

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 28, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

Commission file number: 000-25601

Brocade Communications Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0409517
(I.R.S. Employer
Identification No.)

130 Holger Way
San Jose, CA 95134
(408) 333-8000

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of February 24, 2012 was 459,267,665 shares.

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FORM 10-Q
QUARTER ENDED JANUARY 28, 2012
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Forward-Looking Statements

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

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended	
	January 28, 2012	January 29, 2011
	(In thousands, except per share amounts)	
Net revenues		
Product	\$ 476,302	\$ 457,029
Service	84,340	88,727
Total net revenues	<u>560,642</u>	<u>545,756</u>
Cost of revenues		
Product	175,407	177,616
Service	40,466	47,257
Total cost of revenues	<u>215,873</u>	<u>224,873</u>
Gross margin	344,769	320,883
Operating expenses:		
Research and development	89,319	91,408
Sales and marketing	152,688	152,667
General and administrative	18,350	18,090
Legal fees associated with indemnification obligations and other related costs, net	—	124
Amortization of intangible assets	14,993	16,190
Total operating expenses	<u>275,350</u>	<u>278,479</u>
Income from operations	69,419	42,404
Interest expense	(13,046)	(21,546)
Interest and other income (loss), net	(996)	343
Income before income tax benefit	55,377	21,201
Income tax benefit	(3,207)	(5,717)
Net income	<u>\$ 58,584</u>	<u>\$ 26,918</u>
Net income per share — basic	<u>\$ 0.13</u>	<u>\$ 0.06</u>
Net income per share — diluted	<u>\$ 0.12</u>	<u>\$ 0.05</u>
Shares used in per share calculation — basic	<u>452,494</u>	<u>465,108</u>
Shares used in per share calculation — diluted	<u>468,738</u>	<u>491,166</u>

See accompanying notes to condensed consolidated financial statements.

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

	January 28, 2012	October 29, 2011
	(In thousands, except par value)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 484,239	\$ 414,202
Short-term investments	785	774
Total cash, cash equivalents and short-term investments	485,024	414,976
Accounts receivable, net of allowances for doubtful accounts of \$1,449 and \$1,388 at January 28, 2012 and October 29, 2011, respectively	219,363	249,141
Inventories	80,999	74,172
Deferred tax assets	59,762	53,604
Prepaid expenses and other current assets	49,920	52,308
Total current assets	895,068	844,201
Property and equipment, net	528,102	532,384
Goodwill	1,628,544	1,630,967
Intangible assets, net	185,614	214,697
Non-current deferred tax assets	197,901	210,028
Other assets	43,511	42,031
Total assets	<u>\$ 3,478,740</u>	<u>\$ 3,474,308</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 99,184	\$ 109,471
Accrued employee compensation	107,141	118,298
Deferred revenue	207,091	201,421
Current liabilities associated with facilities lease losses	885	1,456
Current portion of long-term debt	27,341	40,539
Other accrued liabilities	90,865	94,802
Total current liabilities	532,507	565,987
Long-term debt, net of current portion	692,191	748,904
Non-current liabilities associated with facilities lease losses	2,312	2,496
Non-current deferred revenue	71,364	69,024
Non-current income tax liability	49,094	63,593
Other non-current liabilities	9,904	10,166
Total liabilities	<u>1,357,372</u>	<u>1,460,170</u>
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.001 par value, 800,000 shares authorized:		
Issued and outstanding: 457,201 and 448,022 shares at January 28, 2012 and October 29, 2011, respectively	457	448
Additional paid-in capital	2,037,872	1,984,830
Accumulated other comprehensive loss	(16,401)	(11,996)
Retained earnings	99,440	40,856
Total stockholders' equity	<u>2,121,368</u>	<u>2,014,138</u>
Total liabilities and stockholders' equity	<u>\$ 3,478,740</u>	<u>\$ 3,474,308</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	January 28,	January 29,
	2012	2011
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 58,584	\$ 26,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess tax benefits from stock-based compensation	(1,147)	—
Depreciation and amortization	50,105	52,522
Loss on disposal of property and equipment	256	176
Amortization of debt issuance costs and original issue discount	1,234	4,729
Net gains on investments	(12)	(16)
Provision for doubtful accounts receivable and sales allowances	2,700	2,428
Non-cash compensation expense	21,819	19,906
Changes in assets and liabilities:		
Accounts receivable	27,078	50,073
Inventories	(6,826)	(10,319)
Prepaid expenses and other assets	1,611	(3,018)
Deferred tax assets	22	(6)
Accounts payable	(9,556)	(18,582)
Accrued employee compensation	(13,013)	(9,416)
Deferred revenue	8,010	14,617
Other accrued liabilities	(13,059)	(10,076)
Liabilities associated with facilities lease losses	(755)	(1,700)
Net cash provided by operating activities	<u>127,051</u>	<u>118,236</u>
Cash flows from investing activities:		
Purchases of short-term investments	—	(25)
Proceeds from maturities and sale of short-term investments	—	19
Proceeds from sale of subsidiary	(215)	—
Purchases of property and equipment	(17,556)	(23,395)
Net cash used in investing activities	<u>(17,771)</u>	<u>(23,401)</u>
Cash flows from financing activities:		
Payment of principal related to the term loan	(70,000)	(39,748)
Payment of principal related to capital leases	(456)	(431)
Proceeds from issuance of common stock	31,941	25,477
Excess tax benefits from stock-based compensation	1,147	—
Net cash used in financing activities	<u>(37,368)</u>	<u>(14,702)</u>
Effect of exchange rate fluctuations on cash and cash equivalents	(1,875)	66
Net increase in cash and cash equivalents	70,037	80,199
Cash and cash equivalents, beginning of period	414,202	333,984
Cash and cash equivalents, end of period	<u>\$484,239</u>	<u>\$414,183</u>

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation

Brocade Communications Systems, Inc. ("Brocade" or the "Company") has prepared the accompanying Condensed Consolidated Financial Statements as of January 28, 2012 and for the three months ended January 28, 2012 and January 29, 2011, without audit, pursuant to the rules and regulations of the United States ("U.S.") Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. The October 29, 2011 Condensed Consolidated Balance Sheet was derived from the Company's audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 29, 2011.

In the opinion of management, all adjustments (which include only normal recurring adjustments, except as otherwise indicated) necessary to present a fair statement of financial position as of January 28, 2012, results of operations for the three months ended January 28, 2012 and January 29, 2011, and cash flows for the three months ended January 28, 2012 and January 29, 2011, have been made. The results of operations for the three months ended January 28, 2012 are not necessarily indicative of the operating results for the full fiscal year or any future period.

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

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

Use of Estimates in Preparation of Condensed Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies

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

Recent Accounting Pronouncements

There have been no accounting pronouncements issued during the three months ended January 28, 2012 that are expected to have a material impact on the Company's financial position, results of operations, cash flows or disclosure requirements.

Concentrations

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

A majority of the Company's accounts receivable balance is derived from sales to original equipment manufacturer ("OEM") partners in the computer storage and server industry. As of January 28, 2012, two customers accounted for 15% and 11%, respectively, of total accounts receivable, for a combined total of 26% of total accounts receivable. As of October 29, 2011, two customers accounted for 16% and 14%, respectively, of total accounts receivable, for a combined total of 30% of total accounts receivable. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable balances. The Company has established reserves for credit losses, sales allowances, and other allowances.

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For the three months ended January 28, 2012, three customers accounted for 20%, 15% and 13%, respectively, of the Company's total net revenues for a combined total of 48% of total net revenues. For the three months ended January 29, 2011, three customers accounted for 18%, 17% and 12%, respectively, of the Company's total net revenues for a combined total of 47% of total net revenues.

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

3. Goodwill and Intangible Assets

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

	<u>Data Storage Products</u>	<u>Ethernet Products</u>	<u>Global Services</u>	<u>Total</u>
Balance at October 29, 2011				
Goodwill	\$ 176,968	\$ 1,344,415	\$ 155,416	\$1,676,799
Accumulated impairment losses	—	(45,832)	—	(45,832)
	176,968	1,298,583	155,416	1,630,967
Tax and other adjustments during the three months ended January 28, 2012 (1)	(2)	(2,421)	—	(2,423)
Balance at January 28, 2012				
Goodwill	176,966	1,341,994	155,416	1,674,376
Accumulated impairment losses	—	(45,832)	—	(45,832)
	<u>\$ 176,966</u>	<u>\$ 1,296,162</u>	<u>\$ 155,416</u>	<u>\$1,628,544</u>

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

The Company conducts its goodwill impairment test annually, as of the first day of the second fiscal quarter, or whenever events or changes in facts and circumstances indicate that the fair value of the reporting unit may be less than its carrying amount. Based on goodwill impairment analysis results during the second fiscal quarter of 2011, the Company determined that no impairment needed to be recorded. During the three months ended January 28, 2012, there were no facts and circumstances that indicated that the fair value of the reporting units may be less than their current carrying amount.

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

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Useful Life (in years)
January 28, 2012				
Trade name	\$ 10,441	\$ 10,426	\$ 15	0.92
Core/developed technology	337,858	259,945	77,913	1.71
Customer relationships	352,581	244,895	107,686	1.76
Total intangible assets	<u>\$700,880</u>	<u>\$ 515,266</u>	<u>\$185,614</u>	1.74
October 29, 2011				
Trade name	\$ 10,441	\$ 10,422	\$ 19	1.17
Core/developed technology	337,858	245,855	92,003	2.04
Customer relationships	352,581	229,906	122,675	2.12
Total intangible assets	<u>\$700,880</u>	<u>\$ 486,183</u>	<u>\$214,697</u>	2.08

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

	Three Months Ended	
	January 28, 2012	January 29, 2011
Cost of revenues	\$ 14,090	\$ 14,467
Operating expenses	14,993	16,190
Total	<u>\$ 29,083</u>	<u>\$ 30,657</u>

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

Fiscal Year	Estimated Future Amortization
2012 (remaining nine months)	\$ 76,349
2013	93,109
2014	16,156
Total	<u>\$ 185,614</u>

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4. Balance Sheet Details

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

	January 28, 2012	October 29, 2011
Inventories:		
Raw materials	\$ 26,584	\$ 25,535
Finished goods	54,415	48,637
Total	<u>\$ 80,999</u>	<u>\$ 74,172</u>
Property and equipment, net:		
Computer equipment and software	\$ 54,417	\$ 55,175
Engineering and other equipment	369,062	357,827
Furniture and fixtures (1)	29,582	29,195
Leasehold improvements	25,044	23,793
Land and building (2)	384,666	384,666
Subtotal	862,771	850,656
Less: Accumulated depreciation and amortization (3)	(334,669)	(318,272)
Total	<u>\$ 528,102</u>	<u>\$ 532,384</u>

- (1) Furniture and fixtures include the following amounts under leases as of January 28, 2012 and October 29, 2011 (in thousands):

	January 28, 2012	October 29, 2011
Cost	\$ 10,613	\$ 10,613
Accumulated depreciation	(2,510)	(2,131)
Total	<u>\$ 8,103</u>	<u>\$ 8,482</u>

- (2) In connection with the purchase of the property located in San Jose, California, the Company obtained a four-year option to purchase a fourth unimproved approximate four acre parcel for a fixed price of approximately \$26.0 million as well as a right of first offer to purchase this parcel. The option needed to be exercised no less than six months before the option expiration date on May 22, 2012. The Company elected to not exercise the option and it terminated in November 2011. The Company still has the right of first offer to acquire the parcel.
- (3) The following table presents the depreciation and amortization of property and equipment included on the Condensed Consolidated Statements of Income (in thousands):

	Three Months Ended	
	January 28, 2012	January 29, 2011
Depreciation expense	\$ 21,022	\$ 21,865

5. Fair Value Measurements

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

The Company did not elect to measure any eligible financial instruments at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date.

Fair Value Hierarchy

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

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

	Balance as of January 28, 2012	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	\$ 208,960	\$ 208,960	\$ —	\$ —
Corporate bonds	785	—	785	—
Derivative assets	474	—	474	—
Total assets measured at fair value	<u>\$ 210,219</u>	<u>\$ 208,960</u>	<u>\$ 1,259</u>	<u>\$ —</u>
Liabilities:				
Derivative liabilities	\$ 4,587	\$ —	\$ 4,587	\$ —
Total liabilities measured at fair value	<u>\$ 4,587</u>	<u>\$ —</u>	<u>\$ 4,587</u>	<u>\$ —</u>

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

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

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

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

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

6. Liabilities Associated with Facilities Lease Losses

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

	Lease Loss Reserve
Reserve balance at October 29, 2011	\$ 3,952
Cash payments on facilities leases	(755)
Reserve balance at January 28, 2012	<u>\$ 3,197</u>

Cash payments for facilities leases related to the above noted facilities lease losses are expected to be paid over the respective lease terms through fiscal year 2017.

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7. Borrowings

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

	Maturity	Stated Annual Interest Rate	January 28, 2012		October 29, 2011		
			Amount	Effective Interest Rate	Amount	Effective Interest Rate	
Senior Secured Notes:							
2018 Notes	2018	6.625%	\$ 300,000	7.05%	\$ 300,000	7.05%	
2020 Notes	2020	6.875%	300,000	7.26%	300,000	7.26%	
Senior Secured Credit Facility:							
Term loan	2014	LIBOR+	2.375%	120,000	5.42%	190,000	4.41%
Capital lease obligations	2015	5.80%	6,325	5.80%	6,782	5.80%	
Total long-term debt			726,325		796,782		
Less:							
Unamortized discount			6,793		7,339		
Current portion of long-term debt			27,341		40,539		
Total long-term debt, net of current portion			<u>\$ 692,191</u>		<u>\$ 748,904</u>		

Senior Secured Notes

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

As of January 28, 2012 and October 29, 2011, the fair value of the Company's senior secured notes was approximately \$645 million and \$626 million, respectively, estimated based on broker trading prices.

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

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

Senior Secured Credit Facility

In October 2008, the Company entered into a credit facility agreement for (i) a five-year \$1,100 million term loan facility and (ii) a five-year \$125 million revolving credit facility, which includes a \$25 million swing line loan sub-facility and a \$25 million letter of credit sub-facility. The credit facility agreement was subsequently amended in January 2010 and June 2011.

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

During the three months ended January 28, 2012, the Company paid \$70 million towards the principal of the term loan, \$62 million of which were voluntary prepayments.

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

Debt Maturities

Fiscal Year	Estimated Future Amortization
2012 (remaining nine months)	\$ 21,410
2013	28,644
2014	75,428
2015	843
2016	—
Thereafter	600,000
Total	<u>\$ 726,325</u>

8. Commitments and Contingencies

Product Warranties

The Company’s accrued liability for estimated future warranty costs is included in “Other accrued liabilities” in the accompanying Condensed Consolidated Balance Sheets. The following table summarizes the activity related to the Company’s accrued liability for estimated future warranty costs during the three months ended January 28, 2012 and January 29, 2011 (in thousands):

	Accrued Warranty	
	Three Months Ended	
	January 28, 2012	January 29, 2011
Beginning balance	\$ 11,298	\$ 5,980
Liabilities accrued for warranties issued during the period	1,777	2,145
Warranty claims paid and used during the period	(229)	(314)
Changes in liability for pre-existing warranties during the period	(479)	(548)
Ending balance	<u>\$ 12,367</u>	<u>\$ 7,263</u>

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

Manufacturing and Purchase Commitments

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

As of January 28, 2012, the Company’s aggregate commitment to the CMs for inventory components used in the manufacture of Brocade products was \$237.5 million, which the Company expects to utilize during future normal ongoing

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operations, net of a purchase commitments reserve of \$5.4 million. The Company's purchase commitments reserve reflects the Company's estimate of purchase commitments it does not expect to consume in normal ongoing operations within the next twelve months.

