's financial statements for the quarter ended January 29, 2000.

3. NET INCOME (LOSS) PER SHARE

Basic and diluted net income (loss) per share are presented in conformity with Statement of Financial Accounting Standards No. 128, "Earning Per Share," ("SFAS No. 128") for all periods presented. Pursuant to Statement of the Securities and Exchange Commission Staff Accounting Bulletin No. 98, common stock and convertible preferred stock issued or granted for nominal consideration prior to the anticipated effective date of an initial public offering must be included in the calculation of basic and diluted net income (loss) per share as if such stock had been outstanding for all periods presented. To date, Brocade has not had any issuances or grants for nominal consideration.

In accordance with SFAS No. 128, basic net income (loss) per share has been computed using the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. Basic and diluted pro forma net income (loss) per share, have been computed as described above and also give effect, under Securities and Exchange Commission guidance, to the conversion of the convertible preferred stock (using the if-converted method) from the original date of issuance.

BROCADE COMMUNICATIONS SYSTEMS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(Information for the three months ended January 29, 2000
and January 31, 1999 is unaudited)

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

	THREE MONTHS ENDED	
	JANUARY 29, 2000	JANUARY 31, 1999
Basic and diluted net income (loss) per share:		
Net income (loss)	$ 7,308	$ (1,839)
Weighted-average shares of common stock outstanding	53,781	12,378
Less: weighted-average shares subject to repurchase	(3,261)	(3,680)
Weighted-average shares used in computing basic net income (loss) per share	50,520	8,698
Dilutive effect of common share equivalents	8,364	--
Weighted-average shares used in computing diluted net income (loss) per share	58,884	8,698
Basic net income (loss) per share	$ 0.14	$ (0.21)
Diluted net income (loss) per share	$ 0.12	$ (0.21)

4. CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

All highly liquid investment securities with original maturities of three months or less are considered cash equivalents, while investment securities with original maturities of more than three months but less than one year are considered short-term investments.

As of January 29, 2000 all short-term investments are classified as available-for-sale and the fair market value of such investments approximated cost. As such, unrealized holding gains and losses were insignificant.

5. COMPREHENSIVE INCOME (LOSS)

Brocade adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", ("SFAS No. 130") on November 1, 1997. SFAS No. 130 defines comprehensive income as the changes in equity of an enterprise except those resulting from stockholder transactions. Accordingly, comprehensive income (loss) includes certain changes in equity that are excluded from net income (loss). Specifically, SFAS No. 130 requires unrealized holding gains and losses on available-for-sale securities to be included in accumulated other comprehensive income (loss). Unrealized holding gains (losses) for all periods presented are not significant and accordingly, comprehensive income (loss) for all periods presented approximated net income (loss).

6. CONCENTRATION OF RISK AND SIGNIFICANT CUSTOMERS

Brocade is organized and operates as one business segment, the design, development, manufacture, marketing and selling of switching solutions for Storage Area Networks ("SANs").

For the three months ended January 29, 2000, revenues from five customers accounted for 78% of total net revenues. The level of sales to any customer may vary from quarter to quarter however, we expect that significant customer concentration will continue for the foreseeable future. Loss of any one of these customers could have a material adverse on Brocade's financial condition or results of operations.

BROCADE COMMUNICATIONS SYSTEMS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(Information for the three months ended January 29, 2000
and January 31, 1999 is unaudited)

7. COMMITMENTS AND CONTINGENCIES

In December 1999, Brocade entered into an agreement to lease approximately 210,000 square feet of general office, laboratory, and administrative space in San Jose, California. The term of the lease agreement is September 1, 2000 through August 31, 2010, and represents a lease commitment of $6.2 million per year to Brocade. Brocade intends to occupy the space in September 2000. In conjunction with entering into the lease agreement, Brocade signed an unconditional, irrevocable letter of credit for $6.2 million as security for the lease.

In February 2000, the lease agreement was amended to add an additional 39,043 square feet of general office space.

8. OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following, (in thousands):

	JANUARY 29, 2000	OCTOBER 31, 1999
Accrued warranty	$ 2,457	$ 1,856
Purchase commitments reserve	3,960	3,629
Other	7,937	4,345
	$14,354	$ 9,830

9. RECENT ACCOUNTING PRONOUNCEMENTS

In December 1998, the AICPA issued Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions," ("SOP 98-9"). SOP 98-9 amends SOP 97-2 and SOP 98-4 by extending the deferral of the application of certain provisions of SOP 97-2 amended by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. Brocade has not had significant software sales to date and management does not expect the adoption of SOP 98-9 to have a significant effect on the financial condition or results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and hedging Activities" ("SFAS 133") which provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. The statement is effective for fiscal years commencing after June 15, 2000. Brocade does not believe that SFAS 133 will have a material impact on earnings or financial condition.

10. SUBSEQUENT EVENTS

On January 21, 2000, Brocade's board of directors approved a two-for-one split of Brocade's common stock. The stock will begin trading on a split-adjusted basis on March 14, 2000. Effects of this stock split are not reflected in this document.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the condensed interim financial statements and the notes thereto included in Item 1 of this Quarterly Report and with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Brocade's Annual Report filed on Form 10-K with the Securities and Exchange Commission on January 31, 2000.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This Quarterly Report contains "forward-looking" statements that relate to future events or future financial performance. While we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Brocade's actual results could differ materially from those anticipated and discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below under "Risk Factors", and to other risk factors detailed in Brocade's Annual Report filed on Form 10-K with the Securities and Exchange Commission. All forward-looking statements included in this document are based on information available to Brocade on the date hereof. Brocade assumes no obligation to update any such forward-looking statements.

OVERVIEW

Brocade is a leading provider of switching solutions for Storage Area Networks ("SANs"). We sell our SAN switching solutions through leading storage systems and server original equipment manufacturers, and through system integrators. These original equipment manufacturers and our system integrator customers combine our switching solutions with other system elements and services for enterprise data centers.

Our revenue is derived primarily from sales of our SilkWorm family of products. In fiscal 1999, four customers accounted for a combined total of 70% of total revenue. In the first quarter of fiscal 2000, five customers contributed 78% of total revenue. The level of sales to any customer may vary from quarter to quarter. However, we expect that significant customer concentration will continue in the foreseeable future. The loss of any one of these customers, or a decrease in the level of sales to any one of these customers, could have a material adverse impact on Brocade's financial condition or results of operations. To date, substantially all of our sales have been in the United States. However, we have recently launched sales and marketing efforts in Western Europe and Japan.

Revenue is recognized when products are shipped to customers, unless at the time of shipment product returns cannot be estimated or significant support services are required to successfully launch the customer's products. As of January 29, 2000, a few of our customers were implementing SAN solutions, including our product, for their end-users for the first time. In addition, some customers were implementing our SilkWorm 2000 family of products for the first time and had not yet completed the product qualification cycle. Given the recent adoption of the SAN model and Brocade's solution and because substantial Brocade services are required to support the customer's product launches, the revenue related to shipments to these customers has been deferred pending successful customer product launches. The deferred revenue will be recognized on a customer-by-customer basis as each customer successfully completes its product launch. As of January 29, 2000, $5.2 million of revenue was deferred and consisted principally of revenue associated with shipments of our new SilkWorm 2000 family of products made in the fourth quarter of fiscal 1999 and first quarter of fiscal 2000. It is expected that this deferred revenue will be recognized in the second quarter of fiscal year 2000 as customers begin volume shipments of solutions that incorporate the Brocade SilkWorm 2000 family of products. We believe that, as the SAN market matures, this revenue deferral method for new customers may not be necessary.