Income Taxes

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

Legal Proceedings

Initial Public Offering Litigation

On July 20, 2001, the first of a number of putative class actions for violations of the federal securities laws was filed in the United States District Court for the Southern District of New York against Brocade, certain of its officers and directors, and certain of the underwriters for Brocade's initial public offering ("IPO") of securities. A consolidated amended class action captioned, *In re Brocade Communications Systems, Inc. Initial Public Offering Securities Litigation*, No. 01 Civ. 6613, was filed on April 19, 2002. The complaint generally alleged that various underwriters engaged in improper and undisclosed activities related to the allocation of shares in Brocade's initial public offering and seeks unspecified damages for claims under the Exchange Act on behalf of a purported class of purchasers of common stock from May 24, 1999 to December 6, 2000. The lawsuit against Brocade was coordinated for pretrial proceedings with a number of other pending litigations challenging underwriter practices in over 300 cases as *In re Initial Public Offering Securities Litigation*, 21 MC 92 (SAS), including actions against McDATA Corporation ("McDATA"), Inrange Technologies Corporation ("Inrange") (which was first acquired by Computer Network Technology Corporation ("CNT") and subsequently acquired by McDATA as part of the CNT acquisition), and Foundry Networks LLC (formerly Foundry Networks, Inc.) ("Foundry," and collectively, the "Brocade Entities"), and certain of each entity's respective officers and directors, and initial public offering underwriters.

These actions have been resolved by a global settlement of the coordinated litigation in January 2012, under which the insurers pay the full amount of settlement share allocated to the Brocade Entities, and the Brocade Entities bear no financial liability.

Intellectual Property Litigation

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

On September 6, 2006, Chrimar Systems, Inc. ("Chrimar") filed a lawsuit against Foundry (and D-Link Corporation and PowerDsine, Ltd.) in the United States District Court for the Eastern District of Michigan alleging that certain of Foundry's products infringe Chrimar's U.S. Patent 5,406,260 and seeking injunctive relief, as well as unspecified damages. Discovery has been completed. No trial date has been set.

On August 4, 2010, Brocade and Foundry ("Plaintiffs") filed a lawsuit against A10 Networks, Inc. ("A10"), A10's founder and other individuals in the United States District Court for the Northern District of California. On October 29, 2010, Plaintiffs filed an amended complaint. In the amended complaint, Brocade alleged that A10 and the individual defendants have misappropriated Plaintiff's trade secrets, infringed copyrighted works, interfered with existing contracts between the Plaintiffs and their employees, breached contracts, breached their fiduciary duties and duties of loyalty, and that certain of A10's products infringe 13 of Brocade's patents. Brocade is seeking injunctive relief, as well as monetary damages. On May 16, 2011, A10 filed an answer and counterclaim alleging that certain of Brocade's products infringe a patent recently acquired by A10 and seeking injunctive relief, as well as unspecified damages. On January 6, 2012 the Court granted Brocade's summary judgment motion of non-infringement of the A10 patent. Trial is scheduled for July 16, 2012.

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On September 9, 2011, A10 filed a lawsuit against Brocade in the United States District Court for the Northern District of California. A10 alleges that certain of Brocade's products infringe two additional patents acquired by A10. After Brocade moved to dismiss the complaint, A10 dismissed one of its patents-in-suit. Brocade has filed a new motion to dismiss the sole remaining A10 patent. Trial is scheduled for May 2013.

General

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

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

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

9. Derivative Instruments and Hedging Activities

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

Foreign Currency Exchange Rate Risk

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

	Three Months Ended	
	January 28, 2012	January 29, 2011
Cost of revenues	\$ (195)	\$ 100
Research and development	(165)	—
Sales and marketing	(1,063)	569
General and administrative	(75)	—
Total	\$ (1,498)	\$ 669

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The net foreign currency exchange gains and losses recorded as part of “Interest and other income (loss), net” were losses of \$1.2 million for the three months ended January 28, 2012 and gains of \$0.2 million for the three months ended January 29, 2011.

Gross unrealized loss positions are recorded within “Other accrued liabilities,” and gross unrealized gain positions are recorded within “Prepaid expenses and other current assets.” As of January 28, 2012, the Company had gross unrealized loss positions of \$4.6 million and gross unrealized gain positions of \$0.5 million included in “Other accrued liabilities” and “Prepaid expenses and other current assets,” respectively. Effective cash flow hedges are reported as a component of accumulated other comprehensive loss. Cash flow hedges ineffectiveness, which is included in the Company’s net income as part of “Interest and other income (loss), net,” was not significant.

Volume of Derivative Activity

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

In United States Dollars	Derivatives Designated as Hedging Instruments		Derivatives Not Designated as Hedging Instruments	
	As of January 28, 2012	As of October 29, 2011	As of January 28, 2012	As of October 29, 2011
Euro	\$ 42,106	\$ 57,935	\$ —	\$ —
British pound	21,127	25,282	—	—
Japanese yen	12,948	17,957	—	—
Singapore dollar	13,756	16,136	—	—
Swiss franc	10,388	13,060	6,657	5,012
Total	<u>\$ 100,325</u>	<u>\$ 130,370</u>	<u>\$ 6,657</u>	<u>\$ 5,012</u>

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

10. Stock-Based Compensation

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

	Three Months Ended	
	January 28, 2012	January 29, 2011
Cost of revenues	\$ 4,375	\$ 2,860
Research and development	5,028	4,283
Sales and marketing	9,776	8,792
General and administrative	2,640	3,971
Total stock-based compensation	<u>\$ 21,819</u>	<u>\$ 19,906</u>

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

	Three Months Ended	
	January 28, 2012	January 29, 2011
Stock options, including variable options	\$ 275	\$ 1,095
Restricted stock awards and restricted stock units ("RSUs")	17,071	11,873
Employee stock purchase plan ("ESPP")	4,473	6,938
Total stock-based compensation	\$ 21,819	\$ 19,906

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

	Unrecognized Compensation Expense	Weighted-Average Period (in years)
Stock options	\$ 1,406	0.80
RSUs	\$ 87,300	1.86
ESPP	\$ 9,201	0.88

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

	Three Months Ended		Three Months Ended	
	January 28, 2012		January 29, 2011	
	Granted (in thousands)	Weighted-Average Grant Date Fair Value	Granted (in thousands)	Weighted-Average Grant Date Fair Value
Stock options	—	\$ —	75	\$ 2.21
RSUs	812	\$ 5.55	3,324	\$ 5.22

The total intrinsic value of stock options exercised for the three months ended January 28, 2012 and January 29, 2011 was \$8.8 million and \$9.5 million, respectively.

11. Income Taxes

For the three months ended January 28, 2012, the Company recorded an income tax benefit of \$3.2 million primarily due to a discrete benefit from net reserve releases of settling the Internal Revenue Service ("IRS") audit for fiscal years 2004 through 2006, settling Foundry's 2006 and 2007 California franchise tax audit, and releases from expiring statutes of limitations, offset by a decrease to the federal research and development tax credit which expired on December 31, 2011.

For the three months ended January 29, 2011, the Company recorded an income tax benefit of \$5.7 million primarily due to a discrete benefit from the retroactive reinstatement of the federal research and development tax credit for calendar year 2011, as a result of the Tax Relief Act enacted on December 17, 2010.

The total amount of unrecognized tax benefits of \$114.4 million as of January 28, 2012 would affect the Company's effective tax rate, if recognized. Although the timing of the closure of audits is highly uncertain, it is reasonably possible that the balance of unrecognized tax benefits could significantly change during fiscal year 2012.

The IRS and other tax authorities regularly examine the Company's income tax returns. The IRS has commenced its audit for fiscal years 2009 and 2010. In addition, the Company is under negotiations with the Appeals division of the IRS on transfer pricing issues for fiscal years 2007 and 2008, and in discussion with foreign tax authorities to obtain correlative relief on transfer pricing adjustments settled with the IRS. We believe that our reserves for unrecognized tax benefits are adequate for all open tax years. The timing of the resolution of income tax examinations, as well as the amounts and timing of related settlements, is highly uncertain. The Company believes that before the end of fiscal year 2012, it is reasonably possible that either certain audits will conclude or the statutes of limitations relating to certain income tax examination periods will expire, or both. As such, after we reach settlement with the tax authorities, we expect to record a corresponding adjustment to our unrecognized tax benefits. Given the uncertainty as to settlement terms, the timing of payments and the impact of such settlements on other uncertain tax positions, the range of estimated potential decreases in underlying uncertain tax positions is between \$0 and \$10 million in the next twelve months.

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The Company believes that sufficient positive evidence exists from historical operations and projections of taxable income in future years to conclude that it is more likely than not that the Company will realize its deferred tax assets. Accordingly, the Company applies a valuation allowance only on the deferred tax assets relating to capital loss carryforwards, due to limited carryforward periods and the character of such tax attributes. As part of the 2011-2012 budget, the Governor of the State of California has introduced tax proposals affecting future state income tax apportionment that may have a significant impact on the Company's ability to realize certain California deferred tax assets. The Company will reevaluate the realization of its California deferred tax assets if and when the current law changes.

12. Segment Information

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

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

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

Summarized financial information by reportable segment for the three months ended January 28, 2012 and January 29, 2011, based on the internal management reporting system, is as follows (in thousands):

	<u>Data Storage Products</u>	<u>Ethernet Products</u>	<u>Global Services</u>	<u>Total</u>
Three months ended January 28, 2012				
Net revenues	\$ 352,872	\$ 123,430	\$ 84,340	\$560,642
Cost of revenues	<u>95,838</u>	<u>79,569</u>	<u>40,466</u>	<u>215,873</u>
Gross margin	<u>\$ 257,034</u>	<u>\$ 43,861</u>	<u>\$ 43,874</u>	<u>\$344,769</u>
Three months ended January 29, 2011				
Net revenues	\$ 330,903	\$ 126,126	\$ 88,727	\$545,756
Cost of revenues	<u>100,472</u>	<u>77,144</u>	<u>47,257</u>	<u>224,873</u>
Gross margin	<u>\$ 230,431</u>	<u>\$ 48,982</u>	<u>\$ 41,470</u>	<u>\$320,883</u>

[Table of Contents](#)**13. Net Income per Share**

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

	Three Months Ended	
	January 28, 2012	January 29, 2011
Basic net income per share		
Net income	\$ 58,584	\$ 26,918
Weighted-average shares used in computing basic net income per share	452,494	465,108
Basic net income per share	<u>\$ 0.13</u>	<u>\$ 0.06</u>
Diluted net income per share		
Net income	\$ 58,584	\$ 26,918
Weighted-average shares used in computing basic net income per share	452,494	465,108
Dilutive potential common shares in the form of stock options	9,890	16,369
Dilutive potential common shares in the form of other share based awards	6,354	9,689
Weighted-average shares used in computing diluted net income per share	468,738	491,166
Diluted net income per share	<u>\$ 0.12</u>	<u>\$ 0.05</u>
Antidilutive potential common shares in the form of (1)		
Stock options	19,818	24,483
Other share based awards	1,076	1,140

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

14. Comprehensive Income

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

	Three Months Ended	
	January 28, 2012	January 29, 2011
Net income	\$ 58,584	\$ 26,918
Other comprehensive income (loss):		
Change in net unrealized gains (losses) on cash flow hedges	(2,845)	(2,832)
Change in cumulative translation adjustments	(1,560)	(146)
Total comprehensive income	<u>\$ 54,179</u>	<u>\$ 23,940</u>

15. Guarantor and Non-Guarantor Subsidiaries

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

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

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

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

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

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

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current assets:					
Cash, cash equivalents and short-term investments	\$ 165,481	\$ 2,200	\$ 317,343	\$ —	\$ 485,024
Accounts receivable, net	116,624	(1,932)	104,671	—	219,363
Inventories	53,159	—	27,840	—	80,999
Intercompany receivables	—	449,755	—	(449,755)	—
Other current assets	94,761	740	10,954	3,227	109,682
Total current assets	430,025	450,763	460,808	(446,528)	895,068
Property and equipment, net	455,867	55,128	17,107	—	528,102
Investment in subsidiaries	1,277,575	—	—	(1,277,575)	—
Other non-current assets	1,493,148	561,087	1,335	—	2,055,570
Total assets	<u>\$ 3,656,615</u>	<u>\$1,066,978</u>	<u>\$ 479,250</u>	<u>\$(1,724,103)</u>	<u>\$3,478,740</u>
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	\$ 76,420	\$ 357	\$ 22,407	\$ —	\$ 99,184
Current portion of long-term debt	27,341	—	—	—	27,341
Intercompany payables	387,867	—	61,888	(449,755)	—
Other current liabilities	260,660	16,060	126,035	3,227	405,982
Total current liabilities	752,288	16,417	210,330	(446,528)	532,507
Long-term debt, net of current portion	692,191	—	—	—	692,191
Other non-current liabilities	90,768	401	41,505	—	132,674
Total liabilities	1,535,247	16,818	251,835	(446,528)	1,357,372
Total stockholders' equity	2,121,368	1,050,160	227,415	(1,277,575)	2,121,368
Total liabilities and stockholders' equity	<u>\$ 3,656,615</u>	<u>\$1,066,978</u>	<u>\$ 479,250</u>	<u>\$(1,724,103)</u>	<u>\$3,478,740</u>

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

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

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

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$ 340,144	\$ 1,489	\$ 219,009	\$ —	\$560,642
Intercompany revenues	10,660	—	6,720	(17,380)	—
Total net revenues	<u>350,804</u>	<u>1,489</u>	<u>225,729</u>	<u>(17,380)</u>	<u>560,642</u>
Cost of revenues	131,136	17,136	65,378	2,223	215,873
Intercompany cost of revenues	(8,374)	—	25,754	(17,380)	—
Total cost of revenues	<u>122,762</u>	<u>17,136</u>	<u>91,132</u>	<u>(15,157)</u>	<u>215,873</u>
Gross margin (loss)	228,042	(15,647)	134,597	(2,223)	344,769
Operating expenses	198,255	15,327	63,991	(2,223)	275,350
Intercompany operating expenses	(36,756)	(6,022)	42,778	—	—
Total operating expenses	<u>161,499</u>	<u>9,305</u>	<u>106,769</u>	<u>(2,223)</u>	<u>275,350</u>
Income (loss) from operations	66,543	(24,952)	27,828	—	69,419
Other income (expense)	(10,282)	5	(3,765)	—	(14,042)
Income (loss) before income tax provision (benefit)	56,261	(24,947)	24,063	—	55,377
Income tax provision (benefit)	(5,557)	—	2,350	—	(3,207)
Net income (loss) before equity in net earnings (losses) of subsidiaries	61,818	(24,947)	21,713	—	58,584
Equity in net earnings (losses) of subsidiaries	(3,234)	—	—	3,234	—
Net income (loss)	<u>\$ 58,584</u>	<u>\$ (24,947)</u>	<u>\$ 21,713</u>	<u>\$ 3,234</u>	<u>\$ 58,584</u>

The following is the condensed consolidated statement of income for the three months ended January 29, 2011 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$ 326,920	\$ 7,464	\$ 211,372	\$ —	\$545,756
Intercompany revenues	31,018	777	7,712	(39,507)	—
Total net revenues	<u>357,938</u>	<u>8,241</u>	<u>219,084</u>	<u>(39,507)</u>	<u>545,756</u>
Cost of revenues	139,737	20,655	60,884	3,597	224,873
Intercompany cost of revenues	6,175	—	33,332	(39,507)	—
Total cost of revenues	<u>145,912</u>	<u>20,655</u>	<u>94,216</u>	<u>(35,910)</u>	<u>224,873</u>
Gross margin (loss)	212,026	(12,414)	124,868	(3,597)	320,883
Operating expenses	212,882	16,229	52,965	(3,597)	278,479
Intercompany operating expenses	(42,186)	(6,381)	48,567	—	—
Total operating expenses	<u>170,696</u>	<u>9,848</u>	<u>101,532</u>	<u>(3,597)</u>	<u>278,479</u>
Income (loss) from operations	41,330	(22,262)	23,336	—	42,404
Other income (expense)	(21,185)	(738)	720	—	(21,203)
Income (loss) before income tax provision (benefit)	20,145	(23,000)	24,056	—	21,201
Income tax provision (benefit)	(7,760)	—	2,043	—	(5,717)
Net income (loss) before equity in net earnings (losses) of subsidiaries	27,905	(23,000)	22,013	—	26,918
Equity in net earnings (losses) of subsidiaries	(987)	—	—	987	—
Net income (loss)	<u>\$ 26,918</u>	<u>\$ (23,000)</u>	<u>\$ 22,013</u>	<u>\$ 987</u>	<u>\$ 26,918</u>

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

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided (used in) by operating activities	\$ 116,939	\$ (113)	\$ 10,225	\$ —	\$127,051
Cash flows from investing activities:					
Proceeds from sale of subsidiary	(215)	—	—	—	(215)
Purchases of property and equipment	(15,241)	—	(2,315)	—	(17,556)
Net cash used in investing activities	(15,456)	—	(2,315)	—	(17,771)
Cash flows from financing activities:					
Payment of principal related to the term loan	(70,000)	—	—	—	(70,000)
Payment of principal related to capital leases	(456)	—	—	—	(456)
Proceeds from issuance of common stock	31,941	—	—	—	31,941
Excess tax benefits from stock-based compensation	1,147	—	—	—	1,147
Net cash used in financing activities	(37,368)	—	—	—	(37,368)
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	(1,875)	—	(1,875)
Net increase (decrease) in cash and cash equivalents	64,115	(113)	6,035	—	70,037
Cash and cash equivalents, beginning of period	101,366	1,528	311,308	—	414,202
Cash and cash equivalents, end of period	<u>\$ 165,481</u>	<u>\$ 1,415</u>	<u>\$ 317,343</u>	<u>\$ —</u>	<u>\$484,239</u>

The following is the condensed consolidated statement of cash flows for the three months ended January 29, 2011 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided by operating activities	\$ 52,648	\$ 840	\$ 64,748	\$ —	\$118,236
Cash flows from investing activities:					
Purchases of short-term investments	—	(25)	—	—	(25)
Proceeds from maturities and sale of short-term investments	—	19	—	—	19
Purchases of property and equipment	(20,564)	(8)	(2,823)	—	(23,395)
Net cash used in investing activities	(20,564)	(14)	(2,823)	—	(23,401)
Cash flows from financing activities:					
Payment of principal related to the term loan	(39,748)	—	—	—	(39,748)
Payment of principal related to capital leases	(431)	—	—	—	(431)
Proceeds from issuance of common stock	25,477	—	—	—	25,477
Net cash used in financing activities	(14,702)	—	—	—	(14,702)
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	66	—	66
Net increase in cash and cash equivalents	17,382	826	61,991	—	80,199
Cash and cash equivalents, beginning of period	23,455	6,907	303,622	—	333,984
Cash and cash equivalents, end of period	<u>\$ 40,837</u>	<u>\$ 7,733</u>	<u>\$ 365,613</u>	<u>\$ —</u>	<u>\$414,183</u>

[Table of Contents](#)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

Overview

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

Growth opportunities in the Data Storage market are expected to be driven by key customer IT initiatives such as server virtualization, enterprise mobility, data center consolidation, migration to higher performance technologies and private "cloud" initiatives. Our Ethernet business strategies are intended to increase new Ethernet accounts, and expand our market share. Moreover, we plan to continue to support our Data Storage and Ethernet growth plans by enhancing our existing partnerships and forming new ones, through continuous innovation, new product introductions, and through investing in sales and marketing.

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

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

Our plans for our operating cash flows are to build our cash balance, reduce our existing term loan and opportunistically repurchase our stock.

Results of Operations

Our results of operations for the three months ended January 28, 2012 and January 29, 2011 are reported in this discussion and analysis as a percentage of total net revenues, except for gross margin for each segment, which is presented as a percentage of the respective segment net revenues.

Revenues. Our revenues are derived primarily from sales of our Data Storage Products, Ethernet products, and Global Services related to those products.

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

	Three Months Ended					
	January 28, 2012	% of Net Revenues	January 29, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Data Storage Products	\$352,872	63.0%	\$330,903	60.6%	\$21,969	6.6%
Ethernet Products	123,430	22.0%	126,126	23.1%	(2,696)	(2.1)%
Global Services	84,340	15.0%	88,727	16.3%	(4,387)	(4.9)%
Total net revenues	<u>\$560,642</u>	<u>100.0%</u>	<u>\$545,756</u>	<u>100.0%</u>	<u>\$14,886</u>	<u>2.7%</u>

The increase in Data Storage Products revenues for the period was driven by an increase in both the number of ports shipped and our average selling price per port. The number of ports shipped for the three months ended January 28, 2012 increased by 4.0% compared to the three months ended January 29, 2011. Average selling price per port increased by 2.6% in the three months period ended January 28, 2012 compared to the three months period ended January 29, 2011 due to a favorable product mix shift to our high-end, higher bandwidth Director products in the three months ended January 28, 2012.

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The decrease in Ethernet Products revenues for the period is due to lower revenues from enterprise customers, which offset growth in service provider customers. Lower revenues from enterprise customers are driven by a decrease in volume shipped to our enterprise customers and a decrease in average selling prices. The decrease in average selling prices is a result of higher discounting and to a lesser extent the customer mix having a higher percentage of our revenue coming from our channel partners. We believe that some customers may be postponing purchases in anticipation of our recently announced new enterprise products that will begin shipping later this year.

The decrease in Global Services revenues was primarily a result of lower Data Storage support and service revenues in the three months ended January 28, 2012, which was partially offset by an increase in Ethernet support revenues. The decline in the Data Storage service revenues is primarily attributed to the sale of Strategic Business Systems, Inc. ("SBS"), a wholly-owned subsidiary of the Company, which the Company sold during the fourth quarter of fiscal year 2011.

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

	Three Months Ended					
	January 28, 2012	% of Net Revenues	January 29, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
United States	\$341,633	61.0%	\$324,665	59.5%	\$16,968	5.2%
Europe, the Middle East and Africa	132,874	23.7%	140,036	25.7%	(7,162)	(5.1)%
Asia Pacific	55,589	9.9%	53,496	9.8%	2,093	3.9%
Japan	18,645	3.3%	16,941	3.1%	1,704	10.1%
Canada, Central and South America	11,901	2.1%	10,618	1.9%	1,283	12.1%
Total net revenues	<u>\$560,642</u>	<u>100.0%</u>	<u>\$545,756</u>	<u>100.0%</u>	<u>\$14,886</u>	<u>2.7%</u>

International revenues decreased slightly as a percentage of total net revenues for the three months ended January 28, 2012 compared to the three months ended January 29, 2011 as a result of decreased product volumes in Europe, the Middle East and Africa. Revenues are attributed to geographic areas based on where our products are shipped. However, certain OEM partners take possession of our products domestically and then distribute these products to their international customers. Because we account for all of those OEM revenues as domestic revenues, we cannot be certain of the extent to which our domestic and international revenue mix is impacted by the practices of our OEM partners, but we believe that international revenues comprise a larger percentage of our total net revenues than the attributed revenues may indicate.

A significant portion of our revenues is concentrated among a relatively small number of OEM customers. For the three months ended January 28, 2012, three customers accounted for 20%, 15% and 13%, respectively, of the Company's total net revenues for a combined total of 48% of total net revenues. For the three months ended January 29, 2011, three customers accounted for 18%, 17% and 12%, respectively, of the Company's total net revenues for a combined total of 47% of total net revenues. We expect that a significant portion of our future revenues will continue to come from sales of products to a relatively small number of OEM partners and to the United States ("U.S.") government and its individual agencies through our distributors. Therefore, the loss of, or a decrease in the level of sales to, or a change in the ordering pattern of any one of these customers could seriously harm our financial condition and results of operations.

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

	Three Months Ended					
	January 28, 2012	% of Net Revenues	January 29, 2011	% of Net Revenues	Increase/ (Decrease)	% Points Change
Data Storage Products	\$257,034	72.8%	\$230,431	69.6%	\$26,603	3.2%
Ethernet Products	43,861	35.5%	48,982	38.8%	(5,121)	(3.3)%
Global Services	43,874	52.0%	41,470	46.7%	2,404	5.3%
Total gross margin	<u>\$344,769</u>	<u>61.5%</u>	<u>\$320,883</u>	<u>58.8%</u>	<u>\$23,886</u>	<u>2.7%</u>

Total gross margin increased by \$23.9 million or 2.7% for the three months ended January 28, 2012 compared to the three months ended January 29, 2011 primarily due to a higher percent of revenues from our Data Storage products, which have the highest gross margins of our segments.

Data Storage Products gross margins increased by 3.2% driven by revenue growth and a mix shift to our high-end, higher bandwidth Director products, as well as to other higher price per port products, and lower indirect manufacturing costs.

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Ethernet Products gross margins decreased by 3.3% mainly due to lower Ethernet revenue, an increased percentage of sales going through the distribution sales channel at lower average selling prices, and an increase in indirect manufacturing costs. This was partially offset by lower product costs.

Global Services gross margins increased by 5.3% driven by the sale of SBS in the fourth quarter of fiscal year 2011, which operated with relatively lower gross margins, decreases in operating spending and intangible assets amortization expense, partially offset by an increase in indirect costs and stock-based compensation expense.

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

	January 28, 2012	% of Net Revenues	January 29, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$ 21,819	3.9%	\$ 19,906	3.6%	\$ 1,913	9.6%

The increase in stock-based compensation expense for the three months ended January 28, 2012 compared to the three months ended January 29, 2011 was due to higher expense associated with restricted stock units due to new restricted stock units granted in the three months ended January 28, 2012 partially offset by lower ESPP expense and a decrease in Foundry Networks, LLC (formerly Foundry Networks, Inc.) (“Foundry”) acquisition related stock-based compensation expense.

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

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

	January 28, 2012	% of Net Revenues	January 29, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$ 89,319	15.9%	\$ 91,408	16.7%	\$(2,089)	(2.3)%

R&D expenses decreased for the three months ended January 28, 2012 compared to the three months ended January 29, 2011 due to the following (in thousands):

	Increase (Decrease)
Engineering expenses	\$ (4,747)
Equipment expenses	(1,224)
The decrease in R&D expenses was partially offset by the following:	
Increase in outside services	1,519
Decrease in sustaining engineering expenses allocated to cost of revenue	1,339
Increase in various individually insignificant items	1,024
	<u>\$ (2,089)</u>

Engineering expenses decreased by \$4.7 million primarily due to lower engineering spending related to chip design and lower prototype costs. In addition, expenses related to R&D equipment decreased by \$1.2 million primarily due to the timing of R&D projects. This was partially offset by an increase in outside services of \$1.5 million primarily due to projects related to our new Ethernet product offerings and new product certifications. In addition, sustaining engineering allocations to cost of goods sold decreased by \$1.3 million, therefore increasing research and development expenses, primarily due to a decline in level of post sales support required.

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

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

	January 28, 2012	% of Net Revenues	January 29, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$152,688	27.2%	\$152,667	28.0%	\$ 21	— %

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Sales and marketing expenses increased for the three months ended January 28, 2012 compared with the three months ended January 29, 2011 due to the following (in thousands):

	<u>Increase (Decrease)</u>
Marketing and advertising expenses	\$ 5,740
The increase in sales and marketing expenses was partially offset by the decrease in the following:	
Salaries and wages	(4,268)
Travel and entertainment expenses	(1,237)
Various individually insignificant items	(214)
Total change	<u>\$ 21</u>

Marketing and advertising expenses increased primarily due to our marketing awareness campaign and various other marketing activities. Salaries and wages decreased primarily due to a reduction in variable compensation mainly attributable to lower sales commissions partially offset by an increase in bonuses. In addition, our sales and marketing headcount has decreased in the three months ended January 28, 2012 compared with the three months ended January 29, 2011. Travel and entertainment expenses decreased due to lower head count and cost control initiatives.

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

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

	<u>January 28, 2012</u>	<u>% of Net Revenues</u>	<u>January 29, 2011</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$ 18,350	3.3%	\$ 18,090	3.3%	\$ 260	1.4%

G&A expenses increased for the three months ended January 28, 2012 compared to the three months ended January 29, 2011 due to the following (in thousands):

	<u>Increase (Decrease)</u>
Outside services	\$ 1,681
Various individually insignificant items	1,007
The increase in general and administrative expenses was partially offset by the decrease in the following:	
Stock-based compensation	(1,331)
Facility expenses	(1,097)
Total change	<u>\$ 260</u>

Expenses associated with outside services increased by \$1.7 million primarily driven by increased costs associated with our ongoing litigation. This increase was partially offset by a decrease in stock-based compensation expenses and various facility maintenance expenses.

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

	<u>January 28, 2012</u>	<u>% of Net Revenues</u>	<u>January 29, 2011</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$ 14,993	2.7%	\$ 16,190	3.0%	\$(1,197)	(7.4)%

During the three months ended January 28, 2012 and January 29, 2011, we recorded amortization of intangible assets related to our prior periods’ acquisitions. The decrease in amortization of intangible assets for the three months ended January 28, 2012 compared with the three months ended January 29, 2011 was primarily due to the full amortization of some of our intangible assets.

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

	January 28, 2012	% of Net Revenues	January 29, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$ (13,046)	(2.3)%	\$ (21,546)	(3.9)%	\$ (8,500)	(39.5)%

Interest expense decreased for the three months ended January 28, 2012 compared to the three months ended January 29, 2011 as a result of refinancing the term debt credit agreement in June 2011, as described further below in “Liquidity and Capital Resources,” and a reduction in the principal amount of the loan outstanding. During the three months ended January 28, 2012, we made net debt payments of \$70.0 million toward the principal of the Senior Secured Credit Facility, \$61.6 million of which were voluntary prepayments. We have repaid \$191.2 million since the end of the first fiscal quarter of 2011.