Our average unit-selling price has decreased over the last several quarters. We expect continued declines in our average unit selling price due to anticipated increases in per customer sales volume, the impact of competitive pricing pressures and new product introductions. However, in the near future, we do not anticipate that our gross margins will be affected by declines in average unit selling prices due to anticipated product cost reductions.

In July 1998, we outsourced our manufacturing and the majority of our supply chain management operations. Accordingly, a significant portion of our cost of revenues consists of payments to our contract manufacturer, Solectron Corporation. We conduct quality assurance, manufacturing engineering, documentation control and repairs at our facility in San Jose, California.

Research and development expenses consist primarily of salaries and related personnel expenses, fees paid to consultants and outside service providers, prototyping expenses related to the design, development, testing and enhancements of our ASICs and software and the costs of computer support services. We believe that continued investment in research and development is critical to our strategic product and cost-reduction objectives. As a result, we expect these expenses to increase in absolute dollars in the future.

Selling and marketing expenses consist primarily of salaries, commissions and related expenses for personnel engaged in marketing, sales and customer engineering support functions, as well as costs associated with promotional and travel expenses. We believe that continued investment in sales and marketing is critical to the success of our strategy to expand our relationships with leading original equipment manufacturers, to expand our presence in the system integration channel, and to maintaining our leadership position in the SAN market. As a result, we expect these expenses to increase in absolute dollars in the future.

General and administrative expenses consist primarily of salaries and related expenses for executive, finance and human resources personnel, recruiting expenses, professional fees and other corporate expenses. We expect general and administrative expenses to increase in absolute dollars as we add personnel and the related infrastructure necessary to support the growth of our business.

In connection with the grant of certain stock options to employees, we recorded deferred compensation of $307,000 and $5.1 million during fiscal 1998 and 1999, respectively, representing the difference between the deemed value of our common stock for accounting purposes and the option exercise price of these options at the date of grant. Deferred compensation is presented as a reduction of stockholders' equity and amortized ratably over the vesting period of the applicable options. We amortized $280,000 of deferred compensation for the quarter ended January 29, 2000.

RESULTS OF OPERATIONS

The following table sets forth certain financial data for the periods indicated as a percentage of total revenues.

	Percentage of Total Revenue	
	Three Months Ended	
	January 29, 2000	January 31, 1999
Net revenues	100%	100%
Cost of revenues	47	41
Gross margin	53	59
Operating expenses:		
Research and development	14	36
Sales and marketing	14	22
General and administrative	5	9
Amortization of deferred compensation	1	15
Total operating expenses	34	82
Income (loss) from operations	19	(23)
Interest income, net	3	--
Income (loss) before provision for income taxes	22	(23)
Provision for income taxes	5	--
Net income (loss)	17%	(23)%

Revenues. Revenues increased from $8.0 million for the first quarter of fiscal year 1999 to $42.7 million for the first quarter of fiscal year 2000. This increase was due primarily to increased unit sales of our products through an increased customer base and reflects the ramp-up of sales to significant original equipment manufacture customers and system integrator customers in conjunction with a growing demand for Storage Area Network switching products.

For the three months ended January 29, 2000, revenues from five customers accounted for 78% of total revenues. The level of sales to any customer may vary from quarter to quarter. However, we expect that significant customer concentration will continue for the foreseeable future. Loss of any one of these customers could have a material adverse effect on Brocade's financial condition or results of operations.

Gross margin. Total gross margin as a percentage of revenues decreased from 58.5% for the first quarter of fiscal year 1999 to 53.0% for the first quarter of fiscal year 2000. This change was due to the recognition of high margin license revenue in the first quarter of fiscal year 1999. Product margin increased from 48.3% in the first quarter of fiscal year 1999 to 53.0% in the first quarter of fiscal year 2000.

Research and development expenses. Research and development expenses increased 108% from $2.9 million for the first quarter of fiscal year 1999 to $6.0 million for the first quarter of fiscal year 2000. This increase reflects significant research and development efforts associated with new product development, including the development of our entry level switch product.

Sales and marketing expenses. Sales and marketing expenses increased 261% from $1.7 million for the first quarter of fiscal year 1999 to $6.2 million for the first quarter of fiscal year 2000. This increase was due to an increase in direct selling costs associated with the increase in revenue and to the hiring of additional sales and marketing personnel.

General and administrative expenses. General and administrative expenses increased 175% from $741,000 for the first quarter of fiscal year 1999 to $2.0 million for the first quarter of fiscal year 2000. This increase was related to increased staffing and other expenses necessary to manage and support our increased scale of operations.

Amortization of deferred compensation. In the first quarter of fiscal 2000, we did not record any deferred compensation in connection with stock option grants. Amortization of deferred compensation was $1.2 million for the first quarter of fiscal year 1999 and $280,000 for the first quarter of fiscal year 2000.

Interest income, net. Net interest income increased from $7,000 in the first quarter of fiscal year 1999 to $1.2 million in the first quarter of fiscal 2000. This increase was due primarily to an increased balance of cash, cash equivalents, and short-term investments held during the first quarter of fiscal 2000 compared to the first quarter of fiscal year 1999.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations to date primarily through the sale of preferred stock, capital equipment lease lines, bank debt and, in May 1999, we raised approximately $66 million in our initial public offering. Our principal sources of liquidity as of January 29, 2000 consisted of $96.4 million in cash, cash equivalents and short-term investments.

Net cash provided by operating activities was $12.9 million for the first quarter of fiscal 2000 compared to net cash provided by operating activities of $378,000 for the first quarter of fiscal 1999. The change from period to period was due primarily to increased profitability during the first quarter of fiscal 2000.

Net cash used in investing activities for the first quarter of fiscal 2000 was $13.8 million compared to net cash used in investing activities for the first quarter of fiscal 1999 of $352,000. The period to period change was due mainly to increased purchases of property and equipment, the purchase of short-term investments, and other investing activities during the first quarter of fiscal 2000.

Net cash provided by financing activities was $1.3 million for the first quarter of fiscal 2000 compared to net cash used in financing activities of $309,000 for the first quarter of fiscal 1999. This increase is primarily related to proceeds generated from the sale of common stock.

We believe that our existing cash, cash equivalents and short-term investment balances and cash flow expected to be generated from future operations, will be sufficient to meet our capital requirements at least through the next 12 months, although we could be required, or could elect, to seek additional funding prior to that time. Our future capital requirements will depend on many factors, including the rate of revenue growth, the timing and extent of spending to support product development efforts and expansion of sales and marketing, the timing of introductions of new products and enhancements to existing products, and market acceptance of our products. There can be no assurances that additional equity or debt financing, if required, will be available on acceptable terms or at all.

In December 1999, Brocade entered into an agreement to lease approximately 210,000 square feet of office, laboratory, and administrative space in San Jose, California. The term of the lease agreement is September 1, 2000 through August 31, 2010, and represents a lease commitment of $6.2 million per year to Brocade. Brocade intends to occupy the space in September 2000. In conjunction with entering into the lease agreement, Brocade signed an unconditional, irrevocable letter of credit for $6.2 million as security for the lease. In connection with our occupation of this building, Brocade intends to make significant tenant improvements. Brocade intends to finance these tenant improvements and the lease commitment with internally generated funds. In February 2000, the lease agreement was amended to add an additional 39,043 square feet of general office space.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 1998, the AICPA issued Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions," ("SOP 98-9"). SOP 98-9 amends SOP 97-2 and SOP 98-4 by extending the deferral of the application of certain provisions of SOP 97-2 amended by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. Brocade has not had significant software sales to date and management does not expect the adoption of SOP 98-9 to have a significant effect on the financial condition or results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and hedging Activities" ("SFAS 133") which provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. The statement is effective for fiscal years commencing after June 15, 2000. Brocade does not believe that SFAS 133 will have a material impact on earnings or financial condition.