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

	January 28, 2012	% of Net Revenues	January 29, 2011	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$ (996)	(0.2)%	\$ 343	0.1%	\$ (1,339)	(390.4)%

Other loss for the reporting period was primarily due to foreign exchange losses recognized during the three months ended January 28, 2012.

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

	Three Months Ended	
	January 28, 2012	January 29, 2011
Income tax benefit	\$ (3,207)	\$ (5,717)
Effective tax rate	(5.8)%	(27.0)%

We recorded a tax benefit for the three months ended January 28, 2012 primarily due to a discrete benefit from net reserve releases related to settling the Internal Revenue Service (“IRS”) audit for fiscal years 2004 through 2006, settling Foundry’s 2006 and 2007 California franchise tax audit, and releases from expiring statutes of limitations, offset by a decrease to the federal research and development tax credit which expired on December 31, 2011 (see Note 11, “Income Taxes,” of the Notes to Condensed Consolidated Financial Statements).

We recorded a tax benefit for the three months ended January 27, 2011, primarily due to a discrete benefit from the retroactive reinstatement of the federal research and development tax credit for calendar year 2011, as a result of the Tax Relief Act enacted on December 17, 2010.

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

The IRS and other tax authorities regularly examine our income tax returns. We are currently under IRS audit for fiscal years 2007 through 2010. If we reach settlement with the IRS, we expect to record a corresponding adjustment to our unrecognized tax benefits. Due to availability of net operating losses and credits, the IRS audit settlement is not expected to result in a significant tax payment. Given the uncertainty as to settlement terms, the timing of payments and the impact of such settlements on other uncertain tax positions, the range of estimated potential decreases in underlying uncertain tax positions is between \$0 and \$10 million in the next twelve months.

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

Liquidity and Capital Resources

	January 28, 2012	October 29, 2011	Increase/ (Decrease)
	(in thousands)		
Cash and cash equivalents	\$484,239	\$414,202	\$70,037
Short-term investments	785	774	11
Total	<u>\$485,024</u>	<u>\$414,976</u>	<u>\$70,048</u>
Percentage of total assets	13.9%	11.9%	

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

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

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

Financial Condition

Cash and cash equivalents and short-term investments as of January 28, 2012 increased by \$70.0 million over the balance as of October 29, 2011 primarily due to cash from operating activities, partially offset by accelerated payments towards the principal of the term loan.

As of January 28, 2012, two customers accounted for 15% and 11%, respectively, of total accounts receivable, for a combined total of 26% of total accounts receivable. As of October 29, 2011, two customers accounted for 16% and 14%, respectively, of total accounts receivable, for a combined total of 30% of total accounts receivable. We perform ongoing credit evaluations of our customers and generally do not require collateral or security interests on accounts receivable balances. We have established reserves for credit losses, sales allowances, and other allowances. While we have not experienced material credit losses in any of the periods presented, there can be no assurance that we will not experience material credit losses in the future.

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

Three Months Ended January 28, 2012 Compared to Three Months Ended January 29, 2011

Operating Activities. Net cash provided by operating activities increased for the three months ended January 28, 2012 compared to the three months ended January 29, 2011 by \$8.8 million. The increase was primarily due to higher net income in the reporting period and decreased payments with respect to accounts payable, partially offset by higher payments with respect to employee compensation and lower accounts receivables collections.

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Investing Activities. Net cash used in investing activities decreased for the three months ended January 28, 2012 compared with the three months ended January 29, 2011 by \$5.6 million. The decrease was due to lower purchases of property and equipment in the three months ended January 28, 2012.

Financing Activities. Net cash used in financing activities increased for the three months ended January 28, 2012, compared to the three months ended January 29, 2011 by \$22.7 million. The increase was primarily due to higher net debt payments partially offset by increased proceeds from issuance of common stock during the three months ended January 28, 2012.

Liquidity

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

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

Our existing cash, cash equivalents and short-term investments totaled \$485.0 million as of January 28, 2012. Of this amount, approximately 65% was held by our foreign subsidiaries. Under current tax laws and regulations, if these funds are distributed to the United States in the form of dividends or otherwise, we may be subject to additional U.S. income taxes and foreign withholding taxes.

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

Senior Secured Credit Facility. A portion of our outstanding debt is related to the financing of the Foundry acquisition, the costs and expenses related to the merger, and the ongoing working capital and other general corporate purposes of the combined organization after consummation of the merger (see Note 7, “Borrowings,” of the Notes to Condensed Consolidated Financial Statements). During the third quarter of fiscal year 2011, we amended our term debt credit agreement to refinance all of the outstanding term loan with a replacement term loan that reduced interest rates on the term loan facility, and to amend certain other provisions of the Credit Agreement to provide us with greater operating flexibility, including extending the maturity date of the term loan facility to October 31, 2014 and removing certain restrictions on the repurchase of the Company’s shares, provided the consolidated senior secured leverage ratio is under 2.00. During the three months ended January 28, 2012, we paid \$70.0 million towards the principal of the Senior Secured Credit Facility, \$61.6 million of which were voluntary prepayments. We have the following resources available to obtain short-term or long-term financing, if we need additional liquidity, as of January 28, 2012 (in thousands):

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

Senior Secured Notes. In January 2010, we issued \$300 million in aggregate principal amount of senior secured notes due 2018 (the “2018 Notes”) and \$300 million in aggregate principal amount of senior secured notes due 2020 (the “2020 Notes”) and together with the 2018 Notes, the senior secured notes). The proceeds from the senior secured notes were used to pay down debt and retire convertible subordinated debt at maturity.

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

	Three Months Ended	
	January 28, 2012	January 29, 2011
Trade receivables sold under factoring agreement	\$ —	\$ 9,233

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

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Covenant Compliance

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

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

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

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

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

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

- Consolidated net income

Plus:

- Consolidated interest charges;
- Provision for federal, state, local and foreign income taxes;
- Depreciation and amortization expense;
- Fees, costs and expenses incurred on or prior to the closing date of the Foundry acquisition in connection with the acquisition and the financing thereof;
- Any cash restructuring charges and integration costs in connection with the Foundry acquisition, in an aggregate amount not to exceed \$75.0 million;
- Approved non-cash restructuring charges incurred in connection with the Foundry acquisition and the financing thereof;
- Other non-recurring expenses reducing consolidated net income which do not represent a cash item in such period or future periods;
- Any non-cash stock-based compensation expense; and
- Legal fees associated with the indemnification obligations for the benefit of former officers and directors in connection with Brocade’s historical stock option litigation;

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Minus:

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

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

Consolidated Fixed Charge Coverage Ratio

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

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

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

Consolidated Leverage Ratio

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

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

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

Consolidated Senior Secured Leverage Ratio

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

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

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

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Contractual Obligations

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

	Total	Less than 1 Year	1—3 Years	3—5 Years	More than 5 Years
Contractual Obligations:					
Term loan (1)	\$ 127,106	\$ 29,946	\$ 97,160	\$ —	\$ —
Senior secured notes due 2018 (1)	419,250	19,875	39,750	39,750	319,875
Senior secured notes due 2020 (1)	465,000	20,625	41,250	41,250	361,875
Non-cancelable operating leases (2)	61,234	12,739	23,699	21,602	3,194
Non-cancelable capital leases	6,970	2,221	4,441	308	—
Purchase commitments, gross (3)	242,891	242,891	—	—	—
Total contractual obligations	<u>\$1,322,451</u>	<u>\$328,297</u>	<u>\$206,300</u>	<u>\$102,910</u>	<u>\$684,944</u>
Other Commitments:					
Standby letters of credit	\$ 238	n/a	n/a	n/a	n/a
Unrecognized tax benefits and related accrued interest (4)	\$ 131,713	n/a	n/a	n/a	n/a

- (1) Amount reflects total anticipated cash payments, including anticipated interest payments.
- (2) Amount excludes contractual sublease income of \$34.0 million, which consists of \$6.7 million to be received in less than one year, \$13.7 million to be received in one to three years and \$13.6 million to be received in three to five years.
- (3) Amount reflects total gross purchase commitments under our manufacturing arrangements with third-party contract manufacturers. Of this amount, we have accrued \$5.4 million for estimated purchase commitments that we do not expect to consume in normal operations within the next twelve months, in accordance with our policy.
- (4) As of January 28, 2012, we had a liability for unrecognized tax benefits of \$128.5 million and a net accrual for the payment of related interest and penalties of \$3.2 million. Due to availability of net operating losses and credits, a tax audit settlement is not expected to result in a significant tax payment. Given the uncertainty as to settlement terms, the timing of payments and the impact of such settlements on other uncertain tax positions, the range of estimated potential decreases in underlying uncertain tax positions is between \$0 and \$10 million in the next twelve months.

Share Repurchase Program. As of November 29, 2007, our Board of Directors authorized a total of \$800.0 million for the repurchase of our common stock. The purchases may be made, from time to time, in the open market or by privately negotiated transactions and will be funded from available working capital. The number of shares to be purchased and the timing of purchases will be based on the level of our cash balances, general business and market conditions, our debt covenants and other factors, including alternative investment opportunities. Approximately \$178.4 million remains authorized for future repurchases under this program as of January 28, 2012. We are subject to certain covenants relating to our borrowings that restrict the amount of our Company's shares that we can repurchase. There is no restriction on the repurchase of our Company's shares under the terms of our Senior Secured Credit Facility, provided our consolidated senior secured leverage ratio as defined in the credit agreement is under 2.00. We made no repurchases for the three months ended January 28, 2012 due to prioritizing our use of cash for debt repayment.

Off-Balance Sheet Arrangements

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

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Critical Accounting Estimates

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

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

Our last annual goodwill impairment test was performed as of the first day of the second quarter of 2011. We applied a two-step approach in testing goodwill for impairment for each reporting unit, which we have determined to be at the operating segment level. The reporting units are determined by the components of our operating segments that constitute a business for which both (i) discrete financial information is available and (ii) segment management regularly reviews the operating results of that component. Our four reporting units are: Data Storage Products; Ethernet Switching & Internet Protocol ("IP") Routing, which includes Open Systems Interconnection Reference Model ("OSI") Layer 2-3 products; Application Delivery Products ("ADP"), which includes OSI Layer 4-7 products; and Global Services.

Based on our most recent testing results all of our reporting units passed the step one test and step two was not required to be performed. However, because some of the inherent assumptions and estimates used in determining the fair value of these reportable segments are outside the control of management, changes in these underlying assumptions can adversely impact fair value. The sensitivity analysis below quantifies the impact of key assumptions on certain reporting units' fair value estimates. The principal key assumptions impacting our estimates were (i) discount rates and (ii) DCF terminal value multipliers. As the discount rates, ultimately, reflect the risk of achieving reporting units' revenue and cash flow projections, we do not believe that a separate sensitivity analysis for changes in revenue and cash flow projections is meaningful or useful.

The estimated fair value of the Ethernet Switching & IP Routing reporting unit exceeded its carrying value by approximately \$176 million and the ADP reporting unit exceeded its carrying value by approximately \$34 million. The respective fair values of our remaining reporting units exceeded carrying value by significant amounts and were not subject to the sensitivity analysis presented below.

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

	<u>Change</u>	<u>Approximate Impact on Fair Value (In millions)</u>	<u>Excess of Fair Value over Carrying Value (In millions)</u>
Discount rate	±1%	\$ (28) - 28	\$ 148 - 204
DCF terminal value multiplier	±0.5x	\$ (47) - 47	\$ 129 - 223

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

	<u>Change</u>	<u>Approximate Impact on Fair Value (In millions)</u>	<u>Excess of Fair Value over Carrying Value (In millions)</u>
Discount rate	±1%	\$ (5) - 5	\$ 29 - 39
DCF terminal value multiplier	±0.5x	\$ (6) - 6	\$ 28 - 40

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we are exposed to market risks related to changes in interest rates, foreign currency exchange rates and equity prices that could impact our financial position and results of operations. Our risk management

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strategy with respect to these three market risks may include the use of derivative financial instruments. We use derivative contracts only to manage existing underlying exposures of the Company. Accordingly, we do not use derivative contracts for speculative purposes. Our risks and risk management strategy are outlined below. Actual gains and losses in the future may differ materially from the sensitivity analyses presented below based on changes in the timing and amount of interest rates and our actual exposures and hedges.

Interest Rate Risk

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

We are exposed to changes in interest rates as a result of our borrowings under our term loan. As of January 28, 2012, the weighted-average annualized interest rate on the term loan was 3.0%. Based on outstanding principal indebtedness of \$120.0 million under our term loan as of January 28, 2012, if market rates average 1% above the current interest rate, our annual interest expense would increase by approximately \$1.2 million.

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

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

Foreign Currency Exchange Rate Risk

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

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

Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures if we believe such exposure acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency or if the currency is difficult or too expensive to hedge. As of January 28, 2012, we held \$107.0 million in cash flow derivative instruments. The maximum length of time over which we are hedged as of January 28, 2012 is through October 3, 2012.

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

Equity Price Risk

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

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "BRCD." On January 27, 2012, the last business day of our first fiscal quarter of 2012, the last reported sale price of our common stock on the NASDAQ Global Select Market was \$5.62 per share.

Item 4. Controls and Procedures

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

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

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

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

Limitations on the Effectiveness of Disclosure Controls and Procedures.

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

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

There is ongoing uncertainty about the domestic and global economies and there may be a prolonged period of significant slowdown. Such uncertainty or slowdown may result in lower growth in the networking industry and reduced demand for information technology, including high-performance data networking solutions. Information technology spending has historically declined as federal spending decreases and general economic and market conditions have worsened. If the domestic and/or global economy undergoes a prolonged period of uncertainty or a significant downturn, such as the debt crisis occurring in the Eurozone economy, or if Brocade’s customers believe such a period of uncertainty or a downturn will continue for a sustained period, they will likely reduce their information technology spending and future budgets. Brocade is particularly susceptible to reductions in information technology spending because the purchase of Brocade’s products is often discretionary and may involve a significant commitment of capital and other resources. Future delays or reductions in information technology spending, domestically and/or internationally, could harm Brocade’s business, results of operations and financial condition in a number of ways, including longer sales cycles, increased inventory provisions, increased production costs, lowered prices for products and reduced sales volumes. Similarly, as Brocade’s suppliers face challenges in obtaining credit or otherwise in operating their businesses, they may become unable to continue to offer the materials Brocade uses to manufacture its products. These events have caused, and may cause further, reductions in Brocade’s revenue, profitability and cash flows, increased price competition, increased operating costs and longer fulfillment cycles and exacerbate many other risks noted in this Form 10-Q, which adversely affect Brocade’s business, results of operations and financial condition.

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

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

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

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

Brocade also competes with Cisco and QLogic Corporation in the Fibre Channel switching market and with QLogic Corporation and Emulex Corporation in the server connectivity or HBA market. In addition, EMC Corporation, one of Brocade’s top OEM customers in terms of Fibre Channel sales and a go-to-market and technology partner since 1997, has formed a separate venture with Cisco and VMware called Virtual Computing Environment that enables the new company to sell packaged “cloud computing” and data center virtualization solutions.

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

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

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

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

In addition, to maintain Brocade’s gross margins, Brocade must maintain or increase the number of existing products shipped and develop and introduce new products and product enhancements with improved costs, and continue to reduce the overall manufacturing costs of Brocade’s products. While Brocade has successfully reduced the cost of manufacturing Brocade’s products in the past, Brocade may not be able to continue to reduce cost of production at historical rates or at all. Moreover, most of Brocade’s expenses are fixed in the short-term or incurred in advance of receipt of corresponding revenue. As a result, Brocade may not be able to decrease its spending quickly enough or in sufficient amounts to offset any unexpected shortfall in revenues. If this occurs, Brocade could incur losses and Brocade’s operating results and gross margins could be below expectations. Additionally, Brocade’s gross margins may be negatively affected by fluctuations in manufacturing volumes, component costs, foreign currency exchange rates, the mix of product configurations sold and the mix of distribution channels through which its products are sold. In addition, if product or related warranty costs associated with Brocade’s products are greater than previously experienced, Brocade’s gross margins may also be adversely affected. Brocade has also announced its plans to increase gross margins for its Ethernet products by a combination of initiatives, including new product introductions with improved gross margins, normalized pricing, inventory management and increased product volumes. If Brocade is not able to successfully execute on one or more of these on-going initiatives, gross margin improvements may not be realized.

The loss of any of Brocade’s major OEM customers, the failure to successfully grow a direct and channel model or any other significant failure to execute on Brocade’s overall sales strategy could significantly reduce Brocade’s revenues and negatively affect Brocade’s financial results.

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

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revenues and operating results from its SAN business will continue to depend on sales to a relatively small number of OEM partners. The loss of any one significant OEM partner, or a decrease in the level of sales to any one significant OEM partner, or unsuccessful quarterly negotiation on key terms, conditions or timing of purchase orders placed during a quarter, would likely cause serious harm to Brocade's business and financial results.

Brocade's OEM partners evaluate and qualify Brocade's SAN products for a limited time period before they begin to market and sell them. Assisting Brocade's OEM partners through the evaluation process requires significant sales, marketing and engineering management efforts on Brocade's part, particularly if Brocade's SAN products are being qualified with multiple distribution partners at the same time. In addition, once Brocade's SAN products have been qualified, its customer agreements have no minimum purchase commitments. Brocade may not be able to effectively maintain or expand its distribution channels, manage distribution relationships successfully, or market its products through distribution partners.

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

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

The loss or delay of continued orders from any of Brocade's more significant customers, such as the U.S. government or individual agencies within the U.S. government such as the Department of Defense or certain intelligence agencies where Brocade's revenue is highly concentrated, or companies within the financial services, education and health sectors, could also cause its revenue and profitability to suffer. For example, if Brocade is unable to offer qualified products to such government customers due to regulations and requirements with respect to country of origin designation, or if Brocade experiences governmental procurement delays due to the timing of approval of the federal budget, budget reductions that target specific agencies where Brocade's revenue is concentrated, including reductions resulting from the recently failed efforts by the Congressional Super Committee, or other reasons, Brocade's revenue and operating results could be negatively impacted. In addition, a change in the mix of Brocade's customers, or a change in the mix of direct and indirect sales, could adversely affect its revenue and gross margins. Also, such governmental delays or budget reductions could negatively impact IT spending across the broader economy and therefore negatively impact Brocade's revenue and operating results.

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

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

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

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

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

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

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

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

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

As Brocade introduces new or enhanced products, Brocade must also successfully manage the transition from older products to minimize disruption in customers' ordering patterns, avoid excessive levels of older product inventories and provide sufficient supplies of new products to meet customer demands. When Brocade introduces new or enhanced products, Brocade faces numerous risks relating to product transitions, including the inability to accurately forecast demand, manage excess and obsolete inventories, address new or higher product cost structures, and manage different sales and support requirements due to the type or complexity of the new products. In addition, any customer uncertainty regarding the timeline for rolling out new products or Brocade's plans for future support of existing products may negatively impact customer purchase decisions.

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

Brocade's success depends, to a significant degree, upon the continued contributions of key management, engineering, sales and other talent, many of whom would be difficult to replace. Brocade believes its future success depends, in large part, upon Brocade's ability to effectively attract highly skilled sales talent in addition to managerial, engineering and other talent, and on the ability of management to operate effectively, both individually and as a group, in geographically diverse locations. There is limited qualified talent in each applicable market and competition for such talent has become much more aggressive. Other companies in Brocade's industry and geographic regions are recruiting from the same limited talent pool which creates further

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compression on the availability of qualified talent. In particular, Brocade operates in various locations with highly competitive labor markets including Bangalore, India and San Jose, California, as well as certain emerging labor markets, such as the Eastern European and Latin American markets. Brocade may experience difficulty in hiring qualified talent with skills in areas such as sales, application-specific integrated circuits (“ASICs”), software, system and test, product management, marketing, service, customer support and key management.

In addition, future declines in Brocade’s stock price would reduce the value of equity awards granted to its employees. If such a decline in Brocade’s stock price were to occur, Brocade’s ability to incentivize, retain or attract qualified talent could be negatively impacted. Additionally, such declines in stock price may result in additional “underwater” stock options held by certain employees. Brocade’s ability to retain qualified talent may also be affected by future acquisitions, which may cause uncertainty and loss of key talent. The loss of the services of any of Brocade’s key employees, the inability to attract or retain qualified talent in the future, or delays in hiring required talent, particularly sales and engineering talent, could delay the development and introduction of Brocade’s products or services, and negatively affect Brocade’s ability to sell its products or services.

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

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

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

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

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

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

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

As a result of Brocade's acquisition of Foundry in December 2008, Brocade reorganized into four operating segments, of which two are individually reportable segments: Data Storage Products and Global Services; and the two other operating segments, Ethernet Switching & IP Routing and ADP, combine to form a third reportable segment: Ethernet Products. Brocade's determination of fair value of long-lived assets relies on management's assumptions of future revenues, operating costs, and other relevant factors. If management's estimates of future operating results change or if there are changes to other assumptions, such as the discount rate applied to future cash flows, the estimate of the fair value of Brocade's reporting units could change significantly, which could result in goodwill impairment charges. Brocade's estimates with respect to the useful life or ultimate recoverability of Brocade's carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Brocade is required to perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances, and future goodwill impairment tests may result in a charge to earnings. Brocade conducted its annual goodwill impairment test during the second fiscal quarter of 2011, and determined that no impairment needed to be recorded (see Note 3, "Goodwill and Intangible Assets," of the Notes to Condensed Consolidated Financial Statements, and sensitivity analysis performed in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations). If future goodwill impairment tests result in a charge to earnings, Brocade's financial results would be adversely affected.

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

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

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

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

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

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

- Receipt of a high number of customer orders towards the end of a fiscal quarter will increase reported receivables outstanding as a fraction of reported sales and result in higher days sales outstanding;
- Disruptions, or a continued decline, in general economic conditions, particularly in the information technology industry and U.S. federal government budget cycles, especially those governmental departments such as the Department of Defense and certain intelligence agencies that are likely to be negatively impacted by budget reductions and where Brocade's revenue is highly concentrated;
- Announcements and/or rumors of pending or completed acquisitions or other strategic transactions by Brocade, its competitors or its partners;
- Announcements, introductions and transitions of new products by Brocade, its competitors or its partners;
- The timing of customer orders, product qualifications and product introductions of Brocade's partners;
- Long and complex sales cycles;
- Internal supply and inventory management objectives of Brocade's OEM partners and other customers;
- Brocade's ability to timely produce products that comply with new environmental restrictions or related requirements of its customers;
- Brocade's ability to obtain sufficient supplies of sole- or limited-sourced components, including ASICs, microprocessors, certain connectors, certain logic chips and programmable logic devices;
- Availability of supply or increases in prices of components used in the manufacture of Brocade's products;
- Variations in the mix of Brocade's products sold and the mix of distribution channels and geographies through which they are sold;
- Pending or threatened litigation, including any settlements or judgments related to such litigation;
- Stock-based compensation expense that is affected by Brocade's stock price;
- Examinations by government tax authorities that may have unfavorable outcomes and subject Brocade to additional tax liabilities;
- New legislation and regulatory developments, including increases to tax rates or changes to treatment of an income or expense item; and
- Other risk factors detailed in this section.

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

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

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

- Exposure to economic instability or fluctuations in international markets that could cause reductions in customer and public sector IT spending;
- Exposure to inflationary risks in China and the continuing sovereign debt risk in Europe;
- Reduced or limited protection of intellectual property rights, particularly in jurisdictions that have less developed intellectual property regimes such as China and India;
- Managing research and development teams in geographically diverse locations, including teams divided between the United States and India;
- Significant wage inflation in certain growing economies such as India;
- Increased exposure to foreign currency exchange rate fluctuations, including the appreciation of foreign currencies such as the Chinese yuan or European Union's euro;
- Communicating effectively across multiple geographies, cultures and languages;
- Recruiting sales and technical support personnel with the skills to design, manufacture, sell and support Brocade's products in international markets;
- Complying with governmental regulation of encryption technology and regulation of imports and exports, including obtaining required import or export approval for its products;
- Increased complexity and costs of managing international operations;
- Commercial laws and business practices that favor local competition;
- Multiple, potentially conflicting, and changing governmental laws, regulations and practices, including differing export, import, tax, labor, anti-bribery and employment laws;
- Longer sales cycles and manufacturing lead times;
- Increased complexity and cost of providing customer support and maintenance for international customers;
- Difficulties in collecting accounts receivable; and
- Increased complexity of logistics and distribution arrangements.

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

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

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

Brocade competes in markets that are frequently subject to claims and related litigation regarding patent and other intellectual property rights. From time to time, third parties have asserted patent, copyright, trade secret, and/or other intellectual property related claims against Brocade and/or employees of Brocade. These claims may be, and have been in the past, made against Brocade's products and services, subcomponents of its products, methods performed by its products, or a combination of products, including third party products, methods used in its operations or uses of its products by its customers, or may concern Brocade's hiring of a former employee of the third party claimant. Brocade and companies acquired by Brocade, such as Foundry, have in the past incurred, are currently incurring, and will in the future incur, substantial expenses to defend against such third-party claims. For instance, Brocade currently is defending patent-related lawsuits, including lawsuits filed by A10, Enterasys Networks, Inc. and Chrimar Systems, Inc. Brocade's suppliers and customers also may be subject to third party intellectual property claims, which could negatively impact their ability to supply Brocade or their willingness to purchase from Brocade, respectively. In addition, Brocade may be subject to claims and indemnification obligations with respect to third-party intellectual property rights pursuant to Brocade agreements with suppliers, OEM and channel partners, or customers. The third party asserters of such intellectual property claims may be unreasonable in their demands, or may simply refuse to settle, which could lead to expensive settlement payments, prolonged periods of litigation expenses, additional burden on employees or other resources, distraction from Brocade's business initiatives and operations, component supply stoppages and lost sales. In the event of an adverse determination, Brocade could incur substantial monetary liability and be prohibited from utilizing certain intellectual property or technology, hiring certain people, selling, shipping, importing or servicing certain products or incorporating necessary components into Brocade's products. Suppliers of components or OEM systems to Brocade may be unwilling to, or not be able to, defend or indemnify Brocade against third party assertions directed at, or based in part on, the components or systems they supply to Brocade, and may be unwilling to take licenses that would assure Brocade's supply of such components or OEM systems. Suppliers subject to third party intellectual property claims also may choose to, or be forced by litigation to, discontinue or alter components or services supplied to Brocade, with little or no advance notice to Brocade. Customers may perceive such third-party intellectual property claims as risks, and may, as a result, be less willing to do business with Brocade. Such third party claims or litigation could also negatively impact Brocade's recruiting efforts or ability to retain its employees. Any of the above scenarios could have a material adverse effect on Brocade's financial position, results of operations, cash flows, and future business prospects.

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

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

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

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

Many of Brocade's products are designed to include software or other intellectual property licensed from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of its products, Brocade believes that, based upon past experience and standard industry practice, such licenses generally can be obtained on commercially reasonable terms. Nonetheless, there can be no assurance that the necessary licenses will be available on acceptable terms, if at all. Brocade's inability to obtain certain licenses or other rights on favorable terms could have an adverse effect on Brocade's business, operating results and financial condition, including its ability to continue to distribute or support affected products. In addition, if Brocade has failed or in the future fails to carefully manage the use of "open source" software in Brocade's products, or if companies acquired by Brocade, such as Foundry or McDATA, failed in such regard, Brocade may be required to license key portions of Brocade's products on a royalty-free basis or expose key parts of source code, or to commence costly product redesigns, which could result in a loss of intellectual property rights, product performance degradation or delay in shipping products to customers.

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

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

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

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

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

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

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

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

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

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

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

Brocade is subject to changing rules and regulations of federal and state government as well as the stock exchange on which Brocade's common stock is listed. These entities, including the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, the SEC, the IRS and NASDAQ, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress. In addition, the Department of Treasury, the SEC and various Congressional representatives have recently proposed additional rules and regulations that may go into effect in the near future. On July 21, 2010, the Dodd-Frank Wall Street Reform and Protection Act was enacted. The Act included significant corporate governance and executive compensation-related provisions and also required the SEC to adopt additional rules and regulations in areas such as "say on pay" and proxy access. Brocade is also subject to various rules and regulations of certain foreign jurisdictions, including applicable tax regulations. Brocade's efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management's time from other business activities. Similarly, any change in the tax law in the jurisdictions in which Brocade does business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, could result in a material increase in Brocade's tax expense. For example, the federal credit for research and experimentation expired on December 31, 2011, resulting in an increase to Brocade's overall tax rate. In addition, in the 2012 and 2013 budget proposals, the President of the United States and the U.S. Treasury Department have proposed changing certain of the U.S. tax rules for U.S. corporations doing business outside the United States. With increasing discussions around overall U.S. tax reform, and other legislation that have not yet been proposed or enacted, these or other changes in the federal or state tax laws could increase Brocade's U.S. income tax liability in the future.

Brocade is subject to periodic audits or other reviews by such governmental agencies. For example, in the first quarter of fiscal 2012, Brocade settled its federal income tax audit with the IRS for fiscal years 2004 through 2006 as well as Foundry's 2006 and 2007 California franchise tax audit. However, Brocade is still under examination by the IRS for fiscal years 2007 through 2010 and in several state and foreign tax jurisdictions for various years. All of these examination cycles remain open as of January 28, 2012. To the extent federal and state carryforwards from closed tax years are used in the future, the tax authorities have the right to audit the carryforward amounts. These examinations frequently require management's time and diversion of internal resources and, in the event of an unfavorable outcome, may result in additional liabilities or adjustments to Brocade's historical financial results.