RISK FACTORS

WE HAVE AN ACCUMULATED DEFICIT OF $19.0 MILLION AND MAY NOT MAINTAIN PROFITABILITY

We have incurred significant losses since our inception. As a result, as of January 29, 2000, we had an accumulated deficit of $19.0 million. Although our revenues have grown in recent quarters, and we have remained profitable since the third quarter of fiscal 1999, we cannot be certain that we will be able to sustain these growth rates or that we will realize sufficient revenues to maintain profitability. We expect to incur significant product development, sales and marketing and administrative expenses and, as a result, we will need to generate significant revenues to maintain profitability.

In addition, we have a limited operating history. Therefore, we cannot forecast future operating results based on our historical results. We plan our operating expenses based in part on future revenue projections. Our ability to accurately forecast our quarterly revenue is limited for the reasons discussed below in "-- We Expect Our Quarterly Revenues and Operating Results to Fluctuate for a Number of Reasons Which Could Cause Our Stock Price to Fluctuate." Moreover, most of our expenses are fixed in the short-term or incurred in advance of receipt of corresponding revenue. As a result, we may not be able to decrease our spending to offset any unexpected shortfall in our revenues. If this were to occur, we would expect to incur significant losses.

WE EXPECT OUR QUARTERLY REVENUES AND OPERATING RESULTS TO FLUCTUATE FOR A NUMBER OF REASONS WHICH COULD CAUSE OUR STOCK PRICE TO FLUCTUATE

Our quarterly revenues and operating results have varied significantly in the past and are likely to vary significantly in the future due to a number of factors, any of which may cause our stock price to fluctuate. The primary factors that may affect us include the following:

- fluctuations in demand for our SilkWorm family of products and services;
- the timing of customer orders and product implementations, particularly large orders from and product implementations of our original equipment manufacturer customers;
- our ability to develop, introduce, ship and support new products and product enhancements;
- announcements and new product introductions by our competitors;
- the expected decline in the average prices at which we can sell our SilkWorm family of products to our customers;
- our ability to obtain sufficient supplies of sole or limited sourced components, including application specific integrated circuits, or ASICs, gigabit interface converters, or GBICs, and power supplies, for our SilkWorm family of products;
- increases in the prices of the components we purchase;
- our ability to attain and maintain production volumes and quality levels for our SilkWorm family of products;
- the mix of our SilkWorm switches sold and the mix of distribution channels through which they are sold;
- increased expenses, particularly in connection with our strategy to continue to expand our relationships with key original equipment manufacturers and system integrators;
- widespread adoption of SANs as an alternative to existing data storage and management systems;
- decisions by end-users to reallocate their information resources to other purposes, and
- deferrals of customer orders in anticipation of new products, services or product enhancements introduced by us or our competitors.

Accordingly, you should not rely on the results of any past periods as an indication of our future performance. It is likely that in some future period, our operating results may be below expectations of public market analysts or investors. If this occurs, our stock price may drop.

OUR SUCCESS IS DEPENDENT UPON THE DEVELOPMENT OF THE EMERGING MARKET FOR SANS AND SAN SWITCHING PRODUCTS

Our SilkWorm family of Fibre Channel switching products is used exclusively in storage area networks, or SANs. Accordingly, widespread adoption of SANs as an integral part of data-intensive enterprise computing environments is critical to our future success. In addition, our success depends upon market acceptance of our SAN switching solutions as an alternative to the use of hubs or other interconnect devices in SANs. The markets for SANs and SAN switching products have only recently begun to develop and are rapidly evolving. Because these markets are new, it is difficult to predict their potential size or future growth rate. In addition, SANs are often implemented in connection with deployment of new storage systems and servers and we are therefore dependent to some extent on this market. Potential end-user customers who have invested substantial resources in their existing data storage and management systems may be reluctant or slow to adopt a new approach, like SANs. Our success in generating revenue in these emerging markets will depend, among other things, on our ability to educate potential original equipment manufacturers and system integrator customers, as well as potential end-users, about the benefits of SANs and SAN switching technology and our ability to maintain and enhance our relationships with leading original equipment manufacturers and system integrators. In addition, our products are designed to conform to the Fibre Channel interconnect protocol and certain other industry standards. Some of these standards may not be widely adopted, and competing standards may emerge that will be preferred by original equipment manufacturers or end-users.

WE CURRENTLY ONLY OFFER OUR SILKWORM PRODUCT FAMILY AND MUST DEVELOP NEW AND ENHANCED PRODUCTS THAT ACHIEVE WIDESPREAD MARKET ACCEPTANCE

We currently derive substantially all of our revenues from sales of our SilkWorm family of products. We expect that revenue from this product family will continue to account for a substantial portion of our revenues for the foreseeable future. Therefore, widespread market acceptance of these products is critical to our future success. Some of our products have been only recently introduced and therefore, the demand and market acceptance of our products is uncertain. Factors that may affect the market acceptance of our products include market acceptance of SAN switching products, the performance, price and total cost of ownership of our products, the availability and price of competing products and technologies, and the success and development of our original equipment manufacturers and system integrators. Many of these factors are beyond our control.

Our future success depends upon our ability to address the rapidly changing needs of our customers by developing and introducing high-quality, cost-effective products, product enhancements and services on a timely basis and by keeping pace with technological developments and emerging industry standards. We have new product launches and upgrades to our existing products planned for fiscal year 2000. Our future revenue growth will be dependent on the success of these new product launches. We have in the past experienced delays in product development and such delays may occur in the future. In addition, as we introduce new or enhanced products, we will have to manage successfully the transition from older products in order to minimize disruption in our customers' ordering patterns, avoid excessive levels of older product inventories and ensure that enough supplies of new products can be delivered to meet our customers' demands. Our failure to develop and introduce successfully new products and product enhancements, which are not broadly accepted, would reduce our revenues.

WE DEPEND ON A FEW KEY CUSTOMERS AND THE LOSS OF ANY OF THEM COULD SIGNIFICANTLY REDUCE OUR REVENUES

We depend on a few key customers. For example, in the first quarter of fiscal 2000, sales to five customers accounted for 78% of our total revenues. We anticipate that our operating results will continue to depend on sales to a relatively small number of customers. Therefore, the loss of any of our key customers, or a significant reduction in sales to these customers could significantly reduce our revenues.

FAILURE TO EXPAND OUR DISTRIBUTION CHANNELS AND MANAGE OUR DISTRIBUTION RELATIONSHIPS COULD SIGNIFICANTLY REDUCE OUR REVENUES

Our success will depend on our continuing ability to develop and manage relationships with significant original equipment manufacturers and system integrators, as well as on the sales efforts and success of these customers. Our customers may evaluate our products for up to a year before they begin to market and sell them and assisting these customers through the evaluation process may require significant sales and marketing and management efforts on our part, particularly if we have to qualify our products with multiple customers at the same time. In addition, once our products have been qualified, our agreements with our customers have no minimum purchase commitments. We cannot assure you that we will be able to expand our distribution channels, manage our distribution relationships successfully or that our customers will market our products effectively. Our failure to manage successfully our distribution relationships or the failure of our customers to sell our products could reduce our revenues.

THE LOSS OF SOLECTRON CORPORATION, OUR SOLE MANUFACTURER, OR THE FAILURE TO FORECAST ACCURATELY DEMAND FOR OUR PRODUCTS OR MANAGE SUCCESSFULLY OUR RELATIONSHIP WITH SOLECTRON, WOULD NEGATIVELY IMPACT OUR ABILITY TO MANUFACTURE AND SELL OUR PRODUCTS

Solectron, a third party manufacturer for numerous companies, manufactures all of our products at its Milpitas, California facility on a purchase order basis. We have entered into a three-year manufacturing agreement with Solectron under which we provide to Solectron a twelve-month product forecast and place purchase orders with Solectron sixty calendar days in advance of the scheduled delivery of products to our customers. Accordingly, if we inaccurately forecast demand for our products, we may be unable to obtain adequate manufacturing capacity from Solectron to meet our customers' delivery requirements or we may accumulate excess inventories.

We plan to regularly introduce new products and product enhancements, which will require that we coordinate our efforts with those of our suppliers and Solectron to rapidly achieve volume production. While we have not, to date, experienced supply problems with Solectron, we have experienced delays in product deliveries from one of our former contract manufacturers. If we should fail to effectively manage our relationships with our suppliers and Solectron, or if Solectron experiences delays, disruptions, capacity constraints or quality control problems in its manufacturing operations, our ability to ship products to our customers could be delayed and our competitive position and reputation could be harmed. Qualifying a new contract manufacturer and commencing volume production is expensive and time consuming. If we are required or choose to change contract manufacturers, we may lose revenue and damage our customer relationships.

WE ARE DEPENDENT ON SOLE SOURCE AND LIMITED SOURCE SUPPLIERS FOR CERTAIN KEY COMPONENTS INCLUDING ASICS AND POWER SUPPLIES

We currently purchase several key components from single or limited sources. We purchase ASICs and power supplies from single sources, and printed circuit boards and GBICs from limited sources. In addition, we license certain software that is incorporated into our Brocade Fabric Operating System from Wind River Systems, Inc. If we are unable to buy these components on a timely basis, we will not be able to manufacture our products. We use a rolling six-month forecast based on anticipated product orders to determine our component requirements. If we overestimate our component requirements, we may have excess inventory, which would increase our costs. If we underestimate our component requirements, we may have inadequate inventory, which could interrupt our manufacturing. In addition, lead times for materials and components we order vary significantly and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. We also may experience shortages of certain components from time to time, which also could delay our manufacturing.

THE COMPETITION IN OUR MARKETS MAY LEAD TO REDUCED SALES OF OUR PRODUCTS, REDUCED PROFITS AND REDUCED MARKET Share

The markets for our SAN switching products are competitive, and are likely to become even more competitive. Increased competition could result in pricing pressures, reduced sales, reduced margins, reduced profits, reduced market share or the failure of our products to achieve or maintain market acceptance. Our products face competition from multiple sources. Some of our competitors and potential competitors have longer operating histories, greater name recognition, access to larger customer bases, or substantially greater resources than we have. As a result, they may be able to respond more quickly than we can to new or changing opportunities, technologies, standards or customer requirements. For all of the foregoing reasons, we may not be able to compete successfully against our current and future competitors.

THE PRICES OF OUR PRODUCTS ARE DECLINING WHICH COULD REDUCE OUR REVENUES AND GROSS MARGINS

The average unit price of our products continued to decrease in the first quarter of fiscal 2000. We anticipate that the average unit price of our products may continue to decrease in the future in response to changes in product mix, competitive pricing pressures, increased sales discounts, new product introductions by us or our competitors or other factors. If we are unable to offset these factors by increasing our sales volumes, our revenues will decline. In addition, to maintain our gross margins, we must develop and introduce new products and product enhancements, and we must continue to reduce the manufacturing cost of our products.

UNDETECTED SOFTWARE OR HARDWARE ERRORS COULD INCREASE OUR COSTS AND REDUCE OUR REVENUES

Networking products frequently contain undetected software or hardware errors when first introduced or as new versions are released. Our products are complex and errors may be found from time to time in our new or enhanced products. In addition, our products are combined with 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 us to incur significant warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems. Moreover, the occurrence of hardware and software errors, whether caused by our or another vendor's SAN products, could delay or prevent the development of the SAN market.

IF WE LOSE KEY PERSONNEL OR ARE UNABLE TO HIRE ADDITIONAL QUALIFIED PERSONNEL, WE MAY NOT BE SUCCESSFUL

Our success depends to a significant degree upon the continued contributions of our key management, engineering and sales and marketing personnel, many of whom would be difficult to replace. In particular, we believe that our future success is highly dependent on Gregory L. Reyes, our President and Chief Executive Officer, Kumar Malavalli, our Vice President, Technology and Paul R. Bonderson, Jr., our Vice President, Engineering. We do not have employment contracts with, or key person life insurance on, any of our key personnel. We also believe that our success depends to a significant extent on the ability of our management to operate effectively, both individually and as a group.

We believe our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, engineering, sales and marketing, and finance and operations personnel. Competition for these personnel is intense, especially in the San Francisco Bay Area. In particular, we have experienced difficulty in hiring qualified ASIC, software, system and test, and customer support engineers and there can be no assurance that we will be successful in attracting and retaining these individuals. The loss of the services of any of our key employees, the inability to attract or retain qualified personnel in the future or delays in hiring required personnel, particularly engineers and sales personnel, could delay the development and introduction of and negatively impact our ability to sell our products. In addition, companies in our industry whose employees accept positions with competitors frequently claim that their competitors have engaged in unfair hiring practices. We cannot assure you that we will not receive such claims in the future as we seek to hire qualified personnel or that such claims will not result in material litigation. We could incur substantial costs in defending ourselves against these claims, regardless of their merits.

WE MUST CONTINUE TO IMPROVE OUR OPERATIONAL SYSTEMS AND CONTROLS TO MANAGE FUTURE GROWTH

We plan to continue to expand our operations significantly to pursue existing and potential market opportunities. This growth places a significant demand on our management and our operational resources. In order to manage growth effectively, we must implement and improve our operational systems, procedures and controls on a timely basis.

WE PLAN TO INCREASE OUR INTERNATIONAL SALES ACTIVITIES SIGNIFICANTLY, WHICH WILL SUBJECT US TO ADDITIONAL BUSINESS RISKS

We plan to expand our international sales activities significantly. During fiscal 2000, we intend to focus on expanding our international sales activities in Western Europe and Japan. Our international sales growth in these countries will be limited if we are unable to establish relationships with international distributors, establish additional foreign operations, expand international sales channel management, hire additional personnel and develop relationships with international service providers. Even if we are able to successfully expand international operations, we cannot be certain that we will be able to maintain or increase international market demand for our products. Our international operations, including our sales activities in Western Europe and Japan, are subject to a number of risks, including:

- supporting multiple languages;
- recruiting sales and technical support personnel with the skills to support our products;
- increased complexity and costs of managing international operations;
- protectionist laws and business practices that favor local competition;
- dependence on local vendors;
- multiple, conflicting and changing governmental laws and regulations;
- longer sales cycles;
- difficulties in collecting accounts receivable;
- reduced or limited protections of intellectual property rights; and
- political and economic instability.