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

Brocade is subject to various environmental and other regulations governing product safety, materials usage, packaging and other environmental impacts in the various countries where Brocade's products are sold. For example, many of Brocade's products are subject to laws and regulations that restrict the use of lead, mercury, hexavalent chromium, cadmium and other substances, and require producers of electrical and electronic equipment to assume responsibility for collecting, treating, recycling and disposing of Brocade's products when they have reached the end of their useful life. For example, in Europe, substance restrictions apply to products sold, and certain of Brocade's partners require compliance with these or more stringent requirements. In addition, recycling, labeling, financing and related requirements apply to products Brocade sells in Europe. China has also enacted similar legislation with similar requirements for Brocade's products or its partners. Despite Brocade's efforts to ensure that its products comply with new and emerging requirements, Brocade cannot provide absolute assurance that its products will, in all cases, comply with such requirements. If Brocade's products do not comply with the substance restrictions under local environmental laws, Brocade could become subject to fines, civil or criminal sanctions and contract

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damage claims. In addition, Brocade could be prohibited from shipping non-compliant products into one or more jurisdictions and required to recall and replace any non-compliant products already shipped, which would disrupt its ability to ship products and result in reduced revenue, increased obsolete or excess inventories, and harm to Brocade's business and customer relationships. Brocade's suppliers may also fail to provide it with compliant materials, parts and components despite Brocade's requirement to do so, which could impact Brocade's ability to timely produce compliant products and, accordingly, could disrupt its business.

Business interruptions could adversely affect Brocade's business.

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

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

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

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

As of January 28, 2012, Brocade owed \$600 million of senior secured notes and approximately \$120 million under the Senior Secured Credit Facility (see Note 7, "Borrowings," of the Notes to Condensed Consolidated Financial Statements). The financial and other covenants agreed to by Brocade in connection with such indebtedness and the increased indebtedness and higher debt-to-equity ratio of Brocade in comparison to that of Brocade on a historical basis will have the effect, among other things, of reducing Brocade's flexibility to respond to changing business and economic conditions and increasing borrowing costs, and may adversely affect Brocade's operations and financial results. This indebtedness may also adversely affect Brocade's ability to access sources of capital or incur certain liens, including without limitation, funding acquisitions or repurchasing Brocade stock. In addition, Brocade's failure to comply with these covenants could result in a default under the applicable debt financing agreements, which could permit the holders to accelerate such debt or demand payment in exchange for a waiver of such default. If any of Brocade's debt is accelerated, Brocade may not have sufficient funds available to repay such debt. The current debt under the Senior Secured Credit Facility has a floating interest rate and an increase in interest rates may negatively impact Brocade's financial results. The mandatory debt repayment schedule on the Senior Secured Credit Facility may negatively impact Brocade's cash position and reduce Brocade's financial flexibility. In addition, any negative changes by rating agencies to Brocade's credit rating may negatively impact the value and liquidity of Brocade's debt and equity securities and Brocade's ability to access sources of capital.

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

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

- Authorizing the issuance of preferred stock without stockholder approval;

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- Prohibiting cumulative voting in the election of directors;
- Limiting the persons who may call special meetings of stockholders; and
- Prohibiting stockholder actions by written consent.

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

Item 6. Exhibits

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Document</u>
10.1*/**	Form of Market Stock Unit, as of November 28, 2011
10.2*/**	Sales Leader Plan, approved as of October 28, 2011 and then clarified as of December 21, 2011
10.3*/**	Rev It Up Plan, approved as of October 25, 2011 and then clarified as of January 23, 2012
31.1**	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer
31.2**	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer
32.1**	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document

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

SIGNATURES

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

Brocade Communications Systems, Inc.

Date: March 2, 2012

By: /s/ Daniel W. Fairfax

Daniel W. Fairfax

Chief Financial Officer and Vice President, Finance

**BROCADE COMMUNICATIONS SYSTEMS, INC.
2009 STOCK PLAN
RESTRICTED STOCK UNIT AGREEMENT
(2012 MARKET STOCK UNITS)**

NOTICE OF GRANT

[%%FIRST_NAME%- %MIDDLE_NAME%- %LAST_NAME%-]

You (“**Grantee**”) have been granted an award of market performance-based Restricted Stock Units under the Company’s 2009 Stock Plan (the “**Plan**”). The date of this Restricted Stock Unit Agreement (the “**Agreement**”) is the Grant Date defined below. Subject to the provisions of Appendix A and the Plan, which are attached hereto and incorporated herein in their entirety, the principal features of this award are as follows:

- Grant Date:** [] (the “**Grant Date**”)
- Baseline Number of Restricted Stock Units:** [] (the “**Baseline Number of Restricted Stock Units**”)
- Maximum Number of Restricted Stock Units:** *[To be calculated as 150% of the Baseline Number of Restricted Stock Units]* (the “**Maximum Number of Restricted Stock Units**”)
- Performance Period:** October 30, 2011 through October 26, 2013 (subject to Section 4(c) of Appendix A) (the “**Performance Period**”).
- Performance Matrix:** The number of Restricted Stock Units in which you may vest in accordance with the Vesting Schedule will depend upon the Company’s Stock Price Performance as compared to the NASDAQ Telecom Stock Price Performance for the Performance Period and will be determined in accordance with Section 1 of Appendix A.
- Vesting Schedule:**

Subject to Section 4 of Appendix A and the terms of the Plan, the Grantee will vest as to fifty percent (50%) of the Calculated RSUs (as defined in Appendix A) at the close of business on the last day of the Performance Period (the “**First Vesting Date**”). To the extent that the number of Calculated RSUs is less than the Maximum Number of Restricted Stock Units, the difference between the Maximum Number of Restricted Stock Units and the actual number of Calculated RSUs shall be immediately forfeited.

Subject to Section 4 of Appendix A and the terms of the Plan, the Grantee will vest as to the remaining fifty percent (50%) of the Calculated RSUs at the close of business on the one year anniversary of the last day of the Performance Period (the “**Second Vesting Date**,” and each of the First Vesting Date and the Second Vesting Date, a “**Vesting Date**”).

Notwithstanding the foregoing and except as otherwise provided in Appendix A, the Grantee will not vest in the Restricted Stock Units, even if they are Calculated RSUs, unless he or she remains a Service Provider through the applicable Vesting Date.

Your acceptance online indicates your agreement and understanding that this award is subject to all of the terms and conditions contained in Appendix A and the Plan. For example, important additional information on vesting and forfeiture of the Restricted Stock Units is contained in Sections 3 through 5 and Section 7 of Appendix A. **PLEASE BE SURE TO READ ALL OF APPENDIX A AND THE PLAN, WHICH CONTAIN THE SPECIFIC TERMS AND CONDITIONS OF THIS AWARD.**

BROCADE COMMUNICATIONS SYSTEMS, INC.

GRANTEE

Signature

Signature

Print Name

Print Name

Title

APPENDIX A

TERMS AND CONDITIONS OF RESTRICTED STOCK UNITS
(2012 MARKET STOCK UNITS)

Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Plan.

1. Grant.

(a) The Company hereby grants to the Grantee under the Plan an award of the Baseline Number of Restricted Stock Units set forth on the Notice of Grant, subject to adjustment for performance and vesting requirements in accordance with the Notice of Grant and this Appendix A and all of the terms and conditions in this Agreement and the Plan. For each Restricted Stock Unit that vests, the Grantee will be entitled to receive one (1) Share (subject to automatic adjustment for stock splits, combinations and other adjustments contemplated in the Plan).

(b) The number of Restricted Stock Units in which the Grantee may vest in accordance with the Vesting Schedule will depend upon the Company's Stock Price Performance as compared to the NASDAQ Telecom Stock Price Performance for the Performance Period and will be determined following the end of the Performance Period as follows:

(i) Performance Calculation.

(a) The "**Company's Stock Price Performance**" means the percentage increase or decrease in the average closing price per share of the Company's Common Stock for (i) the last sixty (60) market trading days in the Performance Period, over (ii) the sixty (60) market trading day period beginning on the thirtieth (30th) market trading day prior to the first day of the Performance Period and ending on the thirtieth (30th) market trading day following (and including) the first day of the Performance Period. The Company's share price shall also be adjusted to reflect the reinvestment of any dividends issued by the Company during the Performance Period.

(b) The "**NASDAQ Telecom Stock Price Performance**" means the percentage increase or decrease in the total return (change in share price plus reinvestment of any dividends) of a share of the NASDAQ Telecommunications Index, ticker symbol "IXTC," (or any successor fund) for (i) the last sixty (60) market trading days in the Performance Period, over (ii) the sixty (60) market trading day period beginning on the thirtieth (30th) market trading day prior to the first day of the Performance Period and ending on the thirtieth (30th) market trading day following (and including) the first day of the Performance Period.

(c) The Company's Stock Price Performance will be compared against the NASDAQ Telecom Stock Price Performance (each expressed as a growth rate percentage as of the beginning of the Performance Period) to result in the growth rate difference (the "**Growth Rate Delta**") equal to the Company's Stock Price Performance minus the NASDAQ Telecom Stock Price Performance.

(ii) RSU Calculation.

(a) If the Growth Rate Delta is equal to zero percent (0%), the number of Restricted Stock Units that will be eligible to vest (the “**Calculated RSUs**”) will equal the Baseline Number of Restricted Stock Units; and

(b) If the Growth Rate Delta is greater or less than zero percent (0%), the number of Restricted Stock Units that will be Calculated RSUs will be equal to: (i) the Baseline Number of Restricted Stock Units, multiplied by (ii) the sum of (A) 100% plus (B) one and 1/2 (1.5) times the Growth Rate Delta; *provided, however*, that in no event will more than the Maximum Number of Restricted Stock Units become Calculated RSUs or will the number of Calculated RSUs go below zero.

(iii) Examples (for illustration purposes only).

(a) Example #1: If the Growth Rate Delta was 20%, then 130% (equal to 100% plus (1.5 times 20%)) of the Baseline Number of Restricted Stock Units would be Calculated RSUs.

(b) Example #2: If the Growth Rate Delta was -20%, then 70% (equal to 100% plus (1.5 times -20%)) of the Baseline Number of Restricted Stock Units would be Calculated RSUs.

(c) When Shares are paid to the Grantee in payment for the Restricted Stock Units, par value (\$.001 per share) will be deemed paid by the Grantee for each Restricted Stock Unit by services rendered by the Grantee, and will be subject to the appropriate tax withholdings in accordance with Section 9 below.

2. Company’s Obligation to Pay. Each Restricted Stock Unit has a value equal to the Fair Market Value of a Share on the date that the Restricted Stock Unit is granted. Unless and until the Restricted Stock Units have vested in the manner set forth in Sections 3 through 5, the Grantee will have no right to payment of such Restricted Stock Units. Prior to actual payment of Shares upon the vesting of any Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation. Payment of any vested Restricted Stock Units shall be made in whole Shares only and any fractional Shares will be forfeited at the time of payment.

3. Vesting Schedule/Period of Restriction. Except as provided in Sections 4 and 5 and subject to Section 7, the Restricted Stock Units awarded by this Agreement shall vest in accordance with the vesting provisions set forth on the Notice of Grant. Restricted Stock Units shall not vest in accordance with any of the provisions of this Agreement unless the Grantee shall have been continuously employed by the Company or by its Parent or other successor or a Subsidiary from the Grant Date through the dates the Restricted Stock Units are otherwise scheduled to vest.

4. Modifications to Vesting Schedule.

(a) *Vesting upon Leave of Absence.* In the event that the Grantee takes an authorized leave of absence (“**LOA**”), the Restricted Stock Units awarded by this Agreement that

are eligible to be earned shall either: (i) not be affected, or (ii) shall be deferred for a period of time equal to the duration of such LOA, based on the Company's LOA policy in effect at such time as determined by the Company in its sole discretion.

(b) *Death or Disability of Grantee.* In the event that the Grantee's relationship with the Company or its Parent or other successor or a Subsidiary as a Service Provider is terminated prior to full vesting of the Restricted Stock Units due to his or her death or Disability, the unvested portion of the Restricted Stock Units subject to this Restricted Stock Unit Award shall be forfeited on the date of the Grantee's death or Disability, unless otherwise determined by the Administrator.

(c) *Change in Control.* In the event of a Change in Control, the Performance Period shall be deemed to end upon the closing of the Change in Control for purposes of determining the Company's Stock Price Performance and the NASDAQ Telecom Stock Price Performance and the number of Restricted Stock Units that are Calculated RSUs will be determined in accordance with the Performance Matrix and Section 1 of this Appendix A. The Grantee shall vest in the number of Calculated RSUs determined based on the preceding sentence as follows: fifty percent (50%) of the Calculated RSUs will vest immediately prior to and contingent upon the Change in Control (the "**New First Vesting Date**") and the remaining fifty percent (50%) of the Calculated RSUs will vest on the one-year anniversary of the closing of the Change in Control (the "**New Second Vesting Date**," and each of the New First Vesting Date and the New Second Vesting Date, a "**New Vesting Date**"), and provided that the Grantee remains a Service Provider through such New Vesting Date or as otherwise set forth in this Agreement, in each case unless vested earlier in accordance with the terms of this Award, Section 18 of the Plan, any Change of Control and Retention Agreement between Grantee and the Company or any employment or other change in control agreement by and between the Company and the Grantee. In accordance with Section 1 of this Appendix A, the Administrator shall not be entitled to eliminate or reduce the number of Calculated RSUs determined in accordance with Section 1 of Appendix A following a Change in Control.

5. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units at any time, subject to the terms of the Plan. Such acceleration may result in tax or other consequences to the Grantee. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator. If the Administrator, in its discretion, accelerates the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units, the payment of such accelerated Restricted Stock Units nevertheless shall be made at the same time or times as if such Restricted Stock Units had vested in accordance with the vesting schedule set forth on the Notice of Grant and Section 1 or Section 4 of this Agreement, as applicable, or as otherwise provided herein (whether or not the Grantee remains employed by the Company or by one of its Subsidiaries as of such date(s)). The Grantee is hereby advised to consult with the Grantee's own personal tax, legal and financial advisors regarding the Grantee's participation in the Plan before taking any action related to the Plan.

6. Payment after Vesting. Any Restricted Stock Units that vest in accordance with this Agreement will be paid to the Grantee (or in the event of the Grantee's death, to his or her estate) as soon as practicable following the applicable Vesting Date (or New Vesting Date, as applicable), subject to Sections 9 and 21, but no later than sixty (60) days following the applicable Vesting Date (or New Vesting Date, as applicable).

7. Forfeiture. Except as set forth in Sections 4 or 5 or applicable Change of Control and Retention Agreement between Grantee and the Company (or successor), the balance of the Restricted Stock Units that have not vested pursuant to Sections 3 through 5 at the time of the termination of the Grantee's relationship with the Company as a Service Provider for any or no reason will be forfeited.

8. [Reserved]

9. Withholding of Taxes.

(a) General. Regardless of any action the Company and/or the Grantee's employer (the "**Employer**") take with respect to any or all income tax (including U.S. federal, state, local and/or non-U.S. taxes), social insurance, payroll tax, payment on account or other tax-related withholdings ("**Tax-Related Items**"), the Grantee acknowledges that the ultimate liability for all Tax-Related Items legally due by the Grantee is and remains the Grantee's responsibility and that the Company and/or the Employer (i) make no guarantees or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the award, including the grant of the Restricted Stock Units, the vesting of the Restricted Stock Units, the delivery of Shares, the subsequent sale of any Shares received at vesting and the receipt of any dividends; and (ii) do not commit to structure the terms of the grant or any aspect of the award to reduce or eliminate the Grantee's liability for Tax-Related Items.