To date, none of our international revenues and costs 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 our products more expensive and thus less competitive in foreign markets. A portion of our international revenues may be denominated in foreign currencies in the future, including the Euro, which will subject us to risks associated with fluctuations in those foreign currencies.

WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY WHICH WOULD NEGATIVELY AFFECT OUR ABILITY TO COMPETE

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also enter into confidentiality or license agreements with our employees, consultants and corporate partners, and control access to and distribution of our software, documentation and other proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

OTHERS MAY BRING INFRINGEMENT CLAIMS AGAINST US WHICH COULD BE TIME-CONSUMING AND EXPENSIVE TO DEFEND

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. We were previously the subject of a lawsuit alleging infringement of intellectual property rights. Although this dispute was resolved and the lawsuit dismissed, and we are not currently involved in any other intellectual property litigation, we may be a party to litigation in the future to protect our intellectual property or as a result of an alleged infringement of others' intellectual property. These claims and any resulting lawsuit could subject us to significant liability for damages and invalidation of our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, incorporating or using our products or services that use the challenged intellectual property;

- obtain from the owner of the infringed intellectual property right a license to make, use, sell, import and/or export the relevant technology, which license may not be available on reasonable terms, or at all; and

- redesign those products or services that use such technology.

If we are forced to take any of the foregoing actions, we may be unable to manufacture, use, sell, import and/or export our products, which would reduce our revenues.

WE MAY ENGAGE IN FUTURE ACQUISITIONS THAT DILUTE OUR STOCKHOLDERS AND CAUSE US TO INCUR DEBT OR ASSUME CONTINGENT LIABILITIES

As part of our strategy, we expect to review opportunities to buy other businesses or technologies that would complement our current products, expand the breadth of our markets or enhance our technical capabilities, or that may otherwise offer growth opportunities. While we have no current agreements or negotiations underway, we may buy businesses, products or technologies in the future. In the event of any future purchases, we could:

- issue stock that would dilute our current stockholders' percentage ownership;

- incur debt; or

- assume liabilities.

These purchases also involve numerous risks, including:

- problems combining the purchased operations, technologies or products;

- unanticipated costs;

- diversion of management's attention from our core business;

- adverse effects on existing business relationships with suppliers and customers;

- risks associated with entering markets in which we have no or limited prior experience; and

- potential loss of key employees of purchased organizations.

We cannot assure that we will be able to successfully integrate any businesses, products, technologies or personnel that we might purchase in the future.

OUR PRODUCTS MUST COMPLY WITH EVOLVING INDUSTRY STANDARDS AND GOVERNMENT REGULATIONS

The market for SAN products is characterized by the need to support industry standards as they emerge, evolve and achieve acceptance. To remain competitive, we must continue to introduce new products and product enhancements that meet these industry standards. All components of the SAN must utilize the same standards in order to operate together. Our products comprise only a part of the entire SAN and we depend on the companies that provide other components of the SAN, many of whom are significantly larger than we are, to support the industry standards as they evolve. The failure of these providers to support these industry standards could adversely affect the market acceptance of our products. In addition, in the United States, our products must comply with various regulations and standards defined by the Federal Communications Commission and Underwriters Laboratories. Internationally, products that we develop will also be required to comply with standards established by authorities in various countries. Failure to comply with existing or evolving industry standards or to obtain timely domestic or foreign regulatory approvals or certificates could materially harm our business.

PROVISIONS IN OUR CHARTER DOCUMENTS, CUSTOMER AGREEMENTS AND DELAWARE LAW COULD PREVENT OR DELAY A CHANGE IN CONTROL OF BROCADE AND MAY REDUCE THE MARKET PRICE OF OUR COMMON STOCK

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable. These provisions include:

- authorizing the issuance of preferred stock without stockholder approval;
- providing for a classified board of directors with staggered, three-year terms;
- prohibiting cumulative voting in the election of directors;
- requiring super-majority voting to effect certain amendments to our certificate of incorporation and bylaws;
- 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 us. Further, our agreements with certain of our customers require us to give prior notice of a change of control of Brocade and grant certain manufacturing rights following the change of control.

WE EXPECT TO EXPERIENCE VOLATILITY IN OUR STOCK PRICE WHICH COULD NEGATIVELY AFFECT YOUR INVESTMENT.

The market price of our common stock may fluctuate significantly in response to the following factors, some of which are beyond our control:

- actual or anticipated fluctuations in our operating results;
- changes in financial estimates by securities analysts;
- changes in market valuations of other technology companies;
- announcements by us or our competitors of significant technical innovations, contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- losses of major original equipment manufacturer customers;
- additions or departures of key personnel; and
- sales of common stock in the future.

In addition, the stock market has experienced extreme volatility that often has been unrelated to the performance of particular companies. These market fluctuations may cause our stock price to fall regardless of our performance.

OUR BUSINESS MAY BE HARMED BY CLASS ACTION LITIGATION DUE TO STOCK PRICE VOLATILITY

In the past, securities class action litigation often has been brought against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources.

WE MAY BE UNABLE TO MEET OUR FUTURE CAPITAL REQUIREMENTS WHICH WOULD LIMIT OUR ABILITY TO GROW

We believe that our existing cash, cash equivalent, and short-term investment balances, credit facilities and cash flow expected to be generated from future operations, will be sufficient to meet our capital requirements at least through the next 12 months. However, we may need, or could elect, to seek additional funding prior to that time. In the event we need to raise additional funds we may not be able to do so on favorable terms, if at all. Further, if we issue equity securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The majority of Brocade's operations are based in the U.S. and, accordingly, a majority of our transactions are denominated in U.S. dollars. Our interest income is sensitive to changes in the general level of U.S. interest rates, however, due to the nature of our short-term investments, we have concluded that there is no material market risk exposure.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Brocade's former contract manufacturer filed a suit against Brocade, alleging that Brocade is liable for breaching certain contracts with the contract manufacturer. The suit claimed damages in excess of $3.0 million plus interest, an unspecified amount of consequential and incidental damages, costs and attorneys' fees. Brocade filed a cross complaint against the contract manufacturer for various credits Brocade claimed on its account with the contract manufacturer. The suit was settled in December 1999. The settlement of this litigation did not have a material impact on Brocade's financial statements.

Brocade is subject to various claims that arise in the normal course of business. In the opinion of management, the ultimate disposition of these claims will not have a material adverse effect on the financial position of Brocade.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At a special meeting held on November 3, 1999, a proposal to amend Brocade's Certificate of Incorporation to increase the authorized number of shares of Common Stock from 50,000,000 shares to 200,000,000 shares was submitted to a vote of the stockholders of Brocade. 23,334,637 votes were cast in favor of the amendment, representing 87.3% of the shares of Common Stock then outstanding and 98.4% of the Common Stock present and voting at the special meeting. 374,207 votes were cast against the proposal or withheld. There were 3,873 abstentions.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

10.26 Credit Agreement
27.1 Financial Data Schedule.

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REPORTS ON FORM 8-K. On February 17, 2000, Brocade filed a report on Form 8-K to report a change in fiscal year end for fiscal 2000 and subsequent fiscal years from October 31 to the Saturday nearest October 31.

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.

Dated: March 13, 2000

BROCADE COMMUNICATIONS SYSTEMS, INC.
(Registrant)

/S/ MICHAEL J. BYRD

MICHAEL J. BYRD
Vice President, Finance and
Chief Financial Officer

EXHIBIT INDEX

EXHIBIT 10.26

[COMERICA LOGO]

CREDIT AGREEMENT

This CREDIT AGREEMENT is entered into as of January 5, 2000 by and between BROCADE COMMUNICATIONS, a Delaware corporation, with its principal place of business at 1901 Guadalupe Parkway, San Jose, California 95131 ("Borrower"), and COMERICA BANK-CALIFORNIA ("Bank"), a California banking corporation, with its principal place of business at 333 West Santa Clara Street, San Jose, California 95113.

RECITALS

A. Borrower wishes to obtain a standby letter of credit from Bank, and Bank desires to issue such standby letter of credit. This Agreement sets forth the terms on which Bank will issue the standby letter of credit to Borrower.

AGREEMENT

For good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as set forth below.

1. CERTAIN DEFINITIONS AND INDEX TO DEFINITIONS.

1.1 Accounting Terms. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP consistently applied.

1.2 Definitions. Capitalized terms used but not otherwise defined herein shall have the meaning given in the UCC. As used herein, and unless otherwise defined herein, the following terms shall have the following respective meanings except as the context shall otherwise require:

"Affiliate" means any Person, including any Person who is a director, officer, partner or manager of such Person: (a) which directly or indirectly controls, or is controlled by, or is under common control with, the Borrower or a subsidiary; (b) which directly or indirectly beneficially owns or holds five percent (5%) or more of any class of voting stock of the Borrower or any subsidiary; or (c) five percent (5%) or more of the voting stock of which is directly or indirectly beneficially owned or held by the Borrower or a subsidiary. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" means this Credit Agreement as it may be amended, supplemented or otherwise modified from time to time.

"Borrower's Account" means any general deposit account of Borrower maintained with Bank.

"Current Assets" means all assets of Borrower which should, in accordance with GAAP, be classified as current assets.

"Current Liabilities" means all liabilities of Borrower which should, in accordance with GAAP, be classified as current liabilities, including the principal balance of any revolving credit facility and the current portion of long-term indebtedness required to be paid within one year, but excluding warranty reserve and deferred revenue.

"Events of Default" -- See Section 10.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board that are applicable to the circumstances as of the date of determination.

"Indebtedness" means all items of indebtedness which, in accordance with GAAP would be deemed a liability as of the date as of which indebtedness is to be determined and shall also include all indebtedness and liabilities of others assumed or guaranteed or in respect of which such Borrower is secondarily or contingently liable (other than by endorsement of instruments in the course of collection) whether by reason of any agreement to acquire such indebtedness, to supply or advance sums, or otherwise.

"Insolvency Proceeding" means any proceeding commenced by or against any person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extension generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"Investment" means any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

"Letter of Credit" means the standby letter of credit issued by Bank for the account of Borrower, and for the benefit of Speiker Properties in the amount of Six Million One Hundred Ninety Three Thousand Nine Hundred Four and 00/100 Dollars ($6,193,904.00).

"Letter of Credit Agreement" means the Standby Letter of Credit Application and Agreement dated the date hereof by and between Borrower and Bank.

"Letter of Credit Documents" means this Agreement, the Letter of Credit, and the Letter of Credit Agreement.

"Maturity Date" means September 30, 2002.

"Obligations" means all obligations (monetary or otherwise) of Borrower to Bank arising under or in connection with the Letter of Credit Documents and all other documents, instruments and agreements (including financing statements and certificates) executed and delivered from time to time in connection with the Letter of Credit Documents.

"Permitted Investment" means: (a) Investments existing on the Statement Date; (b) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one (1) year from the date of acquisition thereof, (c) commercial paper maturing no more than one (1) year from the date of creation thereof and currently having the highest rating obtainable from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (d) certificates of deposit maturing no more than one (1) year from the date of investment therein issued by Bank.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"Quick Ratio" means the ratio of Current Assets to Current Liabilities.

"Tangible Effective Net Worth" means net worth as determined in accordance with GAAP consistently applied, decreased by the following: patents, licenses, goodwill, subscription lists, organization expenses, trade receivables converted to notes, and money due from affiliates (including officers, directors, subsidiaries and commonly held companies).

"UCC" means the Uniform Commercial Code as is in effect in the State of California on the date of this Agreement.

2. INCORPORATION BY REFERENCE.

2.1 Letter of Credit Documents. The Letter of Credit Documents are incorporated herein by this reference.

3. LETTER OF CREDIT.

3.1 Issuance of Letters of Credit. Subject to the terms and conditions of the Letter of Credit Documents, Bank shall issue the Letter of Credit.

3.2 Letter of Credit Fees. Borrower shall pay to Bank fees upon the issuance of the Letter of Credit, and upon the payment by Bank of each draft under the Letter of

Credit, in accordance with Bank's standard fees and charges in effect at the time the Letter of Credit is issued or amended or any draft is paid. In addition, Borrower shall prepay to Bank an annual fee with respect to the Letter of Credit in an amount equal to one half of one percent (0.50%) per annum of the original face amount of the Letter of Credit for the time period equal to the date of issuance of the Letter of Credit to and including the Maturity Date.

3.3 Reimbursement by Borrower. Borrower shall immediately reimburse Bank for all sums paid by Bank on account of the Letter of Credit in accordance with the Letter of Credit Agreement. 3.4 Indemnity. Borrower shall indemnify Bank as set forth in the Letter of Credit Agreement.

3.5 Payment of Drafts. Bank shall pay drafts as set forth in the Letter of Credit Agreement.

4. PAYMENTS BY BORROWER.

4.1 General. All payments hereunder shall be made by Borrower to Bank at Bank's offices set forth above, or at such other place as Bank may designate in writing, in lawful money of the United States.

4.2 Debit of Borrower's Account. In order to satisfy any of the Obligations, Bank is hereby authorized by Borrower to initiate electronic debit or credit entries to Borrower's Account.

5. CONDITIONS PRECEDENT.

5.1 Issuance of the First Letter of Credit. As conditions precedent to Bank's obligation to issue the Letter of Credit under this Agreement, Borrower shall deliver, or cause to be delivered, to Bank:

5.1.1 A duly executed copy of this Agreement;

5.1.2 A duly executed copy of the Letter of Credit Agreement;

5.1.3 Borrowing resolution, in form satisfactory to Bank, evidencing that Borrower's officers have the appropriate authority to execute this Agreement and the Letter of Credit Agreement;

5.1.4 the UCC-1 Financing Statement of Imperial Bank shall have been terminated;

5.1.5 All representations and warranties of Borrower to Bank set forth in the Letter of Credit Documents shall be accurate and complete in all respects; and

5.1.6 There shall not exist an Event of Default or an event which with the giving of notice of passage of time, or both, would be an Event of Default.

6. REPRESENTATIONS AND WARRANTIES OF BORROWER. Borrower represents and warrants to Bank as follows:

6.1 Capacity. Borrower is duly organized, validly existing, and in good standing under the laws of the State of Delaware, and is authorized to do business in the jurisdictions in which its ownership of property or conduct of business legally requires such authorization, and has full power, authority, and legal right to own its properties and assets and to conduct its business as presently conducted or proposed to be conducted.

6.2 Authority. Borrower has full power, authority and legal right to execute and deliver, and to perform and observe the provisions of the Letter of Credit Documents to be executed by Borrower. The execution, delivery and performance of such Letter of Credit Documents have been duly authorized by all necessary action, and when duly executed and delivered, will be legal, valid, and binding obligations of Borrower enforceable in accordance with their respective terms.