(b) Payment of Tax-Related Items. The Grantee authorizes the Company and/or the Employer, at its discretion, to satisfy the obligations with regard to all Tax-Related Items by automatically withholding a portion of the Shares issued as payment for vested Restricted Stock Units that have an aggregate market value sufficient to pay all Tax-Related Items required to be withheld by the Company and/or the Employer with respect to the vesting of the Restricted Stock Units and issuance of the Shares, unless the Company, in its sole discretion, either requires or otherwise permits the Grantee to make alternate arrangements satisfactory to the Company for such withholdings in advance of, or concurrently with, the arising of any withholding obligations. The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no refund for any value of the Shares withheld in excess of the tax obligation as a result of such rounding.

If the obligation of Tax-Related Items is satisfied by reducing the number of Shares delivered as described herein, the Grantee is deemed to have been issued the full number of Shares subject to the award of Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the award.

If the foregoing method of withholding is prohibited or insufficient to satisfy all Tax-Related Items required to be withheld by the Company and/or the Employer with respect to the vesting of the Restricted Stock Units and issuance of the Shares or if the Company, in its discretion, determines not to apply the foregoing method of withholding, then the Grantee hereby authorizes the Company and/or the Employer to satisfy such obligations by one or a combination of the following: (i) withholding from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer, to the maximum extent permitted by law; or (ii) selling the applicable number of Shares or arranging for the sale of the applicable number of Shares (in either case on the Grantee's behalf and at the Grantee's discretion pursuant to this authorization) issued in settlement of vested Restricted Stock Units and retaining the requisite proceeds from such sale.

Finally, the Grantee shall pay to the Company and/or the Employer any amount of Tax-Related Items that the Company and/or the Employer may be required to withhold as a result of the Grantee's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to deliver to the Grantee any Shares pursuant to the award if the Grantee fails to comply with the Grantee's obligations in connection with the Tax-Related Items, as described in this Section 9.

10. Rights as Stockholder. Neither the Grantee nor any person claiming under or through the Grantee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Grantee (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, the Grantee will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

11. No Effect on Employment. Subject to any employment contract with the Grantee, the terms of such employment will be determined from time to time by the Company, or the Subsidiary employing the Grantee, as the case may be, and the Company, or the Subsidiary employing the Grantee, as the case may be, will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Grantee at any time for any reason whatsoever, with or without good cause. The transactions contemplated hereunder and the vesting schedule set forth on the first page of this Agreement do not constitute an express or implied promise of continued employment for any period of time. A leave of absence or an interruption in service (including an interruption during military service) authorized or acknowledged by the Company or the Subsidiary employing the Grantee, as the case may be, shall not be deemed a termination of the Grantee's relationship with the Company or its Subsidiary as a Service Provider for the purposes of this Agreement.

12. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of Stock Administrator, at 1745 Technology Drive, San Jose, California, 95110, USA, or at such other address as the Company may hereafter designate in writing, with a copy to the Company, C/O General Counsel, 1745 Technology Drive, San Jose, California, 95110, USA.

13. Grant is Not Transferable. Except to the limited extent provided in this Agreement or the Plan, this grant of Restricted Stock Units and the rights and privileges conferred hereby will not be sold, pledged, assigned, hypothecated, transferred or disposed of any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process, until the Grantee has been issued Shares in payment of the Restricted Stock Units. Upon any attempt to sell, pledge, assign, hypothecate, transfer or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void. Notwithstanding the foregoing, Grantee may, in a manner and in accordance with terms specified by the Administrator, transfer these Restricted Stock Units to Grantee's spouse, former spouse or dependent pursuant to a court-approved domestic relations order which relates to the provision of child support, alimony payments or marital property rights.

14. Restrictions on Sale of Securities. The Shares issued as payment for vested Restricted Stock Units under this Agreement will be registered under U.S. federal securities laws and will be freely tradable upon receipt. However, a Grantee's subsequent sale of the Shares may be subject to any market blackout-period that may be imposed by the Company and must comply with the Company's insider trading policies, and any other U.S. securities laws or other Applicable Laws.

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Issuance of Certificates for Shares. The Company shall not be required to issue any certificate or certificates for Shares hereunder prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any U.S. state or federal or non-U.S. law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Administrator shall, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any U.S. state or federal or non-U.S. governmental agency, which the Administrator shall, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the Vesting Date of the Restricted Stock Units as the Administrator may establish from time to time for reasons of administrative convenience.

17. Plan Governs. This Agreement is subject to all the terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

18. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon the Grantee, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

19. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

20. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

21. Modifications to the Agreement. This Agreement, including Appendix A, together with the Plan, constitutes the entire understanding of the parties on the subjects covered,

subject to any applicable pre-existing agreement or agreement entered into after the date hereof relating to full or partial acceleration of vesting in the event of a change of control of the Company (or similar event). The Grantee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein or expressly contemplated above. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Grantee, to comply with Section 409A of the Code or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code prior to the actual payment of Shares pursuant to this award of Restricted Stock Units. Notwithstanding the foregoing, if required by Section 409A of the Code, no Restricted Stock Units will be paid to the Grantee (or in the event of the Grantee's death, to his or her estate) earlier than six (6) months and one (1) day following the date of the termination of the Grantee's relationship with the Company as a Service Provider, subject to Section 9.

22. Amendment, Suspension or Termination of the Plan. By accepting this Restricted Stock Unit Award, the Grantee expressly warrants that he or she has received a right to receive stock under the Plan, and has received, read and understood a description of the Plan. The Grantee understands that the Plan is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, except as otherwise provided in the Plan and/or the Agreement.

23. Labor Law and Nature of Grant. In accepting the award of Restricted Stock Units, the Grantee acknowledges that:

(a) the Plan is established voluntarily by the Company;

(b) the award of Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future awards of Restricted Stock Units, or benefits in lieu of Restricted Stock Units even if Restricted Stock Units have been awarded repeatedly in the past;

(c) all decisions with respect to future awards, if any, will be at the sole discretion of the Company;

(d) the Grantee's participation in the Plan is voluntary;

(e) the award is an extraordinary item that is outside the scope of the Grantee's employment or service contract, if any;

(f) the award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(g) in the event that the Grantee is not an employee of the Company, the award will not be interpreted to form an employment or service contract or relationship with the Company; and, furthermore, the award will not be interpreted to form an employment or service contract or relationship with the Employer or any Parent or other successor or a Subsidiary of the Company;

(h) the future value of the underlying Shares is unknown and cannot be predicted with certainty;

(i) the Company is not providing any tax, legal, or financial advice, nor is the Company making any recommendations regarding the Grantee's participation in the Plan or the acquisition or sale of Shares; and

(j) the Grantee is hereby advised to consult with the Grantee's own personal tax, legal and financial advisors regarding the Grantee's participation in the Plan before taking any action related to the Plan.

24. Data Privacy. The Grantee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Grantee's personal data as described in the Notice of Grant and this Agreement and any other Restricted Stock Unit grant materials by and among, as applicable, the Employer, the Company and its Subsidiaries for the exclusive purpose of implementing, administering and managing the Grantee's participation in the Plan.

The Grantee understands that the Company and the Employer may hold certain personal information about the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, date of birth, social insurance or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, vested, unvested or outstanding in the Grantee's favor, for the exclusive purpose of implementing, administering and managing the Plan ("**Data**").

The Grantee understands that Data will be transferred to E*Trade or such other stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. The Grantee understands the recipients of Data may be located in the Grantee's country, in the United States or elsewhere, and that the recipients' country may have different data privacy laws and protections than the Grantee's country. The Grantee understands that the Grantee may request a list with the names and addresses of any potential recipients of the Data by contacting the Grantee's local human resources representative. The Grantee authorizes the Company, E*Trade and any other potential recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Grantee's participation in the Plan. The Grantee understands that he or she may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Grantee's local human resources representative. The Grantee understands, however, that refusing or withdrawing consent may affect the Grantee's ability to participate in the Plan. For more information on the consequences of the Grantee's refusal to consent or withdrawal of consent, the Grantee understands that he or she may contact his or her local human resources representative.

25. Notice of Governing Law. This award of Restricted Stock Units shall be governed by, and construed in accordance with, the laws of the State of California, without regard to principles of conflict of laws. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the award of Restricted Stock Units,

the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted on in the courts of Santa Clara County, California or the federal courts for the United States for the Northern District of California, and no other courts, where this grant is made and/or to be performed.

26. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means, or to request the Grantee's consent to participate in the Plan by electronic means. The Grantee hereby consents to receive such documents by electronic delivery and if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

BROCADE SALES LEADER PLAN

October 28, 2011

(Effective as of fiscal year 2012)

Revision to Sales Expense-to-Revenue metric language, dated December 19, 2011

Approved 12/21/11

PURPOSE

The Brocade Sales Leader Plan is designed to link incentive compensation with Company performance.

PERFORMANCE PERIOD AND PAYOUT PERIOD

Performance against Company and Individual objectives is measured annually (according to the Company's fiscal year) (Plan Period), with a Revenue Quarterly Target Incentive as 1/6th of the total incentive target and a Multi-factor bonus as 5/6^{ths} of the total incentive target. The Multi-factor bonus is comprised of Company Performance objectives (Revenue, Gross Margin, and Sales Expense-to-Revenue) which are 90% of the multi-factor bonus and Individual Performance objectives which are 10% of the multi-factor bonus.

ELIGIBILITY

The Senior Vice President Worldwide Sales is the only eligible participant in the Sales Leader Plan Program. The Senior Vice President Worldwide Sales shall not be eligible to participate in the Company's FY12 Senior Leadership Plan (SLP) or FY12 "Rev" It Up Plan.

Participant must be employed in a Sales Leader Plan eligible position as a regular (full-time or part-time) employee at the end of each quarter, if eligible to receive a Revenue Quarterly Target Incentive payout, and at the end of the fiscal year to be eligible to earn the remainder of the annual Sales Leader Plan Payout.

PARTICIPANT PERFORMANCE CONTRACTS

As each Plan Period begins, Participant must complete a VP Performance Contract. Performance Contracts should be tied to Company and departmental goals as outlined by the Board of Directors (*i.e.*, Company priorities and initiatives). All goals must be tied to overall Company objectives and have defined measurements.

Before the Performance Contract for the Senior Vice President Worldwide Sales is final, it shall be reviewed and approved by Finance, Human Resources, and the CEO.

COMPANY PERFORMANCE & SALES LEADER PLAN FUNDING

Each Plan Period, Brocade's Board of Directors will approve Brocade's fiscal year business operating plan, including a Revenue target (Target Revenue), a Non-GAAP Gross Margin target (Target Gross Margin) and a Non-GAAP Sales Expense-to-Revenue Percentage Target (Target Sales Expense-to-Revenue Percentage), for the Company to achieve during the Plan Period. All Non-GAAP measures will be calculated following the Company's standard policies for Non-GAAP measurements.

At the end of each quarter, solely for the Revenue Quarterly Target Incentive, and at the end of each annual Plan Period, Brocade will determine amounts to be paid under the Sales Leader Plan based on the actual performance on a pre-bonus basis (Actual Company Performance) achieved by Brocade during the Plan Period (Actual Revenue, Actual Non-GAAP Gross Margin and Actual Non-GAAP Sales Expense-to-Revenue Percentage) relative to the Target Revenue (Revenue Percentage), Target Gross Margin (Gross Margin Percentage) and Target Sales Expense-to-Revenue Percentage (Sales Expense-to-Revenue Percentage). The Actual Revenue, Actual Non-GAAP Gross Margin and Actual Non-GAAP Sales Expense-to-Revenue Percentage will be communicated following the end of each Plan Period.

PARTICIPANT INCENTIVE TARGET PERCENTAGE

The Participant's Annual Incentive Target Percentage is **200%** of the Participant's annual base salary and is approved by the Company's Compensation Committee.

SALES LEADER PLAN PAYOUTS

On an annual basis, the Compensation Committee reviews and approves the formula for cash bonus payouts and actual Sales Leader Plan bonus payouts to any person who is an officer of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (Section 16 Officer).

Payouts under the Sales Leader Plan are subject to limitations as determined by the Compensation Committee, including:

- A minimum bonus payout threshold for revenue (Minimum Revenue Threshold),
- A minimum bonus payout threshold for Non-GAAP gross margin (Minimum GM Threshold), and
- A maximum Sales Expense-to-Revenue Percentage (Maximum Sales Expense-to Revenue-Expense Percentage)

Notwithstanding the foregoing, Participants will not be eligible for any Multi-Factor Bonus Payout under the Sales Leader Plan if revenue is less than the Minimum Revenue Threshold.

Subject to the Minimum Revenue Threshold and except as otherwise agreed upon by: (i) the Compensation Committee for the Section 16 officers, and (ii) the Participant, the Total Sales Leader Plan cash bonus payout is calculated based on the following formula (less applicable taxes and deductions):

Total Sales Leader Plan Payout = Actual earned Revenue Quarterly Target Incentive (1/6th of total incentive target) + Multi-Factor Bonus Payout (5/6th of total incentive target)

- *Multi-Factor Bonus Payout* = ((Actual Company Performance Incentive which is Revenue + Gross Margin + Sales Expense-to-Revenue) + (Individual Performance Incentive))

Bonus will be calculated using the Annual Base Salary and Annual Incentive Target Percentage as of the last day of the Plan Period, except as set forth above or otherwise indicated in writing by Brocade.

Revenue Quarterly Target Incentive. The Revenue Quarterly Target Incentive is 1/6th of the total incentive target. Other than the initial 25% payment, which shall be automatically deemed earned, this incentive may be earned and paid in increments of 25%/quarter only if 100% of the quarterly revenue target is achieved for the preceding quarter. Example, at the beginning of Q1, 25% will automatically be paid to the Participant within 8 weeks of the beginning of Q1; if the Q1 revenue target is 100% achieved, another 25% will be paid to the Participant within eight (8) weeks of the beginning of Q2; if the Q2 revenue target is 100% achieved, another 25% will be paid to the Participant within eight (8) weeks of the beginning of Q3; if the Q3 revenue target is 100% achieved, a final 25% will be paid to the Participant within eight (8) weeks of the beginning of Q4. If, however, the Q1 revenue target is not achieved at 100%, then the 25% paid at the beginning of Q2 is forfeited. The same analysis would be performed in Q2 and Q3 to determine if the revenue target for the preceding quarter was not achieved at 100%.

Actual Company Performance Multiplier (90% of the Multi-Factor bonus payout). The Actual Company Performance Multiplier for the plan Participant is equal to the sum of:

- (i) Revenue Payout Percentage multiplied by **50%**, plus
- (ii) Gross Margin (GM) Payout Percentage multiplied by **25%**, plus
- (iii) Sales Expense to Revenue Payout Percentage multiplied by **25%**.

The applicable minimum threshold for Revenue (Minimum Revenue Threshold) is **90%**, the applicable minimum threshold for GM (Minimum GM Threshold) is , 2% less than the Target GM and the applicable maximum threshold for Sales Expense-to-Revenue Percentage (Maximum Sales Expense-to-Revenue Percentage Threshold) is **110%**. The Revenue Payout Percentage, Gross Margin Payout Percentage and Sales Expense-to-Revenue Payout Percentage are uncapped for overachievement.

The Revenue Payout Percentage, Gross Margin (GM) Payout Percentage and Sales Expense-to-Revenue Payout Percentage are calculated as follows:

Revenue Payout Percentage:

- If the Revenue Percentage is below the Minimum Revenue Threshold, the Revenue Payout Percentage shall be 0% (zero).

-
- If the Revenue Percentage is equal to or above the Target Revenue Threshold, the Revenue Payout Percentage shall be equal to 100% *plus* three (3) percentage points for each Revenue Percentage point above the Target Revenue Threshold.
 - If the Revenue Percentage is equal to or above the Minimum Revenue Threshold but below the Target Revenue Threshold, the Revenue Payout Percentage shall be equal to 100% *less* two (2) percentage points for each Revenue Percentage point below the Target Revenue Threshold.

Gross Margin (GM) Payout Percentage:

- If the GM Percentage is below the Minimum GM Threshold, the GM Payout Percentage shall be 0% (zero).
- If the GM Percentage is equal to or above the Target GM Threshold, the GM Payout Percentage shall be equal to 100% *plus* 2.5% percentage points for each 1/10th of GM Percentage point above the Target GM Threshold.
- If the GM Percentage is equal to or above the Minimum GM Threshold but below the Target GM Threshold, the GM Payout Percentage shall be equal to 100% *less* 2.5 percentage points for each 1/10th of GM Percentage point below the Target GM Threshold.

Sales Expense-to-Revenue Payout Percentage:

- If the Sales Expense-to-Revenue Percentage is above the Maximum Sales Expense-to-Revenue Percentage, the Sales Expense-to-Revenue Payout Percentage shall be 0% (zero).
- If the Sales Expense-to-Revenue Percentage is equal to or below the Target Sales Expense-to-Revenue Percentage, the Sales Expense -to-Revenue Payout Percentage shall be equal to 100% *plus* three (3) percentage points for each 1% below the Target Sales Expense-to-Revenue Percentage,
- If the Sales Expense-to-Revenue Percentage is equal to or above the Target Sales Expense-to-Revenue Percentage but below the Maximum Sales Expense-to-Revenue Percentage Threshold, the Sales Expense -to-Revenue Payout Percentage shall be equal to 100% *less* two (2) percentage points for each 1% above the Target Sales Expense-to-Revenue Percentage.

Fractional amounts shall be interpolated based on the above scaling.

Individual Performance Percentage Multiplier (10% of the Multi-Factor bonus payout). The Individual Performance Multiplier for the Plan Participant is based on individual performance relative to achieving individual performance, department goals, and leadership competencies, and may range from zero (0) to 110%. On an annual basis, the Compensation Committee reviews and approves the Individual Performance Percentage (with input from the CEO) for Section 16 Officers. The Individual Performance Percentage can range from 0% (zero) to 110%.

Program payouts are generally made within eight (8) weeks of the beginning of each quarter, if eligible and within eight (8) weeks following the conclusion of the 12-month Plan Period.

ADMINISTRATIVE PROCEDURES

Compensation Committee Approval

The Compensation Committee reserves the right to decrease or eliminate bonus otherwise indicated.

New Hires and Promotions

A Participant who is new to the company or who is promoted into the Sales Leader Plan must complete a Performance Contract within 60 days of beginning in the new position. Payouts will be pro-rated for Participants who are hired or transferred into the Sales Leader Plan during any Plan Period.

Position/Salary Factor

Payout will be based on the Participant's annual base salary and job position on the last day of the Plan Period.

Terminations: Any Participant whose employment terminates for any reason before the end of the fiscal year is not eligible to earn a Sales Leader Plan payout, other than the portion of the \$100K Revenue Quarterly Target Incentive that may already have been paid at that point.

Leaves of Absences, Disability or Death: In the event of the Participant's death, disability time off, or leave of absence, Payouts will be made on a pro-rated basis, based on the number of days the Participant was actively working at Brocade. In the event of death, any cash bonus payments will be paid to the Participant's primary beneficiary as designated in the Participant's Brocade life insurance plan documentation, if any, or will otherwise be paid to his or her estate.

Performance Improvement Plan/Disciplinary Situations (Development Needed): If a Participant, at any time prior to the cash bonus payout 12-month Plan Period, is subject to a performance improvement plan, discipline or demotion, Brocade may, in its sole discretion, reduce or eliminate the cash bonus payment that the Participant would otherwise have been eligible to receive. If, at the time prior to the Payout for a 12-month Plan Period, it is determined that a Participant may be subject to corrective action, discipline or demotion, then Brocade may withhold the entire cash bonus payout, or a portion thereof, until after a final decision on such corrective action has been made. If a Participant is given a performance rating of Development Needed, the Participant will not be eligible to earn a Payout. Only the VP of Human Resources or CEO may approve exceptions to this policy, except that the Compensation Committee must approve exceptions for Section 16 officers.

Section 409A: It is intended that any payments made under the Sales Leader Plan will be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended and the regulations and guidance issued thereunder (collectively, Section 409A), pursuant to the "short-term deferral" exception under Section 409A, and any ambiguities and/or ambiguous terms under the Plan will be interpreted to comply with the requirements of such exception or otherwise comply with the requirements of Section 409A. Each payment under the Sales Leader Plan is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the

U.S. Treasury Regulations. Without imposing any obligation, Brocade may, in good faith and without the consent of any Participant, make any amendments to this the Sales Leader Plan and take such reasonable actions which it deems necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition under Section 409A prior to actual payment to any Participant.

Other Provisions: Participation in the Sales Leader Plan does not constitute an agreement (express or implied) between the Participant and Brocade that the Participant will be employed by Brocade for any specific period of time, nor is there any agreement for continuing or long-term employment. Terms and conditions regarding the Sales Leader Plan and any participation therein, including, but not limited to, Sales Leader Plan eligibility, Sales Leader Plan funding, and performance and payout criteria and determinations, are subject to change by Brocade at any time in its sole discretion. Brocade and its Board of Directors retain the absolute right to interpret, revise, modify or terminate the Sales Leader Plan at any time in its sole discretion. This Sales Leader Plan supersedes all prior written or oral statements to employees regarding the Sales Leader Plan for the periods contemplated hereunder.

BROCADE "REV" IT UP PLAN

Originally approved on October 25, 2011, revised as of January 23, 2012
(Effective as of fiscal year 2012)

PURPOSE

The Brocade "Rev" It Up Plan ("RIUP") is designed to link incentive compensation with Company performance.

PERFORMANCE PERIOD AND PAYOUT PERIOD

Performance against Company objectives is measured annually (according to the Company's fiscal year) ("Plan Period"), but will be reviewed on a periodic basis. Payout of earned cash bonuses, if any, occurs on an annual basis.

ELIGIBILITY

Regular full-time and part-time Vice President or above ("VP") level employees, excluding the Chief Executive Officer, are eligible to participate in the RIUP. To the extent a VP is eligible to, and participates in, the Company's Sales Incentive Plan or Sales Leader Plan, then that VP shall not be eligible to participate in this RIUP.

Participants must be employed in a RIUP eligible position as a regular (full-time or part-time) employee at the end of the fiscal year to be eligible to earn a RIUP payout.

PARTICIPANT PERFORMANCE CONTRACTS

As each Plan Period begins, Participants must complete a VP Performance Contract. Performance Contracts should be tied to Company and departmental goals as outlined by the Board of Directors (*i.e.*, Company priorities and initiatives). All goals must be tied to overall Company objectives and have defined measurements.

Before Performance Contracts for VPs are final, they are to be reviewed and approved by Finance, Human Resources, and the CEO. Performance Contracts for Functional VPs are reviewed and approved by the applicable managing VP.

COMPANY PERFORMANCE & "Rev" It Up PLAN FUNDING

Each Plan Period, Brocade's Board of Directors will approve Brocade's fiscal year business operating plan, including a Non-GAAP Operating Income target (Target OI) and Revenue target (Target Revenue) for the Company to achieve during the Plan Period.

At the end of the Plan Period, Brocade will determine amounts to be paid under the RIUP based on the actual performance on a pre-bonus basis (Actual Performance) achieved by Brocade during the Plan Period (Actual OI and Actual Revenue) relative to the Target OI (OI Percentage) and Target Revenue (Revenue Percentage). The Actual OI and Actual Revenue will be communicated following the end of the Plan Period.

PARTICIPANT INCENTIVE TARGET PERCENTAGE

With respect to Section 16 Officers, a Participant's "Annual Cash Incentive Target" percentage under this RIUP is 25% of the Participant's annual base salary and is approved by the Company's Compensation Committee. With respect to other Participants in the Company's RIUP, a Participant's Annual Cash Incentive Target percentage, under this RIUP, may range from 10% to 40% as determined by the CEO.

"Rev" It Up PLAN PAYOUTS

At the end of the 12-month Plan Period, the Compensation Committee will review and approve the formula for cash bonus payouts and actual RIUP bonus payouts to any person who is an officer of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (Section 16 Officer). The CEO will review and approve the formula for cash bonus payouts and actual RIUP bonus payments for all other Participants.

All payouts under the RIUP are subject to a minimum bonus payout threshold for non-GAAP operating income (Minimum RIUP OI Threshold) as determined by the Compensation Committee. Participants will not be eligible for any payout under the RIUP in the event that non-GAAP operating income is less than the Minimum RIUP OI Threshold.

Subject to the Minimum RIUP OI Threshold and except as otherwise agreed upon by: (i) the Compensation Committee for the Section 16 officers, and the CEO for all other VPs, and (ii) each Participant, the cash bonus payout is calculated based on the following formula (less applicable taxes and deductions):

$$\text{Cash Bonus Payout} = (\text{Annual Base Salary}) \times (\text{Annual Cash Incentive Target percentage}) \times (\text{Actual Performance})$$

where

Actual Performance. The Actual Performance for all Participants is equal to the sum of:

- (i) OI Payout Percentage multiplied by 40%, plus
- (ii) Revenue Payout Percentage multiplied by 60%

The OI Payout Percentage and Revenue Payout Percentage are each calculated as follows:

<u>Operating Income and Revenue Performance (Percentage Against Target)</u>	<u>Curve/Scaling</u>	<u>Payout as a % of Target</u>
Less than 80%	—	0%
80% to 100%	2-for-1	60% to 100%
100%	—	100%
Greater than 100%	3-for-1	Uncapped

The OI Payout Percentage and Revenue Payout Percentage are uncapped for overachievement.

Fractional amounts shall be interpolated based on the above scaling.

The following example is for illustrative purposes only: Assume a \$385,000 Annual Base Salary, a 25% Annual Cash Incentive Target percentage and that both the Operating Income and Revenue Performance results are at 90% of target and accordingly the OI Payout Percentage and Revenue Payout Percentage are each 80%:

Cash Bonus Payout = (Annual Base Salary) x (Annual Cash Incentive Target percentage) x (Actual Performance)

Cash Bonus Payout = (\$385,000 x 25%) x [(80% x 40%) + (80% x 60%)]

Cash Bonus Payout = \$96,250 x (32% + 48%)

Cash Bonus Payout = \$96,250 x 80%

Cash Bonus Payout = \$77,000

Bonuses will be calculated using the annual base salary and Annual Incentive Target Percentage as of the last day of the Plan Period, except as set forth above or otherwise indicated in writing by Brocade.

Program payouts are generally made within eight (8) weeks following the conclusion of the 12-month Plan Period.

ADMINISTRATIVE PROCEDURES

Compensation Committee Approval

The Compensation Committee reserves the right to decrease or eliminate bonus amounts otherwise indicated.

New Hires and Promotions

Participants new to the company or who are promoted within the 12 month Plan period are ineligible for the RIUP.

Position/Salary Factor

Payout will be based on the Participant's annual base salary and job position on the last day of the Plan Period.

Terminations: Any Participant whose employment terminates for any reason before the end of the plan period is not eligible to earn a RIUP payout.

Leaves of Absences, Disability or Death: In the event of the Participant's death, disability time off, or leave of absence, Payouts will be made on a pro-rated basis, based on the number of days the Participant was actively working at Brocade. In the event of death, any cash bonus payments will be paid to the Participant's primary beneficiary as designated in the Participant's Brocade life insurance plan documentation, if any, or will otherwise be paid to his or her estate.

Performance Improvement Plan/Disciplinary Situations (Development Needed): If a Participant, at any time prior to the cash bonus payout 12-month Plan Period, is subject to a performance improvement plan, discipline or demotion, Brocade may, in its sole discretion, reduce or eliminate the cash bonus payment that the Participant would otherwise have been eligible to receive. If, at the time prior to the Payout for a 12-month Plan Period, it is determined that a Participant may be subject to corrective action, discipline or demotion, then Brocade may withhold the entire cash bonus payout, or a portion thereof, until after a final decision on such corrective action has been made. If a Participant is given a performance rating of Development Needed, the Participant will not be eligible to earn a Payout. Only the VP of Human Resources or CEO may approve exceptions to this policy, except that the Compensation Committee must approve exceptions for Section 16 officers.

Section 409A: It is intended that any payments made under the RIUP will be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended and the regulations and guidance issued thereunder (collectively, Section 409A), pursuant to the "short-term deferral" exception under Section 409A, and any ambiguities and/or ambiguous terms under the Plan will be interpreted to comply with the requirements of such exception or otherwise comply with the requirements of Section 409A. Each payment under the RIUP is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the U.S. Treasury Regulations. Without imposing any obligation, Brocade may, in good faith and without the consent of any Participant, make any amendments to this the RIUP and take such reasonable actions which it deems necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition under Section 409A prior to actual payment to any Participant.

Other Provisions: Participation in the RIUP does not constitute an agreement (express or implied) between the Participant and Brocade that the Participant will be employed by Brocade for any specific period of time, nor is there any agreement for continuing or long-term employment. Terms and conditions regarding the RIUP and any participation therein, including, but not limited to, RIUP eligibility, RIUP funding, and performance and payout criteria and determinations, are subject to change by Brocade at any time in its sole discretion. Brocade and its Board of Directors retain the absolute right to interpret, revise, modify or terminate the RIUP at any time in its sole discretion. This RIUP supersedes all prior written or oral statements to employees regarding the RIUP for the periods contemplated hereunder.

CERTIFICATION

I, Michael Klayko, certify that:

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

Date: March 2, 2012

/s/ Michael Klayko
Michael Klayko
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Daniel W. Fairfax, certify that:

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

Date: March 2, 2012

/s/ Daniel W. Fairfax

Daniel W. Fairfax
Chief Financial Officer and Vice President, Finance
(Principal Financial and Accounting Officer)

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

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

Date: March 2, 2012

By: /s/ Michael Klayko

Michael Klayko
Chief Executive Officer

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

Date: March 2, 2012

By: /s/ Daniel W. Fairfax

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