6.3 Compliance. The execution and delivery of the Letter of Credit Documents and compliance with their terms will not violate any provision of applicable law and will not result in a breach of any of the terms or conditions of, or result in the imposition of any lien, charge, or encumbrance upon any properties of Borrower pursuant to, or constitute a default (with due notice or lapse o time or both) or result in an occurrence of an event pursuant to which any holder or holders of Indebtedness may declare the same due and payable under any indenture, agreement, order, judgment, or other instrument to which Borrower is a party or by which Borrower or its property may be bound or affected, or Borrower's charter documents or by-laws.

6.4 Financial Statements. Borrower has furnished Bank with its balance sheet as of October 31, 1999 (the "Statement Date"), and related statements of income and retained earnings for the twelve (12) month period ending on the Statement Date. Such balance sheet and statements are correct and complete and fairly present the financial condition and results of operations of Borrower for such fiscal period.

6.5 Material Adverse Events. Since the Statement Date, neither the business, properties, nor financial condition of Borrower has been materially and adversely affected in any way.

6.6 Litigation. Except as heretofore disclosed by Borrower to Bank in writing, there are no actions or proceedings (whether or not purportedly on behalf of Borrower) pending, or to the knowledge of Borrower threatened, against or affecting Borrower at law or in equity or before or by any Person, which, if adversely determined, could have a material adverse effect on the business, properties, or financial condition of Borrower or which might materially affect the ability of Borrower to perform its obligations under the Letter of Credit Documents. Borrower is not in default with respect to any applicable laws or regulations which affect the operations or financial condition of Borrower, nor is it in default with respect to any other writ, injunction, demand, or decree of any court or any Person or in default under any indenture, agreement, or other instrument to which Borrower is a party or by which Borrower may be bound.

6.7 Taxes. Borrower has filed or caused to be filed all tax returns which are required to be filed by it, pursuant to the laws, regulations, or orders of each Person with taxing power over Borrower or the assets of Borrower. Borrower has paid, or made provision for the payment of, all taxes which have or may have become due pursuant to said returns or otherwise or pursuant to an assessment received by Borrower, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided. The charges, accruals, and reserves in respect of income taxes on the books of Borrower are adequate. Borrower knows of no proposed material tax assessment against it and no extension of time for the assessment of federal, state, or local taxes of Borrower is in effect or has been requested, except as disclosed in the financial statements furnished to Bank.

7. AFFIRMATIVE COVENANTS OF BORROWER. Until payment in full of the Obligations, Borrower agrees that: 7.1 Financial Statements, Reports and Certifications. Borrower shall maintain a system of accounting established and administered in accordance with sound business practices to permit preparation of financial statements in conformity with GAAP. Borrower shall deliver to Bank the financial statements and other reports described below:

7.1.1 Quarterly Reports. As soon as available and in any event within forty-five (45) days after the end of each fiscal quarter, Borrower shall deliver its Form 10-Q Quarterly Report filed pursuant to the Securities Exchange Act of 1934, as amended from time to time, and any successor statute, and the rules and regulations issued thereunder ("Exchange Act"), all as the same may be in effect at the time.

7.1.2 Annual Report. As soon as available and in any event within ninety (90) days after the end of each fiscal year, Borrower shall deliver its Form 10-K Annual Report filed pursuant to the Exchange Act.

7.1.3 Other Information. Borrower shall, upon request, furnish to Bank such information, statements, lists of property and accounts, budgets, forecasts, or reports as Bank may reasonably request with respect to the business, affairs, and financial condition of Borrower.

7.2 Deposit Accounts. Borrower shall maintain its principal depository and operating accounts with Bank.

7.3 Expenses. Borrower shall pay all reasonable out-of-pocket expenses of Bank including, but not limited to, attorneys' fees and costs, incident to (a) preparation and negotiation of the Letter of Credit Documents and any amendments, extensions and renewal thereof, (b) the protection of the rights of Bank under the Letter of Credit Documents, or (c) defense by Bank against all claims against Bank relating to any of its acts of commission or omission directly or indirectly relating to the Letter of Credit Documents, all whether by judicial proceedings or otherwise. Borrower shall also pay and save Bank harmless from any and all liability with respect to any stamp or other taxes (other than transfer or income taxes) which may be determined to be payable in connection with the making of the Letter of Credit Documents.

7.4 Notice of Events. Borrower shall at once give Bank written notice of any Event of Default or any event which with the giving or notice of passage of time, or both, would become an Event of Default.

7.5 Performance of Other Covenants. Borrower shall observe and perform all covenants and agreements in any of the Letter of Credit Documents executed by Borrower.

8. FINANCIAL COVENANTS OF BORROWER. Borrower covenants and agrees that until payment in full of all Obligations and termination of the Letter of Credit, unless Bank shall otherwise give its prior written consent, Borrower shall comply with all covenants in this Section 8.

8.1 Quick Ratio. Borrower shall maintain, as of the last day of each fiscal quarter, a Quick Ratio of at least 2.00 to 1.0.

8.2 Tangible Effective Net Worth. Borrower shall maintain, as of the last day of each fiscal quarter, a Tangible Effective Net Worth of not less than Sixty Five Million and 00/100 Dollars ($65,000,000.00), provided however that this amount shall be reset on an annual basis within one hundred twenty (120) days of Borrower's fiscal year end.

8.3 Profitability. Borrower shall have a minimum net profit greater than Zero and 00/100 Dollars ($0.00) on a rolling four quarter basis, provided however that Bank shall exclude from its profitability calculation for approved acquisitions, in process research and development charges and any other non-cash acquisition related write-offs.

9. NEGATIVE COVENANTS OF THE BORROWER. Until payment in full of the Obligations, without the prior written consent of Bank, Borrower shall not:

9.1 Liens. Create, incur, assume, or suffer to exist any lien (including any encumbrance or security interest) of any kind upon any of its assets, whether now owned or hereafter acquired, except: (a) liens disclosed in Borrower's financial statements dated the Statement Date; or (b) liens for purchase money obligations for Equipment; provided that: (i) the indebtedness secured by any such lien does not exceed the purchase price of such Equipment; and (ii) any such lien encumbers only the asset so purchased.

9.2 Negative Pledge. Enter into any agreement with any third party which prohibits Borrower from granting Bank a security interest in any of the assets of Borrower.

9.3 Dispositions. Convey, sell, lease, transfer or otherwise dispose of (collectively, a "Transfer"), or permit any of its subsidiaries to Transfer, all or any part of its assets, business or property, other than: (i) Transfers of Inventory in the ordinary course of business; (ii) Transfers of non-exclusive licenses and similar arrangements for the use of the property of Borrower or its subsidiaries; or (iii) Transfers of worn-out or obsolete Equipment.

9.4 Change in Business. Engage in any business, or permit any of its subsidiaries to engage in any business, other than the businesses currently engaged in by Borrower and any business substantially similar or related thereto (or incidental thereto), or suffer a material change in Borrower's ownership. Borrower will not, without thirty (30) days prior written notification to Bank, relocate its chief executive office.

9.5 Change in Name. Change Borrower's name, or identity, or add any new fictitious name. Borrower will give Lender at least thirty (30) days advance written notice of any change of name or of any new trade name or fictitious business name. Borrower's use of any trade name or fictitious business name will be in compliance with all laws regarding the use of such names.

9.6 Mergers or Acquisitions. Merge or consolidate, or permit any of its subsidiaries to merge or consolidate, with or into any other business organization, or acquire, or permit any of its subsidiaries to acquire, all or substantially all of the capital stock or property of another Person, without the prior written consent of Bank, further provided that Borrower remains the surviving entity of any such merger or consolidation, Borrower's management remain in their current positions, and no Event of Default results from such merger or consolidation.

9.7 Distributions. Pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock, provided that Borrower may repurchase its shares from former employees, directors and agents in accordance with any repurchase agreements so long as an Event of Default has not occurred or would exist after giving effect of such repurchase.

9.8 Investments. Directly or indirectly acquire or own, or make any Investment in or to any Person, or permit any of its subsidiaries so to do, other than Permitted Investments.

9.9 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a nonaffiliated Person.

10. EVENTS OF DEFAULT. One or more of the following events shall be an "Event of Default"):

10.1 Payment Default. Borrower shall default in the due and punctual payment of the Obligations or any part thereof, when the same become due and payable, whether at maturity, upon acceleration, or otherwise;

10.2 Covenant Default. If Borrower fails to perform any obligation hereunder or violates any of the covenants contained in this Agreement, or fails or neglects to perform, keep, or observe any other material term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Letter of Credit Documents, or in any other present or future agreement between Borrower and Bank and as to any default under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure such default within ten (10) business days after Borrower receives notice thereof or any officer of Borrower becomes aware thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default (provided that no Advances will be required to be made during such cure period);

10.3 Material Adverse Change. If there occurs a material adverse change in Borrower's business or financial condition, or if there is a material impairment of the prospect of repayment of any portion of the Obligations;

10.4 Attachment. If any material portion of Borrower's assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within ten (10) business days, or if Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a judgment or other claim becomes a lien or encumbrance upon any material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed of record with respect to any of Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within ten (10) business days after Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrower;

10.5 Insolvency. If Borrower becomes insolvent, or if an Insolvency Proceeding is commenced by Borrower, or if an Insolvency Proceeding is commenced against Borrower and is not dismissed or stayed within ten (10) business days (provided that no Advances will be made prior to the dismissal of such Insolvency Proceeding);

10.6 Other Agreements. If there is a default in any agreement to which Borrower is a party with a third party or parties resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of One Million and 00/100 Dollars ($1,000,000) or that could have a Material Adverse Effect;

10.7 Judgments. If a judgment or judgments for the payment of money in an amount, individually or in the aggregate, of at least Two Hundred Fifty Thousand and 00/100 Dollars ($250,000) shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of ten (10) business days; or

10.8 Misrepresentations. If any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth herein or in any certificate delivered to Bank by any officer pursuant to this Agreement or to induce Bank to enter into this Agreement or any other Letter of Credit Document.

11. REMEDIES. Upon the occurrence of an Event of Default, at the option of Bank, (a) Bank's obligations under this Agreement shall terminate and all Obligations shall, without presentment, demand, protest, or notice of any kind, all of which are hereby expressly waived, be forthwith due and payable, and Bank may, immediately and without expiration of any period of grace, enforce payment of all Obligations and exercise any and all other remedies granted to it at law, in equity, or otherwise, including, without limitation, under the Letter of Credit Documents, and (b) Borrower shall immediately pay to Bank, to be held by Bank as cash collateral, an amount equal to the undrawn amount of all Letters of Credit.

12. MISCELLANEOUS.

12.1 Entire Agreement. This Agreement, together with the Letter of Credit Documents embodies the entire agreement and understanding among and between the parties hereto, and supersedes all prior or contemporaneous agreements and understandings between said parties, verbal or written, express or implied, relating to the subject matter hereof. No promises of any kind have been made by Bank or any third party to induce Borrower to execute this Agreement. No course of dealing, course of performance or trade usage, and no parol evidence of any nature, shall be used to supplement or modify any terms of this Agreement.

12.2 No Waiver. No failure to exercise and no delay in exercising any right, power, or remedy hereunder shall impair any right, power, or remedy which Bank may have, nor shall any such delay be construed to be a waiver of any of such rights, powers, or remedies, or any acquiescence in any breach or default hereunder; nor shall any waiver by Bank of any breach or default by Borrower hereunder be deemed a waiver of any default or breach subsequently occurring. All rights and remedies granted to Bank hereunder shall remain in full force and effect notwithstanding any single or partial exercise of, or any discontinuance of action begun to enforce, any such right or remedy. The rights and remedies specified herein are cumulative and not exclusive of each other or of any rights or remedies which Bank would otherwise have. Any waiver, permit, consent or approval by Bank of any breach or default hereunder must be in writing and shall be effective only to the extent set forth in such writing and only as to that specific instance.

12.3 Survival. All representations, warranties and agreements herein contained on the part of Borrower shall survive the making of advances hereunder and all such representations, warranties and agreements shall be effective so long as the Obligations arising pursuant to the terms of this Agreement remain unpaid or for such longer periods as may be expressly stated therein.

12.4 Severability. In the event any one or more of the provisions contained in this Agreement is held to be invalid, illegal or unenforceable in any respect, then such provision shall be ineffective only to the extent of such prohibition or invalidity, and the validity, legality, and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

12.5 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Borrower, Bank, and their respective successors and assigns, provided, however, that Borrower may not transfer its rights under this Agreement without the prior written consent of Bank.

12.6 Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

12.7 Interpretation. This Agreement and all agreements relating to the subject matter hereof are the product of negotiation and preparation by and among each party and its respective attorneys, and shall be construed accordingly. The parties waive the provisions of California Civil Code Section 1654.

12.8 Amendment and Waiver. Neither this Agreement nor any provisions hereof may be changed, waived, discharged or terminated, nor may any consent to the departure from the terms hereof be given, orally (even if supported by new consideration), but only by an instrument in writing signed by all parties to this Agreement. Any waiver or consent so given shall be effective only in the specific instance and for the specific purpose for which given.

12.9 Headings. Section and paragraph headings and numbers have been set forth for convenience only.

12.10 Venue. The parties agree that any suit, action or proceeding arising out of the subject matter hereof, or the interpretation, performance or breach of this Agreement, shall be instituted in any United States District Court or any court of the State of California located in Santa Clara County.

12.11 JURY TRIAL WAIVER. IN RECOGNITION OF THE HIGHER COSTS AND DELAY WHICH MAY RESULT FROM A JURY TRIAL, THE PARTIES HERETO WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING HEREUNDER, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT HERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY FURTHER WAIVES ANY RIGHT TO CONSOLIDATE ANY SUCH ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

12.12 Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all signatures were upon the same instrument. Delivery of an executed counterpart of the signature page to this Agreement by telefacsimile shall be effective as delivery of a manually executed counterpart of this Agreement, and any party delivering such an executed counterpart of the signature page to this Agreement by telefacsimile to any other party shall thereafter also promptly deliver a manually executed counterpart of this Agreement to such other party, provided that the failure to deliver such manually executed counterpart shall not affect the validity, enforceability, or binding effect of this Agreement. 1.1

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

BROCADE COMMUNICATIONS

By: /s/ [Signature Illegible]

Title: VP FINANCE -- CFO

COMERICA BANK-CALIFORNIA

/s/ MARY BETH SUHR
- ------------------------------------
Vice President
Mary Beth Suhr
Vice President

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-Q FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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3-MOS
OCT-28-2000
NOV-01-1999
JAN-29-2000
25,889
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